



KOBELCO

< IR Meeting Material >

Financial Results for the First Half of Fiscal 2019 and Forecast for the Full Fiscal Year

November 6, 2019
KOBELCO, LTD.





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1. Financial Results for the First Half of Fiscal 2019



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Financial Results for the First Half of Fiscal 2019

(Billions of yen)

	FY2018	FY2019		Change	
	1H ①	Previous Forecast ②	Actual ③	③-①	③-②
Net Sales	958.2	980.0	944.4	(13.7)	(35.6)
Operating Income	23.1	0.0	7.4	(15.6)	7.4
Ordinary Income	9.3	(10.0)	1.4	(7.8)	11.4
(Excluding Inventory Valuation)	6.8	(11.5)	2.9	(3.8)	14.4
Extraordinary Income	※ ¹ 36.3	—	※ ² (4.1)	(40.5)	(4.1)
Net Income Attributable to Owners of the Parent	33.3	0.0	(6.2)	(39.6)	(6.2)

- ※¹ Gain on acquisition of subsidiary (Turned Shinko Wire Company into a subsidiary): 4.8 billion yen
 Gain on sale of investment securities (Sold 75% of shares held in Shinko Real Estate): 31.4 billion yen
- ※² Gain on sale of investment securities (Sale of strategically held shares): 6.7 billion yen
 Loss on valuation of investment securities: 10.8 billion yen



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Net Sales by Segment

(Billions of yen)

Net Sales	FY2018		FY2019		Change	
	1H ①	Previous Forecast ②	Actual ③	③-①	③-②	
Iron & Steel	359.5	370.0	365.2	5.7	(4.8)	
Welding	39.8	42.0	43.1	3.3	1.1	
Aluminum & Copper	181.3	175.0	170.2	(11.0)	(4.8)	
Machinery	84.2	81.0	80.4	(3.8)	(0.6)	
Engineering	55.4	66.0	61.4	6.0	(4.6)	
Construction Machinery	204.9	210.0	197.8	(7.1)	(12.2)	
Electric Power	35.8	35.0	35.4	(0.4)	0.4	
Other Businesses	22.2	14.0	13.8	(8.4)	(0.2)	
Adjustment	(25.2)	(13.0)	(23.1)	2.0	(10.1)	
Total	958.2	980.0	944.4	(13.7)	(35.6)	



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Ordinary Income (Loss) by Segment

(Billions of yen)

Ordinary Income (Loss)	FY2018	FY2019		Change	
		1H ①	Previous Forecast ②	Actual ③	③-①
Iron & Steel	(1.7)	(6.0)	(5.8)	(4.1)	0.2
Welding	0.9	2.0	1.8	0.9	(0.2)
Aluminum & Copper	1.6	(8.0)	(8.3)	(10.0)	(0.3)
Machinery	0.8	0.0	2.3	1.4	2.3
Engineering	1.0	(0.5)	2.1	1.1	2.6
Construction Machinery	13.5	8.0	8.7	(4.7)	0.7
Electric Power	(3.6)	(0.5)	1.6	5.2	2.1
Other Businesses	0.8	0.0	0.0	(0.8)	-
Adjustment	(4.2)	(5.0)	(1.1)	3.0	3.9
Total	9.3	(10.0)	1.4	(7.8)	11.4



2. Forecast for Fiscal 2019



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Forecast for FY2019

(Billions of yen)

	FY2018	FY2019 (Previous Forecast)			FY2019 (Current Forecast)			Change	
	Full Year ①	1H	2H	Full Year ②	1H	2H	Full Year ③	③-①	③-②
Net Sales	1,971	980	1,020	2,000	944	1,025	1,970	(0.1)	(3.0)
Operating Income	48.2	0.0	25.0	25.0	7.4	7.6	15.0	(33.2)	(10.0)
Ordinary Income	34.6	(10.0)	20.0	10.0	1.4	(1.4)	0.0	(34.6)	(10.0)
(Excluding Inventory Valuation)	(29.1)	(11.5)	(20.5)	(9.0)	(2.9)	(3.4)	(0.5)	(29.6)	(9.5)
Extraordinary Income	※1 14.3	—	—	—	(4.1)	—	※2 (4.1)	(18.4)	(4.1)
Net Income Attributable to Owners of the Parent	35.9	0.0	10.0	10.0	(6.2)	1.2	(5.0)	(40.9)	(15.0)

※1 Gain on acquisition of subsidiary (Turned Shinko Wire Company into a subsidiary): 4.8 billion yen
 Gain on sale of investment securities (Partial sale of shares of Shinko Real Estate): 31.4 billion yen
 Other (impairment loss, casualty loss, etc.): (22.0) billion yen

※2 Gain on sale of investment securities (Sale of strategically held shares): 6.7 billion yen
 Loss on valuation of investment securities: (10.8) billion yen



ECO WAY

Net Sales by Segment

(Billions of yen)

Net Sales	FY2018	FY2019 (Previous Forecast)			FY2019 (Current Forecast)			Change	
	Full Year ①	1H	2H	Full Year ②	1H	2H	Full Year ③	③-①	③-②
Iron & Steel	753.9	370.0	420.0	790.0	365.2	394.8	760.0	(6.1)	(30.0)
Welding	83.9	42.0	45.0	87.0	43.1	41.9	85.0	1.1	(2.0)
Aluminum & Copper	359.0	175.0	175.0	350.0	170.2	179.8	350.0	(9.0)	—
Machinery	171.4	81.0	92.0	173.0	80.4	93.6	174.0	2.6	1.0
Engineering	151.7	66.0	85.0	151.0	61.4	86.6	148.0	(3.7)	(3.0)
Construction Machinery	386.0	210.0	185.0	395.0	197.8	192.2	390.0	4.0	(5.0)
Electric Power	76.1	35.0	44.0	79.0	35.4	41.6	77.0	0.8	(2.0)
Other Businesses	42.0	14.0	21.0	35.0	13.8	19.2	33.0	(9.0)	(2.0)
Adjustment	(52.5)	(13.0)	(47.0)	(60.0)	(23.1)	(23.9)	(47.0)	5.5	13.0
Total	1,971.8	980.0	1,020.0	2,000.0	944.4	1,025.6	1,970.0	(1.8)	(30.0)



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Ordinary Income (Loss) by Segment

(Billions of yen)

Ordinary Income (Loss)	FY2018	FY2019 (Previous Forecast)			FY2019 (Current Forecast)			Change	
	Full Year ①	1H	2H	Full Year ②	1H	2H	Full Year ③	③-①	③-②
Iron & Steel	4.7	(6.0)	6.0	0.0	(5.8)	0.8	(5.0)	(9.7)	(5.0)
Welding	3.6	2.0	2.0	4.0	1.8	1.2	3.0	(0.6)	(1.0)
Aluminum & Copper	(1.5)	(8.0)	(4.0)	(12.0)	(8.3)	(12.7)	(21.0)	(19.5)	(9.0)
Machinery	1.2	0.0	4.0	4.0	2.3	2.7	5.0	3.8	1.0
Engineering	6.5	(0.5)	6.5	6.0	2.1	3.9	6.0	(0.5)	—
Construction Machinery	25.5	8.0	3.5	11.5	8.7	0.3	9.0	(16.5)	(2.5)
Electric Power	(0.3)	(0.5)	7.0	6.5	1.6	4.9	6.5	6.8	—
Other Businesses	2.3	0.0	3.5	3.5	0.0	3.0	3.0	0.7	(0.5)
Adjustment	(7.5)	(5.0)	(8.5)	(13.5)	(1.1)	(5.4)	(6.5)	1.0	7.0
Total	34.6	(10.0)	20.0	10.0	1.4	(1.4)	0.0	(34.6)	(10.0)



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【Iron & Steel】

(Billions of yen)

	FY2018	FY2019 (Previous Forecast)			FY2019 (Current Forecast)			Change ② - ①
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	753.9	370.0	420.0	790.0	365.2	394.8	760.0	(30.0)
Ordinary Income (Loss)	4.7	(6.0)	6.0	0.0	(5.8)	0.8	(5.0)	(5.0)
Inventory Valuation	3.5	3.5	0.0	3.5	0.0	4.5	4.5	1.0

FY2019

- The sales volume of steel products is expected to decrease from the previous forecast due to a decline in demand mainly in the overseas automotive sector and domestic industrial and construction machinery sectors. Accordingly, ordinary income is expected to worsen from the previous forecast.
- We will continue to tackle the key themes of the Rolling of the Medium-Term Management Plan: strengthen monozukuri capabilities, increase sales prices, and obtain returns on strategic investment projects.



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【Iron & Steel】 Production & Sales

	FY2018			FY2019	FY2019	
	1H	2H	Full Year	Full Year (Previous Forecast)	1H	Full Year (Current Forecast)
Domestic crude steel production (Millions of tons)	52.2	50.7	102.9		50.7	
					April-September total (Preliminary)	
Domestic inventory level (Millions of tons)	6.2	5.9	--		5.9	
					End of September (Preliminary)	
Inventory level of 3 types of steel sheets (Millions of tons)	4.4	4.5	--		4.4	
					End of September (Preliminary)	
Domestic auto production (Millions of tons)	4.6	5.1	9.7		4.8	
					April-September total (Preliminary)	

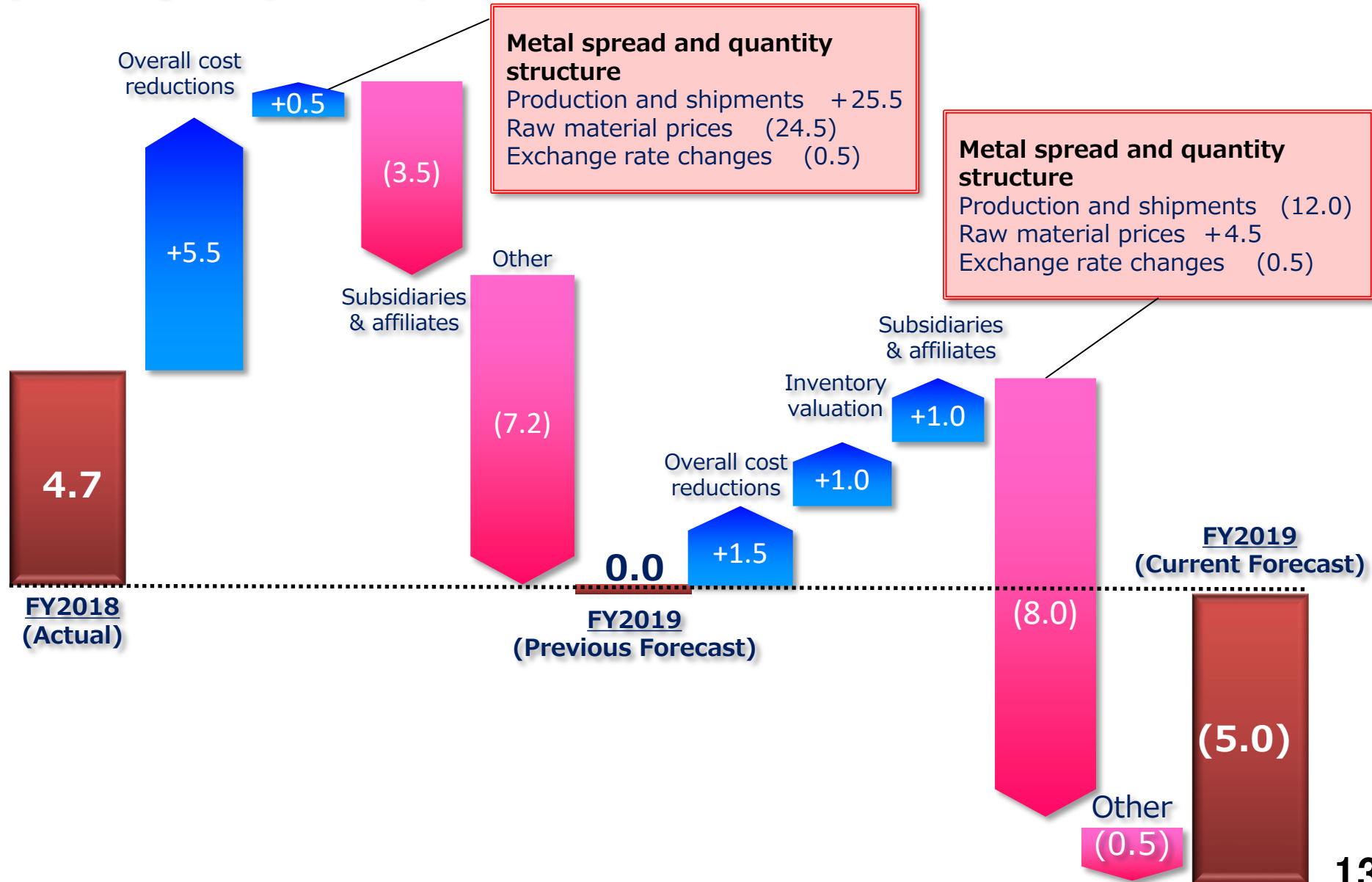
<KOBELCO, LTD.>

Crude steel production (Millions of tons)	3.4	3.5	6.9	about 7.2	3.4	about 6.8
Sales volume of steel products (Millions of tons)	2.7	2.9	5.6	about 5.9	2.7	about 5.6
(Domestic)	(2.0)	(2.2)	(4.3)		(2.0)	
(Exports)	(0.7)	(0.7)	(1.4)		(7.3)	
Average steel selling price (Thousands of yen/ton)	85.2	86.9	86.1		86.7	
Export ratio (value basis)	25.7%	24.1%	24.9%		25.4%	about 24%



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[Steel Segment] Ordinary Income, Factor for Increase/Decrease

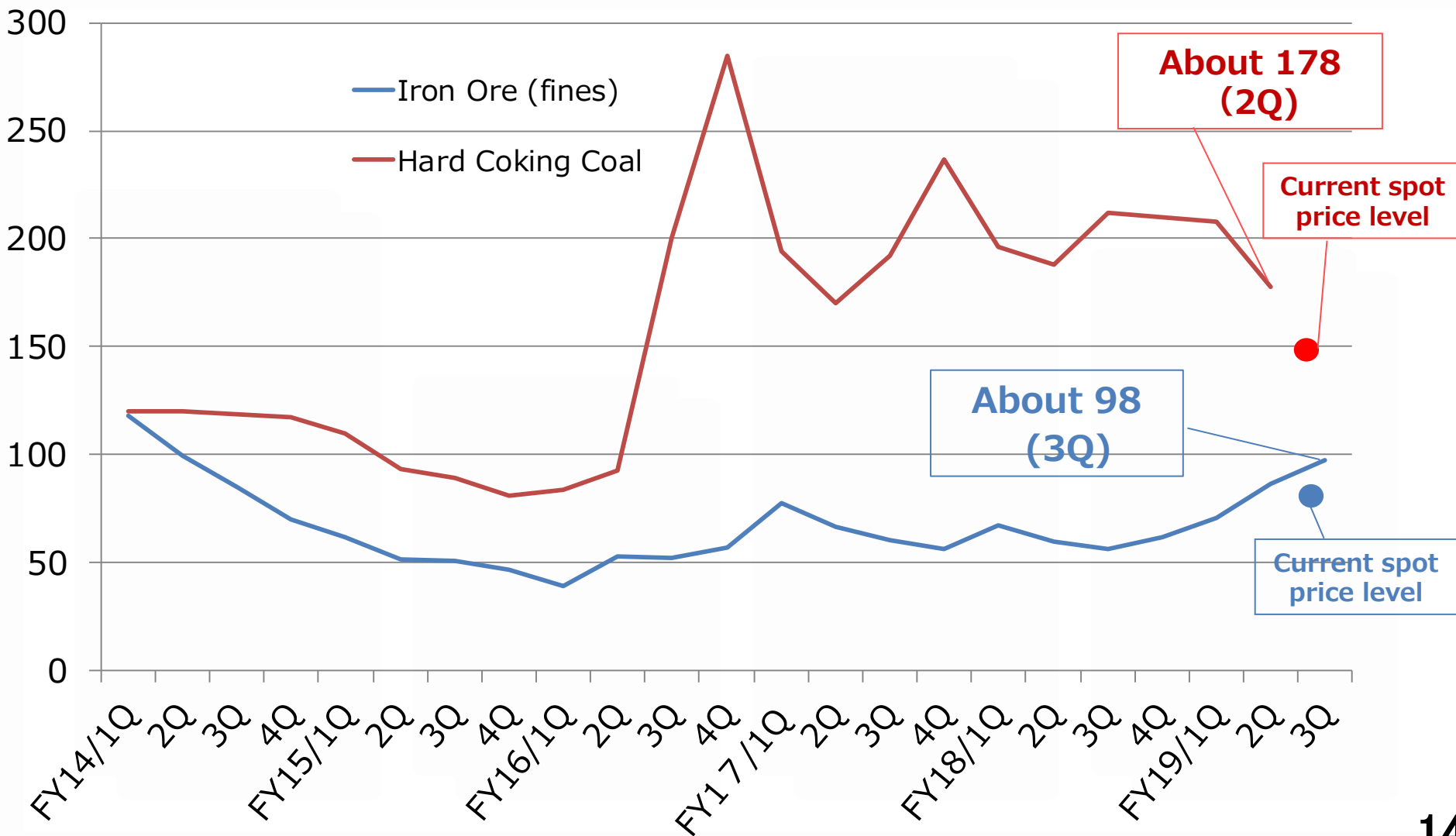




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Iron Ore & Coking Coal Price Trends

(\$/ton)

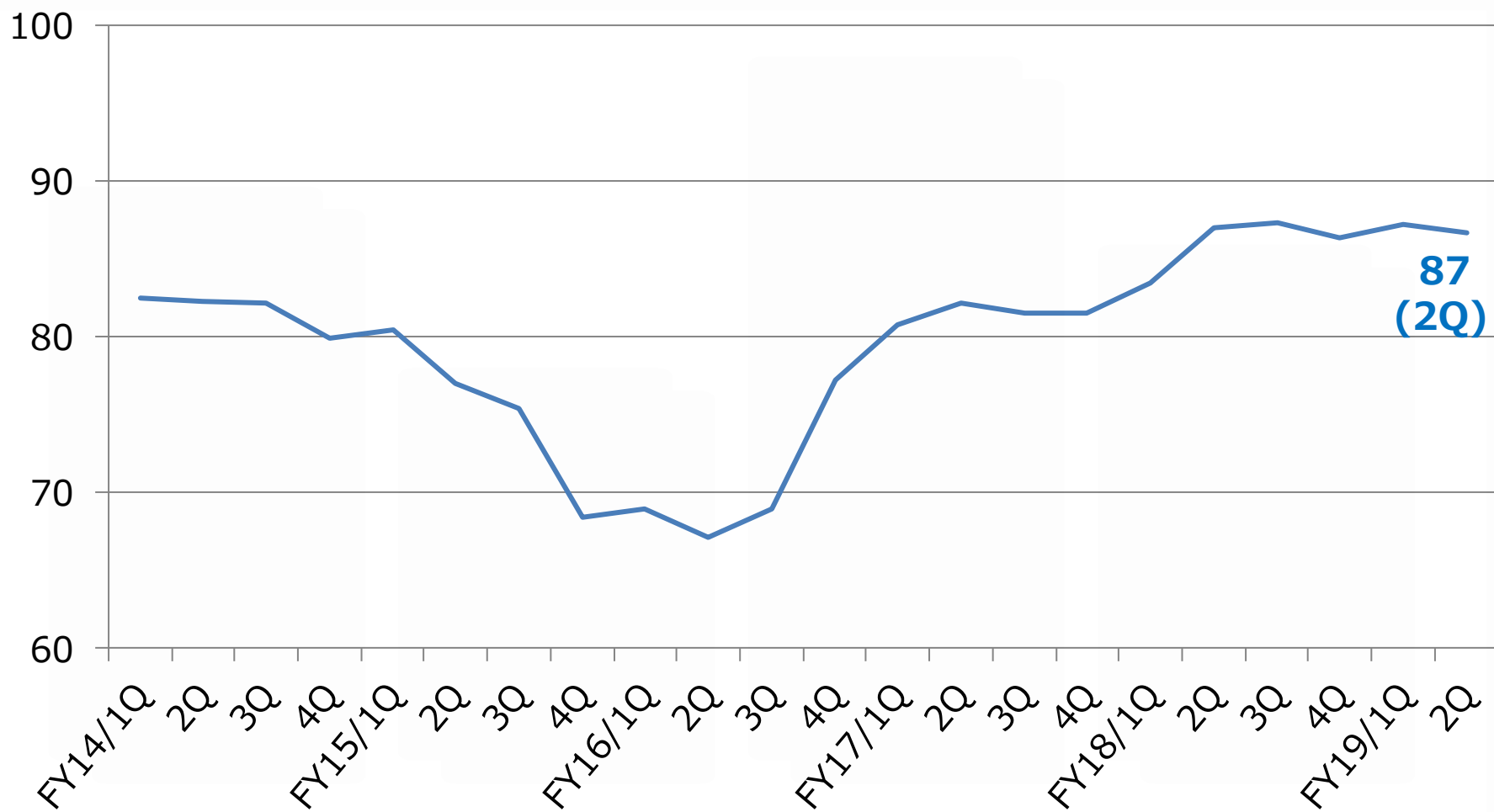




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Steel Product Price Trends at Kobe Steel

(Thousands of yen/ton)



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【Welding】

(Billions of yen)

	FY2018	FY2019 (Previous Forecast)			FY2019 (Current Forecast)			Change ② - ①
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	83.9	42.0	45.0	87.0	43.1	41.9	85.0	(2.0)
Ordinary Income	3.6	2.0	2.0	4.0	1.8	1.2	3.0	(1.0)

<Sales Volume of KSL Group>

(Thousands of tons)

	FY2018			FY2019	FY2019	
	1H	2H	Full Year	Full Year (Previous Forecast)	1H	Full Year (Current Forecast)
Domestic	60	67	127	About 305	65	About 295
Overseas	83	88	171		84	
Total	143	155	298		149	

FY2019

- The sales volume of welding materials is expected to decrease from the previous forecast due to the delay in demand recovery and continuing difficult demand conditions in Southeast Asia.
- Welding systems are expected to remain firm due to strong demand in the domestic construction sector against the backdrop of a worker shortage.
- Ordinary income is expected to decrease from the previous forecast.



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【Aluminum & Copper】

(Billions of yen)

	FY2018	FY2019 (Previous Forecast)			FY2019 (Current Forecast)			Change ② - ①
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	359.0	175.0	175.0	350.0	170.2	179.8	350.0	-
Ordinary Loss	(1.5)	(8.0)	(4.0)	(12.0)	(8.3)	(12.7)	(21.0)	(9.0)
Inventory Valuation	2.0	(2.0)	(0.5)	(2.5)	(1.5)	(2.5)	(4.0)	(1.5)

<Sales volume of KSL>

(Thousands of tons)

	FY2018			FY2019	FY2019		
	1H	2H	Full Year	Full Year (Previous Forecast)	1H	Full Year (Current Forecast)	
Aluminum Rolled Products	(Domestic)	140	134	274	about 280	138	about 275
	(Exports)	35	35	70	about 70	30	about 65
Copper Rolled Products	Copper Strips	29	30	59	about 55	26	about 53
	Copper Tubes	43	41	85	about 85	44	about 85

FY2019

- The sales volume of aluminum and copper rolled products is expected to decrease from the previous forecast due to the delay in demand recovery in the IT and semiconductor industries. Ordinary income is expected to decline from the previous forecast mainly due to the prolonged impact of equipment trouble at an overseas subsidiary.
- We will continue to tackle the key themes of the Rolling of the Medium-Term Management Plan: strengthen monozukuri capabilities, increase sales prices, and obtain returns on strategic investment projects. (*For details, please refer to pages 18 and 19.)



[Aluminum & Copper] Supplementary Explanation of Ordinary Income/Loss

**FY2018
(Actual)**

(1.5 billion yen)

**FY2019
(Previous Forecast)**

(12.0 billion)

**FY2019
(Current Forecast)**

(21.0 billion yen)

Actual ordinary
income/loss
3.5
Inventory
valuation **2.0**

**Special
factors
(7.0)**

(4.5)
Inventory
valuation

+1.0
Special
factors

Actual ordinary
income/loss
(7.0)

Inventory
valuation **(2.5)**
**Special
factors
(6.0)**
Actual ordinary
income/loss
(3.5)

**Details on special factors of
(11.0) billion yen:**
(i) Launch of overseas bases
➢ Aluminum panels: China
➢ Aluminum extrusions: U.S.
(ii) Equipment trouble
Aluminum forgings for
suspensions
(iii) Sale of business
Impact of sale of copper
tube business

Inventory
valuation **(4.0)**

**Special
factors
(11.0)**

Inventory
valuation
(1.5)
Special
factors

(5.0)

Actual ordinary
income/loss
(2.5)

Actual ordinary
income/loss
(6.0)

**Details on special factors of
(7.0) billion yen:**
(i) Launch of overseas bases
➢ Aluminum panels: China
➢ Aluminum extrusions: U.S.
(ii) Quality misconduct

**Details on special factors of
(6.0) billion yen:**
(i) Launch of overseas bases
➢ Aluminum panels: China
➢ Aluminum extrusions: U.S.
(ii) Equipment trouble
Aluminum forgings for
suspensions in U.S.



[Aluminum & Copper] Supplementary Explanation on Measures to be Taken

<p>Rolling of the Medium-Term Plan</p> <p>Priority measures for FY2019 and FY2020</p>	<p><u>Enhance profitability with a focus on the materials businesses</u></p> <p>Strengthen monozukuri capabilities, increase sales prices.</p> <p>Obtain returns on strategic investment projects.</p> <p>Make further contributions to customers through the reorganization of the Iron & Steel and Aluminum & Cooper businesses.</p>
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Aluminum forgings for suspensions:

- Japan, the United States and China tri-polar system
- U.S. subsidiary KAAP, which is carrying out its 7th expansion, has been impacted by prolonged equipment trouble.



[US/KAAP]

Take emergency measures, including support from Japan, to rebuild the production system as soon as possible.

Strengthen monozukuri capabilities and increase selling prices

[Common to the Aluminum & Copper segment]

- Start to consider reducing fixed costs while determining cost levels required to strengthen monozukuri capabilities.
- Seek to improve prices to ensure that investments can be made for the stable production of high-quality products, in addition to reflecting higher energy and other costs in product prices.



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【Machinery】

(Billions of yen)

	FY2018	FY2019 (Previous Forecast)			FY2019 (Current Forecast)			Change ② - ①
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	171.4	81.0	92.0	173.0	80.4	93.6	174.0	1.0
Ordinary Income	1.2	0.0	4.0	4.0	2.3	2.7	5.0	1.0
Orders	171.7			about 160.0	80.5	About 80.0	About 160.0	—

FY2019

- Orders are expected to remain similar to the previous forecast, although overseas competition will continue to be tough mainly in compressors.
- Ordinary income is expected to increase from the previous forecast, owing to improvements in profitability and firm after-sales service demand.



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【Engineering】

(Billions of yen)

	FY2018	FY2019 (Previous Forecast)			FY2019 (Current Forecast)			Change
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	② - ①
Net Sales	151.7	66.0	85.0	151.0	61.4	86.6	148.0	(3.0)
Ordinary Income (Loss)	6.5	(0.5)	6.5	6.0	2.1	3.9	6.0	-
Orders	122.6			About 160.0	76.1	About 59.0	About 135.0	About (25.0)

FY2019

- Orders are expected to decrease from the previous forecast due to the postponement of certain projects until 2020 and thereafter, although demand continues to be firm mainly in waste treatment-related businesses.
- Ordinary income is expected to remain similar to the previous forecast, despite changes in the progress of projects.



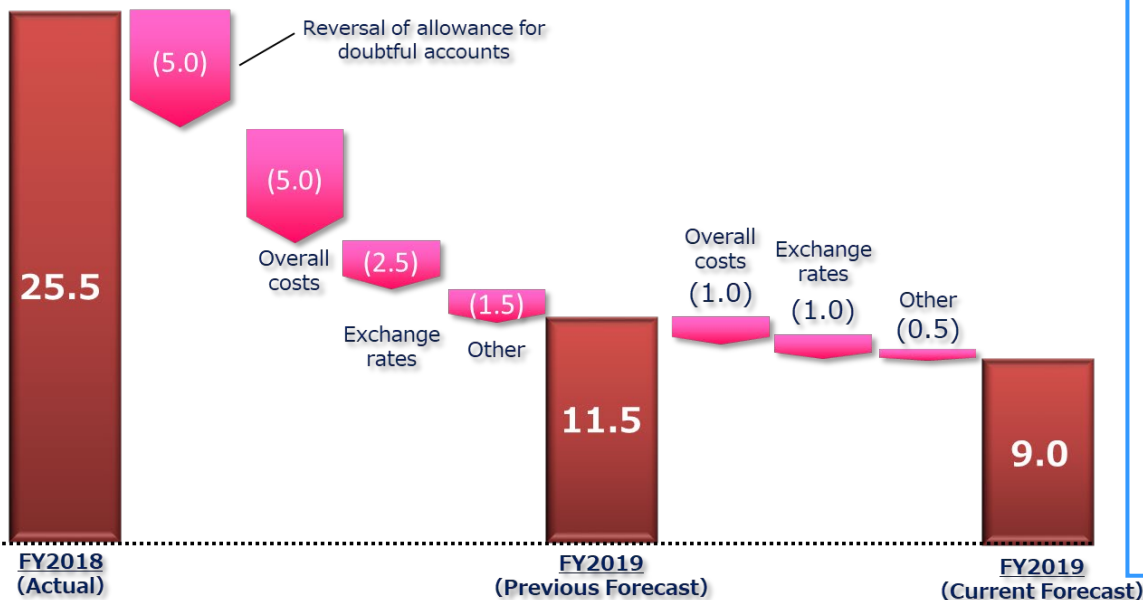
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【Construction Machinery】

(Billions of yen)

	FY2018	FY2019 (Previous Forecast)			FY2019 (Current Forecast)			Change ② - ①
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	386.0	210.0	185.0	395.0	197.8	192.2	390.0	(5.0)
Ordinary Income	25.5	8.0	3.5	11.5	8.7	0.3	9.0	(2.5)

Factors for Increases/Decreases in Ordinary Income



FY2019

- The number of hydraulic excavators sold is expected to decrease from previous the forecast, as demand will decline chiefly in Europe and Southeast Asia, despite continuing strong demand in Japan and China.
- Ordinary income is expected to decrease from the previous forecast, as the yen is likely to remain strong against the Chinese renminbi and fixed costs, such as development expenses, are forecast to rise.



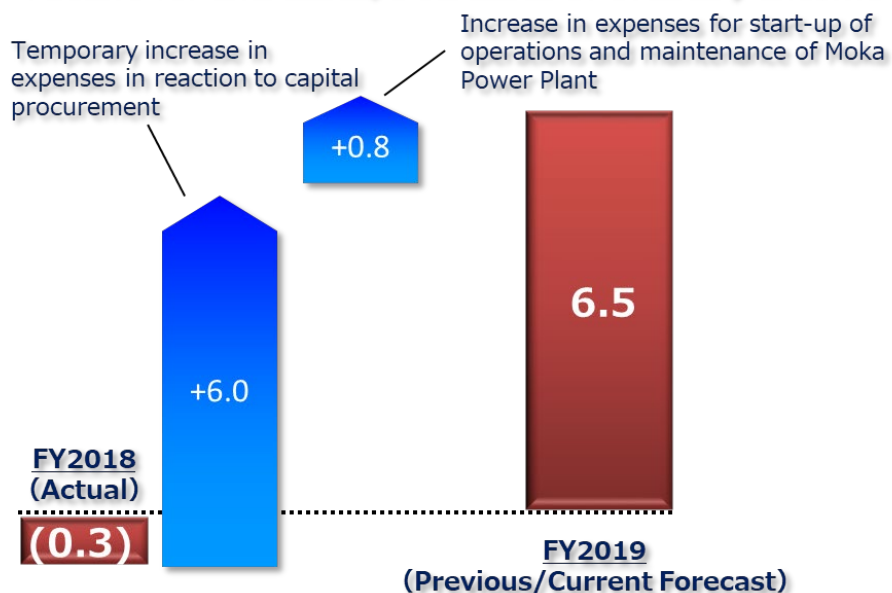
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【Electric Power】

(Billions of yen)

	FY2018	FY2019 (Previous Forecast)			FY2019 (Current Forecast)			Change
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	② - ①
Net Sales	76.1	35.0	44.0	79.0	35.4	41.6	77.0	(2.0)
Ordinary Income (Loss)	(0.3)	(0.5)	7.0	6.5	1.6	4.9	6.5	-

Factors for Increases/Decreases in Ordinary Income



FY2019

- Sales are anticipated to decrease, compared with the previous forecast, owing to lower coal prices. However, ordinary income is anticipated to remain similar to the previous forecast.
- The No. 1 unit of the Moka Power Plant, a new project, started up in October. The No. 2 unit is under construction, with commercial operation to begin in the first half of 2020.



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Overview of the Power Plants

Company name	<u>Kobelco Power Kobe Inc.</u>	<u>Kobelco Power Moka, Inc.,</u>	<u>Kobelco Power Kobe No. 2, Inc.</u>
Location	Kobe, Hyogo Prefecture (within Kobe Works)	Moka, Tochigi Prefecture (adjacent to Moka Plant)	Kobe, Hyogo Prefecture (within Kobe Works)
Fuel	Coal	City gas	Coal
Power generation capacity	1,400,000 kilowatts (2 units of plants generating 700,000 kilowatts per unit)	1,248,000 kilowatts (2 units of plants generating 624,000 kilowatts per unit)	1,300,000 kilowatts (2 units of plants generating 650,000 kilowatts per unit)
Power generation method	Pulverized coal-fired, ultra-supercritical pressure power generation	Gas turbine combined cycle power generation	Pulverized coal-fired, ultra-supercritical pressure power generation
Start of commercial operation	No. 1 unit: April 2002 (in operation) No. 2 unit: April 2004 (in operation)	No. 1 unit: October 2019 (in operation) No. 2 unit: First half of 2020 (under construction)	No. 3 unit: FY2021 (under construction) No. 4 unit: FY2022 (under construction)



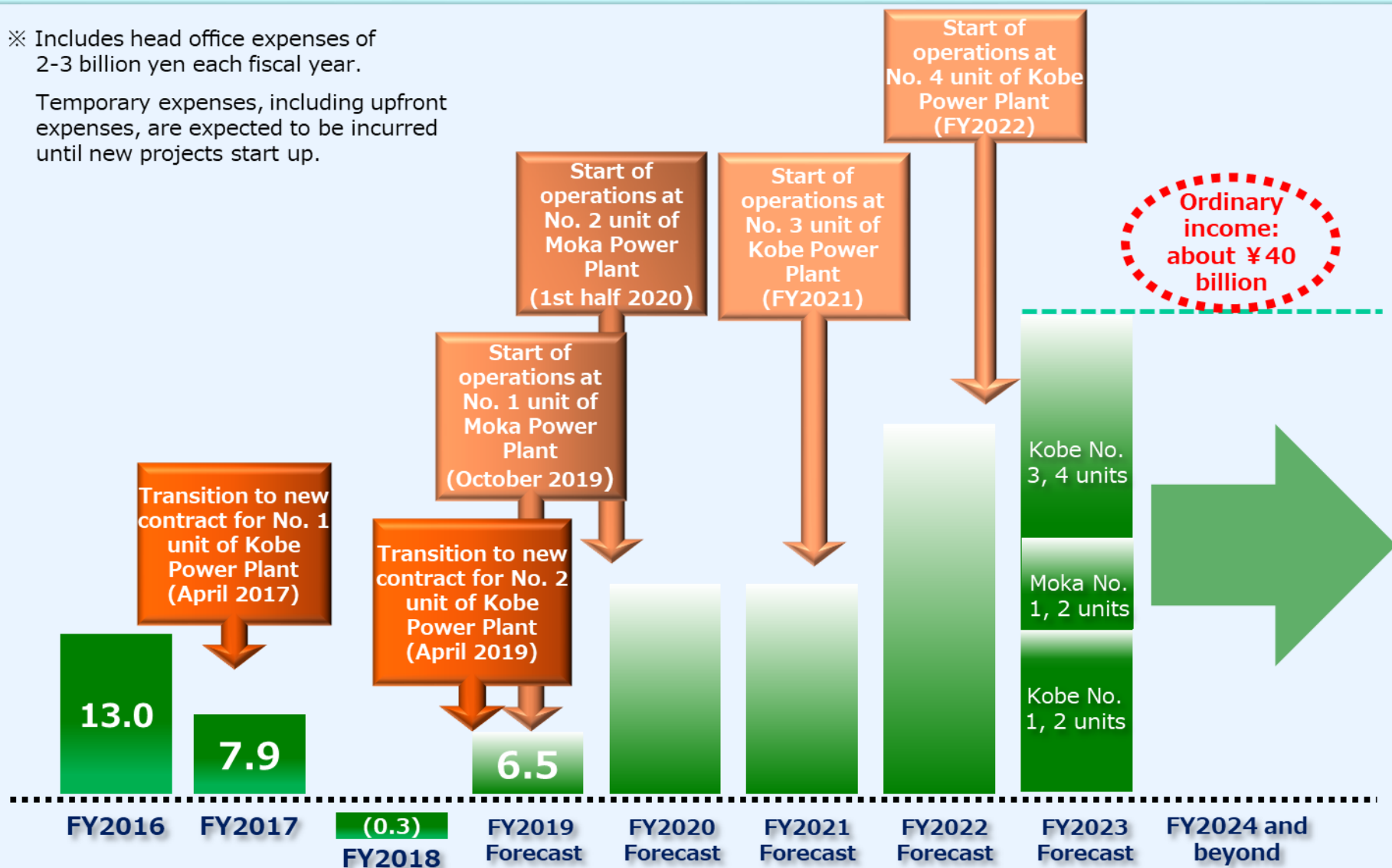
Conceptual image of earnings of the Electric Power segment

(Billions of yen)

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※ Includes head office expenses of 2-3 billion yen each fiscal year.

Temporary expenses, including upfront expenses, are expected to be incurred until new projects start up.



Establishing a stable profit base over the medium and long term



3. Financial Strategy



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Financial Strategy

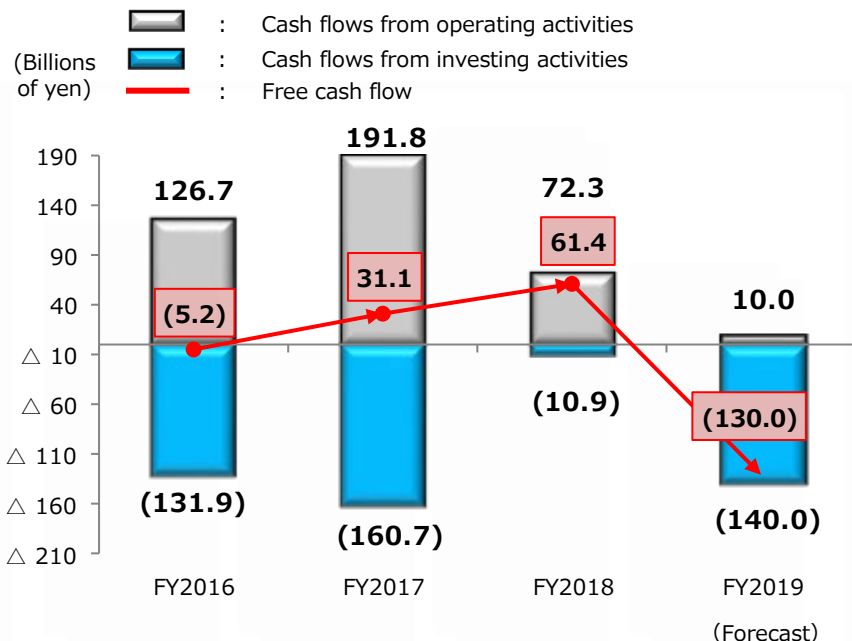
Basic Policy

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

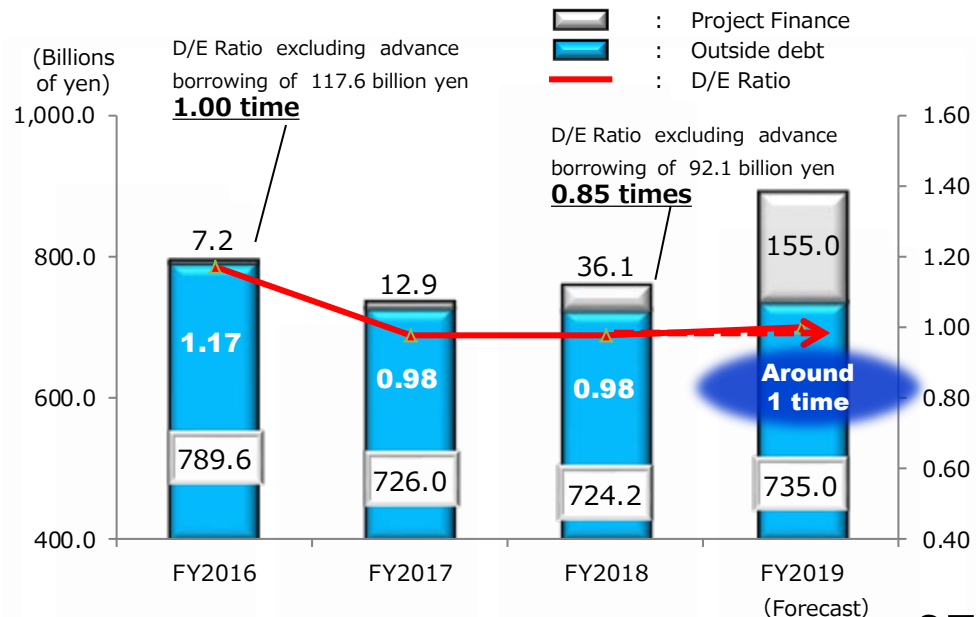
Make Efficient Use of Capital and Assets (Implement the Key Themes for Fiscal Years 2019–2020)

- Sale of assets such as strategically held shares
- Reduction of cash and deposits
- Selective investments, working capital improvements, etc.
- **Implement above measures amounting to about 50.0 billion yen during FY2019, ahead of the initial plan.**

《Free cash flow》



《Debt·D/E ratio》





Dividends

- Kobe Steel aims to pay dividends on a continuous and stable basis. Dividends are decided after taking into full account the Company's financial condition, business performance, future capital needs and other factors. (The target Dividend Payout Ratio is 15% - 25% of net income attributable to owners of the parent.)
- Based on this policy, we regret to say that we have decided not to pay interim dividends. The expected amount of year-end dividends per share has not yet been determined.
- Dividend Results

	FY2016			FY2017			FY2018			FY2019 (Forecast)		
	Interim	Year-end	Year	Interim	Year-end	Year	Interim	Year-end	Year	Interim	Year-end	Year
Dividends per share in yen	-	-	-	-	30	30	10	10	20	-	Undetermined	Undetermined
Dividend per net assets			-			17.2%			20.2%			



4 . Reference Information



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Cash Flows

(Billions of yen)

	FY2018	FY2019 (Previous Forecast)	FY2019 (Current Forecast)	Change
	Full Year	Full Year ①	Full Year ②	②-①
Cash Flows from Operating Activities	72.3	35.0	10.0	(25.0)
Cash Flows from Investing Activities	(10.9)	(140.0)	(140.0)	—
Free Cash Flow (Excluding Project Finance)	61.4	(105.0)	(130.0)	(25.0)
Free Cash Flow (Including Project Finance)	38.5	(220.0)	(240.0)	(20.0)
Cash and Deposits (Excluding Project Finance)	192.6	70.0	70.0	—



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Capital Investment

(Billions of yen)

	FY2016	FY2017	FY2018	FY2019 Forecast
Capital Investment (Accrual Basis)	160.2	128.6	133.4	280.0
Ratio of Depreciation	167%	126%	130%	267%
Capital Investment (Payment Basis)	138.9	136.6	132.4	275.0
Ratio of Depreciation	144%	134%	129%	262%
Depreciation	96.2	102.0	102.5	105.0



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Financial Indices

	FY2016	FY2017	FY2018	FY2019 Forecast
RO S ※1	(1.1%)	3.8%	1.8%	0.0%
Net Income (Loss) per Share	(63.54 yen)	174.43 yen	99.20 yen	(13.78 yen)
Outside debt ※2	789.6 billion yen	726.0 billion yen	724.2 billion yen	735.0 billion yen
D / E Ratio ※3	※4 1.17 times	※5 0.98 times	0.98 times	about 1 times
RO A ※6	(0.8%)	3.1%	1.5%	0.0%
RO E ※7	(3.4%)	8.9%	4.8%	(0.7%)

※1 : ROS : Ordinary Income / Net Sales

※2 : Outside debt : Excludes Debt from IPP project financing

※3 : D/E ratio: Debt (excluding IPP project finance)/Stockholders' Equity

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

D/E Ratio 1.0 time (excluding early procurement of borrowings)

※5 : Includes early procurement of borrowings for FY2019 (92.1 billion yen)

D/E Ratio 0.85 time (excluding early procurement of borrowings)

※6 : ROA : Ordinary Income / Total Assets

※7 : Net Income Attributable to Owners of the Parent / Stockholders' Equity



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Analysis of Ordinary Income in Iron & Steel Segment

【 FY2018/1H ⇒ FY2019/1H 】

(Billions of yen)

	FY2018			FY2019		
	1H	2H	Full Year	1H	2H	Full Year
Ordinary Income (Loss)	(1.7)	6.4	4.7	(5.8)	0.8	(5.0)

(4.1)

Positive Factors			Negative Factors	
Production and shipments	+	4.0	Raw material prices	(12.0)
Overall cost reduction	+	7.5	Inventory valuation※	(0.5)
Subsidiaries & affiliates	+	1.0	Exchange rate changes	(1.0)
			Other	(3.1)
Total	+	12.5	Total	(16.6)

※ Inventory valuation includes effect from the average method and the lower-of-cost-or-market method.



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Analysis of Ordinary Income in Iron & Steel Segment

【 FY2019/1H Previous Forecast ⇒ FY2019/1H Current Forecast 】 (Billions of yen)

	FY2019 (Previous Forecast)			FY2019 (Current Forecast)		
	1H	2H	Full Year	1H	2H	Full Year
Ordinary Income (Loss)	(6.0)	6.0	0	(5.8)	0.8	(5.0)

0.2

Positive Factors			Negative Factors	
Raw material prices	+	0.5	Production and shipments	(6.5)
Overall cost reduction	+	3.0	Inventory valuation※	(3.5)
Subsidiaries & affiliates	+	1.0		
Other	+	5.7		
Total	+	10.2	Total	(10.0)

※ Inventory valuation includes effect from the average method and the lower-of-cost-or-market method.



ECO WAY

Analysis of Ordinary Income in Iron & Steel Segment

【 FY2018 ⇒ FY2019 】

(Billions of yen)

	FY2018			FY2019		
	1H	2H	Full Year	1H	2H	Full Year
Ordinary Income (Loss)	(1.7)	6.4	4.7	(5.8)	0.8	(5.0)

(9.7)

Positive Factors		Negative Factors	
Production and shipments	+ 13.5	Raw material prices	(20.0)
Overall cost reduction	+ 7.0	Exchange rate changes	(1.0)
Inventory valuation※	+ 1.0	Subsidiaries & affiliates	(2.5)
		Other	(7.7)
Total	+ 21.5	Total	(31.2)

※ Inventory valuation includes effect from the average method and the lower-of-cost-or-market method.



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Analysis of Ordinary Income in Iron & Steel Segment

【 FY2019 Previous Forecast ⇒ FY2019 Current Forecast 】

(Billions of yen)

	FY2019 (Previous Forecast)			FY2019 (Current Forecast)		
	1H	2H	Full Year	1H	2H	Full Year
Ordinary Income (Loss)	(6.0)	6.0	0.0	(5.8)	0.8	(5.0)

(5.0)

Positive Factors				Negative Factors	
Raw material prices	+	4.5		Production and shipments	(12.0)
Overall cost reduction	+	1.5		Exchange rate changes	(5.0)
Inventory valuation※	+	1.0		Other	(5.0)
Subsidiaries & affiliates	+	1.0			
Total	+	8.0		Total	(22.0)

※ Inventory valuation includes effect from the average method and the lower-of-cost-or-market method.



ECO WAY

Analysis of Ordinary Income in Iron & Steel Segment

【 FY2019/1H ⇒ FY2019/2H 】

(Billions of yen)

	FY2018			FY2019		
	1H	2H	Full Year	1H	2H	Full Year
Ordinary Income (Loss)	(1.7)	6.4	4.7	(5.8)	0.8	(5.0)

6.6

Positive Factors			Negative Factors	
Production and shipments	+	12.0	Raw material prices	(2.0)
Inventory valuation※	+	4.5	Overall costs	(2.0)
Exchange rate changes	+	0.5	Subsidiaries & affiliates	(3.5)
			Other	(2.9)
Total	+	17.0	Total	(10.4)

※ Inventory valuation includes effect from the average method and the lower-of-cost-or-market method.



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Analysis of Ordinary Income in Aluminum & Copper Segment

【 FY2018 ⇒ FY2019 】

(Billions of yen)

	FY2018			FY2019		
	1H	2H	Full Year	1H	2H	Full Year
Ordinary Income (Loss)	1.6	(3.2)	(1.5)	(8.3)	(12.7)	(21.0)

(19.5)

Positive Factors		Negative Factors	
Raw material prices	+ 5.0	Production and shipments	(3.0)
		Overall costs	(5.0)
		Inventory valuation※	(6.0)
		Other	(6.0)
		Special factors	(4.0)
		Other	(2.0)
Total	+ 5.0	Total	(20.0)

Actual ordinary income (loss) (9.5)

※ Inventory valuation includes effect from the average method and the lower-of-cost-or-market method.



ECO WAY

Analysis of Ordinary Income in Aluminum & Copper Segment

【 FY2019 Previous Forecast ⇒ FY2019 Current Forecast 】

(Billions of yen)

	FY2019 (Previous Forecast)			FY2019 (Current Forecast)		
	1H	2H	Full Year	1H	2H	Full Year
Ordinary Income (Loss)	(8.0)	(4.0)	(12.0)	(8.3)	(12.7)	(21.0)

(9.0)

Positive Factors	Negative Factors
<p>Actual ordinary income (loss) (2.5)</p>	Production and shipments (1.0)
	Overall costs (1.0)
	Inventory valuation※ (1.5)
	Other (5.5)
	<p>Special factors (5.0)</p> <p>Other (0.5)</p>
Total	Total (9.0)

※ Inventory valuation includes effect from the average method and the lower-of-cost-or-market method.



ECO WAY

Analysis of Ordinary Income in Aluminum & Copper Segment

【 FY2019/1H ⇒ FY2019/2H 】

(Billions of yen)

	FY2018			FY2019		
	1H	2H	Full Year	1H	2H	Full Year
Ordinary Income (Loss)	1.6	(3.2)	(1.5)	(8.3)	(12.7)	(21.0)

(4.4)

Positive Factors		Negative Factors	
Production and shipments	+ 3.0	Overall costs	(1.0)
		Inventory valuation※	(1.0)
		Other	(5.4)
Total	+ 3.0	Total	(7.4)

※ Inventory valuation includes effect from the average method and the lower-of-cost-or-market method.



Materials

I Initiatives for weight savings in transportation

- For an overview of our automotive weight savings strategy, please refer to the Investor Meeting material released in May 2017.
http://www.kobelco.co.jp/english/ir/library/fncf_results/2017/_icsFiles/afieldfile/2017/06/20/170526_1.pdf

II Strengthening the profitability of 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 initiatives to expand the machinery business

II Strengthening the profitability of the construction machinery business

- Restructuring of the excavator business in China has been completed.
<https://www.kobelcocm-global.com/news/2018/180625/index.html>

Electric Power

Initiatives for the stable profitability of the electric power supply business

- New projects are progressing smoothly.
- For an overview of current and new projects, please refer to the Investor Meeting material released in January 2017.
http://www.kobelco.co.jp/english/ir/library/fncf_results/2016/_icsFiles/afieldfile/2017/02/15/170111_e.pdf

Rolling of the Medium-Term Management Plan

Key themes
for fiscal
years
2019-2020

- ① Strengthen profitability with a focus on materials
- ② Make efficient use of management resources and strengthen the business foundation

https://www.kobelco.co.jp/english/releases/1201246_15581.html



ECOWAY

Progress in Dealing with the Quality Misconduct

Suspended JIS Certification Restored at Kobe Steel's Moka Plant (Announced July 9, 2019)

- The Moka Plant received a notice from the Japan Quality Assurance Organization (JQA) on December 8, 2017 that its JIS (Japanese Industrial Standards) certification had been suspended. In response to this, the Moka Plant undertook initiatives to rebuild its quality management system, which led to lifting the suspension of JIS certification.

Conclusion of the Request for Document Production, etc. from the U.S. Judicial Administrative Authority (Announced July 17, 2019)

- On October 16, 2017 (local time), Kobe Steel USA Inc., a U.S. subsidiary of Kobe Steel, Ltd., received a document from the U.S. judicial administrative authority (i.e., a grand jury as part of a U.S. Department of Justice investigation) requesting the production of documents related to non-conformity with the specifications of products sold by Kobe Steel, the U.S. subsidiary or our affiliated companies to U.S. customers.
- On July 17, 2019, the U.S. Department of Justice confirmed that it does not require further production or preservation of documents pursuant to the subpoena. Based on this information, it is the understanding of Kobe Steel that the above-referenced investigation is no longer active. Kobe Steel thus anticipates the above-referenced investigation will not result in a further government enforcement action.

Progress of Civil Complaints Filed Against Kobe Steel and Other Kobe Steel Group Companies

(Announced June 11 and July 23, and August 9, 2019)

- Class action by car users and others in Canada (announced June 11, 2019): Car users and others claimed damages from a decline in vehicle value and an overcharge from the difference between products meeting user specifications and nonconforming products used in their cars. An agreement on the basic principles of the settlement was reached for Kobe Steel to pay C\$1.95 million (approximately 160 million yen).
- Class action lawsuit by car users and others in the United States (announced on July 23, 2019): Car users and others claimed damages from the decline in vehicle value and overcharging from the difference between products meeting user specifications and nonconforming products used in their cars. Although the complaint was dismissed for the second time on July 18, 2019 (local time), the plaintiff filed a complaint for the third time on August 8, 2019 (local time). In the third complaint, the plaintiff amended the cause for the trial, requesting the return of the Kobe Steel Group's illegitimate income, to which the Group filed a request for dismissal of the complaint. It was decided that the complaint would be resumed, because the court rejected the request for complaint dismissal in October. Even so, during deliberations conducted in September, the judge showed a skeptical view toward the possibility of the request for the return of the illegitimate income claimed by the plaintiff being substantiated.



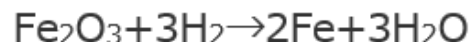
Promotion of Sustainability Management by Utilizing the Kobe Steel Group's Advantages

Midrex and ArcelorMittal conclude collaboration agreement for hydrogen-based production of direct reduced iron

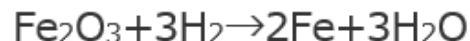
(announced on September 16, 2019 in the U.S. and Europe, September 17 in Japan)

- Midrex Technologies, Inc. (a wholly-owned U.S. subsidiary) and ArcelorMittal signed a collaborative agreement for Midrex to supply technology for the hydrogen-based production of direct reduced iron (DRI), which ArcelorMittal is promoting.
- The two companies also concluded an agreement to demonstrate the production of DRI made with hydrogen at ArcelorMittal's plant in Hamburg, Germany.
- The demonstration plant will produce about 100,000 tons of DRI per year. It will be the world's first direct reduction plant on an industrial scale powered by hydrogen.
- The MIDREX® Process is noted for decreasing CO₂ emissions more effectively than the blast furnace method of ironmaking, because it uses natural gas to reduce iron ore (iron oxide). However, it produces water and a certain amount of CO₂ as byproducts. The process that will be adopted will use hydrogen instead of natural gas, producing only water as a byproduct and no CO₂.

Natural gas-based reduction



Hydrogen reduction





[Materials] Initiatives for Weight Savings in Transportation

Field	Project	Country	Description	Schedule
Automotive	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
	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.	Jan. 2019 Expansion Completed
	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 began 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	
	Expansion of facilities for aluminum extrusions products (Kobelco Aluminum Products & Extrusions Inc.)	USA	This expansion plan is in response to stricter fuel consumption regulations in the U.S and demand for aluminum extrusions and fabricated products.	Aug. 2018 Construction began Mar. 2020 Production to begin
	Expansion of facilities for wire rod processing venture (Kobe Special Steel Wire Products (Pinghu) Co., Ltd)	China	This fifth capacity expansion will help meet the growing needs of KSP's customers who anticipate a further increase in demand.	Mar. 2020 Wire drawing machines start Jun. 2020 Heating furnaces start
Development of slag reduction welding process for automotive undercarriage parts	Japan	Kobe Steel and Mazda Motor Corporation(hereinafter, Mazda) have developed the slag reduction welding process for automotive undercarriage parts, which reduces the amount of slag which is a source of rust. The process enhances the rust prevention performance of undercarriage parts.This is the first time Mazda has adopted this technology in MAZDA3, and it is expected to be applied to other models in the future.	Jun. 2019 Technology Award of the Japan Welding Engineering Society received	



[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
	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	Production Capacity Expansion of the Itsukaichi Factory at the Hiroshima Headquarters	Japan	Deal with the increasing global market demand for hydraulic excavators through a full-out production capacity expansion of the Itsukaichi Factory, which has a wide range of production menus.	Mar. 2020 Expansion completed
Engineering	Orders received for world's largest MIDREX® Direct Reduction Plant	Algeria	World's largest annual production capacity of 2.5 million tons. Contributing to the development of the industry in Algeria.	Jun.2016 Orders received Nov.2018 Production began
	Order received for basic design and supply of main equipment of waste treatment plant project in the United Kingdom.	UK	Order received for basic design of a power plant for the treatment of municipal solid waste, supply of main equipment (gasification and melting furnaces,boilers.etc.), and dispatch of construction and commissioning supervisors. This is the fourth order received overseas and the first order received in the United Kingdom.	Nov.2018 Orders received
	Order received from Hachioji, Tokyo for "the construction and operation of a new cleaning facility (tentative title)".	Japan	Next-generation fluidized bed gasifying and incineration furnace with greatly improved performance is adopted. Contributes to more compact facilities, maximizing power generation, stabilizing power generation, and reducing environmental impact.	Dec.2018 Orders received 2018~2022 Design and construction 2022~2043 Operations
	Agreement reached with ArcelorMittal regarding the joint development of a hydrogen-based direct reduction steel making process.	Germany	The task of designing a demonstration plant was implemented to produce directly reduced iron using only hydrogen as a reduction agent. The process uses hydrogen instead of natural gas, producing a byproduct of water, without CO2.	Sept. 2019 Concluded contract



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[Electric Power] Initiatives to achieve stable profitability

Kobelco Power Moka, Inc. commenced commercial operation of the No. 1 unit of the Moka Power Plant (announced on October 1, 2019)



The Moka Power Plant (taken on September 2019)



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:**
 - **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**