

# **Supplementary Information on Fiscal 2018 Financial Results**

Kobe Steel, Ltd.  
May 9, 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 Fiscal 2018

(In billions of yen)

	FY2017 ①	FY2018 ②	Change ②-①
Net Sales	1881.1	1971.8	+90.7
Operating Income	88.9	48.2	(40.6)
Ordinary Income	71.1	34.6	(36.5)
Extraordinary Income	9.1	36.3	+27.2
Extraordinary Loss	(7.1)	(22.0)	(14.8)
Extraordinary Income (Loss)	2.0	14.3	+12.3
Net Income Attributable to Owners of the Parent	63.1	35.9	(27.2)

〈Exchange Rates〉

	FY2017	FY2018
1 U.S. dollar to yen	111 yen	111 yen
1 Chinese yuan to yen	16.8 yen	16.5 yen
1 Euro to yen	130 yen	128 yen

# 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 on a policy 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. (Announced on February 5, 2019).

## <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
		Full Year ①	Full Year ②	②-①
Iron & Steel	Net Sales	715.5	753.9	+38.4
	<b>Ordinary Income</b>	<b>17.3</b>	<b>4.7</b>	<b>(12.5)</b>
	Inventory Valuation	9.0	3.5	(5.5)
Welding	Net Sales	80.5	83.9	+3.3
	<b>Ordinary Income</b>	<b>4.9</b>	<b>3.6</b>	<b>(1.2)</b>
Aluminum & Copper	Net Sales	349.5	359.0	+9.4
	<b>Ordinary Income (loss)</b>	<b>11.8</b>	<b>(1.5)</b>	<b>(13.3)</b>
	Inventory Valuation	6.0	2.0	(4.0)
Machinery	Net Sales	161.3	171.4	+10.1
	<b>Ordinary Income</b>	<b>2.3</b>	<b>1.2</b>	<b>(1.1)</b>
Engineering	Net Sales	122.8	151.7	+28.9
	<b>Ordinary Income</b>	<b>6.9</b>	<b>6.5</b>	<b>(0.3)</b>
Construction Machinery	Net Sales	364.5	386.0	+21.4
	<b>Ordinary Income</b>	<b>21.9</b>	<b>25.5</b>	<b>+3.5</b>
Electric Power	Net Sales	72.1	76.1	+3.9
	<b>Ordinary Income (loss)</b>	<b>7.9</b>	<b>(0.3)</b>	<b>(8.2)</b>
Other Businesses	Net Sales	68.8	42.0	(26.8)
	<b>Ordinary Income</b>	<b>5.4</b>	<b>2.3</b>	<b>(3.0)</b>
Adjustment	Net Sales	(54.3)	(52.5)	+1.7
	<b>Ordinary Loss</b>	<b>(7.5)</b>	<b>(7.5)</b>	<b>+0</b>
Total	Net Sales	1,881.1	1,971.8	+90.7
	<b>Ordinary Income</b>	<b>71.1</b>	<b>34.6</b>	<b>(36.5)</b>

# Consolidated Sales & Ordinary Income by Segment

## Iron & Steel

- The sales volume of steel products decreased, compared with the previous year, owing to 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 previous year, owing to efforts to improve prices following 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, increase of maintenance cost affected by trouble with production equipment, higher distribution costs and deterioration in inventory valuation.

(In billions of yen)

	FY2017 ①	FY2018 ②	Change ②-①
Net Sales	715.5	753.9	+38.4
<b>Ordinary Income</b>	<b>17.3</b>	<b>4.7</b>	<b>(12.5)</b>
Inventory Valuation	9.0	3.5	(5.5)

### <Production and Sales (Non-Consolidated)>

Crude Steel Production (millions of tons)	7.46	6.91	(0.55)
Sales Volume (millions of tons)	5.97	5.62	(0.35)
Export Ratio (value basis)	27.2%	24.9%	(2.3%)
Average Steel Prices (thousands of yen/ton)	81.5	86.1	+4.6

### <Factors Affecting Comparison>

**FY2017 17.3 billion yen ⇒ FY2018 4.7 billion yen Change : (12.5 billion yen)**

(In billions of yen)

Positive Factors		Negative Factors	
Production and shipments	+11.5	Raw material prices	(19.5)
Overall cost reduction	+4.5	Inventory valuation*	(5.5)
Subsidiaries & affiliates	+0.5	Other	(4.0)
<b>Total</b>	<b>+16.5</b>	<b>Total</b>	<b>(29.0)</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 higher than the previous year. Although demand from the shipbuilding sector was sluggish mainly in East Asia, demand from the automotive sector overseas increased.
- Ordinary income decreased, compared with the previous year, owing to higher raw material costs.

(In billions of yen)

	FY2017 ①	FY2018 ②	Change ②-①
Net Sales	80.5	83.9	+3.3
<b>Ordinary Income</b>	<b>4.9</b>	<b>3.6</b>	<b>(1.2)</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 previous year, due to the lower sales volume of aluminum rolled products, increase in energy costs and fixed costs (labor cost), and the lower impact of inventory valuation.

(In billions of yen)

	FY2017 ①	FY2018 ②	Change ②-①
Net Sales	349.5	359.0	+9.4
<b>Ordinary Income(Loss)</b>	<b>11.8</b>	<b>(1.5)</b>	<b>(13.3)</b>
Inventory Valuation	6.0	2.0	(4.0)

<Sales Volume>

(In thousands of ton)

Aluminum Rolled Products	363	345	(18)
Copper Strips	60	59	(1)
Copper Tubes	82	85	+3

# Consolidated Sales & Ordinary Income by Segment

## Machinery

- Although segment sales increased due to the sales of large orders centered on plastic processing machinery, compressors and other products, ordinary income decreased due to the poor profitability of orders at overseas subsidiaries.

(In billions of yen)

	FY2017 ①	FY2018 ②	Change ②-①
Net Sales	161.3	171.4	+10.1
<b>Ordinary Income</b>	<b>2.3</b>	<b>1.2</b>	<b>(1.1)</b>

### <Orders>

(In billions of yen)

	FY2017 ①	FY2018 ②	Change ②-①
Domestic	62.5	61.2	(1.3)
Export	88.5	110.4	+21.9
<b>Total</b>	<b>151.1</b>	<b>171.7</b>	<b>+20.6</b>

### <Backlog of Orders>

(In billions of yen)

	FY2017 ①	FY2018 ②	Change ②-①
Domestic	41.2	43.2	+2.0
Export	99.2	113.3	+14.1
<b>Total</b>	<b>140.4</b>	<b>156.6</b>	<b>+16.1</b>

# Consolidated Sales & Ordinary Income by Segment

## Engineering

- Although segment 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 ①	FY2018 ②	Change ②-①
Net Sales	122.8	151.7	+28.9
<b>Ordinary Income</b>	<b>6.9</b>	<b>6.5</b>	<b>(0.3)</b>

### <Orders>

(In billions of yen)

	FY2017 ①	FY2018 ②	Change ②-①
Domestic	80.6	90.5	+9.9
Export	38.6	32.1	(6.5)
<b>Total</b>	<b>119.2</b>	<b>122.6</b>	<b>+3.3</b>

### <Backlog of Orders>

(In billions of yen)

	FY2017 ①	FY2018 ②	Change ②-①
Domestic	97.9	104.2	+6.2
Export	85.5	65.1	(20.3)
<b>Total</b>	<b>183.4</b>	<b>169.3</b>	<b>(14.0)</b>

Note: Sales in a single fiscal year from long-term operation and maintenance work in Kobelco Eco-Solution's water treatment and waste treatment business are counted as orders.

### <Orders>

(In billions of yen)

	FY2017 ①	FY2018 ②	Change ②-①
Orders	110.2	149.3	+38.9

### <Backlog of Orders>

(In billions of yen)

	FY2017 ①	FY2018 ②	Change ②-①
Orders	276.9	297.3	+20.4

For reference: In the case that contracting of entire operation and maintenance work is included.



# Consolidated Sales & Ordinary Income (loss) by Segment

## Construction Machinery

- Unit sales of hydraulic excavators increased, compared with the previous year, owing to firm demand mainly in China and Europe.
- Unit sales of crawler cranes were similar to the previous year. Although unit sales of crawler cranes in Japan declined because of the crane collapse accident, demand was firm mainly in Southeast Asia and other markets.
- Ordinary income increased owing to higher unit sales of hydraulic excavators and the reversal of a part of the allowance in the hydraulic excavator business in China in association with the collection of retained receivables, in spite of the impact of crane collapse accident.

(In billions of yen)

	FY2017 ①	FY2018 ②	Change ②-①
Net Sales	364.5	386.0	+21.4
<b>Ordinary Income</b>	<b>21.9</b>	<b>25.5</b>	<b>+3.5</b>

## Electric Power

- Although segment sales increased owing to the effect of higher market prices for coal, 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 existing power plant, and other factors.

(In billions of yen)

	FY2017 ①	FY2018 ②	Change ②-①
Net Sales	72.1	76.1	+3.9
<b>Ordinary Income (loss)</b>	<b>7.9</b>	<b>(0.3)</b>	<b>(8.2)</b>

# Extraordinary income (loss)

(In billions of yen)

	FY2018	Details of FY2018
Gain on sale of investment securities	31.4	Sold 75% of shares in Shinko Real Estate
Gain on acquisition of subsidiary	4.8	Turned Shinko Wire into a subsidiary
<b>Extraordinary income</b>	<b>36.3</b>	
Loss on impairment	(13.9)	Impairment loss on the company's manufacturing assets for titanium forgings and goodwill related to the Swedish subsidiary in the industrial machinery business
Loss on disaster	(3.3)	Damage to inventories affected by Typhoons No. 20, No. 21 and No. 24, torrential rain in Western Japan, and North Osaka earthquake, etc
Customer compensation expenses	(2.5)	Compensation cost relating to inspections incurred by customers due to misconduct
Environmental expense	(2.1)	PCB waste disposal expense
<b>Extraordinary loss</b>	<b>(22.0)</b>	
<b>Extraordinary income(loss)</b>	<b>14.3</b>	

# Free Cash Flow & Capital Investment

## < Free Cash Flow >

(In billions of yen)

	FY2017	FY2018	Change
	①	②	②-①
Cash Flows from Operating Activities	191.8	<b>72.3</b>	(119.5)
Cash Flows from Investing Activities	(160.7)	<b>(10.9)</b>	+149.8
Free Cash Flow (excluding project financing)	31.1	<b>61.4</b>	+30.2
Free Cash Flow (including project financing)	29.2	<b>38.5</b>	+9.2
Cash and Deposits (excluding project financing)	158.2	<b>192.6</b>	+34.3

## < Capital Investment >

(In billions of yen)

	FY2017	FY2018	Change
	①	②	②-①
Capital Investment (Accrual Basis)	128.6	<b>133.4</b>	+4.8
Capital Investment (Payment Basis)	136.6	<b>132.4</b>	(4.1)
Depreciation	102.0	<b>102.5</b>	+0.5

# Financial Index

	FY2017	FY2018
RO S <sup>*1</sup>	3.8%	1.8%
Net Income per Share	174.43 yen	99.20 yen
Outside Debt <sup>*2</sup>	726.0 billion yen	724.2 billion yen
D/E Ratio <sup>*3</sup>	0.98 times	0.98 times <sup>*4</sup>
RO A <sup>*5</sup>	3.1%	1.5%
RO E <sup>*6</sup>	8.9%	4.8%

\*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 FY2019 (92.1 billion yen)

D/E Ratio for FY2018 0.85 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						
							Full Year
	1Q	2Q	1st half	3Q	4Q	2nd half	
Crude steel production (millions of tons)	1.72	1.66	3.39	1.69	1.83	3.52	6.91
Sales volume (millions of tons)	1.39	1.32	2.71	1.49	1.43	2.91	5.62
Sales prices (thousands of yen/ton)	83.5	87.0	85.2	87.4	86.4	86.9	86.1
Export ratio (value basis)	25.9%	25.5%	25.7%	25.0%	23.1%	24.1%	24.9%

# Financial Strategy

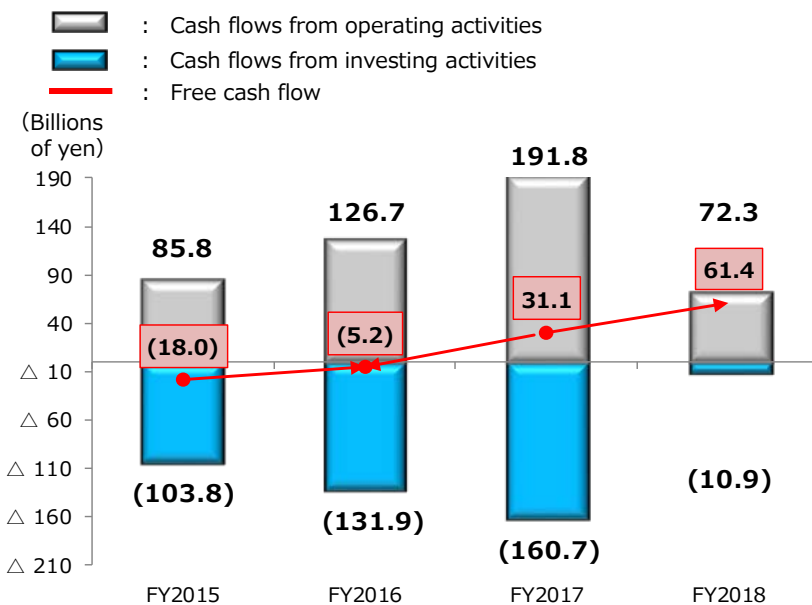
## Basic Policy

- In principle, business cash flows are used to finance large strategic investments to grow the materials and machinery businesses, as well as regular investments that support the business foundation.
- **D/E ratio 1 time or less**

## Cash Generation Measures

- Consider and implement cash generation measures on a scale of **100.0 billion yen** to steadily implement growth investments, while maintaining financial discipline.
- ※ Cash generation measures already implemented from FY2016 to FY2018 :
  - Improved working capital 19.0 billion yen
  - Asset sales 9.1 billion yen, etc
  - Total : 110.0 billion yen

### 《Free cash flow》



### 《Outside Debt・D/E ratio》

