

# Kobe Steel's Consolidated Financial Results for First Quarter of Fiscal 2019 (April–June 30, 2019)

August 2, 2019

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  
 Filing of quarterly report: August 2, 2019  
 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 First Quarter of FY2019 (April 1–June 30, 2019)

### (1) Consolidated operating results

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

	Net sales		Operating income		Ordinary income (loss)		Net income (loss) attributable to owners of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2019 1Q	464,458	(2.9)	2,743	(80.2)	(519)	—	(1,155)	—
FY2018 1Q	478,318	10.0	13,831	(54.4)	12,749	(54.9)	12,659	(49.4)

Note: Comprehensive income(loss) FY2019 1Q: (4,186) million yen [—]  
 FY2018 1Q: 6,042 million yen [(73.6)%]

	Net income(loss) per share	Diluted net income per share
	Yen	Yen
FY2019 1Q	(3.18)	---
FY2018 1Q	34.94	---

### (2) Consolidated financial position

	Total assets	Net assets	Equity capital ratio
	Million yen	Million yen	%
FY2019 1Q	2,377,580	794,896	30.9
FY2018	2,384,973	803,312	31.0

Reference: Equity capital FY2019 1Q: 734,062 million yen FY2018: 739,576 million yen

## 2. Dividends

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

Revision to dividend forecast in FY2019 1Q: Yes  
 The dividend for the end of fiscal 2019 is undetermined.

For more information, please refer to "Announcement on Revision to Earnings Forecast and Interim Dividend Forecast for Fiscal 2019, ending March 31, 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		Ordinary income (loss)		Net income attributable to owners of the parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
1H	980,000	2.3	0	(100.0)	(10,000)	---	0	(100.0)	0.00
Full year	2,000,000	1.4	25,000	(48.2)	10,000	(71.1)	10,000	(72.2)	27.60

Revision to consolidated forecast in FY2019 1Q: Yes

For more information, please refer to “Announcement on Revision to Earnings Forecast and Interim Dividend Forecast for Fiscal 2019, ending March 31, 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 (1Q)

	FY2019 1Q	FY2018
Number of issued shares (including treasury stock)	364,364,210 shares	364,364,210 shares
Number of shares of treasury stock	2,057,477 shares	2,055,945 shares
Average number of shares (1Q)	362,307,252 shares	362,246,041 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 5.

# 1. Qualitative Information on Consolidated Operating Results

## (1) Qualitative Information on Consolidated Operating Results

Japan's economy in the first quarter of fiscal 2019 (April 1–June 30, 2019) continued on a moderate recovery supported by increased personal spending from improvements in employment and income conditions and by firm corporate capital investments. Overseas economies continued on a recovery trend mainly in the United States, while China, Southeast Asia and Europe saw a slowdown in economic growth from the impact of protectionist trade policies and other factors.

In this economic environment, the sales volume of steel products in the Kobe Steel Group was similar to the same period last year, owing to firm demand mainly from the domestic automotive sector, although some impact from protectionist trade policies was seen. The sales volume of aluminum rolled products decreased, compared with the same period last year, as demand fell in the semiconductor and IT sectors, although demand remained firm for aluminum can stock used in beverage cans. The sales volume of copper rolled products decreased, compared with the same period last year, as demand fell for copper strips used in automotive terminals and semiconductors. On the whole, unit sales of hydraulic excavators were similar to the same period last year, although increasing or decreasing depending on the region.

As a result, consolidated net sales for the first quarter of fiscal 2019 decreased 13.8 billion yen, compared with the same period last year, to 464.4 billion yen. Operating income decreased 11.0 billion yen, compared with the same period last year, to 2.7 billion yen. Ordinary income worsened 13.2 billion yen, compared with the same period last year, to ordinary loss of 0.5 billion yen. Net income attributable to owners of the parent worsened 13.8 billion yen, compared to the same period last year, to net loss attributable to owners of the parent of 1.1 billion yen.

Conditions in the business segments for the first quarter of fiscal 2019 follow below.

### **Iron & Steel**

The sales volume of steel products was similar to the same period last year, as demand remained firm mainly in the domestic automotive sector, although some impact from protectionist trade policies were seen. Sales prices increased, compared with the same period last year, owing to a rise in main raw material prices and other factors.

Sales of steel castings and forgings decreased, compared with the same period last year, owing to changes in the product mix. Sales of titanium products increased, compared with the same period last year, owing to expanded sales to the aircraft sector and other factors.

As a result, consolidated sales in the Iron & Steel segment for the first quarter of fiscal 2019 were similar to the same period last year at 181.2 billion yen. Ordinary income worsened 2.3 billion yen, compared with the same period last year, to ordinary loss of 1.5 billion yen, owing to a worsening of the product mix and the impact of inventory valuation, although the reduction of production costs proceeded smoothly.

### **Welding**

The sales volume of welding materials increased, compared with the same period last year, as demand was on a recovery trend in the shipbuilding sector mainly in East Asia and rose in China's energy sector, although demand was sluggish mainly in Thailand and Indonesia.

Sales of welding systems increased, compared with the same period last year, as demand continued to remain firm for architectural steel frames in Japan.

As a result, consolidated sales in the Welding segment for the first quarter of fiscal 2019 increased 7.4 percent, compared with the same period last year, to 21.1 billion yen. Ordinary income increased 0.2 billion yen, compared with the same period last year, to 0.8 billion yen.

### **Aluminum & Copper**

The sales volume of aluminum rolled products decreased, compared with the same period last year, as demand decreased in the semiconductor and IT sectors, although demand for aluminum can stock for beverage cans remained firm.

The sales volume of copper rolled products decreased, compared with the same period last year, as demand for copper strip used in automotive terminals and semiconductors decreased, although demand was firm for

copper tubes.

As a result consolidated sales in the Aluminum & Copper segment for the first quarter of fiscal 2019 decreased 5.3 percent, compared with the same period last year, to 88.2 billion yen. Ordinary income worsened 5.6 billion yen, compared with the same period last year, to ordinary loss of 3.1 billion yen, owing to lower sales volume, the impact of inventory valuation, and other factors.

### **Machinery**

Orders in the consolidated first quarter of fiscal 2019 increased 13.2 percent, compared with the same period last year, to 37.2 billion yen, as demand remained firm in the petrochemical sector in Asia and the Middle East. The backlog of orders at the end of the consolidated first quarter of fiscal 2019 stood at 152.4 billion yen.

Consolidated sales in the Machinery segment for the first quarter of fiscal 2019 decreased 9.7 percent, compared with the same period last year, to 39.9 billion yen, because of the large posting of sales from large orders of compressors used in the petrochemical sector in the first quarter last year. Ordinary income decreased 0.1 billion yen to 0.8 billion yen.

### **Engineering**

Orders in the consolidated first quarter of fiscal 2019 came to 47.5 billion yen, a decrease of 7.6 percent, compared with the same period last year, which saw orders for several large projects, although orders remained firm mainly for waste treatment-related work in the period under review. The backlog of orders at the end of the consolidated first quarter of fiscal 2019 stood at 184.5 billion yen.

Consolidated sales in the Engineering segment for the first quarter of fiscal 2019 increased 13.7 percent, compared with the same period last year, to 28.4 billion yen, owing to the steady progress of existing orders centered on large projects. Ordinary income increased 0.3 billion yen, compared with the same period last year, to 0.8 billion yen.

### **Construction Machinery**

Unit sales of hydraulic excavators were similar to the same period last year, as unit sales rose in China and Japan, where demand was firm in both countries, but decreased in Southeast Asia, owing to a temporary decline in demand from the effects of delays in infrastructure construction.

Unit sales of crawler cranes decreased mainly in Southeast Asia, compared with the same period last year, as competition intensified from overseas manufacturers.

As a result, consolidated sales in the Construction Machinery segment for the first quarter of fiscal 2019 decreased 5.6 percent, compared with the same period last year, to 95.7 billion yen. Ordinary income decreased 3.5 billion yen, compared with the same period last year, to 4.0 billion yen owing to lower unit sales in Southeast Asia and the impact of currency exchange rates.

### **Electric Power**

The amount of electricity sold was higher than the same quarter last year owing to the difference in the number of days for equipment inspection, maintenance and repairs. The unit price of electricity was higher than the same period last year, as it was affected by higher market prices of coal for power generation.

As a result, consolidated sales in the Electric Power segment for the first quarter of fiscal 2019 increased 8.7 percent, compared with the same period last year, to 15.2 billion yen. However, ordinary loss worsened 1.5 billion yen, compared with the same period last year, to 1.6 billion yen, owing to statutory inspections conducted at the No. 1 unit of the Kobe Power Plant.

### **Other Businesses**

At Kobelco Research Institute, Inc., sales decreased in the sputtering target business.

In addition, Shinko Real Estate Co., Ltd., which was a consolidated subsidiary, was excluded from Kobe Steel's scope of consolidation in the second quarter of fiscal 2018 and is now included as an affiliate accounted for by the equity method.

As a result, consolidated sales in the Other Businesses segment for the first quarter of fiscal 2019 decreased 60.3 percent, compared with the same period last year, to 5.7 billion yen. Ordinary income worsened 1.0 billion yen, compared with the same period last year, to ordinary loss of 0.4 billion yen.

## Revision 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 good progress in consolidating upstream operations 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 situation faced by the Kobe Steel Group, including changes in the market environment such as higher raw material prices and energy prices, the occurrence of equipment trouble, delays in the profitability of strategic investments, the 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 the priority issues and measures to be implemented in the remaining two years of the Medium-Term Management Plan and for the future, as a “rolling,” or revision, of its existing Medium-Term Management Plan and made an announcement in May 2019. The key themes of the revised Medium-Term Management Plan follow below. The Kobe Steel Group will sincerely tackle these issues, and by steadily implementing the initiatives of the key themes, it aims to make a leap toward the future.

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

Link to the medium- to long-term business vision KOBELCO VISION “G+”

<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](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](https://www.kobelco.co.jp/english/releases/1201246_15581.html)

## (2) Qualitative Information on Consolidated Earnings Forecast

Compared with the previous earnings forecast made on May 15, 2019, the impact of protectionist trade policies has become apparent.

Amid these circumstances, the Kobe Steel Group anticipates deterioration of the product mix in the Iron & Steel segment, while sales volume in the Aluminum & Copper segment is expected to decrease in the semiconductor and IT sectors and in the overseas automotive sector. The Kobe Steel Group anticipates that it will be affected by worsened productivity caused by equipment trouble and other issues at affiliate companies. In addition, in the Construction Machinery segment, unit sales of hydraulic excavators are anticipated to decrease mainly in China.

For these reasons, the Kobe Steel Group revises downward its forecast for net sales, operating income and ordinary income for the consolidated first half of fiscal 2019 and for net sales, operating income, ordinary income and net income attributable to owners of the parent for the full fiscal 2019.

**Dividends for Fiscal 2019**

Kobe Steel aims to pay dividends on a continuous and stable basis. Dividends are decided after taking into full account the Company's financial condition, business performance, future capital needs and other factors. On this basis, in light of this earnings forecast, Kobe Steel has regrettably passed a resolution to adopt a policy to forgo the interim dividend for the first half of fiscal 2019. The year-end dividend for fiscal 2019 has not yet been determined.

**\* 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 1Q
	Ended Mar. 31, 2019	Ended Jun. 30, 2019
<b>Current Assets</b>		
Cash and deposits	173,899	152,053
Notes and accounts receivable	343,288	309,176
Merchandise and finished goods	178,080	192,496
Work-in-process	131,198	141,016
Raw materials and supplies	167,127	171,936
Other	112,868	114,547
Allowance for doubtful accounts	(4,212)	(4,275)
Total current assets	1,102,249	1,076,951
<b>Fixed Assets</b>		
<b>Property, plant and equipment</b>		
Buildings and structures	257,510	256,966
Machinery and equipment	429,209	427,670
Land	144,459	144,473
Other	99,405	117,625
Total property, plant and equipment	930,584	946,735
<b>Intangible fixed assets</b>	32,640	33,141
<b>Investments and other assets</b>		
Investments in securities	190,008	184,806
Other	173,075	180,058
Allowance for doubtful accounts	(43,585)	(44,112)
Total investment and other assets	319,498	320,751
Total fixed assets	1,282,723	1,300,628
<b>Total assets</b>	2,384,973	2,377,580

<b>LIABILITIES</b>	<b>FY2018</b>	<b>FY2019 1Q</b>
	<b>Ended Mar. 31, 2019</b>	<b>Ended Jun. 30, 2019</b>
<b>Current liabilities</b>		
Notes and accounts payable	455,310	441,607
Short-term borrowings	116,382	114,162
Current portion of bonds	22,215	10,215
Income and enterprise taxes payable	7,080	3,509
Provisions	53,062	42,722
Other	157,676	183,379
Total current liabilities	<u>811,727</u>	<u>795,596</u>
<b>Long-term liabilities</b>		
Bonds and notes	111,837	101,730
Long-term borrowings	509,929	533,761
Net defined benefit liability	81,079	84,359
Provisions	6,042	5,785
Other	61,043	61,449
Total long-term liabilities	<u>769,932</u>	<u>787,086</u>
<b>Total liabilities</b>	<u>1,581,660</u>	<u>1,582,683</u>
<b>NET ASSETS</b>		
<b>Stockholders' equity</b>		
Common stock	250,930	250,930
Capital surplus	102,218	102,350
Retained earnings	415,320	412,515
Treasury stock, at cost	(2,614)	(2,615)
Total stockholders' equity	<u>765,855</u>	<u>763,180</u>
<b>Accumulated other comprehensive income</b>		
Unrealized gains or losses on securities, net of taxes	7,105	4,837
Unrealized gains or losses on hedging derivatives, net of taxes	(14,030)	(15,248)
Land revaluation differences, net of taxes	(3,406)	(3,406)
Foreign currency translation adjustments	2,705	2,595
Remeasurements of defined benefit plans, net of taxes	(18,652)	(17,897)
Total accumulated other comprehensive income	<u>(26,278)</u>	<u>(29,118)</u>
<b>Non-controlling interests</b>	<u>63,736</u>	<u>60,834</u>
<b>Total net assets</b>	<u>803,312</u>	<u>794,896</u>
<b>Total liabilities and net assets</b>	<u>2,384,973</u>	<u>2,377,580</u>



## Consolidated Statements of Income

(In millions of yen)

	FY2018 1Q	FY2019 1Q
	Ended Jun. 30, 2018	Ended Jun. 30, 2019
<b>Net sales</b>	478,318	464,458
<b>Cost of sales</b>	410,616	406,926
<b>Gross profit</b>	67,702	57,531
<b>Selling, general and administrative expenses</b>	53,871	54,788
<b>Operating income</b>	13,831	2,743
<b>Non-operating income</b>		
Interest income	624	594
Dividend income	2,698	2,732
Reimbursement of seconded employees' salaries	1,161	980
Equity in income of equity method companies	1,541	2,399
Other	2,771	1,883
Total non-operating income	8,796	8,590
<b>Non-operating expenses</b>		
Interest expense	2,570	2,237
Seconded employees' salaries	2,735	2,560
Other	4,572	7,054
Total non-operating expenses	9,878	11,852
Ordinary income (loss)	12,749	(519)
<b>Extraordinary income</b>		
Gain on acquisition of subsidiary	3,942	0
Total extraordinary income	3,942	—
<b>Income (loss) before income taxes and non-controlling interests</b>	16,691	(519)
<b>Income taxes</b>		
Current	3,625	2,552
Deferred	(465)	(1,874)
Total income taxes	3,160	677
<b>Income (loss) before non-controlling interests</b>	13,531	(1,196)
<b>Net income (loss) attributable to non-controlling interests</b>	871	(41)
<b>Net income (loss) attributable to owners of the parent</b>	12,659	(1,155)

## Consolidated Statements of Comprehensive Income

(In millions of yen)

	<b>FY2018 1Q</b>	<b>FY2019 1Q</b>
	<b>Ended Jun. 30, 2018</b>	<b>Ended Jun. 30, 2019</b>
<b>Income (loss) before non-controlling interests</b>	13,531	(1,196)
<b>Other comprehensive income (loss)</b>		
Unrealized gains or losses on securities, net of taxes	(1,122)	(2,297)
Unrealized gains or losses on hedging derivatives, net of taxes	(518)	(1,593)
Foreign currency translation adjustments	(6,252)	863
Remeasurements of defined benefit plans, net of taxes	1,056	784
Share of other comprehensive gains and losses related to equity method companies	(652)	(746)
Total other comprehensive income (loss)	(7,489)	(2,989)
<b>Comprehensive Income (loss)</b>	<b>6,042</b>	<b>(4,186)</b>
Breakdown of total comprehensive income (loss) attributed to:		
Stockholders of the parent interests	4,895	(4,062)
Non-controlling interests	1,147	(123)

## Notes

### Notes on premise of a going concern

None

### Notes on significant changes in the amount of stockholders' equity

None