

Kobe Steel's Consolidated Financial Results for Fiscal 2017 (April 1, 2017 - March 31, 2018)

April 27, 2018

Company name:	Kobe Steel, Ltd.
Code number:	5406
Stock exchanges listed:	Tokyo and Nagoya, Japan
Website:	http://www.kobelco.co.jp/english/
Representative:	Mitsugu Yamaguchi, President, CEO and Representative Director
Annual shareholders meeting:	June 21, 2018
Securities report submission:	June 21, 2018
Start of dividend payments:	June 22, 2018
Supplementary material:	Yes
Financial results briefing:	Yes (in Japanese only)
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(Sums of less than 1 million yen have been omitted.)

1. FY2017 consolidated results (April 1, 2017-March 31, 2018)

(1) Consolidated operating results (% of change from the previous year)

	Net sales		Operating income		Ordinary income (loss)		Net income (loss) attributed to owners of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2017	1,881,158	10.9	88,913	812.0	71,149	---	63,188	---
FY2016	1,695,864	(7.0)	9,749	(85.8)	(19,103)	---	(23,045)	---

Note: Comprehensive income FY2017 68,763 million yen (---%) FY2016 (14,302 million) yen (---%)

	Net income (loss) per share	Diluted net income per share	Ratio of net income (loss) to equity (ROE)	Ratio of ordinary income (loss) to total assets (ROA)	Ratio of operating income to net sales (ROS)
	Yen	Yen	%	%	%
FY2017	174.43	---	8.9	3.1	4.7
FY2016	(63.54)	---	(3.4)	(0.8)	0.6

Reference: Equity in income of affiliates FY2017 5,438 million yen FY2016 1,878 million yen
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

	Total assets	Net assets	Equity capital ratio	Net assets per share
	Million yen	Million yen	%	Yen
FY2017	2,352,425	790,984	31.6	2,049.95
FY2016	2,310,435	729,404	29.2	1,860.36

Reference: Equity capital FY2017 742,588 million yen FY2016 673,928 million yen

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
	Million yen	Million yen	Million yen	Million yen
FY2017	190,832	(161,598)	(66,598)	165,267
FY2016	141,716	(137,833)	16,545	200,417

2. Dividends

	Annual dividends					Total amount of dividends	Dividend payout ratio (consolidated)	Dividends on net assets (consolidated)
	1Q	2Q	3Q	4Q	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY2016	---	0.00	---	0.00	0.00	0	---	0.0
FY2017	---	0.00	---	30.00	30.00	10,924	17.2	1.5
FY2018 Forecast	---	---	---	---	---		---	

For more information, please refer to "Announcement on the Difference between the Forecast and Actual Results for the Fiscal 2017 and Revision to Dividend Forecast for Fiscal 2017, ending March 31, 2018".

The dividend for fiscal 2018 is undetermined.

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

3. Consolidated earnings forecast for FY2018 (April 1, 2018-March 31, 2019)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
1H	960,000	5.8	15,000	(70.8)	5,000	(89.1)	25,000	(36.5)	69.01
Full year	1,990,000	5.8	55,000	(38.1)	35,000	(50.8)	45,000	(28.8)	124.22

Please refer to "Announcement on Earnings Forecast."

Notes

(1) Changes in number of material subsidiaries in fiscal year

(Changes in specified subsidiaries due to changes in scope of consolidation): No

(2) 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

(3) Number of issued shares (common stock)

	FY2017	FY2016
Number of issued shares (including treasury stock)	364,364,210 shares	364,364,210 shares
Number of shares of treasury stock	2,118,007 shares	2,108,414 shares
Average number of shares	362,250,447 shares	362,667,628 shares

Kobe Steel carried out a share consolidation at a ratio of 10 shares to 1 share effective on October 1, 2016. Therefore, average number of shares 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 pages 5 to 7.

The basis for dividend payments is continuous and stable distribution. Factors taken into overall consideration are the company's financial condition, business performance, future capital needs and other issues. As the outlook for many of these factors is unclear at this time, Kobe Steel is unable to make a dividend forecast. When it is able to make a forecast, Kobe Steel will promptly do so.

1. Overview of Operating Results and Financial Condition

Fiscal 2017 Consolidated Operating Results

Japan's economy in fiscal 2017 (April 1, 2017-March 31, 2018) continued on a gradual recovery trend supported by recovery in personal spending on the back of improvements in the employment and income situation and by firm corporate capital investment for upgrading existing facilities, labor-saving purposes and other factors. In overseas economies, China showed signs of recovery from a slowdown, and 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, supported by firm demand in the automotive sector, was similar to the previous year. The sales volume of aluminum rolled products was higher than the previous year. Although demand for can stock for beverage cans was similar to the previous year, demand in the automotive sector was higher than the previous year. The sales volume of copper rolled products was similar to the previous year. Although demand for copper strips increased for automotive terminals and semiconductors, the sales volume of copper tubes decreased due to equipment trouble at a manufacturing facility in Thailand. Unit sales of hydraulic excavators were higher than the previous year, owing to higher demand in Japan, China and other markets.

As a result, consolidated sales in fiscal 2017 increased 185.2 billion yen, compared with the previous year, to 1,881.1 billion yen. Operating income improved 79.1 billion yen, compared with the previous year, to 88.9 billion yen from the posting of a one-time expense for the refurbishment of a blast furnace in the Iron & Steel segment and the posting of an allowance for retained receivables in the Construction Machinery segment's China business in the previous year as well as other factors. Ordinary income* improved 90.2 billion yen, compared with the previous year, to 71.1 billion yen. As for extraordinary income and loss, although compensation to customers and other parties and other expenses were posted in connection with the misconduct concerning some of its products of the Kobe Steel Group, a gain on the sale of investment securities resulted in extraordinary income of 2.0 billion yen. Net income attributable to owners of the parent improved 86.2 billion yen to 63.1 billion yen.

Conditions in the business segments for fiscal 2017 follow below.

Iron & Steel

The sales volume of steel products was similar to the previous year. Although exports were lower than the previous year, domestic demand remained firm in the automotive sector and other industries. Sales prices were higher than the previous year, affected by higher raw material prices and other factors.

Sales of steel castings and forgings were lower than the previous year due to lower demand for ships. Sales of titanium products were higher than the previous year owing to higher sales in the aircraft sector and general industries and other factors.

As a result, segment sales for the consolidated fiscal year increased 15.3 percent, compared with the previous year, to 715.5 billion yen. Ordinary income* improved 46.8 billion yen, compared with the previous year, to 17.3 billion yen from the posting of a one-time expense for the refurbishment of a blast furnace in the previous year and other factors.

Welding

The sales volume of welding materials was lower than the previous year. In Japan, demand in the architectural 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 previous year, in which sales were at a high level, although demand remained firm in the architectural steel-frame sector.

As a result, segment sales for the consolidated fiscal year decreased 2.1 percent, compared with the previous year, to 80.5 billion yen. Ordinary income* decreased 1.9 billion yen, compared with the previous year, to 4.9 billion yen.

Aluminum & Copper

The sales volume of aluminum rolled products was higher than the previous year. Although demand for cans for beverage cans was similar to the previous year, demand in the automotive sector increased.

The sales volume of copper rolled products was similar to the previous year. Demand increased for copper strips used in automotive terminals and semiconductors. However, the sales volume of copper tubes decreased because of equipment trouble at a manufacturing facility in Thailand in December 2016.

As a result, segment sales for the consolidated fiscal year increased 8.1 percent, compared with the previous year, to 349.5 billion yen. Ordinary income* was 11.8 billion yen, similar to the previous year, impacted by the misconduct concerning some of its products in the Kobe Steel Group and the deterioration of the performance of group companies, although inventory valuation improved due to high metal prices.

Machinery

Consolidated orders in fiscal 2017 increased 17.9 percent, compared with the previous year, to 151.1 billion yen, as China's petrochemical sector and other markets were on a recovery track and other factors. The consolidated backlog of orders at the end of the consolidated fiscal year stood at 140.4 billion yen.

Segment sales for the consolidated fiscal year increased 7.0 percent, compared with the previous year, to 161.3 billion yen. However, ordinary income* decreased 3.5 billion yen, compared with the previous year, to 2.3 billion yen from deterioration of profitability in some of the compressors and other factors.

Engineering

Consolidated orders in fiscal 2017 were 119.2 billion yen, a decrease of 31.6 percent, compared with the previous year, which saw several large orders. The consolidated backlog of orders at the end of the consolidated fiscal year came to 183.4 billion yen.

Segment sales for the consolidated fiscal year increased 1.4 percent, compared with the previous year, to 122.8 billion yen. Ordinary income* increased 4.1 billion yen, compared with the previous year, to 6.9 billion yen owing to the steady progress of ongoing projects and other factors.

Construction Machinery

Unit sales of hydraulic excavators were higher than the previous year, owing to a spike in demand ahead of stricter exhaust emission regulations in Japan and rising demand from infrastructure investments in China and other factors.

However, unit sales of crawler cranes were lower than the previous year because of lower demand mainly in Southeast Asia and other factors.

As a result, segment sales for the consolidated fiscal year increased 17.4 percent, compared with the previous year, to 364.5 billion yen. Ordinary income* in the previous year was impacted by the posting of an additional allowance for retained receivables incurred in the excavator business in China and other factors. Consequently, ordinary income* improved 53.3 billion yen, compared with the previous year, to 21.9 billion yen, also aided by the higher unit sales of hydraulic excavators.

Electric Power

The amount of electricity sold was less than the previous year due to the increase in the number of days for periodic inspection. The unit price of electricity was higher than the previous year because of higher market prices of coal used as fuel.

As a result, segment sales for the consolidated fiscal year increased 2.2 percent, compared with the previous year, to 72.1 billion yen. Ordinary income* decreased 5.1 billion yen, compared with the previous year, to 7.9 billion yen because of the transition to a new contract for the Kobe Power Plant's No.1 unit, higher maintenance costs for 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 decreased in the testing and research business resulting from the misconduct. In addition, Shinko Care Life Co., Ltd., which was previously a consolidated subsidiary, was excluded from the scope of consolidation in fiscal 2017 and is included as an affiliate company accounted for by the equity method.

As a result, segment sales for the consolidated fiscal year decreased 8.0 percent, compared with the previous year, to 68.8 billion yen. Ordinary income* decreased 2.1 billion yen, compared with the previous year, to 5.4 billion yen.

Dividend

Dividends for fiscal 2017 are decided after taking into full account the Company's financial condition, business performance, future capital needs and other factors, including the impact of the misconduct concerning some of the products. As a result, Kobe Steel had decided on a policy to pay a year-end dividend of 30 yen per share for fiscal 2017.

Forecast for fiscal 2018

The business environment surrounding the Kobe Steel Group in Japan is anticipated to continue on a gradual recovery trend owing to improvement in the employment situation and signs of recovery in corporate capital investment and personal spending. Overseas, growth rates in China are anticipated to slow, but in the United States, Southeast Asia and other areas, economic recovery is anticipated to continue on track.

On the other hand, protectionist trade policies, sharp exchange rate fluctuations and other factors that impact economic trends continue to be matters of concern and need monitoring. Under these circumstances, after making certain assumptions with regard to the cost burden in relation to the misconduct concerning some of its products in the Kobe Steel Group, in addition to the sales volume of steel products and aluminum and copper rolled products and other products and their sales prices and raw material prices and other factors,

Kobe Steel forecasts net sales of approximately 1,990.0 billion yen, operating income of approximately 55.0 billion yen, and ordinary income* of approximately 35.0 billion yen for fiscal 2018. Net income attributable to owners of the parent is anticipated to be 45.0 billion yen billion yen owing to the posting of extraordinary income* from the partial transfer of subsidiary shares.

Kobe Steel's forecast for its business segments in fiscal 2018 follows below.

Iron & Steel

The sales volume of steel products in fiscal 2018 is anticipated to be lower than in fiscal 2017. Although demand is expected to be firm centered mainly on the automotive sector, upstream process equipment was shut down at Kobe Works and consolidated to Kakogawa Works in fiscal 2017 and other factors. Kobe Steel continues striving to negotiate with its customers to gain their understanding that the sales prices of steel products are affected by the rise in raw material prices as well as material and transportation costs. Kobe Steel will also continue its own efforts to reduce costs.

Sales of steel castings and forgings are forecast to be similar to fiscal 2017, although demand is sluggish in the shipbuilding industry centered overseas. Sales of titanium products are forecast to increase over fiscal 2017 owing to expanded sales in the aircraft sector.

From the above, segment sales in fiscal 2018 are forecast to increase compared with fiscal 2017. However, ordinary income* in fiscal 2018 is forecast to decreased compared with fiscal 2017 due to the impact of inventory valuation.

Welding

Demand for welding materials for the shipbuilding sector is anticipated to weaken, but owing to sales expansion of welding materials in Southeast Asia and of welding materials for architectural steel frames in Japan and other factors, sales volume is anticipated to be similar to fiscal 2017. For welding systems, sales are anticipated to be similar to fiscal 2017 as firm demand is anticipated for architectural steel frames and construction equipment in Japan.

From the above, segment sales in fiscal 2018 are anticipated to be similar to fiscal 2017 and ordinary income* in fiscal 2018 is forecast to decreased compared with fiscal 2017.

Aluminum & Copper

The sales volume of aluminum rolled products is anticipated to be higher than fiscal 2017. Although demand for can stock for beverage cans is anticipated to be similar to fiscal 2017, demand is expected to be strong in the automotive sector.

The sales volume of copper rolled products is anticipated to be higher than fiscal 2017. Demand is expected to increase for automotive terminals and semiconductors, and sales volume is anticipated to recover after equipment trouble was resolved at a manufacturing facility in Thailand.

From the above, segment sales in fiscal 2018 are forecast to increase compared with fiscal 2017. However, ordinary income* in fiscal 2018 is forecast to decreased compared with fiscal 2017 due to the impact of the misconduct concerning some of its products in the Kobe Steel Group and inventory valuation.

Machinery

Orders in fiscal 2018 are forecast to be higher than fiscal 2017 owing to recovering demand for compressors in China, strengthening product competitiveness by lowering costs, expanding the after-sales service business and other factors.

Segment sales in fiscal 2018 are forecast to increase compared with fiscal 2017 and ordinary income* in fiscal 2018 is forecast to increase compared with fiscal 2017.

Engineering

Orders in fiscal 2018 are forecast to be similar to fiscal 2017 as a certain amount of orders is anticipated in the waste treatment sector and other factors.

Segment sales in fiscal 2018 are forecast to increase, compared with fiscal 2017, owing to the progress of current orders. Ordinary income* in fiscal 2018 is forecast to decrease, compared with fiscal 2017, owing to changes in the types of orders.

Construction Machinery

Unit sales of hydraulic excavators in fiscal 2018 are forecast to be higher than fiscal 2017 as demand is anticipated to remain firm in China and owing to other factors.

Unit sales of crawler cranes in fiscal 2018 are forecast to be higher than fiscal 2017 as demand is anticipated to recovery in North America and Southeast Asia.

From the above, segment sales in fiscal 2018 are forecast to increase compared with fiscal 2017. However, ordinary income* in fiscal 2018 is forecast to decrease, compared with fiscal 2017, owing to the rise in raw material prices.

Electric Power

As the Kobe Power Plant is anticipated to continue stable operation, segment sales in fiscal 2018 are forecast to be similar to fiscal 2017.

However, ordinary income* in fiscal 2018 is forecast to decrease compared with fiscal 2017 because of the posting of a one-time expense for the financing of new projects.

Other Businesses

Although at Kobelco Research Institute, Inc., demand is anticipated to remain firm in the semiconductor inspection equipment business, segment sales in fiscal 2018 are forecast to decrease compared with fiscal 2017.

*** 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."

Financial Condition

Total assets at the end of fiscal 2017 increased 41.9 billion yen, compared with the end of the previous year, to 2,352.4 billion yen owing to an increase in intangible fixed assets and investments in securities, and other factors although securities decreased. Net assets at the end of fiscal 2017 increased 61.5 billion yen, compared with the end of the previous year, to 790.9 billion yen because of the posting of net income attributable to owners of the parent and other factors. From these results, the equity capital ratio at the end of fiscal 2017 was 31.6 percent, an increase of 2.4 points compared with the end of the previous year.

As for cash flows, net cash provided by operating activities amounted to 190.8 billion yen after posting income before income taxes and non-controlling interests of 73.1 billion yen and depreciation of 102.0 billion yen and other factors. Net cash used in investing activities came to -161.5 billion yen owing to the purchase of fixed assets and other factors. Net cash used in financing activities totaled -66.5 billion yen due to the repayment of borrowings and other factors.

At the end of fiscal 2017, outside debt, which includes IPP project finance, decreased 58.0 billion yen, compared with the end of the previous year, to 738.8 billion yen.

Cash flow indicators are as follows:

Consolidated cash flow Indicators

	FY2013	FY2014	FY2015	FY2016	FY2017
Equity capital ratio	29.2%	33.8%	30.6%	29.2%	31.6%
Equity capital ratio at market price	21.8%	35.2%	16.0%	16.0%	16.5%
Ratio of cash flow to interest-bearing debt (years)	4.1	4.4	8.1	5.6	3.9
Interest coverage ratio (times)	10.1	9.5	6.2	11.3	14.9

Notes:

- Each indicator was calculated from the consolidated financial data.
- Equity capital ratio = Stockholders' equity / total assets
- Equity capital ratio at market price = Market capitalization / total assets
(Market capitalization was calculated by multiplying the share price at term-end by the number of outstanding shares at term-end.)
- Ratio of cash flow to interest-bearing debt = outside debt / cash flows from operating activities
- Interest coverage ratio = Cash flows from operating activities / interest payments

2. Basic Approach to the Selection of Accounting Standards

The Kobe Steel Group has decided to apply Japanese accounting standards for the time being. With regard to International Financial Reporting Standards (IFRS), the Kobe Steel Group will continue to keep a close watch on trends in accounting systems.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

(In millions of yen)

ASSETS	FY2016	FY2017
	Ended Mar. 31, 2017	Ended Mar. 31, 2018
Current Assets		
Cash and deposits	155,763	165,526
Notes and accounts receivable	295,332	324,811
Securities	45,502	—
Merchandise and finished goods	158,512	159,910
Work-in-process	126,109	136,530
Raw materials and supplies	134,399	152,007
Deferred tax assets	21,664	27,989
Other	111,689	84,185
Allowance for doubtful accounts	(4,652)	(4,672)
Total current assets	1,044,322	1,046,288
Fixed Assets		
Property, plant and equipment		
Buildings and structures	278,404	279,270
Machinery and equipment	428,335	433,414
Tools, equipment and fixtures	14,871	15,575
Land	195,607	192,158
Construction in progress	55,094	61,271
Total property, plant and equipment	972,313	981,689
Intangible fixed assets		
Software	16,240	16,720
Other	7,907	24,087
Total intangible fixed assets	24,147	40,807
Investments and other assets		
Investments in securities	166,563	197,839
Long-term loans receivable	6,674	6,266
Deferred tax assets	27,540	21,505
Net defined benefit asset	16,355	17,088
Other	119,410	97,190
Allowance for doubtful accounts	(66,892)	(56,250)
Total investment and other assets	269,651	283,639
Total fixed assets	1,266,113	1,306,136
Total assets	2,310,435	2,352,425

LIABILITIES	FY2016	FY2017
	Ended Mar. 31, 2017	Ended Mar. 31, 2018
Current liabilities		
Notes and accounts payable	414,090	457,126
Short-term borrowings	191,983	205,732
Current portion of Bonds	30,000	14,000
Accounts payable - other	63,808	54,436
Income and enterprise taxes payable	6,606	8,551
Deferred tax liabilities	1,763	724
Provision for bonuses	18,580	20,872
Provision for product warranties	14,252	14,505
Provision for loss on construction contracts	6,937	9,633
Provision for loss on guarantees	4,988	2,660
Provision for structural reform related expenses	4,627	364
Provision for dismantlement related expenses	1,293	10,116
Provision for customer compensation expenses	—	3,583
Other	90,211	98,709
Total current liabilities	849,143	901,018
Long-term liabilities		
Bonds and notes	146,000	132,000
Long-term borrowings	428,943	387,133
Deferred tax liabilities	10,446	9,819
Deferred tax liabilities on land revaluation	3,251	3,251
Net defined benefit liability	70,159	70,946
Provision for environmental measures	877	777
Provision for dismantlement related expenses	8,660	2,490
Other	63,548	54,003
Total long-term liabilities	731,887	660,422
Total liabilities	1,581,031	1,561,440
NET ASSETS		
Stockholders' equity		
Common stock	250,930	250,930
Capital surplus	103,537	102,314
Retained earnings	331,679	395,542
Treasury stock, at cost	(2,660)	(2,671)
Total stockholders' equity	683,486	746,115
Accumulated other comprehensive income		
Unrealized gains or losses on securities, net of taxes	17,475	17,333
Unrealized gains or losses on hedging derivatives, net of taxes	(9,229)	(9,913)
Land revaluation differences, net of taxes	(3,406)	(3,406)
Foreign currency translation adjustments	7,708	10,185
Remeasurements of defined benefit plans, net of taxes	(22,106)	(17,726)
Total accumulated other comprehensive income	(9,557)	(3,527)
Non-controlling interests	55,476	48,396
Total net assets	729,404	790,984
Total liabilities and net assets	2,310,435	2,352,425

Consolidated Statements of Income

(In millions of yen)

	FY2016	FY2017
	Ended Mar. 31, 2017	Ended Mar. 31, 2018
Net sales	1,695,864	1,881,158
Cost of sales	1,465,577	1,595,229
Gross profit	230,286	285,928
Selling, general and administrative expenses		
Haulage expenses	47,229	50,651
Salaries and allowances	39,582	41,820
Research and development expenses	13,448	14,137
Other	120,277	90,404
Total selling, general and administrative expenses	220,537	197,014
Operating income	9,749	88,913
Non-operating income		
Interest income	2,439	2,455
Dividend income	3,427	3,803
Reimbursement of seconded employees' salaries	4,227	3,592
Equity in income of equity method companies	1,878	5,438
Other	8,987	9,930
Total non-operating income	20,960	25,221
Non-operating expenses		
Interest expense	13,401	12,303
Seconded employees' salaries	10,681	9,646
Other	25,729	21,036
Total non-operating expenses	49,813	42,986
Ordinary income (loss)	(19,103)	71,149
Extraordinary income		
Gain on sale of investment securities	—	9,140
Reversal of Allowance for doubtful accounts	8,141	—
Total extraordinary income	8,141	9,140
Extraordinary loss		
Customer compensation expenses	—	4,361
Dismantlement-related expenses	—	2,759
Total extraordinary loss	—	7,121
Income (loss) before income taxes and non-controlling interests	(10,961)	73,168
Income taxes		
Current	8,717	15,424
Deferred	(379)	(4,803)
Total income taxes	8,337	10,621
Income (loss) before non-controlling interests	(19,299)	62,547
Net income (loss) attributable to non-controlling interests	3,745	(640)
Net income (loss) attributable to owners of the parent	(23,045)	63,188

Consolidated Statements of Comprehensive Income

(In millions of yen)

	FY2016	FY2017
	Ended Mar. 31, 2017	Ended Mar. 31, 2018
Income (loss) before non-controlling interests	(19,299)	62,547
Other comprehensive income (loss)		
Unrealized gains or losses on securities, net of taxes	8,763	(477)
Unrealized gains or losses on hedging derivatives, net of taxes	(785)	(1,022)
Foreign currency translation adjustments	(6,892)	1,899
Remeasurements of defined benefit plans, net of taxes	4,475	4,248
Share of other comprehensive gains and losses related to equity-method companies	(562)	1,567
Total other comprehensive income (loss)	4,997	6,216
Comprehensive Income (loss)	(14,302)	68,763
Breakdown of total comprehensive income (loss) attributed to:		
Stockholders of the parent interests	(16,957)	69,219
Non-controlling interests	2,655	(455)

Consolidated Statements of Changes in Net Assets (In millions of yen)
FY2016 (April 1, 2016 – March 31, 2017)

	Stockholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total stockholders' equity
Balance at the beginning of fiscal year	250,930	103,557	354,719	(1,556)	707,651
Amount of change					
Net loss attributable to owners of the parent			(23,045)		(23,045)
Purchase of treasury stock				(1,109)	(1,109)
Disposal of treasury stock			(1)	4	2
Changes in stockholders interest due to transaction with non-controlling interests		(20)			(20)
Change of scope of consolidation and equity method			6		6
Net changes other than stockholders' equity					
Total changes	—	(20)	(23,040)	(1,104)	(24,165)
Balance at the end of fiscal year	250,930	103,537	331,679	(2,660)	683,486

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Unrealized gains or losses on securities, net of taxes	Unrealized gains or losses on hedging derivatives, net of taxes	Land revaluation differences, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Total other comprehensive income		
Balance at the beginning of fiscal year	8,255	(7,929)	(3,406)	13,900	(26,465)	(15,645)	53,486	745,492
Amount of change								
Net loss attributable to owners of the parent								(23,045)
Purchase of treasury stock								(1,109)
Disposal of treasury stock								2
Changes in stockholders interest due to transaction with non-controlling interests								(20)
Change of scope of consolidation and equity method								6
Net changes other than stockholders' equity	9,219	(1,300)	—	(6,191)	4,359	6,087	1,989	8,077
Total changes	9,219	(1,300)	—	(6,191)	4,359	6,087	1,989	(16,088)
Balance at the end of fiscal year	17,475	(9,229)	(3,406)	7,708	(22,106)	(9,557)	55,476	729,404

Consolidated Statements of Changes in Net Assets (In millions of yen)
FY2017 (April 1, 2017 - March 31, 2018)

	Stockholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total stockholders' equity
Balance at the beginning of fiscal year	250,930	103,537	331,679	(2,660)	683,486
Amount of change					
Net income attributable to owners of the parent			63,188		63,188
Purchase of treasury stock				(11)	(11)
Disposal of treasury stock			(0)	0	0
Changes in stockholders interest due to transaction with non-controlling interests		(1,232)			(1,232)
Change of scope of consolidation and equity method		9	675		684
Net changes other than stockholders' equity					
Total changes	—	(1,223)	63,863	(10)	62,629
Balance at the end of fiscal year	250,930	102,314	395,542	(2,671)	746,115

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Unrealized gains or losses on securities, net of taxes	Unrealized gains or losses on hedging derivatives, net of taxes	Land revaluation differences, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Total other comprehensive income		
Balance at the beginning of fiscal year	17,475	(9,229)	(3,406)	7,708	(22,106)	(9,557)	55,476	729,404
Amount of change								
Net income attributable to owners of the parent								63,188
Purchase of treasury stock								(11)
Disposal of treasury stock								0
Changes in stockholders interest due to transaction with non-controlling interests								(1,232)
Change of scope of consolidation and equity method								684
Net changes other than stockholders' equity	(141)	(683)	—	2,476	4,379	6,030	(7,080)	(1,049)
Total changes	(141)	(683)	—	2,476	4,379	6,030	(7,080)	61,579
Balance at the end of fiscal year	17,333	(9,913)	(3,406)	10,185	(17,726)	(3,527)	48,396	790,984

Consolidated Statements of Cash Flows

(In millions of yen)

	FY2016 Ended Mar. 31, 2017	FY2017 Ended Mar. 31, 2018
Cash flows from operating activities		
Income (loss) before income taxes	(10,961)	73,168
Depreciation	96,281	102,032
Increase (decrease) in allowance for doubtful accounts	32,650	(11,804)
Increase (decrease) in provision for dismantlement related expenses	(1,073)	2,653
Increase (decrease) in provision for customer compensation expenses	—	3,583
Interest and dividend income	(5,866)	(6,259)
Interest expenses	13,401	12,303
Loss (gain) on sales of investment securities	(711)	(8,739)
Equity in loss (income) of equity method companies	(1,878)	(5,438)
Loss (gain) on sales of plant and equipment	(101)	(147)
Loss (gain) on disposal of plant and equipment	2,479	1,774
Reversal of allowance for doubtful accounts	(8,141)	—
Decrease (income) in trade receivables from customers	3,583	(19,450)
Net decrease (increase) in lease receivables and investment assets	2,356	2,382
Decrease (increase) in inventories	(2,080)	(30,490)
Decrease (increase) in accounts receivable - other	(30,353)	29,762
Increase (decrease) in notes and accounts payable - trade	62,635	50,035
Decrease (increase) in accrued expenses	(1,687)	6,393
Other	6,325	5,700
Subtotal	156,857	207,460
Cash received interest and dividends	8,549	7,262
Cash paid for interest	(12,545)	(12,826)
Cash paid for income taxes	(11,145)	(11,064)
Cash flows from operating activities	141,716	190,832
Cash flows from investing activities		
Purchase of property, plant and equipment and other assets	(138,984)	(136,648)
Proceeds from sales of property, plant and equipment and other assets	2,909	1,599
Purchase of investments in securities	(446)	(36,134)
Proceeds from sales of investment securities	1,887	12,952
Payments for investments in capital	(0)	(60)
Payments from purchase of shares of joint venture resulting in change in scope of consolidation	—	(6,929)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	408	3,413
Decrease (increase) in short-term loans receivable	(5,713)	(1,336)
Payments of long-term loans receivable	(231)	(92)
Proceeds from collection of long-term loans receivable	497	533
Other	1,839	1,105
Cash flows from investing activities	(137,833)	(161,598)
Cash flows from financing activities		
Increase (decrease) in short-term loans payable	(25,991)	43,663
Proceeds from issuance of long-term borrowings	177,857	25,014
Repayments of long-term borrowings	(98,561)	(104,110)
Redemption of bonds	(35,000)	(30,000)
Repayments of finance lease obligations	(5,695)	(4,244)
Purchase of treasury shares	(1,109)	(9)
Payment of dividends	(17)	(8)
Payment of dividends to non-controlling interests	(697)	(4,131)
Proceeds from share issuance to non-controlling shareholders	—	5,440
Payments from changes in interests in subsidiaries that do not result in change in scope of consolidation	—	(2,324)
Other	5,761	4,112
Cash flows from financing activities	16,545	(66,598)
Effect of exchange rate change on cash and cash equivalents	(4,745)	1,719
Net increase (decrease) in cash and cash equivalents	15,681	(35,644)
Cash and cash equivalents at beginning of fiscal year	184,336	200,417
Increase (decrease) in cash and cash equivalents resulting in change of scope of consolidation	398	494
Cash and cash equivalents at end of fiscal year	200,417	165,267

Notes

Notes on premise of a going concern

None

Changes in presentation method

Consolidated Statements of Income

In the previous consolidated fiscal year, "Provisions of allowance for doubtful accounts", which was independently stated under "Selling, general and administrative expenses", is included in "Other" from this fiscal 2017, as it has become insignificant in terms of amount. In addition, in the previous consolidated fiscal year, "Research and development expenses", which was indicated in "Other" under "Selling, general and administrative expenses", is stated independently from this fiscal year, as it has become significant in terms of amount. To reflect this change in the presentation method, the consolidated financial statements for the previous fiscal year have been reclassified.

Subsequently, in the consolidated financial statements for the previous fiscal year, the amount of 34,140 million yen, which was stated in "Provisions of allowance for doubtful accounts" under "Selling, general and administrative expenses", and the amount of 99,585 million yen, which was recorded in "Other" under "Selling, general and administrative expenses", has been reclassified as 13,448 million yen in "Research and development expenses" and as 120,277 million yen in "Other".

In the previous consolidated fiscal year, "Dismantlement expenses", which was independently stated under "Non-operating expenses", is included in "Other" from this fiscal 2017, as it has become insignificant in terms of amount. To reflect this change in the presentation method, the consolidated financial statements for the previous fiscal year have been reclassified.

Subsequently, in the consolidated financial statements for the previous fiscal year, the amount of 6,742 million yen, which was stated in "Dismantlement expenses" under "Non-operating expenses", has been reclassified in "Other".

Consolidated Statements of Cash Flows

In the previous consolidated fiscal year, "Increase (decrease) in provision for dismantlement related expenses" and "Increase (decrease) in accrued expenses", which were included in "Other" under "Cash flows from operating activities", are stated independently from this fiscal year, as they have become significant in terms of amount. To reflect this change in the presentation method, the consolidated financial statements for the previous fiscal year have been reclassified.

Subsequently, in the consolidated statements of cash flows for the previous fiscal year, the amount of 3,563 million yen, which was recorded in "Other" under "Cash flows from operating activities", has been reclassified as -1,073 million yen for "Increase (decrease) in provision for dismantlement related expenses", as -1,687 million yen for "Increase (decrease) in accrued expenses", and as 6,325 million yen in "Other".

In the previous consolidated fiscal year, "Payment of dividends to non-controlling interests", which was indicated in "Other" under "Cash flows from financing activities", is stated independently from this fiscal year, as it has become significant in terms of amount. To reflect this change in the presentation method, the consolidated financial statements for the previous fiscal year have been reclassified.

Subsequently, in the consolidated statements of cash flows for the previous fiscal year, the amount of 5,063 million yen, which was recorded in "Other" under "Cash flows from financing activities", has been reclassified as -697 million yen for "Payment of dividends to non-controlling interests" and as 5,761 million yen in "Other".

Contingent liabilities

The Kobe Steel Group discovered that misconduct had taken place. Through data falsification and/or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications (the "Affected Products") were shipped or provided to customers as if they had met these requirements (the "Misconduct").

The Kobe Steel Group, with the cooperation of its customers to which the Affected Products were shipped, is proceeding to carry out technical verifications on the impact (including safety) of its Affected Products on customers' products. Safety confirmation has been completed for most of the customers. Although the verification of the safety has not yet been completed for some customers, Kobe Steel at this time has not confirmed cases that would require the immediate suspension of use or immediate recall of the products.

The Kobe Steel Group, in addition to undergoing an investigation by the investigation authorities in Japan on the Misconduct, has been under investigation by the U.S. Department of Justice since October 2017 for allegedly selling the Affected Products to customers in the United States.

In addition, three civil complaints have been brought against the Kobe Steel Group and other similar lawsuits may be filed in the future. The three civil complaints are as follows:

1. Class actions in Canada seeking compensation for economic loss caused by the automotive metal products manufactured by the Kobe Steel Group and the use of these products in the manufacture of automobiles.
2. A securities class action in the United States based on violations of the U.S. Securities Exchange Act (misrepresentation of the compliance system, etc.) concerning Kobe Steel's American Depository Receipts (ADR)
3. A class action in the United States seeking compensation for economic loss from the decline in the resale value of the plaintiffs' vehicles and other relief, arising from the use of metal products manufactured by Kobe Steel in the manufacture of the vehicles.

The investigation by the investigation authorities in Japan, the investigation by the U.S. Department of Justice and the above-mentioned civil complaints are all at an early stage. It is difficult to reasonably estimate the final penalties, compensation for damages, and other outcomes at this time, but they may possibly result in a monetary burden. In addition, there may be additional monetary burden due to compensation cost for the exchange of products by customers, compensation cost relating to the inspections by customers and other actions.

It is possible that these factors will affect Kobe Steel's consolidated financial results. However, as it is difficult to reasonably estimate the impact of these factors at this time, these factors have not been reflected in the consolidated financial statements.

Segment Information

(In millions of yen)

		FY2016	FY2017
		Ended Mar. 31, 2017	Ended Mar. 31, 2018
Sales to outside customers:	Iron & Steel	594,623	688,659
	Welding	81,681	79,959
	Aluminum & Copper	322,453	348,463
	Machinery	139,625	153,121
	Engineering	117,441	120,131
	Construction Machinery	310,358	364,500
	Electric Power	70,605	72,129
	Other Businesses	56,636	51,768
	Adjustment	2,439	2,423
	Total	<u>1,695,864</u>	<u>1,881,158</u>
Intersegment sales:	Iron & Steel	25,988	26,893
	Welding	593	626
	Aluminum & Copper	873	1,098
	Machinery	11,085	8,203
	Engineering	3,741	2,703
	Construction Machinery	136	85
	Electric Power	—	—
	Other Businesses	18,238	17,114
	Adjustment	(60,657)	(56,724)
	Total	<u>—</u>	<u>—</u>
Total sales:	Iron & Steel	620,611	715,553
	Welding	82,274	80,585
	Aluminum & Copper	323,327	349,562
	Machinery	150,710	161,325
	Engineering	121,182	122,834
	Construction Machinery	310,494	364,585
	Electric Power	70,605	72,129
	Other Businesses	74,874	68,882
	Adjustment	(58,217)	(54,300)
	Total	<u>1,695,864</u>	<u>1,881,158</u>
Ordinary income (loss):	Iron & Steel	(29,557)	17,312
	Welding	6,854	4,917
	Aluminum & Copper	12,020	11,871
	Machinery	5,896	2,379
	Engineering	2,809	6,922
	Construction Machinery	(31,399)	21,991
	Electric Power	13,082	7,918
	Other Businesses	7,610	5,418
	Adjustment	(6,422)	(7,583)
	Total	<u>(19,103)</u>	<u>71,149</u>