

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: | http://www.kobelco.co.jp/english/ |
| 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) |
| Contact: | Tel. +81 (0)3 5739-6010 |

(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 ¹ | FY2017 3Q | % change ¹ |
|--|--------------|-----------------------|------------|-----------------------|
| 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 ² | (100.54 yen) | --- | 154.10 yen | --- |
| Diluted net income per share ² | --- | --- | --- | --- |

Comprehensive income (loss) in FY2016 3Q: (42,854 million yen) FY2017 3Q: 67,358 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 | 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 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 3Q: No

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

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

| (In millions of yen) | FY2017 Full year | % change ¹ |
|---|------------------|-----------------------|
| 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

¹ 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 |
| Current Assets | | |
| 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 |
| Fixed Assets | | |
| Property, plant and equipment | | |
| 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 |
| Intangible fixed assets | 24,147 | 40,733 |
| Investments and other assets | | |
| 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 |
| Total assets | 2,310,435 | 2,309,365 |

| LIABILITIES | FY2016 | FY2017 9 Months |
|--|----------------------------|----------------------------|
| | Ended Mar. 31, 2017 | Ended Dec. 31, 2017 |
| Current liabilities | | |
| 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> |
| Long-term liabilities | | |
| 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> |
| Total liabilities | <u>1,581,031</u> | <u>1,518,760</u> |
| NET ASSETS | | |
| Stockholders' equity | | |
| 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> |
| Accumulated other comprehensive income | | |
| 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> |
| Non-controlling interests | <u>55,476</u> | <u>48,127</u> |
| Total net assets | <u>729,404</u> | <u>790,605</u> |
| Total liabilities and net assets | <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> |
| Net sales | 1,217,186 | 1,379,317 |
| Cost of sales | 1,051,906 | 1,164,187 |
| Gross profit | 165,279 | 215,130 |
| Selling, general and administrative expenses | 169,525 | 143,290 |
| Operating income (loss) | (4,246) | 71,839 |
| Non-operating income | | |
| 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 |
| Non-operating expenses | | |
| 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 |
| Ordinary income (loss) | (26,002) | 62,078 |
| Extraordinary income | | |
| Gain on sale of investment securities | — | 9,140 |
| Total extraordinary income | — | 9,140 |
| Income (loss) before income taxes and non-controlling interests | (26,002) | 71,218 |
| Income taxes | | |
| Current | 4,406 | 11,414 |
| Deferred | 4,142 | 5,562 |
| Total income taxes | 8,548 | 16,976 |
| Income (loss) before non-controlling interests | (34,551) | 54,241 |
| Net income (loss) attributable to non-controlling interests | 1,927 | (1,581) |
| Net income (loss) attributable to owners of the parent | (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> |
| Income (loss) before non-controlling interests | (34,551) | 54,241 |
| Other comprehensive income (loss) | | |
| 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 |
| Comprehensive Income (loss) | <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 ¹ | 789.6 | 750.0 |
| D/E ratio (times) ² | 1.17 | Approx. 1.00 |
| Excluding advanced borrowings (times) ³ | 1.00 | |

¹ Excludes debt from IPP project financing

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

³ 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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