

# Kobe Steel's Consolidated Financial Results for First Half of Fiscal 2016 (April 1 – September 30, 2016)

October 31, 2016

Company name: Kobe Steel, Ltd.  
 Code number: 5406  
 Stock exchanges where shares are listed: Tokyo and Nagoya, Japan  
 Website: <http://www.kobelco.co.jp/english/>  
 Representative: Hiroya Kawasaki, Chairman, President, CEO  
 and Representative Director  
 Filing of quarterly report: November 7, 2016  
 Dividend payments begin: ---  
 Supplemental information available: Yes  
 IR Briefing: Yes (in Japanese only)  
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(Sums of less than 1 million yen have been omitted.)

## 1. Consolidated Financial Results for First Half of Fiscal 2016 (April 1 – September 30, 2016)

### (1) Consolidated operating results

(In millions of yen)	FY2015 1H	% change <sup>1</sup>	FY2016 1H	% change <sup>1</sup>
Net sales	928,629	1.4%	815,130	(12.2%)
Operating income	47,065	(17.7%)	30,995	(34.1%)
Ordinary income	33,082	(28.3%)	12,320	(62.8%)
Net income attributable to owners of the parent	13,428	(68.1%)	4,109	(69.4%)
Net income per share <sup>2</sup>	37.00 yen	---	11.31 yen	---
Diluted net income per share	---	---	---	---

Comprehensive loss in FY2015 1H: (5,985 million yen) FY2016 1H: (20,411 million yen)

<sup>1</sup> Indicates percentage of change from the corresponding period of the previous fiscal year

<sup>2</sup> 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.

### (2) Consolidated financial position

(In millions of yen)	FY2015	FY2016 1H
Total assets	2,261,134	2,220,655
Net assets	745,492	723,354
Net worth ratio	30.6%	30.3%

Stockholders' equity at the end of FY2015: 692,005 million yen September 30, 2016: 672,894 million yen

## 2. Dividends

Period	Dividends per share in yen*				
	1Q	2Q	3Q	4Q	Full year
FY2015	---	2.00	---	0.00	2.00
FY2016	---	0.00	---	---	---
FY2016 Forecast	---	---	---	---	---

Revision to dividend forecast in FY2016 2Q: No

The dividend for the end of fiscal 2016 is undetermined.

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

## 3. Consolidated Forecast for Fiscal 2016 (April 1, 2016 - March 31, 2017)

(In millions of yen)	FY2016	% change <sup>1</sup>
Net sales	1,690,000	(7.3%)
Operating income	45,000	(34.3%)
Ordinary income	10,000	(65.4%)
Net income attributable to owners of the parent	0	(100.0%)
Net income per share <sup>2</sup>	0.00	---

<sup>1</sup> Indicates percentage of change from the previous fiscal year

<sup>2</sup> 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.

Revision to consolidated forecast in FY2016 2Q: Yes

For more information about the consolidated forecast for fiscal 2016, please refer to “Announcement on the Difference between the Forecast and Actual Results for the First Half of Fiscal 2016 and Revision to Earnings Forecast for Fiscal 2016, ending March 31, 2017” dated October 31, 2016.

**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: No
  - Other changes: No
  - Changes in accounting estimates: No
  - Restatement: No

(4) Number of issued shares

	FY 2015	FY2016 1H
Common stock (number of issued shares)	364,364,210	364,364,210
Treasury stock (number of shares)	877,934	2,102,514
Average number of shares in 1H	362,902,081	363,077,347

Kobe Steel carried out a share consolidation at a ratio of 10 shares to 1 share effective on October 1, 2016. Therefore, these numbers take into account this share consolidation.

**Explanation on the Appropriate Use of the Forecast and Other Special Items**

The above forecast is based on currently available information as of today. Actual results may differ considerably due to various changeable conditions in the future. For preconditions on the forecast and other related factors, please refer to page 5.

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.

## 1. Qualitative Information on Consolidated Operating Results

Japan's economy in the first half of fiscal 2016 (April 1-September 30, 2016) was at a standstill against a backdrop of weak corporate capital investment and personal consumption, although the employment situation showed improvement. In overseas economies, the United States and Europe continued to gradually recover. Meanwhile, China and Southeast Asia saw some signs of recovery, but still continued to remain sluggish.

In this economic environment at the Kobe Steel Group, the sales volume of steel products (in terms of tons sold) decreased compared with the same period last year. Although domestic sales volume was similar to the same period last year, exports declined. The sales volume of aluminum rolled products increased compared with the same period last year. The sales volume of copper rolled products was similar to the same period last year. Unit sales of hydraulic excavators decreased compared with the same period last year in Japan, China, and other countries.

As a result, consolidated sales in the first half of fiscal 2016 decreased 113.4 billion yen, compared with the same period last year, to 815.1 billion yen. Operating income decreased 16.0 billion yen, compared with the same period last year, to 30.9 billion yen. Ordinary income\* decreased 20.7 billion yen, compared with the same period last year, to 12.3 billion yen. Net income attributable to owners of the parent decreased 9.3 billion yen, compared with the same period last year, to 4.1 billion yen.

Conditions in each of the business segments for the first half of fiscal 2016 follow below.

### Iron & Steel

The sales volume of steel products (in terms of tons sold) decreased compared with the same period last year. Although the sales volume in Japan mainly to the automotive and shipbuilding sectors was similar to the same period last year, exports declined. Sales prices went down, compared with the same period last year, due to lower primary raw material prices and the high yen.

In addition, the relining of the No.3 Blast Furnace at Kakogawa Works has been underway since the end of September 2016.

Sales of steel castings and forgings decreased, compared with the same period last year, due to lower demand in China's shipbuilding sector, although demand was firm from Japan's shipbuilding sector. Sales of titanium products increased compared with the same period last year, owing to higher sales volume although impacted by the high yen.

As a result, segment sales in the first half of fiscal 2016 decreased 14.2 percent, compared with the same period last year, to 290.3 billion yen. Ordinary loss\* worsen 8.6 billion yen, compared with the same period last year, to ordinary loss of 9.8 billion yen.

### Welding

The sales volume of welding materials decreased compared with the same period last year. In addition to delayed recovery in demand in Japan's construction sector and energy sector, demand remained sluggish in China and America. Sales of welding systems increased, compared with the same period last year, owing to continued firm demand from the domestic construction sector.

As a result, consolidated segment sales in the first half of fiscal 2016 declined 9.4 percent, compared with the same period last year, to 42.2 billion yen. Ordinary income\* decreased 0.4 billion yen, compared with the same period last year, to 3.8 billion yen.

### Aluminum & Copper

The sales volume of aluminum rolled products increased compared with the same period last year, as demand remained firm for can stock for beverage cans and from the automotive sector.

The sales volume of copper rolled products increased compared with the same period last year. Demand was similar to the same period last year for copper strips used in automotive terminals and semiconductors, while demand was firm for copper tubes used in air conditioners.

As a result, consolidated segment sales in the first half of fiscal 2016 decreased 8.6 percent, compared with the same period last year, to 162.9 billion yen. Although sales volume was firm, this segment was impacted by a fall in the market for aluminum and copper ingots. Ordinary income\* decreased 2.8 billion yen, compared with the same period last year, to 6.5 billion yen, affected by a worsening in inventory valuation from the fall in raw material prices.

### **Machinery**

Due to sluggish demand in the energy-related sector and the impact of the high yen, consolidated orders in the first half of fiscal 2016 decreased 24.1 percent, compared with the same period last year, to 55.8 billion yen. The consolidated backlog of orders at the end of the first half of fiscal 2016 came to 124.6 billion yen.

Consolidated segment sales in the first half of fiscal 2016 declined 11.4 percent, compared with the same period last year, to 72.0 billion yen, due to lower demand in the energy-related sector. Ordinary income\* increased 0.9 billion yen, compared with the same period last year, to 3.7 billion yen, due to improved profits owing to cost reduction.

### **Engineering**

Consolidated orders in the first half of fiscal 2016 decreased 9.5 percent, compared with the same period last year, which saw an order for an urban transit system, to 80.6 billion yen, despite orders for a direct reduced ironmaking plant overseas and a waste treatment plant in Japan. The consolidated backlog of orders at the end of the first half of fiscal 2016 stood at 146.8 billion yen.

Consolidated segment sales in the first half of fiscal 2016 decreased 13.6 percent, compared with the same period last year, to 49.5 billion yen, centered on lower sales of direct reduced ironmaking plants. Ordinary income\* decreased 2.6 billion yen, compared with the same period last year, to 0.0 billion yen.

### **Construction Machinery**

Unit sales of hydraulic excavators decreased compared with the same period last year, due to lower demand in Japan and continued sluggish demand in China, where Kobelco undertook marketing activities with stricter sales terms. Unit sales of crawler cranes also declined, compared with the same period last year, due to lower demand mainly in Southeast Asia.

As a result, consolidated segment sales in the first half of fiscal 2016 decreased 13.9 percent, compared with the same period last year, to 156.1 billion yen. Ordinary income\* decreased 2.5 billion yen, compared with the same period last year, to an ordinary loss\* of 0.5 billion yen, due to a deterioration of profits from the fewer number of units sold and the high yen.

### **Electric Power**

The amount of electricity sold was at the same level compared with the same period last year. However, due to fuel cost adjustment, the unit price of electricity decreased compared with the same period last year.

As a result, consolidated segment sales in the first half of fiscal 2016 decreased 8.5 percent, compared with the same period last year, to 35.5 billion yen. Ordinary income\* increased 0.2 billion yen, compared with the same period last year, to 8.3 billion yen, owing to lower maintenance costs.

### **Other Businesses**

At Shinko Real Estate Co., Ltd., the leasing business remained firm, while the residential property sales business saw a decrease in the number of handovers. At Kobelco Research Institute, Inc., orders decreased in the testing and research business for the automotive sector and for target materials used in flat panel displays.

Due to these conditions, consolidated sales of the Other Businesses segment in the first half of fiscal 2016 decreased 12.4 percent, compared with the same period last year, to 31.2 billion yen. Ordinary income\* decreased 1.3 billion yen, compared with the same period last year, to 2.0 billion yen.

## 2. Qualitative Information on Consolidated Earnings Forecast

Japan's economy remains at a standstill, and on the whole future prospects are unclear. In overseas economies, the United States and Europe are expected to continue to gradually recover. Although China and Southeast Asia show some signs of recovery, future prospects are unclear.

In light of these circumstances, Kobe Steel forecasts the following conditions in its business segments for the third quarter of fiscal 2016 (October 1-December 31, 2016) and beyond.

### Iron & Steel

For steel products, weak demand in the shipbuilding sector is a concern. In addition, coking coal prices have increased sharply. While keeping a close watch on future trends, Kobe Steel is making efforts to pass this increase on to sales prices.

Weak demand for steel castings and forgings in the shipbuilding sector and weak demand for titanium products for desalination plants are a concern.

### Welding

Demand for welding systems used in the construction sector in Japan is anticipated to remain firm. However, for welding materials, lower demand and fierce competition in domestic and overseas markets are a concern.

### Aluminum & Copper

Aluminum rolled products are anticipated to be impacted by lower sales volume of aluminum can stock for beverage cans and lower demand for aluminum disks, although demand remains firm in the automotive sector. Demand for copper strips and copper tubes are expected to be similar to the first half of fiscal 2016.

### Machinery

Energy-related demand is forecast to remain low and the stiff competitive environment is expected to continue.

### Engineering

In the nuclear power-related field, demand for the treatment of contaminated material is expected to continue. Public investment in the waste treatment-related field and the water treatment-related field is anticipated to continue at current levels for the present time. In the ironmaking plant field, the stiff competitive environment is expected to continue due to an easing in the world supply and demand for steel products.

### Construction Machinery

Domestic demand for the rental business is expected to show signs of recovery. In overseas markets, although China is showing signs of demand recovery, Kobelco will continue to undertake marketing activities with stricter sales terms.

### Electric Power

The Electric Power segment will continue efforts for the stable wholesale supply of electricity.

### Other Businesses

At Shinko Real Estate Co., Ltd., both the residential property sales business and leasing business are anticipated to remain firm. At Kobelco Research Institute, Inc., there is concern over orders decreasing in the testing and research business for the automotive sector and for target materials used in flat panel displays.

Based on these factors, Kobe Steel forecasts consolidated net sales of approximately 1.69 trillion yen for fiscal 2016 (ending March 31, 2017). Ordinary income\* is anticipated to be approximately 10.0 billion yen. Net income attributable to owners of the parent are forecast at approximately 0 billion yen.

#### \* Definition of Ordinary Income (Loss)

Ordinary income (loss) under accounting principles generally accepted in Japan (Japanese GAAP) is a category of income (loss) that comes after operating income (expenses) and non-operating income (expenses), but before extraordinary income and loss. It is also called "pretax recurring profit" or simply "pretax profit."

# CONSOLIDATED FINANCIAL STATEMENTS

## (1) Consolidated Balance Sheets

(In millions of yen)

<b>ASSETS</b>	<b>FY2015</b>	<b>FY2016 1st Half</b>
	<b>Ended Mar. 31, 2016</b>	<b>Ended Sep. 30, 2016</b>
<b>Current Assets</b>		
Cash and deposits	155,021	188,321
Notes and accounts receivable	323,849	264,310
Securities	31,000	45,500
Merchandise and finished goods	168,383	158,458
Work-in-process	125,044	127,955
Raw materials and supplies	133,596	130,289
Other	113,883	101,515
Allowance for doubtful accounts	(3,899)	(3,172)
Total current assets	<u>1,046,879</u>	<u>1,013,178</u>
<b>Fixed Assets</b>		
<b>Property, plant and equipment</b>		
Buildings and structures	281,105	276,468
Machinery and equipment	390,887	375,787
Land	194,591	194,599
Other	60,246	83,313
Total property, plant and equipment	<u>926,830</u>	<u>930,168</u>
<b>Intangible fixed assets</b>	19,470	18,455
<b>Investments and other assets</b>		
Investments in securities	155,913	150,136
Other	148,142	143,725
Allowance for doubtful accounts	(36,101)	(35,009)
Total investment and other assets	<u>267,954</u>	<u>258,853</u>
Total fixed assets	<u>1,214,255</u>	<u>1,207,477</u>
<b>Total assets</b>	<u>2,261,134</u>	<u>2,220,655</u>

<b>LIABILITIES</b>	<b>FY2015</b>	<b>FY2016 1st Half</b>
	<b>Ended Mar. 31, 2016</b>	<b>Ended Sep. 30, 2016</b>
<b>Current liabilities</b>		
Notes and accounts payable	360,802	336,241
Short-term borrowings	221,937	186,694
Current portion of Bonds	35,000	35,000
Income and enterprise taxes payable	5,346	5,058
Provisions	47,760	44,171
Other	142,818	130,937
Total current liabilities	<u>813,665</u>	<u>738,103</u>
<b>Long-term liabilities</b>		
Bonds and notes	176,000	176,000
Long-term borrowings	356,492	415,949
Net defined benefit liability	77,165	76,110
Provisions	17,411	16,831
Other	74,905	74,305
Total long-term liabilities	<u>701,975</u>	<u>759,197</u>
<b>Total liabilities</b>	<u>1,515,641</u>	<u>1,497,301</u>
<b>Net Assets</b>		
<b>Stockholders' equity</b>		
Common stock	250,930	250,930
Capital surplus	103,557	103,537
Retained earnings	354,719	358,833
Treasury stock, at cost	(1,556)	(2,655)
Total stockholders' equity	<u>707,651</u>	<u>710,646</u>
<b>Accumulated other comprehensive income</b>		
Unrealized gains on securities, net of taxes	8,255	6,000
Unrealized losses on hedging derivatives, net of taxes	(7,929)	(10,161)
Land revaluation differences, net of taxes	(3,406)	(3,406)
Foreign currency translation adjustments	13,900	(4,214)
Remeasurements of defined benefit plans, net of taxes	(26,465)	(25,969)
Total accumulated other comprehensive income	<u>(15,645)</u>	<u>(37,751)</u>
<b>Non-controlling interests</b>	<u>53,486</u>	<u>50,460</u>
<b>Total net assets</b>	<u>745,492</u>	<u>723,354</u>
<b>Total liabilities and net assets</b>	<u>2,261,134</u>	<u>2,220,655</u>

## (2) Consolidated Statements of Income

(In millions of yen)

	<b>FY2015 1st Half</b>	<b>FY2016 1st Half</b>
	<b>Ended Sep. 30, 2015</b>	<b>Ended Sep. 30, 2016</b>
<b>Net sales</b>	928,629	815,130
<b>Cost of sales</b>	782,117	691,832
<b>Gross profit</b>	146,511	123,298
<b>Selling, general and administrative expenses</b>	99,446	92,302
<b>Operating income</b>	47,065	30,995
<b>Non-operating income</b>		
Interest income	1,997	1,257
Dividend income	2,039	2,188
Reimbursement of seconded employees' salaries	2,505	2,175
Equity in income of equity method companies	—	648
Other	6,168	4,202
Total non-operating income	12,710	10,472
<b>Non-operating expenses</b>		
Interest expense	7,442	6,585
Seconded employees' salaries	5,846	5,444
Equity in loss of equity method companies	936	—
Other	12,467	17,117
Total non-operating expenses	26,693	29,147
<b>Ordinary income</b>	33,082	12,320
<b>Extraordinary loss</b>		
Loss on write-down of investment securities	6,205	—
Loss on business of subsidiaries and associates	3,254	—
Total extraordinary loss	9,459	—
<b>Income before income taxes and non-controlling interests</b>	23,622	12,320
<b>Income taxes</b>		
Current	9,136	4,647
Deferred	4,273	2,139
Total income taxes	13,409	6,787
<b>Income before non-controlling interests</b>	10,213	5,532
<b>Net income (loss) attributable to non-controlling interests</b>	(3,215)	1,423
<b>Net income attributable to owners of the parent</b>	13,428	4,109

### (3) Consolidated Statements of Comprehensive Income

(In millions of yen)

	<b>FY2015 1st Half</b>	<b>FY2016 1st Half</b>
	<b>Ended Sep. 30, 2015</b>	<b>Ended Sep. 30, 2016</b>
<b>Income before non-controlling interests</b>	10,213	5,532
<b>Other comprehensive income (loss)</b>		
Unrealized gains or losses on securities, net of taxes	(12,131)	(2,214)
Unrealized gains or losses on hedging derivatives, net of taxes	(1,527)	(2,207)
Foreign currency translation adjustments	(1,899)	(19,734)
Remeasurements of defined benefit plans, net of taxes	(191)	582
Share of other comprehensive losses related to equity method companies	(448)	(2,369)
Total other comprehensive income (loss)	(16,198)	(25,944)
<b>Comprehensive Income (loss)</b>	<b>(5,985)</b>	<b>(20,411)</b>
Breakdown of total comprehensive income (loss) attributed to:		
Stockholders of the parent interests	(1,111)	(17,997)
Non-controlling interests	(4,873)	(2,413)

#### (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 Half of Fiscal 2016

(April 1 – September 30, 2016)

### Consolidated Operating Results for First Half of Fiscal 2016 (In billions of yen)

	FY2015 1H	FY2016 1H	% change
Net sales	928.6	815.1	(12.2%)
Operating income	47.0	30.9	(34.1%)
Ordinary income	33.0	12.3	(62.8%)
Extraordinary loss	(9.4)	---	---
Net income attributable to owners of the parent	13.4	4.1	(69.4%)

### Fiscal 2016 Consolidated Forecast (In billions of yen)

	FY2015	FY2016			FY2016 Previous Forecast (Jul. 29, 2016)
		1st Half	2nd Half Forecast	Full Year Forecast	
Net sales	1,822.8	815.1	874.9	1,690.0	1,730.0
Operating income	68.4	30.9	14.1	45.0	50.0
Ordinary income	28.9	12.3	(2.3)	10.0	20.0
Extraordinary loss	(39.5)	---	---	---	---
Net income (loss) attributable to owners of the parent	(21.5)	4.1	(4.1)	0	10.0

**Interim Dividend:** None

### **Fiscal 2016 First Half**

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

		FY2015 1H	FY2016 1H	% change
Iron & Steel	Sales	338.5	290.3	(14.2%)
	Ordinary loss	(1.2)	(9.8)	---
Welding	Sales	46.6	42.2	(9.4%)
	Ordinary income	4.3	3.8	(10.9%)
Aluminum & Copper	Sales	178.3	162.9	(8.6%)
	Ordinary income	9.4	6.5	(30.5%)
Machinery	Sales	81.2	72.0	(11.4%)
	Ordinary income	2.8	3.7	32.9%
Engineering	Sales	57.4	49.5	(13.6%)
	Ordinary income	2.6	0.0	(99.6%)
Construction Machinery	Sales	181.2	156.1	(13.9%)
	Ordinary income (loss)	1.9	(0.5)	---
Electric Power	Sales	38.8	35.5	(8.5%)
	Ordinary income	8.1	8.3	2.8%
Other Businesses	Sales	35.7	31.2	(12.4%)
	Ordinary income	3.3	2.0	(39.3%)
Adjustment	Sales	(29.4)	(25.0)	---
	Ordinary income (loss)	1.6	(1.8)	---
Total	Sales	928.6	815.1	(12.2%)
	Ordinary income	33.0	12.3	(62.8%)

\* Figures of new segments for fiscal 2015 are reclassified from old segments for comparison with fiscal 2016.

## (2) Production, Sales & Orders

### 1. Steel Products (Non-consolidated)

#### Production & Sales Volume (In millions of metric tons)

	FY2015 1st Half	FY2016 1st Half	% change
Crude steel	3.67	3.84	4.6%
Sales volume	2.97	2.92	(1.7%)
Export ratio (value basis)	34.2%	29.5%	---

#### Unit Sales (In yen per metric ton)

	FY2015 1st Half	FY2016 1st Half	% change
Domestic & export average	78,700	68,000	(13.6%)

### 2. Aluminum & Copper Rolled Products (Non-consolidated, in thousands of metric tons)

#### Sales Volume

	FY2015			FY2016 1st Half
	1st Half	2nd Half	Full Year	
Aluminum rolled products	173	172	345	186
Copper sheet and strip	25	24	49	26
Copper tube*	42	43	85	45

\*Consolidated

### 3. Machinery Business (Consolidated, in billions of yen)

#### Orders

	FY2015			FY2016 1st Half
	1st Half	2nd Half	Full Year	
Domestic	26.1	27.0	53.2	26.9
Overseas	47.4	39.8	87.2	28.9
Total orders	73.6	66.8	140.4	55.8

#### Backlog of Orders (As of the end of each period)

	FY2015		FY2016 1st Half
	1st Half	2nd Half	
Domestic	41.5	37.7	37.8
Overseas	97.6	96.1	86.8
Total orders	139.2	133.8	124.6

### 4. Engineering Business (Consolidated, in billions of yen)

#### Orders

	FY2015			FY2016 1st Half
	1st Half	2nd Half	Full Year	
Domestic	47.1	35.1	82.2	54.6
Overseas	42.0	4.9	46.9	26.0
Total orders	89.1	40.0	129.1	80.6

#### Backlog of Orders (As of the end of each period)

	FY2015		FY2016 1st Half
	1st Half	2nd Half	
Domestic	103.5	80.5	98.4
Overseas	49.2	40.9	48.4
Total orders	152.7	121.4	146.8

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

**Comparison of Fiscal 2015 1st Half and Fiscal 2016 1st Half**

	FY2015 1st Half	FY2016 1st Half	Amount of Decrease
Ordinary income	33.0	12.3	(20.7)

Factors Increasing Profits		Factors Decreasing Profits	
Raw material prices	17.5	Production & shipments	(25.5)
Overall cost reduction	2.0	Effect of aluminum & copper inventory valuation*	(4.0)
Effect of changes in foreign exchange rates on iron & steel business	2.5	Consolidated subsidiaries & equity method equity-valued affiliates	(10.0)
		Other	(3.2)
Total	22.0	Total	(42.7)

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

**Fiscal 2016 Forecast**

**(1) Consolidated Sales & Ordinary Income (loss) for FY2016 by Segment** (In billions of yen)

		FY2015	FY2016			FY2016 Previous Forecast (Jul. 29)
			1st half	2nd half Forecast	Full year Forecast	
Iron & Steel	Sales	665.8	290.3	319.7	610.0	615.0
	Ordinary loss	(14.9)	(9.8)	(20.2)	(30.0)	(20.0)
Welding	Sales	92.2	42.2	38.8	81.0	83.0
	Ordinary income	8.1	3.8	2.7	6.5	7.0
Aluminum & Copper	Sales	345.4	162.9	157.1	320.0	330.0
	Ordinary income	15.1	6.5	3.5	10.0	12.0
Machinery	Sales	159.0	72.0	85.0	157.0	160.0
	Ordinary income	6.7	3.7	0.8	4.5	4.0
Engineering	Sales	131.7	49.5	75.5	125.0	127.0
	Ordinary income	4.6	0.0	2.5	2.5	3.0
Construction Machinery	Sales	336.2	156.1	148.9	305.0	315.0
	Ordinary loss	(11.9)	(0.5)	(0.5)	(1.0)	(1.0)
Electric Power	Sales	76.7	35.5	34.5	70.0	70.0
	Ordinary income	17.4	8.3	6.7	15.0	15.0
Other Businesses	Sales	74.5	31.2	44.8	76.0	77.0
	Ordinary income	7.3	2.0	5.0	7.0	7.5
Adjustment	Sales	(58.9)	(25.0)	(29.0)	(54.0)	(47.0)
	Ordinary loss	(3.6)	(1.8)	(2.7)	(4.5)	(7.5)
Total	Sales	1,822.8	815.1	874.9	1,690.0	1,730.0
	Ordinary income (loss)	28.9	12.3	(2.3)	10.0	20.0

\* Figures of new segments for fiscal 2015 are reclassified from old segments for comparison with fiscal 2016.

**(2) Production and Sales of Steel Products** (Nonconsolidated)**Production and Sales Volume** (In millions of metric tons)

	FY2015	FY2016			FY2016 Previous Forecast (Jul. 29)
		1st Half	2nd Half Forecast	Full Year Forecast	
Crude steel	7.48	3.84	Approx. 3.35	Approx. 7.20	Approx. 7.20
Sales volume	6.00	2.92	Approx. 3.05	Approx. 6.00	Approx. 6.00
Export ratio (value basis)	32.2%	29.5%	Approx. 29%	Approx. 29%	Approx. 29%

**(3) Factors Affecting Ordinary Income** (Consolidated, in billions of yen)**Comparison of FY2016 1st Half and FY2016 2nd Half Forecast**

	FY2016 1st Half	FY2016 2nd Half Forecast	Amount of Decrease
Ordinary income	12.3	(2.3)	(14.6)

Factors Increasing Profits		Factors Decreasing Profits	
Production & shipments	5.0	Raw material prices	(20.5)
Effect of steel inventory valuation*	7.5	Overall costs	(5.5)
Effect of aluminum & copper inventory valuation*	3.0	Other	(7.6)
Consolidated subsidiaries & equity method affiliates	3.5		
Total	19.0	Total	(33.6)

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

**Comparison of FY2015 Results and FY2016 Forecast**

	FY2015	FY2016 Forecast	Amount of Decrease
Ordinary income	28.9	10.0	(18.9)

Factors Increasing Profits		Factors Decreasing Profits	
Effect of steel inventory valuation*	7.0	Production & shipments	(26.0)
Consolidated subsidiaries & equity method affiliates	3.5	Raw material prices	(2.5)
Effect of changes in foreign exchange rates on iron & steel business	6.0	Effect of aluminum & copper inventory valuation*	(1.5)
		Other	(5.4)
Total	16.5	Total	(35.4)

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

**Comparison of Current Forecast and July 29 Forecast for FY2016**

	July 29 Forecast	Current Forecast	Amount of Decrease
Ordinary income	20.0	10.0	(10.0)

Factors Increasing Profits		Factors Decreasing Profits	
Production & shipments	7.0	Raw material prices	(15.5)
Overall cost	4.0	Consolidated subsidiaries & equity method affiliates	(3.0)
		Other	(2.5)
Total	11.0	Total	(21.0)

\* 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**

	FY2015			FY2016		
	1st Half	2nd Half	Full Year	1st Half	2nd Half Forecast	Full Year Forecast
Free cash flow	17.7	(35.7)	(18.0)	13.1	(63.1)	(50.0)

(Excludes cash flow from IPP project financing)

**Outside Debt** (As of the end of each period)

	FY2015		FY2016	
	1st Half	2nd Half	1st Half	2nd Half Forecast
Interest-bearing debt*	681.1	776.0	801.4	710.0
D/E ratio (times) **	0.91	1.10	1.19	Approx. 1.00
Excluding advanced borrowings of 90 billion yen in Mar. 2016		0.97		

\* Excludes debt from IPP project financing.

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

**(5) Exchange Rates**

	FY2015	FY2016	
		1st Half	2nd Half Forecast
1 U.S. dollar to yen	120 yen	105 yen	100 yen
1 Chinese yuan to yen	18.9 yen	15.9 yen	15.0 yen
1 Euro to yen	133 yen	118 yen	110 yen

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

	FY2015	FY2016		
		1st Half	2nd Half Forecast	Full Year Forecast
Capital expenditures (accrual basis)	109.9	66.2	108.8	175.0
Capital expenditures (payment basis)	99.1	68.3	96.7	165.0
Depreciation	94.8	46.7	53.3	100.0

## FOR REFERENCE

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

		FY2015							FY2016 Forecast				
		1st Half			2nd Half			Total	1st Half			2nd Half	Total
		1Q	2Q	subtotal	3Q	4Q	subtotal		1Q	2Q	subtotal		
Iron & Steel	Sales	172.3	166.2	338.5	162.7	164.5	327.2	665.8	144.2	146.0	290.3	319.7	610.0
	Ordinary income (loss)	2.6	(3.8)	(1.2)	(1.9)	(11.7)	(13.7)	(14.9)	(2.8)	(6.9)	(9.8)	(20.2)	(30.0)
Welding	Sales	23.2	23.4	46.6	22.2	23.3	45.5	92.2	20.6	21.6	42.2	38.8	81.0
	Ordinary income	2.0	2.2	4.3	1.8	1.9	3.8	8.1	1.9	1.9	3.8	2.7	6.5
Aluminum & Copper	Sales	92.8	85.5	178.3	84.2	82.8	167.0	345.4	85.1	77.7	162.9	157.1	320.0
	Ordinary income	6.2	3.1	9.4	2.4	3.1	5.6	15.1	3.0	3.4	6.5	3.5	10.0
Machinery	Sales	40.5	40.7	81.2	32.2	45.4	77.7	159.0	37.9	34.0	72.0	85.0	157.0
	Ordinary income	1.6	1.1	2.8	2.5	1.4	3.9	6.7	2.0	1.6	3.7	0.8	4.5
Engineering	Sales	24.8	32.5	57.4	26.6	47.6	74.3	131.7	24.3	25.1	49.5	75.5	125.0
	Ordinary income (loss)	(0.0)	2.6	2.6	(0.3)	2.4	2.0	4.6	0.6	(0.6)	0.0	2.5	2.5
Construction Machinery	Sales	85.8	95.3	181.2	76.7	78.2	154.9	336.2	71.4	84.6	156.1	148.9	305.0
	Ordinary income (loss)	2.3	(0.3)	1.9	(8.5)	(5.4)	(13.9)	(11.9)	(4.0)	3.4	(0.5)	(0.5)	(1.0)
Electric Power	Sales	16.8	21.9	38.8	16.6	21.2	37.8	76.7	17.2	18.3	35.5	34.5	70.0
	Ordinary income	3.0	5.0	8.1	3.9	5.3	9.3	17.4	3.8	4.4	8.3	6.7	15.0
Other Businesses	Sales	18.1	17.6	35.7	16.1	22.6	38.8	74.5	14.8	16.4	31.2	44.8	76.0
	Ordinary income	1.9	1.3	3.3	1.2	2.8	4.0	7.3	0.7	1.2	2.0	5.0	7.0
Adjustment	Sales	(14.5)	(14.8)	(29.4)	(12.6)	(16.8)	(29.4)	(58.9)	(11.4)	(13.5)	(25.0)	(29.0)	(54.0)
	Ordinary income (loss)	1.8	(0.1)	1.6	(1.1)	(4.1)	(5.2)	(3.6)	(0.9)	(0.9)	(1.8)	(2.7)	(4.5)
Total	Sales	460.0	468.5	928.6	424.9	469.2	894.1	1,822.8	404.4	410.6	815.1	874.9	1,690.0
	Ordinary income (loss)	21.8	11.2	33.0	(0.0)	(4.1)	(4.1)	28.9	4.5	7.7	12.3	(2.3)	10.0
Net income (loss) attributable to owners of the parent		11.8	1.5	13.4	(27.2)	(7.7)	(34.9)	(21.5)	(2.0)	6.1	4.1	(4.1)	0.0

\* Figures of new segments for fiscal 2015 are reclassified from old segments for comparison with fiscal 2016.

## Quarterly Production and Sales of Steel Products (Nonconsolidated)

### Production & Sales Volume (In millions of metric tons)

	FY2015						
	1st Half			2nd Half			Total
	1Q	2Q	Subtotal	3Q	4Q	Subtotal	
Crude steel	1.84	1.83	3.67	1.89	1.92	3.81	7.48
Sales volume	1.48	1.49	2.97	1.47	1.56	3.03	6.00
Export ratio (value basis)	34.8%	33.6%	34.2%	29.2%	30.8%	30.0%	32.2%

	FY2016 Forecast				
	1st Half			2nd Half	Total
	1Q	2Q	Subtotal		
Crude steel	1.94	1.90	3.84	Approx. 3.35	Approx. 7.20
Sales volume	1.44	1.48	2.92	Approx. 3.05	Approx. 6.00
Export ratio (value basis)	29.9%	29.0%	29.5%	Approx. 29.0%	Approx. 29.0%

### Unit Sales Price (In yen per metric ton)

	FY2015						
	1st Half			2nd Half			Total
	1Q	2Q	Subtotal	3Q	4Q	Subtotal	
Domestic & export average	80,500	77,000	78,700	75,400	68,400	71,800	75,200

	FY2016		
	1st Half		
	1Q	2Q	Subtotal
Domestic & export average	69,000	67,100	68,000

#### 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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