

# **Supplementary Financial Information for the First Nine Months of Fiscal 2018**

Kobe Steel, Ltd.  
February 5, 2019

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.

# Consolidated Financial Results for the First Nine Months of FY2018

(In billions of yen)

	FY2017 3Q ①	<b>FY2018</b> <b>3Q ②</b>	Change ②-①
Net Sales	1,379.3	<b>1,448.3</b>	+69.0
Operating Income	71.8	<b>38.2</b>	(33.5)
Ordinary Income	62.0	<b>27.1</b>	(34.8)
Extraordinary Income	※1 9.1	※2,3,4 <b>32.7</b>	+23.5
Net Income Attributable to Owners of the Parent	55.8	<b>45.0</b>	(10.7)

※1 Gain on sale of investment securities: 9.1 billion yen

※2 Gain on acquisition of subsidiary: 4.8 billion yen (Turned Shinko Wire into a subsidiary)

※3 Gain on sale of investment securities: 31.4 billion yen (Sold 75 percent of shares held in Shinko Real Estate)

※4 Loss on disaster: (3.6 billion yen) (Typhoons No. 20, No. 21 and No. 24, torrential rain in Western Japan, and North Osaka earthquake, etc.)

# Consolidated Forecast for FY2018

(In billions of yen)

	FY2017 ①	FY2018		Change	
		Previous Forecast ②	Current Forecast ③	③-①	③-②
Net Sales	1,881.1	<b>2,030.0</b>	<b>1,990.0</b>	+108.9	(40.0)
Operating Income	88.9	<b>50.0</b>	<b>45.0</b>	(43.9)	(5.0)
Ordinary Income	71.1	<b>25.0</b>	<b>25.0</b>	(46.1)	—
Extraordinary Income	2.0	<b>36.3</b>	※1,2,3 <b>32.7</b>	+30.7	※3 (3.6)
Net Income Attributable to Owners of the Parent	63.1	<b>35.0</b>	<b>35.0</b>	(28.1)	—

- ※1 Gain on acquisition of subsidiary: 4.8 billion yen
- ※2 Gain on sale of investment securities: 31.4 billion yen
- ※3 Loss on disaster: (3.6 billion yen)

## 〈Exchange Rates〉

	FY2017	FY2018	
		9 Months Ended Dec.31	4Q Forecast
1 U.S. dollar to yen	111	111	110
1 Chinese yuan to yen	16.8	16.6	16.0
1 Euro to yen	130	129	125

# Dividends

Kobe Steel aims to pay dividends on a continuous and stable basis. Dividends are decided after taking into full consideration the Company's financial condition, business performance, future capital needs and other factors.

On this basis, Kobe Steel has decided to pay a year-end dividend of 10 yen per share for fiscal 2018 (or a total of 20 yen for the full fiscal 2018 year).

## <Dividend Results >

	FY2015			FY2016			FY2017			FY2018 (Forecast)		
	Interim	Year-end		Interim	Year-end		Interim	Year-end		Interim	Year-end	
Dividends per share in yen	2.0	—	2.0	—	—	—	—	30	30	<b>10</b>	<b>10</b>	<b>20</b>

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

# Consolidated Sales & Ordinary Income by Segment

(In billions of yen)

		FY2017		FY2018		Change		FY2018 Previous Forecast	
		3Q ①	Full Year ②	3Q ③	Full Year Forecast ④	③-①	④-②	Full Year ⑤	④-⑤
Iron & Steel	Net Sales	538.7	715.5	558.9	755.0	+20.2	+39.5	760.0	(5.0)
	<b>Ordinary Income</b>	<b>19.9</b>	<b>17.3</b>	<b>3.1</b>	<b>3.0</b>	<b>(16.7)</b>	<b>(14.3)</b>	<b>3.0</b>	<b>-</b>
	Inventory Valuation	2.5	9.0	4.5	5.5	+2.0	(3.5)	3.0	+2.5
Welding	Net Sales	60.0	80.5	62.0	82.0	+1.9	+1.5	82.0	-
	<b>Ordinary Income</b>	<b>3.9</b>	<b>4.9</b>	<b>2.3</b>	<b>3.0</b>	<b>(1.5)</b>	<b>(1.9)</b>	<b>3.0</b>	<b>-</b>
Aluminum & Copper	Net Sales	260.9	349.5	271.8	365.0	+10.9	+15.5	375.0	(10.0)
	<b>Ordinary Income (loss)</b>	<b>10.8</b>	<b>11.8</b>	<b>1.0</b>	<b>(4.0)</b>	<b>(9.8)</b>	<b>(15.8)</b>	<b>(2.0)</b>	<b>(2.0)</b>
	Inventory Valuation	4.5	6.0	1.5	2.0	(3.0)	(4.0)	2.0	(-)
Machinery	Net Sales	110.8	161.3	121.6	178.0	+10.7	+16.7	181.0	(3.0)
	<b>Ordinary Income</b>	<b>1.0</b>	<b>2.3</b>	<b>1.4</b>	<b>2.5</b>	<b>+0.3</b>	<b>+0.2</b>	<b>2.5</b>	<b>-</b>
Engineering	Net Sales	80.9	122.8	89.9	151.0	+8.9	+28.2	151.0	-
	<b>Ordinary Income</b>	<b>4.9</b>	<b>6.9</b>	<b>2.7</b>	<b>6.5</b>	<b>(2.2)</b>	<b>(0.4)</b>	<b>5.0</b>	<b>+1.5</b>
Construction Machinery	Net Sales	267.6	364.5	297.1	385.0	+29.4	+20.5	405.0	(20.0)
	<b>Ordinary Income</b>	<b>15.8</b>	<b>21.9</b>	<b>22.6</b>	<b>24.0</b>	<b>+6.7</b>	<b>+2.1</b>	<b>24.0</b>	<b>-</b>
Electric Power	Net Sales	50.5	72.1	54.3	77.0	+3.7	+4.9	76.0	+1.0
	<b>Ordinary Income (loss)</b>	<b>4.6</b>	<b>7.9</b>	<b>(3.2)</b>	<b>(2.0)</b>	<b>(7.9)</b>	<b>(9.9)</b>	<b>(2.0)</b>	<b>-</b>
Other	Net Sales	48.0	68.8	29.3	42.0	(18.7)	(26.8)	43.0	(1.0)
	<b>Ordinary Income</b>	<b>3.5</b>	<b>5.4</b>	<b>1.7</b>	<b>4.0</b>	<b>(1.8)</b>	<b>(1.4)</b>	<b>4.5</b>	<b>(0.5)</b>
Adjustment	Net Sales	(38.5)	(54.3)	(36.9)	(45.0)	+1.6	+9.3	(43.0)	(2.0)
	<b>Ordinary Loss</b>	<b>(2.7)</b>	<b>(7.5)</b>	<b>(4.5)</b>	<b>(12.0)</b>	<b>(1.7)</b>	<b>(4.5)</b>	<b>(13.0)</b>	<b>+1.0</b>
Total	Net Sales	1,379.3	1,881.1	1,448.3	1,990.0	+69.0	+108.9	2,030.0	(40.0)
	<b>Ordinary Income</b>	<b>62.0</b>	<b>71.1</b>	<b>27.1</b>	<b>25.0</b>	<b>(34.8)</b>	<b>(46.1)</b>	<b>25.0</b>	<b>-</b>

# Consolidated Sales & Ordinary Income by Segment

## Iron & Steel

- The sales volume of steel products decreased, compared with the same period last year, owing to temporary trouble with production equipment and the impact of natural disasters such as typhoons, although domestic demand was firm mainly in the automotive sector.
- Sales prices increased, compared with the same period last year, affected by the efforts to improve the prices based on the rise in main raw material prices and other factors.
- As a result, ordinary income decreased. Although progress was made in profit remediation measures through consolidation of upstream operations, profits declined owing to the lower sales volume of steel products and higher distribution costs.

(In billions of yen)

	FY2017 3Q	FY2018 3Q	Change
Net Sales	538.7	558.9	+20.2
<b>Ordinary Income</b>	<b>19.9</b>	<b>3.1</b>	<b>(16.7)</b>
Inventory Valuation	2.5	4.5	+2.0

### <Production and Sales>

Crude Steel Production (millions of tons)	5.74	5.08	(0.66)
Sales Volume (millions of tons)	4.57	4.19	(0.38)
Export Ratio (value basis)	27.3%	25.5%	(1.8%)
Average Steel Prices (thousands of yen/ton)	81.5	86.0	+4.5

### <Factors Affecting Comparison>

FY2017 First 9 Months 19.9 billion yen ⇒ FY2018 First 9 Months 3.1 billion yen

(In billions of yen)

Positive Factors		Negative Factors	
Overall cost reduction	+0.5	Production and shipments	(1.5)
Inventory valuation*	+2.0	Raw material prices	(10.0)
		Exchange rate changes	(2.0)
		Subsidiaries & affiliates	(1.5)
		Other	(4.2)
<b>Total</b>	<b>+2.5</b>	<b>Total</b>	<b>(19.2)</b>

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

# Consolidated Sales & Ordinary Income by Segment

## Welding

- The sales volume of welding materials was similar to the same period last year. Although demand increased in the automotive sector overseas, demand from the shipbuilding sector was sluggish mainly in East Asia.
- Ordinary income decreased, compared with the same period last year, owing to higher raw material costs.

(In billions of yen)

	FY2017 3Q	FY2018 3Q	Change
Net Sales	60.0	62.0	+1.9
<b>Ordinary Income</b>	<b>3.9</b>	<b>2.3</b>	<b>(1.5)</b>

## Aluminum & Copper

- Although the sales volume of aluminum rolled products decreased mainly for can stock for beverage cans, sales prices rose in association with higher ingot prices, leading to higher segment sales.
- Ordinary income decreased, compared with the same period last year. In addition to the lower sales volume of aluminum rolled products, energy costs increased due to higher oil prices and the impact of the misconduct.

(In billions of yen)

	FY2017 3Q	FY2018 3Q	Change
Net Sales	260.9	271.8	+10.9
<b>Ordinary Income</b>	<b>10.8</b>	<b>1.0</b>	<b>(9.8)</b>
Inventory Valuation	4.5	1.5	(3.0)

<Sales Volume>

(In thousands of ton)

Aluminum Rolled Products	280	263	(17)
Copper Strips	45	45	+0
Copper Tubes	61	64	+3

# Consolidated Sales & Ordinary Income by Segment

## Machinery

- Sales and profits increased, owing to the posting of sales from large orders mainly for plastic processing machinery and compressors.

(In billions of yen)

	FY2017 3Q	FY2018 3Q	Change
Net Sales	110.8	121.6	+10.7
<b>Ordinary Income</b>	<b>1.0</b>	<b>1.4</b>	<b>+0.3</b>

## Engineering

- Although sales increased owing to changes in the progress of projects for iron unit plants and waste treatment, profits decreased because of changes in the types of projects and other factors.

(In billions of yen)

	FY2017 3Q	FY2018 3Q	Change
Net Sales	80.9	89.9	+8.9
<b>Ordinary Income</b>	<b>4.9</b>	<b>2.7</b>	<b>(2.2)</b>



# Consolidated Sales & Ordinary Income (loss) by Segment

## Construction Machinery

- Unit sales of hydraulic excavators increased, compared with the same period last year, owing to firm demand mainly in China.
- Unit sales of crawler cranes increased, compared with the same period last year. Although unit sales of crawler cranes in Japan declined because of the crane collapse accident, demand was firm mainly in North America and other overseas markets.
- Ordinary income increased owing to higher unit sales of hydraulic excavators and the reversal of a part of the allowance in association with the collection of retained receivables in the hydraulic excavator business in China.

(In billions of yen)

	FY2017 3Q	FY2018 3Q	Change
Net Sales	267.6	297.1	+29.4
<b>Ordinary Income</b>	<b>15.8</b>	<b>22.6</b>	<b>+6.7</b>

## Electric Power

- Ordinary income declined owing to incurring temporary costs in association with fund procurement for the new power generation project in the city of Kobe, higher maintenance costs at the Kobe Power Plant and other factors.

(In billions of yen)

	FY2017 3Q	FY2018 3Q	Change
Net Sales	50.5	54.3	+3.7
<b>Ordinary Income (loss)</b>	<b>4.6</b>	<b>(3.2)</b>	<b>(7.9)</b>

# Consolidated Forecast by Segment for FY2018

## Iron & Steel

- The outlook for ordinary income is unchanged from the previous forecast. Although margins will decrease owing to higher main raw material prices, the impact of inventory valuation is anticipated to improve.

(In billions of yen)

	FY2017 ①	FY2018		Change	
		Previous Forecast ②	Current Forecast ③	③-①	③-②
Net Sales	715.5	760.0	755.0	+39.5	(5.0)
<b>Ordinary Income</b>	<b>17.3</b>	<b>3.0</b>	<b>3.0</b>	<b>(14.3)</b>	<b>-</b>
Inventory Valuation	9.0	3.0	5.5	(3.5)	+2.5

### <Production and Sales>

	FY2017 ①	FY2018		Change	
		Previous Forecast ②	Current Forecast ③	③-①	③-②
Crude Steel Production (millions of tons)	7.46	approx. 6.85	approx. 6.90	(approx. 0.55)	+approx. 0.05
Sales Volume (millions of tons)	5.97	approx. 5.65	approx. 5.65	(approx. 0.30)	approx. the same
Export Ratio (value basis)	27.2%	approx. 26%	approx. 25%	(approx. 2%)	(approx. 1%)

### <Factors Affecting Comparison>

FY2018 Previous Forecast 3.0 billion yen ⇒ FY2018 Current Forecast 3.0 billion yen

(In billions of yen)

Positive Factors		Negative Factors	
Production and shipments	+1.0	Raw material prices	(3.5)
Overall cost reduction	+1.0	Exchange rate changes	(1.0)
Subsidiaries & affiliates	+0.5	Other	(0.5)
Inventory valuation*	+2.5		
<b>Total</b>	<b>+5.0</b>	<b>Total</b>	<b>(5.0)</b>

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

# Consolidated Forecast by Segment for FY2018

## Welding

- The outlook for ordinary income is unchanged from the previous forecast. The demand environment for welding materials is expected to be generally in line with the previous forecast.

(In billions of yen)

	FY2017 ①	FY2018		Change	
		Previous Forecast ②	Current Forecast ③	③-①	③-②
Net Sales	80.5	82.0	82.0	+1.5	-
<b>Ordinary Income</b>	<b>4.9</b>	<b>3.0</b>	<b>3.0</b>	<b>(1.9)</b>	<b>-</b>

## Aluminum & Copper

- Sales and profits are anticipated to decrease, compared with the previous forecast, owing to lower sales volume of aluminum rolled products.

(In billions of yen)

	FY2017 ①	FY2018		Change	
		Previous Forecast ②	Current Forecast ③	③-①	③-②
Net Sales	349.5	375.0	365.0	+15.5	(10.0)
<b>Ordinary Income</b>	<b>11.8</b>	<b>(2.0)</b>	<b>(4.0)</b>	<b>(15.8)</b>	<b>(2.0)</b>
Inventory Valuation	6.0	2.0	2.0	(4.0)	-

<Sales Volume>

(In thousands of ton)

	FY2017 ①	FY2018		Change	
		Previous Forecast ②	Current Forecast ③	③-①	③-②
Aluminum Rolled Products	363	approx. 350	approx. 347	(approx. 16)	(approx. 3)
Copper Strips	60	approx. 60	approx. 60	approx. the same	approx. the same
Copper Tubes	82	approx. 85	approx. 85	+approx. 3	approx. the same

# Consolidated Forecast by Segment for FY2018

## Machinery

- An environment of intense competition in the compressor market is anticipated to continue. However, the outlook for ordinary income is unchanged from the previous forecast.

(In billions of yen)

	FY2017 ①	FY2018		Change	
		Previous Forecast ②	Current Forecast ③	③-①	③-②
Net Sales	161.3	181.0	178.0	+16.7	(3.0)
<b>Ordinary Income</b>	<b>2.3</b>	<b>2.5</b>	<b>2.5</b>	<b>+0.2</b>	<b>-</b>
Orders	151.1	approx. 165.0	approx. 165.0	+approx. 14.0	approx. the same

## Engineering

- Ordinary income is anticipated to increase, compared with the previous forecast, owing to integration of IHI Corporation's waste treatment facilities-related business into the Kobe Steel Group and changes in the progress of projects.

(In billions of yen)

	FY2017 ①	FY2018		Change	
		Previous Forecast ②	Current Forecast ③	③-①	③-②
Net Sales	122.8	151.0	151.0	+28.2	-
<b>Ordinary Income</b>	<b>6.9</b>	<b>5.0</b>	<b>6.5</b>	<b>(0.4)</b>	<b>+1.5</b>
Orders	119.2	approx. 125.0	approx. 125.0	+approx. 6.0	approx. the same

# Consolidated Forecast by Segment for FY2018

## Construction Machinery

- The outlook for ordinary income is unchanged from the previous forecast. Although unit sales of hydraulic excavators are expected to decline from the previous forecast in China and Southeast Asia, the impact of the crane collapse accident on the unit sales of cranes is expected to be less than the previous forecast.

(In billions of yen)

	FY2017 ①	FY2018		Change	
		Previous Forecast ②	Current Forecast ③	③-①	③-②
Net Sales	364.5	405.0	385.0	+20.5	(20.0)
<b>Ordinary Income</b>	<b>21.9</b>	<b>24.0</b>	<b>24.0</b>	<b>+2.1</b>	<b>-</b>

## Electric Power

- The Kobe Power Plant plans to provide a steady supply of electric power through continued stable operation.
- The profit outlook is unchanged from the previous forecast.

(In billions of yen)

	FY2017 ①	FY2018		Change	
		Previous Forecast ②	Current Forecast ③	③-①	③-②
Net Sales	72.1	76.0	77.0	+4.9	+1.0
<b>Ordinary Income</b>	<b>7.9</b>	<b>(2.0)</b>	<b>(2.0)</b>	<b>(9.9)</b>	<b>-</b>

# Free Cash Flow & Capital Investment

## < Free Cash Flow >

(In billions of yen)

	FY2017 ①	FY2018		Change	
		Previous Forecast ②	Current Forecast ③	③-①	③-②
Cash Flows from Operating Activities	191.8	40.0	<b>55.0</b>	(136.8)	+15.0
Cash Flows from Investing Activities	(160.7)	(70.0)	<b>(30.0)</b>	+130.7	+40.0
Free Cash Flow (excluding project financing)	31.1	(30.0)	<b>25.0</b>	(6.1)	+55.0
Free Cash Flow (including project financing)	29.2	(40.0)	<b>15.0</b>	(14.2)	+55.0
Cash and Deposits (excluding project financing)	158.2	100.0	<b>95.0</b>	(63.2)	(5.0)

## < Capital Investment >

(In billions of yen)

	FY2017 ①	FY2018		Change	
		Previous Forecast ②	Current Forecast ③	③-①	③-②
Capital Investment (accrual basis)	128.6	150.0	<b>150.0</b>	+21.4	—
Capital Investment (payment basis)	136.6	150.0	<b>150.0</b>	+13.4	—
Depreciation	102.0	100.0	<b>100.0</b>	(2.0)	—

	FY2016	FY2017	FY2018 Forecast
RO S <sup>*1</sup>	(1.1%)	3.8%	1.3%
Net Income (Loss) per Share	(63.54 yen)	174.43 yen	96.60 yen
Outside Debt <sup>*2</sup>	789.6 billion yen	726.0 billion yen	655.0 billion yen
D/E Ratio <sup>*3</sup>	1.17 times <sup>*4</sup>	0.98 times	approx. 0.9 times
RO A <sup>*5</sup>	(0.8%)	3.1%	1.1%
RO E <sup>*6</sup>	(3.4%)	8.9%	4.7%

\*1 ROS Ordinary Income / Net Sales

\*2 Outside debt : Excludes debt from IPP project financing

\*3 D/E ratio: Debt (excluding IPP project finance)/Stockholders' Equity

\*4 Includes early procurement of borrowings for FY2017 (117.6 billion yen)

D/E Ratio for FY2016 1.00 time (excluding early procurement of borrowings)

\*5 ROA : Ordinary Income / Total Assets

\*6 Net Income Attributable to Owners of the Parent / Stockholders' Equity

# 【Iron & Steel】 Quarterly Production and Sales of Steel Products (Non-consolidated)

	FY2017						
							Full Year
	1Q	2Q	1st half	3Q	4Q	2nd half	
Crude steel production (millions of tons)	1.94	2.00	3.94	1.80	1.72	3.52	7.46
Sales volume (millions of tons)	1.52	1.52	3.04	1.53	1.40	2.93	5.97
Sales prices (thousands of yen/ton)	80.8	82.2	81.5	81.5	81.5	81.5	81.5
Export ratio (value basis)	27.1%	25.7%	26.4%	29.3%	26.6%	28.0%	27.2%

	FY2018 Forecast						
							Full Year
	1Q	2Q	1st half	3Q	4Q	2nd half	
Crude steel production (millions of tons)	1.72	1.66	3.39	1.69	approx.1.80	approx.3.50	approx.6.90
Sales volume (millions of tons)	1.39	1.32	2.71	1.49	approx.1.45	approx.2.95	approx.5.65
Sales prices (thousands of yen/ton)	83.5	87.0	85.2	87.4	approx.88	approx.88	approx.87
Export ratio (value basis)	25.9%	25.5%	25.7%	25.0%	approx.24%	approx.25%	approx.25%



# 【Iron & Steel】 Factors Affecting Ordinary Income

**FY2017 17.3 billion yen ⇒ FY2018 Forecast 3.0 billion yen Change : (14.3 billion yen)**

(In billions of yen)

Positive Factors		Negative Factors	
Production and shipments	+13.5	Raw material prices	(20.0)
Overall cost reduction	+3.5	Inventory valuation*	(3.5)
Subsidiaries & affiliates	+1.0	Other	(8.8)
<b>Total</b>	<b>+18.0</b>	<b>Total</b>	<b>(32.3)</b>

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