

# Kobe Steel's Consolidated Financial Results for the First Nine Months of Fiscal 2017 (April 1 – December 31, 2017)

February 1, 2018

Company name:	Kobe Steel, Ltd.
Code number:	5406
Stock exchanges listed:	Tokyo and Nagoya, Japan
Website:	<a href="http://www.kobelco.co.jp/english/">http://www.kobelco.co.jp/english/</a>
Representative:	Hiroya Kawasaki, Chairman, President, CEO and Representative Director
Filing of quarterly report:	February 1, 2018
Dividend payments begin:	---
Supplemental information available:	Yes
IR Briefing:	Yes (in Japanese only)
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(Sums of less than 1 million yen have been omitted.)

## 1. Consolidated Financial Results for First Nine Months of Fiscal 2017 (April 1 – December 31, 2017)

### (1) Consolidated operating results

(In millions of yen)	FY2016 3Q	% change <sup>1</sup>	FY2017 3Q	% change <sup>1</sup>
Net sales	1,217,186	(10.1%)	1,379,317	13.3%
Operating income (loss)	(4,246)	---	71,839	---
Ordinary income (loss)	(26,002)	---	62,078	---
Net income (loss) attributable to owners of the parent	(36,478)	---	55,823	---
Net income (loss) per share <sup>2</sup>	(100.54 yen)	---	154.10 yen	---
Diluted net income per share <sup>2</sup>	---	---	---	---

Comprehensive income (loss) in FY2016 3Q: (42,854 million yen) FY2017 3Q: 67,358 million yen

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

<sup>2</sup> Kobe Steel carried out a share consolidation at a ratio of 10 shares to 1 share effective on October 1, 2016. Therefore, net income per share takes into account this share consolidation.

### (2) Consolidated financial position

(In millions of yen)	FY2016	FY2017 3Q
Total assets	2,310,435	2,309,365
Net assets	729,404	790,605
Net worth ratio	29.2%	32.2%

Stockholders' equity at the end of FY2016: 673,928 million yen December 31, 2017: 742,477 million yen

## 2. Dividends

Period	Dividends per share in yen <sup>1</sup>				
	1Q	2Q	3Q	4Q	Full Year
FY2016	---	0.00	---	0.00	0.00
FY2017	---	0.00	---	---	---
FY2017 Forecast	---	---	---	---	---

Revision to dividend forecast in FY2017 3Q: No

<sup>1</sup> 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 Full year	% change <sup>1</sup>
Net sales	1,890,000	11.4%
Operating income	75,000	669.3%
Ordinary income	60,000	---
Net income attributable to owners of the parent	45,000	---
Net income per share	124.22 yen	---

Revision to consolidated forecast in FY2017 3Q: Yes

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

For more information, please refer to "Announcement on Revision to Earnings Forecast for Fiscal 2017, ending March 31, 2018" dated February 1, 2018.

## 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 3Q
Common stock (number of issued shares)	364,364,210	364,364,210
Treasury stock (number of shares)	2,108,414	2,116,091
Average number of shares in 3Q	362,804,702	362,251,695

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 3Q 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 Quarterly Financial Results

### (1) Qualitative Information on Consolidated Operating Results

Japan's economy in the first nine months of fiscal 2017 (April 1-December 31, 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 recovering from the slowdown, and the economy in parts of Southeast Asia, the United States, Europe and other areas continued to gradually improve.

In this economic environment in the Kobe Steel Group, the sales volume of steel products increased, compared with the same period of the previous 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 of the previous year. Although demand for can stock for beverage cans was similar to the same period of the previous year, demand in the automotive sector increased. The sales volume of copper rolled products decreased, compared with the same period of the previous 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 of the previous year, owing to higher demand in Japan, China and other markets.

As a result, consolidated sales in the first nine months of fiscal 2017 increased 162.1 billion yen, compared with the same period of the previous year, to 1379.3 billion yen. Operating income improved 76.0 billion yen, compared with the same period of the previous year, to 71.8 billion yen owing to the posting of a one-time expense for the refurbishment of a blast furnace in the Iron & Steel segment and the additional posting of an allowance for retained receivables in the Construction Machinery segment's China business in the same period of the previous year and other factors. Ordinary income\* improved 88.0 billion yen, compared with the same period of the previous year, to 62.0 billion yen. As for extraordinary income and loss, income was posted on the sale of investment securities, resulting in a gain of 9.1 billion yen. Net income attributable to owners of the parent improved 92.3 billion yen to 55.8 billion yen.

Conditions in the business segments in the first nine months of fiscal 2017 follow below.

#### **Iron & Steel**

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

Sales of steel castings and forgings decreased, compared with the same period of the previous year, due to lower demand for ships. Sales of titanium products increased, compared with the same period of the previous year, owing to higher sales to the aircraft sector and other factors.

As a result, consolidated segment sales in the first nine months of fiscal 2017 increased 22.0 percent, compared with the same period of the previous year, to 538.7 billion yen. Ordinary income\* improved 44.8 billion yen, compared with the same period of the previous year, to 19.9 billion yen owing to the posting of a one-time expense for the refurbishment of a blast furnace in the same period of the previous year and other factors.

#### **Welding**

The sales volume of welding materials decreased compared with the same period of the previous 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 of the previous 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 nine months of fiscal 2017 decreased 2.7 percent, compared with the same period of the previous year, to 60.0 billion yen. Ordinary income\* decreased 1.5 billion yen, compared with the same period of the previous year, to 3.9 billion yen.

### **Aluminum & Copper**

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

The sales volume of copper rolled products decreased compared with the same period of the previous 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 nine months of fiscal 2017 increased 8.7 percent, compared with the same period of the previous year, to 260.9 billion yen. Ordinary income increased 0.8 billion yen, compared with the same period of the previous year, to 10.8 billion yen. Although this segment had a cost burden with respect to improper conduct concerning some of the products in the Kobe Steel Group, it benefitted from an improvement in inventory valuation improved and other factors.

### **Machinery**

Consolidated orders in the first nine months of fiscal 2017 increased 17.5 percent, compared with the same period of the previous year, to 96.1 billion yen, as the market had recovered in China's petrochemical sector and other markets. The consolidated backlog of orders at the end of the first nine months of fiscal 2017 stood at 129.8 billion yen.

Consolidated segment sales in the first nine months of fiscal 2017 increased 6.9 percent, compared with the same period of the previous year, to 110.8 billion yen. Ordinary income\* decreased 4.9 billion yen, compared with the same period of the previous year, to 1.0 billion yen due to deterioration of profitability in some of the compressors and other factors.

### **Engineering**

Consolidated orders in the first nine months of fiscal 2017 were 99.9 billion yen, a decrease of 14.9 percent, compared with the same period of the previous year, which saw a large order for a direct reduced iron plant. The consolidated backlog of orders at the end of the first nine months of fiscal 2017 came to 204.0 billion yen.

Consolidated segment sales in the first nine months of fiscal 2017 increased 1.6 percent, compared with the same period of the previous year, to 80.9 billion yen. Ordinary income increased 4.8 billion yen, compared with the same period of the previous year, to 4.9 billion yen due to improved profitability of some ongoing projects and other factors.

### **Construction Machinery**

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

However, unit sales of crawler cranes decreased compared with the same period of the previous year, due to lower demand mainly in Southeast Asia and other factors.

As a result, consolidated segment sales in the first nine months of fiscal 2017 increased 17.0 percent, compared with the same period of the previous year, to 267.6 billion yen. Ordinary income\* in the same period of the previous year was impacted by the posting of an additional allowance for retained receivables incurred in the excavator business in China. However, in the first nine months of fiscal 2017, ordinary income\* improved 48.5 billion yen, compared with the same period of the previous year, to 15.8 billion yen owing to higher unit sales of hydraulic excavators.

## Electric Power

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

As a result, consolidated segment sales in the first nine months of fiscal 2017 decreased 1.8 percent, compared with the same period of the previous year, to 50.5 billion yen. Ordinary income decreased 5.8 billion yen, compared with the same period of the previous year, to 4.6 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 nine months 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 nine months of fiscal 2017 increased 0.6 percent, compared with the same period of the previous year, to 48.0 billion yen. Ordinary income increased 0.6 billion yen, compared with the same period of the previous year, to 3.5 billion yen.

## (2) Qualitative Information on Consolidated Earnings Forecast

At the time of the previous forecast (on October 30, 2017), in connection with the improper conduct concerning some of the products in the Kobe Steel Group, it was difficult to anticipate the impact of factors causing deterioration in business performance such as the possible cost of compensation to customers and other parties. As such, net income attributable to owners of the parent for the full fiscal year was undetermined.

Subsequently, progress has been made in the safety verification of customers' products that have used the concerned nonconforming products. Under certain assumptions at this time, the impact on business performance is included in the forecast of ordinary income for the full fiscal year. In addition, in the Construction Machinery segment the sales volume of hydraulic excavators in China is on an increasing trend and the business performance of this segment has been improving. Consequently, for the full fiscal year, Kobe Steel revises upward its forecast for ordinary income from the previously announced forecast.

As a result, net income attributable to owners of the parent is forecast to be 45.0 billion yen 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.

With regard to the improper conduct concerning products, Kobe Steel takes into consideration uncertainties including its financial position, business performance and future capital needs such as the possible cost of compensation to customers and other parties in fiscal 2017 and beyond. As a result, the dividend for the end of fiscal 2017 is undetermined at this time.

Furthermore, with the enormous amount of cooperation from its customers, Kobe Steel is now earnestly proceeding to verify the safety of customers' products that used the nonconforming products. For details of the progress of the verification, please see the following link.

<http://www.kobelco.co.jp/english/progress/index.html>

### \* 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	FY2016	FY2017 9 Months
	Ended Mar. 31, 2017	Ended Dec. 31, 2017
<b>Current Assets</b>		
Cash and deposits	155,763	139,741
Notes and accounts receivable	295,332	297,893
Merchandise and finished goods	158,512	162,613
Work-in-process	126,109	146,538
Raw materials and supplies	134,399	151,896
Other	178,857	104,047
Allowance for doubtful accounts	(4,652)	(4,987)
Total current assets	1,044,322	997,745
<b>Fixed Assets</b>		
<b>Property, plant and equipment</b>		
Buildings and structures	278,404	276,803
Machinery and equipment	428,335	424,967
Land	195,607	192,100
Other	69,966	76,102
Total property, plant and equipment	972,313	969,973
<b>Intangible fixed assets</b>	24,147	40,733
<b>Investments and other assets</b>		
Investments in securities	166,563	215,173
Other	169,980	154,547
Allowance for doubtful accounts	(66,892)	(68,807)
Total investment and other assets	269,651	300,913
Total fixed assets	1,266,113	1,311,620
<b>Total assets</b>	2,310,435	2,309,365

<b>LIABILITIES</b>	<b>FY2016</b>	<b>FY2017 9 Months</b>
	<b>Ended Mar. 31, 2017</b>	<b>Ended Dec. 31, 2017</b>
<b>Current liabilities</b>		
Notes and accounts payable	414,090	412,868
Short-term borrowings	191,983	194,865
Current portion of Bonds	30,000	24,000
Income and enterprise taxes payable	6,606	5,029
Provisions	50,679	43,605
Other	155,783	153,637
Total current liabilities	<u>849,143</u>	<u>834,006</u>
<b>Long-term liabilities</b>		
Bonds and notes	146,000	132,000
Long-term borrowings	428,943	399,926
Net defined benefit liability	70,159	74,962
Provisions	9,538	2,610
Other	77,246	75,254
Total long-term liabilities	<u>731,887</u>	<u>684,753</u>
<b>Total liabilities</b>	<u>1,581,031</u>	<u>1,518,760</u>
<b>NET ASSETS</b>		
<b>Stockholders' equity</b>		
Common stock	250,930	250,930
Capital surplus	103,537	102,249
Retained earnings	331,679	388,178
Treasury stock, at cost	(2,660)	(2,669)
Total stockholders' equity	<u>683,486</u>	<u>738,688</u>
<b>Accumulated other comprehensive income</b>		
Unrealized gains on securities, net of taxes	17,475	26,794
Unrealized losses on hedging derivatives, net of taxes	(9,229)	(10,231)
Land revaluation differences, net of taxes	(3,406)	(3,406)
Foreign currency translation adjustments	7,708	11,671
Remeasurements of defined benefit plans, net of taxes	(22,106)	(21,038)
Total accumulated other comprehensive income	<u>(9,557)</u>	<u>3,789</u>
<b>Non-controlling interests</b>	<u>55,476</u>	<u>48,127</u>
<b>Total net assets</b>	<u>729,404</u>	<u>790,605</u>
<b>Total liabilities and net assets</b>	<u>2,310,435</u>	<u>2,309,365</u>

## (2) Consolidated Statements of Income

(In millions of yen)

	<u>FY2016 9 Months</u>	<u>FY2017 9 Months</u>
	<u>Ended Dec. 31, 2016</u>	<u>Ended Dec. 31, 2017</u>
<b>Net sales</b>	1,217,186	1,379,317
<b>Cost of sales</b>	1,051,906	1,164,187
<b>Gross profit</b>	165,279	215,130
<b>Selling, general and administrative expenses</b>	169,525	143,290
<b>Operating income (loss)</b>	(4,246)	71,839
<b>Non-operating income</b>		
Interest income	1,814	1,786
Dividend income	3,194	3,718
Reimbursement of seconded employees' salaries	3,302	2,807
Equity in income of equity method companies	1,649	4,585
Other	6,032	5,870
Total non-operating income	15,993	18,768
<b>Non-operating expenses</b>		
Interest expense	9,863	9,126
Seconded employees' salaries	8,013	7,196
Other	19,873	12,206
Total non-operating expenses	37,750	28,530
<b>Ordinary income (loss)</b>	(26,002)	62,078
<b>Extraordinary income</b>		
Gain on sale of investment securities	—	9,140
Total extraordinary income	—	9,140
<b>Income (loss) before income taxes and non-controlling interests</b>	(26,002)	71,218
<b>Income taxes</b>		
Current	4,406	11,414
Deferred	4,142	5,562
Total income taxes	8,548	16,976
<b>Income (loss) before non-controlling interests</b>	(34,551)	54,241
<b>Net income (loss) attributable to non-controlling interests</b>	1,927	(1,581)
<b>Net income (loss) attributable to owners of the parent</b>	(36,478)	55,823

### (3) Consolidated Statements of Comprehensive Income

(In millions of yen)

	<u>FY2016 9 Months</u>	<u>FY2017 9 Months</u>
	<u>Ended Dec. 31, 2016</u>	<u>Ended Dec. 31, 2017</u>
<b>Income (loss) before non-controlling interests</b>	(34,551)	54,241
<b>Other comprehensive income (loss)</b>		
Unrealized gains or losses on securities, net of taxes	12,142	8,582
Unrealized gains or losses on hedging derivatives, net of taxes	(1,333)	(935)
Foreign currency translation adjustments	(18,278)	485
Remeasurements of defined benefit plans, net of taxes	968	1,043
Share of other comprehensive gains and losses related to equity-method companies	(1,801)	3,940
Total other comprehensive income (loss)	(8,303)	13,116
<b>Comprehensive Income (loss)</b>	<u>(42,854)</u>	<u>67,358</u>
Breakdown of total comprehensive income (loss) attributed to:		
Stockholders of the parent interests	(41,292)	69,171
Non-controlling interests	(1,561)	(1,812)

### (4) Notes on premise of a going concern:

None

### (5) Notes on Consolidated Balance Sheets:

#### Contingent liabilities

The Kobe Steel Group discovered the fact that a portion of the products supplied to customers did not comply with the product specifications agreed with customers. Data in inspection certificates had been improperly rewritten etc., and the products were shipped as having met the specifications concerned. The Kobe Steel Group also found that products that did not meet JIS standards, but displaying the JIS mark, were shipped. (Hereinafter these facts are referred to as "improper conduct.")

Based on this fact, the Kobe Steel Group has received notice of cancellation and suspension of JIS certifications at some of its locations.

The Kobe Steel Group is 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. For almost all customers, safety verification has been completed.

There are customers who are still verifying, but to date we have identified no issues that require customers to cease using the Kobe Steel Group products or the Kobe Steel Group to recall products immediately.

In addition, Kobe Steel established an Independent Investigation Committee to ensure independence and objectivity. The purpose of the Independent Investigation Committee is to verify the appropriateness and validity of the self-investigation and emergency audits by the Kobe Steel Group, probe the direct causes of the improper conduct and the background factors such as the corporate culture, compliance and the organizational management systems, and give recommendations on remedial measures to prevent a recurrence.

The investigation is currently underway, but there is a possibility that new improper cases may be revealed in the investigation results and other findings.

In connection to the improper conduct, Kobe Steel USA Inc., a U.S. subsidiary of Kobe Steel, Ltd., 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 the Kobe Steel Group to U.S. customers.

In addition, in Canada, lawsuits have been filed regarding the metal products produced for automobiles by the Kobe Steel Group. In the future, lawsuits may possibly be filed with regard to the improper conduct.

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 such as the cost of compensation to customers and other parties. 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 the First Nine Months of Fiscal 2017**  
(April 1 – December 31, 2017)

**Consolidated Operating Results for the First Nine Months of Fiscal 2017** (In billions of yen)

	FY2016 3Q	FY2017 3Q	% change
Net sales	1,217.1	1,379.3	13.3%
Operating income (loss)	(4.2)	71.8	-
Ordinary income (loss)	(26.0)	62.0	-
Extraordinary income	-	9.1*	-
Net income (loss) attributable to owners of the parent	(36.4)	55.8	-

\*Gain on sale of investment securities: 9.1 billion yen

**Fiscal 2017 Consolidated Forecast** (In billions of yen)

	FY2016	FY2017	
		Previous Forecast (Oct. 30)	Current Forecast
Net sales	1,695.8	1,880.0	1,890.0
Operating income	9.7	75.0	75.0
Ordinary income (loss)	(19.1)	50.0	60.0
Extraordinary income	8.1*	undecided	9.1**
Net income (loss) attributable to owners of the parent	(23.0)	undecided	45.0

\* Reversal of Allowance for doubtful accounts: 8.1 billion yen

\*\* Gain on sale of investment securities: 9.1 billion yen

**Year-end Dividend for Fiscal 2017: Undecided**

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

		FY2016		FY2017	
		9 Months Ended Dec.31, 2016	Full Year	9 Months Ended Dec.31, 2017	Full Year Forecast
Iron & Steel	Sales	441.6	620.6	538.7	715.0
	Ordinary income (loss)	(24.9)	(29.5)	19.9	15.0
Welding	Sales	61.7	82.2	60.0	80.0
	Ordinary income	5.5	6.8	3.9	5.0
Aluminum & Copper	Sales	239.9	323.3	260.9	345.0
	Ordinary income	9.9	12.0	10.8	8.0
Machinery	Sales	103.7	150.7	110.8	171.0
	Ordinary income	5.9	5.8	1.0	3.5
Engineering	Sales	79.6	121.1	80.9	128.0
	Ordinary income	0.1	2.8	4.9	5.0
Construction Machinery	Sales	228.7	310.4	267.6	355.0
	Ordinary income (loss)	(32.7)	(31.3)	15.8	18.0
Electric Power	Sales	51.4	70.6	50.5	72.0
	Ordinary income	10.5	13.0	4.6	6.0
Other Businesses	Sales	47.7	74.8	48.0	69.0
	Ordinary income	2.9	7.6	3.5	4.5
Adjustment	Sales	(37.6)	(58.2)	(38.5)	(45.0)
	Ordinary loss	(3.4)	(6.4)	(2.7)	(5.0)
Total	Sales	1,217.1	1,695.8	1,379.3	1,890.0
	Ordinary income (loss)	(26.0)	(19.1)	62.0	60.0

## (2) Production & Sales of Steel Products (Non-consolidated)

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

	FY2016		FY2017		FY2017 Previous Forecast (Oct. 30)
	9 Months Ended Dec. 31, 2016	Full Year	9 Months Ended Dec. 31, 2017	Full Year	
Crude steel	5.27	7.21	5.74	Approx. 7.50	Approx. 7.55
Sales volume	4.40	5.93	4.57	Approx. 6.05	Approx. 6.15
Export ratio (value base)	28.9%	28.6%	27.3%	Approx. 27.0%	Approx. 27.0%

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

	FY2016		FY2017	
	9 Months Ended Dec. 31, 2016	Full Year	9 Months Ended Dec. 31, 2017	Full Year
Domestic&export average	68,300	70,600	81,500	Approx.82,000

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

### [1] Comparison of FY 2016 9 Months and FY 2017 9 Months (Companywide)

	9 Months Ended Dec. 31, 2016	9 Months Ended Dec. 31, 2017	Amount of increase
Ordinary income (loss)	(26.0)	62.0	88.0

Factors Increasing Profits		Factors Decreasing Profits	
Production & shipments	70.5	Raw material prices	(45.5)
Overall cost reduction	4.0	Effect of changes in foreign exchange rates on steel business	(3.0)
Effect of steel inventory valuation*	8.0	Electric Power segment	(5.8)
Effect of aluminum & copper inventory valuation*	9.5	Other	(1.7)
Consolidated subsidiaries & equity-method affiliates (excluding Construction Machinery segment & Electric Power segment)	3.5		
Construction Machinery segment	48.5		
Total	144.0	Total	(56.0)

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

### (Iron & Steel segment)

	9 Months Ended Dec. 31, 2016	9 Months Ended Dec. 31, 2017	Amount of increase
Ordinary income (loss)	(24.9)	19.9	44.8

Factors Increasing Profits		Factors Decreasing Profits	
Production & shipments	69.0	Raw material prices	(45.5)
Overall cost reduction	6.0	Effect of changes in foreign exchange rates on steel business	(3.0)
Effect of steel inventory valuation*	8.0		
Consolidated subsidiaries & equity-method affiliates	5.0		
Other	5.3		
Total	93.3	Total	(48.5)

\* 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  
(Companywide)**

	FY2016	FY2017 Forecast	Amount of increase
Ordinary income (loss)	(19.1)	60.0	79.1

Factors Increasing Profits		Factors Decreasing Profits	
Production & shipments	76.0	Raw material prices	(53.0)
Overall cost reduction	23.5	Effect of changes in foreign exchange rates on steel business	(5.0)
Effect of steel inventory valuation*	6.0	Consolidated subsidiaries & equity-method affiliates (excluding	
Effect of aluminum & copper inventory valuation*	11.0	Construction Machinery segment & Electric Power segment)	(5.5)
Construction Machinery segment	49.3	Electric Power segment	(7.0)
		Other	(16.2)
Total	165.8	Total	(86.7)

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

**(Iron & Steel segment)**

	FY2016	FY2017 Forecast	Amount of increase
Ordinary income (loss)	(29.5)	15.0	44.5

Factors Increasing Profits		Factors Decreasing Profits	
Production & shipments	75.5	Raw material prices	(53.0)
Overall cost reduction	26.5	Effect of changes in foreign exchange rates on steel business	(5.0)
Effect of steel inventory valuation*	6.0	Other	(8.0)
Consolidated subsidiaries & equity-method affiliates	2.5		
Total	110.5	Total	(66.0)

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

**[3] Comparison of Current Forecast and Previous Forecast for FY2017  
(Companywide)**

	Previous Forecast	Current Forecast	Amount of increase
Ordinary income	50.0	60.0	10.0

Factors Increasing Profits		Factors Decreasing Profits	
Production & shipments	1.5	Raw material prices	(7.5)
Overall cost reduction	1.5	Consolidated subsidiaries & equity-method affiliates (excluding	(3.5)
Effect of steel inventory valuation*	4.0	Construction Machinery segment & Electric Power segment)	
Effect of aluminum & copper inventory valuation*	2.5		
Construction Machinery segment	6.0		
Electric Power segment	3.0		
Other	2.5		
Total	21.0	Total	(11.0)

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

**(Iron & Steel segment)**

	Previous Forecast	Current Forecast	Amount of increase
Ordinary income	14.0	15.0	1.0

Factors Increasing Profits		Factors Decreasing Profits	
Production & shipments	3.5	Raw material prices	(7.5)
Overall cost reduction	1.5	Other	(1.5)
Effect of steel inventory valuation*	4.0		
Consolidated subsidiaries & equity-method affiliates	1.0		
Total	10.0	Total	(9.0)

\* 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
Operating cash flow	126.7	185.0
Investment cash flow	(131.9)	(190.0)
Free cash flow*	(5.2)	(5.0)

(\*Excludes cash flow from IPP project financing)

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

	FY2016	FY2017 Forecast
Outside debt <sup>1</sup>	789.6	750.0
D/E ratio (times) <sup>2</sup>	1.17	Approx. 1.00
Excluding advanced borrowings (times) <sup>3</sup>	1.00	

<sup>1</sup> Excludes debt from IPP project financing

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

<sup>3</sup> FY2016 : 1,176 billion yen

**(5) Exchange Rate**

	FY2016	FY2017	
		9 Months Ended Dec. 31	Full-Year Forecast
1 U.S. dollar to yen	108 yen	112 yen	110 yen
1 Chinese yuan to yen	16.3 yen	16.6 yen	17.0 yen
1 Euro to yen	119 yen	129 yen	130 yen

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

	FY2016	FY2017 Forecast
Capital investment (accrual basis)	160.2	140.0
Capital investment (payment basis)	138.9	145.0
Depreciation	96.2	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	3Q	4Q	Subtotal	
Iron & Steel	Sales	144.2	146.0	290.3	151.3	178.9	330.2	620.6	174.4	180.0	354.4	184.2	176.4	360.6	715.0
	Ordinary income (loss)	(2.8)	(6.9)	(9.8)	(15.0)	(4.6)	(19.7)	(29.5)	13.0	5.3	18.4	1.4	(4.8)	(3.4)	15.0
Welding	Sales	20.6	21.6	42.2	19.4	20.5	39.9	82.2	19.4	20.3	39.7	20.3	20.0	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	1.3	1.2	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	86.5	84.2	170.7	345.0
	Ordinary income (loss)	3.0	3.4	6.5	3.4	2.0	5.4	12.0	6.1	1.8	7.9	2.8	(2.7)	0.1	8.0
Machinery	Sales	37.9	34.0	72.0	31.6	47.0	78.7	150.7	30.3	40.2	70.5	40.2	60.3	100.5	171.0
	Ordinary income (loss)	2.0	1.6	3.7	2.2	(0.0)	2.1	5.8	0.2	(0.7)	(0.4)	1.5	2.4	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	32.9	47.1	80.0	128.0
	Ordinary income (loss)	0.6	(0.6)	0.0	0.1	2.6	2.7	2.8	0.3	1.3	1.7	3.2	0.1	3.3	5.0
Construction Machinery	Sales	71.4	84.6	156.1	72.6	81.7	154.3	310.4	87.5	95.1	182.7	84.9	87.4	172.3	355.0
	Ordinary income (loss)	(4.0)	3.4	(0.5)	(32.1)	1.3	(30.8)	(31.3)	3.9	7.4	11.4	4.3	2.3	6.6	18.0
Electric Power	Sales	17.2	18.3	35.5	15.9	19.1	35.0	70.6	13.9	18.9	32.9	17.6	21.5	39.1	72.0
	Ordinary income	3.8	4.4	8.3	2.1	2.5	4.7	13.0	2.4	0.8	3.3	1.3	1.4	2.7	6.0
Other Businesses	Sales	14.8	16.4	31.2	16.5	27.0	43.5	74.8	13.3	15.8	29.2	18.8	21.0	39.8	69.0
	Ordinary income	0.7	1.2	2.0	0.8	4.6	5.5	7.6	1.0	0.6	1.7	1.7	1.1	2.8	4.5
Adjustment	Sales	(11.4)	(13.5)	(25.0)	(12.6)	(20.5)	(33.2)	(58.2)	(12.0)	(12.9)	(24.9)	(13.6)	(6.5)	(20.1)	(45.0)
	Ordinary loss	(0.9)	(0.9)	(1.8)	(1.6)	(2.9)	(4.6)	(6.4)	(0.3)	(0.5)	(0.9)	(1.8)	(2.3)	(4.1)	(5.0)
Total	Sales	404.4	410.6	815.1	402.0	478.6	880.7	1,695.8	435.0	472.0	907.0	472.2	510.8	983.0	1,890.0
	Ordinary income (loss)	4.5	7.7	12.3	(38.3)	6.8	(31.4)	(19.1)	28.2	17.5	45.7	16.2	(1.9)	14.3	60.0
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	16.4	(10.7)	5.7	45.0

**(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	3Q	4Q	Subtotal	
Crude steel	1.94	2.00	3.94	1.80	Approx. 1.75	Approx. 3.55	Approx. 7.50
Sales volume	1.52	1.52	3.04	1.53	Approx. 1.45	Approx. 3.00	Approx. 6.05
Export ratio (value basis)	27.1%	25.7%	26.4%	29.3%	Approx. 28.0%	Approx. 28.0%	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 Forecast						
	1H			2H			Total
	1Q	2Q	Subtotal	3Q	4Q	Subtotal	
Domestic & export average	80,800	82,200	81,500	81,500	Approx. 83,000	Approx. 82,000	Approx. 82,000

**Note:**

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

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