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**KOBELCO**

# Financial Results for the Third Quarter of Fiscal 2018 and Forecast for the Full Fiscal Year

February 5, 2019  
Kobe Steel, Ltd.





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# **1. Financial Results for the Third Quarter of Fiscal 2018**



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# Financial Results for the Third Quarter of Fiscal 2018

(Billions of yen)

	FY2017			FY2018			Change ② - ①
	1H	3Q	1~3Q ①	1H	3Q	1~3Q ②	
<b>Net Sales</b>	907.0	472.2	1,379.3	958.2	490.1	<b>1,448.3</b>	69.0
<b>Operating Income</b>	51.4	20.4	71.8	23.1	15.1	<b>38.2</b>	(33.5)
<b>Ordinary Income</b>	45.7	16.2	62.0	9.3	17.8	<b>27.1</b>	(34.8)
<b>Excluding Inventory Valuation</b>	41.2	13.7	55.0	6.8	14.3	<b>21.1</b>	(33.8)
<b>Extraordinary Income (Loss)</b>	9.0	0.0	※ <sup>1</sup> 9.1	※ <sup>2,3</sup> 36.3	※ <sup>4</sup> (3.6)	<b>32.7</b>	23.5
<b>Net Income Attributable to Owners of the Parent</b>	39.3	16.4	55.8	33.3	11.6	<b>45.0</b>	(10.7)

※1 Gain on sale of investment securities: 9.1 billion yen

※2 Gain on acquisition of subsidiary (Turned Shinko Wire into a subsidiary) : 4.8 billion yen

※3 Gain on sale of investment securities (Sold 75% of shares held in Shinko Real Estate) : 31.4 billion yen

※4 Loss on disaster: (3.6 billion yen) (Typhoons No. 20, No. 21 and No. 24, torrential rain in Western Japan, and North Osaka earthquake, etc.)



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# Net Sales by Segment

(Billions of yen)

Net Sales	FY2017			FY2018			Change ② - ①
	1H	3Q	1~3Q ①	1H	3Q	1~3Q ②	
<b>Iron &amp; Steel</b>	354.4	184.2	538.7	359.5	199.4	<b>558.9</b>	20.2
<b>Welding</b>	39.7	20.3	60.0	39.8	22.1	<b>62.0</b>	1.9
<b>Aluminum &amp; Copper</b>	174.3	86.5	260.9	181.3	90.5	<b>271.8</b>	10.9
<b>Machinery</b>	70.5	40.2	110.8	84.2	37.3	<b>121.6</b>	10.7
<b>Engineering</b>	48.0	32.9	80.9	55.4	34.4	<b>89.9</b>	8.9
<b>Construction Machinery</b>	182.7	84.9	267.6	204.9	92.1	<b>297.1</b>	29.4
<b>Electric Power</b>	32.9	17.6	50.5	35.8	18.5	<b>54.3</b>	3.7
<b>Other Businesses</b>	29.2	18.8	48.0	22.2	7.1	<b>29.3</b>	(18.7)
<b>Adjustment</b>	(24.9)	(13.6)	(38.5)	(25.2)	(11.6)	<b>(36.9)</b>	1.6
<b>Total</b>	907.0	472.2	1,379.3	958.2	490.1	<b>1,448.3</b>	69.0



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# Ordinary Income (Loss) by Segment

(Billions of yen)

Ordinary Income (Loss)	FY2017			FY2018			Change ② - ①
	1H	3Q	1~3Q ①	1H	3Q	1~3Q ②	
<b>Iron &amp; Steel</b>	18.4	1.4	19.9	(1.7)	4.8	<b>3.1</b>	(16.7)
<b>Welding</b>	2.5	1.3	3.9	0.9	1.4	<b>2.3</b>	(1.5)
<b>Aluminum &amp; Copper</b>	7.9	2.8	10.8	1.6	(0.6)	<b>1.0</b>	(9.8)
<b>Machinery</b>	(0.5)	1.5	1.0	0.8	0.5	<b>1.4</b>	0.3
<b>Engineering</b>	1.7	3.2	4.9	1.0	1.6	<b>2.7</b>	(2.2)
<b>Construction Machinery</b>	11.4	4.3	15.8	13.5	9.0	<b>22.6</b>	6.7
<b>Electric Power</b>	3.3	1.3	4.6	(3.6)	0.3	<b>(3.2)</b>	(7.9)
<b>Other Businesses</b>	1.7	1.7	3.5	0.8	0.8	<b>1.7</b>	(1.8)
<b>Adjustment</b>	(0.9)	(1.8)	(2.7)	(4.2)	(0.2)	<b>(4.5)</b>	(1.7)
<b>Total</b>	45.7	16.2	62.0	9.3	17.8	<b>27.1</b>	(34.8)



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## **2. Forecast for Fiscal 2018**



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# Forecast for FY2018

(Billions of yen)

	FY2017	FY2018 (Previous Forecast)			FY2018 (Current Forecast)			Change	
	Full Year ①	1H	2H	Full Year ②	1H	2H	Full Year ③	③ - ①	③ - ②
<b>Net Sales</b>	1,881.1	958.2	1,071.8	2,030.0	<b>958.2</b>	<b>1,031.8</b>	<b>1,990.0</b>	108.9	(40.0)
<b>Operating Income</b>	88.9	23.1	26.9	50.0	<b>23.1</b>	<b>21.9</b>	<b>45.0</b>	(43.9)	(5.0)
<b>Ordinary Income</b>	71.1	9.3	15.7	25.0	<b>9.3</b>	<b>15.7</b>	<b>25.0</b>	(46.1)	—
<b>Excluding Inventory Valuation</b>	56.1	6.8	13.2	20.0	<b>6.8</b>	<b>10.7</b>	<b>17.5</b>	(38.6)	(2.5)
<b>Extraordinary Income</b>	2.0	36.3	-	36.3	※1,2 <b>36.3</b>	※3 <b>(3.6)</b>	<b>32.7</b>	30.7	※3 (3.6)
<b>Net Income Attributable to Owners of the Parent</b>	63.1	33.3	1.7	35.0	<b>33.3</b>	<b>1.7</b>	<b>35.0</b>	(28.1)	—

※1 Gain on acquisition of subsidiary (Turned Shinko Wire into a subsidiary) : 4.8 billion yen

※2 Gain on sale of investment securities (Sold 75% of shares held in Shinko Real Estate) : 31.4 billion yen

※3 Loss on disaster: (3.6 billion yen) (Typhoons No. 20, No. 21 and No. 24, torrential rain in Western Japan, and North Osaka earthquake, etc.)





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# Net Sales by Segment

(Billions of yen)

Net Sales	FY2017	FY2018 (Previous Forecast)			FY2018 (Current Forecast)			Change	
	Full Year ①	1H	2H	Full Year ②	1H	2H	Full Year ③	③-①	③-②
Iron & Steel	715.5	359.5	400.5	760.0	<b>359.5</b>	<b>395.5</b>	<b>755.0</b>	39.5	(5.0)
Welding	80.5	39.8	42.2	82.0	<b>39.8</b>	<b>42.2</b>	<b>82.0</b>	1.5	—
Aluminum & Copper	349.5	181.3	193.7	375.0	<b>181.3</b>	<b>183.7</b>	<b>365.0</b>	15.5	(10.0)
Machinery	161.3	84.2	96.8	181.0	<b>84.2</b>	<b>93.8</b>	<b>178.0</b>	16.7	(3.0)
Engineering	122.8	55.4	95.6	151.0	<b>55.4</b>	<b>95.6</b>	<b>151.0</b>	28.2	—
Construction Machinery	364.5	204.9	200.1	405.0	<b>204.9</b>	<b>180.1</b>	<b>385.0</b>	20.5	(20.0)
Electric Power	72.1	35.8	40.2	76.0	<b>35.8</b>	<b>41.2</b>	<b>77.0</b>	4.9	1.0
Other Businesses	68.8	22.2	20.8	43.0	<b>22.2</b>	<b>19.8</b>	<b>42.0</b>	(26.8)	(1.0)
Adjustment	(54.3)	(25.2)	(17.8)	(43.0)	<b>(25.2)</b>	<b>(19.8)</b>	<b>(45.0)</b>	9.3	(2.0)
<b>Total</b>	1,881.1	958.2	1,071.8	2,030.0	<b>958.2</b>	<b>1,031.8</b>	<b>1,990.0</b>	108.9	(40.0)



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# Ordinary Income (Loss) by Segment

(Billions of yen)

Ordinary Income (Loss)	FY2017	FY2018 (Previous Forecast)			FY2018 (Current Forecast)			Change	
	Full Year ①	1H	2H	Full Year ②	1H	2H	Full Year ③	③-①	③-②
Iron & Steel	17.3	(1.7)	4.7	3.0	<b>(1.7)</b>	<b>4.7</b>	<b>3.0</b>	(14.3)	—
Welding	4.9	0.9	2.1	3.0	<b>0.9</b>	<b>2.1</b>	<b>3.0</b>	(1.9)	—
Aluminum & Copper	11.8	1.6	(3.6)	(2.0)	<b>1.6</b>	<b>(5.6)</b>	<b>(4.0)</b>	(15.8)	(2.0)
Machinery	2.3	0.8	1.7	2.5	<b>0.8</b>	<b>1.7</b>	<b>2.5</b>	0.2	—
Engineering	6.9	1.0	4.0	5.0	<b>1.0</b>	<b>5.5</b>	<b>6.5</b>	(0.4)	1.5
Construction Machinery	21.9	13.5	10.5	24.0	<b>13.5</b>	<b>10.5</b>	<b>24.0</b>	2.1	—
Electric Power	7.9	(3.6)	1.6	(2.0)	<b>(3.6)</b>	<b>1.6</b>	<b>(2.0)</b>	(9.9)	—
Other Businesses	5.4	0.8	3.7	4.5	<b>0.8</b>	<b>3.2</b>	<b>4.0</b>	(1.4)	(0.5)
Adjustment	(7.5)	(4.2)	(8.8)	(13.0)	<b>(4.2)</b>	<b>(7.8)</b>	<b>(12.0)</b>	(4.5)	1.0
<b>Total</b>	71.1	9.3	15.7	25.0	<b>9.3</b>	<b>15.7</b>	<b>25.0</b>	(46.1)	—



# Dividend

## ■ Dividend Policy

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.

On this basis, Kobe Steel has decided to pay a year-end dividend of 10 yen per share for fiscal 2018 (or a total of 20 yen for the full fiscal 2018 year).

## ■ Dividend Payout Ratio (Target)

Approximately 15% to 25% of net income attributable to owners of the parent for the time being.

## ■ Dividend Results

	FY2014			FY2015			FY2016			FY2017			FY2018 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	2.0	2.0	4.0	2.0	-	2.0	-	-	-	-	30.0	30.0	10.0	10.0	20.0
Dividend per net assets	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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# 【Iron & Steel】

(Billions of yen)

	FY2017	FY2018 (Previous Forecast)			FY2018 (Current Forecast)			Change ② - ①
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	715.5	359.5	400.5	760.0	<b>359.5</b>	<b>395.5</b>	<b>755.0</b>	(5.0)
Ordinary Income (Loss)	17.3	(1.7)	4.7	3.0	<b>(1.7)</b>	<b>4.7</b>	<b>3.0</b>	—
Inventory Valuation	9.0	0.5	2.5	3.0	<b>0.5</b>	<b>5.0</b>	<b>5.5</b>	2.5

## FY2018

- Measures for profit improvement, including consolidation of upstream operations at Kakogawa Works, are steadily being carried out.
- The sales volume of steel products is unchanged from the previous forecast, owing to firm steel demand mainly in the automotive sector.
- The outlook for ordinary income is unchanged from the previous forecast. Although margins will worsen owing to higher main raw material prices, the impact of inventory valuation is anticipated to improve.



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# 【Iron & Steel】 Strengthening Profitability

(Billions of yen)

## Margin and product mix

Production & shipments	+12.5
Raw material prices	(16.5)
Exchange rate changes	+1.0

## Margin and product mix

Production & shipments	+1.0
Raw material prices	(3.5)
Exchange rate changes	(1.0)

## 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.

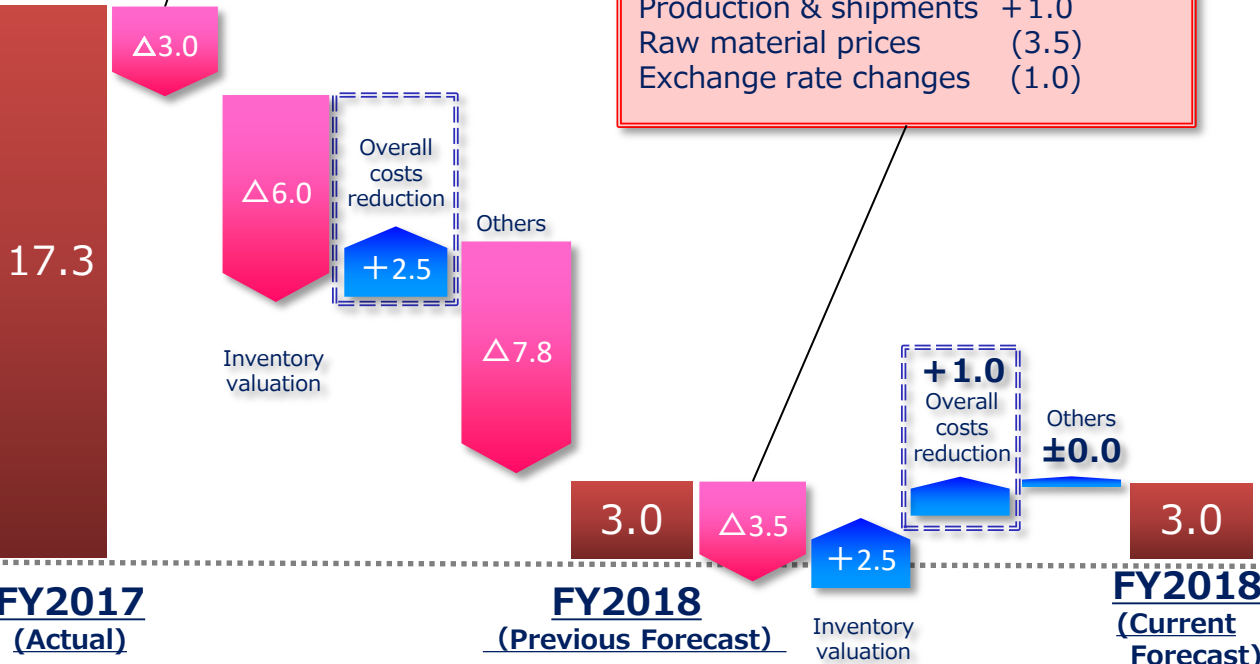
FY2017	+ 6.5 (actual)	+8.5
FY2018	+ 15.0 (forecast)	

## 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)	+8.0
FY17	+ 18.0 (actual)	
FY18	+ 26.0 (forecast)	
	·	
FY20	+ 30.0 (plan)	





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# [Iron & Steel] Production & Sales

	FY2017				FY2018	FY2018		
	1H	3Q	2H	Full year	Full year (Previous Forecast)	1H	3Q	Full year (Current Forecast)
<b>Japan's domestic crude steel production</b> (Millions of tons)	52.0	26.4	52.8	104.8		52.2	25.7	

<Domestic steel inventory trend>

<b>Ordinary steel products</b> (Millions of tons)	5.7	5.7	5.8	--		6.2	5.7	
<b>Rolled sheets</b> (Millions of tons)	4.2	4.0	4.2	--		4.4	4.2	

<Domestic steel inventory trend>

<b>Finished auto production</b> (Millions of cars)	4.7	2.5	5.0	9.7		4.6	1.8	end of Nov.
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<KOBELCO STEEL, LTD.>

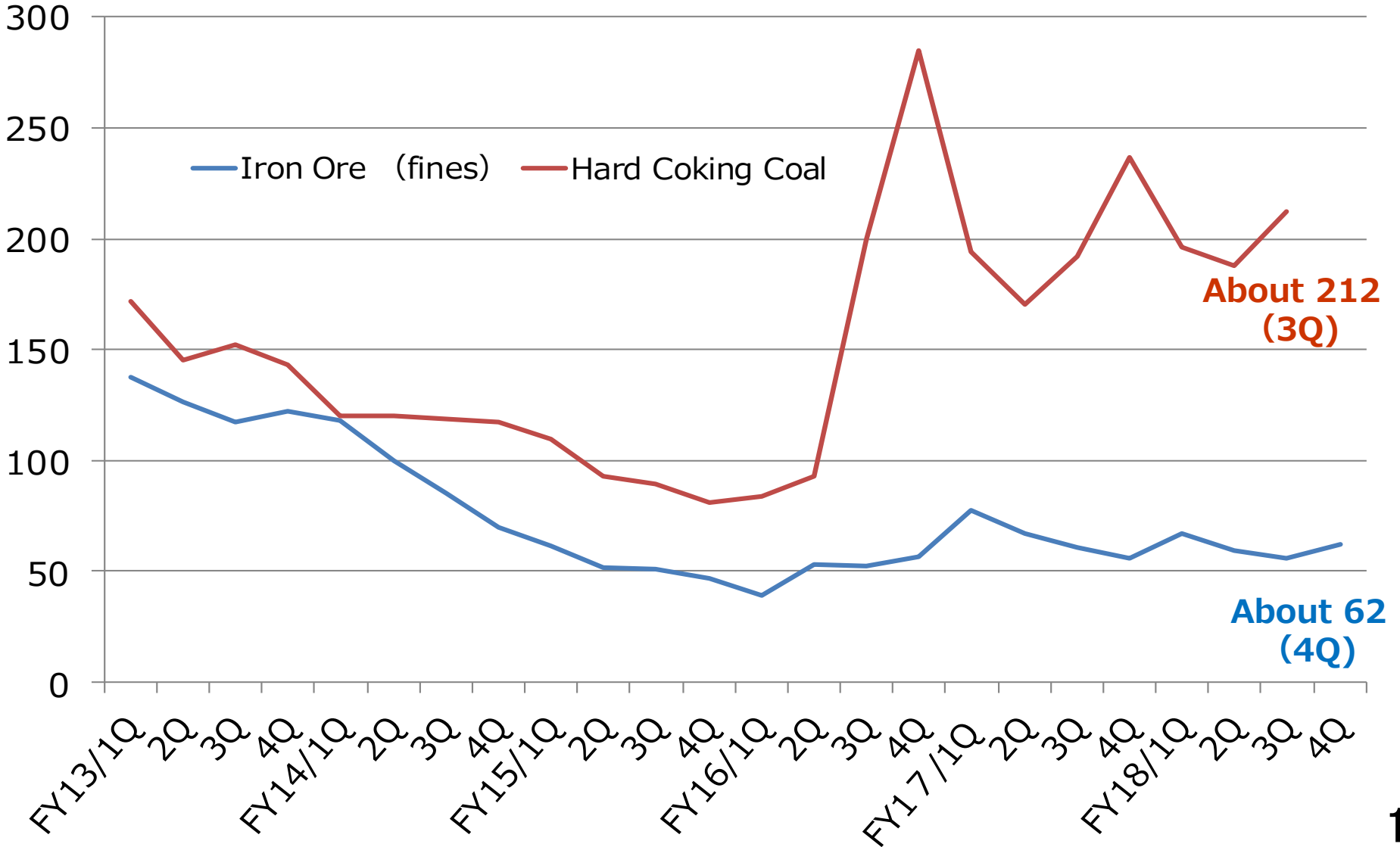
<b>Crude steel production</b> (Millions of tons)	3.9	1.8	3.5	7.5	about 6.9	3.4	1.7	<b>about 6.9</b>
<b>Sales volume</b> (Millions of tons)	3.0	1.5	2.9	6.0	about 5.7	2.7	1.5	<b>about 5.7</b>
<b>(Domestic)</b>	(2.2)	(1.1)	(2.1)	(4.4)		(2.0)	(1.1)	
<b>(Exports)</b>	(0.8)	(0.5)	(0.8)	(1.6)		(0.7)	(0.4)	
<b>Average steel selling price</b> (Thousands of yen/ton)	81.5	81.5	81.5	81.5		85.2	87.4	
<b>Export ratio (value basis)</b>	26.4%	29.3%	28.0%	27.2%		25.7%	25.0%	



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# Iron Ore & Coking Coal Price Trends

( \$/ton)

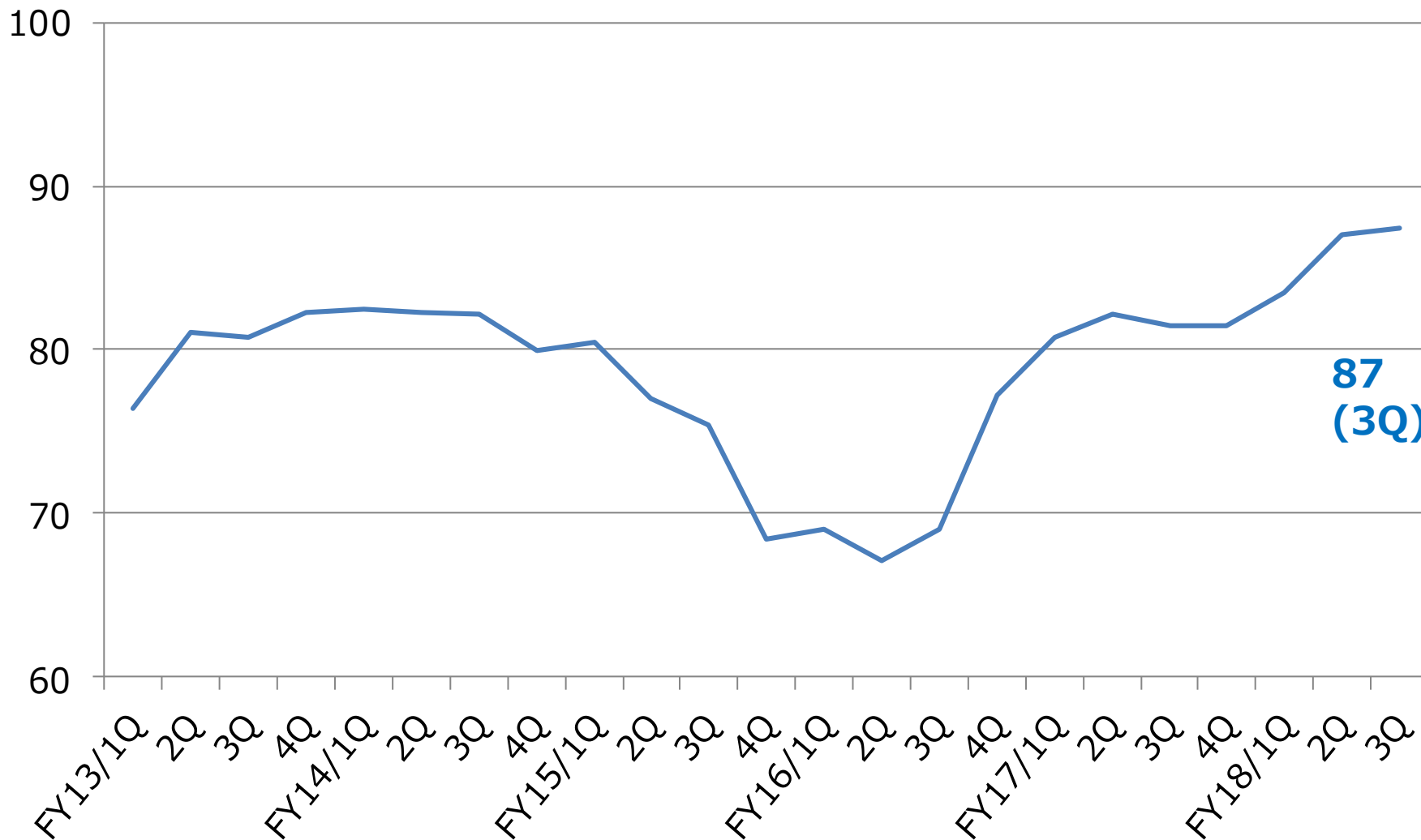




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# Steel Product Price Trends at Kobe Steel

(Thousands of yen/ton)







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# 【Welding】

(Billions of yen)

	FY2017	FY2018 (Previous Forecast)			FY2018 (Current Forecast)			Change
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	② - ①
Net Sales	80.5	39.8	42.2	82.0	39.8	42.2	82.0	—
Ordinary Income	4.9	0.9	2.1	3.0	0.9	2.1	3.0	—

## <Sales volume of KSL Group>

(Thousands of ton)

	FY2017				FY2018	FY2018		
	1H	3Q	2H	Full Year	Full Year (Previous Forecast)	1H	3Q	Full Year (Current Forecast)
Domestic	65	32	63	128	/	60	34	/
Overseas	79	40	83	162		83	45	
Total	144	72	146	291	about295	143	78	about295

## FY2018

- The sales volume and demand environment of welding materials are expected to remain at the same level as the previous forecast.
- The outlook for ordinary income is unchanged from the previous forecast as demand for welding systems for architectural steel frames is also anticipated to remain firm in Japan.



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# 【Aluminum & Copper】

(Billions of yen)

	FY2017	FY2018 (Previous Forecast)			FY2018 (Current Forecast)			Change
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	② - ①
Net Sales	349.5	181.3	193.7	375.0	<b>181.3</b>	<b>183.7</b>	<b>365.0</b>	(10.0)
Ordinary Income (Loss)	11.8	1.6	(3.6)	(2.0)	<b>1.6</b>	<b>(5.6)</b>	<b>(4.0)</b>	(2.0)
Inventory Valuation	6.0	2.0	0.0	2.0	<b>2.0</b>	<b>0.0</b>	<b>2.0</b>	—

## <Sales volume of KSL>

(Thousands of ton)

	FY2017				FY2018	FY2018		
	1H	3Q	2H	Full Year	Full Year (Previous Forecast)	1H	3Q	Full Year (Current Forecast)
Aluminum Rolled Products (Domestic)	153	67	132	285	about270	<b>137</b>	<b>65</b>	<b>about267</b>
(Exports)	40	20	38	78	about80	<b>41</b>	<b>19</b>	<b>about80</b>
Copper Rolled Products	71	35	70	142	about145	<b>73</b>	<b>36</b>	<b>about145</b>

## FY2018

- The sales volume of rolled aluminum products is expected to decrease from the previous forecast as demand is anticipated to decline in the IT-related sector, such as semiconductor manufacturing equipment.
- In addition, ordinary income is anticipated to decrease compared with the previous forecast, owing to the impact of the misconduct which affected a portion of the products, and other factors.



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# 【Machinery】

(Billions of yen)

	FY2017 Full Year	FY2018 (Previous Forecast)			FY2018 (Current Forecast)			Change ② - ①
		1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	161.3	84.2	96.8	181.0	84.2	93.8	178.0	(3.0)
Ordinary Income	2.3	0.8	1.7	2.5	0.8	1.7	2.5	—
Orders	151.1	72.5	about92	about165	72.5	about92	about165	—

## FY2018

- Orders are expected to be similar to the previous forecast owing to continued firm demand for plastic processing machinery and other products for the petrochemical sector in China.
- Ordinary income is unchanged from the previous forecast although the severe competitive environment in the compressor market is anticipated to continue.



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# 【Engineering】

(Billions of yen)

	FY2017	FY2018 (Previous Forecast)			FY2018 (Current Forecast)			Change ② - ①
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	122.8	55.4	95.6	151.0	55.4	95.6	151.0	—
Ordinary Income	6.9	1.0	4.0	5.0	1.0	5.5	6.5	1.5
Orders	119.2	72.2	about53	about125	72.2	about53	about125	—

## FY2018

- Orders are expected to be similar to the previous forecast, supported mainly by firm demand in the waste treatment business.
- Ordinary income is anticipated to increase, compared with the previous forecast, owing to integration of IHI Corporation's waste treatment facilities-related business into the Kobe Steel Group, as well as changes in the type of projects and cost reduction in orders already received.



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# 【Construction Machinery】

(Billions of yen)

	FY2017 Full Year	FY2018 (Previous Forecast)			FY2018 (Current Forecast)			Change ② - ①
		1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	364.5	204.9	200.1	405.0	204.9	180.1	385.0	(20.0)
Ordinary Income	21.9	13.5	10.5	24.0	13.5	10.5	24.0	—

## FY2018

- Unit sales of hydraulic excavators are expected to decrease from the previous forecast owing to intense competition in China and Southeast Asia.
- On the other hand, ordinary income is expected to be similar to the previous forecast as the negative impact of the crane collapse accident at Kobe Steel's Takasago Works in July 2018 is expected to decrease.

(The reversal of the allowance for doubtful accounts in the hydraulic excavator business in China was posted in the third quarter, as factored in the previous forecast.)



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# 【Electric Power】

(Billions of yen)

	FY2017	FY2018 (Previous Forecast)			FY2018 (Current Forecast)			Change
	Full Year	1H	2H	Full Year ①	1H	2H	Full Year ②	② - ①
Net Sales	72.1	35.8	40.2	76.0	35.8	41.2	77.0	1.0
Ordinary Income (Loss)	7.9	(3.6)	1.6	(2.0)	(3.6)	1.6	(2.0)	—

## FY2018

- Ordinary income is expected to be similar to the previous forecast on the grounds that no major change is expected since temporary expenses associated with arranging financing for the new power generation project were posted in the second quarter.
- New projects (No. 1 & 2 units at Moka, No. 3 & 4 units at Kobe) are progressing steadily. The No. 1 unit at the Moka Power Plant will start commercial operation in the second half of 2019.



# 3. Financial Strategy



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# Financial Strategy

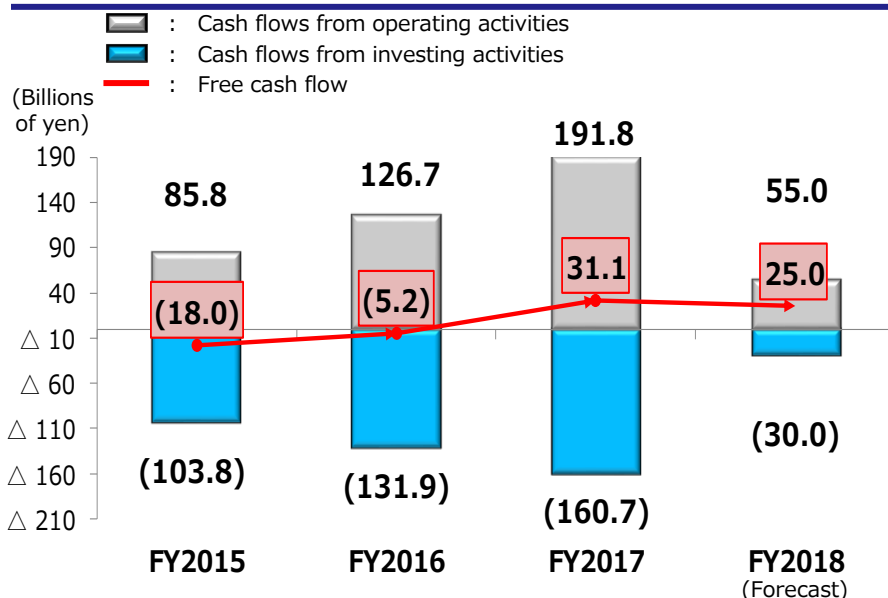
## Basic Policy

- 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**

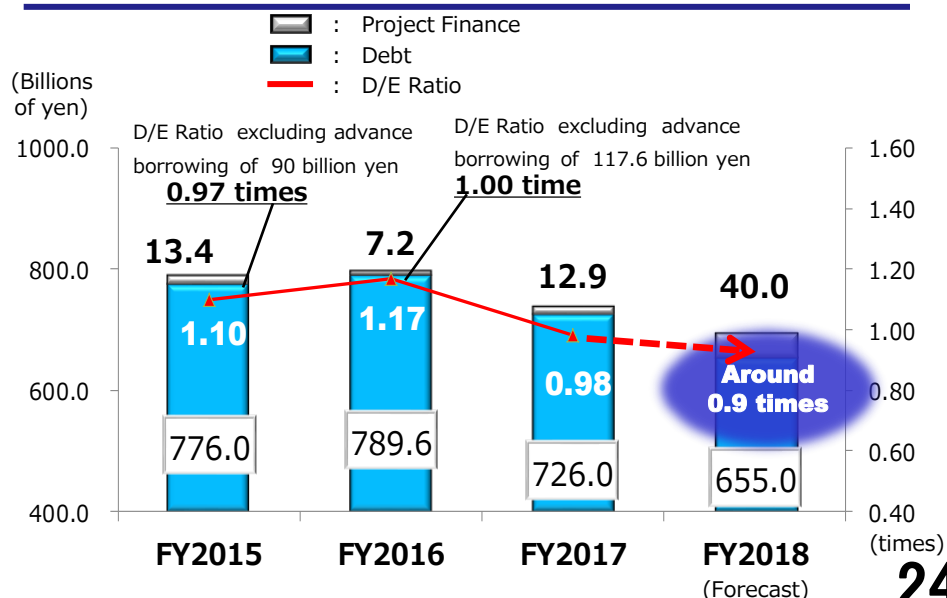
## Cash Generation Measures

- 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 FY2018
  - Improve working capital 19 billion yen
  - Asset sales 91 billion yen, etc.
  - Total: about 110 billion yen

### 《Free cash flow》



### 《Debt · D/E ratio》







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# 4. Reference Information



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# Cash Flows

(Billions of yen)

	FY2017	FY2018 (Previous Forecast)	FY2018 (Current Forecast)	Change
	Full Year	Full Year ①	Full Year ②	② – ①
<b>Cash Flows from Operating Activities</b>	191.8	40.0	<b>55.0</b>	15.0
<b>Cash Flows from Investing Activities</b>	(160.7)	(70.0)	<b>(30.0)</b>	40.0
<b>Free Cash Flow</b> (Excluding Project Financing)	31.1	(30.0)	<b>25.0</b>	55.0
<b>Free Cash Flow</b>	29.2	(40.0)	<b>15.0</b>	55.0
<b>Cash and Deposits</b> (Excluding IPP Project Financing)	726.0	680.0	<b>655.0</b>	(25.0)



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# Capital Investment

(Billions of yen)

	FY2015	FY2016	FY2017	FY2018 Forecast
<b>Capital Investment (Accrual Basis)</b>	109.9	160.2	128.6	<b>150.0</b>
Ratio of Depreciation	116%	167%	126%	<b>150%</b>
<b>Capital Investment (Payment Basis)</b>	99.1	138.9	136.6	<b>150.0</b>
Ratio of Depreciation	105%	144%	134%	<b>150%</b>
<b>Depreciation</b>	94.8	96.2	102.0	<b>100.0</b>



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# Financial Indices

	FY2015	FY2016	FY2017	FY2018 Forecast
<b>ROS (※1)</b>	1.6%	(1.1%)	3.8%	<b>1.3%</b>
<b>Net Income (Loss) per Share (※2)</b>	(59.34 yen)	(63.54 yen)	174.43 yen	<b>96.60 yen</b>
<b>D/E ratio (※3)</b>	(※4) 1.10	(※5) 1.17	0.98	<b>about 0.9</b>
<b>ROA (※6)</b>	1.3%	(0.8%)	3.1%	<b>1.1%</b>
<b>ROE (※7)</b>	(2.9%)	(3.4%)	8.9%	<b>4.7%</b>

※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 Ordinary Income in Iron & Steel Segment

**【 FY2017 1~3Q ⇒ FY2018 1~3Q 】**

(Billions of yen)

	FY2017			FY2018		
	1H	3Q	1~3Q	1H	3Q	1~3Q
Ordinary Income (Loss)	18.4	1.4	<b>19.9</b>	(1.7)	4.8	<b>3.1</b>

**(16.7)**

Positive Factors			Negative Factors	
Overall cost reduction	+	<b>0.5</b>	Production and shipments	<b>(1.5)</b>
Inventory valuation※	+	<b>2.0</b>	Raw material prices	<b>(10.0)</b>
			Exchange rate changes	<b>(2.0)</b>
			Subsidiaries & affiliates	<b>(1.5)</b>
			Other	<b>(4.2)</b>
<b>Total</b>	<b>+</b>	<b>2.5</b>	<b>Total</b>	<b>(19.2)</b>

※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

**【 FY2017 ⇒ FY2018 】**

(Billions of yen)

	FY2017			FY2018		
	1H	2H	Full Year	1H	2H	Full Year
Ordinary Income (Loss)	18.4	(1.0)	<b>17.3</b>	(1.7)	4.7	<b>3.0</b>

**(14.3)**

Positive Factors			Negative Factors	
Production and shipments	+	<b>13.5</b>	Raw material prices	<b>(20.0)</b>
Overall cost reduction	+	<b>3.5</b>	Inventory valuation※	<b>(3.5)</b>
Subsidiaries & affiliates	+	<b>1.0</b>	Other	<b>(8.8)</b>
Exchange rate changes	±	<b>0.0</b>		
<b>Total</b>	<b>+</b>	<b>18.0</b>	<b>Total</b>	<b>(32.3)</b>

※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

**【 FY2018 Previous Forecast ⇒ FY2018 Current Forecast 】**

(Billions of yen)

	FY2018 Previous Forecast			FY2018 Current Forecast		
	1H	2H	Full Year	1H	2H	Full Year
Ordinary Income (Loss)	(1.7)	4.7	<b>3.0</b>	(1.7)	4.7	<b>3.0</b>

±0

Positive Factors			Negative Factors	
Production and shipments	+	<b>1.0</b>	Raw material prices	<b>(3.5)</b>
Overall cost reduction	+	<b>1.0</b>	Exchange rate changes	<b>(1.0)</b>
Subsidiaries & affiliates	+	<b>0.5</b>	Other	<b>(0.5)</b>
Inventory valuation※	+	<b>2.5</b>		
<b>Total</b>	<b>+</b>	<b>5.0</b>	<b>Total</b>	<b>(5.0)</b>

※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

**【 FY2018 1H ⇒ FY2018 2H 】**

(Billions of yen)

	FY2017			FY2018		
	1H	2H	Full Year	1H	2H	Full Year
Ordinary Income (Loss)	18.4	(1.0)	<b>17.3</b>	(1.7)	4.7	<b>3.0</b>

**+6.4**

Positive Factors			Negative Factors	
Production and shipments	+	<b>11.5</b>	Raw material prices	<b>(4.5)</b>
Overall cost reduction	+	<b>1.5</b>	Exchange rate changes	<b>(2.0)</b>
Inventory valuation※	+	<b>4.5</b>	Other	<b>(4.5)</b>
Subsidiaries & affiliates	±	<b>0.0</b>		
<b>Total</b>	<b>+</b>	<b>17.5</b>	<b>Total</b>	<b>(11.0)</b>

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





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

We would again like to express our sincerest apologies to customers, business partners, shareholders and other stakeholders for having caused substantial trouble due to the misconduct in the Kobe Steel Group.

To fulfill our responsibility on 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 quality control process

Specific actions taken in Project for Restoring Trust under the guidance of the President

Monitoring and deliberations by the Independent Quality Supervision Committee

Regular reporting of progress to the Board of Directors

※Please refer to the following URL for the progress of measures to prevent a recurrence.

<http://www.kobelco.co.jp/english/progress/relapse-prevention/index.html>

## Progress of our Product Safety Verification (as of May 18, 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	57	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
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	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
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
				<b>525</b> ※	<b>525</b>	<b>163</b> ※	<b>162</b>

※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 (The Fiscal 2016-2020 Group Medium-Term Management Plan)

### 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](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

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

### Electric Power

#### Initiatives for stable profitability in the electric power supply business

- We have completed all legal procedures required to begin construction of No. 3 & 4 units of the Kobe Power Plant and have commenced construction.  
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](http://www.kobelco.co.jp/english/ir/library/fncl_results/2016/_icsFiles/afieldfile/2017/02/15/170111_e.pdf)

**Only two years are left until the end of the Medium-Term Management Plan.**

**We are now reassessing the current plan.**



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## Update on Capital Investments (Automotive Weight Reduction & Construction Machinery Business)

### Wire rod processing venture in China to increase production capacity

(Kobe Special Steel Wire Products (Pinghu) Co., Ltd.)

(Announced December 17, 2018)

- Investment amount: Approximately 900 million yen
- Production capacity after capacity increase: 5,500 metric tons per month
- Details of investment: Installation of 3 wire drawing machines and 2 heating furnaces
- Start-up: Wire drawing machines - March 2020  
Heating furnaces - June 2020
- Kobe Special Steel Wire Products (KSP) was established in 2007 to supply steel cold heading (CH) steel wires to parts manufacturers. The wires are used to make automotive bolts, nuts and bearing products. Full-scale operation began in 2009.
- KSP has so far increased its production capacity four times. This fifth capacity expansion will help meet the growing needs of KSP's customers who anticipate a further increase in demand.

### Production capacity expansion of excavators at Itsukaichi Factory, Hiroshima Headquarters

(Kobelco Construction Machinery Co., Ltd. (KCM) )

(Announced November 19, 2018)

- Investment amount: Approximately 2,000 million yen
- Production capacity (hydraulic excavators):  
8,900 units per year → 10,500 units per year
- In addition to increasing the production capacity of assembly lines and fabricated product (frames) through a drastic revision of the existing layout, KCM plans to enhance various elements, including the introduction of efficient assembly processes, advancement of "smart factory" which promotes the computerization of manufacturing, upgrading of work safety, and improvement of the workplace environment.
- Construction is scheduled to be completed in March 2020 through phased construction.
- KCM aims to meet growing demand in the global market for hydraulic excavators by a full-out production capacity expansion of the Itsukaichi Factory, which has a wide production menu.

### KAAP completes capacity expansion for aluminum forged suspension products

(Kobelco Aluminum Automotive Products, LLC)

(Completed January, 2019)

- Investment amount: Approximately \$53 million
- Production capacity: 750,000 pieces per month → 970,000 pieces per month
- Ever since it began production in 2005, Kobelco Aluminum Automotive Products, LLC (KAAP) has maintained the top share of the North American market for aluminum forged suspension products.
- KAAP expand production facilities in stages to meet the rising demand in North America for aluminum forged suspension products. This is KAAP's seventh facility expansion. (Decided in April 2017)



## Initiatives in the Fields of Energy and Infrastructure (Kobelco Eco-Solutions Co., Ltd.)

### Order received from Hachioji in Tokyo for the construction and operation of a new cleaning facility

(Announced December 19, 2018)

#### ➤ Outline

✓ Business description:

Design, construction, operation and maintenance of municipal waste treatment facility (fluidized bed gasification and incineration furnace) for waste generated in Hachioji, and development of parking space

✓ Period:

Design and construction: From December 2018 to September 2022

Operation and maintenance: From October 2022 to March 2043

✓ Contract amount:

25.89 billion yen (excluding consumption tax)

✓ Contractor:

Design and Construction: KES and Daiho Corporation under a special construction work joint venture

Operation: Hachioji Environment Service

✓ Capacity of energy recovery facility: 160 t/day (80 t/day × 2 units)



#### ➤ Features

- ✓ Achieving the highest level of high-efficiency power generation in Japan (power generation efficiency: 25.2%) through fluidized bed gasification and incineration furnace with high-temperature, high-pressure boilers and turbine (6MPa × 450°C)
- ✓ Combining advanced exhaust gas treatment equipment having in-furnace demineralization characteristics with superior gas combustion technology of the fluidized bed to suppress the generation of dioxins, nitrogen oxides, hydrogen chloride, etc. and reduce environmental impact
- ✓ Achieving "zero" impact on final disposal sites by recovering unoxidized iron and aluminum having high resource value, and by utilizing incineration residues and fly ash as material for eco-cement
- ✓ Creating a place for the rich symbiosis of nature and citizens through the development of a multi-purpose plaza and green spaces where people can relax
- ✓ Functioning as a support center and an evacuation site in the event of disasters by securing exclusive spaces and stockpiles that take into account support for disaster victims



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## Initiatives in the Fields of Energy and Infrastructure (Kobelco Eco-Solutions Co., Ltd.)

### Order received for municipal waste treatment plant project in the UK

(Announced November 7, 2018)

- Project name: Hooton Bio Power Project
- Customer: Burmeister & Wain Scandinavian Contractor A/S (BWSC)
- Business description:  
Basic design of an energy-from-waste plant, supply of major equipment, and dispatch of construction and commissioning supervisors
- Treatment capacity:  
Fluidized bed gasification and melting furnace: 300 t/day x 2 units
- Location: South of the Wirral, North West England



- Hooton Bio Power Ltd in the United Kingdom signed EPC and O&M contracts with Denmark's BWSC, a wholly owned subsidiary of Mitsui E&S Holdings Co., Ltd. The treatment system to be used is the gasification and melting furnace process of Kobelco Eco-Solutions Co., Ltd. (KES).
- KES is promoting the overseas expansion of municipal waste treatment plants centered on fluidized bed gasification and melting furnace technology.
- This is the fourth order received overseas and the first order received in the United Kingdom.



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## [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
	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.	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	



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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
	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





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

Field	Project	Country	Description	Schedule
Electric Power	No. 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
	No. 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
	No. 3 & 4 units in Kobe (Kobelco Power Kobe No.2, Inc. )	Japan	We intend to construct a high-efficiency thermal power plant using state-of-the-art ultra-supercritical pressure power generation (USC) that complies with the best available technology (BAT) standards set by the government. We will comply with the average power generation efficiency standards stipulated in the Energy Conservation Act. Capacity: 1.3 mil. kW (650,000 kW x 2)	Oct. 2018 Construction began 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**

