

Kobe Steel's Consolidated Financial Results for the First Nine Months of Fiscal 2019 (April 1 – December 31, 2019)

February 6, 2020

Company name: Kobe Steel, Ltd.
 Code number: 5406
 Stock exchanges listed: Tokyo and Nagoya, Japan
 Website: <https://www.kobelco.co.jp/english/>
 Representative: Mitsugu Yamaguchi, President, CEO and Representative Director
 Filing of quarterly report: February 6, 2020
 Dividend payments begin: ---
 Supplemental information available: Yes
 IR Briefing: Yes (in Japanese only)
 Contact: Corporate Communications Department
 Tel. +81 (0)3 5739-6010

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

1. Consolidated results for the First Nine Months of FY2019 (April 1–December 31, 2019)

(1) Consolidated operating results

(% of change from the corresponding period of the previous year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2019 3Q	1,388,845	(4.1)	14,301	(62.6)	7,111	(73.9)	7,217	(84.0)
FY2018 3Q	1,448,359	5.0	38,240	(46.8)	27,199	(56.2)	45,033	(19.3)

Note: Comprehensive income(loss) FY2019 3Q: (2,630)million yen [—]
 FY2018 3Q: 30,431million yen [(54.8)%]

	Net income per share	Diluted net income per share
	Yen	Yen
FY2019 3Q	19.90	---
FY2018 3Q	124.30	---

(2) Consolidated financial position

	Total assets	Net assets	Equity capital ratio
	Million yen	Million yen	%
FY2019 3Q	2,410,576	796,334	30.5
FY2018	2,384,973	803,312	31.0

Reference: Equity capital FY2019 3Q: 735,627million yen FY2018: 739,576million yen

2. Dividends

	Annual dividends				
	1Q	2Q	3Q	4Q	Total
FY2018	Yen ---	Yen 10.00	Yen ---	Yen 10.00	Yen 20.00
FY2019	---	0.00	---		
FY2019 Forecast				0.00	0.00

Revision to dividend forecast in FY2019 3Q: Yes

For more information, please refer to "Announcement on Revision to Dividend Forecast for Fiscal 2019, ending March 31, 2020" dated February 6, 2020.

3. Consolidated earnings forecast for FY2019 (April 1, 2019–March 31, 2020)

(% of change from the corresponding period of the previous year)

	Net sales		Operating income(loss)		Ordinary income (loss)		Net income(loss) attributable to owners of the parent		Net income(loss) per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	1,890,000	(4.2)	(5,000)	---	(25,000)	---	(15,000)	---	(41.36)

Revision to consolidated forecast in FY2019 3Q: Yes

For more information, please refer to “Revision to Consolidated Earnings Forecast and Announcement on Nonconsolidated Earnings Forecast for Fiscal 2019, ending March 31, 2020” dated February 6, 2020.

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 (common stock)

Number of issued shares (including treasury stock)
Number of shares of treasury stock
Average number of shares (3Q)

	FY2019 3Q	FY2018
Number of issued shares (including treasury stock)	364,364,210 shares	364,364,210 shares
Number of shares of treasury stock	1,665,218 shares	2,055,945 shares
Average number of shares (3Q)	362,569,339 shares	362,290,182 shares

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 6.

1. Qualitative Information on Consolidated Operating Results

(1) Qualitative Information on Consolidated Operating Results

Japan's economy in the first nine months of fiscal 2019 (April 1–December 31, 2019) saw personal spending recovering owing to improvements in employment and income conditions and corporate investments continuing to be firm, although sluggishness was seen centered on the manufacturing industry owing to the continued slump in exports from the slowdown in the world economy. Overseas economies saw a slowdown in economic growth from the impact of U.S.-China trade friction and other factors.

In this economic environment, the sales volume of steel products in the Kobe Steel Group decreased year on year as demand decreased mainly for automobiles overseas. The sales volume of aluminum and copper rolled products declined year on year as demand fell for semiconductors, in IT, automotive terminals and other areas. Unit sales of hydraulic excavators were on the whole similar to the same period of the previous year owing to higher unit sales in Japan and China, although declining in Southeast Asia and India.

As a result, consolidated net sales for the first nine months of fiscal 2019 decreased 59.5 billion yen year on year to 1,388.8 billion yen. Operating income decreased 23.9 billion yen year on year to 14.3 billion yen. Ordinary income decreased 20.0 billion yen year on year to 7.1 billion yen. Net income attributable to owners of the parent worsened 37.8 billion yen to 7.2 billion yen, compared with the previous fiscal year, which saw Kobe Steel posting extraordinary income from the partial transfer of shares held in Shinko Real Estate Co., Ltd.

Conditions by business segment for the first nine months of fiscal 2019 follow below.

Iron & Steel

The sales volume of steel products decreased year on year as demand fell mainly for automobiles overseas from the impact of U.S.-China trade friction. Sales prices increased year on year, reflecting the rise in prices of the main raw materials and other factors.

Sales of steel castings and forgings decreased year on year owing to the decline in sales volume as demand worsened. Sales of titanium products increased year on year as sales expanded in the aircraft sector and other factors.

As a result, consolidated segment sales for the first nine months of fiscal 2019 decreased 2.4% year on year to 545.5 billion yen. In addition to lower sales volume, the product mix of steel products and steel castings and forgings worsened, leading to ordinary loss worsening 7.8 billion yen year on year to ordinary loss of 4.6 billion yen.

Welding

The sales volume of welding materials was similar to the same period of the previous year as demand increased for architectural steel frames in Japan and for LNG shipbuilding in the Republic of Korea, although demand was sluggish in Southeast Asia centered on Thailand and Indonesia and due to other factors.

Sales of welding systems increased year on year as domestic demand for the renewal of facilities, which use architectural steel frames, continued to remain firm.

As a result, consolidated segment sales in the first nine months of fiscal 2019 increased 2.8% year on year to 63.7 billion yen. Ordinary income increased 0.1 billion yen year on year, to 2.5 billion yen.

Aluminum & Copper

The sales volume of aluminum rolled products decreased year on year as demand declined for semiconductors and in IT.

The sales volume of copper rolled products decreased year on year as demand for copper strip used in automotive terminals and semiconductors declined, although demand was firm for copper tubes.

As a result, consolidated segment sales for the first nine months of fiscal 2019 decreased 7.5% year on year to 251.4 billion yen. Ordinary loss worsened 13.7 billion yen year on year to ordinary loss of 12.7 billion yen owing to the impact of equipment trouble at an overseas subsidiary and other factors, in addition to lower sales volume and the worsening of the impact from inventory valuation.

Machinery

Orders in the consolidated first nine months of fiscal 2019 decreased 3.0% year on year to 110.3 billion yen as several large orders in the industry machinery business were posted in the same period of the previous year, although demand remained firm in the petrochemical sector. The backlog of orders at the end of the consolidated first nine months of fiscal 2019 stood at 154.9 billion yen.

Consolidated segment sales for the first nine months of fiscal 2019 decreased 3.5% year on year to 117.3 billion yen owing to the posting of sales from large orders of compressors used in the petrochemical sector in the previous year. Ordinary income increased 5.1 billion yen year on year to 6.5 billion yen owing to improved profitability, higher sales of after-sales services, and other factors.

Engineering

Orders in the consolidated first nine months of fiscal 2019 came to 95.8 billion yen, down 8.0% from the same period in the previous year, which saw orders for several large projects in the waste treatment business. The backlog of orders at the end of the consolidated first nine months of fiscal 2019 stood at 178.5 billion yen.

Owing to the progress of existing orders and change in the composition of projects, consolidated segment sales for the first nine months of fiscal 2019 increased 6.6% year on year to 95.8 billion yen. Ordinary income increased 1.8 billion yen year on year to 4.5 billion yen.

Construction Machinery

Unit sales of hydraulic excavators on the whole were similar to the same period of the previous year as corporate capital investments were firm in Japan and unit sales rose owing to higher government-led public investments in China. However, unit sales decreased in Southeast Asia due to a temporary decline in demand affected by delays in infrastructure construction.

Unit sales of crawler cranes decreased year on year as competition from overseas manufacturers intensified mainly in Southeast Asia.

Owing to changes in the sales composition of hydraulic excavators and the impact of the high yen on the exchange rate of the euro, consolidated segment sales for the first nine months of fiscal 2019 decreased 6.5% year on year to 277.8 billion yen. Ordinary income declined 13.8 billion yen year on year to 8.7 billion yen owing to a decrease in the reversal of allowance for doubtful receivables year on year and decrease in sales.

Electric Power

The amount of electricity sold was higher year on year owing to the start of the No. 1 unit of the Moka Power Plant in October 2019. The unit price of electricity decreased year on year, affected by a market fall in the price of coal for power generation.

As a result, consolidated segment sales for the first nine months of fiscal 2019 decreased 5.0% year on year to 51.6 billion yen. However, ordinary income improved 6.7 billion yen to 3.4 billion yen year on year with the operation of the No. 1 unit of the Moka Power Plant and the posting of expenses for arranging project finance for the No. 3 unit and No. 4 unit of the Kobe Power Plant in the same period of the previous year.

Other Businesses

At Kobelco Research Institute, Inc., sales on the whole were similar to the same period of the previous year. Although sales decreased in the sputtering target business, sales increased in the testing and research business and semiconductor inspection equipment business.

In comparison to the same period of the previous year when Shinko Real Estate Co., Ltd. was within the scope of consolidation until the first quarter of fiscal 2018, consolidated segment sales for the first nine months of fiscal 2019 decreased 27.2% to 21.3 billion yen. Ordinary income decreased 0.9 billion yen year on year to 0.7 billion yen.

Progress of the Medium-Term Management Plan

The Kobe Steel Group in April 2016 established the Fiscal 2016–2020 Group Medium-Term Management Plan and launched initiatives under KOBELCO VISION “G+”, its medium- to long-term business vision.

Since 2016, the Kobe Steel Group has been making steady progress in consolidating upstream processes in the steel business, restructuring the construction machinery business in China, promoting new projects in the electric power business, and undertaking other initiatives. On the other hand, there are also changes in the circumstances faced by the Kobe Steel Group, including changes in the market environment such as higher raw material prices and energy prices, equipment trouble, delayed profitability of strategic investments, discovery of the quality misconduct, and other issues. To achieve its medium- to long-term business vision, the Kobe Steel Group recognizes that it must tackle these new issues.

Under these circumstances, the Kobe Steel Group compiled priority issues and measures to be implemented in the remaining two years of the Medium-Term Management Plan under a “rolling,” or revision, of its existing Medium-Term Management Plan and announced the revised plan in May 2019. The key themes of the revised Medium-Term Management Plan follow below.

Key Themes of the Rolling of the Medium-Term Management Plan	
Key Themes for Fiscal Years 2019–2020	Strengthen profitability with a focus on materials <ul style="list-style-type: none"> ● Strengthen <i>monozukuri</i> capabilities and increase sales prices ● Obtain returns on strategic investment projects ● Make further contributions to customers by reorganizing the Iron & Steel Business and Aluminum & Copper Business
	Make efficient use of management resources and strengthen the business foundation
Continuing Themes for the next Management Plan from Fiscal 2021	Continue to strengthen corporate governance (Continue initiatives for measures to prevent recurrence of the quality misconduct)
	Expand initiatives to secure and cultivate human resources
	Strengthen IT strategies
	Promote sustainability management that leverages the distinctive features of the Kobe Steel Group (Contribute to the environment and society through business activities; pursue sustainable growth)

For details on the medium- to long-term business vision KOBELCO VISION “G+”, please see the News Releases section of our website: <https://www.kobelco.co.jp/english/>

Link to “Kobe Steel’s Fiscal 2016–2020 Group Medium-Term Management Plan,” April 5, 2016: https://www.kobelco.co.jp/english/releases/1194607_15581.html

Link to “Rolling of the Fiscal 2016–2020 Group Medium-Term Management Plan,” May 15, 2019: https://www.kobelco.co.jp/english/releases/1201246_15581.html

Progress of the Fiscal 2016–2020 Group Medium-Term Management Plan and the Rolling of the Medium-Term Management Plan in the First 9 Months of fiscal 2019

- In the electric power business, Japan’s first inland gas-fired electric power plant currently under construction in Moka, Tochigi Prefecture, successfully completed trial operation of its No. 1 unit and began commercial operation on October 1, 2019. In addition, construction of the No. 2 unit is also progressing as planned, and operation is planned to begin in the first half of 2020.

- As a part of making efficient use of management resources and strengthening its business foundation as one of the key themes in fiscal 2019 and fiscal 2020, Kobe Steel is working to strengthen Group governance, including the restructuring of Group companies. To promote greater efficiency in its aluminum extrusion business, Kobe Steel decided to absorb subsidiary Shinko Fabtech, Ltd. (planned merger date: April 2020).

In regard to Kobelco & Materials Copper Tube Co., Ltd. (KMCT), which manufactures and sells copper tubes for air-conditioning, copper tubes for construction and cold/hot water supply, and other products, Kobe Steel

judged that KMCT's business development would be effective under new capital ties, in an aim to further improve the corporate value of KMCT, and decided to transfer a portion of the shares it holds in KMCT to another company (planned transfer date: March 2020).

In regard to Kobelco Steel Tube Co., Ltd. (KST), which produces and sells seamless stainless steel tubes, precision tubes and specialty tubes and produces titanium welding tubes, Kobe Steel judged that KST's business development would be more effective under new capital ties, in an aim to further increase the corporate value of KST, and decided to transfer all of its shares held in KST to another company (planned transfer date: April 2020).

In addition, in an effort to make efficient use of its management resources, Kobe Steel will reduce its strategically held shares when necessary.

- From the viewpoint of securing outstanding human resources and creating a pleasant work environment for employees as continuing themes for the next medium-term management plan starting from fiscal 2021, Kobe Steel has been continuing to promote work-style reforms and diversity. It was recently awarded the "Platinum Kurumin" certification from Japan's Minister of Health, Labour and Welfare as a corporation that continues to provide excellent child care support (August 2019).

The Kobe Steel Group is sincerely tackling these issues and steadily undertaking the key themes of the management plan as it moves forward into the future.

(2) Qualitative Information on Consolidated Earnings Forecast

In comparison to the previous forecast announced on November 6, 2019, Japan's current economy, centered on the manufacturing industry, is anticipated to remain weak amid the slump in exports. With the deceleration trend also continuing overseas, it is necessary to keep a close watch as the impact of the new coronavirus on economic activity, geopolitical risks and other factors may possibly cause a further slowdown in the world economy. Under such conditions, Kobe Steel has revised its consolidated earnings forecast for the full fiscal 2019 year as below.

In the Iron & Steel segment, domestic and overseas demand is anticipated to decrease centered on automobiles overseas and construction in Japan. As a result, Kobe Steel has factored in an expected decline in sales volume, a worsening of the impact from inventory valuation, and other factors in its forecast.

The Aluminum & Copper segment forecasts that semiconductor and IT demand will recover later than anticipated and sales volume will decrease owing to reduced automotive demand. Affected by the decrease in volume, the Aluminum & Copper Segment has taken into consideration that cost improvements will not proceed as expected.

In addition, the Construction Machinery segment has factored in lower unit sales in Southeast Asia centered on Indonesia, India and North America and other factors.

In the previous announcement, loss on valuation of investment securities was factored in as extraordinary loss. However, in today's revised forecast, as stock prices have recovered since then, loss on valuation of investment securities has not been factored in.

As a result, the Kobe Steel Group's net sales, operating income, ordinary income and net income attributable to owners of the parent are revised downward from the previously announced forecast.

Dividends

Kobe Steel takes its financial condition, business performance, future capital needs and other factors into overall consideration as a basis to pay continuous and stable dividends. Dividends are decided after taking into account the business performance of each period, the dividend payout ratio and other factors.

At this time, net income attributable to owners of the parent is anticipated to become net loss. Taking this and other factors into overall consideration, Kobe Steel has unfortunately passed a resolution at its Board of Directors meeting on a policy to forgo the year-end dividend.

*** 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

Consolidated Balance Sheets

(In millions of yen)

ASSETS	FY2018	FY2019 9 Months
	Ended Mar. 31, 2019	Ended Dec. 31, 2019
Current Assets		
Cash and deposits	173,899	165,004
Notes and accounts receivable	343,288	299,929
Merchandise and finished goods	178,080	192,145
Work-in-process	131,198	152,451
Raw materials and supplies	167,127	180,516
Other	112,868	91,788
Allowance for doubtful accounts	(4,212)	(3,955)
Total current assets	1,102,249	1,077,879
Fixed Assets		
Property, plant and equipment		
Buildings and structures	257,510	261,786
Machinery and equipment	429,209	453,735
Land	144,459	144,253
Other	99,405	141,501
Total property, plant and equipment	930,584	1,001,276
Intangible fixed assets	32,640	31,580
Investments and other assets		
Investments in securities	190,008	167,981
Other	173,075	170,269
Allowance for doubtful accounts	(43,585)	(38,411)
Total investment and other assets	319,498	299,839
Total fixed assets	1,282,723	1,332,696
Total assets	2,384,973	2,410,576

LIABILITIES	FY2018	FY2019 9 Months
	Ended Mar. 31, 2019	Ended Dec. 31, 2019
Current liabilities		
Notes and accounts payable	455,310	408,345
Short-term borrowings	116,382	115,513
Current portion of bonds	22,215	30,215
Income and enterprise taxes payable	7,080	3,142
Provisions	53,062	41,337
Other	157,676	156,657
Total current liabilities	<u>811,727</u>	<u>755,211</u>
Long-term liabilities		
Bonds and notes	111,837	81,622
Long-term borrowings	509,929	623,868
Net defined benefit liability	81,079	87,535
Provisions	6,042	4,040
Other	61,043	61,962
Total long-term liabilities	<u>769,932</u>	<u>859,029</u>
Total liabilities	<u>1,581,660</u>	<u>1,614,241</u>
NET ASSETS		
Stockholders' equity		
Common stock	250,930	250,930
Capital surplus	102,218	102,350
Retained earnings	415,320	420,885
Treasury stock, at cost	(2,614)	(2,261)
Total stockholders' equity	<u>765,855</u>	<u>771,904</u>
Accumulated other comprehensive income		
Unrealized gains or losses on securities, net of taxes	7,105	2,958
Unrealized gains or losses on hedging derivatives, net of taxes	(14,030)	(14,908)
Land revaluation differences, net of taxes	(3,406)	(3,406)
Foreign currency translation adjustments	2,705	(4,563)
Remeasurements of defined benefit plans, net of taxes	(18,652)	(16,358)
Total accumulated other comprehensive income	<u>(26,278)</u>	<u>(36,277)</u>
Non-controlling interests	<u>63,736</u>	<u>60,707</u>
Total net assets	<u>803,312</u>	<u>796,334</u>
Total liabilities and net assets	<u>2,384,973</u>	<u>2,410,576</u>

Consolidated Statements of Income

(In millions of yen)

	FY2018 9 Months Ended Dec. 31, 2018	FY2019 9 Months Ended Dec. 31, 2019
Net sales	1,448,359	1,388,845
Cost of sales	1,247,595	1,209,866
Gross profit	200,763	178,978
Selling, general and administrative expenses	162,523	164,676
Operating income	38,240	14,301
Non-operating income		
Interest income	2,262	2,213
Dividend income	4,235	3,924
Reimbursement of seconded employees' salaries	2,989	2,935
Equity in income of equity method companies	2,724	5,622
Other	13,151	7,536
Total non-operating income	25,364	22,233
Non-operating expenses		
Interest expense	7,284	6,792
Seconded employees' salaries	7,757	7,598
Other	21,364	15,032
Total non-operating expenses	36,405	29,424
Ordinary income	27,199	7,111
Extraordinary income		
Gain on sale of investment securities	31,485	7,465
Gain on acquisition of subsidiary	4,892	—
Total extraordinary income	36,377	7,465
Extraordinary loss		
Loss on disaster	3,659	—
Total extraordinary loss	3,659	—
Income before income taxes and non-controlling interests	59,917	14,576
Income taxes		
Current	11,425	5,835
Deferred	1,222	1,292
Total income taxes	12,647	7,127
Income before non-controlling interests	47,269	7,449
Net income attributable to non-controlling interests	2,235	232
Net income attributable to owners of the parent	45,033	7,217

Consolidated Statements of Comprehensive Income

(In millions of yen)

	<u>FY2018 9 Months</u>	<u>FY2019 9 Months</u>
	<u>Ended Dec. 31, 2018</u>	<u>Ended Dec. 31, 2019</u>
Income before non-controlling interests	47,269	7,449
Other comprehensive income (loss)		
Unrealized gains or losses on securities, net of taxes	(10,645)	(4,527)
Unrealized gains or losses on hedging derivatives, net of taxes	(3,168)	(895)
Foreign currency translation adjustments	(2,856)	(5,914)
Remeasurements of defined benefit plans, net of taxes	2,242	2,325
Share of other comprehensive gains and losses related to equity method companies	(2,409)	(1,067)
Total other comprehensive income (loss)	<u>(16,838)</u>	<u>(10,079)</u>
Comprehensive Income (loss)	<u>30,431</u>	<u>(2,630)</u>
Breakdown of total comprehensive income (loss) attributed to:		
Stockholders of the parent interests	29,727	(2,849)
Non-controlling interests	703	218

Notes

Notes on premise of a going concern:
None

Notes on significant changes in the amount of stockholders' equity:
None