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KOBELCO

Fiscal 2017 Financial Results for the First Half and Forecast for the Full Fiscal year

October 30, 2017
KOBELCO, LTD.





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1. Financial Results for the First Half of Fiscal 2017



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Financial Results for the First Half of FY2017

(Billions of yen)

	FY2016	FY2017		Change	
	1H ①	Forecast ②	Actual ③	③ - ①	③ - ②
Net Sales	815.1	930.0	907.0	+91.9	△23.0
Operating Income	30.9	40.0	51.4	+20.4	+11.4
Ordinary Income	12.3	30.0	45.7	+33.4	+15.7
(excluding inventory valuation)	(23.8)	(25.0)	(41.2)	(+17.4)	(+16.2)
Extraordinary Income	-	6.7	9.0	+9.0	+2.3
Net Income Attributable to Owners of the Parent	4.1	25.0	39.3	+35.2	+14.3



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Net Sales by Segment

(Billions of yen)

Net Sales	FY2016	FY2017		Change	
	1H ①	Forecast ②	Actual ③	③ - ①	③ - ②
Iron & Steel	290.3	360.0	354.4	+ 64.1	△5.6
Welding	42.2	40.0	39.7	△2.5	△0.3
Aluminum & Copper	162.9	170.0	174.3	+ 11.3	+ 4.3
Machinery	72.0	82.0	70.5	△1.4	△11.5
Engineering	49.5	54.0	48.0	△1.5	△6.0
Construction Machinery	156.1	180.0	182.7	+ 26.5	+ 2.7
Electric Power	35.5	32.0	32.9	△2.5	+ 0.9
Other Businesses	31.2	30.0	29.2	△2.0	△0.8
Adjustment	△25.0	△18.0	△ 24.9	±0.0	△6.9
Total	815.1	930.0	907.0	+ 91.9	△23.0

Ordinary Income (Loss) by Segment

(Billions of yen)

Ordinary Income	FY2016	FY2017		Change	
	1H ①	Forecast ②	Actual ③	③ - ①	③ - ②
Iron & Steel	△9.8	11.0	18.4	+28.2	+7.4
Welding	3.8	2.5	2.5	△1.2	±0.0
Aluminum & Copper	6.5	7.5	7.9	+1.4	+0.4
Machinery	3.7	1.0	△ 0.4	△4.2	△1.4
Engineering	0.0	△1.0	1.7	+1.7	+2.7
Construction Machinery	△0.5	7.0	11.4	+12.0	+4.4
Electric Power	8.3	2.0	3.3	△4.9	+1.3
Other Businesses	2.0	1.5	1.7	△0.2	+0.2
Adjustment	△1.8	△1.5	△ 0.9	+0.8	+0.6
Total	12.3	30.0	45.7	+33.4	+15.7



2. Forecast for Fiscal 2017



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Forecast for FY2017

(Billions of yen)

	FY2016	FY2017 (Previous Forecast)			FY2017 (Current Forecast)			Change	
	Full year ①	1H	2H	Full year ②	1H	2H	Full year ③	③ - ①	③ - ②
Net Sales	1,695.8	930.0	950.0	1,880.0	907.0	973.0	1,880.0	+184.2	±0.0
Operating Income	9.7	40.0	40.0	80.0	51.4	23.6	75.0	+65.3	△5.0
Ordinary Income	△19.1	30.0	25.0	55.0	45.7	4.3	50.0	+69.1	△5.0
(excluding inventory valuation)	(△15.6)	(25.0)	(30.0)	(55.0)	(41.2)	(1.8)	(43.0)	(+58.6)	(△12.0)
Extraordinary Income	8.1	6.7	-	6.7	9.0	undetermined	undetermined	-	-
Net Income Attributable to Owners of the Parent	△23.0	25.0	10.0	35.0	39.3	undetermined	undetermined	-	-

※Regarding the impact of the improper conduct concerning products of Kobe Steel and its group companies, the impact of deteriorating business performance is reflected in operating income and ordinary income in the above forecast, such as the increase in cost and the decrease in production volume due to the rising defect rate accompanying appropriate quality control, the disposal of nonconforming product inventory related to the cases announced so far in the Aluminum & Copper Business, and certain assumptions about risks to the sales activities of the Kobe Steel Group.

However, outside of those circumstances, it is difficult at this time to make an estimation concerning the factors of deterioration in business performance such as the possible cost of compensation to customers and other parties and other causes. As such, net income attributable to owners of the parent is undetermined.



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Net Sales by Segment

(Billions of yen)

Net Sales	FY2016	FY2017 (Previous Forecast)			FY2017 (Current Forecast)			Change	
	Full year	1H	2H	Full year ②	1H	2H	Full year ③	③ - ①	③ - ②
Iron & Steel	620.6	360.0	350.0	710.0	354.4	355.6	710.0	+89.4	±0.0
Welding	82.2	40.0	40.0	80.0	39.7	40.3	80.0	△2.2	±0.0
Aluminum & Copper	323.3	170.0	175.0	345.0	174.3	170.7	345.0	+21.7	±0.0
Machinery	150.7	82.0	96.0	178.0	70.5	102.5	173.0	+22.3	△5.0
Engineering	121.1	54.0	79.0	133.0	48.0	81.0	129.0	+7.9	△4.0
Construction Machinery	310.4	180.0	155.0	335.0	182.7	157.3	340.0	+29.6	+5.0
Electric Power	70.6	32.0	37.0	69.0	32.9	38.1	71.0	+0.4	+2.0
Other Businesses	74.8	30.0	41.0	71.0	29.2	41.8	71.0	△3.8	±0.0
Adjustment	△58.2	△18.0	△23.0	△41.0	△ 24.9	△ 14.1	△ 39.0	+19.2	+2.0
Total	1,695.8	930.0	950.0	1,880.0	907.0	973.0	1,880.0	+184.2	±0.0



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Ordinary Income (Loss) by Segment

(Billions of yen)

Ordinary Income	FY2016	FY2017 (Previous Forecast)			FY2017 (Current Forecast)			Change	
	Full year ①	1H	2H	Full year ②	1H	2H	Full year ③	③-①	③-②
Iron & Steel	△29.5	11.0	4.0	15.0	18.4	△4.4	14.0	+43.5	△1.0
Welding	6.8	2.5	2.5	5.0	2.5	2.5	5.0	△1.8	±0.0
Aluminum & Copper	12.0	7.5	6.5	14.0	7.9	2.1	10.0	△2.0	△4.0
Machinery	5.8	1.0	4.0	5.0	△0.4	3.9	3.5	△2.3	△1.5
Engineering	2.8	△1.0	5.0	4.0	1.7	2.8	4.5	+1.7	+0.5
Construction Machinery	△31.3	7.0	3.0	10.0	11.4	0.6	12.0	+43.3	+2.0
Electric Power	13.0	2.0	2.0	4.0	3.3	△0.3	3.0	△10.0	△1.0
Other Businesses	7.6	1.5	4.5	6.0	1.7	3.8	5.5	△2.1	△0.5
Adjustment	△6.4	△1.5	△6.5	△8.0	△0.9	△6.6	△7.5	△1.1	+0.5
Total	△19.1	30.0	25.0	55.0	45.7	4.3	50.0	+69.1	△5.0

【Iron & Steel】

(Billions of yen)

	FY2016	FY2017 (Previous Forecast)			FY2017 (Current Forecast)			Change
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	② - ①
Net Sales	620.6	360.0	350.0	710.0	354.4	355.6	710.0	±0.0
Ordinary Income	△29.5	11.0	4.0	15.0	18.4	△4.4	14.0	△1.0
(Inventory Valuation)	(2.0)	(3.5)	(△5.5)	(△2.0)	(2.5)	(1.5)	(4.0)	(+6.0)

FY2017

- While inventory valuation is anticipated to improve following a rise in raw material prices, we anticipated that ordinary income will decrease by reflecting certain assumptions about risks to the sales activities affected by the improper conduct concerning products of Kobe Steel and its group companies.
- Regarding consolidation of upstream operations, start-up of related equipment and acquisition of approvals are progressing as planned. Therefore, consolidated operations will start from this November as planned.
- Additional measures to improve profitability is also progressing as planned.



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【Iron & Steel】 Strengthening Profitability

FY16⇒FY17 previous forecast:

Main factors of cost changes

Relining of a blast furnace	+12.0
Consolidation of upstream operations	+ 6.5
Additional measures to improve profitability	+11.0
Others	△ 4.5

Total +25.0

Margin and product mix

Production & shipments	+ 3.5
Raw material prices	△6.5
Exchange rate changes	± 0.0

(In billions of yen)

Consolidation of upstream operations

(Impact from improved profitability + 15 billion yen/year)

Start-up of related equipment is progressing as planned. Consolidation will be completed this Nov.

FY2017 **+ 6.5** (forecast)

FY2018 + 15.0 (plan)

※Comparison with FY2015

Additional measures to improve profitability

(Impact from improved profitability + 30 billion yen/year)

Profitability is steadily improving owing to capital investment, cost cuts at the production level, and improved raw material costs.

FY2016 **+ 8.5** (actual)

FY2017 + 20.0 (forecast) **+11.5**

FY2020 + 30.0 (plan)

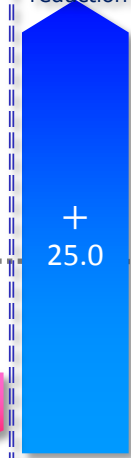
※Comparison with FY2015

FY2016 (Actual)



Inventory valuation
△4.0

Overall costs reduction



FY2017 (previous forecast)

△3.0



Others
△3.0



FY2017 (current forecast)

FY17 previous forecast⇒current forecast:

Main factors of cost changes

Relining of a blast furnace	±0.0
Consolidation of upstream operations	±0.0
Additional measures to improve profitability	+0.5
Other factors of cost changes	△1.5

Total △1.0

Margin and product mix

Production & shipments	△67.5
Raw material prices	△40.0
Exchange rate changes	△4.0



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【Iron & Steel】 Production & Sales

		FY2016 Actual			FY2017	FY2017	
		1H	2H	Full year	Full year (Previous Forecast)	1H	Full year (Current Forecast)
Domestic crude steel production	(Millions of tons)	52.6	52.6	105.2		52.6	

<Domestic steel inventory trend>

Ordinary steel products	(Millions of tons)	5.6	5.4	--		5.6	end of Aug.
Rolled sheets	(Millions of tons)	4.0	3.8	--		4.1	end of Aug.

<Domestic steel inventory trend>

Finished auto production	(Millions of cars)	4.4	5.0	9.4		4.7	
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<KOBELCO STEEL, LTD.>

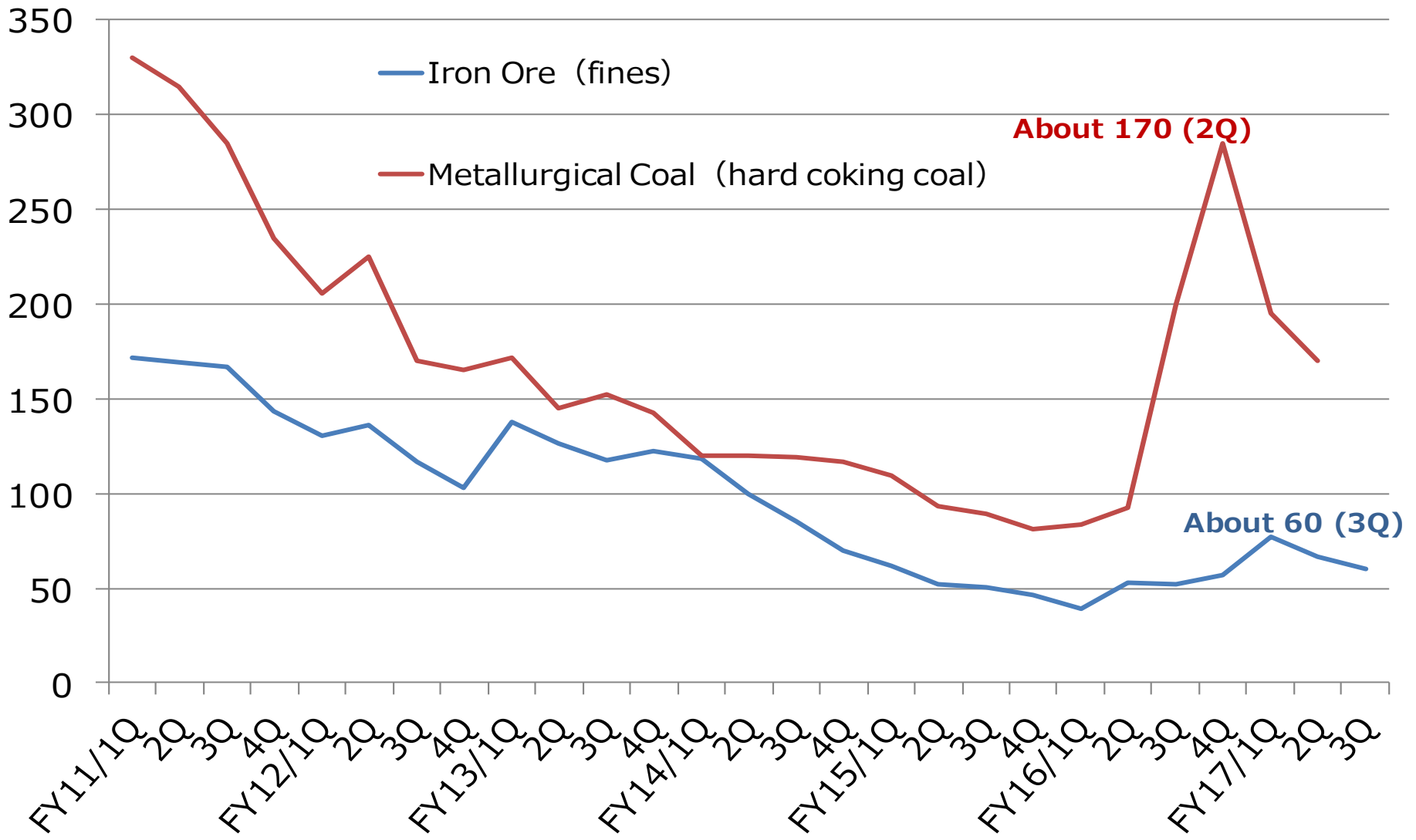
Crude steel production	(Millions of tons)	3.8	3.4	7.2	about 7.6	3.9	about 7.6
Sales volume	(Millions of tons)	2.9	3.0	5.9	about 6.2	3.0	about 6.2
(Domestic)		(2.0)	(2.2)	(4.2)		(2.2)	
(Exports)		(0.9)	(0.8)	(1.7)		(0.8)	
Average steel selling price	(Thousands of yen/ton)	68.0	73.1	70.6		81.5	
Export ratio (value basis)		29.5%	27.7%	28.6%		26.4%	



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Iron Ore & Coking Coal Price Trends

(\$/ton)

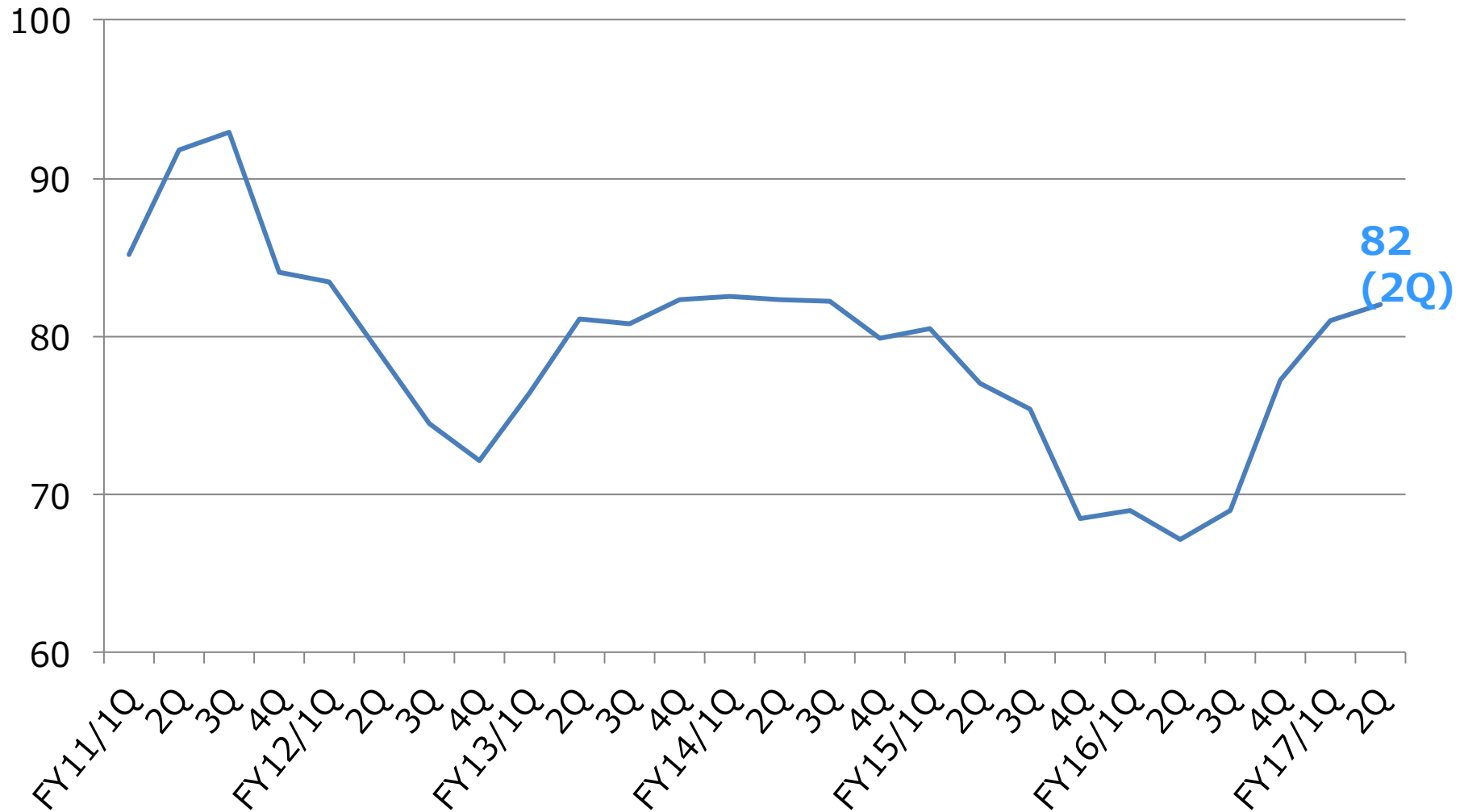




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Steel Product Price Trends at Kobe Steel

(Thousands of yen /ton)





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【Welding】

(Billions of yen)

	FY2016	FY2017 (Previous Forecast)			FY2017 (Current Forecast)			Change
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	② - ①
Net Sales	82.2	40.0	40.0	80.0	39.7	40.3	80.0	±0.0
Ordinary Income	6.8	2.5	2.5	5.0	2.5	2.5	5.0	±0.0

<Sales volume of KSL Group>

(Thousands of tons)

	FY2016			FY2017	FY2017	
	1H	2H	Full year	Full year (Previous Forecast)	1H	Full Year (Current Forecast)
Domestic	62	63	125	/	65	/
Overseas	89	83	172		79	
Total	151	146	297		about 295	

FY2017

- Demand for welding materials for use in the overseas shipbuilding sector is expected to continue facing difficult conditions.
- Demand for welding systems used in the construction sector in Japan is anticipated to be firm for the time being due to continued tax benefits.



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【Aluminum & Copper】

(Billions of yen)

	FY2016	FY2017 (Previous Forecast)			FY2017 (Current Forecast)			Change
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	② - ①
Net Sales	323.3	170.0	175.0	345.0	174.3	170.7	345.0	±0.0
Ordinary Income	12.0	7.5	6.5	14.0	7.9	2.1	10.0	△4.0
(Inventory Valuation)	△5.5	(1.5)	(0.5)	(2.0)	(2.0)	(1.0)	(3.0)	(+1.0)

<Sales volume of KSL>

(Thousands of tons)

	FY2016			FY2017 (Previous Forecast)	FY2017
	1H	2H	Full Year	Full Year (Previous Forecast)	1H
Aluminum Rolled Products (Domestic)	155	136	291	about 295	153
(Exports)	31	36	68	about 85	40
Copper Rolled Products	71	106	143	about 143	71

FY2017

- We anticipate ordinary income will decrease, due to certain assumptions affected by the improper conduct concerning aluminum and copper products and other factors.
(The increase in cost and the decrease in production volume due to the rising defect rate accompanying appropriate quality control, the disposal of nonconforming product inventory, etc.)



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【Machinery】

(Billions of yen)

	FY2016	FY2017 (Previous Forecast)			FY2017 (Current Forecast)			Change ② - ①
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	150.7	82.0	96.0	178.0	70.5	102.5	173.0	△5.0
Ordinary Income	5.8	1.0	4.0	5.0	△0.4	3.9	3.5	△1.5
Orders	128.2	—	—	about 140	67.1	about 83	about 150	about+10

FY2017

- We anticipate that ordinary income will decrease due to deterioration of profitability in a portion of the compressor orders and other factors.
- Due to the recovery of demand in the petrochemical sector and other fields in China, orders centered on plastic processing machinery are anticipated to increase.



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【Engineering】

(Billions of yen)

	FY2016 Full Year	FY2017 (Previous Forecast)			FY2017 (Current Forecast)			Change ② - ①
		1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	121.1	54.0	79.0	133.0	48.0	81.0	129.0	△4.0
Ordinary Income	2.8	△1.0	5.0	4.0	1.7	2.8	4.5	+0.5
Orders	174.2	—	—	about 100	55.9	about 44	about 100	±0.0

FY2017

- The situation for orders mainly in the waste treatment-related business is forecast not to change greatly.
- We anticipate that ordinary income will be similar to the previous forecast.



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【Construction Machinery】

(Billions of yen)

	FY2016	FY2017 (Previous Forecast)			FY2017 (Current Forecast)			Change
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	② - ①
Net Sales	310.4	180.0	155.0	335.0	182.7	157.3	340.0	+ 5.0
Ordinary Income	△31.3	7.0	3.0	10.0	11.4	0.6	12.0	+ 2.0
(Allowance for Doubtful Accounts in China)	(34.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(±0.0)

FY2017

- While the business environment is not expected to differ greatly from the previous forecast, we anticipate ordinary income will increase due to the weak Yen against the Euro and other factors.
- An additional posting of an allowance for retained receivables is not expected in fiscal 2017 due to the smooth collection of receivables.



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【Electric Power】

(Billions of yen)

	FY2016	FY2017 (Previous Forecast)			FY2017 (Current Forecast)			Change
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	② - ①
Net Sales	70.6	32.0	37.0	69.0	32.9	38.1	71.0	+2.0
Ordinary Income	13.0	2.0	2.0	4.0	3.3	△0.3	3.0	△1.0

FY2017

- We anticipate that ordinary income will decrease, because costs involving new projects will be brought forward.
- We will continue the stable wholesale supply of electricity from the current Kobe Power Plant and promote new projects (Moka and Kobe) as planned.



3. Financial Strategy



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Financial Strategy

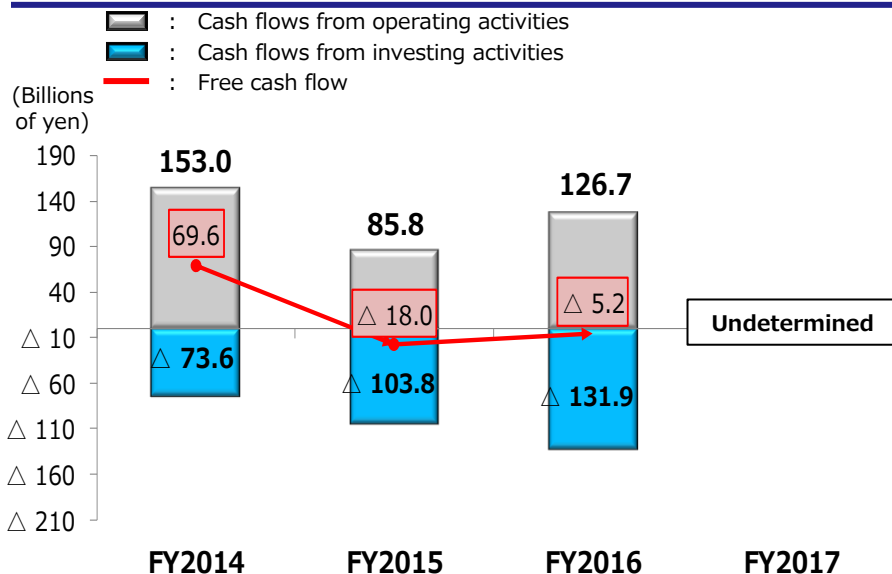
Basic policy

- In principle, business cash flows are used to finance large strategic investments to grow the materials and machinery businesses, as well as for regular investments that support the business foundation.
- **D/E ratio 1 times or less**

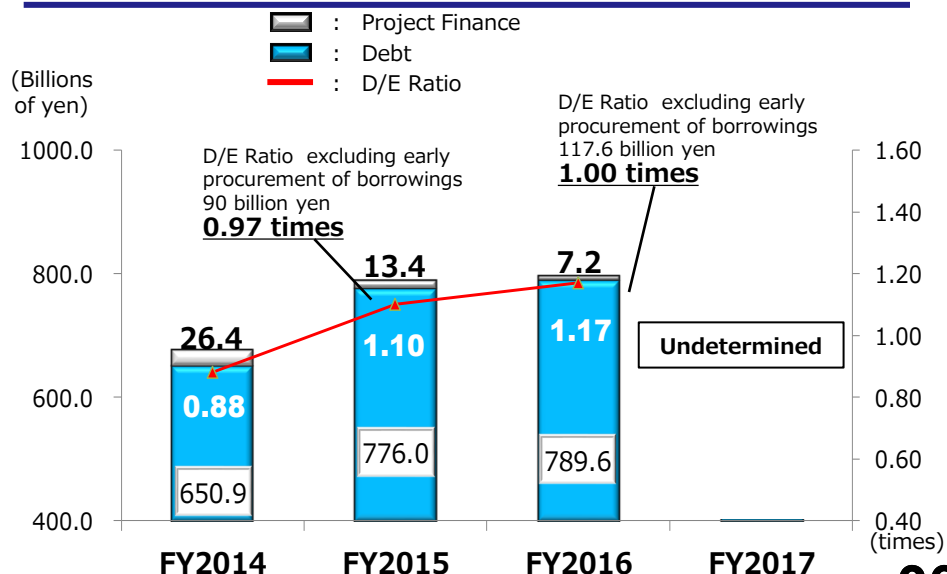
Cash generation measures

- Consider and implement **cash generation measures on a scale of 100.0 billion yen** to steadily implement growth investments, while maintaining financial discipline.
- ※ Cash generation measures already implemented
(Total: about 37 billion yen)
- FY2016: Improve working capital 19 billion yen, asset sales 3 billion yen, etc.
- FY2017: Asset sales 15 billion yen

《Free cash flow》



《Debt · D/E ratio》





Dividend

■ Resolution passed to forgo interim dividend

Kobe Steel had decided on a policy to pay an interim dividend of 10 yen per share for the first half of fiscal 2017.

However, it is difficult at this time to estimate the impact of the improper conduct concerning products discovered at this time, such as the possible cost of compensation to customers and other parties and other effects on business performance and to forecast the net income attributable to owners of the parent for the fiscal 2017. Consequently, Kobe Steel passed a resolution to adopt a policy to forgo the interim dividend for the first half of fiscal 2017.

In addition, the dividend for the end of fiscal 2017 is undetermined.

■ Actual dividend

Passed dividend

	FY2013			FY2014			FY2015			FY2016			FY2017 Forecast		
	Interim	Year-end	Year	Interim	Year-end	Year	Interim	Year-end	Year	Interim	Year-end	Year	Interim	Year-end	Year
Dividends per share in yen	-	4.0	4.0	2.0	2.0	4.0	2.0	-	2.0	-	-	-	-	Undetermined	
Dividend per net assets			17.7%			16.8%			-			-			

※Kobe Steel carried out a share consolidation at a ratio of 10 shares to 1 share effective on October 1, 2016.



4. Reference Information



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Cash Flows

(Billions of yen)

	FY2016 Full year	FY2017 (Previous Forecast)			FY2017 (Current Forecast) *2			Change ② - ①
		1H	2H	Full year ①	1H	2H	Full year ②	
Cash Flows from Operating Activities	126.7	140.0	35.0	175.0	124.9	undetermined	undetermined	—
Cash Flows from Investing Activities	△131.9	△115.0	△80.0	△195.0	△ 95.9	undetermined	undetermined	—
Free Cash Flow (Excluding Project Financing)	△5.2	25.0	△45.0	△20.0	28.9	undetermined	undetermined	—
Free Cash Flow	3.9	25.0	△50.0	△25.0	28.6	undetermined	undetermined	—
Cash and Deposits (Excluding Project Financing)	*1 197.0	190.0	65.0		194.1	undetermined		—

*1: Early procurement of borrowings for FY 2017 (117.6 billion yen) are included.

*2: Regarding the impact of the improper conduct involving products of Kobe Steel's group companies, it is difficult at this time to make an estimation concerning the factors of deterioration in business performance such as the possible cost of compensation to customers and other parties and other causes. As such, the above cash flows for FY2017 are undetermined.



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Capital Investment

(Billions of yen)

	FY2014	FY2015	FY2016	FY2017 (Forecast)
Capital Investment (Accrual Basis)	103.5	109.9	160.2	140.0
Ratio of Depreciation	115%	116%	167%	140%
Capital Investment (Payment Basis)	95.3	99.1	138.9	145.0
Ratio of Depreciation	106%	105%	144%	145%
Depreciation	89.8	94.8	96.2	100.0

Financial Indices

	FY2014	FY2015	FY2016	FY2017 ※8
ROS (※1)	5.4%	1.6%	△1.1%	2.7%
Net Income per share (※2)	238.19 yen	△59.34 yen	△63.54 yen	undetermined
D/E ratio (※3)	0.88	(※4) 1.10	(※5) 1.17	undetermined
ROA (※6)	4.4%	1.3%	0.8%	undetermined
ROE (※7)	12.0%	△2.9%	△3.4%	undetermined

※1 : ROS= Ordinary Income / Net Sales

※2 : Kobe Steel carried out a share consolidation at a ratio of 10 shares to 1 share effective on October 1, 2016.
Therefore, net income per share takes into account this share consolidation.

※3 : D/E ratio: Debt (excluding IPP project finance)/stockholders' equity (FY2015 shareholders' equity)

※4 : Includes early procurement of borrowings for FY2016 (90 billion yen)

D/E ratio 0.97 times (excluding early procurement of borrowings)

※5 : Includes early procurement of borrowings for FY2017 (117.6 billion yen)

D/E ratio 1.00 times (excluding early procurement of borrowings)

※6 : ROA= Ordinary Income / Total Assets

※7 : ROE= Net Income / Equity

※8 : Because net income attributable to owners of the parent is undetermined, the above forecasts for FY2017 are undetermined, such as net income per share, D/E ratio, ROA, and ROE.



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Analysis of Consolidated Ordinary Income

【 FY2016 1H ⇒ FY2017 1H 】

(Billions of yen)

	FY2016			FY2017		
	1H	2H	Full year	1H	2H	Full year
Ordinary Income	12.3	△31.4	△19.1	45.7	4.3	50.0

 + **33.4**

Positive Factors			Negative Factors		
Production and shipments	+	46.5	Raw material prices	△	41.5
Overall cost reduction	+	5.0	Subsidiaries & affiliates (except Construction Machinery)	△	4.0
Inventory valuation in Iron & Steel	+	10.0	Exchange rate changes in steel business	△	2.0
Inventory valuation in Aluminum & Copper	+	6.0			
Construction Machinery	+	12.0			
Other	+	1.4			
Total	+	80.9	Total	△	47.5



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Analysis of Ordinary Income in Iron & Steel Segment

【 FY2016 1H ⇒ FY2017 1H 】

(Billions of yen)

	FY2016			FY2017		
	1H	2H	Full year	1H	2H	Full year
Ordinary Income	△9.8	△19.7	△29.5	18.4	△4.4	14.0

+ 28.2

Positive Factors			Negative Factors		
Production and shipments	+	44.5	Raw material prices	△	41.5
Overall cost reduction	+	6.0	Exchange rate changes	△	2.0
Inventory valuation	+	10.0			
Other	+	11.2			
Total	+	71.7	Total	△	43.5



ECO WAY

Analysis of Consolidated Ordinary Income

【 FY2017 1H(previous forecast) ⇒ FY2017 1H(actual) 】

(Billions of yen)

	FY2017 Forecast			FY2017		
	1H	2H	Full year	1H	2H	Full year
Ordinary Income	30.0	25.0	55.0	45.7	4.3	50.0

+ **15.7**

Positive Factors			Negative Factors		
Raw material prices	+	0.0	Production and shipments	△	3.5
Overall cost reduction	+	1.5	Exchange rate changes in steel business	△	1.0
Inventory valuation in Aluminum & Copper	+	0.5			
Construction Machinery	+	4.4			
Subsidiaries & affiliates (except Construction Machinery)	+	6.0			
Exchange rate changes in steel business	±	0.0			
Other	+	7.8			
Total	+	20.2	Total	△	4.5



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Analysis of Ordinary Income in Iron & Steel Segment

【 FY2017 1H(previous forecast) ⇒ FY2017 1H(actual) 】

(Billions of yen)

	FY2017 Forecast			FY2017		
	1H	2H	Full year	1H	2H	Full year
Ordinary Income	11.0	4.0	15.0	18.4	△4.4	14.0

+ 7.4

Positive Factors			Negative Factors		
Raw material prices	±	0.0	Production and shipments	△	4.0
Overall cost reduction	+	1.0	Inventory valuation	△	1.0
Exchange rate changes	±	0.0			
Other	+	11.4			
Total	+	12.4	Total	△	5.0



ECO WAY

Analysis of Consolidated Ordinary Income

【 FY2016 ⇒ FY2017 】

(Billions of yen)

	FY2016			FY2017		
	1H	2H	Full year	1H	2H	Full year
Ordinary Income	12.3	△31.4	△19.1	45.7	4.3	50.0

+ 69.1

Positive Factors			Negative Factors		
Production and shipments	+	75.0	Raw material prices	△	46.5
Overall cost reduction	+	21.5	Subsidiaries & affiliates (except Construction Machinery)	△	16.0
Inventory valuation in Iron & Steel	+	2.0	Exchange rate changes in steel business	△	4.0
Inventory valuation in Aluminum & Copper	+	8.5	Other	△	14.7
Construction Machinery	+	43.3			
Total	+	150.3	Total	△	81.2



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Analysis of Ordinary Income in Iron & Steel Segment

【 FY2016 ⇒ FY2017 】

(Billions of yen)

	FY2016			FY2017		
	1H	2H	Full year	1H	2H	Full year
Ordinary Income	△9.8	△19.7	△29.5	18.4	△4.4	14.0

Positive Factors			Negative Factors		
Production and shipments	+	71.0	Raw material prices	△	46.5
Overall cost reduction	+	24.0	Exchange rate changes	△	4.0
Inventory valuation	+	2.0	Other	△	3.0
Total	+	97.0	Total	△	53.5



ECO WAY

Analysis of Consolidated Ordinary Income

【 FY2017 Previous Forecast ⇒ FY2017 Current Forecast 】

(Billions of yen)

	FY2017 Previous Forecast			FY2017 Current Forecast		
	1H	2H	Full year	1H	2H	Full year
Ordinary Income	30.0	25.0	55.0	45.7	4.3	50.0

Δ 5.0

Positive Factors			Negative Factors		
Production and shipments	+	5.0	Raw material prices	△	6.5
Inventory valuation in Iron & Steel	+	6.0	Overall cost	△	1.0
Inventory valuation in Aluminum & Copper	+	1.0	Subsidiaries & affiliates (except Construction Machinery)	△	0.5
Construction Machinery	+	2.0	Other	△	11.0
Exchange rate changes in steel business	±	0.0			
Total	+	14.0	Total	△	19.0



ECO WAY

Analysis of Ordinary Income in Iron & Steel Segment

【 FY2017 Previous Forecast ⇒ FY2017 Current Forecast 】

(Billions of yen)

	FY2017 Previous Forecast			FY2017 Current Forecast		
	1H	2H	Full year	1H	2H	Full year
Ordinary Income	11.0	4.0	15.0	18.4	△4.4	14.0

△ **1.0**

Positive Factors			Negative Factors		
Production and shipments	+	3.5	Raw material prices	△	6.5
Inventory valuation	+	6.0	Overall cost	△	1.0
Exchange rate changes	±	0.0	Other	△	3.0
Total	+	9.5	Total	△	10.5



ECO WAY

Analysis of Consolidated Ordinary Income

【 FY2017 1H ⇒ FY2017 2H 】

(Billions of yen)

	FY2016			FY2017		
	1H	2H	Full year	1H	2H	Full year
Ordinary Income	12.3	△31.4	△19.1	45.7	4.3	50.0

 Δ **41.4**

Positive Factors			Negative Factors		
Raw material prices	+	4.5	Production and shipments	△	9.5
Overall cost reduction	+	0.5	Inventory valuation in Iron & Steel	△	1.0
Subsidiaries & affiliates (except Construction Machinery)	+	0.5	Inventory valuation in Aluminum & Copper	△	1.0
Exchange rate changes in steel business	±	0.0	Construction Machinery	△	10.8
			Other	△	24.6
Total	+	5.5	Total	△	46.9



ECO WAY

Analysis of Ordinary Income in Iron & Steel Segment

【 FY2017 1H ⇒ FY2017 2H 】

(Billions of yen)

	FY2016			FY2017		
	1H	2H	Full year	1H	2H	Full year
Ordinary Income	△9.8	△19.7	△29.5	18.4	△4.4	14.0

Δ 22.8

Positive Factors			Negative Factors		
Raw material prices	+	4.5	Production and shipments	△	9.5
Overall cost reduction	+	2.0	Inventory valuation	△	1.0
Exchange rate changes	±	0.0	Other	△	18.8
Total	+	6.5	Total	△	29.3



ECO WAY

Growth Strategies for the Three Core Business Areas

Materials

I Initiatives for weight savings in transportation

- Overview of automotive weight savings strategy
(Please refer to Investor Meeting material released in May 2017)
http://www.kobelco.co.jp/english/ir/library/fnci_results/2017/_icsFiles/afieldfile/2017/06/20/170526_1.pdf
- Strengthening the global supply network for high-strength steel
(released in Sep. 2017) (p.44)

II Strengthening profitability in the steel business

- Consolidation of upstream operations at Kakogawa Works is progressing as planned
(p.41~43)
- Additional measures to improve profitability are implemented as planned (p.12)

Machinery

I Initiatives in the fields of energy and infrastructure

- Promoting the smooth expansion of the machinery business

II Strengthening profitability in the construction machinery business

- Promoting the rebuilding of the excavator business in China
(Please refer to Investor Meeting material released in February 2017)
http://www.kobelco.co.jp/english/ir/library/fnci_results/2016/_icsFiles/afieldfile/2017/02/27/the_C_M_B_I_C_1.pdf

Electric Power

Initiatives aimed at stable profitability in the electric power supply business

- Overview of all (new/existing) projects
(Please refer to Investor Meeting material released in January, 2017)
http://www.kobelco.co.jp/english/ir/library/fnci_results/2016/_icsFiles/afieldfile/2017/02/15/170111_e.pdf



ECO WAY

Strengthening Profitability in the Steel Business

Consolidation of Upstream Operations to Kakogawa Works

- Based on medium- to long-term forecasts on steel demand trends in Japan and overseas, we decided to transfer upstream production at Kobe Works to Kakogawa Works, which provides cost advantages in ironmaking and steelmaking. (Consolidated operations start from Nov. 2017.)

Structural issues of our steel business

Kobe Works

- ✓ Small scale compared with Kakogawa Works
- ✓ Not equipped with raw material pretreatment facilities such as coke ovens and sintering shop
- ✓ Dependent on raw material supply from Kakogawa Works or outside sources

Kakogawa Works

- ✓ Surplus capacity expected due to lower demand

Details of upstream consolidation

Kobe Works

- ✓ Shut down upstream production facilities
 - Blast Furnace, Hot-Metal Pretreatment, Ladle Refining, Continuous Casting, Blooming, etc.
- ✓ Continue downstream operations
 - Wire & Bar Rolling

Kakogawa Works

- ✓ Cover capacity reduction at Kobe Works by increasing upstream operations
- ✓ Increase production of semifinished products for Kobe Works
 - Construct new Continuous Bloom Caster and Ladle Refining Equipment
 - Increase production capacity of Bloom Mill, transfer capability of semifinished products



Investment Amount: ¥65.5 billion



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Strengthening Profitability in the Steel Business Aims for Consolidation of Upstream Operations

✓ Strengthening cost competitiveness through process transfer to Kakogawa Works

→Cost reduction in ironmaking

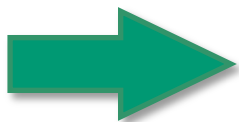
(Improvement in tapping ratio of molten iron, reduction of coking cost, etc.)

→Cost reduction in steelmaking

(Lower unit cost in steelmaking)

→Other cost reductions

(Improvement in utility efficiency, reduction of fixed costs)



Return on Upstream Consolidation & Equipment Investment:

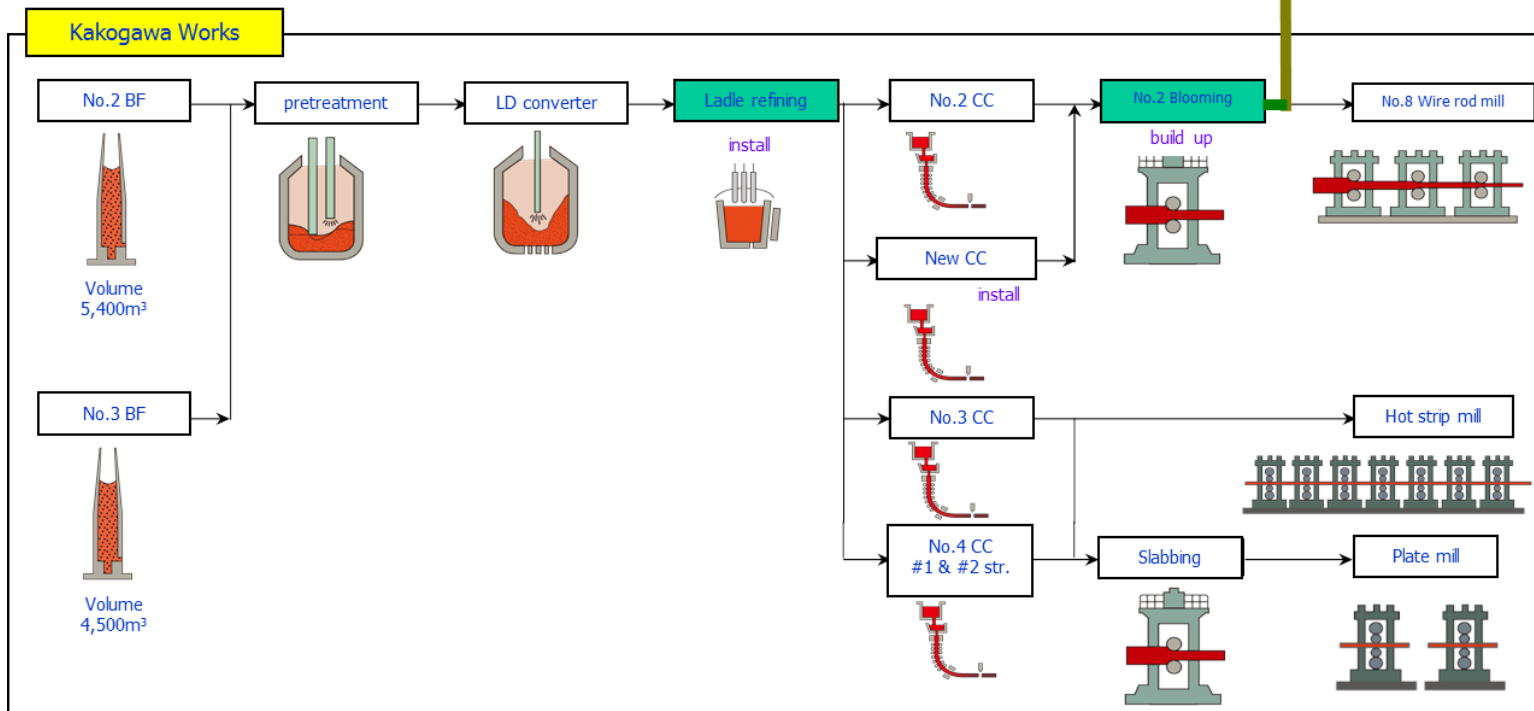
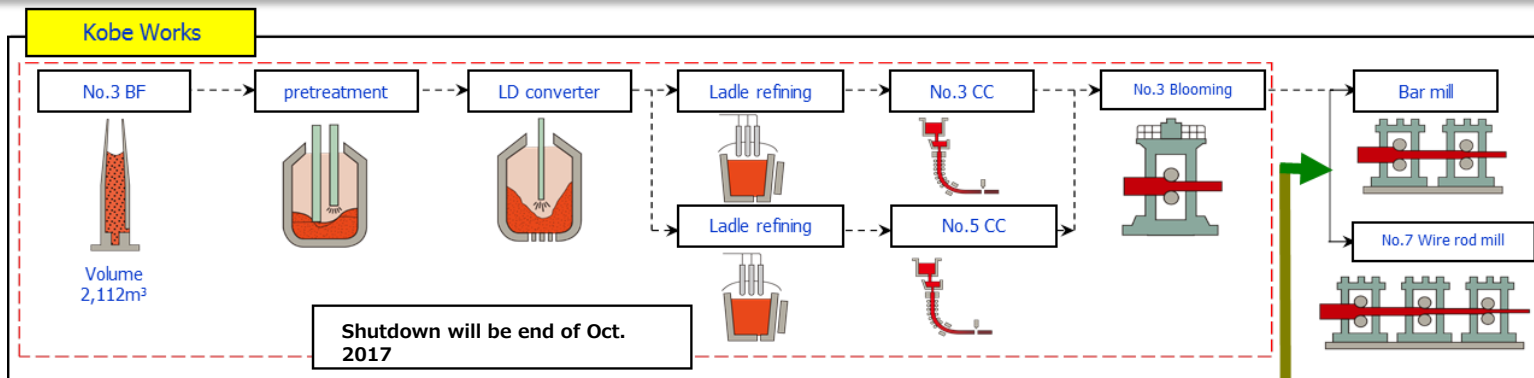
More than ¥ 15 billion/year

- ✓ Quality improvement and strengthening delivery capability by utilizing new, state-of-the-art continuous caster and refining equipment
- ✓ Increase of sales and profit through total cost reduction
- ✓ Growth in the transportation field by upgrading sales mix of steel products (Ultra high-strength steel sheets, special steel wires, etc.)



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Strengthening Profitability in the Steel Business Production Flows of Upstream Consolidation





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Automotive Weight Savings Strategy in the Steel Business

Outline of new project for high-strength steel

- Kobe Steel and U.S. Steel plan to increase production capacity of hot-dipped galvanized ultra high-strength steel for automotive use at their joint venture, PRO-TEC, in the United States.

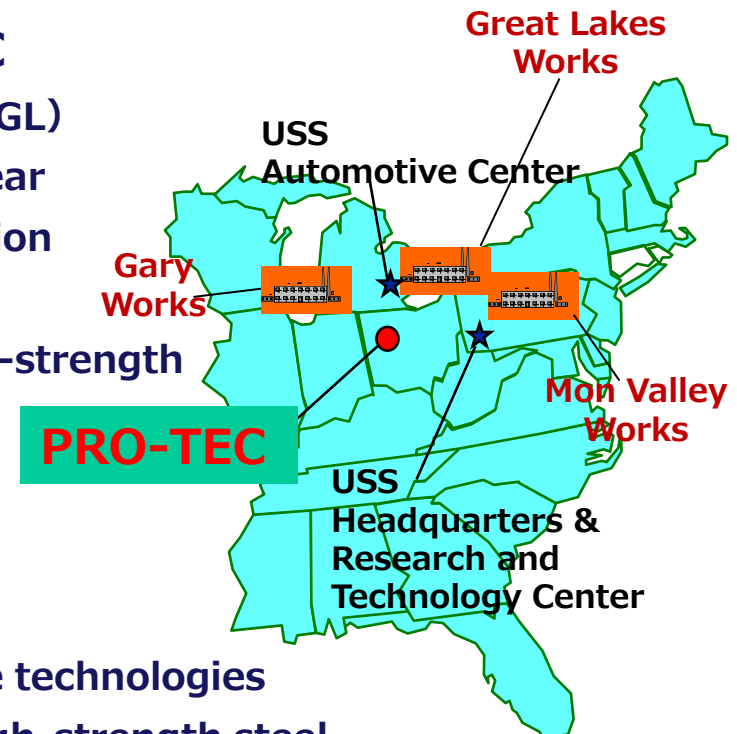
➤ Outline of Facility Expansion at PRO-TEC

- ✓ Facility name: Continuous Galvanizing Line (CGL)
- ✓ Production capacity: 500,000 short tons per year
- ✓ Investment amount : Approximately \$400 million
- ✓ Start-up: July 2019
- ✓ Main product: Hot-dipped galvanized ultra high-strength steel for automotive use
- ✓ Source of substrate coils: U.S. Steel

➤ Features and significance of new CGL

- ✓ The new line will be equipped with cutting-edge technologies
- ✓ Production of competitive cutting-edge ultra high-strength steel
- ✓ Variety of lineup of ultra high-strength steel for car bodies in North America

Strengthening a global supply network for high-strength steel in three locations: Japan, North America, and China.





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【Materials】 Initiatives for Weight Savings in Transportation

Field	Project	Country	Description	Schedule
Automotive	Joint venture to make and sell steel wire rods (Kobelco Millcon Steel Co., LTD)	Thailand	First overseas location for wire rod production. It will help growing auto demand in Southeast Asia.	Sept. 2015 Production of ordinary steel wire rod began May 2017 Production of special steel wire rod began
	Joint venture to make and sell CH steel wire (Kobelco CH Wire Mexicana, S.A. de C.V.)	Mexico	Quickly supply products of outstanding quality to local auto parts makers	Jan. 2016 Production began
	Joint venture to make and sell automotive high strength steel sheet (Kobelco Angang Auto Steel Co., Ltd.)	China	Strengthening of environmental responsiveness in China. Established global supply network for high strength steel in Japan, the U.S., Europe and China.	Feb. 2016 Production began
	Production and sale of aluminum sheet for automotive closure panels	China	First production base in China for a Japanese aluminum maker to make aluminum sheet for closure panels.	Apr. 2016 Production began
	Production and sale of automotive aluminum extrusions (Kobelco Aluminum Products & Extrusions Inc.)	USA	Strengthens response to stricter fuel consumption regulations in U.S.. Establishes supply network for aluminum extrusions and fabricated products in Japan and the U.S..	Aug. 2016 Construction began 2H 2017 Production begins
	Mass producing high-productivity, hot stamping steel sheet	—	Developed a hot stamping steel sheet with outstanding productivity during press operations. The sheet was ordered and adopted for a structural body part of the Prius, which is produced by Toyota Motor Corporation.	2016 Mass production began
	Establishment of Automotive Solution Center	—	The Automotive Solution Center was newly organized in Technical Development Group. We aim to promote rapid decision-making and strengthen original solution proposal capabilities.	Apr. 2017 Established the center
	Expansion of facilities for aluminum forged suspension products (Kobelco Aluminum Automotive Products, LLC)	USA	This expansion plan is to meet the rising demand in North America for aluminum forged suspension products. Kobe Steel anticipates that automakers in the U.S. will use aluminum forged suspension products in a wider range of vehicles.	2018 Autumn Additional facilities start
	Establishment of a joint venture with Novelis Korea (Ulsan Aluminum Ltd.)	South Korea	This plan is in response to the growing demand for automotive aluminum panel materials in Asia, including Japan and China. It aims to secure stable production and supply capacity in upstream operations.	Sep. 2017 Joint venture to be established
Aircraft	Expansion of facilities for aluminum sheet for automotive closure panels at the Moka Plant	Japan	The expansion plan is to respond to the growing demand for aluminum closure panels in Asia, including Japan and China. Kobe Steel aims to build a stable supply structure for high quality aluminum sheets for closure panels.	FY2017 Construction begins Jan. 2020 Production begins
	Increase of production capacity to make hot-dipped galvanized ultra high-strength steel for automotive use in the U.S. (PRO-TEC Coating Company)	USA	This plan is in response to growing demand for automotive high-strength steel sheet in the United States. The new continuous galvanizing line will have the capability to produce high-formability, ultra high-strength steel.	July 2017 Production begin
Ships	Began mass production of large titanium forged parts for Airbus planes	—	First in Japan to succeed in research on and mass production of large forgings for landing gears.	July 2016 Production began
	After receiving approval, began mass production of titanium alloy forgings for large GE jet engine	—	Received approval as a supplier of titanium alloy forged parts (shafts) for large commercial GE jet engine.	August 2016 Received certification. Began mass production.
Ships	Start of sales of robotic welding systems for shipbuilding	—	The robotic welding system enables automatic welding to assemble large blocks in shipbuilding. It contributes to improve efficiency in welding work.	FY2017 Sales began



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[Machinery] Initiatives in the Fields of Energy and Infrastructure

Field	Project	Country	Description	Schedule
Compressors	Sales begin for new oil-free standard air compressors	—	World's highest class of energy efficiency; low-noise operation	Oct. 2016 Sales began
	HyAC mini-A all-in-one, compact compressor package for hydrogen refueling stations in the U.S.	USA	We have started marketing the HyAC mini-A, an all-in-one, compact compressor package for stationary hydrogen refueling stations designed for use in the U. S.. It consists of a high-pressure hydrogen compressor and a refrigerator sold together with a high-pressure storage tank unit and a dispenser as a set. We are the first in Japan to sell hydrogen compressors for hydrogen refueling stations overseas.	Feb. 2017 Sales began
	Binary power generation system for Toyako spring in Hokkaido	Japan	Our binary power generation system, a high-efficiency and compact package, is used in a project for geothermal energy utilization in Toyako-cho in Hokkaido.	Mar. 2017 Order received
	Large-capacity compressor test facility opens	Japan	One of the largest in the world, this test facility is capable of conducting performance tests on nonstandard compressors with variable-speed motors of 40 MW. It enables Kobe Steel to satisfy conditions to enter the large-capacity compressor market. We are focusing on the Asian market, where Kobe Steel has an edge.	Apr. 2017 Facility opened
	Establishment of a compressor service company in the Philippines (Kobelco Machinery Philippines Inc.)	Philippines	Kobe Steel established a company in the Philippines to dispatch supervisors and provide engineering services for its nonstandard compressor business to expand its services in the region. It aims to further grow its global non-standard compressor business and set down roots in areas of demand.	Feb 2017 Established Apr.2017 Sales began
Industrial Machinery	Acquisition of Swedish isostatic press manufacturer Quintus Technologies	Sweden	Kobe Steel acquired Swedish company Quintus Technologies AB, the world leader in isostatic presses, which are widely applicable in the manufacture of high-performance products, such as aircraft parts, power generation turbine and semiconductor materials. It aims to increase the profitability of Industrial Machinery Division.	Apr. 2017 Acquisition completed
Construction Machinery	Sales begin of ultra-large crawler cranes in Japan(Lifting capacity of 1,250t)	—	One of Japan's largest crawler cranes	May 2016 Sales began
Engineering	Operation of energy-recovery waste treatment plant	Japan	Utilizes fluidized bed gasification and combustion furnace. Next-generation incineration furnace contributes to compact facility, maximizes power generation and reduces environmental burden	Jun. 2016 Order received 2016-2019 Construction of facility 2019-2039 Facility in operation
	Received order to construction and operate a wide-area waste treatment plant	Japan	To handle a wide variety of waste, a stoker-type incineration furnace will be used for safe, stable incineration. Low excess air combustion and high-efficiency power generation contribute to lowering the environmental burden.	Dec. 2016 Order received 2016-2022 Construction of facility 2022-2042 Facility in operation



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【Electric Power】 Initiatives for Stable Profitability in the Electric Power Supply Business

Field	Project	Country	Description	Schedule
Electric Power	Nos. 1 & 2 units at Kobe (Kobelco Power Kobe, Inc.)	Japan	Pulverized coal-fired, supercritical pressure power generation equipment, started from 2002. New contracts were formed as current contracts are ending. Capacity: 1.4 mil. kW (700,000 kW × 2)	Apr. 2002 No. 1 unit starts up Apr. 2004 No. 2 unit starts up [Starts of new contracts] No.1 unit: from Apr. 2017 No.2 unit: from Apr. 2019
	Nos. 1 & 2 units at Moka (Kobelco Power Moka, Inc.)	Japan	Japan's first full-scale inland power station. Will have one of Japan's highest levels of generation efficiency. Method is gas turbine combined cycle, using city gas as fuel. Capacity: 1.248 mil. kW (624,000 kW X 2)	Jun. 2016 Construction began 2H 2019 No. 1 Unit starts up 1H 2020 No. 2 Unit starts up
	Nos. 3 & 4 units at Kobe (provisional name: Kobe Works Thermal Power Plant)	Japan	To feature cutting-edge coal-fired, ultra-supercritical generation equipment Capacity: 1.3 mil. kW (650,000 kW x 2)	FY2021 No. 3 unit to start up FY2022 No. 4 unit to start up



Core Values of KOBELCO

- 1. We provide technologies, products and services that win the trust and confidence of our customers we serve and the society in which we live.**
- 2. We value each employee and support his and her growth on an individual basis, while creating a cooperative and harmonious environment.**
- 3. Through continuous and innovative changes, we create new values for the society of which we are a member.**



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- **Certain statements in this presentation contain forward-looking statements concerning forecasts, assertions, prospects, intentions and strategies. The decisions and assumptions leading to these statements were based on information currently available to Kobe Steel. Due to possible changes in decisions and assumptions, future business operation, and internal and external conditions, actual results may differ materially from the projected forward-looking statements. Kobe Steel is not obligated to revise the forward-looking contents of this presentation.**
- **Uncertain and variable factors include, but are not limited to:**
 - **Changes in economic outlook, demand and market conditions**
 - **Political situation and trade and other regulations**
 - **Changes in currency exchange rates**
 - **Availability and market conditions of raw materials**
 - **Products and services of competing companies, pricing policy, alliances, and business development including M&As**
 - **Strategy changes of alliance partners**