

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) |
| Contact: | Tel. +81 (0)3 5739-6010 |

(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 |
|--|--------|--------|

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> |
|--------------------|------------------|------------------|

| | | |
|---------------------|------------------|------------------|
| Total assets | <u>2,310,435</u> | <u>2,337,666</u> |
|---------------------|------------------|------------------|

| 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 |

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(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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