

# Kobe Steel's Consolidated Financial Results for First Quarter of Fiscal 2015 (April 1 – June 30, 2015)

July 28, 2015

Company name:	Kobe Steel, Ltd.
Code number:	5406
Stock exchanges where shares are listed:	Tokyo, and Nagoya, Japan
Website:	www.kobelco.com
President & CEO:	Hiroya Kawasaki
Filing of quarterly report:	July 31, 2015
Dividend payments begin:	---
Supplemental information available:	Yes
IR Briefing:	Yes (in Japanese only)

(Sums of less than 1 million yen have been omitted.)

## 1. Consolidated Financial Results for First Quarter of Fiscal 2015 (April 1 – June 30, 2015)

### (1) Consolidated operating results

(In millions of yen)	FY2014 1Q	% change*	FY2015 1Q	% change*
Net sales	444,790	6.3%	460,086	3.4%
Operating income	27,987	44.6%	25,268	(9.7%)
Ordinary income	21,583	26.0%	21,807	1.0%
Net income attributable to owners of the parent	22,943	22.6%	11,881	(48.2%)
Net income per share	6.31 yen		3.26 yen	
Diluted net income per share	---		---	

Comprehensive income in FY2014 1Q: 29,574 million yen    FY2015 1Q: 12,546 million yen

\* Indicates percentage of change from the corresponding period of the previous fiscal year

### (2) Consolidated financial position

(In millions of yen)	FY2014	FY2015 1Q
Total assets	2,300,241	2,302,821
Net assets	851,785	856,123
Net worth ratio	33.8%	34.0%

Stockholders' equity at FY2014: 776,491 million yen    June 30, 2015: 783,539 million yen

## 2. Dividends

Period	Dividends per share in yen				
	1Q	2Q	3Q	4Q	Full year
FY2014	---	2.00	---	2.00	4.00
FY2015	---	---	---	---	---
FY2015 Forecast	---	2.00	---	---	---

Revision to dividend forecast in FY2015 1Q: Yes

The dividend for the end of fiscal 2015 is undetermined.

## 3. Consolidated Forecast for Fiscal 2015 (April 1, 2015 - March 31, 2016)

(In millions of yen)	FY2015 1st half	% change*	FY2015 Full year	% change*
Net sales	950,000	3.7%	1,950,000	3.3%
Operating income	50,000	(12.6%)	125,000	4.6%
Ordinary income	40,000	(13.3%)	95,000	(6.6%)
Net income attributable to owners of the parent	20,000	(52.5%)	60,000	(30.7%)
Net income per share	5.50 yen		16.51 yen	

\* Indicates percentage of change from the corresponding period of the previous fiscal year

Revision to consolidated forecast in FY2015 1Q: Yes

## Notes

- (1) Change in number of material subsidiaries in fiscal year: No  
(Changes in specified subsidiaries due to changes in scope of consolidation)
- (2) Adoption of specific accounting procedures for preparing the quarterly consolidated financial statements: No
- (3) Changes in accounting policies, estimates and restatement on the preparation of quarterly consolidated financial statements
- Changes in accounting policies due to revised accounting standards: No
  - Other changes: No
  - Changes in accounting estimates: No
  - Restatement: No

(4) Number of issued shares

	FY 2014	FY2015 1Q
Common stock (number of issued shares)	3,643,642,100	3,643,642,100
Treasury stock (number of shares)	10,082,049	10,115,571
Average number of shares in 1Q	3,633,686,356*	3,633,538,523

\*FY2014 1Q

## 1. Qualitative Information on Consolidated Operating Results

Japan's economy in the first quarter of fiscal 2015 (April 1-June 30, 2015) has recovered, compared with the same period last year, which was affected by the downturn from the last-minute surge in demand prior to the rise in the consumption tax on April 1, 2014. Personal spending and capital investments also continued to grow moderately. The economies of the United States and Europe continued on a moderate recovery track. However, the economies of China and Southeast Asia continued to decelerate.

In this economic environment, at the Kobe Steel Group, the sales volume of steel products increased, compared with the same period last year, which encountered production trouble. Although demand from the automotive sector decreased due to inventory adjustments by customer companies, demand from the shipbuilding sector remained firm.

The sales volume of aluminum rolled products increased, compared with the same period last year, owing to firm demand for aluminum can stock for beverage containers and efforts to expand sales in the automotive sector, mainly in export markets. The sales volume of copper rolled products decreased, compared with the same period last year, due to lower demand for copper strip used in automotive connectors and semiconductors, and copper tubes for air conditioners.

Unit sales of hydraulic excavators also decreased, compared with the same period last year, due to low overseas demand, mainly in China.

As a result, consolidated sales in the first quarter of fiscal 2015 increased 15.2 billion yen, compared with the same period last year, to 460.0 billion yen. Operating income decreased 2.7 billion yen, compared with the same period last year, to 25.2 billion yen. Ordinary income\* (also known as "pretax recurring profit" or simply "pretax profit") was similar to same period last year at 21.8 billion yen owing to an increase in non-operating income.

Kobe Steel posted an extraordinary loss from loss on the valuation of investment securities from an affiliated company in the construction machinery business in China. As a result, net income attributable to owners of the parent for the first quarter decreased 11.0 billion yen to 11.8 billion yen, compared with the same period last year, which saw an increase in deferred tax assets.

Conditions in the business segments for the first quarter of fiscal 2015 follow below:

### **Iron & Steel Business**

Although demand for steel products decreased in the automotive sector due to inventory adjustments by customer companies, demand from the shipbuilding industry remained firm, resulting in higher sales volume, compared with the same period last year, which encountered production trouble. However, lower primary raw material prices led to a decrease in the sales price, compared with the same period last year.

Sales of steel castings and forgings increased, compared with the same period last year, owing to firm demand from the domestic shipbuilding sector. Sales of titanium products decreased, compared with the same period last year, due to changes in the sales mix of products.

As a result, consolidated segment sales in the first quarter of fiscal 2015 were 189.1 billion yen, similar to the same period last year. Ordinary income\* increased 2.8 billion yen, compared with the same period last year, to 6.0 billion yen, as sales volume increased and primary raw material prices decreased.

### **Welding Business**

The sales volume of welding materials decreased compared with the same period last year. Although domestic demand was firm in the shipbuilding sector, oversea demand decreased in Southeast Asia, China and the United States. However, sales of welding systems increased, compared with the same period last year, owing to strong demand from the domestic construction sector.

As a result, consolidated segment sales in the first quarter of fiscal 2015 increased 2.3 percent, compared with the same period last year, to 23.2 billion yen. Ordinary income\* decreased 54 million yen, compared with the same period last year, to 2.0 billion yen.

### **Aluminum & Copper Business**

The sales volume of aluminum rolled products increased, compared with the same period last year, owing to firm demand for aluminum can stock for beverage containers and efforts to expand sales in the automotive sector, mainly in export markets. Sales of aluminum castings and forgings also increased, compared with the same period last year, due to firm demand from the overseas automotive market.

The sales volume of copper rolled products decreased, compared with the same period last year, due to lower demand for copper strip used in automotive connectors and semiconductors, and copper tubes for air conditioners.

As a result, consolidated segment sales in the first quarter of fiscal 2015 increased 13.4 percent, compared with the same period last year, to 92.8 billion yen. Ordinary income\* increased 2.6 billion yen, compared with the same period last year, to 6.2 billion yen.

### **Machinery Business**

Due to the intensification of the competitive environment of compressors for the oil refining and the petrochemical sectors mainly overseas, consolidated orders in the first quarter of fiscal 2015 decreased 20.8 percent, compared with the same period last year, in which large orders were received, to 28.5 billion yen. The consolidated backlog of orders at the end of the first quarter of fiscal 2015 stood at 131.8 billion yen.

Consolidated segment sales in the first quarter of fiscal 2015 increased 9.7 percent, compared with the same period last year, to 40.5 billion yen, owing to the posting of sales of compressors for the petrochemical sector. Ordinary income\* decreased 0.3 billion yen, compared with the same period last year, to 1.6 billion yen, due to profit decline associated with intensification of the competitive environment centered on compressors and plastic processing machinery.

### **Engineering Business**

Consolidated orders in the first quarter of fiscal 2015 increased 124.0 percent, compared with the same period last year, to 10.9 billion yen, due to an order for a large direct reduction plant overseas. The consolidated backlog of orders at the end of the first quarter of fiscal 2015 stood at 69.0 billion yen.

Consolidated segment sales in the first quarter of fiscal 2015 increased 20.0 percent, compared with the same period last year, to 10.3 billion yen, owing to steady progress in the construction of large direct reduction plants. Ordinary loss\* was 0.3 billion yen, an improvement of 18 million yen from the

same period last year.

### **Kobelco Eco-Solutions**

Consolidated orders in the first quarter of fiscal 2015 increased 6.9 percent, compared with the same period last year, to 31.2 billion yen, due to higher orders in the waste treatment-related business. The consolidated backlog of orders at the end of the first quarter of fiscal 2015 stood at 65.7 billion yen.

Consolidated segment sales in the first quarter of fiscal 2015 increased 20.8 percent, compared with the same period last year, to 14.5 billion yen, due to progress in the construction of previously ordered large projects in the waste treatment-related business. Ordinary income\* increased 0.3 billion yen, compared with the same period last year, to 0.3 billion yen.

### **Kobelco Construction Machinery**

Unit sales of hydraulic excavators decreased in the first quarter of fiscal 2015, compared with the same period last year. In Japan, there was saturation in replacement demand. Unit sales overseas decreased, due to sluggish demand for infrastructure investments in China and other areas.

As a result, consolidated segment sales in the first quarter of fiscal 2015 decreased 13.4 percent, compared with the same period last year, to 70.3 billion yen. Ordinary income\* decreased 6.2 billion yen, compared with the same period last year, to 1.2 billion yen.

### **Kobelco Cranes**

Unit sales of crawler cranes were similar to the same period last year, owing to firm demand in Japan, North America, Asia and other areas.

As a result, consolidated segment sales in the first quarter of fiscal 2015 increased 6.7 percent, compared with the same period last year, to 18.1 billion yen. Due to increased expenses needed for sales promotion activities, ordinary income\* decreased 0.7 billion yen, compared with the same period last year, to 1.0 billion yen.

### **Other Businesses**

In Shinko Real Estate Co., Ltd.'s property sales business, the number of units handed over to customers increased and the leasing business continued to be firm. At Kobelco Research Institute, Inc., demand in the testing and research businesses continued to be firm in the automotive-related sector.

Due to these conditions, segment sales in the first quarter of fiscal 2015 increased 26.0 percent, compared with the same period last year, to 18.1 billion yen. Ordinary income\* increased 1.0 billion yen, compared with the same period last year, to 1.9 billion yen.

#### **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 (expense) and non-operating income (expense), but before extraordinary income and loss. It is also called "pretax recurring profit" or simply "pretax profit."

## **2. Qualitative Information on Consolidated Earnings Forecast**

In comparison to the previous forecast on April 28, 2015, although Japan's economy continues on a moderate recovery track, the world economy faces strong uncertainty due to the prolonged slowdown in the economies of China and other emerging countries as well as other factors, leading to concern over future prospects.

In light of these conditions, although Kobelco Construction Machinery's performance has worsened since the original forecast, industry conditions in the other business segments are anticipated to continue being firm on the whole. Making certain assumptions on uncertain factors such as steel raw material prices, the steel sales price and steel sales volume, Kobe Steel maintains the previous forecast for operating income, ordinary income\* and net income attributable to owners of the parent for the full fiscal 2015.

**Dividends**

Kobe Steel's basic policy is to provide continuous and stable dividends to its stockholders. Dividends are decided taking into account the Company's financial condition, business performance, future capital needs and other factors from a comprehensive standpoint. With these factors in mind, Kobe Steel has decided on a policy to pay an interim dividend of 2 yen per share for the first half of fiscal 2015.

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## CONSOLIDATED FINANCIAL STATEMENTS

### (1) Consolidated Balance Sheets

(In millions of yen)

#### ASSETS

##### Current Assets

	FY2014 Ended Mar. 31, 2015	FY2015 1Q Ended Jun. 30, 2015
Cash and deposits	103,181	118,246
Notes and accounts receivable	355,579	326,698
Merchandise and finished goods	185,077	193,862
Work-in-process	119,436	120,293
Raw materials and supplies	138,161	139,070
Other	160,218	173,764
Allowance for doubtful accounts	(8,648)	(8,673)
Total current assets	<u>1,053,006</u>	<u>1,063,262</u>

##### Tangible fixed assets

Buildings and structures	288,175	284,571
Machinery and equipment	401,505	393,557
Land	195,837	196,105
Other	41,475	44,501
Total tangible fixed assets	<u>926,994</u>	<u>918,734</u>

##### Intangible fixed assets

	20,038	20,283
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##### Investments and other assets

Investments in securities	207,931	207,472
Other	94,501	95,337
Allowance for doubtful accounts	(2,230)	(2,268)
Total investment and other assets	<u>300,201</u>	<u>300,541</u>
Total fixed assets, investments and other assets	<u>1,247,234</u>	<u>1,239,559</u>

##### Total assets

	<u>2,300,241</u>	<u>2,302,821</u>
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#### LIABILITIES

##### Current liabilities

	FY2014 Ended Mar. 31, 2015	FY2015 1Q Ended Jun. 30, 2015
Notes and accounts payable	424,269	401,446
Short-term borrowings	221,371	234,244
Bonds due within one year	20,000	10,000
Income and enterprise taxes payable	14,010	3,630
Provisions	38,565	27,714
Other	145,238	153,191
Total current liabilities	<u>863,455</u>	<u>830,228</u>

##### Long-term liabilities

Bonds and notes	131,000	181,000
Long-term borrowings	304,974	284,346
Net defined benefit liability	59,573	60,932
Provisions	15,697	15,844
Other	73,756	74,346
Total long-term liabilities	<u>585,001</u>	<u>616,469</u>

##### Total liabilities

	<u>1,448,456</u>	<u>1,446,698</u>
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## Net Assets

### Stockholders' equity

Common stock	250,930	250,930
Capital surplus	100,782	100,782
Retained earnings	392,652	397,254
Treasury stock, at cost	(2,996)	(3,003)
Total stockholders' equity	<u>741,368</u>	<u>745,963</u>

### Accumulated other comprehensive income

Unrealized gains on securities, net of taxes	27,097	31,415
Unrealized losses on hedging derivatives, net of taxes	(2,415)	(2,141)
Land revaluation differences, net of taxes	(3,560)	(3,560)
Foreign currency translation adjustments	22,892	20,843
Remeasurements of defined benefit plans, net of taxes	(8,891)	(8,981)
Total accumulated other comprehensive income	<u>35,122</u>	<u>37,575</u>

### Noncontrolling interests

75,293	72,584
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### Total net assets

<u>851,785</u>	<u>856,123</u>
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### Total liabilities and net assets

<u>2,300,241</u>	<u>2,302,821</u>
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## (2) Consolidated Statements of Income

(In millions of yen)

	<b>FY2014 1Q</b> Ended Jun. 30, 2014	<b>FY2015 1Q</b> Ended Jun. 30, 2015
<b>Net sales</b>	444,790	460,086
<b>Cost of sales</b>	371,963	388,277
<b>Gross profit</b>	72,826	71,808
<b>Selling, general and administrative expenses</b>	44,838	46,540
<b>Operating income</b>	27,987	25,268
<b>Non-operating income</b>		
Interest income	929	988
Dividend income	1,510	1,820
Reimbursement of seconded employees' salaries	1,358	1,353
Equity in income of equity method companies	1,163	150
Other	2,042	4,650
Total non-operating income	7,004	8,963
<b>Non-operating expenses</b>		
Interest expense	3,963	3,665
Seconded employees' salaries	3,243	2,986
Other	6,202	5,771
Total non-operating expenses	13,409	12,424
<b>Ordinary income</b>	21,583	21,807
<b>Extraordinary loss</b>		
Loss on write-down of investment securities	---	3,946
Total extraordinary loss	---	3,946
<b>Income before income taxes and noncontrolling interests</b>	21,583	17,860
<b>Income taxes</b>		
Current	3,727	3,862
Deferred	(7,191)	3,652
Total income taxes	(3,463)	7,515
<b>Income before Noncontrolling interests</b>	25,047	10,345
<b>Net income attributable to noncontrolling interests</b>	2,103	(1,535)
<b>Net income attributable to owners of the parent</b>	22,943	11,881



### (3) Consolidated Statements of Comprehensive Income

(In millions of yen)

	<b>FY2014 1Q</b>	<b>FY2015 1Q</b>
	<b>Ended Jun. 30, 2014</b>	<b>Ended Jun. 30, 2015</b>
<b>Income before noncontrolling interests</b>	25,047	10,345
<b>Other comprehensive income</b>		
Unrealized gains on securities, net of taxes	6,745	4,144
Unrealized gains on hedging derivatives, net of taxes	1,247	90
Foreign currency translation adjustments	(5,808)	(1,920)
Remeasurements of defined benefit plans, net of taxes	2,408	(75)
Share of other comprehensive losses related to affiliates	(65)	(37)
Total other comprehensive income	4,527	2,200
<b>Comprehensive Income</b>	<b>29,574</b>	<b>12,546</b>
Breakdown of total comprehensive income attributed to:		
Stockholders of the parent	29,288	14,333
Noncontrolling interests	286	(1,787)

#### (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 2015

(April 1 – June 30, 2015)

### Consolidated Operating Results for First Quarter of Fiscal 2015 (In billions of yen)

	FY2014 1Q	FY2015 1Q	% change
Net sales	444.7	460.0	3.4%
Operating income	27.9	25.2	(9.7%)
Ordinary income	21.5	21.8	1.0%
Extraordinary loss	---	(3.9)**	---
Net income attributable to owners of the parent*	22.9	11.8	(48.2%)

\* Due to a revision of the "Accounting Standard for Business Combinations," "net income" changed to "net income attributable to owners of the parent" from fiscal 2015.

\*\* Loss on the valuation of investment securities: 3.9 billion yen

### Fiscal 2015 Consolidated Forecast (In billions of yen)

	FY2014	FY2015		FY2015 Forecast		
		Full year	1st half	Previous Forecast (Apr. 28, 2015) Full year	1st half	Full year
Net sales	1,886.8	980.0	980.0	1,990.0	950.0	1,950.0
Operating income	119.4	50.0	50.0	125.0	50.0	125.0
Ordinary income	101.6	40.0	40.0	95.0	40.0	95.0
Extraordinary income (loss)	2.6	---	---	---	(3.9)	(3.9)
Net income attributable to owners of the parent*	86.5	25.0	25.0	60.0	20.0	60.0

\* Due to a revision of the "Accounting Standard for Business Combinations," "net income" changed to "net income attributable to owners of the parent" from fiscal 2015.

**Interim Dividend:** 2 yen

### Fiscal 2015 First Quarter

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

		FY2014 1Q	FY2015 1Q	% change
Iron & Steel	Sales	186.7	189.1	1.3%
	Ordinary income	3.1	6.0	89.9%
Welding	Sales	22.7	23.2	2.3%
	Ordinary income	2.1	2.0	(2.6%)
Aluminum & Copper	Sales	81.8	92.8	13.4%
	Ordinary income	3.6	6.2	70.9%
Machinery	Sales	36.9	40.5	9.7%
	Ordinary income	1.9	1.6	(15.6%)
Engineering	Sales	8.6	10.3	20.0%
	Ordinary loss	(0.4)	(0.3)	---
Kobelco Eco-Solutions	Sales	12.0	14.5	20.8%
	Ordinary income	0.0	0.3	481.2%
Kobelco Construction Machinery	Sales	81.2	70.3	(13.4%)
	Ordinary income	7.5	1.2	(82.7%)
Kobelco Cranes	Sales	16.9	18.1	6.7%
	Ordinary income	1.7	1.0	(41.6%)
Other Businesses	Sales	14.3	18.1	26.0%
	Ordinary income	0.9	1.9	105.8%
Adjustment	Sales	(16.7)	(17.1)	---
	Ordinary income	0.7	1.5	96.2%
Total	Sales	444.7	460.0	3.4%
	Ordinary income	21.5	21.8	1.0%

## (2) Production and Sales of Steel Products (Nonconsolidated)

### Production and Sales Volume (in millions of metric tons)

	FY2014 1Q	FY2015 1Q
Crude steel	1.77	1.84
Sales volume	1.44	1.48
Export ratio (value basis)	30.5%	34.8%

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

	FY2014 1Q	FY2015 1Q
Domestic & export average	82,500	80,500

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

### Comparison of Fiscal 2014 1Q and Fiscal 2015 1Q

	FY2014 1Q	FY2015 1Q	Amount of Increase
Ordinary income	21.5	21.8	0.2

Factors Increasing Profits		Factors Decreasing Profits	
Raw material prices	21.5	Production & shipments	(7.0)
Effect of aluminum & copper inventory valuation*	0.5	Overall costs	(1.0)
		Effect of steel inventory valuation*	(2.5)
		Consolidated subsidiaries & equity-valued affiliates	(6.5)
		Effect of changes in foreign exchange rates on steel business	(4.0)
		Other	(0.8)
Total	22.0	Total	(21.8)

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

## Fiscal 2015 Forecast

### (1) Consolidated Sales & Ordinary Income (loss) for FY2015 by Segment (In billions of yen)

		FY2014	FY2015		FY2015 Forecast	
			Previous Forecast (Apr. 28, 2015)		1st half	Full year
Iron & Steel	Sales	797.8	385.0	790.0	375.0	765.0
	Ordinary income	28.7	13.0	35.0	12.0	35.0
Welding	Sales	94.4	48.0	98.0	47.0	96.0
	Ordinary income	10.2	4.0	9.0	4.0	9.0
Aluminum & Copper	Sales	330.8	190.0	380.0	185.0	375.0
	Ordinary income	15.1	8.0	16.0	9.0	16.0
Machinery	Sales	159.1	86.0	178.0	87.0	174.0
	Ordinary income	10.4	2.5	8.0	2.0	6.5
Engineering	Sales	49.0	26.0	53.0	27.0	55.0
	Ordinary income	0.7	0.5	0.0	1.5	0.5
Kobelco Eco-Solutions	Sales	68.1	34.0	83.0	34.0	83.0
	Ordinary income	3.0	0.2	3.5	0.2	3.5
Kobelco Construction Machinery	Sales	311.0	165.0	315.0	145.0	300.0
	Ordinary income	21.0	11.0	20.0	3.0	10.0
Kobelco Cranes	Sales	71.1	40.0	81.0	40.0	80.0
	Ordinary income	5.1	2.0	5.0	1.5	5.0
Other Businesses	Sales	76.0	36.0	78.0	35.0	78.0
	Ordinary income	7.0	2.0	7.5	2.0	7.5
Adjustment	Sales	(70.7)	(30.0)	(66.0)	(25.0)	(56.0)
	Ordinary income (loss)	(0.0)	(3.2)	(9.0)	4.8	2.0
Total	Sales	1,886.8	980.0	1,990.0	950.0	1,950.0
	Ordinary income	101.6	40.0	95.0	40.0	95.0

## (2) Production and Sales of Steel Products (Nonconsolidated)

### Production and Sales Volume (In millions of metric tons)

	FY2014			FY2015 Forecast		
	1st half	2nd half	Full year	1st half	2nd half	Full year
Crude steel	3.67	3.81	7.48	Approx. 3.80	Approx. 3.90	Approx. 7.70
Sales volume	2.94	3.11	6.05	Approx. 3.05	Approx. 3.15	Approx. 6.20
Export ratio (value basis)	30.6%	33.6%	32.1%	35%	33%	34%

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

### Comparison of Current Forecast and Previous Forecast for Fiscal 2015 1st Half

	Previous Forecast	Current Forecast	Amount of Increase
Ordinary income	40.0	40.0	---

Factors Increasing Profits		Factors Decreasing Profits	
Raw material prices	7.5	Production & shipments	(4.0)
Other	10.5	Overall costs	(1.5)
		Effect of steel inventory valuation*	(1.5)
		Effect of aluminum & copper inventory valuation*	(0.5)
		Consolidated subsidiaries & equity-valued affiliates	(10.5)
Total	18.0	Total	(18.0)

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

### Comparison of Current Forecast and Previous Forecast for Fiscal 2015

	Previous Forecast	Current Forecast	Amount of Increase
Ordinary income	95.0	95.0	---

Factors Increasing Profits		Factors Decreasing Profits	
Raw material prices	21.0	Production & shipments	(16.5)
Other	14.5	Overall costs	(1.5)
		Effect of steel inventory valuation*	(5.0)
		Effect of aluminum & copper inventory valuation*	(1.0)
		Consolidated subsidiaries & equity-valued affiliates	(11.5)
Total	35.5	Total	(35.5)

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

### Comparison of Forecast for Fiscal 2015 1st Half and Forecast for Fiscal 2015 2nd Half

	FY2015 1st half Forecast	FY2015 2nd half Forecast	Amount of Increase
Ordinary income	40.0	55.0	15.0

Factors Increasing Profits		Factors Decreasing Profits	
Raw material prices	8.5	Production & shipments	(8.5)
Overall cost reduction	1.0	Effect of aluminum & copper inventory valuation*	(0.5)
Effect of steel inventory valuation*	3.0	Other	(5.0)
Consolidated subsidiaries & equity-valued affiliates	16.5		
Total	29.0	Total	(14.0)

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

### Comparison of Fiscal 2015 Forecast and Fiscal 2014 Result

	FY2014	FY2015 Forecast	Amount of Decrease
Ordinary income	101.6	95.0	(6.6)

Factors Increasing Profits		Factors Decreasing Profits	
Raw material prices	67.5	Production & shipments	(46.5)
Overall cost reduction	2.0	Effect of steel inventory valuation*	(3.0)
		Effect of aluminum & copper inventory valuation*	(1.0)
		Consolidated subsidiaries & equity-valued affiliates	(9.5)
		Effect of changes in foreign exchange rates on steel business	(10.5)
		Other	(5.6)
Total	69.5	Total	(76.1)

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

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

#### Cash Flow

	FY2014	FY2015 Forecast
Free cash flow	69.6	30.0

(Excludes cash flow from IPP project financing)

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

	FY2014	FY2015 Forecast
Outside debt*	650.9	Approx. 635.0
D/E ratio (times) **	0.88	1 or less

\* Excludes debt from IPP project financing.

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

### (5) Exchange Rates

	FY2014	FY2015 1Q	FY2015 2Q onward
1 U.S. dollar to yen	110 yen	121 yen	120 yen
1 Chinese yuan to yen	17.7 yen	19.6 yen	19.0 yen

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

	FY2014	FY2015 Forecast	% change
Capital expenditures (accrual basis)	103.5	120.0	15.9%
Depreciation	89.8	110.0	22.5%

## FOR REFERENCE

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

		FY2014							FY2015 Forecast				
		1st Half			2nd Half			Total	1st Half			2nd Half	Total
		1Q	2Q	subtotal	3Q	4Q	subtotal		1Q	2Q	subtotal		
Iron & Steel	Sales	186.7	199.8	386.6	200.3	210.7	411.1	797.8	189.1	185.9	375.0	390.0	765.0
	Ordinary income	3.1	7.2	10.4	9.9	8.4	18.3	28.7	6.0	6.0	12.0	23.0	35.0
Welding	Sales	22.7	22.9	45.6	24.3	24.4	48.8	94.4	23.2	23.8	47.0	49.0	96.0
	Ordinary income	2.1	2.5	4.6	2.8	2.7	5.6	10.2	2.0	2.0	4.0	5.0	9.0
Aluminum & Copper	Sales	81.8	79.6	161.5	82.9	86.3	169.3	330.8	92.8	92.2	185.0	190.0	375.0
	Ordinary income	3.6	2.4	6.0	4.6	4.4	9.1	15.1	6.2	2.8	9.0	7.0	16.0
Machinery	Sales	36.9	36.0	73.0	37.4	48.6	86.1	159.1	40.5	46.5	87.0	87.0	174.0
	Ordinary income	1.9	1.2	3.2	4.4	2.6	7.1	10.4	1.6	0.4	2.0	4.5	6.5
Engineering	Sales	8.6	10.4	19.0	11.1	18.8	29.9	49.0	10.3	16.7	27.0	28.0	55.0
	Ordinary income (loss)	(0.4)	(0.1)	(0.5)	(0.2)	1.5	1.3	0.7	(0.3)	1.8	1.5	(1.0)	0.5
Kobelco Eco-Solutions	Sales	12.0	15.1	27.1	16.3	24.5	40.9	68.1	14.5	19.5	34.0	49.0	83.0
	Ordinary income (loss)	0.0	0.3	0.3	0.9	1.7	2.6	3.0	0.3	(0.1)	0.2	3.3	3.5
Kobelco Construction Machinery	Sales	81.2	88.4	169.7	70.0	71.2	141.2	311.0	70.3	74.7	145.0	155.0	300.0
	Ordinary income	7.5	8.6	16.1	4.4	0.4	4.8	21.0	1.2	1.8	3.0	7.0	10.0
Kobelco Cranes	Sales	16.9	18.9	35.8	15.8	19.3	35.2	71.1	18.1	21.9	40.0	40.0	80.0
	Ordinary income	1.7	1.4	3.1	1.3	0.6	1.9	5.1	1.0	0.5	1.5	3.5	5.0
Other Businesses	Sales	14.3	16.0	30.4	17.2	28.3	45.5	76.0	18.1	16.9	35.0	43.0	78.0
	Ordinary income	0.9	0.9	1.9	1.8	3.2	5.1	7.0	1.9	0.1	2.0	5.5	7.5
Adjustment	Sales	(16.7)	(16.4)	(33.1)	(18.0)	(19.5)	(37.6)	(70.7)	(17.1)	(7.9)	(25.0)	(31.0)	(56.0)
	Ordinary income (loss)	0.7	(0.2)	0.5	1.3	(1.9)	(0.5)	(0.0)	1.5	3.3	4.8	(2.8)	2.0
Total	Sales	444.7	471.2	916.0	457.7	513.1	970.8	1,886.8	460.0	490.0	950.0	1,000.0	1,950.0
	Ordinary income	21.5	24.5	46.1	31.5	23.9	55.5	101.6	21.8	18.2	40.0	55.0	95.0
Net income attributable to owners of the parent*		22.9	19.1	42.1	22.0	22.4	44.4	86.5	11.8	8.2	20.0	40.0	60.0

\* Due to a revision of the "Accounting Standard for Business Combinations," "net income" changed to "net income attributable to owners of the parent" from fiscal 2015.

## Quarterly Production and Sales of Steel Products (Nonconsolidated)

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

	FY2014						
	1st Half			2nd Half			Total
	1Q	2Q	Subtotal	3Q	4Q	Subtotal	
Crude steel	1.77	1.90	3.67	1.92	1.89	3.81	7.48
Sales volume	1.44	1.50	2.94	1.53	1.58	3.11	6.05
Export ratio (value basis)	30.5%	30.8%	30.6%	32.2%	34.9%	33.6%	32.1%

	FY2015 Forecast				
	1st Half			2nd Half	Total
	1Q	2Q	Subtotal		
Crude steel	1.84	Approx. 1.95	Approx. 3.80	Approx. 3.90	Approx. 7.70
Sales volume	1.48	Approx. 1.55	Approx. 3.05	Approx. 3.15	Approx. 6.20
Export ratio (value basis)	34.8%	35.0%	35.0%	33.0%	34.0%

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

	FY2014							FY2015 1Q
	1st Half			2nd Half			Total	
	1Q	2Q	Subtotal	3Q	4Q	Subtotal		
Domestic & export average	82,500	82,300	82,400	82,200	79,900	81,000	81,700	80,500

**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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