

Kobe Steel's Consolidated Financial Results for First Quarter of Fiscal 2014 (April 1 – June 30, 2014)

July 31, 2014

Company name: Kobe Steel, Ltd.
 Code number: 5406
 Stock exchanges where shares are listed: Tokyo and Nagoya, Japan
 Website: www.kobelco.com
 President & CEO: Hiroya Kawasaki
 Filing of quarterly report: August 4, 2014
 Dividend payments begin: ---
 Supplemental information available: Yes
 IR Briefing : Yes (in Japanese only)

(Sums of less than 1 million yen have been omitted.)

1. First Quarter FY2014 Consolidated Financial Results (April 1 - June 30, 2014)

(1) Consolidated operating results

(In millions of yen)	FY2013 1Q	% change*	FY2014 1Q	% change*
Net sales	418,619	(3.6%)	444,790	6.3%
Operating income	19,358	---	27,987	44.6%
Ordinary income	17,125	---	21,583	26.0%
Net income	18,721	---	22,943	22.6%
Net income per share	6.23 yen		6.31 yen	
Diluted net income per share	---		---	

Comprehensive income in FY2013 1Q: 22,557 million yen FY2014 1Q: 29,574 million yen

* Indicates percentage of change from the corresponding period of the previous fiscal year

(2) Consolidated financial position

(In millions of yen)	FY2013	FY2014 1Q
Total assets	2,288,636	2,251,363
Net assets	734,679	754,378
Equity ratio	29.2%	30.6%

Stockholders' equity at FY2013: 668,997 million yen June 30, 2014: 688,799 million yen

2. Dividends

Period	Dividends per share in yen				
	1Q	2Q	3Q	4Q	Full year
FY2013	---	0.00	---	4.00	4.00
FY2014	---	---	---	---	---
FY2014 Forecast	---	2.00	---	---	---

Revision to dividend forecast in 1Q FY2014: Yes

The dividend for the end of fiscal 2014 is undetermined.

3. Consolidated Forecast for Fiscal 2014 (April 1, 2014 - March 31, 2015)

(In millions of yen)	FY2014 1st half	% change*	FY2014 Full year	% change*
Net sales	940,000	5.7%	1,930,000	5.8%
Operating income	50,000	(8.2%)	105,000	(8.3%)
Ordinary income	35,000	(18.9%)	80,000	(5.9%)
Net income	30,000	(32.1%)	55,000	(21.6%)
Net income per share	8.25 yen		15.13 yen	

* Indicates percentage of change from the corresponding period of the previous fiscal year

Revision to consolidated forecast in 1Q FY2014: Yes

Notes

- (1) Change in number of material subsidiaries in fiscal year: No
(Changes in specified subsidiaries due to changes in scope of consolidation)
- (2) Adoption of specific accounting procedures for preparing the quarterly consolidated financial statements: No
- (3) Changes in accounting policies, estimates and restatement on the preparation of quarterly consolidated financial statements
- Changes in accounting policies due to revised accounting standards: Yes
 - Other changes: Yes
 - Changes in accounting estimates: No
 - Restatement: No

(4) Number of issued shares

	FY 2013	FY 2014 1Q
Common stock (number of issued shares)	3,643,642,100	3,643,642,100
Treasury stock (number of shares)	9,975,426	9,963,859
Average number of shares in 1Q	3,001,325,830*	3,633,686,356

*1Q FY2013

1. Qualitative Information on Operating Results for 1st Quarter of Fiscal 2014

Japan's economy in the first quarter of fiscal 2014 (April 1-June 30, 2014) was affected by a reaction to the last-minute surge in demand prior to the rise in the consumption tax on April 1, but on the back of various economic measures by the government, corporate earnings improved, capital expenditures went up, and public investments continued at high levels, resulting in the economy as a whole continuing on a recovery track. In overseas markets, the economy in the United States gradually continued to improve, but Europe's economy remained weak and the economies of China and Southeast Asia continued to decelerate.

In this economic environment, the Kobe Steel Group saw a decrease in its sales volume (in terms of tons sold) of steel products in the first quarter, compared with the same period last year, due to a decrease in demand from the automotive sector brought about by a reaction to the last-minute surge in demand prior to the rise in the consumption tax and the impact of production trouble at Kakogawa Works. The sales volume of aluminum rolled products increased in the first quarter of fiscal 2014, compared with the same period last year, owing to efforts to expand export sales of aluminum can stock for beverage containers and strong demand for use in air conditioners. The sales volume of rolled copper products increased in the first quarter of fiscal 2014, compared with the same period last year, owing to strong demand for copper sheet and strip for automotive terminals and semiconductors and strong demand for copper tube for air conditioners. Unit sales of hydraulic excavators increased in the first quarter compared with the same period last year. Although unit sales of hydraulic excavators decreased in Japan and Southeast Asia, unit sales increased in China, as well as Europe and North America, where sales have been steadily increasing after reentering these two regions.

As a result, consolidated sales in the first quarter increased 26.1 billion yen compared with the same period to 444.7 billion yen. Operating income increased 8.6 billion yen compared with the same period last year to 27.9 billion yen. Ordinary income (also known as pretax recurring profit) increased 4.4 billion yen compared with the same period last year to 21.5 billion yen. Net income increased 4.2 billion yen compared with the same period last year to 22.9 billion yen.

Conditions in the business segments for the first quarter of fiscal 2014 follow below.

Iron & Steel Business

As a reaction to the last-minute surge in demand prior to the rise in the consumption tax, demand for steel products declined in the automotive sector and the impact of production trouble at Kakogawa Works resulted in a decrease in the sales volume of steel products compared with the same period last year. On the other hand, sales prices increased in the first quarter compared with the same period last year. Excluding a portion which remained undecided, steel prices remained at similar high levels as at the end of fiscal 2013.

Sales of steel castings and forgings were at similar levels to the same period last year. Sales of titanium products increased compared with the same period last year in which demand was weak.

As a result, consolidated segment sales in the first quarter were similar to the same period last year at 186.7 billion yen. Ordinary income decreased 2.1 billion yen compared with the same period last year to 3.1 billion yen due to a decrease in inventory valuation gain.

Welding Business

The sales volume of welding materials increased compared with the same period last year due to a recovery in demand from the domestic shipbuilding industry and strong demand from the construction sector. Sales of welding systems also increased compared with the same period last year due to strong demand from the domestic construction sector.

As a result, consolidated segment sales in the first quarter increased 11.3 percent compared with the same period last year to 22.7 billion yen. Ordinary income increased 0.9 billion yen compared with the same period last year to 2.1 billion yen.

Aluminum & Copper Business

The sales volume of aluminum rolled products increased compared with the same period last year due to efforts to expand export sales of aluminum can stock and strong demand from the air conditioner industry. Sales of aluminum castings and forgings also increased compared with the same period last year due to strong demand from the overseas automotive market.

The sales volume of copper rolled products increased compared with the same period last year, owing to strong demand for copper sheet and strip for automotive terminals and semiconductors and strong demand for copper tube used in air conditioners.

As a result, consolidated segment sales in the first quarter increased 13.1 percent compared with the same period last year to 81.8 billion yen. However, ordinary income decreased 1.6 billion yen compared with the same period last year to 3.6 billion yen due to a rise in energy costs and a worsening in inventory valuation.

Machinery Business

With continued strong demand for compressors used mainly overseas in the oil refining and petrochemical sector, consolidated orders in the first quarter increased 14.7 percent compared with the same period last year to 36.0 billion yen, and the consolidated backlog of orders at the end of the first quarter stood at 136.6 billion yen.

Consolidated segment sales in the first quarter increased 16.9 percent compared with the same period last year to 36.9 billion yen. Ordinary income increased 0.9 billion yen compared with the same period last year to 1.9 billion yen.

Engineering Business

Consolidated orders in the first quarter decreased 9.8 percent compared with the same period last year to 4.8 billion yen as the Kobe Steel Group did not receive large orders, although domestic orders accumulated for repair and maintenance work. The consolidated backlog of orders at the end of the first quarter stood at 80.3 billion yen.

Consolidated segment sales in the first quarter decreased 19.0 percent compared with the same period last year to 8.6 billion yen. Ordinary income decreased 0.6 billion yen compared with the same period last year to ordinary loss of 0.4 billion yen.

Kobelco Eco-Solutions

Consolidated orders in the first quarter increased 24.4 percent compared with the same period last year to 29.2 billion yen due to an increase in the volume of orders received from after-sales services. The backlog of orders at the end of the first quarter stood at 64.4 billion yen.

Consolidated segment sales in the first quarter were 12.0 billion yen, a decrease of 13.8 percent compared with the same period last year, which saw the posting of sales from large-scale waste treatment projects. Ordinary income increased 0.2 billion yen compared with the previous period last year to 65 million yen owing to higher profits from after-sales services.

Kobelco Construction Machinery

Unit sales of hydraulic excavators increased in the first quarter compared with the same period last year. Unit sales were affected by a reaction to the last-minute surge in demand prior to the implementation of stricter exhaust emission regulations and the rise consumption tax in Japan and sluggish demand in Southeast Asia owing to political unrest. However, unit sales increased in China, as well as in Europe and North America, where sales have been steadily increasing after reentering these two regions.

As a result, consolidated segment sales in the first quarter increased 8.9 percent compared with the same period last year to 81.2 billion yen. Ordinary income increased 4.6 billion yen compared with the same period last year to 7.5 billion yen.

Kobelco Cranes

Unit sales of crawler cranes increased in the first quarter compared with the same period last year. Unit sales in Japan increased owing to continued strong demand on the back of higher public investments and other factors. In overseas markets, unit sales increased in Asia, where demand continued to be strong, and other regions.

As a result, consolidated segment sales in the first quarter increased 46.6 percent compared with the same period last year to 16.9 billion yen. Ordinary income increased 0.8 billion yen compared with the same period last year to 1.7 billion yen.

Other Businesses

At Shinko Real Estate Co., Ltd., the leasing business was strong, but the property sales business saw a decrease in the number of property handovers. In Kobelco Research Institute, Inc.'s testing and research businesses, demand was strong mainly in the automotive sector.

Due to these conditions, consolidated segment sales in the first quarter were 14.3 billion yen, a similar level to the same period last year. Ordinary income increased 48 million yen compared with the same period last year to 0.9 billion yen.

2. Qualitative Information on Consolidated Earnings Forecast

In comparison to the previous forecast on April 25, 2014, in light of the downward trend in steel raw material prices, Kobe Steel has made certain assumptions on the prices of steel products and other uncertain factors. As a result, it forecasts a downward revision in consolidated sales in the first half of fiscal 2014 and for the full fiscal year.

Looking at profits, in the Welding Business, public investments are rising and demand from the shipbuilding industry is on a recovery trend. In addition, in the Aluminum & Copper Business, efforts to expand sales of aluminum can stock are progressing. In the Iron & Steel Business inventory valuation is anticipated to worsen toward the end of the fiscal year. In light of these conditions, Kobe Steel anticipates an upward revision in operating income, ordinary income and net income in the first half of fiscal 2014. Operating income and ordinary income for the full fiscal year remains unchanged from the previous forecast. Owing to anticipated improvement in tax expenses, net income for the full fiscal 2014 is revised upward.

Dividends

Kobe Steel's basic policy is to provide continuous and stable dividends to its shareholders. Dividends are decided taking into account the Company's financial condition, business performance, future capital needs and other factors from a comprehensive standpoint. With these factors in mind, Kobe Steel has decided on a policy to pay an interim dividend of 2 yen per share for the first half of fiscal 2014.

3. Items Regarding Summary Information (Notes)

Changes in accounting policies, changes in accounting estimates and restatement on the preparation of quarterly consolidated financial statements

(Application of the Accounting Standard for Retirement Benefits)

In the Accounting Standard for Retirement Benefits (Accounting Standards Board of Japan Statement No. 26, May 17, 2012, hereinafter the "Accounting Standard for Retirement Benefits") and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012, hereinafter the "Guidance on Retirement Benefits"), Kobe Steel Group adopted the provisions set forth in the article 35 of the Accounting Standard for Retirement Benefits and in the article 67 of the Guidance on Retirement Benefits since the first quarter of fiscal 2014. The Group revised its calculation method of the retirement benefit obligation and service costs. In addition, the Group changed its attribution method of projected retirement benefit from the straight-line basis to the benefit formula basis, and changed the calculation method of the discount rate.

Following the article 37 in the Accounting Standard for Retirement Benefits, which stipulates transitional treatment of the new standard, at the beginning of the first quarter of fiscal 2014, the effect of the changed calculation method for the retirement benefit obligation and service costs is adjusted in the retained earnings.

As a result, at the beginning of the first quarter of fiscal 2014, retained earnings increased by 5,066 million yen. The application of the new accounting standard does not have material effect on profit or loss in the first quarter of fiscal 2014.

(Application of the Accounting Standard for Business Combinations)

The "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, revised on September 13, 2013), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, revised on September 13, 2013), and "Accounting Standard for Business Divestitures" (ASBJ Statement No.7, revised on September 13, 2013) could be applied from the beginning of the consolidated fiscal 2014. Accordingly, Kobe Steel applied these accounting standards (excluding the article 39 of ASBJ Statement No. 22, revised on September 13, 2013) from the first quarter of this consolidated fiscal 2014.

Under these accounting standards, Kobe Steel recorded the differences caused by changes in Kobe Steel's equity shares in subsidiaries in which Kobe Steel continues to control as capital surplus. In addition, Kobe Steel recorded acquisition-related costs as expenses in the fiscal periods in which the costs are incurred.

Regarding business combinations, from the beginning of the first quarter of fiscal 2014, Kobe Steel changed the method to reflect changes in the allocation of the acquisition costs arising from confirmation of the provisional accounting treatment on the consolidated financial statements of the quarter that includes the acquisition date.

Kobe Steel will adopt these accounting standards in the future from the beginning of the first quarter of fiscal 2014, following transitional treatment based on the article 58-2(4) of "Accounting Standard for Business Combinations," the article 44-5(4) of "Accounting Standard for Consolidated Financial Statements," and the article 57-4(4) of "Accounting Standard for Business Divestitures".

Adoption of these accounting standards does not affect Kobe Steel's profit or loss in the first quarter of fiscal 2014 and capital surplus at the end of the same quarter.

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CONSOLIDATED FINANCIAL STATEMENTS

(1) Consolidated Balance Sheets

(In millions of yen)

Assets	FY2013 Ended Mar. 31, 2014	FY2014 1Q Ended Jun. 30, 2014
Current assets		
Cash and deposits	151,930	148,234
Notes and accounts receivable	363,514	321,083
Merchandise and finished goods	149,830	162,430
Work-in-progress	112,697	119,082
Raw materials and supplies	138,210	134,719
Other	156,409	148,713
Allowance for doubtful accounts	(4,995)	(5,809)
Total current assets	<u>1,067,597</u>	<u>1,028,454</u>
Fixed assets		
Property, plant and equipment		
Buildings and structures	288,590	288,169
Machinery and equipment	372,827	375,973
Land	198,712	198,779
Other	52,884	47,886
Total tangible fixed assets	<u>913,016</u>	<u>910,810</u>
Intangible fixed assets	19,952	19,758
Investments and other assets		
Investments in securities	179,620	185,676
Other	111,149	109,198
Allowance for doubtful accounts	(2,700)	(2,533)
Total investments and other assets	<u>288,070</u>	<u>292,341</u>
Total fixed assets	<u>1,221,039</u>	<u>1,222,909</u>
Total assets	<u>2,288,636</u>	<u>2,251,363</u>

Liabilities	FY2013 Ended Mar. 31, 2014	FY2014 1Q Ended Jun. 30, 2014
Current liabilities		
Notes and accounts payable	410,895	393,695
Short-term borrowings	249,835	252,211
Current portion of Bonds	26,000	20,000
Income and enterprise taxes payable	10,683	4,769
Provisions	38,741	29,313
Other	155,100	168,332
Total current liabilities	<u>891,257</u>	<u>868,321</u>
Long-term liabilities		
Bonds and notes	151,000	141,000
Long-term borrowings	360,411	348,985
Net defined benefit liability	72,653	69,662
Provisions	7,086	6,760
Other	71,550	62,254
Total long-term liabilities	<u>662,700</u>	<u>628,663</u>
Total liabilities	<u>1,553,957</u>	<u>1,496,985</u>
Net Assets		
Stockholders' equity		
Common stock	250,930	250,930
Capital surplus	100,742	100,742
Retained earnings	322,347	335,795
Treasury stock, at cost	(2,983)	(2,975)
Total stockholders' equity	<u>671,035</u>	<u>684,492</u>
Accumulated other comprehensive income		
Unrealized gains on securities, net of taxes	13,266	20,118
Unrealized losses on hedging derivatives, net of taxes	(1,814)	(774)
Land revaluation differences, net of taxes	(3,368)	(3,368)
Foreign currency translation adjustments	3,062	(1,082)
Remeasurements of defined benefit plans, net of taxes	(13,183)	(10,585)
Total accumulated other comprehensive income	<u>(2,037)</u>	<u>4,307</u>
Minority interests	65,681	65,578
Total net assets	<u>734,679</u>	<u>754,378</u>
Total liabilities and net assets	<u>2,288,636</u>	<u>2,251,363</u>

(2) Consolidated Statements of Operations

(In millions of yen)

	FY2013 1Q Ended Jun. 30, 2013	FY2014 1Q Ended Jun. 30, 2014
Net sales	418,619	444,790
Cost of sales	358,668	371,963
Gross profit	59,951	72,826
Selling, general and administrative expenses	40,592	44,838
Operating income	19,358	27,987
Non-operating income		
Interest income	879	929
Dividend income	1,127	1,510
Reimbursement of seconded employees' salaries	1,232	1,358
Equity in income of equity method companies	251	1,163
Foreign exchange gain	3,234	---
Other	3,746	2,042
Total non-operating income	10,471	7,004
Non-operating expenses		
Interest expense	4,934	3,963
Seconded employees' salaries	3,046	3,243
Other	4,723	6,202
Total non-operating expenses	12,704	13,409
Ordinary income	17,125	21,583
Extraordinary income		
Gain on sale of securities	23,928	---
Gain on negative goodwill	1,713	---
Total extraordinary income	25,642	---
Extraordinary loss		
Impairment loss	18,454	---
Total extraordinary loss	18,454	---
Income before income taxes and minority interests	24,312	21,583
Income taxes		
Current	3,530	3,727
Deferred	1,526	(7,191)
Total income taxes	5,056	(3,463)
Income before minority interests	19,256	25,047
Minority interests in income of subsidiaries	534	2,103
Net income	18,721	22,943

(3) Consolidated Statements of Comprehensive Income

(In millions of yen)

	<u>FY2013 1Q</u> <u>Ended Jun. 30, 2013</u>	<u>FY2014 1Q</u> <u>Ended Jun. 30, 2014</u>
Income before minority interests	19,256	25,047
Other comprehensive income		
Unrealized gains or losses on securities, net of taxes	(11,147)	6,745
Unrealized gains or losses on hedging derivatives, net of taxes	(1,073)	1,247
Foreign currency translation adjustments	14,031	(5,808)
Remeasurements of defined benefit plans, net of taxes	---	2,408
Share of other comprehensive income (loss) related to affiliates	1,492	(65)
Total other comprehensive income	<u>3,301</u>	<u>4,527</u>
Comprehensive income	<u>22,557</u>	<u>29,574</u>
Breakdown of total comprehensive income attributed to:		
Stockholders of the parent	18,750	29,288
Minority interests	3,806	286

(4) Notes on premise of a going concern:

None

(5) Notes in the case of a significant change in stockholders' equity:

None

Supplementary Information for First Quarter of Fiscal 2014

(April 1 – June 30, 2014)

Consolidated Operating Results for First Quarter of Fiscal 2014 (In billions of yen)

	FY2013 1Q	FY2014 1Q	% change
Net sales	418.6	444.7	6.3%
Operating income	19.3	27.9	44.6%
Ordinary income	17.1	21.5	26.0%
Extraordinary Income	7.1	---	---
Net income	18.7	22.9	22.6%

FY2014 Consolidated Forecast (In billions of yen)

	FY2013	FY2014 Previous Forecast (Apr. 25, 2014)		FY2014 Forecast	
		Full year	1st half	Full year	1st half
Net sales	1,824.6	950.0	1,950.0	940.0	1,930.0
Operating income	114.5	40.0	105.0	50.0	105.0
Ordinary income	85.0	25.0	80.0	35.0	80.0
Extraordinary income	3.1	---	---	---	---
Net income	70.1	20.0	50.0	30.0	55.0

Interim Dividend: 2 yen

FY2014 First Quarter

(1) Consolidated Sales & Ordinary Income (loss) by Segment (In billions of yen)

		FY2013 1Q	FY2014 1Q	% change
Iron & Steel	Sales	185.7	186.7	0.6%
	Ordinary income	5.3	3.1	(40.4%)
Welding	Sales	20.4	22.7	11.3%
	Ordinary income	1.2	2.1	75.4%
Aluminum & Copper	Sales	72.3	81.8	13.1%
	Ordinary income	5.3	3.6	(31.3%)
Machinery	Sales	31.5	36.9	16.9%
	Ordinary income	1.0	1.9	89.8%
Engineering	Sales	10.6	8.6	(19.0%)
	Ordinary income (loss)	0.2	(0.4)	---
Kobelco Eco-Solutions	Sales	13.9	12.0	(13.8%)
	Ordinary income (loss)	(0.1)	0.0	---
Kobelco Construction Machinery	Sales	74.6	81.2	8.9%
	Ordinary income	2.8	7.5	2.7 times
Kobelco Cranes	Sales	11.5	16.9	46.6%
	Ordinary income	0.8	1.7	99.4%
Other Businesses	Sales	14.4	14.3	(0.7%)
	Ordinary income	0.8	0.9	5.3%
Adjustment	Sales	(16.7)	(16.7)	---
	Ordinary income (loss)	(0.4)	0.7	---
Total	Sales	418.6	444.7	6.3%
	Ordinary income	17.1	21.5	26.0%

(2) Production and Sales of Steel Products (Nonconsolidated)

Production and Sales Volume (in millions of metric tons)

	FY2013 1Q	FY2014 1Q
Crude steel	1.88	1.77
Sales volume	1.53	1.44
Export ratio (value basis)	34.0%	30.5%

Unit Sales Prices (In yen per metric ton)

	FY2013 1Q	FY2014 1Q
Domestic & Export average	76,400	82,500

(3) Factors Affecting Ordinary Income (Consolidated, In billions of yen)

Comparison of FY2014 1Q and FY2013 1Q

	FY2013 1Q	FY2014 1Q	Amount of Increase
Ordinary income	17.1	21.5	4.4

Factors Increasing Profits		Factors Decreasing Profits	
Production & shipments	5.0	Overall costs	(3.0)
Raw material prices	6.5	Effect of steel inventory valuation*	(8.0)
Consolidated subsidiaries & equity-valued affiliates	9.0	Effect of aluminum & copper inventory valuation*	(0.5)
		Effect of changes in foreign exchange rates on steel business	(3.0)
		Other	(1.6)
Total	20.5	Total	(16.1)

* Effect of inventory valuation includes effect from the average method and the lower-of-cost-or-market method.

FY2014 Forecast

(1) Consolidated Sales & Ordinary Income (loss) for FY2013 by Segment (In billions of yen)

		FY2013	FY2014		FY2014 Forecast	
			Full year	1st half	Full year	1st half
Iron & Steel	Sales	808.5	395.0	815.0	390.0	790.0
	Ordinary income	33.5	5.0	22.0	7.0	20.0
Welding	Sales	88.3	46.0	93.0	46.0	92.0
	Ordinary income	7.2	3.0	6.5	4.0	7.5
Aluminum & Copper	Sales	295.6	160.0	325.0	160.0	325.0
	Ordinary income	15.1	4.0	11.0	5.0	12.0
Machinery	Sales	149.8	79.0	170.0	84.0	176.0
	Ordinary income	6.4	2.0	8.5	2.5	8.5
Engineering	Sales	39.1	24.0	59.0	24.0	58.0
	Ordinary loss	(3.9)	(1.5)	(1.0)	(1.0)	(0.5)
Kobelco Eco-Solutions	Sales	68.1	27.0	67.5	27.0	67.5
	Ordinary income (loss)	2.6	(0.9)	2.3	(0.9)	2.3
Kobelco Construction Machinery	Sales	318.2	180.0	340.0	170.0	330.0
	Ordinary income	15.1	13.0	22.0	15.0	22.0
Kobelco Cranes	Sales	56.6	39.0	73.0	37.0	76.0
	Ordinary income	3.2	1.5	3.5	2.5	4.0
Other Businesses	Sales	71.2	31.0	75.0	30.0	75.0
	Ordinary income	6.8	1.0	6.0	1.5	6.0
Adjustment	Sales	(71.0)	(31.0)	(67.5)	(28.0)	(59.5)
	Ordinary loss	(1.2)	(2.1)	(0.8)	(0.6)	(1.8)
Total	Sales	1,824.6	950.0	1,950.0	940.0	1,930.0
	Ordinary income	85.0	25.0	80.0	35.0	80.0

(2) Production and Sales of Steel Products (Nonconsolidated)

Production and Sales Volume (In millions of metric tons)

	FY2013			FY2014 Forecast		
	1st half	2nd half	Full year	1st half	2nd half	Full year
Crude steel	3.79	3.83	7.62	Approx. 3.70	Approx. 3.90	Approx. 7.60
Sales volume	3.07	3.20	6.27	Approx. 3.00	Approx. 3.25	Approx. 6.25
Export ratio (value basis)	31.9%	30.7%	31.3%	30%	32%	31%

(3) Factors Affecting Ordinary Income (Consolidated, in billions of yen)

Comparison of Current Forecast and Previous Forecast for FY2014 1st Half

	Previous Forecast	Current Forecast	Amount of Increase
Ordinary income	25.0	35.0	10.0

Factors Increasing Profits		Factors Decreasing Profits	
Raw material prices	7.5	Overall costs	(5.0)
Effect of aluminum & copper inventory valuation*	0.5		
Consolidated subsidiaries & equity-valued affiliates	4.5		
Other	2.5		
Total	15.0	Total	(5.0)

* Effect of inventory valuation includes effect from the average method and the lower-of-cost-or-market method.

Comparison of Current Forecast and Previous Forecast for FY2014

	Previous Forecast	Current Forecast	Amount of Increase
Ordinary income	80.0	80.0	---

Factors Increasing Profits		Factors Decreasing Profits	
Raw material prices	27.5	Production & shipments	(18.5)
Effect of aluminum & copper inventory valuation*	1.0	Overall costs	(5.5)
Consolidated subsidiaries & equity-valued affiliates	0.5	Effect of steel inventory valuation*	(5.0)
Total	29.0	Total	(29.0)

* Effect of inventory valuation includes effect from the average method and the lower-of-cost-or-market method.

Comparison of Forecast for FY2014 2nd Half and Forecast for FY2014 1st Half

	FY2014 1st half Forecast	FY2014 2nd half Forecast	Amount of Increase
Ordinary income	35.0	45.0	10.0

Factors Increasing Profits		Factors Decreasing Profits	
Raw material prices	14.0	Production & shipments	(17.5)
Overall cost reduction	6.0	Effect of steel inventory valuation*	(4.0)
Consolidated subsidiaries & equity-valued affiliates	1.0		
Other	10.5		
Total	31.5	Total	(21.5)

* Effect of inventory valuation includes effect from the average method and the lower-of-cost-or-market method.

Comparison of FY2014 Forecast and FY2013 Result

	FY2013	FY2014 Forecast	Amount of Decrease
Ordinary income	85.0	80.0	(5.0)

Factors Increasing Profits		Factors Decreasing Profits	
Raw material prices	38.0	Production & shipments	(15.5)
Consolidated subsidiaries & equity-valued affiliates	14.5	Overall cost	(0.5)
		Effect of steel inventory valuation*	(26.0)
		Effect of changes in foreign exchange rates on steel business	(5.0)
		Other	(10.5)
Total	52.5	Total	(57.5)

* Effect of inventory valuation includes effect from the average method and the lower-of-cost-or-market method.

(4) Cash Flow & Outside Debt (Consolidated, in billions of yen)

Cash Flow

	FY2013	FY2014 Forecast
Free cash flow	117.1	0

(Excludes cash flow from IPP project financing)

Outside Debt (As of the end of each period)

	FY2013	FY2014 Forecast
Outside debt*	748.1	Approx. 690.0
D/E ratio (times) **	1.11	Approx. 1.0

* Excludes debt from IPP project financing.

** D/E ratio: Debt (excluding IPP project financing)/stockholders' equity

(5) Exchange Rates

	FY2013	FY2014 1Q	FY2014 2Q onward
1 U.S. dollar to yen	100 yen	102 yen	103 yen
1 Chinese yuan to yen	16.4 yen	16.4 yen	16.0 yen

(6) Capital Expenditures (Consolidated, in billions of yen)

	FY2013	FY2014 Forecast	% change
Capital expenditures (accrual basis)	101.4	135.0	33.1%
Depreciation	82.9	90.0	8.6%

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Quarterly Information by Segment (Consolidated, in billions of yen)

		FY2013							FY2014 Forecast				
		1st half			2nd half			Total	1st half			2nd half	Total
		1Q	2Q	subtotal	3Q	4Q	subtotal		1Q	2Q	subtotal		
Iron & Steel	Sales	185.7	204.2	389.9	201.3	217.1	418.5	808.5	186.7	203.3	390.0	400.0	790.0
	Ordinary income	5.3	10.2	15.5	13.0	5.0	18.0	33.5	3.1	3.9	7.0	13.0	20.0
Welding	Sales	20.4	21.5	41.9	22.2	24.1	46.3	88.3	22.7	23.3	46.0	46.0	92.0
	Ordinary income	1.2	1.6	2.8	2.0	2.3	4.3	7.2	2.1	1.9	4.0	3.5	7.5
Aluminum & Copper	Sales	72.3	75.7	148.1	72.1	75.3	147.5	295.6	81.8	78.2	160.0	165.0	325.0
	Ordinary income	5.3	2.7	8.0	3.6	3.4	7.0	15.1	3.6	1.4	5.0	7.0	12.0
Machinery	Sales	31.5	39.7	71.3	30.5	47.9	78.4	149.8	36.9	47.1	84.0	92.0	176.0
	Ordinary income	1.0	1.0	2.1	2.3	2.0	4.3	6.4	1.9	0.6	2.5	6.0	8.5
Engineering	Sales	10.6	10.1	20.8	7.0	11.2	18.2	39.1	8.6	15.4	24.0	34.0	58.0
	Ordinary income (loss)	0.2	(0.3)	(0.1)	(1.5)	(2.2)	(3.7)	(3.9)	(0.4)	(0.6)	(1.0)	0.5	(0.5)
Kobelco Eco-Solutions	Sales	13.9	16.9	30.9	15.0	22.1	37.2	68.1	12.0	15.0	27.0	40.5	67.5
	Ordinary income (loss)	(0.1)	1.2	1.0	0.4	1.1	1.5	2.6	0.0	(0.9)	(0.9)	3.2	2.3
Kobelco Construction Machinery	Sales	74.6	88.3	162.9	72.8	82.3	155.2	318.2	81.2	88.8	170.0	160.0	330.0
	Ordinary income	2.8	7.3	10.1	1.8	3.0	4.9	15.1	7.5	7.5	15.0	7.0	22.0
Kobelco Cranes	Sales	11.5	13.9	25.5	14.3	16.7	31.1	56.6	16.9	20.1	37.0	39.0	76.0
	Ordinary income	0.8	0.9	1.7	0.7	0.6	1.4	3.2	1.7	0.8	2.5	1.5	4.0
Other Businesses	Sales	14.4	17.6	32.1	16.7	22.3	39.0	71.2	14.3	15.7	30.0	45.0	75.0
	Ordinary income	0.8	1.5	2.4	1.7	2.7	4.4	6.8	0.9	0.6	1.5	4.5	6.0
Adjustment	Sales	(16.7)	(17.7)	(34.5)	(16.3)	(20.1)	(36.5)	(71.0)	(16.7)	(11.3)	(28.0)	(31.5)	(59.5)
	Ordinary income (loss)	(0.4)	(0.2)	(0.7)	0.0	(0.5)	(0.5)	(1.2)	0.7	(1.3)	(0.6)	(1.2)	(1.8)
Total	Sales	418.6	470.7	889.3	435.9	499.4	935.3	1,824.6	444.7	495.3	940.0	990.0	1,930.0
	Ordinary income	17.1	26.0	43.1	24.2	17.6	41.8	85.0	21.5	13.5	35.0	45.0	80.0
Net income		18.7	25.4	44.1	19.6	6.3	26.0	70.1	22.9	7.1	30.0	25.0	55.0

Quarterly Production and Sales of Steel Products (Nonconsolidated)

Production & Sales Volume (In millions of metric tons)

	FY2013						
	1st half			2nd half			Total
	1Q	2Q	Subtotal	3Q	4Q	Subtotal	
Crude steel	1.88	1.91	3.79	1.91	1.92	3.83	7.62
Sales volume	1.53	1.54	3.07	1.56	1.64	3.20	6.27
Export ratio (value basis)	34.0%	29.9%	31.9%	29.4%	32.0%	30.7%	31.3%

	FY2014 Forecast				
	1st half			2nd half	Total
	1Q	2Q	Subtotal		
Crude steel	1.77	Approx. 1.95	Approx. 3.70	Approx. 3.90	Approx. 7.60
Sales volume	1.44	Approx. 1.55	Approx. 3.00	Approx. 3.25	Approx. 6.25
Export ratio (value basis)	30.5%	30%	30%	32%	31%

Unit Sales Prices (In yen per metric ton)

	FY2013							FY2014 1Q
	1st half			2nd half			Full year	
	1Q	2Q	Subtotal	3Q	4Q	Subtotal		
Domestic & Export average	76,400	81,100	78,800	80,800	82,300	81,500	80,200	82,500

Note:

The portions of this material referring to forecasts are based on currently available information as of today. Actual business results may differ considerably due to various changeable conditions in the future.

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