

Kobe Steel's Consolidated Financial Results for First Nine Months of Fiscal 2016 (April 1 – December 31, 2016)

February 2, 2017

Company name:	Kobe Steel, Ltd.
Code number:	5406
Stock exchanges 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:	February 7, 2017
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 Nine Months of Fiscal 2016 (April 1 – December 31, 2016)

(1) Consolidated operating results

(In millions of yen)	FY2015 3Q	% change ¹	FY2016 3Q	% change ¹
Net sales	1,353,560	(1.5%)	1,217,186	(10.1%)
Operating income (loss)	56,621	(35.7%)	(4,246)	---
Ordinary income (loss)	33,052	(57.5%)	(26,002)	---
Net income (loss) attributable to owners of the parent	(13,850)	---	(36,478)	---
Net income (loss) per share ²	(38.14 yen)	---	(100.54 yen)	---
Diluted net income per share	---	---	---	---

Comprehensive loss in FY2015 3Q: (48,743 million yen) FY2016 3Q: (42,854 million yen)

¹ Indicates percentage of change from the corresponding period of the previous fiscal year

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.

(2) Consolidated financial position

(In millions of yen)	FY2015	FY2016 3Q
Total assets	2,261,134	2,207,913
Net assets	745,492	701,032
Net worth ratio	30.6%	29.4%

Stockholders' equity at the end of FY2015: 692,005 million yen December 31, 2016: 649,595 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	---	---	---	0.00	0.00

Revision to dividend forecast in FY2016 3Q: Yes

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

For more information about revision to dividend forecast for fiscal 2016, please refer to "Announcement on Revision to Earnings Forecast and Dividend Forecast for Fiscal 2016, ending March 31, 2017" dated February 2, 2017.

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

(In millions of yen)	FY2016	% change ¹
Net sales	1,690,000	(7.3%)
Operating income	5,000	(92.7%)
Ordinary income (loss)	(30,000)	---
Net income (loss) attributable to owners of the parent	(40,000)	---
Net income (loss) per share ²	(110.29 yen)	---

¹ Indicates percentage of change from the previous fiscal year

²Kobe 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 3Q: Yes

For more information about revision to consolidated forecast fiscal in 2016, please refer to “Announcement on Revision to Earnings Forecast and Dividend Forecast for Fiscal 2016, ending March 31, 2017” dated February 2, 2017.

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: Yes
 - Restatement: No

(4) Number of issued shares

	FY2015	FY2016 3Q
Common stock (number of issued shares)	364,364,210	364,364,210
Treasury stock (number of shares)	877,934	2,106,311
Average number of shares in 3Q	363,133,692	362,804,702

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 nine months of fiscal 2016 (April 1-December 31, 2016) was at a standstill against a backdrop of weak corporate capital investment and personal spending, although the employment situation showed improvement. In overseas economies, the United States and Europe continued to gradually recover. Meanwhile, China and parts of Southeast Asia continued to remain sluggish with a slowdown in growth rates.

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 to the automotive sector was firm, export volume declined. The sales volume of aluminum rolled products increased compared with the same period last year, owing to firm demand 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, due to higher demand for automotive terminals. Unit sales of hydraulic excavators decreased compared with the same period last year, due to lower demand in Japan and to Kobelco Construction Machinery undertaking marketing activities in China with stricter sales terms.

As a result, consolidated sales for the first nine months of fiscal 2016 decreased 136.3 billion yen, compared with the same period last year, to 1,217.1 billion yen. Operating income decreased 60.8 billion yen, compared with the same period last year, to operating loss of 4.2 billion yen due to the posting of a one-time expense for the refurbishment of a blast furnace and the additional posting of an allowance for retained receivables in the Construction Machinery segment's China business and other factors. Ordinary income* decreased 59.0 billion yen, compared with the same period last year, to ordinary loss of 26.0 billion yen. Net loss attributable to owners of the parent worsened by 22.6 billion yen, compared with the same period last year, to 36.4 billion yen.

Conditions in each of the business segments for the first nine months 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 domestic sales volume to the automotive sector was firm, export volume declined. Sales prices went down, compared with the same period last year, due to the high yen and fall in primary raw material prices until the second quarter of fiscal 2016.

In addition, the refurbishment of a blast furnace at Kakogawa Works, which began in late September 2016, was completed in late December. The blast furnace was restarted on schedule.

Sales of steel castings and forgings decreased, compared with the same period last year, due to a decrease in the overseas shipbuilding sector. Sales of titanium products decreased, compared with the same period last year, due to lower sales volume to plants.

As a result, consolidated segment sales in the first nine months of fiscal 2016 decreased 11.9 percent, compared with the same period last year, to 441.6 billion yen. Ordinary loss* worsened by 21.7 billion yen, compared with the same period last year, to ordinary loss of 24.9 billion yen, due to the fall in sales prices and the posting of a one-time expense for the refurbishment of the blast furnace.

Welding

The sales volume of welding materials decreased compared with the same period last year. In addition to continued delayed recovery in demand from Japan's construction and energy sectors, demand remained sluggish in China and the United States. 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 nine months of fiscal 2016 declined 10.4 percent, compared with the same period last year, to 61.7 billion yen. Ordinary income* decreased 0.6 billion yen, compared with the same period last year, to 5.5 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 rose for copper strips used in automotive terminals, while the sales volume of copper tubes

was firm for air conditioners.

Although sales volume was firm, this segment was impacted by the fall in aluminum and copper ingot prices. As a result, consolidated segment sales in the first nine months of fiscal 2016 decreased 8.6 percent, compared with the same period last year, to 239.9 billion yen. Ordinary income* decreased 1.9 billion yen, compared with the same period last year, to 9.9 billion yen, due to a worsening in inventory valuation from the fall in raw material prices.

Machinery

Due to sluggish demand in energy-related sectors and the impact of the high yen, consolidated orders in the first nine months of fiscal 2016 decreased 25.4 percent, compared with the same period last year, to 81.8 billion yen. The consolidated backlog of orders at the end of the first nine months of fiscal 2016 came to 122.4 billion yen.

Consolidated segment sales in the first nine months of fiscal 2016 declined 8.6 percent, compared with the same period last year, to 103.7 billion yen, due to a decrease in energy-related sectors and other markets. However, ordinary income* increased 0.6 billion yen, compared with the same period last year, to 5.9 billion yen, owing to profit improvement through cost reduction.

Engineering

Consolidated orders in the first nine months of fiscal 2016 increased 13.8 percent, compared with the same period last year, to 117.3 billion yen, owing to a new order in the waste treatment-related business. The consolidated backlog of orders at the end of the first nine months of fiscal 2016 stood at 155.8 billion yen.

Consolidated segment sales in the first nine months of fiscal 2016 decreased 5.2 percent, compared with the same period last year, to 79.6 billion yen, mainly due to lower sales of direct reduced ironmaking plants. Ordinary income* decreased 2.1 billion yen, compared with the same period last year, to 0.1 billion yen.

Construction Machinery

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

As a result, consolidated segment sales in the first nine months of fiscal 2016 decreased 11.3 percent, compared with the same period last year, to 228.7 billion yen. Ordinary loss* worsened by 26.2 billion yen, compared with the same period last year, to ordinary loss* of 32.7 billion yen, due to the additional posting of an allowance for retained receivables in the China business, in addition to profit deterioration 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 a drop in the price of coal for power generation until the second quarter and the high yen, the unit price of electricity decreased compared with the same period last year.

As a result, consolidated segment sales in the first nine months of fiscal 2016 decreased 7.2 percent, compared with the same period last year, to 51.4 billion yen. Ordinary income* decreased 1.5 billion yen, compared with the same period last year, to 10.5 billion yen, impacted by the fuel cost adjustment.

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.

Due to these conditions, consolidated sales of the Other Businesses segment in the first nine months of fiscal 2016 decreased 7.8 percent, compared with the same period last year, to 47.7 billion yen. Ordinary income* decreased 1.6 billion yen, compared with the same period last year, to 2.9 billion yen.

Note: Figures for sales and orders do not include consumption tax.

2. Qualitative Information on Consolidated Earnings Forecast

Japan's economy continues to remain at a standstill on the whole, and future prospects are unclear. In overseas economies, the United States and Europe are anticipated to continue to gradually recover. However, for China and Southeast Asia future prospects continue to be unclear, with a continued slowdown in growth rates..

In light of this economic environment, Kobe Steel revises downward its forecast for operating income, ordinary income (loss), and net income (loss) attributable to owners of the parent for the entire fiscal 2016, due to the additional posting of an allowance for retained receivables in the Construction Machinery segment's China business and other factors.

Dividends

Kobe Steel's basic policy is to provide continuous and stable dividends to its stockholders. Dividends are decided taking into account comprehensive consideration of the Company's financial condition, business performance, future capital needs and other factors. As a result of this comprehensive consideration forecasting net loss attributable to owners of the parent for the full fiscal year and other factors, regrettably Kobe Steel has decided on a policy to forego a year-end dividend for the fiscal 2016.

* 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."

Matters Related to Summary Information (Notes)

Changes in Accounting Policy, Changes in Accounting Estimates, or Restatement

(Change in Estimate for Allowance for Doubtful Accounts)

In posting the allowance for doubtful accounts on retained receivables owned by a sales subsidiary in China in the Construction Machinery segment, Kobe Steel had used a method to calculate the uncollectible amount taking into account the financial condition of the customers.

In the course of considering restructuring measures for the hydraulic excavator business in China due to continued sluggish demand, Kobe Steel began a review on measures for dealers. For dealers who are considered to be trading partners, Kobe Steel strengthened credit management, promoted collection negotiations on retained receivables, formulated a payment plan, and proceeded to select dealers carefully, including restricting and stopping transactions with dealers whose financial condition had deteriorated considerably.

However, Kobe Steel judged that the uncertainty of receivables collection is increasingly growing. Looking at the actual situation that collection would be difficult and prolonged, a repayment plan with a high degree of certainty was not achieved for existing retained receivables.

As a result, from the third quarter of fiscal 2016, Kobe Steel changed to a method that calculates the remaining amount, after deducting the expected recoverable amount by sell-off of collateral assets from retained receivables, as the uncollectible amount.

With this change, operating loss, ordinary loss and net loss attributable to owners of the parent for the first nine months of fiscal 2016 worsened 21,808 million yen.

CONSOLIDATED FINANCIAL STATEMENTS

(1) Consolidated Balance Sheets

(In millions of yen)

ASSETS	FY2015	FY2016 9 Months
	Ended Mar. 31, 2016	Ended Dec. 31, 2016
Current Assets		
Cash and deposits	155,021	171,459
Notes and accounts receivable	323,849	254,020
Securities	31,000	40,605
Merchandise and finished goods	168,383	150,301
Work-in-process	125,044	138,726
Raw materials and supplies	133,596	135,416
Other	113,883	96,922
Allowance for doubtful accounts	(3,899)	(4,238)
Total current assets	<u>1,046,879</u>	<u>983,214</u>
Fixed Assets		
Property, plant and equipment		
Buildings and structures	281,105	274,521
Machinery and equipment	390,887	377,037
Land	194,591	194,865
Other	60,246	93,404
Total property, plant and equipment	<u>926,830</u>	<u>939,828</u>
Intangible fixed assets	19,470	20,633
Investments and other assets		
Investments in securities	155,913	171,596
Other	148,142	156,004
Allowance for doubtful accounts	(36,101)	(63,364)
Total investment and other assets	<u>267,954</u>	<u>264,237</u>
Total fixed assets	<u>1,214,255</u>	<u>1,224,699</u>
Total assets	<u>2,261,134</u>	<u>2,207,913</u>

LIABILITIES	FY2015	FY2016 9 Months
	Ended Mar. 31, 2016	Ended Dec. 31, 2016
Current liabilities		
Notes and accounts payable	360,802	357,110
Short-term borrowings	221,937	212,692
Current portion of Bonds	35,000	55,000
Income and enterprise taxes payable	5,346	2,847
Provisions	47,760	34,177
Other	142,818	138,197
Total current liabilities	813,665	800,025
Long-term liabilities		
Bonds and notes	176,000	156,000
Long-term borrowings	356,492	380,893
Net defined benefit liability	77,165	78,041
Provisions	17,411	16,463
Other	74,905	75,457
Total long-term liabilities	701,975	706,855
Total liabilities	1,515,641	1,506,880
Net Assets		
Stockholders' equity		
Common stock	250,930	250,930
Capital surplus	103,557	103,537
Retained earnings	354,719	318,246
Treasury stock, at cost	(1,556)	(2,658)
Total stockholders' equity	707,651	670,055
Accumulated other comprehensive income		
Unrealized gains on securities, net of taxes	8,255	21,001
Unrealized losses on hedging derivatives, net of taxes	(7,929)	(9,896)
Land revaluation differences, net of taxes	(3,406)	(3,406)
Foreign currency translation adjustments	13,900	(2,588)
Remeasurements of defined benefit plans, net of taxes	(26,465)	(25,570)
Total accumulated other comprehensive income	(15,645)	(20,459)
Non-controlling interests	53,486	51,437
Total net assets	745,492	701,032
Total liabilities and net assets	2,261,134	2,207,913

(2) Consolidated Statements of Income

(In millions of yen)

	FY2015 9 Months Ended Dec. 31, 2015	FY2016 9 Months Ended Dec. 31, 2016
Net sales	1,353,560	1,217,186
Cost of sales	1,144,251	1,051,906
Gross profit	209,309	165,279
Selling, general and administrative expenses	152,688	169,525
Operating income(loss)	56,621	(4,246)
Non-operating income		
Interest income	2,966	1,814
Dividend income	3,226	3,194
Reimbursement of seconded employees' salaries	3,812	3,302
Equity in income of equity method companies	—	1,649
Other	9,809	6,032
Total non-operating income	19,814	15,993
Non-operating expenses		
Interest expense	10,870	9,863
Seconded employees' salaries	8,567	8,013
Equity in loss of equity method companies	5,072	—
Other	18,873	19,873
Total non-operating expenses	43,383	37,750
Ordinary income(loss)	33,052	(26,002)
Extraordinary loss		
Loss on business of subsidiaries and associates	37,581	—
Loss on write-down of investment securities	2,203	—
Total extraordinary loss	39,784	—
Loss before income taxes and non-controlling interests	(6,732)	(26,002)
Income taxes		
Current	10,761	4,406
Deferred	9,510	4,142
Total income taxes	20,272	8,548
Loss before non-controlling interests	(27,005)	(34,551)
Net income (loss) attributable to non-controlling interests	(13,155)	1,927
Net loss attributable to owners of the parent	(13,850)	(36,478)

(3) Consolidated Statements of Comprehensive Income

(In millions of yen)

	<u>FY2015 9 Months</u> <u>Ended Dec. 31, 2015</u>	<u>FY2016 9 Months</u> <u>Ended Dec. 31, 2016</u>
Loss before non-controlling interests	(27,005)	(34,551)
Other comprehensive income (loss)		
Unrealized gains or losses on securities, net of taxes	(5,480)	12,142
Unrealized gains or losses on hedging derivatives, net of taxes	(3,612)	(1,333)
Foreign currency translation adjustments	(11,846)	(18,278)
Remeasurements of defined benefit plans, net of taxes	(324)	968
Share of other comprehensive gains and losses related to equity r	(473)	(1,801)
Total other comprehensive income (loss)	<u>(21,737)</u>	<u>(8,303)</u>
Comprehensive Income (loss)	<u>(48,743)</u>	<u>(42,854)</u>
Breakdown of total comprehensive income (loss) attributed to:		
Stockholders of the parent interests	(31,895)	(41,292)
Non-controlling interests	(16,847)	(1,561)

(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 Nine Months of Fiscal 2016

(April 1 – December 31, 2016)

Consolidated Operating Results for First Nine Months of Fiscal 2016 (In billions of yen)

	FY2015 3Q	FY2016 3Q	% change
Net sales	1,353.5	1,217.1	(10.1%)
Operating income (loss)	56.6	(4.2)	---
Ordinary income (loss)	33.0	(26.0)	---
Extraordinary loss	(39.7)*	---	---
Net loss attributable to owners of the parent	(13.8)	(36.4)	---

*Loss on business of subsidiaries and associates: (37.5 billion yen)

Loss on write-down of investment securities: (2.2 billion yen)

Fiscal 2016 Consolidated Forecast (In billions of yen)

	FY2015	FY2016 Forecast	FY2016 Previous Forecast (Oct. 31, 2016)
Net sales	1,822.8	1,690.0	1,690.0
Operating income	68.4	5.0	45.0
Ordinary income (loss)	28.9	(30.0)	10.0
Extraordinary loss	(39.5)*	---	---
Net loss attributable to owners of the parent	(21.5)	(40.0)	0.0

*Loss on business of subsidiaries and associates: (37.5 billion yen)

Loss on write-down of investment securities: (2.2 billion yen)

Year-end Dividend for fiscal 2016: None

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

		FY2015		FY2016	
		9 Months Ended Dec.31, 2015	Full Year	9 Months Ended Dec.31, 2016	Full Year Forecast
Iron & Steel	Sales	501.2	665.8	441.6	615.0
	Ordinary loss	(3.1)	(14.9)	(24.9)	(30.0)
Welding	Sales	68.9	92.2	61.7	81.0
	Ordinary income	6.1	8.1	5.5	6.5
Aluminum & Copper	Sales	262.5	345.4	239.9	320.0
	Ordinary income	11.9	15.1	9.9	11.0
Machinery	Sales	113.5	159.0	103.7	153.0
	Ordinary income	5.3	6.7	5.9	5.0
Engineering	Sales	84.0	131.7	79.6	123.0
	Ordinary income	2.2	4.6	0.1	1.0
Construction Machinery	Sales	257.9	336.2	228.7	300.0
	Ordinary loss	(6.5)	(11.9)	(32.7)	(34.0)
Electric Power	Sales	55.4	76.7	51.4	72.0
	Ordinary income	12.0	17.4	10.5	13.5
Other Businesses	Sales	51.8	74.5	47.7	75.0
	Ordinary income	4.5	7.3	2.9	7.0
Adjustment	Sales	(42.1)	(58.9)	(37.6)	(49.0)
	Ordinary income (loss)	0.4	(3.6)	(3.4)	(10.0)
Total	Sales	1,353.5	1,822.8	1,217.1	1,690.0
	Ordinary income (loss)	33.0	28.9	(26.0)	(30.0)

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

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

Production & Sales Volume (In millions of metric tons)

	FY2015		FY2016		FY2016 Previous Forecast (Oct.31)
	9 Months Ended Dec.31, 2015	Full Year	9 Months Ended Dec. 31, 2016	Full Year Forecast	
Crude steel	5.56	7.48	5.27	Approx. 7.20	Approx. 7.20
Sales volume	4.44	6.00	4.40	Approx. 5.90	Approx. 6.00
Export ratio (value basis)	32.6%	32.2%	28.9%	Approx. 29.0%	Approx. 29.0%

Unit Sales Price (In yen per metric ton)

	FY2015		FY2016	
	9 Months Ended Dec.31, 2015	Full Year	9 Months Ended Dec. 31, 2016	Full Year Forecast
Domestic & export average	77,600	75,200	68,300	Approx. 71,000

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

Comparison of FY2015 9 Months and FY2016 9 Months

	FY2015 9 Months Ended Dec. 31, 2015	FY2016 9 Months Ended Dec. 31, 2016	Amount of Decrease
Ordinary income (loss)	33.0	(26.0)	(59.0)

Factors Increasing Profits		Factors Decreasing Profits	
Raw material prices	6.0	Production & shipments	(39.0)
Overall cost reduction	2.0	Effect of aluminum & copper inventory valuation*	(2.0)
Effect of steel inventory valuation*	5.0	Consolidated subsidiaries & equity method affiliates	(34.0)
Effect of changes in foreign exchange rates on iron & steel business	3.5	Other	(0.5)
Total	16.5	Total	(75.5)

* 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 (loss)	28.9	(30.0)	(58.9)

Factors Increasing Profits		Factors Decreasing Profits	
Effect of steel inventory valuation*	18.5	Production & shipments	(24.5)
Effect of changes in foreign exchange rates on iron & steel business	1.5	Raw material prices	(13.0)
		Overall cost	(5.5)
		Effect of aluminum & copper inventory valuation*	(1.0)
		Consolidated subsidiaries & equity method affiliates	(30.5)
		Other	(4.4)
Total	20.0	Total	(78.9)

* 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 FY2016

	Previous Forecast	Current Forecast	Amount of Decrease
Ordinary income (loss)	10.0	(30.0)	(40.0)

Factors Increasing Profits		Factors Decreasing Profits	
Production & shipments	4.5	Raw material prices	(12.5)
Effect of steel inventory valuation*	11.5	Overall cost	(2.0)
Effect of aluminum & copper inventory valuation*	0.5	Consolidated subsidiaries & equity method affiliates	(33.5)
		Effect of changes in foreign exchange rates on iron & steel business	(3.5)
		Other	(5.0)
Total	16.5	Total	(56.5)

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

(4) Cash Flow & Interest-bearing debt (Consolidated, in billions of yen)

Cash Flow

	FY2015	FY2016 Forecast
Operating cash flow	85.8	110.0
Investment cash flow	(103.8)	(150.0)
Free cash flow	(18.0)	(40.0)

(Excludes cash flow from IPP project financing)

Outside Debt (As of the end of each period)

	FY2015	FY2016 Forecast
Interest-bearing debt ¹	776.0	790.0
D/E ratio (times) ²	1.10	Approx. 1.2
	Approx. 0.97 ³	Approx. 1.0 ³

¹ Excludes debt from IPP project financing.

² D/E ratio: Debt (excluding IPP project financing)/stockholders' equity

³ Excludes advanced borrowing (FY2015 : 90.0 billion yen FY2016 Forecast: 95.0 billion yen)

(5) Exchange Rates

	FY2015	FY2016	
		9 Months Ended Dec. 31, 2016	4Q Forecast
1 U.S. dollar to yen	120 yen	107 yen	115 yen
1 Chinese yuan to yen	18.9 yen	16.0 yen	16.0 yen
1Euro to yen	133 yen	118 yen	120 yen

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

	FY2015	FY2016 Forecast
Capital expenditures (accrual basis)	109.9	175.0
Capital expenditures (payment basis)	99.1	165.0
Depreciation	94.8	100.0

FOR REFERENCE

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

		FY2015							FY2016 Forecast							Total
		1st Half			2nd Half			Total	1st Half			2nd Half			Total	
		1Q	2Q	Subtotal	3Q	4Q	Subtotal		1Q	2Q	Subtotal	3Q	4Q	Subtotal		
Iron & Steel	Sales	172.3	166.2	338.5	162.7	164.5	327.2	665.8	144.2	146.0	290.3	151.3	173.4	324.7	615.0	
	Ordinary income (loss)	2.6	(3.8)	(1.2)	(1.9)	(11.7)	(13.7)	(14.9)	(2.8)	(6.9)	(9.8)	(15.0)	(5.2)	(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	19.4	19.4	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	1.6	1.1	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	76.9	80.2	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	3.4	1.1	4.5	11.0	
Machinery	Sales	40.5	40.7	81.2	32.2	45.4	77.7	159.0	37.9	34.0	72.0	31.6	49.4	81.0	153.0	
	Ordinary income (loss)	1.6	1.1	2.8	2.5	1.4	3.9	6.7	2.0	1.6	3.7	2.2	(0.9)	1.3	5.0	
Engineering	Sales	24.8	32.5	57.4	26.6	47.6	74.3	131.7	24.3	25.1	49.5	30.1	43.4	73.5	123.0	
	Ordinary income (loss)	(0.0)	2.6	2.6	(0.3)	2.4	2.0	4.6	0.6	(0.6)	0.0	0.1	0.9	1.0	1.0	
Construction Machinery	Sales	85.8	95.3	181.2	76.7	78.2	154.9	336.2	71.4	84.6	156.1	72.6	71.3	143.9	300.0	
	Ordinary income (loss)	2.3	(0.3)	1.9	(8.5)	(5.4)	(13.9)	(11.9)	(4.0)	3.4	(0.5)	(32.1)	(1.4)	(33.5)	(34.0)	
Electric Power	Sales	16.8	21.9	38.8	16.6	21.2	37.8	76.7	17.2	18.3	35.5	15.9	20.6	36.5	72.0	
	Ordinary income	3.0	5.0	8.1	3.9	5.3	9.3	17.4	3.8	4.4	8.3	2.1	3.1	5.2	13.5	
Other Businesses	Sales	18.1	17.6	35.7	16.1	22.6	38.8	74.5	14.8	16.4	31.2	16.5	27.3	43.8	75.0	
	Ordinary income	1.9	1.3	3.3	1.2	2.8	4.0	7.3	0.7	1.2	2.0	0.8	4.2	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)	(12.6)	(11.4)	(24.0)	(49.0)	
	Ordinary income (loss)	1.8	(0.1)	1.6	(1.1)	(4.1)	(5.2)	(3.6)	(0.9)	(0.9)	(1.8)	(1.6)	(6.6)	(8.2)	(10.0)	
Total	Sales	460.0	468.5	928.6	424.9	469.2	894.1	1,822.8	404.4	410.6	815.1	402.0	472.9	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	(38.3)	(4.0)	(42.3)	(30.0)	
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	(40.5)	(3.6)	(44.1)	(40.0)	

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

Note: Fiscal 2016 fourth-quarter, second-half, and full-year figures are forecasts.

(2) 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	3Q	4Q	Subtotal	
Crude steel	1.94	1.90	3.84	1.43	Approx. 1.90	Approx. 3.35	Approx. 7.20
Sales volume	1.44	1.48	2.92	1.48	Approx. 1.50	Approx. 3.00	Approx. 5.90
Export ratio (value basis)	29.9%	29.0%	29.5%	27.7%	Approx. 30.0%	Approx. 29.0%	Approx. 29.0%

Note: Fiscal 2016 fourth-quarter, second-half, and full-year figures are forecasts.

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 Forecast						
	1st Half			2nd Half			Total
	1Q	2Q	Subtotal	3Q	4Q	Subtotal	
Domestic & export average	69,000	67,100	68,000	69,000	Approx. 79,000	Approx. 74,000	Approx. 71,000

Note: Fiscal 2016 fourth-quarter, second-half, and full-year figures are forecasts.

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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