

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

October 30, 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:	October 30, 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 Half of Fiscal 2017 (April 1 – September 30, 2017)

(1) Consolidated operating results

(In millions of yen)	FY 2016 1H	% change ¹	FY 2017 1H	% change ¹
Net sales	815,130	(12.2%)	907,058	11.3%
Operating income	30,995	(34.1%)	51,425	65.9%
Ordinary income	12,320	(62.8%)	45,798	271.7%
Net income attributable to owners of the parent	4,109	(69.4%)	39,349	857.6%
Net income per share ²	11.31 yen	---	108.62 yen	---
Diluted net income per share ²	---	---	---	---

Comprehensive income (loss) in FY2016 1H: (20,411 million yen) FY2017 1H: 43,619 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 1H
Total assets	2,310,435	2,339,062
Net assets	729,404	764,574
Net worth ratio	29.2%	30.6%

Stockholders' equity at the end of FY2016: 673,928 million yen September 30, 2017: 715,643 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	---	0.00	---	---	---
FY2017 Forecast	---	---	---	---	---

Revision to dividend forecast in FY2017 2Q: Yes

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

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 had decided on a policy to pay an interim dividend of 10 yen per share for the first half of fiscal 2017, but it is difficult at this time to estimate the impact of the improper conduct concerning products discovered at this time, such as the possible cost of compensation to customers and other parties and other effects on business performance, and to forecast the net income attributable to owners of the parent for fiscal 2017. As a result, Kobe Steel passed a resolution to adopt a policy to forgo an interim dividend for fiscal 2017. In addition, the dividend for the end of fiscal 2017 is undetermined.

For more information, please refer to "Announcement on the Difference between the Forecast and Actual Results for the First Half of Fiscal 2017 and Revision to Earnings Forecast and Dividend Forecast for Fiscal 2017, ending March 31, 2018" dated October 30, 2017.

3. Consolidated Forecast for Fiscal 2017 (April 1, 2017 - March 31, 2018)

(In millions of yen)	FY2017 Full year	% change ¹
Net sales	1,880,000	10.9%
Operating income	75,000	669.3%
Ordinary income	50,000	---
Net income attributable to owners of the parent	---	---
Net income per share	---	---

Revision to consolidated forecast in FY2017 2Q: Yes

¹Indicates percentage of change from the previous fiscal year

Regarding the impact of the improper conduct concerning products of Kobe Steel and its group companies, the impact of deteriorating business performance is reflected operating income and ordinary income in the above forecast, such as the increase in cost and the decrease in production volume due to the rising defect rate accompanying appropriate quality control, the disposal of nonconforming product inventory related the case announced so far in the Aluminum & Copper Business, and certain assumptions about risks to the sales activities of the Kobe Steel Group.

However, outside of those circumstances, it is difficult at this time to make an estimation concerning the factors of deterioration in business performance such as the possible cost of compensation to customers and other parties and other effects. As such, net income attributable to owners of the parent is undetermined.

For more information, please refer to "Announcement on the Difference between the Forecast and Actual Results for the First Half of Fiscal 2017 and Revision to Earnings Forecast and Dividend Forecast for Fiscal 2017, ending March 31, 2018" dated October 30, 2017.

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 1H
Common stock (number of issued shares)	364,364,210	364,364,210
Treasury stock (number of shares)	2,108,414	2,113,416
Average number of shares in 1H	363,077,347	362,253,010

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 1H 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 to 6.

1. Qualitative Information on 2Q Financial Results

(1) Qualitative Information on Consolidated Operating Results

Japan's economy in the first half of fiscal 2017 (April 1 to September 30, 2017) continued to gradually recover. Favorable conditions in the employment environment were maintained, and personal spending and corporate capital investment continued to recover. In overseas economies, China's economy was on a recovery trend, and the economy in parts of Southeast Asia, the United States, Europe and other areas continued to gradually recover.

In this economic environment in 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 increased, compared with the same period last year. Although demand for can stock for beverage cans was similar to the same period last year, demand for the automotive sector increased. 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 half of fiscal 2017 increased 91.9 billion yen, compared with the same period last year, to 907.0 billion yen. Operating income increased 20.4 billion yen, compared with the same period last year, to 51.4 billion yen. Ordinary income* increased 33.4 billion yen, compared with the same period last year, to 45.7 billion yen. Extraordinary income amounted to 9.0 billion yen from the sale of investment securities. Net income attributable to owners of the parent increased 35.2 billion yen to 39.3 billion yen.

It should be noted that the Kobe Steel and its group companies discovered the fact (hereinafter referred to as "improper conduct") that a portion of the products supplied to customers did not comply with the product specifications which were agreed between the Company and its customers. Data in inspection certificates had been improperly rewritten etc., and the products were shipped as having met the specifications concerned. Kobe Steel also found that at its subsidiary Kobelco & Materials Copper Tube Co., Ltd. (or KMCT), products that did not meet JIS standards, but displaying the JIS mark, were shipped. Kobe Steel deeply apologizes for the enormous amount of trouble it is causing to customers, shareholders, investors and many others concerning. Also, the impact on the business results in the first half of fiscal 2017 in the improper conduct is insignificant.

Conditions in the business segments for the first half 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 remained firm in the automotive sector and due to 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 ships. 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 half of fiscal 2017 increased 22.1 percent, compared with the same period last year, to 354.4 billion yen. Ordinary income* improved 28.2 billion yen, compared with the same period last year, to 18.4 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.

As a result, consolidated segment sales in the first half of fiscal 2017 decreased 6.0 percent, compared with the same period last year, to 39.7 billion yen. Ordinary income* decreased 1.2 billion yen, compared with the same period last year, to 2.5 billion yen.

Aluminum & Copper

The sales volume of aluminum rolled products increased, compared with the same period last year. Although demand for can stock for beverage cans was similar to the same period last year, demand in the automotive sector increased.

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 half of fiscal 2017 increased 7.0 percent, compared with the same period last year, to 174.3 billion yen. Ordinary income increased 1.4 billion yen, compared with the same period last year, to 7.9 billion yen.

Machinery

Consolidated orders in the first half of fiscal 2017 increased 20.2 percent, compared with the same period last year, to 67.1 billion yen, as the market has recovered in the petrochemical sector and other fields in China and due to other factors. The consolidated backlog of orders at the end of the first half of fiscal 2017 stood at 135.3 billion yen.

Consolidated segment sales in the first half of fiscal 2017 declined 2.0 percent, compared with the same period last year, to 70.5 billion yen. Ordinary income* worsened 4.2 billion yen, compared with the same period last year, to ordinary loss of 0.4 billion yen due to deterioration of profitability in some of the compressors.

Engineering

Consolidated orders in the first half of fiscal 2017 were 55.9 billion yen, a decrease of 30.7 percent, compared with the same period last year, which saw a large order for a direct reduced iron plant. The consolidated backlog of orders at the end of the first half of fiscal 2017 came to 190.9 billion yen.

Consolidated segment sales in the first half of fiscal 2017 decreased 3.2 percent, compared with the same period last year, to 48.0 billion yen. Ordinary income increased 1.7 billion yen, compared with the same period last year, to 1.7 billion yen due to profitability improvement in ongoing projects and other factors.

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 unit sales remained at a relatively high level, the construction of some projects was delayed, demand in Japan decreased. In overseas markets, demand decreased mainly in Southeast Asia and due to other factors.

As a result, consolidated segment sales in the first half of fiscal 2017 increased 17.0 percent, compared with the same period last year, to 182.7 billion yen. Ordinary income* in the first half last year was impacted by the posting of an additional allowance for retained receivables incurred in the excavator business in China. However, in the first half of fiscal 2017, ordinary income* improved 12.0 billion yen, compared with the same period last year, to 11.4 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 unit price of electricity increased, compared with the same period last year, due to higher market prices of coal, which is used as fuel.

As a result, consolidated segment sales in the first half of fiscal 2017 decreased 7.2 percent, compared with the same period last year, to 32.9 billion yen. Ordinary income decreased 4.9 billion yen, compared with the same period last year, to 3.3 billion yen due to a transition to a new contract for the Kobe Power Plant's No.1 unit, higher maintenance costs during periodic inspections, 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., orders in the testing and research business for the automotive sector decreased. In addition, Shinko Care Life Co., Ltd., which was previously a consolidated subsidiary, was excluded from the scope of consolidation in the first half 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 half of fiscal 2017 decreased 6.6 percent, compared with the same period last year, to 29.2 billion yen. Ordinary income decreased 0.2 billion yen, compared with the same period last year, to 1.7 billion yen.

(2) Qualitative Information on Consolidated Earnings Forecast

Japan's economy continues to maintain favorable conditions in the employment environment. In Southeast Asia, the United States, Europe and other areas, the economy continues to gradually recover. However, China's economy is on a decelerating trend and future prospects are unclear.

In light of these circumstances, Kobe Steel forecasts the following conditions in its business segments for the third quarter of fiscal 2017 (October 1 to December 31, 2017) and beyond.

Iron & Steel

For steel products, although demand in the shipbuilding sector is on a weakening trend and the demand environment for steel products in East Asia remains unclear, demand for steel products is anticipated to be firm in the automotive sector.

In steel castings and forgings, demand in the shipbuilding sector is on a weakening trend. However, demand for titanium is anticipated to increase for aircraft.

Welding

Demand for welding systems used in the construction sector in Japan is anticipated to be firm for the time being due to continued tax benefits and other factors. For welding materials, demand is on a recovery trend in the construction steel-frame sector and the energy sector. However in overseas markets, more intense competition in the shipbuilding sector in South Korea and China is a concern.

Aluminum & Copper

For aluminum rolled products, demand is anticipated to be impacted by lower demand for aluminum disks, although demand in the automotive sector and for can stock for beverage cans is anticipated to remain firm. Demand for copper strips and copper tubes is anticipated to be similar to the first half of fiscal 2017.

Machinery

As markets in the petrochemical field and other sectors are on a track to recovery, demand in the petrochemical industry is anticipated to remain firm mainly overseas.

Engineering

In the waste treatment-related business, firm demand is anticipated to continue in the future.

In the ironmaking plant field, although iron unit prices are recovery trend, for the time being, excluding certain regions, the weak momentum for large-scale investments will persist.

Construction Machinery

Domestic demand for hydraulic excavators is a concern due to hesitant buying after the ending of the spike in demand ahead of stricter exhaust emission regulations. Overseas demand centered on India and Europe is anticipated to remain firm. In China, although the impact of policy trends and other factors on the economy is reason for concern, demand is anticipated to be firm.

On the other hand, domestic demand for crawler cranes is still high, but it is expected to gradually decline. As for overseas demand, there is concern over a decline in demand in North America and East Asia.

Electric Power

This segment plans to continue the stable wholesale supply of electricity.

Other Businesses

At Shinko Real Estate Co., Ltd., both the residential property sales business and the leasing business are anticipated to remain firm. At Kobelco Research Institute, Inc., although there is concern over lower domestic demand in the testing and research business and for target materials, demand is anticipated to increase in the semiconductor market.

Under such circumstances, regarding the impact of the improper conduct concerning products of Kobe Steel and its group companies, the impact of deteriorating business performance is reflected in the above forecast, such as the increase in cost and the decrease in production volume due to the rising defect rate accompanying appropriate quality control, the disposal of nonconforming product inventory related to the case announced so far in the Aluminum & Copper Business, and certain assumptions about risks to the sales activities of the Kobe Steel Group.

As a result, consolidated net sales in the Kobe Steel Group are forecast to reach approximately 1,880.0 billion yen for the full fiscal year. Ordinary income is anticipated to be approximately 50.0 billion yen.

However, with regard to improper conduct concerning products, the impact on factors of deterioration in business performance such as the possible cost of compensation to customers and other parties and other effects is currently under review at this time. Consequently, net income attributable to owners of the parent is undetermined.

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 had decided on a policy to pay an interim dividend of 10 yen per share for the first half of fiscal 2017.

However, with regard to improper conduct concerning products, it is difficult at this time to estimate the impact of the improper conduct concerning products, such as the possible cost of compensation to customers and other parties and other causes on the business performance and to forecast the net income attributable to owners of the parent for the fiscal 2017. Consequently, Kobe Steel passed a resolution to adopt a policy to forgo an interim dividend for the first half of fiscal 2017. In addition, the dividend for the end of fiscal 2017 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 1st Half
	Ended Mar. 31, 2017	Ended Sep. 30, 2017
Cash and deposits	155,763	171,555
Notes and accounts receivable	295,332	290,394
Securities	45,502	33,098
Merchandise and finished goods	158,512	165,625
Work-in-process	126,109	143,690
Raw materials and supplies	134,399	144,620
Other	133,354	96,428
Allowance for doubtful accounts	(4,652)	(4,820)
Total current assets	1,044,322	1,040,592

Fixed Assets

Property, plant and equipment

Buildings and structures	278,404	278,034
Machinery and equipment	428,335	424,053
Land	195,607	191,485
Other	69,966	71,948
Total property, plant and equipment	972,313	965,521

Intangible fixed assets

	24,147	36,246
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Investments and other assets

Investments in securities	166,563	203,267
Other	169,980	160,616
Allowance for doubtful accounts	(66,892)	(67,182)
Total investment and other assets	269,651	296,700

Total fixed assets

	1,266,113	1,298,469
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Total assets

	2,310,435	2,339,062
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LIABILITIES	FY2016	FY2017 1st Half
	Ended Mar. 31, 2017	Ended Sep. 30, 2017
Current liabilities		
Notes and accounts payable	414,090	432,465
Short-term borrowings	191,983	187,101
Current portion of Bonds	30,000	40,000
Income and enterprise taxes payable	6,606	9,128
Provisions	50,679	56,247
Other	155,783	153,520
Total current liabilities	<u>849,143</u>	<u>878,463</u>
Long-term liabilities		
Bonds and notes	146,000	136,000
Long-term borrowings	428,943	412,154
Net defined benefit liability	70,159	73,020
Provisions	9,538	2,851
Other	77,246	71,998
Total long-term liabilities	<u>731,887</u>	<u>696,024</u>
Total liabilities	<u>1,581,031</u>	<u>1,574,488</u>
NET ASSETS		
Stockholders' equity		
Common stock	250,930	250,930
Capital surplus	103,537	103,333
Retained earnings	331,679	371,399
Treasury stock, at cost	(2,660)	(2,667)
Total stockholders' equity	<u>683,486</u>	<u>722,995</u>
Accumulated other comprehensive income		
Unrealized gains on securities, net of taxes	17,475	21,106
Unrealized losses on hedging derivatives, net of taxes	(9,229)	(10,289)
Land revaluation differences, net of taxes	(3,406)	(3,406)
Foreign currency translation adjustments	7,708	6,640
Remeasurements of defined benefit plans, net of taxes	(22,106)	(21,402)
Total accumulated other comprehensive income	<u>(9,557)</u>	<u>(7,352)</u>
Non-controlling interests	<u>55,476</u>	<u>48,930</u>
Total net assets	<u>729,404</u>	<u>764,574</u>
Total liabilities and net assets	<u>2,310,435</u>	<u>2,339,062</u>

(2) Consolidated Statements of Income

(In millions of yen)

	FY2016 1st Half	FY2017 1st Half
	Ended Sep. 30, 2016	Ended Sep. 30, 2017
Net sales	815,130	907,058
Cost of sales	691,832	761,610
Gross profit	123,298	145,448
Selling, general and administrative expenses	92,302	94,022
Operating income	30,995	51,425
Non-operating income		
Interest income	1,257	1,212
Dividend income	2,188	2,466
Reimbursement of seconded employees' salaries	2,175	1,847
Equity in income of equity method companies	648	3,644
Other	4,202	4,739
Total non-operating income	10,472	13,909
Non-operating expenses		
Interest expense	6,585	6,163
Seconded employees' salaries	5,444	4,816
Other	17,117	8,556
Total non-operating expenses	29,147	19,536
Ordinary income	12,320	45,798
Extraordinary income		
Gain on sale of investment securities	—	9,076
Total extraordinary income	—	9,076
Income before income taxes and non-controlling interests	12,320	54,875
Income taxes		
Current	4,647	13,795
Deferred	2,139	(761)
Total income taxes	6,787	13,033
Income before non-controlling interests	5,532	41,841
Net income attributable to non-controlling interests	1,423	2,492
Net income attributable to owners of the parent	4,109	39,349

(3) Consolidated Statements of Comprehensive Income

(In millions of yen)

	<u>FY2016 1st Half</u>	<u>FY2017 1st Half</u>
	<u>Ended Sep. 30, 2016</u>	<u>Ended Sep. 30, 2017</u>
Income before non-controlling interests	5,532	41,841
Other comprehensive income (loss)		
Unrealized gains or losses on securities, net of taxes	(2,214)	3,207
Unrealized gains or losses on hedging derivatives, net of taxes	(2,207)	(1,176)
Foreign currency translation adjustments	(19,734)	(1,465)
Remeasurements of defined benefit plans, net of taxes	582	680
Share of other comprehensive gains and losses related to equity	(2,369)	532
Total other comprehensive income (loss)	<u>(25,944)</u>	<u>1,778</u>
Comprehensive Income (loss)	<u>(20,411)</u>	<u>43,619</u>
Breakdown of total comprehensive income (loss) attributed to:		
Stockholders of the parent interests	(17,997)	41,554
Non-controlling interests	(2,413)	2,064

(4) Notes on premise of a going concern:

None

(5) Notes on Consolidated Balance Sheets :

Contingent liabilities

The Kobe Steel and its group companies discovered the fact that a portion of the products supplied to customers did not comply with the product specifications which were agreed between the Company and its customers. Data in inspection certificates had been improperly rewritten etc., and the products were shipped as having met the specifications concerned. Kobe Steel also found that at its subsidiary Kobelco & Materials Copper Tube Co., Ltd. (or KMCT), products that did not meet JIS standards, but displaying the JIS mark, were shipped. (Hereinafter these facts are referred to as "improper conduct.") On October 26, KMCT received a cancellation notice of its JIS certification from the JIS certification body, Japan Quality Assurance Organization (JQA).

Kobe Steel and its group companies are working together with customers to which products subject to improper conduct (hereinafter referred to as "nonconforming products") were shipped to conduct technical verification of the impact on the quality (including safety) of customers' products that used the nonconforming products.

In addition, Kobe Steel has established a Quality Investigation Committee (with Chairman, President and CEO Hiroya Kawasaki as the Chairman of the Committee), conducted self-investigations, implemented an emergency audit by the head office. As of October 25, these investigations have been largely completed.

Furthermore, the Quality Investigation Committee has been working on the causes of the improper conduct and considering measures to prevent recurrence. In carrying out self-inspections, Kobe Steel discovered there was non-compliance with reporting directives. From the viewpoint of the necessity to maintain objectivity and independence, Kobe Steel established an independent investigation committee on October 26 consisting only of outside members. The independent investigation committee, as the main body, will undertake the re-verification of the appropriateness and suitability of the methods and contents and other factors of the self-investigations and emergency audit. The Committee will also thoroughly seek to uncover the causes and consider measures to prevent recurrence.

Related to the improper conduct, Kobe Steel's U.S. subsidiary Kobe Steel USA Inc. received a document from

the U.S. judicial administrative authority requesting the production of documents related to non-conformity with the specification of products sold by Kobe Steel, the U.S. subsidiary or affiliated companies to U.S. customers. The Company and its subsidiaries will cooperate with the investigation.

Depending on how this issue progresses in the future, it is possible that Kobe Steel's consolidated results may be impacted by the occurrence of losses starting with possible compensation to customers and other parties and other effects. At this time, as it is difficult to reasonably estimate the amount of the financial impact, this issue is not reflected in the quarterly consolidated financial statements.

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

None

Supplementary Information for First Half of Fiscal 2017

(April 1 – September 30, 2017)

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

	FY2016 1H	FY2017 1H	% change
Net sales	815.1	907.0	11.3%
Operating income	30.9	51.4	65.9%
Ordinary income	12.3	45.7	3.7 times
Extraordinary income	-	9.0*	-
Net income attributable to owners of the parent	4.1	39.3	9.6 times

*Gain on sale of investment securities: 9.0 billion yen

Fiscal 2017 Consolidated Forecast (In billions of yen)

	FY2016	FY2017			FY2017 Previous Forecast (Jul. 28, 2017)
		1H	2H Forecast	Full Year Forecast	
Net sales	1,695.8	907.0	973.0	1,880.0	1,880.0
Operating income	9.7	51.4	23.6	75.0	80.0
Ordinary income (loss)	(19.1)	45.7	4.3	50.0	55.0
Extraordinary income	8.1	9.0	undecided	undecided	6.7
Net income (loss) attributable to owners of the parent	(23.0)	39.3	undecided	undecided	35.0

Regarding the impact of the improper conduct concerning products of Kobe Steel and its group companies, the impact of deteriorating business performance is reflected in operating income and ordinary income in the above forecast, such as the increase in cost and the decrease in production volume due to the rising defect rate accompanying appropriate quality control, the disposal of nonconforming product inventory related to the cases announced so far in the Aluminum & Copper Business, and certain assumptions about risks to the sales activities of the Kobe Steel Group.

However, outside of those circumstances, it is difficult at this time to make an estimation concerning the factors of deterioration in business performance such as the possible cost of compensation to customers and other parties and other causes.

As such, extraordinary income and net income attributable to owners of the parent are undetermined..

Interim Dividend: None

Fiscal 2017 First Half

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

		FY2016 1H	FY2017 1H	% change
Iron & Steel	Sales	290.3	354.4	22.1%
	Ordinary income (loss)	(9.8)	18.4	-
Welding	Sales	42.2	39.7	(6.0%)
	Ordinary income	3.8	2.5	(33.5%)
Aluminum & Copper	Sales	162.9	174.3	7.0%
	Ordinary income	6.5	7.9	21.7%
Machinery	Sales	72.0	70.5	(2.0%)
	Ordinary income (loss)	3.7	(0.4)	-
Engineering	Sales	49.5	48.0	(3.2%)
	Ordinary income	0.0	1.7	157.1 times
Construction Machinery	Sales	156.1	182.7	17.0%
	Ordinary income (loss)	(0.5)	11.4	-
Electric Power	Sales	35.5	32.9	(7.2%)
	Ordinary income	8.3	3.3	(59.8%)
Other Businesses	Sales	31.2	29.2	(6.6%)
	Ordinary income	2.0	1.7	(12.7%)
Adjustment	Sales	(25.0)	(24.9)	-
	Ordinary loss	(1.8)	(0.9)	-
Total	Sales	815.1	907.0	11.3%
	Ordinary income	12.3	45.7	3.7 times

(2) Production, Sales & Orders

1. Steel Products (Non-consolidated)

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

	FY2016 1H	FY2017 1H
Crude steel	3.84	3.94
Sales volume	2.92	3.04
Export ratio (value base)	29.5%	26.4%

Unit Sales Price (In yen per metric ton)

	FY2016 1H	FY2017 1H
Domestic & export average	68,000	81,500

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

	FY2016			FY2017
	1H	2H	Full Year	1H
Aluminum rolled products	186	173	359	193
Copper strip	26	29	55	30
Copper tube*	45	43	88	42

*Consolidated

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

Orders

	FY2016			FY2017
	1H	2H	Full Year	1H
Domestic	269	313	582	301
Overseas	289	409	699	369
Total orders	558	723	1,282	671

Backlog of Orders (as of the end of each period)

	FY2016		FY2017
	1H	2H	1H
Domestic	378	361	390
Overseas	868	916	962
Total orders	1,246	1,278	1,353

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

	FY2016			FY2017
	1H	2H	Full Year	1H
Domestic	546	564	1,111	512
Overseas	260	371	631	47
Total orders	806	935	1,742	559

Backlog of Orders (as of the end of each period)

	FY2016		FY2017
	1H	2H	1H
Domestic	984	1,026	1,217
Overseas	484	772	692
Total orders	1,468	1,799	1,909

(3) Factors Affecting Ordinary Income (Consolidated, in billions of yen)**(Company-wide)****Comparison of Fiscal 2016 First Half and Fiscal 2017 First Half**

	FY2016 1H	FY2017 1H	Amount of increase
Ordinary income	12.3	45.7	33.4

Factors Increasing Profits		Factors Decreasing Profits	
Production & shipments	46.5	Raw material prices	(41.5)
Overall cost reduction	5.0	Consolidated subsidiaries & equity-method affiliates (except Construction Machinery segment)	(4.0)
Effect of steel inventory valuation*	10.0	Effect of changes in foreign exchange rates on steel business	(2.0)
Effect of aluminum & copper inventory valuation*	6.0		
Construction Machinery segment	12.0		
Other	1.4		
Total	80.9	Total	(47.5)

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

(Iron & Steel segment)**Comparison of Fiscal 2016 First Half and Fiscal 2017 First Half**

	FY2016 1H	FY2017 1H	Amount of increase
Ordinary income (loss)	(9.8)	18.4	28.2

Factors Increasing Profits		Factors Decreasing Profits	
Production & shipments	44.5	Raw material prices	(41.5)
Overall cost reduction	6.0	Effect of changes in foreign exchange rates on steel business	(2.0)
Effect of steel inventory valuation*	10.0		
Other	11.2		
Total	71.7	Total	(43.5)

*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			FY2017 Previous Forecast (Jul. 28)
			1H	2H Forecast	Full year Forecast	
Iron & Steel	Sales	620.6	354.4	355.6	710.0	710.0
	Ordinary income (loss)	(29.5)	18.4	(4.4)	14.0	15.0
Welding	Sales	82.2	39.7	40.3	80.0	80.0
	Ordinary income	6.8	2.5	2.5	5.0	5.0
Aluminum & Copper	Sales	323.3	174.3	170.7	345.0	345.0
	Ordinary income	12.0	7.9	2.1	10.0	14.0
Machinery	Sales	150.7	70.5	102.5	173.0	178.0
	Ordinary income (loss)	5.8	(0.4)	3.9	3.5	5.0
Engineering	Sales	121.1	48.0	81.0	129.0	133.0
	Ordinary income	2.8	1.7	2.8	4.5	4.0
Construction Machinery	Sales	310.4	182.7	157.3	340.0	335.0
	Ordinary income (loss)	(31.3)	11.4	0.6	12.0	10.0
Electric Power	Sales	70.6	32.9	38.1	71.0	69.0
	Ordinary income (loss)	13.0	3.3	(0.3)	3.0	4.0
Other Businesses	Sales	74.8	29.2	41.8	71.0	71.0
	Ordinary income	7.6	1.7	3.8	5.5	6.0
Adjustment	Sales	(58.2)	(24.9)	(14.1)	(39.0)	(41.0)
	Ordinary loss	(6.4)	(0.9)	(6.6)	(7.5)	(8.0)
Total	Sales	1,695.8	907.0	973.0	1,880.0	1,880.0
	Ordinary income (loss)	(19.1)	45.7	4.3	50.0	55.0

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

Production & Sales Volume (In millions of metric tons)

	FY2016	FY2017			FY2017 Previous Forecast (Jul. 28)
		1H	2H Forecast	Full year Forecast	
Crude steel	7.21	3.94	Approx.3.60	Approx.7.55	Approx.7.60
Sales volume	5.93	3.04	Approx.3.10	Approx.6.15	Approx.6.15
Export ratio (value basis)	28.6%	26.4%	Approx.27.0%	Approx.27.0%	Approx.27.0%

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

[1] Comparison of FY2017 First Half and FY2017 2nd Half Forecast (Company-wide)

	FY2017 1H	FY2017 2H Forecast	Amount of Decrease
Ordinary income	45.7	4.3	(41.4)

Factors Increasing Profits		Factors Decreasing Profits	
Raw material prices	4.5	Production & shipments	(9.5)
Overall cost reduction	0.5	Effect of steel inventory valuation*	(1.0)
Consolidated subsidiaries & equity-method affiliates (except Construction Machinery segment)	0.5	Effect of aluminum & copper inventory valuation*	(1.0)
		Construction Machinery segment	(10.8)
		Other	(24.6)
Total	5.5	Total	(46.9)

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

(Iron & Steel segment)**Comparison of FY2017 First Half and FY2017 2nd Half Forecast**

	FY2017 1H	FY2017 2H Forecast	Amount of Decrease
Ordinary income	18.4	(4.4)	(22.8)

Factors Increasing Profits		Factors Decreasing Profits	
Raw material prices	4.5	Production & shipments	(9.5)
Overall cost reduction	2.0	Effect of steel inventory valuation*	(1.0)
		Other	(18.8)
Total	6.5	Total	(29.3)

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

【2】 Comparison of FY2016 Results and FY2017 Forecast**(Company-wide)**

	FY2016	FY2017 Forecast	Amount of increase
Ordinary income	(19.1)	50.0	69.1

Factors Increasing Profits		Factors Decreasing Profits	
Production & shipments	75.0	Raw material prices	(46.5)
Overall cost reduction	21.5	Consolidated subsidiaries & equity-method affiliates (except Construction Machinery segment)	(16.2)
Effect of steel inventory valuation*	2.0	Effect of changes in foreign exchange rates on steel business	(2.5)
Effect of aluminum & copper inventory valuation*	8.5	Other	(16.0)
Construction Machinery segment	43.3	Total	(81.2)
Total	150.3	Total	(81.2)

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

(Iron & Steel segment)**Comparison of FY2016 Results and FY2017 Forecast**

	FY2016	FY2017 Forecast	Amount of increase
Ordinary income	(29.5)	14.0	43.5

Factors Increasing Profits		Factors Decreasing Profits	
Production & shipments	71.0	Raw material prices	(46.5)
Overall cost reduction	24.0	Effect of changes in foreign exchange rates on steel business	(2.5)
Effect of steel inventory valuation*	2.0	Other	(4.5)
Total	97.0	Total	(53.5)

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

【3】 Comparison of Current Forecast and July 28 Forecast for FY2017**(Company-wide)**

	July 28 Forecast	Current Forecast	Amount of Decrease
Ordinary income	55.0	50.0	(5.0)

Factors Increasing Profits		Factors Decreasing Profits	
Production & shipments	5.0	Raw material prices	(6.5)
Effect of steel inventory valuation*	6.0	Overall cost	(1.0)
Effect of aluminum & copper inventory valuation*	1.0	Consolidated subsidiaries & equity-method affiliates (except Construction Machinery segment)	(0.9)
Construction Machinery segment	2.0	Other	(10.6)
Total	14.0	Total	(19.0)

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

(Iron & Steel segment)**Comparison of Current Forecast and July 28 Forecast for FY2017**

	July 28 Forecast	Current Forecast	Amount of Decrease
Ordinary income	15.0	14.0	(1.0)

Factors Increasing Profits		Factors Decreasing Profits	
Production & shipments	3.5	Raw material prices	(6.5)
Effect of steel inventory valuation*	6.0	Overall cost	(1.0)
		Other	(3.0)
Total	9.5	Total	(10.5)

* 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
	1H	2H	Full Year	1H
Operating cash flow	74.1	52.6	126.7	124.9
Investment cash flow	(61.0)	(70.9)	(131.9)	(95.9)
Free cash flow*	13.1	(18.3)	(5.2)	28.9

(*Excludes cash flow from IPP project financing)

Outside Debt (As of the end of each period)

	FY2016		FY2017
	1H	2H	1H
Outside debt *	801.4	789.6	762.4
D/E ratio (times) **	1.19	1.17	1.07
Excluding advanced borrowings of 1,176 billion yen in Mar. 2017, in Sep 2017 (times)		1.00	0.90

* Excludes debt from IPP project financing

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

(5) Exchange Rate

	FY2016	FY2017	
		1H	2H Forecast
1 U.S. dollar to yen	108 yen	112 yen	110 yen
1 Chinese yuan to yen	16.3 yen	16.4 yen	16.0 yen
1 Euro to yen	119 yen	126 yen	125 yen

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

	FY2016	FY2017		
		1H	2H Forecast	Full Year Forecast
Capital investment (accrual basis)	160.2	59.3	80.7	140.0
Capital investment (payment basis)	138.9	66.7	78.3	145.0
Depreciation	96.2	49.8	50.2	100.0

FOR REFERENCE

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

		FY2016							FY2017 Forecast				
		1H			2H			Total	1H			2H	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	180.0	354.4	355.6	710.0
	Ordinary income (loss)	(2.8)	(6.9)	(9.8)	(15.0)	(4.6)	(19.7)	(29.5)	13.0	5.3	18.4	(4.4)	14.0
Welding	Sales	20.6	21.6	42.2	19.4	20.5	39.9	82.2	19.4	20.3	39.7	40.3	80.0
	Ordinary income	1.9	1.9	3.8	1.6	1.3	3.0	6.8	1.1	1.3	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	85.3	174.3	170.7	345.0
	Ordinary income	3.0	3.4	6.5	3.4	2.0	5.4	12.0	6.1	1.8	7.9	2.1	10.0
Machinery	Sales	37.9	34.0	72.0	31.6	47.0	78.7	150.7	30.3	40.2	70.5	102.5	173.0
	Ordinary income (loss)	2.0	1.6	3.7	2.2	(0.0)	2.1	5.8	0.2	(0.7)	(0.4)	3.9	3.5
Engineering	Sales	24.3	25.1	49.5	30.1	41.4	71.5	121.1	19.0	28.9	48.0	81.0	129.0
	Ordinary income (loss)	0.6	(0.6)	0.0	0.1	2.6	2.7	2.8	0.3	1.3	1.7	2.8	4.5
Construction Machinery	Sales	71.4	84.6	156.1	72.6	81.7	154.3	310.4	87.5	95.1	182.7	157.3	340.0
	Ordinary income (loss)	(4.0)	3.4	(0.5)	(32.1)	1.3	(30.8)	(31.3)	3.9	7.4	11.4	0.6	12.0
Electric Power	Sales	17.2	18.3	35.5	15.9	19.1	35.0	70.6	13.9	18.9	32.9	38.1	71.0
	Ordinary income (loss)	3.8	4.4	8.3	2.1	2.5	4.7	13.0	2.4	0.8	3.3	(0.3)	3.0
Other Businesses	Sales	14.8	16.4	31.2	16.5	27.0	43.5	74.8	13.3	15.8	29.2	41.8	71.0
	Ordinary income	0.7	1.2	2.0	0.8	4.6	5.5	7.6	1.0	0.6	1.7	3.8	5.5
Adjustment	Sales	(11.4)	(13.5)	(25.0)	(12.6)	(20.5)	(33.2)	(58.2)	(12.0)	(12.9)	(24.9)	(14.1)	(39.0)
	Ordinary loss	(0.9)	(0.9)	(1.8)	(1.6)	(2.9)	(4.6)	(6.4)	(0.3)	(0.5)	(0.9)	(6.6)	(7.5)
Total	Sales	404.4	410.6	815.1	402.0	478.6	880.7	1,695.8	435.0	472.0	907.0	973.0	1,880.0
	Ordinary income (loss)	4.5	7.7	12.3	(38.3)	6.8	(31.4)	(19.1)	28.2	17.5	45.7	4.3	50.0
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	14.3	39.3	undecided	undecided

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

Production and Sales Volume (in millions of metric tons)

	FY2016						
	1H			2H			Total
	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				
	1H			2H	Total
	1Q	2Q	Subtotal		
Crude steel	1.94	2.00	3.94	Approx.3.60	Approx.7.55
Sales volume	1.52	1.52	3.04	Approx.3.10	Approx.6.15
Export ratio (value basis)	27.1%	25.7%	26.4%	Approx.27.0%	Approx.27.0%

Sales Prices (in yen per metric ton)

	FY2016						
	1H			2H			Total
	1Q	2Q	Subtotal	3Q	4Q	Subtotal	
Domestic & export average	69,000	67,100	68,000	69,000	77,200	73,100	70,600

	FY2017		
	1H		
	1Q	2Q	Subtotal
Domestic & export average	80,800	82,200	81,500

Note:

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

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