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KOBELCO

Financial Results for Fiscal 2017 and Forecast for Fiscal 2018

April 27, 2018
KOBELCO, LTD.





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ECOWAY

1. Financial Results for Fiscal 2017

Financial Results for FY2017

(Billions of yen)

	FY2016	FY2017		Change	
	Actual ①	Forecast ②	Actual ③	③ - ①	③ - ②
Net Sales	1,695.8	1,890.0	1,881.1	185.2	(8.9)
Operating Income	9.7	75.0	88.9	79.1	13.9
Ordinary Income (Loss)	(19.1)	60.0	71.1	90.2	11.1
Excluding inventory valuation	(15.6)	46.5	56.1	71.7	9.6
Extraordinary Income	8.1	9.1	※ 2.0	(6.1)	(7.1)
Net Income (Loss) Attributable to Owners of the Parent	(23.0)	45.0	63.1	86.2	18.1

※ Gain on sale of investment securities: 9.1 billion yen, customer compensation expenses: (4.3 billion yen), dismantlement related expenses: (2.7 billion yen)



ECO WAY

Net Sales by Segment

(Billions of yen)

Net Sales	FY2016	FY2017		Change	
	Actual ①	Forecast ②	Actual ③	③ - ①	③ - ②
Iron & Steel	620.6	715.0	715.5	94.9	0.5
Welding	82.2	80.0	80.5	(1.6)	0.5
Aluminum & Copper	323.3	345.0	349.5	26.2	4.5
Machinery	150.7	171.0	161.3	10.6	(9.7)
Engineering	121.1	128.0	122.8	1.6	(5.2)
Construction Machinery	310.4	355.0	364.5	54.0	9.5
Electric Power	70.6	72.0	72.1	1.5	0.1
Other Businesses	74.8	69.0	68.8	(5.9)	(0.2)
Adjustment	(58.2)	(45.0)	(54.3)	3.9	(9.3)
Total	1,695.8	1,890.0	1,881.1	185.2	(8.9)



ECO WAY

Ordinary Income (Loss) by Segment

(Billions of yen)

Ordinary Income (Loss)	FY2016	FY2017		Change	
	Actual ①	Forecast ②	Actual ③	③ - ①	③ - ②
Iron & Steel	(29.5)	15.0	17.3	46.8	2.3
Welding	6.8	5.0	4.9	(1.9)	(0.1)
Aluminum & Copper	12.0	8.0	11.8	(0.1)	3.8
Machinery	5.8	3.5	2.3	(3.5)	(1.2)
Engineering	2.8	5.0	6.9	4.1	1.9
Construction Machinery	(31.3)	18.0	21.9	53.3	3.9
Electric Power	13.0	6.0	7.9	(5.1)	1.9
Other Businesses	7.6	4.5	5.4	(2.1)	0.9
Adjustment	(6.4)	(5.0)	(7.5)	(1.1)	(2.5)
Total	(19.1)	60.0	71.1	90.2	11.1



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Dividend

■ Dividends

Kobe Steel takes into full account the Company's financial condition, business performance, future capital needs and other factors including the impact of the misconduct concerning some of its products.

As a result, Kobe Steel had decided on a policy to pay a year-end dividend of 30 yen per share for fiscal 2017.

■ Actual dividend

	FY2013			FY2014			FY2015			FY2016			FY2017		
	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	-	-	-	-	30.0	30.0
Dividend per net assets			17.7%			16.8%			-			-			17.2%

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



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2. Forecast for Fiscal 2018



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Forecast for FY2018

(Billions of yen)

	FY2017			FY2018			Change
	1H	2H	Full year ①	1H	2H	Full year ②	② - ①
Net Sales	907.0	974.0	1,881.1	960.0	1,030.0	1,990.0	108.9
Operating Income	51.4	37.4	88.9	15.0	40.0	55.0	(33.9)
Ordinary Income	45.7	25.3	71.1	5.0	30.0	35.0	(36.1)
Excluding inventory valuation	41.2	14.8	56.1	4.0	29.0	33.0	(23.1)
Extraordinary Income	9.0	(7.0)	2.0	※30.0	-	30.0	28.0
Net Income Attributable to Owners of the Parent	39.3	23.8	63.1	25.0	20.0	45.0	(18.1)

※ Gain on sale of investment securities: 30.0 billion yen



EcoWay

Net Sales by Segment

(Billions of yen)

Net Sales	FY2017			FY2018			Change ② - ①
	1H	2H	Full year ①	1H	2H	Full year ②	
Iron & Steel	354.4	361.0	715.5	370.0	380.0	750.0	34.5
Welding	39.7	40.8	80.5	40.0	42.0	82.0	1.5
Aluminum & Copper	174.3	175.2	349.5	190.0	195.0	385.0	35.5
Machinery	70.5	90.7	161.3	88.0	99.0	187.0	25.7
Engineering	48.0	74.8	122.8	56.0	91.0	147.0	24.2
Construction Machinery	182.7	181.8	364.5	190.0	195.0	385.0	20.5
Electric Power	32.9	39.1	72.1	36.0	37.0	73.0	0.9
Other Businesses	29.2	39.6	68.8	19.0	25.0	44.0	(24.8)
Adjustment	(24.9)	(29.3)	(54.3)	(29.0)	(34.0)	(63.0)	(8.7)
Total	907.0	974.0	1,881.1	960.0	1,030.0	1,990.0	108.9



ECO WAY

Ordinary Income (Loss) by Segment

(Billions of yen)

Ordinary Income (Loss)	FY2017			FY2018			Change ② - ①
	1H	2H	Full year ①	1H	2H	Full year ②	
Iron & Steel	18.4	(1.0)	17.3	3.0	10.0	13.0	(4.3)
Welding	2.5	2.3	4.9	1.5	3.0	4.5	(0.4)
Aluminum & Copper	7.9	3.8	11.8	0.0	2.0	2.0	(9.8)
Machinery	(0.4)	2.8	2.3	2.5	5.0	7.5	5.2
Engineering	1.7	5.1	6.9	(0.5)	5.0	4.5	(2.4)
Construction Machinery	11.4	10.5	21.9	12.5	8.5	21.0	(0.9)
Electric Power	3.3	4.5	7.9	(5.0)	3.0	(2.0)	(9.9)
Other Businesses	1.7	3.6	5.4	(1.0)	4.0	3.0	(2.4)
Adjustment	(0.9)	(6.6)	(7.5)	(8.0)	(10.5)	(18.5)	(11.0)
Total	45.7	25.3	71.1	5.0	30.0	35.0	(36.1)



ECO WAY

【Iron & Steel】

(Billions of yen)

	FY2017			FY2018			Change ② - ①
	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	354.4	361.0	715.5	370.0	380.0	750.0	34.5
Ordinary Income (Loss)	18.4	(1.0)	17.3	3.0	10.0	13.0	(4.3)
Inventory Valuation	2.5	6.5	9.0	0.0	1.0	1.0	(8.0)

FY2018

- Demand for automobiles and large redevelopment projects in the Tokyo area is expected to remain firm.
- Kobe Steel will strive to increase margins and steadily implement cost reduction measures including consolidation of upstream operations in Kakogawa Works.
- On the other hand, in addition to lower inventory valuation impact and anticipated higher fixed costs, we anticipate lower profits, taking into consideration uncertain factors in our business as certain risks.



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【Iron & Steel】 Strengthening Profitability

(In billions of yen)

FY16⇒FY17 : Main factors of cost changes

Relining of a blast furnace	+12.0
Consolidation of upstream operations	+ 6.5
Additional measures to improve profitability	+ 9.5

Total +28.0

Margin and product mix

Production & shipments	+15.5
Raw material prices	(10.0)
Exchange rate changes	± 0.0

Consolidation of upstream operations

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

Start-up of related equipment has progressed as planned. Consolidated operations started in Nov. 2017.

FY2017	+ 6.5	(actual)	+8.5
FY2018	+ 15.0	(forecast)	

Additional measures to improve profitability

(Impact from improved profitability +30 billion yen/ cumulative 5 years)

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

FY16	+ 8.5	(actual)	+8.5
FY17	+ 18.0	(actual)	
FY18	+ 26.5	(forecast)	
FY20	+ 30.0	(plan)	

FY2016
(Actual)

(29.5)

Inventory valuation

+7.0

Overall costs reduction

+28.0

FY2017
(Actual)

17.3

+0.8
Others

+5.5

Inventory valuation

(8.0)

+6.0
Overall costs reduction

(7.8)
Others

13.0

FY2018
(Forecast)

FY17 ⇒ FY18 forecast

Consolidation of upstream operations	+8.5
Additional measures to improve profitability	+8.5
Other factors of cost changes	(11.0)

Total +6.0

Margin and product mix

Production & shipments	+70.5
Raw material prices	(53.0)
Exchange rate changes	(6.5)

+11.0



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【Iron & Steel】 Production & Sales

	FY2016			FY2017			FY2018
	1H	2H	Full year	1H	2H	Full year	Full year Forecast
Japan's Domestic crude steel production (Millions of tons)	52.6	52.6	105.2	52.0	52.8	104.8	

<Domestic steel inventory trend>

Ordinary steel products (Millions of tons)	5.6	5.4	--	5.7	5.8	end of Feb.	
Rolled sheets (Millions of tons)	4.0	3.8	--	4.2	4.1	end of Feb.	

<Domestic steel inventory trend>

Finished auto production (Millions of cars)	4.4	5.0	9.4	4.7	4.1	end of Feb.	
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<KOBELCO STEEL, LTD.>

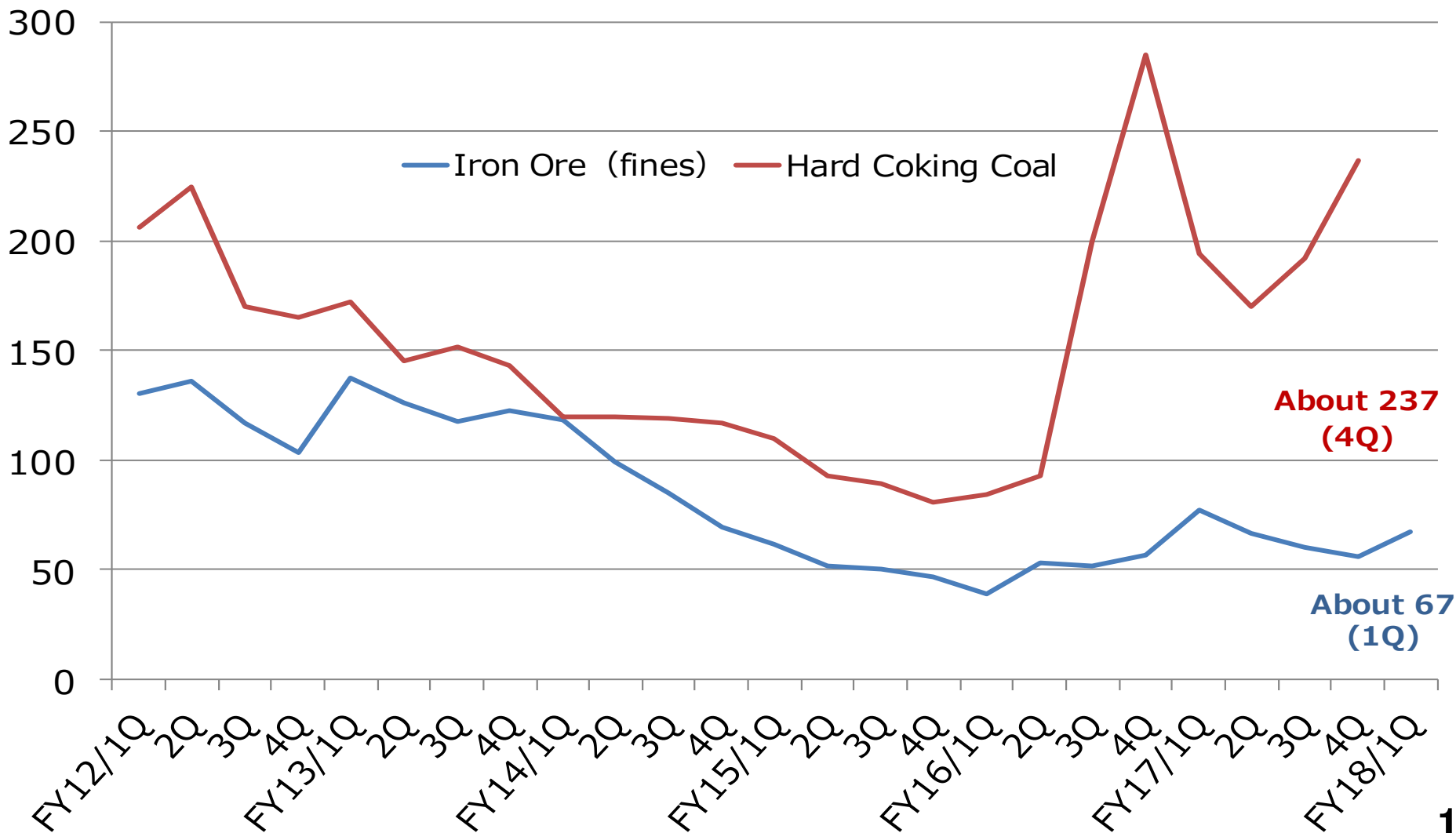
Crude steel production (Millions of tons)	3.8	3.4	7.2	3.9	3.5	7.5	about 7.0
Sales volume (Millions of tons)	2.9	3.0	5.9	3.0	2.9	6.0	about 5.9
(Domestic)	(2.0)	(2.2)	(4.2)	(2.2)	(2.1)	(4.4)	
(Exports)	(0.9)	(0.8)	(1.7)	(0.8)	(0.8)	(1.6)	
Average steel selling price (Thousands of yen/ton)	68.0	73.1	70.6	81.5	81.5	81.5	
Export ratio (value basis)	29.5%	27.7%	28.6%	26.4%	28.0%	27.2%	



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Iron Ore & Coking Coal Price Trends

(\$/ton)

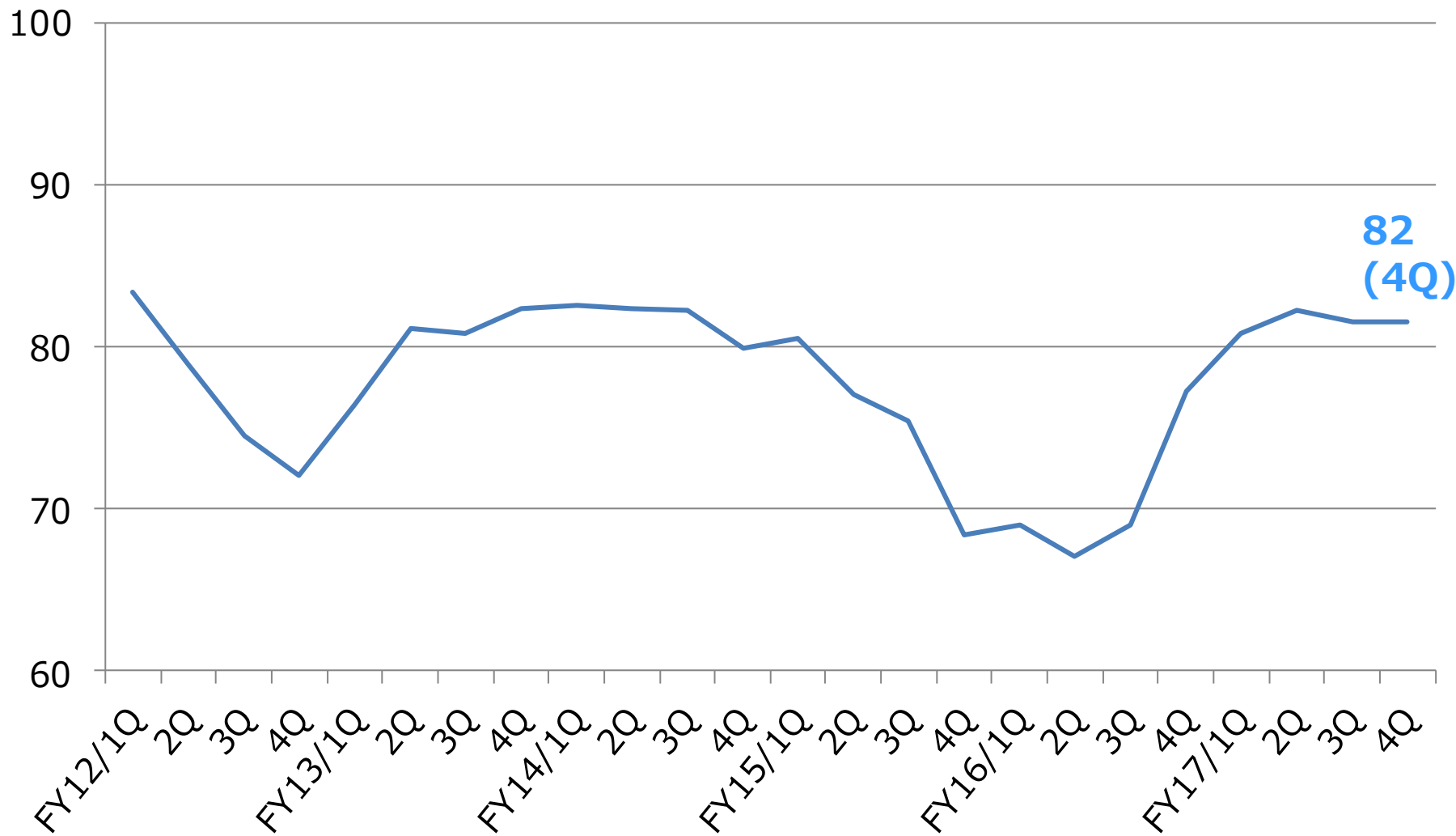




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Steel Product Price Trends at Kobe Steel

(Thousands of yen /ton)





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【Welding】

(Billions of yen)

	FY2017			FY2018			Change ② - ①
	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	39.7	40.8	80.5	40.0	42.0	82.0	1.5
Ordinary Income	2.5	2.3	4.9	1.5	3.0	4.5	(0.4)

<Sales volume of KSL Group>

(Thousands of tons)

	FY2017			FY2018
	1H	2H	Full year	Full year Forecast
Domestic	65	63	128	about 295
Overseas	79	83	162	
Total	144	146	291	

FY2018

- Demand for welding materials for shipbuilding is expected to be lower, but Kobe Steel plans to expand sales of welding materials for emerging countries in Southeast Asia and for architectural steel frames in Japan.
- Demand for welding systems is also anticipated to remain firm for architectural steel frames and construction machinery in Japan.
- Ordinary income is forecast to decreased, compared with the previous year, owing to the rise in raw material prices.



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【Aluminum & Copper】

(Billions of yen)

	FY2017			FY2018			Change ② - ①
	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	174.3	175.2	349.5	190.0	195.0	385.0	35.5
Ordinary Income	7.9	3.8	11.8	0.0	2.0	2.0	(9.8)
Inventory Valuation	2.0	4.0	6.0	1.0	0.0	1.0	(5.0)

<Sales volume of KSL>

(Thousands of tons)

	FY2017			FY2018 Full Year Forecast
	1H	2H	Full Year	
Aluminum Rolled Products (Domestic)	153	132	285	about285
(Exports)	40	38	78	about80
Copper Rolled Products	71	70	142	about145

FY2018

- Demand for aluminum and copper rolled products is anticipated to continue to remain firm. On the other hand, the misconduct will impact this business to a certain degree.
- Ordinary income is forecast to decrease compared with the previous year due to the lower impact of inventory valuation, higher fixed costs, and increased energy cost.



ECO WAY

【Machinery】

(Billions of yen)

	FY2017			FY2018			Change
	1H	2H	Full Year ①	1H	2H	Full Year ②	② - ①
Net Sales	70.5	90.7	161.3	88.0	99.0	187.0	25.7
Ordinary Income (Loss)	(0.4)	2.8	2.3	2.5	5.0	7.5	5.2
Orders	67.1	83.9	151.1	-	-	about 165	about 14

FY2018

- Orders are forecast to be higher than the previous year owing to recovering demand for compressors in China, strengthening product competitiveness by lowering costs, and expanding the after-sales service business.
- Ordinary income in fiscal 2018 is forecast to increase, compared with the previous year, due to increased sales and types of orders.



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【Engineering】

(Billions of yen)

	FY2017			FY2018			Change
	1H	2H	Full Year ①	1H	2H	Full Year ②	② - ①
Net Sales	48.0	74.8	122.8	56.0	91.0	147.0	24.2
Ordinary Income (Loss)	1.7	5.1	6.9	(0.5)	5.0	4.5	(2.4)
Orders	55.9	63.3	119.2	-	-	about 120	about 1

FY2018

- Orders in fiscal 2018 are forecast to be similar to fiscal 2017 as a certain amount of orders is anticipated in the waste treatment sector and other factors.
- Ordinary income is forecast to decrease, compared with the previous year, owing to changes in the types of orders.



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【Construction Machinery】

(Billions of yen)

	FY2017			FY2018			Change
	1H	2H	Full Year ①	1H	2H	Full Year ②	② - ①
Net Sales	182.7	181.8	364.5	190.0	195.0	385.0	20.5
Ordinary Income	11.4	10.5	21.9	12.5	8.5	21.0	(0.9)

FY2018

- Unit sales of hydraulic excavators in fiscal 2018 are forecast to be higher than fiscal 2017 as demand is anticipated to remain firm mainly in China.
- However, ordinary income in fiscal 2018 is forecast to decrease compared with fiscal 2017 owing to the rise in raw material prices and other factors.



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【Electric Power】

(Billions of yen)

	FY2017			FY2018			Change ② - ①
	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	32.9	39.1	72.1	36.0	37.0	73.0	0.9
Ordinary Income (Loss)	3.3	4.5	7.9	(5.0)	3.0	(2.0)	(9.9)

FY2018

- Ordinary income in fiscal 2018 is forecast to decrease compared with fiscal 2017 because of the posting of a one-time expense for the financing of new projects.
- Kobe Steel strives to continue stable operation at the Kobe Power Plant and promote a new project.



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 time or less**

Cash generation measures

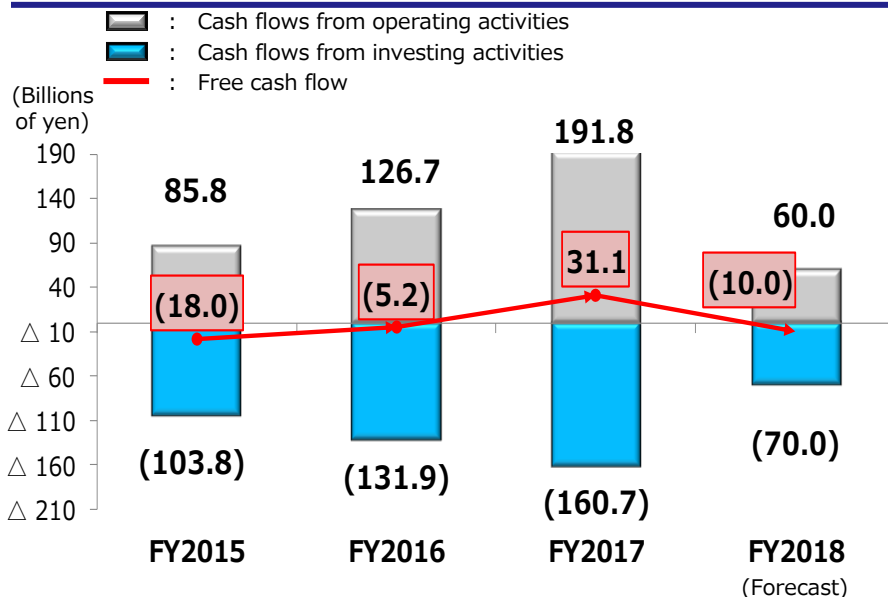
➤ Consider and implement **cash generation measures on a scale of 100.0 billion yen** to steadily implement growth investments, while maintaining financial discipline.

✓ Cash generation measures already implemented from FY2016 to FY2017

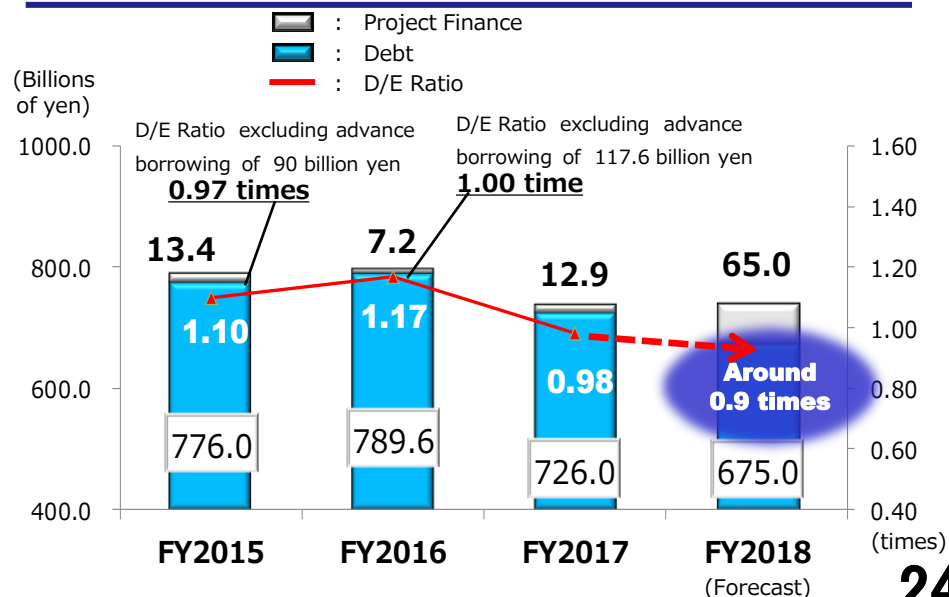
Improve working capital 19 billion yen
Asset sales 18 billion yen, etc.

Total: about 37 billion yen

《Free cash flow》



《Debt · D/E ratio》





4. Reference Information



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Cash Flows

(Billions of yen)

	FY2017			FY2018 Forecast	Change ② - ①
	1H	2H	Full year ①	Full year ②	
Cash Flows from Operating Activities	124.9	66.9	191.8	60.0	(131.8)
Cash Flows from Investing Activities	(95.9)	(64.8)	(160.7)	(70.0)	90.7
Free Cash Flow (Excluding Project Financing)	28.9	2.1	31.1	(10.0)	(41.1)
Free Cash Flow	28.6	0.5	29.2	(25.0)	(54.2)
Cash and Deposits (Excluding Project Financing)	194.0	158.2	/	95.0	(63.2)



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Capital Investment

(Billions of yen)

	FY2015	FY2016	FY2017	FY2018 Forecast
Capital Investment (Accrual Basis)	109.9	160.2	128.6	145.0
Ratio of Depreciation	116%	167%	126%	145%
Capital Investment (Payment Basis)	99.1	138.9	136.6	155.0
Ratio of Depreciation	105%	144%	134%	155%
Depreciation	94.8	96.2	102.0	100.0



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Financial Indices

	FY2015	FY2016	FY2017	FY2018 Forecast
ROS (※1)	1.6%	(1.1%)	3.8%	1.8%
Net Income (loss) per share (※2)	(59.34 yen)	(63.54 yen)	174.43 yen	124.22 yen
D/E ratio (※3)	(※4) 1.10	(※5) 1.17	about 0.98	about 0.9
ROA (※6)	1.3%	(0.8%)	3.1%	1.5%
ROE (※7)	(2.9%)	(3.4%)	8.9%	5.9%

※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 time (excluding early procurement of borrowings)

※6 : ROA = Ordinary Income / Total Assets

※7 : ROE = Net Income / Equity



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Analysis of Consolidated Ordinary Income

【 FY2016 ⇒ FY2017 】

(Billions of yen)

	FY2016			FY2017		
	1H	2H	Full year	1H	2H	Full year
Ordinary Income (Loss)	12.3	(31.4)	(19.1)	45.7	25.3	71.1

+90.2

Positive Factors			Negative Factors	
Production and shipments	+	71.0	Raw material prices	(53.0)
Overall cost reduction	+	26.5	Exchange rate changes in steel business	(6.5)
Inventory valuation in Iron & Steel	+	7.0	Electric Power	(5.0)
Inventory valuation in Aluminum & Copper	+	11.5	Subsidiaries & affiliates (excluding Construction Machinery & Electric Power)	(2.0)
Construction Machinery	+	53.3	Other	(12.6)
Total	+	169.3	Total	(79.1)



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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 (Loss)	(9.8)	(19.7)	(29.5)	18.4	(1.0)	17.3

+46.8

Positive Factors			Negative Factors	
Production and shipments	+	70.5	Raw material prices	(53.0)
Overall cost reduction	+	28.0	Exchange rate changes	(6.5)
Inventory valuation	+	7.0	Other	(2.7)
Subsidiaries & affiliates	+	3.5		
Total	+	109.0	Total	(62.2)



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Analysis of Consolidated Ordinary Income

【 FY2017 Previous Forecast (Feb. 1) ⇒ Actual 】

(Billions of yen)

	FY2017 Previous Forecast			FY2017 Actual		
	1H	2H	Full year	1H	2H	Full year
Ordinary Income	45.7	14.3	60.0	45.7	25.3	71.1

+11.1

Positive Factors			Negative Factors	
Overall cost reduction	+	3.0	Production and shipments	(5.0)
Inventory valuation in Iron & Steel	+	1.0		
Inventory valuation in Aluminum & Copper	+	0.5		
Construction Machinery	+	4.0		
Electric Power	+	1.9		
Subsidiaries & affiliates (excluding Construction Machinery & Electric Power)	+	3.5		
Other	+	2.2		
Total	+	16.1	Total	(5.0)



ECO WAY

Analysis of Ordinary Income in Iron & Steel Segment

【 FY2017 Previous Forecast (Feb. 1) ⇒ Actual 】

(Billions of yen)

	FY2017 Previous Forecast			FY2017 Actual		
	1H	2H	Full year	1H	2H	Full year
Ordinary Income (Loss)	18.4	(3.4)	15.0	18.4	(1.0)	17.3

+2.3

Positive Factors			Negative Factors	
Raw material prices	±	0.0	Production and shipments	(5.0)
Overall cost reduction	+	1.5		
Inventory valuation	+	1.0		
Subsidiaries & affiliates	+	1.0		
Exchange rate changes	±	0.0		
Other	+	3.8		
Total	+	7.3	Total	(5.0)



ECO WAY

Analysis of Consolidated Ordinary Income

【 FY2017 ⇒ FY2018 Forecast 】

(Billions of yen)

	FY2017			FY2018		
	1H	2H	Full year	1H	2H	Full year
Ordinary Income (Loss)	45.7	25.3	71.1	5.0	30.0	35.0

(36.1)

Positive Factors			Negative Factors	
Production and shipments	+	17.5	Raw material prices	(10.0)
Subsidiaries & affiliates (excluding Construction Machinery & Electric Power)	+	1.0	Overall cost	(0.5)
Exchange rate changes in steel business	±	0.0	Inventory valuation in Iron & Steel	(8.0)
			Inventory valuation in Aluminum & Copper	(5.0)
			Construction Machinery	(0.9)
			Electric Power	(9.9)
			Other	(20.3)
Total	+	18.5	Total	(54.6)



ECO WAY

Analysis of Ordinary Income in Iron & Steel Segment

【 FY2017 ⇒ FY2018 Forecast 】

(Billions of yen)

	FY2017			FY2018		
	1H	2H	Full year	1H	2H	Full year
Ordinary Income (Loss)	18.4	(1.0)	17.3	3.0	10.0	13.0
						(4.3)

Positive Factors			Negative Factors	
Production and shipments	+	15.5	Raw material prices	(10.0)
Overall cost reduction	+	6.0	Inventory valuation	(8.0)
Exchange rate changes	±	0.0	Subsidiaries & affiliates	(0.5)
			Other	(7.3)
Total	+	21.5	Total	(25.8)



Thorough implementation of measures to prevent the recurrence of misconduct concerning some of the products

The Kobe Steel Group would again like to express its sincerest apologies to its customers, business partners, shareholders and other stakeholders for having caused substantial trouble due to the misconduct of Kobe Steel and its group.

To fulfill our responsibility regarding the quality issue and once again earn your confidence, we will go back to the basics of *monozukuri*. We will renew our awareness that solid quality is at the heart of confidence and strive to prevent recurrence with an unwavering resolution.

Overview of measures to prevent recurrence

I. Governance:
Building a quality governance system

*See the next page for details.

II. Management:
Ensuring quality control

III. Process:
Strengthening the quality control process

The administrative offices at head-quarters play a leading role in implementing the measures

Independent Quality Supervision Committee

Regular progress reports to the Board of Directors



Actions for rebuilding a quality governance system

Item	Description
Penetration of the Group's corporate philosophy	<ul style="list-style-type: none"> • Further implement the Next 100 Project, a project aimed at the next 100 years • Establish the Core Values of KOBELCO Month • Revise the Six Pledges of KOBELCO to ensure consistency with the Group's corporate philosophy
Desirable state of the Board of Directors	<ul style="list-style-type: none"> • Increase number of independent outside directors to one-third or more of the Board of Directors • Introduce a Nomination and Compensation Committee • Remove the chairman position and appoint the chairman of the Board of Directors from independent outside directors of the Board • Cease the practice of appointing all division heads as directors. (Instead, assign one director position to each of the materials businesses, the machinery businesses and the electric power business) • Appoint a director in charge of risk management and a director in charge of quality assurance • Establish an Independent Quality Supervision Committee
Restructuring of the risk management system	<ul style="list-style-type: none"> • Regularly conduct a compliance awareness survey • Strengthen the risk management of Group companies • Formulate the KOBELCO Quality Guidelines • Establish a Compliance Management Department under the guidance of an executive officer dedicated to compliance matters
Reforming the insular nature of the organization	<ul style="list-style-type: none"> • Reinforce governance by restructuring divisions and Group companies • Introduce personnel rotation among the divisions • Conduct employee awareness surveys and others
Restructuring the quality assurance system	<ul style="list-style-type: none"> • Adopt the Quality Charter • Establish a Quality Management Department at the Head Office and a quality assurance section that is under the direct control of each division to reinforce the quality assurance system in each layer • The Quality Management Department is to oversee quality audits and the development of quality assurance personnel and support the divisions' quality education and training. • Invite an executive officer in charge of the Quality Management Department from outside
Revision to business management indicators	<ul style="list-style-type: none"> • Define the business management indicators (economic efficiency, statutory and contractual compliance, customer satisfaction, quality stability, safety, employee satisfaction, environmental impacts, etc.) and determine the operation policy and implement management based on them.



ECOWAY

Progress of our Product Safety Verification (as of Apr.26, 2018)

For customers to whom nonconforming products were shipped, found through the self-inspections conducted by the Kobe Steel Group and through the investigations by the Independent Investigation Committee (the "IIC") covering the past one year, and for products other than those delivered directly to customers, Kobe Steel at this time has not confirmed cases that would require the immediate suspension of use or immediate recall of the products.

Major category	Company name	Material	Main purpose	Announced on October 26, 2017		Since the IIC's establishment (October 26, 2017)	
				No. of customers	Safety verification	No. of customers	Safety verification
Aluminum & Copper	Kobe Steel, Ltd. Aluminum & Copper Business	Aluminum sheets	Can stock, Cars	57	52	7	7
		Aluminum cast & forged parts	Aircraft, Rolling stock	67	67	4	2
		Aluminum extrusions	Cars, Rolling stock	34	34	-	-
		Copper sheets	Semiconductors, Terminals	38	38	2	2
	Kobelco & Materials Copper Tube, Ltd.	Copper tubes	Air conditioning	23	23	88	88
	Shinko Metal Products Co., Ltd.	Copper alloy tubes, Molds	Electrical machinery, Steelmaking equipment	176	176	29	26
	Shinko Aluminum Wire Co., Ltd., Kobelco & Materials Copper Tube (M) Sdn. Bhd., Kobelco & Materials Copper Tube (Thailand) Co., Ltd., Suzhou Kobe Copper Technology Co., Ltd.	Copper tubes Copper strips Aluminum wires	Air conditioning Terminals	36	-	-	-
Shinko Moka Sogo Service Ltd.	Aluminum plate	Prototype materials	-	-	1	1	
Other	Kobelco Research Institute, Inc.	Sputtering target materials Prototype alloys	FPD, Optical disks, Prototype alloys, Corrosion analysis	70	70	14	14
	Kobe Steel, Ltd. Iron & Steel Business Steel Powder Division	Steel powder	Sintered parts	1	1	-	-
	Nippon Koshuha Steel Co., Ltd., Shinko Wire Stainless Company, Ltd., Jiangyin Sugita Fasten Spring Wire Co., Ltd., Kobelco Spring Wire (Foshan) Co., Ltd.	Steel wire Stainless steel wire Heat treatment	Bearings Springs	22	22	-	-
	Shinko Kohan Kako, Ltd.	Heavy plate processing	Heavy plate processed	1	1	-	-
	Koshuha All Metal Service Co., Ltd.	Heat treatment	Heat treatment	-	-	1	1
	Kobe Steel, Ltd. Machinery Business	Machinery	Industrial machinery, Standard compressors	-	-	10	10
	Shinko Engineering Co., Ltd.	Machinery	Industrial machinery	-	-	3	3
	Kobelco Eco-Solutions Co., Ltd.	Water analysis	Water analysis	-	-	4	4
				525 ※	520	163 ※	158

※The 525 customers announced on October 26, 2017 and the 163 customers affected by the Misconduct detected after the establishment of the Independent Investigation Committee are cumulative numbers.



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/fncl_results/2017/_icsFiles/afieldfile/2017/06/20/170526_1.pdf

II Strengthening profitability in the steel business

- Consolidation of upstream operations at Kakogawa Works has been completed
- Additional measures to improve profitability are being implemented as planned

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/fncl_results/2016/_icsFiles/afieldfile/2017/02/27/the_C_M_B_I_C_1.pdf

Electric Power

Initiatives for 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/fncl_results/2016/_icsFiles/afieldfile/2017/02/15/170111_e.pdf



ECOWAY

Capital investments for automotive high-strength steel at Kakogawa Works

- To meet stricter regulations for fuel efficiency and collision safety, automakers have been promoting lighter car bodies with higher strength. Kobe Steel plans to make capital investments centered on a new continuous annealing line in response to the growing demand for automotive ultra high-strength steel.

➤ Outline of capital investment

(Announced on April 4, 2018)

- ✓ Equipment: [New] Continuous annealing line, recoiler and other associated equipment
[Expansion] Pickling and tandem cold mill (PTCM) and material handling equipment
- ✓ Production capacity: 240,000 tons per year
- ✓ Investment cost: Approx. 50 billion yen
- ✓ Start of operation: February 2021
- ✓ Main products: Automotive ultra high-strength steel (cold-rolled and hot dip galvanized/galvannealed)
- ✓ Purposes of investment:
 - Increase production capacity and productivity in anticipation of higher demand for automotive high strength steel
 - Readiness to meet future needs of higher strength and higher formability



➤ Characteristics and significance of capital investment

- ✓ Continuous annealing line with leading-edge heat treatment functions
- ✓ Production of high formability, ultra high-strength steel that meets customer needs for cold-rolled steel and hot-dipped galvanized/galvannealed steel.

Paving the way for the simultaneous production of high-formability, ultra high-strength steel in Japan and the U.S. (at PRO-TEC Coating Company)



ECOWAY

Joint development of a robot system to join dissimilar metals

➤ Kobe Steel and FANUC Corporation jointly develop a robot system to join dissimilar metals, amid the trend toward multi-material applications, in which the optimum materials are combined for the most appropriate use. They plan to propose the new robot system to automakers while working toward commercialization.

- A robot system was developed, incorporating element arc spot welding (EASW), a dissimilar metals joining method invented by Kobe Steel to join ultra high-strength steel to aluminum, with FANUC's robot, engineering and sensor technologies.
- This robot system automatically performs a series of actions at high speed, such as the detection of joining positions with the image sensor, accurate movement, pressurization, feeding and engagement of elements, and arc welding.



Exterior view of the prototype

➤ Advantages of the EASW method

- ✓ High joining strength
- ✓ Joining ultra high-strength steel sheet not only to aluminum, but also to another ultra high-strength steel sheet
- ✓ Applicable to any type of aluminum
- ✓ One-side access is possible

Prototype of a robot system with the highest joining strength compared with existing methods

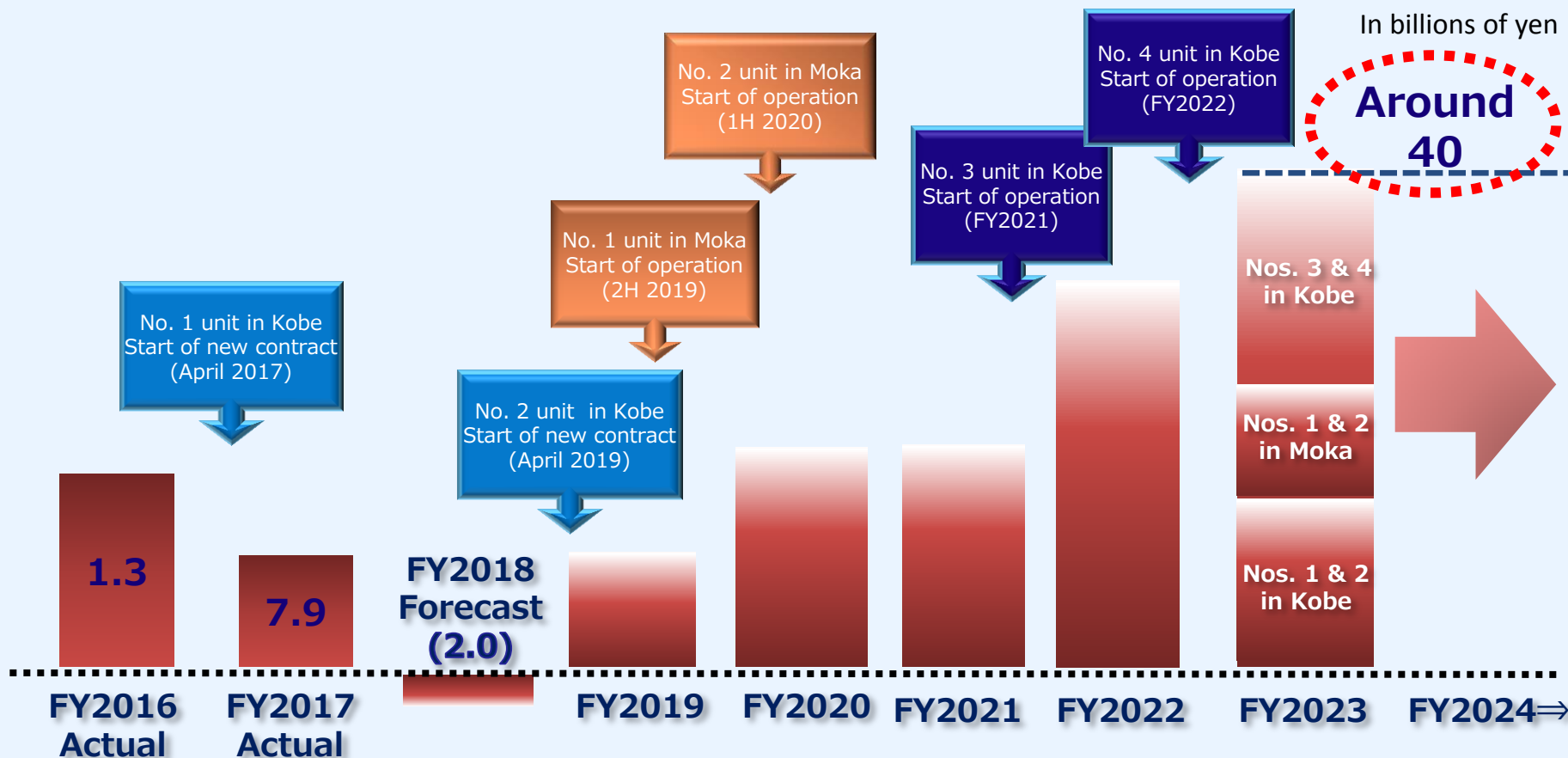
(Announced on April 19, 2018)



ECO WAY

Initiatives aimed at stable profitability in the electric power supply business

- New projects (Nos. 1 & 2 in Moka and Nos. 3 & 4 in Kobe) are being promoted to establish a long-term, stable profit base.



- ※ The above is a image of profitability in the electric power business.
- ※ Image of profitability includes head office expenses of about 2-3 billion yen. Anticipatory and other one-time expenses are expected until new projects are completed.



ECOWAY

【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. Helps meet growing auto demand in Southeast Asia.	Sep. 2015 Production of ordinary steel wire rod began May 2017 Equipment to make special steel installed
	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	Strengthens environmental response 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 the U.S.. Establishes supply network for aluminum extrusions and fabricated products in Japan and the U.S.	Aug. 2016 Construction began Dec. 2017 Production began
	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 the 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 (Kobe 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 established
	Expansion of facilities for aluminum sheet for automotive closure panels at the Moka Plant	Japan	The expansion plan is in response 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 to begin
	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.	Jul. 2017 Production began
	Investment in production equipment for automotive high strength steel at Kakogawa Works	Japan	This capital investment aims to meet growing demand for automotive ultra high-strength steel and the need for higher strength and higher formability. It will enable Kobe Steel to produce the same ultra high-strength steels in both Japan and the U.S.	Feb. 2021 Production to start
Joint development of a robot system for joining dissimilar metals	-	Developing a robot system incorporating element arc spot welding (EASW), a dissimilar metals joining method devised by Kobe Steel to join ultra high-strength steel to aluminum, and FANUC's robot engineering and sensor technologies with a view to commercialization		



ECO WAY

[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 Lake Toya Hot 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 a more 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



ECO WAY

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

Field	Project	Country	Description	Schedule
Electric Power	Nos. 1 & 2 units in Kobe (Kobelco Power Kobe, Inc.)	Japan	Pulverized coal-fired, supercritical pressure power generation equipment, started from 2002. New contracts were formed to replace current contracts as they expire. Capacity: 1.4 mil. kW (700,000 kW × 2)	Apr. 2002 No. 1 unit starts up Apr. 2004 No. 2 unit starts up [Start of new contracts] No.1 unit: from Apr. 2017 No.2 unit: from Apr. 2019
	Nos. 1 & 2 units in Moka (Kobelco Power Moka, Inc.)	Japan	Japan's first full-scale inland power plant. 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 in 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 × 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.

Six Pledges of KOBELCO Men and Women

1. Heightened Sense of Ethics and Professionalism
2. Contribution to the Society by Providing Superior Products and Services

Quality Charter

Guided by our "Quality Charter," we provide safe, sound, and innovative products and services to our customers, and thereby ensure customer satisfaction and contribute to the advancement of the society.

3. Establishing a Comfortable but Challenging Work Environment
4. Living in Harmony with Local Community
5. Contribution to a Sustainable Environment
6. Respect for Each Stakeholder



Cautionary Statement

- **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:**
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 - **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**