

Supplementary Financial Information for the First Nine Months of Fiscal 2019

Kobe Steel, Ltd.
February 6, 2020

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.

(In billions of yen)

	FY2018 3Q ①	FY2019 3Q ②	Change ②-①
Net Sales	1,448.3	1,388.8	(59.5)
Operating Income	38.2	14.3	(23.9)
Ordinary Income	27.1	7.1	(20.0)
Extraordinary Income	※1,2,3 32.7	※4 7.4	(25.2)
Net Income Attributable to Owners of the Parent	45.0	7.2	(37.8)

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

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

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

※4 Gain on sale of investment securities: 7.4 billion yen (Sold strategically held shares)

Consolidated Forecast for FY2019

(In billions of yen)

	FY2018 ①	FY2019 Forecast		Change	
		Previous Forecast ②	Current Forecast ③	③-①	③-②
Net Sales	1,971.8	1,970.0	1,890.0	(81.8)	(80.0)
Operating Income (Loss)	48.2	15.0	(5.0)	(53.2)	(20.0)
Ordinary Income (Loss)	34.6	0.0	(25.0)	(59.6)	(25.0)
Extraordinary Income (Loss)	14.3	※1.2 (4.1)	※3 7.4	(6.9)	+11.5
Net Income(Loss) Attributable to Owners of the Parent	35.9	(5.0)	(15.0)	(50.9)	(10.0)

〈Exchange Rates〉

	FY2018	FY2019	
		9 Months Ended Dec.31	4Q Forecast
1 U.S. dollar to yen	111	109	110
1 Chinese yuan to yen	16.5	15.6	15.0
1 Euro to yen	128	121	120

- ※1 Gain on sale of investment securities:
6.7 billion yen (Sold strategically held shares)
- ※2 Loss on valuation of investment securities:
(10.8 billion yen)
- ※3 Gain on sale of investment securities:
7.4 billion yen (Sold strategically held shares)

Dividends

- Kobe Steel takes its financial condition, business performance, future capital needs and other factors into overall consideration as a basis to pay continuous and stable dividends. Dividends are decided after taking into account the business performance of each period, the dividend payout ratio, and other factors.
- At this time, net income attributable to owners of the parent is anticipated to become net loss. Taking this and other factors into overall consideration, Kobe Steel has unfortunately passed a resolution at its Board of Directors meeting on a policy to forgo the year-end dividend.

<Dividend Results>

	FY2016			FY2017			FY2018			FY2019(Forecast)		
	Interim	Year-end	Year	Interim	Year-end	Year	Interim	Year-end	Year	Interim	Year-end	Year
Dividends per Share in Yen	-	-	-	-	30	30	10	10	20	-	-	-

Consolidated Sales & Ordinary Income by Segment

(In billions of yen)

		FY2018		FY2019		Change		FY2019 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	558.9	753.9	545.5	725.0	(13.4)	(28.9)	760.0	(35.0)
	Ordinary Income (Loss)	3.1	4.7	(4.6)	(25.0)	(7.8)	(29.7)	(5.0)	(20.0)
	Inventory Valuation	3.0	3.5	1.0	—	(2.0)	(3.5)	4.5	(4.5)
Welding	Net Sales	62.0	83.9	63.7	83.0	+1.7	(0.9)	85.0	(2.0)
	Ordinary Income	2.3	3.6	2.5	3.0	+0.1	(0.6)	3.0	—
Aluminum & Copper	Net Sales	271.8	359.0	251.4	340.0	(20.4)	(19.0)	350.0	(10.0)
	Ordinary Income (Loss)	1.0	(1.5)	(12.7)	(25.0)	(13.7)	(23.5)	(21.0)	(4.0)
	Inventory Valuation	1.5	2.0	(2.0)	(4.0)	(3.5)	(6.0)	(4.0)	—
Machinery	Net Sales	121.6	171.4	117.3	168.0	(4.3)	(3.4)	174.0	(6.0)
	Ordinary Income	1.4	1.2	6.5	6.0	+5.1	+4.8	5.0	+1.0
Engineering	Net Sales	89.9	151.7	95.8	145.0	+5.9	(6.7)	148.0	(3.0)
	Ordinary Income	2.7	6.5	4.5	6.0	+1.8	(0.5)	6.0	—
Construction Machinery	Net Sales	297.1	386.0	277.8	360.0	(19.3)	(26.0)	390.0	(30.0)
	Ordinary Income	22.6	25.5	8.7	7.0	(13.8)	(18.5)	9.0	(2.0)
Electric Power	Net Sales	54.3	76.1	51.6	74.0	(2.7)	(2.1)	77.0	(3.0)
	Ordinary Income (Loss)	(3.2)	(0.3)	3.4	6.5	+6.7	+6.8	6.5	—
Other Businesses	Net Sales	29.3	42.0	21.3	33.0	(7.9)	(9.0)	33.0	—
	Ordinary Income	1.7	2.3	0.7	2.5	(0.9)	+0.2	3.0	(0.5)
Adjustment	Net Sales	(36.9)	(52.5)	(35.8)	(38.0)	+1.0	+14.5	(47.0)	+9.0
	Ordinary Loss	(4.5)	(7.5)	(2.0)	(6.0)	+2.4	+1.5	(6.5)	+0.5
Total	Net Sales	1,448.3	1,971.8	1,388.8	1,890.0	(59.5)	(81.8)	1,970.0	(80.0)
	Ordinary Income (Loss)	27.1	34.6	7.1	(25.0)	(20.0)	(59.6)	0.0	(25.0)

Iron & Steel

- The sales volume of steel products decreased year on year as demand fell mainly for automobiles overseas, although demand remained firm for automobiles in Japan. The sales prices of steel products increased year on year, reflecting a rise in prices of the main raw materials.
- Production equipment trouble that occurred in the previous year and the impact from natural disasters were resolved. Although production costs steadily improved, Kobe Steel was late in reflecting the higher prices of the main raw materials in the sales prices of steel products, while sales volume decreased, leading to a worsening of ordinary loss year on year.

(In billions of yen)

	FY2018 3Q ①	FY2019 3Q ②	Change ②-①
Net Sales	558.9	545.5	(13.4)
Ordinary Income(Loss)	3.1	(4.6)	(7.8)
Inventory Valuation	3.0	1.0	(2.0)

<Production and Sales>

	FY2018 3Q ①	FY2019 3Q ②	Change ②-①
Crude steel production (millions of tons)	5.08	5.00	(0.08)
Sales Volume (millions of tons)	4.19	4.04	(0.15)
Export Ratio (value basis)	25.5%	23.9%	(1.6%)
Average Steel Prices (thousands of yen/t)	86.0	87.4	+1.4

<Factors Affecting Comparison>

FY2018 First 9 Months 3.1 billion yen ⇒ FY2019 First 9 Months (4.6 billion yen) (Change (7.8 billion yen))

(In billions of yen)

Positive Factors		Negative Factors	
Production and shipments	+4.5	Raw material prices	(13.0)
Overall cost reduction	+8.0	Inventory valuation*	(2.0)
Subsidiaries & affiliates	+1.5	Exchange rate changes	(0.5)
		Other	(6.3)
Total	+14.0	Total	(21.8)

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

Welding

- Demand for welding consumables remained firm mainly in domestic construction. Overseas, demand for shipbuilding bottomed out mainly in the Republic of Korea, while demand was sluggish in Thailand, Indonesia and other countries.
- Demand for welding systems remained firm in domestic construction.
- As a result, both segment sales and profits increased year on year.

(In billions of yen)

	FY2018 3Q ①	FY2019 3Q ②	Change ②-①
Net Sales	62.0	63.7	+1.7
Ordinary Income	2.3	2.5	+0.1

Aluminum & Copper

- The sales volume of aluminum rolled products decreased year on year as demand declined for semiconductors and in IT.
- The sales volume of copper rolled products decreased year on year as demand declined for semiconductors and automotive terminals.
- Ordinary loss worsened year on year owing to lower sales volume, the impact of equipment trouble at the U.S. manufacturing subsidiary for suspension parts, the worsening of the impact on inventory valuation from the fall in ingot prices, and other factors.

(In billions of yen)

	FY2018 3Q ①	FY2019 3Q ②	Change ②-①
Net Sales	271.8	251.4	(20.4)
Ordinary Income (Loss)	1.0	(12.7)	(13.7)
Inventory Valuation	1.5	(2.0)	(3.5)

<Sales Volume>

(In thousands of tons)

Aluminum Rolled Products	260	248	(12)
Copper Strips	45	39	(6)
Copper Tubes	64	63	(1)

<Factors Affecting Comparison>

FY2018 First 9 Months 1.0 billion yen ⇒ FY2019 First 9 Months (12.7 billion yen) (Change (13.7 billion yen))

(In billions of yen)

Positive Factors	Negative Factors
	Production and shipments (3.0)
	Overall cost (3.0)
	Inventory valuation* (3.5)
	Other (4.2)
Total	Total (13.7)

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

Machinery

- Segment sales decreased compared with the same period last year, which saw the posting of sales from large orders centered on compressors for the petrochemical sector.
- Ordinary income increased owing to the improved profitability of orders, increased orders for after-sales services, and other factors.

(In billions of yen)

	FY2018 3Q ①	FY2019 3Q ②	Change ②-①
Net Sales	121.6	117.3	(4.3)
Ordinary Income	1.4	6.5	+5.1

Engineering

- Both segment sales and profits rose owing to changes in the progress of existing orders for direct reduction plants and waste treatment projects and in other areas.

(In billions of yen)

	FY2018 3Q ①	FY2019 3Q ②	Change ②-①
Net Sales	89.9	95.8	+5.9
Ordinary Income	2.7	4.5	+1.8

Construction Machinery

- Unit sales of hydraulic excavators in Japan increased year on year on the back of firm construction investments. Unit sales overseas decreased year on year as demand declined from delays in infrastructure construction in Southeast Asia, although demand in China was firm.
- Unit sales of crawler cranes decreased year on year as competition from overseas manufacturers intensified mainly in Southeast Asia.
- Segment sales decreased due to changes in the composition of hydraulic excavators sold in China, the decrease of sales volume in Southeast Asia, the impact of the high yen against the euro and Chinese renminbi on exchange rates, and other factors.
- Ordinary income decreased due to a decrease in the reversal of allowance for doubtful receivables year on year, in addition to lower sales and higher fixed costs, including development costs and other costs.

(In billions of yen)

	FY2018 3Q ①	FY2019 3Q ②	Change ②-①
Net Sales	297.1	277.8	(19.3)
Ordinary Income	22.6	8.7	(13.8)

Electric Power

- The amount of electricity sold was higher year on year owing to the start of the No. 1 unit of the Moka Power Plant. However, the unit price of electricity decreased year on year affected by a market fall in the price of fuel for power generation. As a result, segment sales decreased year on year.
- Ordinary income increased, compared with the same period last year, which incurred costs for financing a new electric power generation project in Kobe, in addition to the start of operation of the No. 1 unit of the Moka Power Plant.

(In billions of yen)

	FY2018 3Q ①	FY2019 3Q ②	Change ②-①
Net Sales	54.3	51.6	(2.7)
Ordinary Income (Loss)	(3.2)	3.4	+6.7

Iron & Steel

- Sales volume is anticipated to decrease from the previous forecast for automobiles overseas and construction, impacted by U.S.-China trade friction and other factors.
- Ordinary income is forecast to worsen from the previous forecast due to the worsening of the impact from inventory valuation, in addition to lower sales volume of steel products.

(in billions of yen)

	FY2018 ①	FY2019 Forecast		Change	
		Previous Forecast ②	Current Forecast ③	③-①	③-②
Net Sales	753.9	760.0	725.0	(28.9)	(35.0)
Ordinary Income(Loss)	4.7	(5.0)	(25.0)	(29.7)	(20.0)
Inventory Valuation	3.5	4.5	—	(3.5)	(4.5)

<Production and Sales>

Crude steel production (millions of tons)	6.91	approx. 6.80	approx.6.60	(approx.0.31)	(approx.0.20)
Sales volume (millions of tons)	5.62	approx. 5.55	approx.5.30	(approx.0.32)	(approx.0.25)
Export ratio (value basis)	24.9%	approx. 24%	approx. 23%	(approx. 2%)	(approx. 1%)

<Factors Affecting Comparison>

FY2019 Previous Forecast (5.0 billion yen)⇒ FY2019 Current Forecast (25.0 billion yen) (Change (20.0 billion yen))

(In billions of yen)

Positive Factors		Negative Factors	
Raw material prices	+3.0	Production and shipments	(15.5)
Overall cost reduction	+0.5	Inventory valuation*	(4.5)
Exchange rate changes	+1.0	Subsidiaries & affiliates	(0.5)
		Other	(4.0)
Total	+4.5	Total	(24.5)

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

Welding

- Although the sales volume of welding consumables is anticipated to decrease, procurement cost reduction and other steps will be factored in. As a result, ordinary income is expected to remain unchanged from the previous forecast.

(In billions of yen)

	FY2018 ①	FY2019 Forecast		Change	
		Previous Forecast ②	Current Forecast ③	③-①	③-②
Net Sales	83.9	85.0	83.0	(0.9)	(2.0)
Ordinary Income	3.6	3.0	3.0	(0.6)	—

Aluminum & Copper

- The sales volume of aluminum rolled products is expected to decline from the previous forecast as demand for semiconductors and in IT is anticipated to recover later than previously forecast, in addition to a decrease in automotive in demand.
- Ordinary income is anticipated to worsen from the previous forecast after factoring in that cost reduction from yield improvement and other plans will not be met, in addition to lower sales volume.

(in billions of yen)

	FY2018 ①	FY2019 Forecast		Change	
		Previous Forecast ②	Current Forecast ③	③-①	③-②
Net Sales	359.0	350.0	340.0	(19.0)	(10.0)
Ordinary Loss	(1.5)	(21.0)	(25.0)	(23.5)	(4.0)
Inventory Valuation	2.0	(4.0)	(4.0)	(6.0)	—

<Sales Volume>

(In thousands of tons)

Aluminum Rolled Products	344	approx. 340	approx. 335	(approx. 9)	(approx. 5)
Copper Strips	59	approx. 53	approx. 53	(approx. 6)	approx.the same
Copper Tubes	85	approx. 85	approx. 83	(approx. 2)	(approx. 2)

<Factors Affecting Comparison>

FY2019 Previous Forecast (21.0 billion yen) ⇒ FY2019 Current Forecast (25.0 billion yen) (Change (4.0 billion yen))

(In billions of yen)

Positive Factors	Negative Factors	
	Production and shipments	(1.0)
	Overall cost	(1.0)
	Other	(2.0)
Total	—	Total (4.0)

Machinery

- Ordinary income is anticipated to increase compared with the previous forecast as profitability is expected to improve and orders for after-sales services are expected to remain firm.

(in billions of yen)

	FY2018 ①	FY2019 Forecast		Change	
		Previous Forecast ②	Current Forecast ③	③-①	③-②
Net Sales	171.4	174.0	168.0	(3.4)	(6.0)
Ordinary Income	1.2	5.0	6.0	+4.8	+1.0
Orders	171.7	approx. 160.0	approx. 165.0	(approx. 7.0)	+approx. 5.0

Engineering

- Owing to the steady progress of existing orders, ordinary income is anticipated to remain unchanged from the previous forecast.

(in billions of yen)

	FY2018 ①	FY2019 Forecast		Change	
		Previous Forecast ②	Current Forecast ③	③-①	③-②
Net Sales	151.7	148.0	145.0	(6.7)	(3.0)
Ordinary Income	6.5	6.0	6.0	(0.5)	—
Orders	122.6	approx. 135.0	approx. 135.0	+approx. 12.0	approx. the same

Construction Machinery

- Unit sales of hydraulic excavators are anticipated to decline from the previous forecast as demand is anticipated to decrease centered on Southeast Asia and India, although domestic demand is expected to remain firm.
- Unit sales of crawler cranes are anticipated to decrease from the previous forecast as competition is expected to intensify in Southeast Asia.
- Ordinary income is anticipated to decrease from the previous forecast owing to lower unit sales of hydraulic excavators.

(In billions of yen)

	FY2018 ①	FY2019 Forecast		Change	
		Previous Forecast ②	Current Forecast ③	③-①	③-②
Net Sales	386.0	390.0	360.0	(26.0)	(30.0)
Ordinary Income	25.5	9.0	7.0	(18.5)	(2.0)

Electric Power

- The electric power business plans to continue providing a steady supply of electric power through the stable operation of the No. 1 unit and No. 2 unit of the Kobe Power Plant and the No. 1 unit of the Moka Power Plant.
- Ordinary income is anticipated to remain unchanged from the previous forecast.

(In billions of yen)

	FY2018 ①	FY2019 Forecast		Change	
		Previous Forecast ②	Current Forecast ③	③-①	③-②
Net Sales	76.1	77.0	74.0	(2.1)	(3.0)
Ordinary Income(Loss)	(0.3)	6.5	6.5	+6.8	-

Free Cash Flow & Capital Investment

<Free Cash Flow>

(In billions of yen)

	FY2018 ①	FY2019		Change	
		Previous Forecast ②	Current Forecast ③	③-①	③-②
Cash Flows from Operating Activities	72.3	10.0	(20.0)	(92.3)	(30.0)
Cash Flows from Investing Activities	(10.9)	(140.0)	(130.0)	(119.1)	+10.0
Free Cash Flow (excluding project financing)	61.4	(130.0)	(150.0)	(211.4)	(20.0)
Free Cash Flow (including project financing)	38.5	(240.0)	(265.0)	(303.5)	(25.0)
Cash and Deposits (excluding project financing)	192.6	70.0	65.0	(127.6)	(5.0)

<Capital Investment>

(In billions of yen)

	FY2018 ①	FY2019		Change	
		Previous Forecast ②	Current Forecast ③	③-①	③-②
Capital Investment (accrual basis)	133.4	280.0	275.0	+141.6	(5.0)
Capital Investment (payment basis)	132.4	275.0	270.0	+137.6	(5.0)
Depreciation	102.5	105.0	105.0	+2.5	-

	FY2017	FY2018	FY2019 Forecast
R O S ^{*1}	3.8%	1.8%	(1.3%)
Net Income (Loss) per Share	174.43 yen	99.20 yen	(41.36 yen)
Outside Debt ^{*2}	726.0 billion yen	724.2 billion yen	755.0 billion yen
D/E Ratio ^{*3}	0.98 time	0.98 time ^{*4}	approx. 1 time
R O A ^{*5}	3.1%	1.5%	(1.0%)
R O E ^{*6}	8.9%	4.8%	(2.1%)

*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 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)

	FY2018						
	1Q	2Q	1st Half				Full Year
				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%

	FY2019 Forecast						
	1Q	2Q	1st Half				Full Year
				3Q	4Q	2nd Half	
Crude Steel Production (millions of tons)	1.72	1.67	3.39	1.61	approx.1.60	approx.3.20	approx.6.60
Sales Volume (millions of tons)	1.36	1.36	2.73	1.32	approx.1.30	approx.2.60	approx.5.30
Sales Prices (thousands of yen/ton)	87.3	86.1	86.7	88.9			
Export Ratio (value basis)	25.3%	25.5%	25.4%	21.0%	approx.21%	approx.21%	approx.23%