Kobe Steel's Consolidated Financial Results for Fiscal 2018 (April 1, 2018–March 31, 2019)

May 9, 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
Annual shareholders meeting:	June 20,2019
Securities report submission	June 20,2019
Start of dividend payments:	May 31,2019
Supplementary 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. FY2018 consolidated results (April 1, 2018–March 31, 2019)

(1) Consolidated operating results

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2018	1,971,869	4.8	48,282	(45.7)	34,629	(51.3)	35,940	(43.1)
FY2017	1,881,158	10.9	88,913	812.0	71,149	—	63,188	—

Note: Comprehensive income FY2018 14,782 million yen [(78.5%)] FY2017 68,763 million yen [－%]

	Net income per share	Diluted net income per share	Ratio of net income to equity (ROE)	Ratio of ordinary income to total assets (ROA)	Ratio of operating income to net sales (ROS)
	Yen	Yen	%	%	%
FY2018	99.20	—	4.8	1.5	2.4
FY2017	174.43	—	8.9	3.1	4.7

Reference: Equity in income of affiliates FY2018 5,864 million yen FY2017 5,438 million yen

(2) Consolidated financial position

	Total assets	Net assets	Equity capital ratio	Net assets per share
	Million yen	Million yen	%	Yen
FY2018	2,384,973	803,312	31.0	2,041.29
FY2017	2,352,114	790,984	31.6	2,049.95

Reference: Equity capital FY2018 739,576 million yen FY2017 742,588 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
FY2018	67,136	(28,603)	(9,561)	197,216
FY2017	190,832	(161,598)	(66,598)	165,267

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	%	%
FY2017	―	0.00	―	30.00	30.00	10,924	17.2	1.5
FY2018	―	10.00	―	10.00	20.00	7,282	20.2	1.0
FY2019 Forecast	―	―	―	―	―		―	

Dividends for fiscal 2019 are undetermined.

3. Consolidated earnings forecast for FY2019 (April 1, 2019–March 31, 2020)

The Kobe Steel Group is reviewing its Fiscal 2016–2020 Group Medium-Term Management Plan formulated in April 2016. It is studying changes in the business environment and other factors, checking the progress of the Medium-Term Management Plan affected by those changes, and considering future prospects. The Kobe Steel Group plans to disclose its earnings forecast for fiscal 2019 together with a rolling plan of the Medium-Term Management Plan on May 15, 2019.

For details on the forecast, please see page 6 to 7.

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)

	FY2018	FY2017
Number of issued shares (including treasury stock)	364,364,210 shares	364,364,210 shares
Number of shares of treasury stock	2,055,945 shares	2,118,007 shares
Average number of shares	362,294,895 shares	362,250,447 shares

<u>Explanation on the Appropriate Use of the Forecast and Other Special Items</u>

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.

The basis for dividend payments is continuous and stable distribution. Factors taken into overall consideration are the company’s financial condition, business performance, future 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 for the fiscal year ending March 2020. When it is able to make a forecast, Kobe Steel will promptly do so.

1. Overview of Operating Results and Other Items

Fiscal 2018 Consolidated Operating Results

Japan's economy in fiscal 2018 (April 1, 2018–March 31, 2019) has continued on a moderate recovery supported by increased personal spending from improvements in employment and income conditions and by firm corporate capital investments, although Japan was affected temporarily by a series of natural disasters. In overseas economies, on the whole economic recovery trends continued mainly in the United States and Southeast Asia while China and Europe saw a slowdown in economic growth from the effects of protectionist trade policies and other factors.

In this economic environment, the sales volume of steel products in the Kobe Steel Group decreased, compared with the previous fiscal year, affected by temporary trouble with production equipment at Kakogawa Works and the impact of natural disasters, although demand mainly in the domestic automotive sector continued to be firm. The sales volume of aluminum rolled products decreased, compared with the previous fiscal year, as demand for can stock for beverage cans decreased, although demand from the automotive sector increased. The sales volume of copper rolled products increased, compared with previous fiscal year, owing to recovery in the sales volume of copper tubes following the resolution of equipment problems at a production facility in Thailand. Unit sales of hydraulic excavators increased, compared with the previous fiscal year, owing to continued firm demand mainly in Europe and China.

As a result, consolidated net sales in fiscal 2018 increased 90.7 billion yen, compared with the previous fiscal year, to 1,971.8 billion yen. However, owing to lower sales volume from equipment trouble and higher energy costs, operating income decreased 40.6 billion yen, compared with the previous fiscal year, to 48.2 billion yen. Ordinary income decreased 36.5 billion yen, compared with the previous fiscal year, to 34.6 billion yen. As for extraordinary income and loss, Kobe Steel recorded impairment loss on fixed assets, but posted a gain from transferring 75 percent of its shares in Shinko Real Estate Co., Ltd. to Tokyo Century Corporation and NIPPON TOCHI-TATEMONO Co., Ltd., resulting in extraordinary income of 14.3 billion yen. Net income attributable to owners of the parent decreased 27.2 billion yen, compared with the previous year, to 35.9 billion yen.

The main progress of the Fiscal 2016–2020 Group Medium-Term Management Plan formulated in April 2016 follows below.

Growth strategies in the three core business areas	Materials businesses	<u>Iron & Steel segment</u> ● As an initiative to reduce the weight of cars, this segment decided to make capital investments centered on a new continuous annealing line for automotive ultra-high-strength steel. (April 2018) ● To expand its global supply network for special steel wire rods, this segment decided to increase the production facility of Kobe Special Steel Wire Products (Pinghu) Co., Ltd., a wire rod processing base in China. (December 2018) ● This segment decided to expand the production capacity of the Steel Powder Plant (at Takasago Works), which makes steel powder used in automotive sintered parts. <u>Aluminum & Copper segment</u> ● As an initiative to reduce the weight of cars, this segment decided to expand the production facility of Kobelco Aluminum Products & Extrusions Inc., its U.S. production base for automotive aluminum extrusions. (August 2018) ● As an initiative to reduce the weight of cars, this segment completed the expansion decided in April 2017 of the production facility of Kobe Aluminum Automotive Products, LLC, its U.S. production base for automotive aluminum forgings. (January 2019)
	Machinery businesses	<u>Construction Machinery segment</u> ● This segment decided to expand the production capacity of the Itsukaichi Factory to create a stable, high-quality production system for the global market. (November 2018) ● Restructuring of the hydraulic excavator business in China has been completed. (April 2019)

	Electric power business	New power generation project in Kobe ● To procure funds, Kobe Steel established Kobelco Power Kobe No. 2, Inc. to supply electric power. (May 2018) ● Kobe Steel re-entered into an environmental preservation agreement with the city of Kobe. (August 2018) ● Project finance was organized to procure funds for the new power generation plant. (August 2018) ● Kobe Steel began construction of the new power generation plant, having completed all the necessary legal procedures to start construction work. (October 2018)
Strengthening the management foundation		● The AI Project Promotion Department was established in the Technical Development Group to strengthen manufacturing capabilities, improve efficiency and achieve greater sophistication in product development by utilizing artificial intelligence. (October 2018) ● The Quality Management Committee was established to follow the progress of the measures to prevent recurrence of misconduct and continue efforts on improving quality management. (April 2019) ● The Health & Safety Department was established to increase safety skills throughout the Kobe Steel Group. (April 2019) ● Kobe Steel decided to increase the number of independent director candidates to enhance effectiveness in the Board of Directors' independent and objective supervision of management. (April 2019) ● Kobe Steel decided to raise the retirement age to 65 in an effort to secure and develop human resources. (April 2019)

Kobe Steel was involved in misconduct concerning products, etc. that did not meet official standards or customers' specifications (also known as "nonconforming products"). Inspection results were falsified or fabricated to appear as if the products had met the required standards or specifications, and the products were shipped or provided to customers. Kobe Steel is carrying out in sequence the measures described in the *Report on Misconduct in Kobe Steel Group* dated March 6, 2018 to prevent recurrence of the misconduct.

Please refer to the following link for information on the progress of the preventive measures.
http://www.kobelco.co.jp/english/progress/relapse-prevention/index.html

Kobe Steel has been continuously monitored by the Independent Quality Supervision Committee, composed of outside experts on quality management, on the progress of the preventive measures and has received various proposals for improvements. As announced on March 29, 2019, Kobe Steel received the final opinion from the Independent Quality Supervision Committee that the preventive measures have progressed on schedule, in the appropriate manner and with the appropriate content.

In April 2019, Kobe Steel established the Quality Management Committee in which outside experts on quality management comprise the majority of the members. In its final opinion, the Independent Quality Supervision Committee determined that, under the monitoring of the Quality Management Committee, supervision of the progress of the preventive measures and efforts to improve quality management are expected to continue on an ongoing basis. Therefore, monitoring of the progress of the preventive measures by the Independent Quality Supervision Committee would be ended as of the end of March 2019.

Kobe Steel, under the newly established Quality Management Committee, will continue to prevent such incidents by placing quality first, while adopting the recommendations of the outside experts on the Committee.

With regard to safety verification, as announced on March 29, 2019, Kobe Steel confirmed that of the 688 companies to which nonconforming products were found to have been delivered, there were no safety problems or there were no immediate problems with safety.

Conditions in the business segments for fiscal 2018 are as follows.

Iron & Steel
The sales volume of steel products decreased, compared with the previous fiscal year, owing to temporary trouble with production equipment at Kakogawa Works and the impact of natural disasters, although demand was firm mainly in the automotive sector in Japan. Sales prices increased, compared with the previous fiscal year, affected by the rise in main raw material prices and other factors.

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

As a result, segment sales for the consolidated fiscal year increased 5.4 percent, compared with the previous fiscal year, to 753.9 billion yen. However, ordinary income decreased 12.5 billion yen, compared with the previous fiscal year, to 4.7 billion yen. Although progress was made in measures to improve profitability by consolidating upstream operations, distribution costs increased, and additionally, sales volume decreased due to equipment trouble and natural disasters.

Welding
The sales volume of welding materials was similar to the previous fiscal year. Demand increased in the automotive sector overseas, while demand from the shipbuilding sector was sluggish mainly in East Asia.

Sales of welding systems were similar to the previous fiscal year owing to continued firm demand for architectural steel frames in Japan.

As a result, segment sales for the consolidated fiscal year increased 4.2 percent, compared with the previous fiscal year to 83.9 billion yen. Ordinary income decreased 1.2 billion yen, compared with the previous fiscal year, to 3.6 billion yen owing to higher raw material costs.

Aluminum & Copper
The sales volume of aluminum rolled products decreased, compared with the previous fiscal year, owing to lower demand for can stock for beverage cans, while demand from the automotive sector increased.

The sales volume of copper rolled products increased, compared with the previous fiscal year, owing to recovery in the sales volume of copper tubes following the resolution of equipment trouble at a production plant in Thailand.

As a result, segment sales for the consolidated fiscal year increased 2.7 percent, compared with the previous fiscal year, to 359.0 billion yen owing to higher sales prices in association with higher ingot prices, although the sales volume of aluminum rolled products decreased. Ordinary income worsened by 13.3 billion yen compared with the previous fiscal year to ordinary loss of 1.5 billion yen owing to lower sales volume of aluminum rolled products, higher energy costs, and the impact of the misconduct.

Machinery
Orders in the consolidated fiscal year increased 13.6 percent, compared with the previous fiscal year, to 171.7 billion yen, owing to a recovery in compressor demand in the oil refining field and higher demand in the petrochemical sector in Asia and the Middle East. The backlog of orders at the end of the consolidated fiscal year stood at 156.6 billion yen.

Segment sales for the consolidated fiscal year increased 6.3 percent, compared with the previous fiscal year, to 171.4 billion yen owing to steady progress in fulfilling current orders. Ordinary income decreased 1.1 billion yen, compared with the previous fiscal year, to 1.2 billion yen owing to deterioration in the business performance of group companies and other factors.

Engineering
Orders in the consolidated fiscal year increased 2.8 percent, compared with the previous fiscal year, to 122.6 billion yen, owing to firm orders in the waste treatment business. The backlog of orders at the end of the

consolidated fiscal year came to 169.3 billion yen.

Segment sales for the consolidated fiscal year increased 23.5 percent, compared with the previous fiscal year, to 151.7 billion yen owing to steady progress in fulfilling current orders for large projects. However, ordinary income decreased 0.3 billion yen, compared with the previous fiscal year, to 6.5 billion yen owing to changes in the types of projects and other factors.

Construction Machinery
Unit sales of hydraulic excavators increased, compared with the previous fiscal year, owing to firm demand mainly in China and Europe.

Unit sales of crawler cranes were similar on the whole to the previous fiscal year. Although unit sales of crawler cranes in Japan declined, compared with the previous fiscal year, because of delays in pre-shipment inspection following the crane collapse accident that occurred at Kobe Steel's Takasago Works in July 2018, demand was firm mainly in North America and other overseas markets..

As a result, segment sales for the consolidated fiscal year increased 5.9 percent, compared with the previous fiscal year, to 386.0 billion yen. Ordinary income increased 3.5 billion yen, compared with the previous fiscal year, to 25.5 billion yen, owing to progress in the reversal of a portion of the allowance for retained receivables in the hydraulic excavator business in China, in addition to higher unit sales of hydraulic excavators.

Electric Power
The amount of electricity sold was less than the previous consolidated fiscal year due to the increase in the number of days for periodic inspection. The unit price of electricity was higher than the previous consolidated fiscal year owing to the effect of higher market prices of coal for power generation.

As a result, segment sales for the consolidated fiscal year increased 5.5 percent, compared with the previous fiscal year, to 76.1 billion yen. However, ordinary income worsened by 8.2 billion yen, compared with the previous fiscal year, to ordinary loss of 0.3 billion yen, due to incurring temporary costs in association with fund procurement for the new power generation project in the city of Kobe.

Other Businesses
At Kobelco Research Institute, Inc., orders fell in the testing and research business. In addition, Shinko Real Estate Co., Ltd., a consolidated subsidiary, was excluded from Kobe Steel's scope of consolidation in the second-quarter consolidated accounting period. It is now included as an affiliate accounted for by the equity method.

As a result, segment sales for the consolidated fiscal year decreased 38.9 percent, compared with the previous fiscal year, to 42.0 billion yen. Ordinary income decreased 3.0 billion yen, compared with previous fiscal year, to 2.3 billion yen.

Dividends for Fiscal 2018
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 year).

Forecast for Fiscal 2019
The business environment surrounding the Kobe Steel Group is expected to continue on a moderate recovery supported by increased personal spending from improvements in the employment and income situations and a firm increase in corporate capital investments. Overseas, economic growth is anticipated to be sluggish mainly in China and Europe, from the effects of protectionist trade policies. It is necessary to keep a careful watch due to continued major concern on the effects of protectionist trade policies and other factors.

The Kobe Steel Group is reviewing its Fiscal 2016-2020 Group Medium-Term Management Plan formulated in April 2016. It is studying changes in the business environment and other factors, checking the progress of the Medium-Term Management Plan affected by those changes, and considering future prospects. With regard to the earnings outlook for fiscal 2019, the Kobe Steel Group is working on a forecast and is proceeding with calculations.

The Kobe Steel Group plans to disclose its earnings forecast for fiscal 2019 together with a rolling plan of the Medium-Term Management Plan on May 15, 2019.

*** 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 2018 increased 32.8 billion yen, compared with the end of the previous year, to 2,384.9 billion yen owing to an increase in inventory assets, although tangible fixed assets (property, plant and equipment) decreased, affected by the exclusion of Shinko Real Estate Co., Ltd., a consolidated subsidiary, from the scope of consolidation. Net assets at the end of fiscal 2018 increased 12.3 billion yen, compared with the end of the previous year, to 803.3 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 2018 was 31.0 percent, a decrease of 0.6 points compared with the end of the previous year.

As for cash flows, net cash provided by operating activities amounted to 67.1 billion yen after posting income before income taxes of 48.9 billion yen and depreciation of 102.5 billion yen and other factors. Net cash used in investing activities came to -28.6 billion yen owing to the purchase of fixed assets (property, plant and equipment) and proceeds from the sale of shares held in subsidiary Shinko Real Estate Co., Ltd. Net cash used in financing activities totaled -9.5 billion yen due to the payment of dividends and other factors.

At the end of fiscal 2018, the interest-bearing debt balance, which includes IPP project finance, increased 21.4 billion yen, compared with the end of the previous year, to 760.3 billion yen.

Cash flow indicators are as follows:

Consolidated cash flow Indicators

	FY2014	**FY2015**	**FY2016**	**FY2017**	**FY2018**
Equity capital ratio	33.8%	30.6%	29.2%	31.6%	31.0%
Equity capital ratio at market price	35.2%	16.0%	16.0%	16.5%	12.7%
Ratio of cash flow to interest-bearing debt (years)	4.4	8.1	5.6	3.9	11.3
Interest coverage ratio (times)	9.5	6.2	11.3	14.9	7.5

Notes:
- Each indicator was calculated from the consolidated financial figures.
- 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

Although the Kobe Steel Group has decided to apply Japanese accounting standards for the time being, it is reviewing the adoption of International Financial Reporting Standards (IFRS), including evaluating the differences between the IFRS and the Japanese accounting standards, and studying the impact of the adoption on the Kobe Steel Group.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

(In millions of yen)

ASSETS	FY2017 Ended Mar. 31, 2018	FY2018 Ended Mar. 31, 2019
Current Assets		
Cash and deposits	165,526	173,899
Notes and accounts receivable	324,811	343,288
Merchandise and finished goods	159,910	178,080
Work-in-process	136,530	131,198
Raw materials and supplies	152,007	167,127
Other	84,185	112,868
Allowance for doubtful accounts	(4,672)	(4,212)
Total current assets	1,018,298	1,102,249
Fixed Assets		
Property, plant and equipment		
Buildings and structures	279,270	257,510
Machinery and equipment	433,414	429,209
Tools, equipment and fixtures	15,575	16,093
Land	192,158	144,459
Construction in progress	61,271	83,312
Total property, plant and equipment	981,689	930,584
Intangible fixed assets		
Software	16,720	17,897
Other	24,087	14,743
Total intangible fixed assets	40,807	32,640
Investments and other assets		
Investments in securities	197,839	190,008
Long-term loans receivable	6,266	5,313
Deferred tax assets	49,184	61,765
Net defined benefit asset	17,088	18,284
Other	97,190	87,712
Allowance for doubtful accounts	(56,250)	(43,585)
Total investment and other assets	311,318	319,498
Total fixed assets	1,333,815	1,282,723
Total assets	2,352,114	2,384,973

LIABILITIES	FY2017 Ended Mar. 31, 2018	FY2018 Ended Mar. 31, 2019
Current liabilities		
Notes and accounts payable	457,126	455,310
Short-term borrowings	205,732	116,382
Current portion of Bonds	14,000	22,215
Accounts payable - other	54,436	49,705
Income and enterprise taxes payable	8,551	7,080
Provision for bonuses	20,872	20,803
Provision for product warranties	14,505	14,693
Provision for loss on construction contracts	9,633	10,428
Provision for loss on guarantees	2,660	2,162
Provision for structural reform related expenses	364	—
Provision for dismantlement related expenses	10,116	1,611
Provision for customer compensation expenses	3,583	3,362
Other	98,709	107,970
Total current liabilities	900,293	811,727
Long-term liabilities		
Bonds and notes	132,000	111,837
Long-term borrowings	387,133	509,929
Deferred tax liabilities	10,233	10,355
Deferred tax liabilities on land revaluation	3,251	3,251
Net defined benefit liability	70,946	81,079
Provision for environmental measures	777	2,698
Provision for dismantlement related expenses	2,490	3,343
Other	54,003	47,436
Total long-term liabilities	660,836	769,932
Total liabilities	1,561,130	1,581,660
NET ASSETS		
Stockholders' equity		
Common stock	250,930	250,930
Capital surplus	102,314	102,218
Retained earnings	395,542	415,320
Treasury stock, at cost	(2,671)	(2,614)
Total stockholders' equity	746,115	765,855
Accumulated other comprehensive income		
Unrealized gains or losses on securities, net of taxes	17,333	7,105
Unrealized gains or losses on hedging derivatives, net of taxes	(9,913)	(14,030)
Land revaluation differences, net of taxes	(3,406)	(3,406)
Foreign currency translation adjustments	10,185	2,705
Remeasurements of defined benefit plans, net of taxes	(17,726)	(18,652)
Total accumulated other comprehensive income	(3,527)	(26,278)
Non-controlling interests	48,396	63,736
Total net assets	790,984	803,312
Total liabilities and net assets	2,352,114	2,384,973

Consolidated Statements of Income

(In millions of yen)

	FY2017 Ended Mar. 31, 2018	FY2018 Ended Mar. 31, 2019
Net sales	1,881,158	1,971,869
Cost of sales	1,595,229	1,704,972
Gross profit	285,928	266,897
Selling, general and administrative expenses		
Haulage expenses	50,651	54,911
Salaries and allowances	41,820	45,043
Research and development expenses	14,137	17,820
Other	90,404	100,839
Total selling, general and administrative expenses	197,014	218,614
Operating income	88,913	48,282
Non-operating income		
Interest income	2,455	2,715
Dividend income	3,803	4,344
Reimbursement of seconded employees' salaries	3,592	3,441
Equity in income of equity method companies	5,438	5,864
Reversal of Allowance for doubtful accounts	1,559	5,693
Other	8,370	11,637
Total non-operating income	25,221	33,696
Non-operating expenses		
Interest expense	12,303	9,153
Seconded employees' salaries	9,646	9,872
Commission for syndicate loan	138	6,275
Dismantlement expenses	4,036	5,281
Other	16,862	16,766
Total non-operating expenses	42,986	47,350
Ordinary income	71,149	34,629
Extraordinary Income		
Gain on sale of investment securities	9,140	31,485
Gain on acquisition of subsidiary	—	4,892
Total extraordinary income	9,140	36,377
Extraordinary loss		
Loss on impairment	—	13,924
Loss on disaster	—	3,353
Customer compensation expenses	4,361	2,587
environmental expenses	—	2,154
Dismantlement-related expenses	2,759	—
Total extraordinary loss	7,121	22,020
Income before income taxes and non-controlling interests	73,168	48,985
Income taxes		
Current	15,424	13,994
Deferred	(4,803)	(3,537)
Total income taxes	10,621	10,457
Income before non-controlling interests	62,547	38,528
Net income attributable to non-controlling interests	(640)	2,587
Net income attributable to owners of the parent	63,188	35,940

Consolidated Statements of Comprehensive Income

(In millions of yen)

	FY2017 Ended Mar. 31, 2018	FY2018 Ended Mar. 31, 2019
Income (loss) before non-controlling interests	62,547	38,528
Other comprehensive income (loss)		
Unrealized gains or losses on securities, net of taxes	(477)	(9,257)
Unrealized gains or losses on hedging derivatives, net of taxes	(1,022)	(3,888)
Foreign currency translation adjustments	1,899	(5,841)
Remeasurements of defined benefit plans, net of taxes	4,248	(851)
Share of other comprehensive gains and losses related to equity method companies	1,567	(3,905)
Total other comprehensive income (loss)	6,216	(23,745)
Comprehensive Income (loss)	68,763	14,782
Breakdown of total comprehensive income (loss) attributed to:		
Stockholders of the parent interests	69,219	13,188
Non-controlling interests	(455)	1,593

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
Share exchanges				(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
Reversal of revaluation reserve for land					
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 adjustmen-ts	Remeasur-ements of defined benefit plans, net of taxes	Total other comprehe-nsive 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 Changes in Net Assets(In millions of yen)

FY2018(April 1,2018 – March 31,2019)

	Stockholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total stockholders' equity
Balance at the beginning of fiscal year	250,930	102,314	395,542	(2,671)	746,115
Amount of change					
Dividends of surplus			(14,565)		(14,565)
Net income attributable to owners of the parent			35,940		35,940
Share exchanges				(8)	(8)
Disposal of treasury stock			(0)	66	65
Changes in stockholders interest due to transaction with non-controlling interests		(95)			(95)
Change of scope of consolidation and equity method			(1,596)		(1,596)
Reversal of revaluation reserve for land					
Total changes	-	(95)	19,777	57	19,739
Balance at the end of fiscal year	250,930	102,218	415,320	(2,614)	765,855

	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	17,333	(9,913)	(3,406)	10,185	(17,726)	(3,527)	48,396	790,984
Amount of change								
Dividends of surplus								(14,565)
Net income attributable to owners of the parent								35,940
Purchase of treasury stock								(8)
Disposal of treasury stock								65
Changes in stockholders interest due to transaction with non-controlling interests								(95)
Change of scope of consolidation and equity method								(1,596)
Net changes other than stockholders' equity	(10,228)	(4,117)	-	(7,480)	(925)	(22,751)	15,339	(7,411)
Total changes	(10,228)	(4,117)	-	(7,480)	(925)	(22,751)	15,339	12,328
Balance at the end of fiscal year	7,105	(14,030)	(3,406)	2,705	(18,652)	(26,278)	63,736	803,312

Consolidated Statements of Cash Flows

(In millions of yen)

	FY2017 Ended Mar. 31, 2018	FY2018 Ended Mar. 31, 2019
Cash flows from operating activities		
Income before income taxes	73,168	48,985
Depreciation	102,032	102,589
Increase in allowance for doubtful accounts	(11,804)	(10,281)
Increase(decrease) in provision for dismantlement related expense	2,653	(7,651)
Increase(decrease) in provision for customer compesation expenses	3,583	(221)
Increase (decrease) in liabilities for retirement benefits	(777)	7,549
Increase (decrease) in provision for environmental measures	(100)	1,921
Interest and dividend income	(6,259)	(7,059)
Interest expense	12,303	9,153
Commission for syndicate loan	138	6,275
Loss (income) on sale of securities	(8,739)	(32,341)
Equity in loss (income) of equity method companies	(5,438)	(5,864)
Loss on sale of plant and equipment	(147)	(1,870)
Loss on disposal of plant and equipment	1,774	2,162
Gain (loss) related to subsidiary conversion	—	(4,892)
Loss on impairment	—	13,924
Decrease in trade receivables from customers	(19,450)	(6,471)
Net decrease (increase) in lease receivables and investment assets	2,382	(4,163)
Decrease (increase) in inventories	(30,490)	(33,140)
Increase in accounts receivable	29,762	(2,594)
Decrease in trade payables to customers	50,035	(1,377)
Decrease(increase) in accrued expenses	6,393	7,640
Other	6,439	84
Subtotal	207,460	82,357
Cash received for interest and dividends	7,262	9,904
Cash paid for interest	(12,826)	(9,011)
Cash paid for income taxes	(11,064)	(16,113)
Net cash provided by operating activities	190,832	67,136
Cash flows from investing activities		
Purchase of property, plant and equipment and other assets	(136,648)	(132,456)
Proceeds from sale of property, plant and equipment and other assets	1,599	3,774
Purchase of investments in securities	(36,134)	(501)
Proceeds from sale of investments in securities	12,952	1,272
Payment for investments in capital	(60)	(40)
Payments from purchase of shares of joint venture resulting in change in scope of consolidation	(6,929)	—
Proceeds from sales of investment in subsidiaries resulting in change in scope of consolidation	3,413	69,399
Decrease (increase) in short-term loans receivable	(1,336)	347
Payments for long-term loans receivable	(92)	(123)
Proceeds from collection of long-term loans receivable	533	31,605
Other	1,105	(1,879)
Net cash provided by investing activities	(161,598)	(28,603)

	FY2017 Ended Mar. 31, 2018	FY2018 Ended Mar. 31, 2019
Cash flows from financing activities		
Decrease (loss) in short-term loans receivable	43,663	(84,935)
Proceeds from issuance of long-term borrowings	25,014	179,923
Repayment of long-term borrowings	(104,110)	(71,213)
Proceeds from issuance of bonds	—	1,500
Repayment of bonds	(30,000)	(14,065)
Repayment of finance lease obligations	(4,244)	(3,405)
Payment of commission for syndicate loan	(137)	(6,287)
Payment of dividends	(8)	(14,509)
Payment of dividends to non-controlling interests	(4,131)	(1,355)
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	4,240	4,787
Net cash provided by (used in) financing activities	(66,598)	(9,561)
Effect of exchange rate changes on cash and cash equivalents	1,719	(2,797)
Increase (decrease) in cash and cash equivalents	(35,644)	26,174
Cash and cash equivalents at the beginning of fiscal year	200,417	165,267
Increase(decrease) in cash and cash equivalents resulting in change in scope of consolidation	—	5,735
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	494	39
Cash and cash equivalents at the end of fiscal year	165,267	197,216

Notes

Notes on premise of a going concern
None

Changes in presentation method

Changes relating to the application of the "Partial Revision of Accounting Standard for Tax Effects"

The "Partial Revision of Accounting Standards for Tax Effects" (Accounting Standards for Business Enterprises No. 28, February 16, 2018), hereinafter referred to as the "Partial Revision of Accounting Standards for Tax Effects") has been applied from the beginning of FY2018 (from April 1, 2018 to March 31, 2019). “Deferred tax assets” have been classified in “Investments and other assets”. Deferred tax liabilities have been classified in “Long-term liabilities.”

As a result, with respect to the balance sheet of the previous fiscal year ended March 31, 2018, “Deferred tax assets” in “Current assets” decreased 27,989 million yen and “Deferred tax liabilities” in “Current liabilities” decreased 724 million yen. In addition, “Deferred tax assets” in “Investment and other assets” increased 27,679 million yen and “Deferred tax liabilities in “Fixed assets” increased 414 million yen.

Consolidated Statement of Income
In the previous consolidated fiscal year, “Provisions of allowance for doubtful accounts”, which was indicated in “Other” under “Non-operating income”, 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 previous fiscal year have been reclassified.

Subsequently, in the consolidated financial statements for the previous fiscal year, the amount of 9,930 million yen ,which was stated in “Other” under “Non-operating income” has been reclassified as 1,559 million yen in “Reversal of allowance for doubtful accounts” and as 8,370 million yen in “Other”.

In addition, in the previous consolidated fiscal year, “Commission for syndicate loan” and “Dismantlement expenses” that were indicated in “Other” under “Non-operating expenses” 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 previous fiscal year have been reclassified.

Subsequently, in the consolidated financial statements for the previous fiscal year, the amount of 21,036 million yen , which was stated in “Other” under “Non-operating expenses” has been reclassified as 138 million yen in “Commission for syndicate loan” , as 4,036 million yen in “Dismantlement expenses” and as 16,862 million yen in “Other”.

Consolidated Statements of Cash Flows
In the previous consolidated fiscal year, “Increase (decrease) in liabilities for retirement benefits”, “Increase (decrease) in provision for environmental measures” and “Commission for syndicate” that 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 5,700 million yen, which was recorded in “Other” under “Cash flows from operating activities”, has been reclassified as -777 million yen for “Increase (decrease) in liabilities for retirement benefits”, as -100 million yen for “Increase (decrease) in provision for environmental measures”, as 138 million yen for “Commission for syndicate” and as 6,439 million yen in “Other”.

In the previous consolidated fiscal year, “Purchase of treasury shares”, which was independently stated under “Cash flows from financing activities”, is indicated in “Other” from this fiscal year, 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 statements of cash flows for the previous fiscal year, the amount of -9 million yen which was indicated in “Purchase of treasury shares” and 4,112 million yen which was recorded in “Other” under “Cash flows from financing activities” have been reclassified as -137 million yen in “Payment of commission for syndicate loan”, and as 4,240 million yen in “Other”.

Notes on Consolidated Balance Sheets

Contingent liabilities

In the previous consolidated fiscal year, 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 those requirements (the “Misconduct”).

The Kobe Steel Group, with the cooperation of its customers to which the Affected Products were shipped, proceeded to carry out technical verifications on the impact of the quality (including safety) of its Affected Products on customers' products. As a result, the Kobe Steel Group confirmed that of the 688 companies to which nonconforming products were delivered, no safety problems were found or no immediate problems with safety were found. With regard to products that are viewed to have no immediate problems with safety, Kobe Steel will, as necessary, conduct additional verification while cooperating with its customers.

In addition, Kobe Steel was indicted in July 2018 on charges of allegedly violating the Unfair Competition Prevention Act. The Kobe Steel Group has also 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.

Furthermore, 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 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 vehicles.

With regard to item 2 of the above-mentioned civil complaints, a securities class action in the United States concerning Kobe Steel’s ADR, a settlement was reached in September 2018 for Kobe Steel to pay settlement money to the plaintiffs and for the plaintiffs to withdraw their lawsuit. In February 2019, the court approved the settlement and the lawsuit came to an end.

In regard to the indictment on the alleged violation of the Unfair Competition Prevention Act, a second court hearing was conducted in January 2019, where the prosecutors demanded a fine of 100 million yen. Kobe Steel was consequently convicted in March 2019, and the judgement became final.

It is difficult to reasonably estimate the final penalties, compensation for damages, and other outcomes at this time in regard to the investigation by the U.S. Department of Justice and the above-mentioned civil complaints (excluding item 2 above), 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.

In addition, 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, they have not been reflected in the consolidated financial statements.

Segment Information

(In millions of yen)

		FY2017 Ended Mar. 31, 2018	FY2018 Ended Mar. 31, 2019
Sales to outside customers:	Iron & Steel	688,659	723,239
	Welding	79,959	83,320
	Aluminum & Copper	348,463	358,332
	Machinery	153,121	161,272
	Engineering	120,131	149,369
	Construction Machinery	364,500	385,964
	Electric Power	72,129	76,128
	Other Businesses	51,768	32,675
	Adjustment	2,423	1,566
	Total	1,881,158	1,971,869
Intersegment sales:	Iron & Steel	26,893	30,714
	Welding	626	627
	Aluminum & Copper	1,098	721
	Machinery	8,203	10,215
	Engineering	2,703	2,383
	Construction Machinery	85	112
	Electric Power	—	—
	Other Businesses	17,114	9,387
	Adjustment	(56,724)	(54,163)
	Total	—	—
Total sales:	Iron & Steel	715,553	753,953
	Welding	80,585	83,947
	Aluminum & Copper	349,562	359,053
	Machinery	161,325	171,488
	Engineering	122,834	151,753
	Construction Machinery	364,585	386,077
	Electric Power	72,129	76,128
	Other Businesses	68,882	42,063
	Adjustment	(54,300)	(52,597)
	Total	1,881,158	1,971,869
Ordinary income (loss):			
	Iron & Steel	17,312	4,733
	Welding	4,917	3,627
	Aluminum & Copper	11,871	(1,525)
	Machinery	2,379	1,207
	Engineering	6,922	6,564
	Construction Machinery	21,991	25,577
	Electric Power	7,918	(326)
	Other Businesses	5,418	2,337
	Adjustment	(7,583)	(7,566)
	Total	71,149	34,629