

Kobe Steel's Consolidated Financial Results for First Quarter of Fiscal 2017 (April 1 – June 30, 2017)

July 28, 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:	August 4, 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 Quarter of Fiscal 2017 (April 1 – June 30, 2017)

(1) Consolidated operating results

(In millions of yen)	FY 2016 1Q	% change ¹	FY 2017 1Q	% change ¹
Net sales	404,460	(12.1%)	435,008	7.6%
Operating income	12,702	(49.7%)	30,302	138.6%
Ordinary income	4,558	(79.1%)	28,254	519.8%
Net income (loss) attributable to owners of the parent	(2,067)	---	25,009	---
Net income (loss) per share ²	(5.68 yen)		69.03 yen	
Diluted net income per share ²	---		---	

Comprehensive income (loss) in FY2016 1Q: (20,472 million yen) FY2017 1Q: 22,859 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)	FY2016	FY 2017 1Q
Total assets	2,310,435	2,337,666
Net assets	729,404	748,512
Net worth ratio	29.2%	29.8%

Stockholders' equity at the end of FY2016: 637,928 million yen June 30, 2017: 696,081 million yen

2. Dividends

Period	Dividends per share in yen ¹				
	1Q	2Q	3Q	4Q	Full Year
FY2016	---	0.00	---	0.00	0.00
FY2017	---	---	---	---	---
FY2017 Forecast	---	10.00	---	---	---

Revision to dividend forecast in FY2017 1Q: Yes

The dividend for the end of fiscal 2017 is undetermined.

For more information about the revision to the dividend forecast for fiscal 2017, please refer to "Announcement on Revision to Earnings Forecast and Interim Dividend Forecast for Fiscal 2017, ending March 31, 2018" dated July 28, 2017.

¹ 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 2017 (April 1, 2017 - March 31, 2018)

(In millions of yen)	FY2017 1st half	% change ¹	FY2017 Full year	% change ¹
Net sales	930,000	14.1%	1,880,000	10.9%
Operating income	40,000	29.1%	80,000	720.6%
Ordinary income	30,000	143.5%	55,000	---
Net income attributable to owners of the parent	25,000	508.4%	35,000	---
Net income per share	69.01 yen		96.61 yen	

Revision to consolidated forecast in FY2017 1Q: Yes

For more information about consolidated forecast for fiscal 2017, please refer to "Announcement on Revision to Earnings

¹Indicates percentage of change from the previous fiscal year

Notes

- (1) Changes in number of material subsidiaries in fiscal year
(Changes in specified subsidiaries due to changes in scope of consolidation): No
- (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 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

	FY2016	FY2017 1Q
Common stock (number of issued shares)	364,364,210	364,364,210
Treasury stock (number of shares)	2,108,414	2,110,968
Average number of shares in 1Q	363,485,535	362,254,584

Kobe Steel carried out a share consolidation at a ratio of 10 shares to 1 share effective on October 1, 2016. Therefore, the average number of shares in 1Q takes 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.

1. Qualitative Information on Consolidated Operating Results

Japan's economy in the first quarter of fiscal 2017 (April 1-June 30, 2017) continued to gradually recover. The employment situation continued to improve. In addition, despite a lack of vigor in personal spending and corporate capital investment, the economy has been picking up. Overseas, the economic environment has taken a slightly favorable turn. Economic growth continued to decelerate in parts of Southeast Asia. However, the United States, Europe and other areas continued to gradually recovery.

In this economic environment at the Kobe Steel Group, the sales volume of steel products increased, compared with the same period last year, owing to firm demand from the automotive sector and other factors. The sales volume of aluminum rolled products also increased compared with the same period last year, owing to firm demand for aluminum can stock for beverage cans and increased demand from the automotive sector. The sales volume of copper rolled products was similar to the same period last year as the sales volume of copper tubes decreased due to trouble with the manufacturing equipment, while for copper strips, demand increased for automotive terminals and semiconductors. Unit sales of hydraulic excavators increased, compared with the same period last year, owing to higher demand in Japan, China and other markets.

As a result, consolidated sales in the first quarter of fiscal 2017 increased 30.5 billion yen, compared with the same period last year, to 435.0 billion yen. Operating income increased 17.6 billion yen, compared with the same period last year, to 30.3 billion yen. Ordinary income* increased 23.6 billion yen, compared with the same period last year, to 28.2 billion yen. As for extraordinary income, Kobe Steel posted a gain of 6.7 billion yen on the sale of investment securities. Net income attributable to owners of the parent improved 27.0 billion yen to 25.0 billion yen.

Conditions in the business segments for the first quarter of fiscal 2017 follow below.

Iron & Steel

The sales volume of steel products increased compared with the same period last year. Although exports declined, domestic demand from the automotive sector remained firm and other factors. Sales prices increased, compared with the same period last year, due to higher raw material prices and other factors.

Sales of steel castings and forgings decreased, compared with the same period last year, due to lower demand in the shipbuilding sector. Sales of titanium products increased, compared with the same period last year, owing to higher sales to the aircraft sector.

As a result, consolidated segment sales in the first quarter of fiscal 2017 increased 20.9 percent, compared with the same period last year, to 174.4 billion yen. Ordinary income* improved 15.9 billion yen, compared with the same period last year, to 13.0 billion yen.

Welding

The sales volume of welding materials decreased compared with the same period last year. In Japan, demand in the construction steel-frame sector and the sluggish energy sector was on a recovery trend. However, in overseas markets, sales volume decreased significantly in South Korea.

Sales of welding systems decreased compared with the same period last year, in which sales were at a high level, although demand remained firm in the construction steel-frame sector in Japan.

As a result, consolidated segment sales in the first quarter of fiscal 2017 decreased 5.8 percent, compared with the same period last year, to 19.4 billion yen. Ordinary income* decreased 0.7 billion yen, compared with the same period last year, to 1.1 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 rose in the automotive sector.

The sales volume of copper rolled products was similar to the same period last year. Demand increased for copper strips used in automotive terminals and semiconductors. However, for copper tubes, sales volume decreased due to equipment trouble at a Thai manufacturing facility in December 2016.

As a result, consolidated segment sales in the first quarter of fiscal 2017 increased 4.4 percent, compared

with the same period last year, to 88.9 billion yen. Ordinary income increased 3.0 billion yen, compared with the same period last year, to 6.1 billion yen.

Machinery

As the market has recovered in the petrochemical sector and other fields in China and due to other factors, consolidated orders in the first quarter of fiscal 2017 increased 23.5 percent, compared with the same period last year, to 28.7 billion yen. The consolidated backlog of orders at the end of the first quarter of fiscal 2017 stood at 130.0 billion yen.

Consolidated segment sales in the first quarter of fiscal 2017 declined 20.1 percent, compared with the same period last year, to 30.3 billion yen. Ordinary income* decreased 1.8 billion yen, compared with the same period last year, to 0.2 billion yen.

Engineering

Consolidated orders in the first quarter of fiscal 2017 decreased 34.6 percent, compared with the same period last year, to 32.1 billion yen, due to orders for large projects in the waste treatment-related business in the previous fiscal year. The consolidated backlog of orders at the end of the first quarter of fiscal 2017 came to 196.2 billion yen.

Consolidated segment sales in the first quarter of fiscal 2017 decreased 22.0 percent, compared with the same period last year, to 19.0 billion yen. Ordinary income declined 0.3 billion yen, compared with the same period last year, to 0.3 billion yen.

Construction Machinery

Units sales of hydraulic excavators increased, compared with the same period last year, owing to a spike in demand ahead of stricter exhaust emission regulations in Japan and infrastructure investments in China.

However, unit sales of crawler cranes decreased, compared with the same period last year. Although demand in Japan remained relatively high, the construction of some projects was delayed. In overseas markets, demand decreased mainly in Southeast Asia and due to other factors.

As a result, consolidated segment sales in the first quarter of fiscal 2017 increased 22.5 percent, compared with the same period last year, to 87.5 billion yen. Ordinary income* in the first quarter last year was impacted by the posting of an additional allowance for retained receivables. However, in the first quarter of fiscal 2017, ordinary income* improved 8.0 billion yen, compared with the same period last year, to 3.9 billion yen owing to higher unit sales of hydraulic excavators.

Electric Power

The amount of electricity sold was less than the same period last year, due to the difference in days for periodic maintenance. The price of coal, used as fuel, increased compared with the same period last year, due to higher market prices and the weak yen.

As a result, consolidated segment sales in the first quarter of fiscal 2017 decreased 18.9 percent, compared with the same period last year, to 13.9 billion yen. Ordinary income decreased 1.3 billion yen, compared with the same period last year, to 2.4 billion yen due to a transition to a new contract for the Kobe Power Plant's No. 1 unit, anticipatory expenses for new projects, and other factors.

Other Businesses

At Shinko Real Estate Co., Ltd., both the residential property sales business and the leasing business remained firm. At Kobelco Research Institute, Inc., demand in the testing and research business remained similar to the same period last year. In addition, Shinko Care Life Co., Ltd., which had been a consolidated subsidiary, was excluded from the scope of consolidation in the first quarter of fiscal 2017 and is covered as an affiliate company accounted for by the equity method.

As a result, consolidated segment sales in the first quarter of fiscal 2017 decreased 10.0 percent, compared with the same period last year, to 13.3 billion yen. Ordinary income increased 0.3 billion yen, compared with the same period last year, to 1.0 billion yen.

2. Qualitative Information on Consolidated Earnings Forecast

In comparison to the previous earnings forecast made on April 28, 2017, in the construction machinery business, unit sales of hydraulic excavators in China are on an upward trend. In the electric power business, fuel prices have remained lower than expected due to a lag in reflecting fuel cost fluctuations in the unit price of electricity. With regard to these and other uncertain factors in each of the businesses, Kobe Steel has made certain assumptions, and as a result revises upward its consolidated cumulative second quarter forecast for operating income and ordinary income*. For the full fiscal year, Kobe Steel revises upward its forecast for sales, operating income and ordinary income*.

In addition, as Kobe Steel posted extraordinary income on gain on sale of investment securities in the first quarter of fiscal 2017 and other factors, it has revised upward its forecast for net income attributable to owners of the parent for the consolidated cumulative second quarter and for the full fiscal year.

Dividends

Kobe Steel aims to pay dividends on a continuous and stable basis. Dividends are decided after taking into full account the Company's financial position, business performance, future capital needs and other factors. On this basis, Kobe Steel has decided on a policy to pay an interim dividend of 10 yen per share for the first half of fiscal 2017. In addition, the estimated amount of the year-end dividend is undetermined.

* 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)

ASSETS

Current Assets

	FY2016	FY2017 1Q
	Ended Mar. 31, 2017	Ended Jun. 30, 2017
Cash and deposits	155,763	203,001
Notes and accounts receivable	295,332	260,749
Securities	45,502	45,081
Merchandise and finished goods	158,512	166,827
Work-in-process	126,109	137,634
Raw materials and supplies	134,399	146,058
Other	133,354	131,688
Allowance for doubtful accounts	(4,652)	(4,578)
Total current assets	<u>1,044,322</u>	<u>1,086,464</u>

Fixed Assets

Property, plant and equipment

Buildings and structures	278,404	279,303
Machinery and equipment	428,335	416,572
Land	195,607	191,495
Other	69,966	69,807
Total property, plant and equipment	<u>972,313</u>	<u>957,178</u>

Intangible fixed assets

	24,147	36,170
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Investments and other assets

Investments in securities	166,563	161,515
Other	169,980	162,505
Allowance for doubtful accounts	(66,892)	(66,167)
Total investment and other assets	<u>269,651</u>	<u>257,853</u>

Total fixed assets	<u>1,266,113</u>	<u>1,251,201</u>
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Total assets	<u>2,310,435</u>	<u>2,337,666</u>
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LIABILITIES	FY2016	FY2017 1Q
	Ended Mar. 31, 2017	Ended Jun. 30, 2017
Current liabilities		
Notes and accounts payable	414,090	448,272
Short-term borrowings	191,983	197,855
Current portion of Bonds	30,000	40,000
Income and enterprise taxes payable	6,606	3,541
Provisions	50,679	39,720
Other	155,783	154,320
Total current liabilities	<u>849,143</u>	<u>883,710</u>
Long-term liabilities		
Bonds and notes	146,000	136,000
Long-term borrowings	428,943	422,458
Net defined benefit liability	70,159	73,360
Provisions	9,538	8,787
Other	77,246	64,837
Total long-term liabilities	<u>731,887</u>	<u>705,443</u>
Total liabilities	<u>1,581,031</u>	<u>1,589,153</u>
NET ASSETS		
Stockholders' equity		
Common stock	250,930	250,930
Capital surplus	103,537	103,323
Retained earnings	331,679	357,154
Treasury stock, at cost	(2,660)	(2,663)
Total stockholders' equity	<u>683,486</u>	<u>708,744</u>
Accumulated other comprehensive income		
Unrealized gains on securities, net of taxes	17,475	16,538
Unrealized losses on hedging derivatives, net of taxes	(9,229)	(10,198)
Land revaluation differences, net of taxes	(3,406)	(3,406)
Foreign currency translation adjustments	7,708	6,169
Remeasurements of defined benefit plans, net of taxes	(22,106)	(21,766)
Total accumulated other comprehensive income	<u>(9,557)</u>	<u>(12,663)</u>
Non-controlling interests	<u>55,476</u>	<u>52,431</u>
Total net assets	<u>729,404</u>	<u>748,512</u>
Total liabilities and net assets	<u>2,310,435</u>	<u>2,337,666</u>

(2) Consolidated Statements of Income

(In millions of yen)

	FY2016 1Q	FY2017 1Q
	Ended Jun. 30, 2016	Ended Jun. 30, 2017
Net sales	404,460	435,008
Cost of sales	344,115	358,091
Gross profit	60,344	76,916
Selling, general and administrative expenses	47,642	46,614
Operating income	12,702	30,302
Non-operating income		
Interest income	745	654
Dividend income	2,123	2,377
Reimbursement of seconded employees' salaries	963	996
Equity in income of equity method companies	306	1,945
Other	2,318	2,504
Total non-operating income	6,456	8,478
Non-operating expenses		
Interest expense	3,552	3,000
Seconded employees' salaries	2,513	2,342
Other	8,533	5,184
Total non-operating expenses	14,600	10,526
Ordinary income	4,558	28,254
Extraordinary income		
Gain on sale of investment securities	—	6,779
Total extraordinary income	—	6,779
Income before income taxes and non-controlling interests	4,558	35,033
Income taxes		
Current	1,428	6,360
Deferred	4,551	2,463
Total income taxes	5,979	8,823
Income (loss) before non-controlling interests	(1,420)	26,209
Net income attributable to non-controlling interests	646	1,200
Net income (loss) attributable to owners of the parent	(2,067)	25,009

(3) Consolidated Statements of Comprehensive Income

(In millions of yen)

	FY2016 1Q	FY2017 1Q
	Ended Jun. 30, 2016	Ended Jun. 30, 2017
Income (loss) before non-controlling interests	(1,420)	26,209
Other comprehensive income (loss)		
Unrealized gains or losses on securities, net of taxes	(7,336)	(1,012)
Unrealized gains or losses on hedging derivatives, net of taxes	(3,516)	(1,057)
Foreign currency translation adjustments	(7,216)	(1,627)
Remeasurements of defined benefit plans, net of taxes	221	317
Share of other comprehensive gains and losses related to equity method companies	(1,203)	30
Total other comprehensive income (loss)	(19,051)	(3,349)
Comprehensive Income (loss)	(20,472)	22,859
Breakdown of total comprehensive income (loss) attributed to:		
Stockholders of the parent interests	(19,745)	21,903
Non-controlling interests	(727)	956

(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 2017

(April 1 – June 30, 2017)

Consolidated Operating Results for First Quarter of Fiscal 2017 (In billions of yen)

	FY2016 1Q	FY2017 1Q	% change
Net sales	404.4	435.0	7.6%
Operating income	12.7	30.3	2.4 times
Ordinary income	4.5	28.2	6.2 times
Extraordinary income	-	6.7	---
Net income (loss) attributable to owners of the parent	(2.0)	25.0	---

Fiscal 2017 Consolidated Forecast (In billions of yen)

	FY2016	FY2017 Previous Forecast (Apr. 28, 2017)		FY2017 Forecast	
		1st half	Full year	1st half	Full year
Net sales	1,695.8	930.0	1,870.0	930.0	1,880.0
Operating income	9.7	35.0	75.0	40.0	80.0
Ordinary income (loss)	(19.1)	20.0	50.0	30.0	55.0
Extraordinary income	8.1	---	---	6.7	6.7
Net income (loss) attributable to owners of the parent	(23.0)	15.0	30.0	25.0	35.0

Interim Dividend: 10 yen

Fiscal 2017 First Quarter

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

		FY2016 1Q	FY2017 1Q	% change
Iron & Steel	Sales	144.2	174.4	20.9%
	Ordinary income (loss)	(2.8)	13.0	-
Welding	Sales	20.6	19.4	(5.8%)
	Ordinary income	1.9	1.1	(39.5%)
Aluminum & Copper	Sales	85.1	88.9	4.4%
	Ordinary income	3.0	6.1	99.9%
Machinery	Sales	37.9	30.3	(20.1%)
	Ordinary income	2.0	0.2	(86.2%)
Engineering	Sales	24.3	19.0	(22.0%)
	Ordinary income	0.6	0.3	(46.6%)
Construction Machinery	Sales	71.4	87.5	22.5%
	Ordinary income (loss)	(4.0)	3.9	-
Electric Power	Sales	17.2	13.9	(18.9%)
	Ordinary income	3.8	2.4	(35.3%)
Other Businesses	Sales	14.8	13.3	(10.0%)
	Ordinary income	0.7	1.0	44.8%
Adjustment	Sales	(11.4)	(12.0)	-
	Ordinary loss	(0.9)	(0.3)	-
Total	Sales	404.4	435.0	7.6%
	Ordinary income	4.5	28.2	6.2 times

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

Production & Sales Volume (In millions of metric tons unless otherwise indicated)

	FY2016 1Q	FY2017 1Q
Crude steel	1.94	1.94
Sales volume	1.44	1.52
Export ratio (value base)	29.9%	27.1%

Unit Sales Price (In yen per metric ton)

	FY2016 1Q	FY2017 1Q
Domestic & export average	69,000	80,800

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

Comparison of Fiscal 2016 1Q and Fiscal 2017 1Q

	FY2016 1Q	FY2017 1Q	Amount of increase
Ordinary income	4.5	28.2	23.6

Factors Increasing Profits		Factors Decreasing Profits	
Production & shipments	22.0	Raw material prices	(19.5)
Overall cost reduction	1.0	Effect of changes in foreign exchange rates on steel business	(1.0)
Effect of steel inventory valuation*	11.0	Other	(2.9)
Effect of aluminum & copper inventory valuation*	5.5		
Consolidated subsidiaries & equity-method affiliates	7.5		
Total	47.0	Total	(23.4)

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

Fiscal 2017 Forecast

(1) Consolidated Sales & Ordinary Income (loss) for FY2017 by Segment (In billions of yen)

		FY2016	FY2017 Previous Forecast (Apr. 28, 2017)		FY2017 Forecast	
			1st half	Full year	1st half	Full year
Iron & Steel	Sales	620.6	355.0	695.0	360.0	710.0
	Ordinary income (loss)	(29.5)	10.0	15.0	11.0	15.0
Welding	Sales	82.2	38.0	77.0	40.0	80.0
	Ordinary income	6.8	2.0	5.0	2.5	5.0
Aluminum & Copper	Sales	323.3	175.0	345.0	170.0	345.0
	Ordinary income	12.0	8.0	15.0	7.5	14.0
Machinery	Sales	150.7	80.0	174.0	82.0	178.0
	Ordinary income	5.8	1.0	5.0	1.0	5.0
Engineering	Sales	121.1	54.0	134.0	54.0	133.0
	Ordinary income (loss)	2.8	(1.5)	3.0	(1.0)	4.0
Construction Machinery	Sales	310.4	180.0	335.0	180.0	335.0
	Ordinary income (loss)	(31.3)	6.5	9.0	7.0	10.0
Electric Power	Sales	70.6	32.0	71.0	32.0	69.0
	Ordinary income	13.0	0.0	3.0	2.0	4.0
Other Businesses	Sales	74.8	33.0	76.0	30.0	71.0
	Ordinary income	7.6	1.5	5.0	1.5	6.0
Adjustment	Sales	(58.2)	(17.0)	(37.0)	(18.0)	(41.0)
	Ordinary loss	(6.4)	(7.5)	(10.0)	(1.5)	(8.0)
Total	Sales	1,695.8	930.0	1,870.0	930.0	1,880.0
	Ordinary income (loss)	(19.1)	20.0	50.0	30.0	55.0

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

Production & Sales Volume (In millions of metric tons)

	FY2016			FY2017 Forecast		
	1st half	2nd half	Full year	1st half	2nd half	Full year
Crude steel	3.84	3.37	7.21	Approx.4.00	Approx.3.60	Approx.7.60
Sales volume	2.92	3.01	5.93	Approx.3.15	Approx.3.00	Approx.6.15
Export ratio (value base)	29.5%	27.7%	28.6%	Approx.27%	Approx.26%	Approx.27%

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

Comparison of Current Forecast and Previous Forecast for Fiscal 2017

	Previous Forecast	Current Forecast	Amount of increase
Ordinary income	50.0	55.0	5.0

Factors Increasing Profits		Factors Decreasing Profits	
Production & shipments	1.5	Raw material prices	(1.0)
Overall cost reduction	2.5	Other	(0.5)
Effect of aluminum & copper inventory valuation*	0.5		
Consolidated subsidiaries & equity-method affiliates	1.5		
Effect of changes in foreign exchange rates on steel business	0.5		
Total	6.5	Total	(1.5)

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

Comparison of Forecast for Fiscal 2017 1st Half and Forecast for Fiscal 2017 2nd Half

	FY2017 1st half Forecast	FY2017 2nd half Forecast	Amount of Decrease
Ordinary income	30.0	25.0	(5.0)

Factors Increasing Profits		Factors Decreasing Profits	
Raw material prices	11.0	Production & shipments	(21.0)
Overall cost reduction	6.0	Effect of steel inventory valuation*	(9.0)
Consolidated subsidiaries & equity-method affiliates	7.0	Effect of aluminum & copper inventory valuation*	(1.0)
Other	2.5	Effect of changes in foreign exchange rates on steel business	(0.5)
Total	26.5	Total	(31.5)

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

Comparison of Fiscal 2017 Forecast and Fiscal 2016 Result

	FY 2016	FY 2017 Forecast	Amount of increase
Ordinary income	(19.1)	55.0	74.1

Factors Increasing Profits		Factors Decreasing Profits	
Production & shipments	70.0	Raw material prices	(40.0)
Overall cost reduction	22.5	Effect of steel inventory valuation*	(4.0)
Effect of aluminum & copper inventory valuation*	7.5	Effect of changes in foreign exchange rates on steel business	(4.0)
Consolidated subsidiaries & equity-method affiliates	26.0	Other	(3.9)
Total	126.0	Total	(51.9)

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

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

Cash Flow

	FY2016	FY2017 Forecast
Free cash flow*	(5.2)	(20.0)

(*Excludes cash flow from IPP project financing)

Outside Debt (As of the end of each period)

	FY2016	FY2017 Forecast
Outside debt *	789.6	Approx.690.0
D/E ratio (times) **	1.17	Approx.1.00
	1.00 ***	

* Excludes debt from IPP project financing

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

*** Excludes advanced borrowing (117.6 billion yen)

(5) Exchange Rate

	FY2016	FY2017 1Q	FY2017 2Q onward
1 U.S. dollar to yen	108 yen	111 yen	110 yen
1 Chinese yuan to yen	16.3 yen	16.2 yen	16.0 yen
1 Euro to yen	119 yen	122 yen	120 yen

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

	FY2016	FY2017 Forecast
Capital investment (accrual basis)	160.2	135.0
Depreciation	96.2	105.0

FOR REFERENCE

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

		FY2016							FY2017 Forecast				
		1st Half			2nd Half			Total	1st Half			2nd Half	Total
		1Q	2Q	Subtotal	3Q	4Q	Subtotal		1Q	2Q	Subtotal		
Iron & Steel	Sales	144.2	146.0	290.3	151.3	178.9	330.2	620.6	174.4	185.6	360.0	350.0	710.0
	Ordinary income (loss)	(2.8)	(6.9)	(9.8)	(15.0)	(4.6)	(19.7)	(29.5)	13.0	(2.0)	11.0	4.0	15.0
Welding	Sales	20.6	21.6	42.2	19.4	20.5	39.9	82.2	19.4	20.6	40.0	40.0	80.0
	Ordinary income	1.9	1.9	3.8	1.6	1.3	3.0	6.8	1.1	1.4	2.5	2.5	5.0
Aluminum& Copper	Sales	85.1	77.7	162.9	76.9	83.4	160.3	323.3	88.9	81.1	170.0	175.0	345.0
	Ordinary income	3.0	3.4	6.5	3.4	2.0	5.4	12.0	6.1	1.4	7.5	6.5	14.0
Machinery	Sales	37.9	34.0	72.0	31.6	47.0	78.7	150.7	30.3	51.7	82.0	96.0	178.0
	Ordinary income (loss)	2.0	1.6	3.7	2.2	(0.0)	2.1	5.8	0.2	0.8	1.0	4.0	5.0
Engineering	Sales	24.3	25.1	49.5	30.1	41.4	71.5	121.1	19.0	35.0	54.0	79.0	133.0
	Ordinary income (loss)	0.6	(0.6)	0.0	0.1	2.6	2.7	2.8	0.3	(1.3)	(1.0)	5.0	4.0
Construction Machinery	Sales	71.4	84.6	156.1	72.6	81.7	154.3	310.4	87.5	92.5	180.0	155.0	335.0
	Ordinary income (loss)	(4.0)	3.4	(0.5)	(32.1)	1.3	(30.8)	(31.3)	3.9	3.1	7.0	3.0	10.0
Electric Power	Sales	17.2	18.3	35.5	15.9	19.1	35.0	70.6	13.9	18.1	32.0	37.0	69.0
	Ordinary income (loss)	3.8	4.4	8.3	2.1	2.5	4.7	13.0	2.4	(0.4)	2.0	2.0	4.0
Other Businesses	Sales	14.8	16.4	31.2	16.5	27.0	43.5	74.8	13.3	16.7	30.0	41.0	71.0
	Ordinary income	0.7	1.2	2.0	0.8	4.6	5.5	7.6	1.0	0.5	1.5	4.5	6.0
Adjustment	Sales	(11.4)	(13.5)	(25.0)	(12.6)	(20.5)	(33.2)	(58.2)	(12.0)	(6.0)	(18.0)	(23.0)	(41.0)
	Ordinary loss	(0.9)	(0.9)	(1.8)	(1.6)	(2.9)	(4.6)	(6.4)	(0.3)	(1.2)	(1.5)	(6.5)	(8.0)
Total	Sales	404.4	410.6	815.1	402.0	478.6	880.7	1,695.8	435.0	495.0	930.0	950.0	1,880.0
	Ordinary income (loss)	4.5	7.7	12.3	(38.3)	6.8	(31.4)	(19.1)	28.2	1.8	30.0	25.0	55.0
Net income (loss) attributable to owners of the parent		(2.0)	6.1	4.1	(40.5)	13.4	(27.1)	(23.0)	25.0	0.0	25.0	10.0	35.0

(2) Quarterly Production and Sales of Steel Products (Non-consolidated)

Production and Sales Volume (in millions of metric tons)

	FY2016						Total
	1st Half			2nd Half			
	1Q	2Q	Subtotal	3Q	4Q	Subtotal	
Crude steel	1.94	1.90	3.84	1.43	1.94	3.37	7.21
Sales volume	1.44	1.48	2.92	1.48	1.53	3.01	5.93
Export ratio (value basis)	29.9%	29.0%	29.5%	27.7%	27.7%	27.7%	28.6%

	FY2017 Forecast				
	1st Half			2nd Half	Total
	1Q	2Q	Subtotal		
Crude steel	1.94	Approx.2.00	Approx.4.00	Approx.3.60	Approx.7.60
Sales volume	1.52	Approx.1.60	Approx.3.15	Approx.3.00	Approx.6.15
Export ratio (value basis)	27.1%	Approx.26%	Approx.27%	Approx.26%	Approx.27%

Sales Prices (in yen per metric ton)

	FY2016						Total	FY2017 1Q
	1st Half			2nd Half				
	1Q	2Q	Subtotal	3Q	4Q	Subtotal		
Domestic & export average	69,000	67,100	68,000	69,000	77,200	73,100	70,600	80,800

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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