Consolidated Statements of Changes in Net Assets

(From April 1, 2018 to March 31, 2019)

(Millions of yen)

	Stockholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total stockholders' equity
Balance as of April 1, 2018	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
Purchase of treasury stock				(8)	(8)
Disposal of treasury stock			(0)	66	65
Changes in stockholders interest due to transaction with non-controlling interests		(95)			(95)
Increase due to changes in scope of consolidation			(1,596)		(1,596)
Net changes other than stockholders' equity					
Total changes	－	(95)	19,777	57	19,739
Balance as of March 31, 2019	250,930	102,218	415,320	(2,614)	765,855

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Unrealized gains on securities, net of taxes	Deferred gains (losses) on hedges, net of taxes	Land revaluation differences, net of taxes	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans, net of taxes	Total Accumulated other comprehensive income		
Balance as of April 1, 2018	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)
Increase due to changes in scope of consolidation								(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 as of March 31, 2019	7,105	(14,030)	(3,406)	2,705	(18,652)	(26,278)	63,736	803,312

(Amounts are rounded down to the nearest million yen.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Important Matters Forming the Basis of the Preparation of Consolidated Financial Statements

1. Matters Concerning the Scope of Consolidation

Kobe Steel, Ltd. (the "Company") has 218 subsidiaries, of which 177 subsidiaries are included in the scope of consolidation (the "Kobe Steel Group"). Names of major consolidated subsidiaries are as follows.

Nippon Koshuha Steel Co., Ltd., Shinko Wire Company, Ltd., Kobelco Steel Tube Co., Ltd., Shinko Kenzai, Ltd., Kobelco Logistics, Ltd., Shinko Bolt, Ltd., Shinko Engineering & Maintenance Co., Ltd., Kobe Welding of Qingdao Co., Ltd., Kobe Welding of Korea Co., Ltd., Kobelco & Materials Copper Tube, Ltd., Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd., Kobe Aluminum Automotive Products (China) Co., Ltd., Kobelco & Materials Copper Tube (Thailand) Co., Ltd., Kobelco Aluminum Products & Extrusions Inc., Kobe Aluminum Automotive Products, LLC, Kobelco & Materials Copper Tube (M) Sdn. Bhd., Kobe Precision Technology Sdn. Bhd., Kobelco Compressors Corporation, Shinko Engineering Co., Ltd., Kobelco Compressors Manufacturing (Shanghai) Corporation, Quintus Technologies AB, Kobelco Compressors America, Inc., Kobelco Eco-Solutions Co., Ltd., Kobelco Eco-Maintenance Co., Ltd., Midrex Technologies, Inc., Kobelco Construction Machinery Co., Ltd., KOBELCO Construction Machinery (East Japan) Co., Ltd., KOBELCO Construction Machinery (West Japan) Co., Ltd., TOYOSUGIUE Co., Ltd., Kobelco Construction Machinery International Trading Co., Ltd., Kobelco Construction Machinery (China) Co., Ltd., Hangzhou Kobelco Construction Machinery Co., Ltd., Chengdu Kobelco Construction Machinery Financial Leasing Ltd., Kobelco Construction Machinery Southeast Asia Co., Ltd., Kobelco Construction Equipment India Pvt. Ltd., Kobelco Construction Machinery Europe B.V., Kobelco International (S) Co., Pte. Ltd., Pt. Daya Kobelco Construction Machinery Indonesia, Kobelco Construction Machinery USA, Inc., Kobelco Power Kobe Inc., Kobelco Power Moka Inc., Kobelco Power Kobe No.2, Inc., Kobelco Research Institute, Inc., Kobelco (China) Holding Co., Ltd., Kobe Steel USA Holdings Inc.

For fiscal year 2018, 17 companies, including Shinko Wire Company, Ltd. are newly consolidated and 13 companies, including Shinko Real Estate Co., Ltd. are excluded from the scope of consolidation due to the transfer of shares.

41 non-consolidated subsidiaries, including Shinkyo Kaiun Co., Ltd., are excluded from the scope of consolidation because the aggregated amounts of their total assets, sales, net income (corresponding to amount of equity interest), retained earnings (corresponding to amount of equity interest) and other indicators are insignificant compared to those of the consolidated companies.

2. Matters Concerning the Application of the Equity Method

Of the 41 non-consolidated subsidiaries and 52 affiliates, 40 companies are accounted for by the equity method. Names of major companies accounted for by the equity method are as follows.

OSAKA Titanium technologies Co., Ltd., Kansai Coke and Chemicals Co., Ltd., Japan Aeroforge, Ltd., Kobelco Angang Auto Steel Co., Ltd., PRO-TEC Coating Company, LLC, Kobelco Millcon Steel Co., Ltd., Ulsan Aluminum, Ltd., Wuxi Compressor Co., Ltd., Shinsho Corporation, Shinko Real Estate Co., Ltd.

For fiscal year 2018, 3 companies, including Shinko Real Estate Co., Ltd., are newly accounted for by the equity method and 4 companies, including Shinko Wire Company, Ltd., are excluded from the application of equity method mainly due to making it a subsidiary through acquisition of additional shares.

41 non-consolidated subsidiaries, including Shinkyo Kaiun Co., Ltd., and 12 affiliates, including J&T Welding Supply Co., Ltd., are not accounted for by the equity method because the aggregated amounts of their net income (corresponding to amount of equity interest), retained earnings (corresponding to amount of equity interest) and other indicators are insignificant compared to those of the consolidated companies and companies accounted for by the equity method.

3. Matters Concerning Accounting Policies

(1) Basis and method for valuation of significant assets

A. Basis and method for valuation of securities

Available-for-sale securities

i) Securities with market quotations	Fair value basis, based on the market price etc. on the balance sheet date (with unrealized gains or losses, net of applicable taxes, stated in a separate component of net assets and cost of securities sold is primarily determined using the moving average method).
ii) Securities without market quotations	Cost basis, determined mainly using the moving average method.

B. Basis for valuation of derivatives

Fair value basis

C. Basis and method for valuation of inventories

Cost basis, determined principally by the average method for inventories in the Iron & Steel Business, Welding Business, Aluminum & Copper Businesses and Electric Power Business, and by the specific identification method for inventories in the Machinery Business, Engineering Business and Construction Machinery Business (the book value on the balance sheets may be written down to market value due to decline in the profitability).

(2) Depreciation and amortization method for significant depreciable assets

a) Tangible fixed assets

i) Owned fixed assets — Primarily by the straight-line method.

ii) Leased assets

- Under finance leases that transfer ownership of the leased assets

  By the same method as the owned fixed assets.

- Under finance leases that do not transfer ownership of the leased assets

  By the straight-line method over the respective lease term (equal to estimated useful lives) with no residual value.

b) Intangible fixed assets — Primarily by the straight-line method. For software for internal use, by the straight-line method over the estimated internal use lives (primarily 5 years).

(3) Basis for recognition of significant allowances and provisions

a) Allowance for doubtful accounts

To provide for potential losses on doubtful accounts, allowance is made at an amount based on the actual bad debt ratio in the past for normal accounts, and estimated uncollectible amounts based on specific collectability assessments for certain individual receivables, such as those with a possibility of default.

b) Provision for bonuses

To provide for employee bonus payments, provision is made based on the estimated amounts to be paid.

c) Provision for product warranties

To provide for after-sales and after-construction and delivery warranty cost payments, mainly for steel castings and forgings in the Iron & Steel Business, Machinery Business, Engineering Business and Construction Machinery Business, provision is made at an estimated amount attributable to the fiscal year 2018 based on the actual warranty cost to sales ratio in the past, plus specifically estimated amount attributable to the fiscal year 2018 for certain individual cases.

d) Provision for loss on construction contracts

To provide for future losses on construction contracts, provision is made based on an estimated loss on construction contracts outstanding at the end of the fiscal year 2018.

e) Provision for loss on guarantees

Provision for future loss on guarantees is based on an estimate of total loss at the end of the fiscal year 2018, considering the financial position, etc. of the guaranteed parties on a case- by- case basis.

f) Provision for dismantlement related expenses

For expenses expected to arise from dismantlement of equipment, such as the blast furnace, in relation to construction of the power station at Kobe Works, provision is made at an estimated amount at the end of the fiscal year 2018.

g) Provision for customer compensation expenses

For expenses related to a response to the misconduct that through data falsification and/or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications were shipped or provided to customers as if they had met these requirements, including compensation for product exchanges and investigations carried out by customers, etc., provision is made at an estimated amount at the end of the fiscal year 2018.

h) Provision for environmental measures

For the cost of PCB waste treatment required by “Law Concerning Special Measure against Promotion of Proper Treatment of Polychlorinated Biphenyl (PCB) Waste” and others, provision is made at an estimated amount at the end of the fiscal year 2018.

(4) Accounting method for retirement benefits

To provide for payments of retirement benefits to employees, the amount of retirement benefit obligations net of the amount of plan is established assets based on the amount expected at the end of the fiscal year 2018.

In determining retirement benefit obligations, the benefit formula basis is adopted as the attribution method of the projected retirement benefit obligations.

Prior service costs are charged to income mainly using the straight-line method based on the average remaining service period of the employees.

Actuarial differences are charged to income from the period following the period in which it arises mainly using the straight-line method based on the average remaining service period of the employees.

Unrecognized prior service costs and unrecognized actuarial differences, net of applicable taxes, are stated in “Remeasurements of defined benefit plans, net of taxes” in accumulated other comprehensive income under net assets.

(5) Basis for recognition of revenue and expenses

Regarding revenues and expenses concerning construction contracts, they are recognized by applying the percentage of completion method where the outcome of the contract up to the end of the fiscal year 2018 can be estimated reliably (with the estimate of percentage of completion based on the cost-to-cost method), or in case of not being estimated reliably, by applying the completed contract method.

(6) Basis for translation of significant assets and liabilities denominated in foreign currencies into Japanese yen

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rates as of the consolidated balance sheet date, except for those hedged by foreign currency exchange contracts, with the resulting gains and losses recognized in income.

Assets and liabilities of consolidated foreign subsidiaries are translated into Japanese yen at the spot exchange rates as of the balance sheet date and revenues and expenses are translated into Japanese yen at average rates for the period, with the resulting gains and losses included in “Foreign currency translation adjustments” under net assets and “Non-controlling interests”.

(7) Principal method for hedge accounting

A. Method for hedge accounting	Deferred hedge method is applied. Assigning method is applied to monetary receivables and payables denominated in foreign currencies that are specifically covered by foreign currency exchange contracts and qualify for such assigning. Exceptional method is applied to interest rate swaps that meet specific matching criteria and qualify for such accounting.

B. Hedging instruments and hedged items

a) Hedging instruments	Foreign currency exchange contracts, interest rate swap contracts and commodity forward contracts
b) Hedged items	Assets and liabilities exposed to losses from market fluctuations related to foreign exchange rates, interest rates and trading of bare metal such as aluminum (including those expected from forecasted transactions).

C. Hedging policy and method for assessing the hedge effectiveness

The Company and its consolidated subsidiaries use hedge transactions to reduce the risks from market fluctuations and do not enter into hedge transactions for speculative purposes.
The Company assesses the hedge effectiveness in accordance with its internal rules.
The consolidated subsidiaries assess the hedge effectiveness in accordance with similar internal rules through the Company’s responsible division or the subsidiary’s own responsible division.

(8) Method for amortization of goodwill

Goodwill is amortized using the straight-line method (or immediately charged to income if immaterial) over the practically estimated effective periods where estimable during the period in which it arises, or otherwise, over five years.

(9) Accounting for consumption taxes

The tax-exclusion method is applied for the consumption tax and the local consumption tax.

(10) Application of consolidated taxation system

Consolidated taxation system is applied.

Change in Presentation Method

The "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards for Business Enterprises No. 28, February 16, 2018) has been applied from the beginning of fiscal year 2018. In relation to the application, deferred tax assets have been classified in investments and other assets and deferred tax liabilities in long-term liabilities.

Additional Information

Introduction of a Board Benefit Trust (BBT) for Directors

The Company introduced a new stock compensation plan, a "Board Benefit Trust (BBT)", to more clearly link the compensation of Directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee Members) and executive officers to the Company's performance and the value of its stock, and in order to encourage the Directors to contribute to improve medium- to long-term business performance and enhance corporate value.

The accounting method regarding the BBT agreement complies with the Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts (Practical Issues Task Force (PITF) No. 30, March 26, 2015).

1) Overview of transactions

This plan is a stock compensation plan under which money contributed by the Company is used as funds to acquire the Company's shares through a trust. With regard to Directors and executive officers (hereinafter "Directors, etc."), in accordance with Director stock benefit rules established by the Company, the Company's shares (hereinafter the "Company's Shares, etc.") and the cash equivalent to the amount converted from the market price of the Company's Shares are provided through the trust. In addition, Directors, etc. shall receive the Company's Shares, etc. in principle every three years on a fixed date during the trust period.

2) Kobe Steel stock remaining in the Trust

The Company's stock remaining in the trust is posted as treasury stock in a part of net assets based on the book value (excludes amounts for incidental expenses). The corresponding treasury stock's book value at the end of the fiscal year under review was 1,036 million yen for 1,154 thousand shares.

Notes to Consolidated Balance Sheets

1. Assets Pledged as Collateral and Collateralized Debt

(1) Assets pledged as collateral

Tangible fixed assets	29,514 million yen
Other	11,842
Total	41,357

(2) Collateralized debt

Short-term borrowings	253 million yen

Long-term borrowings	37,185
Total	37,439

2. Accumulated Depreciation of Tangible Fixed Assets 2,461,912 million yen

3. Guarantee Liabilities

(1) Guarantees of loans from financial institutions are provided to companies other than consolidated companies.

Kobelco Millcon Steel Co., Ltd.	6,696 million yen	
Kobelco Angang Auto Steel Co., Ltd.	5,084	
Japan Aeroforge, Ltd.	3,087	
Other (26 companies and other)	4,862	*
Total	19,730	

The above includes activities similar to guarantees (227 million yen).

*Of which, 83 million yen is covered by reassurances from other companies.

Kobelco Construction Machinery (China) Co., Ltd., which is a consolidated subsidiary of the Company, sells construction machinery to customers through sales agents or leasing companies. Sales agents pledge guarantees to buy construction machinery, pledged as collateral at the amounts of the balance on bank loans or future minimum lease payments. Kobelco Construction Machinery (China) Co., Ltd. pledges reassurance for this guarantee. The balances of the reassurance were 16,273 million yen at the end of fiscal year 2018.

(2) Trade notes receivable discounted 349 million yen

(3) Trade notes receivable endorsed 680 million yen

(4) Repurchase obligation accompanying securitization of receivables 4,439 million yen

4. 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 these 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 the Affected Products were delivered, no safety problems were found or no immediate problems with safety were found. With regard to the Affected Products that are viewed to have no immediate problems with safety, Kobe Steel will, as necessary, conduct additional verification while cooperating with its customers.

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

1. Class actions in Canada seeking compensation for economic loss caused by the automotive metal products manufactured by the Kobe Steel Group and the use of these products in the manufacture of automobiles.

2. A securities class action in the United States based on violations of the U.S. Securities Exchange Act (misrepresentation of the compliance system, etc.) concerning Kobe Steel's American Depository Receipts (ADR).

3. A class action in the United States seeking compensation for economic loss from the decline in the resale value of the plaintiffs' vehicles and other relief, arising from the use of metal products manufactured by Kobe Steel in the manufacture of the vehicles.

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 on the said fine 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.

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.

Notes to Consolidated Statements of Income

1. Gain related to subsidiary conversion

Gain related to subsidiary conversion of 4,892 million yen are 7,272 million yen of gain on bargain purchase and 2,380 million yen of loss on step acquisitions recorded for having Shinko Wire Company, Ltd. as a subsidiary.

2. Loss on impairment

The Company and the Group recorded loss on impairment on the following assets group for the fiscal year under review.

Use	Location and number	Type and amount (millions of yen)
Assets for industrial machinery business	Vasteras, Sweden	Goodwill and other intangible assets: 6,259
Assets for manufacturing forged titan products	Takasago-shi, Hyogo Prefecture	Machinery and equipment, etc. 5,904
Assets for other business, etc.	Moji-ku, Kitakyushu-shi and other locations 6 times in total	Machinery and equipment, etc. 1,760

The Company and the Group conduct grouping per business location to recognize losses on impairment in principle.

In regard to the above, book values were reduced to respective recoverable values, and such reductions were recorded as loss on impairment (13,924 million yen) under extraordinary losses due to the decrease in profitability resulting from current declining performance.

3. Loss on disaster

The 3,353 million yen of loss on disaster were 5,097 million yen of loss on damaged inventories due to typhoons (No. 20, 21, and 24), heavy rain in western Japan, and an earthquake in northern Osaka and 1,743 million yen of insurance income related to such loss.

4. Customer compensation expenses

The 2,587 million yen of customer compensation expenses are expenses related to a response to the misconduct that through data falsification or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications were shipped or provided to customers as if they had met these requirements, including compensation for investigations carried out by customers, etc.

5. Environmental expenses

The 2,154 million yen of environmental expenses are the cost of PCB waste treatment required by the “Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes” and have been additionally recorded as details of treatment methods and schedules have become apparent.

Notes to Consolidated Statements of Changes in Net Assets

1. Type and Total Number of Shares Issued at the End of Fiscal Year 2018

Common stock 364,364,210 shares

2. Matters Concerning Dividends

(1) Dividends paid

Resolution	Type of stock	Total dividends	Dividends per share	Record date	Effective date	Source of dividends
May 16, 2018 Board of Directors’ meeting	Common stock	10,924 million yen	30.0 yen	March 31, 2018	June 22, 2018	Retained earnings
October 30, 2018 Board of Directors’ meeting	Common stock	3,641 million yen	10.0 yen	September 30, 2018	December 3, 2018	Retained earnings

(2) Dividends with the record date in fiscal year 2018 and the effective date in fiscal year 2019

At the meeting of the Board of Directors to be held on May 15, 2019, the following matters concerning dividends on common stock are going to be discussed.

1) Total dividends 3,641 million yen
2) Dividends per share 10.0 yen
3) Record date March 31, 2019
4) Effective date May 31, 2019

The Company intends for the source of dividends to be retained earnings.

Notes on Financial Instruments

1. Matters Concerning Status of Financial Instruments

    The Kobe Steel Group raises long-term funds mainly by bank loans and issuance of bonds based on its capital budget as well as its investment and loan plan. For short-term capital needs, the Kobe Steel Group raises funds mainly by bank loans and commercial paper in relation to its projected income and working capital. The Kobe Steel Group invests temporary excess cash in secure financial assets.

    Notes and accounts receivable are exposed to the credit risks of customers. In order to manage these risks, the Company follows its internal credit management rules and the consolidated subsidiaries follow similar rules. Investments in securities consist principally of the shares of customers and are exposed to the risk of changes in quoted market prices, etc. Quoted market prices of securities are regularly monitored and reported to the Board of Directors.

    Notes and accounts payable and borrowings are exposed to liquidity risk related to financing. The Finance Department of the Company controls financial plans at the group level to manage the risk.

    Derivative transactions are utilized to avoid the risks from market fluctuations related to foreign exchange rates, interest rates and trading of aluminum bare metal etc. and the Group does not enter into derivative transactions for speculative purposes. In order to manage these risks, the Company follows its internal rules and the consolidated subsidiaries follow similar rules.

2. Matters concerning fair value of financial instruments

Carrying amount of financial instruments on the consolidated balance sheets, fair value and the difference as of March 31, 2019 are as follows.

(Millions of yen)

	Carrying amount *1	Fair value *1	Difference
(1) Cash and deposits	173,899	173,899	—
(2) Notes and accounts receivable - trade	343,288	343,288	—
(3) Investments in securities			
a) Securities of subsidiaries and affiliates	13,262	20,308	7,045
b) Available-for-sale securities	90,114	90,114	—
(4) Notes and accounts payable	(455,310)	(455,310)	—
(5) Short-term borrowings	(116,382)	(116,497)	(114)
(6) Bonds and notes due within one year	(22,215)	(22,228)	(13)
(7) Accounts payable-other	(49,705)	(49,705)	—
(8) Bonds and notes	(111,837)	(111,961)	(124)
(9) Long-term borrowings	(509,929)	(502,721)	7,208
(10) Derivative transactions *2			
a) Hedge accounting not applied	537	537	—
b) Hedge accounting applied	(18,597)	(18,597)	—

*1 Liabilities are presented with parentheses ( ).

*2 Assets and liabilities arising from derivative transactions are presented after offsetting and with parentheses ( ) if the offset results in a liability.

Note 1: Methods used to determine fair value of financial instruments and matters concerning securities and derivative transactions

(1) Cash and deposits and (2) Notes and accounts receivable-trade

The carrying amounts approximate fair values because of the short maturities of these instruments.

(3) Investments in securities

Based mainly on quoted market prices, etc.

(4) Notes and accounts payable, (5) Short-term borrowings and (7) Accounts payable-other

The carrying amounts approximate fair values because of the short maturities of these instruments.

The fair values of long-term borrowings due within one year which are included in short-term borrowings (with a carrying amount of 58,113 million yen) are determined using the same method as (9) Long-term borrowings.

(6) Bonds and notes due within one year and (8) Bonds and notes

Based mainly on quoted market prices.

(9) Long-term borrowings

The fair values are determined based on the present value by discounting the sum of principal and interest by the assumed rate which would be applied if a similar new borrowing were entered into. The fair values of floating rate long-term borrowings hedged by interest rate swaps that qualify for hedge accounting and meet specific matching criteria for an exceptional method, are calculated by discounting the sum of principal and interest, including the differential paid or received under the swap agreements, by the reasonably estimated rate which would be applied if a similar new borrowing were entered into.

(10) Derivative transactions

For foreign currency exchange contracts, the fair values are determined based on forward foreign exchange rate. For interest rate swaps, the fair values are determined based on quotes obtained from counterparty financial institutions. For commodity forward contracts, the fair values are determined based on commodity futures price.

For certain foreign currency exchange contracts for which the “assigning” method is applied, the fair values are included in the fair values of the hedged accounts receivable and accounts payable (see (2), (4) and (7) above).

For interest rate swaps for which the “exceptional” method is applied, the fair values are included in the fair values of the hedged long-term borrowings (see (9) above).

Note 2: Non-listed equity securities (with carrying amount of 86,631 million yen) are not included in (3) Investments in securities a) Securities of subsidiaries and affiliates and b) Available-for-sale securities, as it is extremely difficult to determine their fair value since there is no market price and future cash flows cannot be estimated.

Notes on Per Share Information

Net assets per share	2,041.29 yen
Net income per share	99.20 yen

Note: The Company’s shares (posted as treasury stock in stockholders’ equity) remaining in the trust related to the Board Benefit Trust (BBT) plan posted as treasury stock in stockholders’ equity are included in treasury stock. These are excluded from the calculation of the number of shares at the end of the period and the average number of shares during the period when calculating net assets per share and net income per share.

The number of such shares at the end of the period excluded from the calculation of net assets per share for this fiscal year was 1,154 thousand shares, while the average number of shares during the period excluded from the calculation of net income per share for this fiscal year was 1,171 thousand shares.

(Amounts are rounded down to the nearest million yen.)

Non-Consolidated Statements of Changes in Net Assets

(From April 1, 2018 to March 31, 2019)

(Millions of yen)

	Stockholders' equity									
	Common stock	Capital surplus		Retained earnings				Treasury stock, at cost	Total stock-holders' equity
		Legal capital surplus	Total capital surpluses	Other retained earnings			Total retained earnings		
				Reserve for special depreciation	Reserve for advanced depreciation of fixed assets	Retained earnings brought forward			
Balance as of April 1, 2018	250,930	100,789	100,789	299	2,454	199,130	201,884	(1,708)	551,895
Amount of change									
Reversal of reserve for special depreciation				(54)		54	–		–
Reversal of reserve for advanced depreciation of fixed assets					(178)	178	–		–
Dividends of surplus						(14,565)	(14,565)		(14,565)
Net income						14,345	14,345		14,345
Purchase of treasury stock								(8)	(8)
Disposal of treasury stock						(0)	(0)	63	62
Net changes other than stockholders' equity									
Total changes	–	–	–	(54)	(178)	12	(220)	54	(166)
Balance as of March 31, 2019	250,930	100,789	100,789	244	2,275	199,143	201,663	(1,653)	551,729

	Valuation and translation adjustments			Total net assets
	Unrealized gains on securities, net of taxes	Deferred gains (losses) on hedges net of taxes	Total valuation and translation adjustments	
Balance as of April 1, 2018	12,789	(7,969)	4,820	556,715
Amount of change				
Reversal of reserve for special depreciation				–
Reversal of reserve for advanced depreciation of fixed assets				–
Dividends of surplus				(14,565)
Net income				14,345
Purchase of treasury stock				(8)
Disposal of treasury stock				62
Net changes other than stockholders' equity	(9,246)	7,538	(1,707)	(1,707)
Total changes	(9,246)	7,538	(1,707)	(1,873)
Balance as of March 31, 2019	3,543	(430)	3,112	554,841

(Amounts are rounded down to the nearest million yen.)

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Matters concerning Significant Accounting Policies

1. Basis and Method for Valuation of Securities

(1) Securities of subsidiaries and affiliates	Cost basis, determined using the moving average method.
(2) Available-for-sale securities	
Securities with market quotations	Fair value basis, based on the market price etc. on the balance sheet date (with unrealized gains or losses, net of applicable taxes, stated in a separate component of net assets and cost of securities sold is primarily determined using the moving average method).
Securities without market quotations	Cost basis, determined using the moving average method.

2. Basis for Valuation of Derivatives
   Fair value basis

3. Basis and Method for Valuation of Inventories
   Cost basis, determined by the average method for inventories in the Iron & Steel Business (except for cast forged steel products), Welding Business and Aluminum & Copper Business, and by the specific identification method for cast forged steel products in the Iron & Steel Business and inventories in the Machinery Business and Engineering Business (the book value on the balance sheet may be written down to market value due to decline in the profitability).

4. Depreciation and Amortization Method for Fixed Assets

(1) Tangible fixed assets	
a) Owned fixed assets	By the straight-line method.
b) Leased assets	
- Under finance leases that transfer ownership of the leased assets	By the same method as the owned fixed assets.
- Under finance leases that do not transfer ownership of the leased assets	By the straight-line method over the respective lease term (equal to estimated useful lives) with no residual value.
(2) Intangible fixed assets	By the straight-line method. For software for internal use, by the straight-line method over the estimated internal use lives (five (5) years).
(3) Long-term prepaid expenses	By the straight-line method.

5. Basis for Recognition of Allowances and Provisions

(1) Allowance for doubtful accounts

To provide for potential losses on doubtful accounts, allowance is made at an amount based on the actual bad debt ratio in the past for normal accounts, and estimated uncollectible amounts based on specific collectability assessments for certain individual receivables, such as those with a possibility of default.

(2) Provision for bonuses

To provide for employee bonus payments, provision is made based on the estimated amounts to be paid.

(3) Provision for product warranties

To provide for after-sales and after-construction and delivery warranty cost payments, for steel castings and forgings in the Iron & Steel Business, Machinery Business, and Engineering Business, provision is made at an estimated amount attributable to the fiscal year 2018 based on the actual warranty cost to sales ratio in the past, plus specifically estimated amount attributable to the fiscal year 2018 for certain individual cases.

(4) Provision for loss on construction contracts

To provide for future losses on construction contracts, provision is made based on an estimated loss on construction contracts outstanding at the end of the fiscal year 2018.

(5) Provision for dismantlement related expenses

For expenses expected to arise from dismantlement of equipment, such as the blast furnace, in relation to construction of the power station at Kobe Works, provision is made at an estimated amount at the end of the fiscal year 2018.

(6) Provision for customer compensation expenses

For expenses related to a response to the misconduct that through data falsification and/or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications were shipped or provided to customers as if they had met these requirements, including compensation for product exchanges and investigations carried out by customers, etc., provision is made at an estimated amount at the end of the fiscal year 2018.

(7) Provision for environmental measures

For the cost of PCB waste treatment required by “Law Concerning Special Measure against Promotion of Proper Treatment of Polychlorinated Biphenyl (PCB) Waste”, provision is made at an estimated amount at the end of the fiscal year 2018.

(8) Provision for retirement benefits

To provide for payments of retirement benefits to employees, provision is made based on the retirement benefit obligation and the estimated amount of plan assets at the end of the fiscal year 2018.

Prior service costs are charged to income using the straight-line method based on the average remaining service period of the employees.

Actuarial differences are charged to income from the period following the period in which it arises using the straight-line method based on the average remaining service period of the employees.

6. Basis for Recognition of Revenue and Expenses

Regarding revenues and expenses concerning construction contracts, they are recognized by applying the percentage of completion method where the outcome of the contract up to the end of the fiscal year 2018 can be estimated reliably (with the estimate of percentage of completion based on the cost-to-cost method), or in case of not being estimated reliably, by applying the completed contract method.

7. Basis for Translation of Assets and Liabilities Denominated in Foreign Currencies into Japanese Yen

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rates as of the balance sheet date, except for those hedged by foreign currency exchange contracts, with the resulting gains and losses recognized in income.

8. Method for Hedge Accounting

(1) Method for hedge accounting

Deferred hedge method is applied.
Assigning method is applied to monetary receivables and payables denominated in foreign currencies that are specifically covered by foreign currency exchange contracts and qualify for such assigning.
Exceptional method is applied to interest rate swaps that meet specific matching criteria and qualify for such accounting.

(2) Hedging instruments and hedged items

Hedging instruments	Foreign currency exchange contracts, interest rate swap contracts and commodity forward contracts
Hedged items	Assets and liabilities exposed to losses from market fluctuations related to foreign exchange rates, interest rates and trading of bare metal such as aluminum (including those expected from forecasted transactions).

(3) Hedging policy and method for assessing the hedge effectiveness

The Company uses hedge transactions to reduce the risks from market fluctuations and does not enter into hedge transactions for speculative purposes.
The Company assesses the hedge effectiveness in accordance with its internal rules.

9. Accounting for Retirement Benefits

Accounting method for unrecognized prior service costs and unrecognized actuarial differences for retirement benefits are different from that applied in preparing the consolidated financial statements.

10. Accounting for Consumption Taxes

The tax-exclusion method is applied for the consumption tax and the local consumption tax.

11. Application of Consolidated Taxation System

Consolidated taxation system is applied.

Change in Presentation Method

The "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards for Business Enterprises No. 28, February 16, 2018) has been applied from the beginning of fiscal year 2018. In relation to the application, deferred tax assets have been classified in investments and other assets and deferred tax liabilities in long-term liabilities.

Additional Information

Introduction of the Board Benefit Trust (BBT) for Directors, etc.

Notes on transactions that provide the Company's shares through the trust for Directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee Members) and executive officers are omitted as the same details are contained in "Additional information" in the Notes to Consolidated Financial Statements.

Notes to Non-consolidated Balance Sheets

1. Assets Pledged as Collateral and Collateralized Debt

(1) Assets pledged as collateral

Securities of subsidiaries and affiliates	11,110 million yen	*1 *2
Other	6,168	*2

(2) Collateralized debt

Borrowings of subsidiaries and affiliates from financial institutions	37,140 million yen	*1 *2

*1 Of the assets pledged as collateral, 1,090 million yen are the mortgages established for borrowings of 12,852 million yen from financial institutions to Kobelco Power Moka Inc., which is one of the primary operators of the wholesale power supply business.

*2 Of the assets pledged as collateral, 16,170 million yen are the mortgages established for borrowings of 23,291 million yen from financial institutions to Kobelco Power Kobe No.2, Inc., which is one of the primary operators of the wholesale power supply business.

2. Accumulated Depreciation of Tangible Fixed Assets 1,911,166 million yen

3. Guarantee Liabilities

(1) Guarantees of borrowings from financial institutions are provided to other companies.

Chengdu Kobelco Construction Machinery Financial Leasing Ltd.	15,643 million yen	*1
Kobelco Construction Machinery (China) Co., Ltd.	10,473	*1
Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd.	9,521	
Kobelco Steel International (USA) Inc.	7,547	
Kobelco Millcon Steel Co., Ltd.	6,696	
Kobelco Angang Auto Steel Co., Ltd.	5,084	
Other (18 companies and other)	21,410	*2
Total	76,378	

The above includes activities similar to guarantees (514 million yen).

*1 The entire amount is covered by reassurances from Kobelco Construction Machinery Co., Ltd.

*2 Of which, 2,963 million yen is covered by reassurances from other companies.

(2) Repurchase obligation accompanying securitization of receivables 3,214 million yen

4. Contingent liabilities

In the previous 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 these 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 the Affected Products were delivered, no safety problems were found or no immediate problems with safety were found. With regard to the Affected Products that are viewed to have no immediate problems with safety, Kobe Steel will, as necessary, conduct additional verification while cooperating with its customers.

Furthermore, 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.

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

1. Class actions in Canada seeking compensation for economic loss caused by the automotive metal products manufactured by the Kobe Steel Group and the use of these products in the manufacture of automobiles.

2. A securities class action in the United States based on violations of the U.S. Securities Exchange Act (misrepresentation of the compliance system, etc.) concerning Kobe Steel’s American Depository Receipts (ADR).

3. A class action in the United States seeking compensation for economic loss from the decline in the resale value of the plaintiffs’ vehicles and other relief, arising from the use of metal products manufactured by Kobe Steel in the manufacture of the vehicles.

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 on the said fine 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.

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 non-consolidated financial statements.

5. Monetary Receivables and Payables to Subsidiaries and Affiliates

Short-term monetary receivables	118,818 million yen
Long-term monetary receivables	57,927
Short-term monetary payables	83,287
Long-term monetary payables	210

Notes to Non-consolidated Statements of Income

1. Transactions with Subsidiaries and Affiliates

Operating transactions	
Net sales	338,267 million yen
Purchases	596,710
Non-operating transactions	58,390

2. Loss on impairment

The Company recorded loss on impairment on the following assets group for the fiscal year under review.

Use	Location and number	Type and amount (millions of yen)
Assets for manufacturing forged titan products, etc.	Takasago-shi, Hyogo Prefecture and other locations 2 times in total	Machinery and equipment, etc. 6,070

The Company conducts grouping per business location to recognize losses on impairment in principle.

In regard to the above, book values were reduced to respective recoverable values, and such reductions were recorded as loss on impairment (6,070 million yen) under extraordinary losses due to the decrease in profitability resulting from current declining performance.

3. Loss on disaster

The 2,882 million yen of loss on disaster were 3,799 million yen of loss on damaged inventories due to typhoons (No. 20, 21, and 24), heavy rain in western Japan, and an earthquake in northern Osaka and 916 million yen of insurance income related to such loss.

4. Customer compensation expenses

The 2,544 million yen of customer compensation expenses are expenses related to a response to the misconduct that through data falsification and/or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications were shipped or provided to customers as if they had met these requirements, including compensation for investigations carried out by customers, etc.

5. Environmental expenses

The 1,585 million yen of environmental expenses are the cost of PCB waste treatment required by “Law Concerning Special Measure against Promotion of Proper Treatment of Polychlorinated Biphenyl (PCB) Waste” and have been additionally recorded as details of treatment methods and schedules have become apparent.

Notes to Non-consolidated Statements of Changes in Net Assets

Type and number of treasury stock at the end of fiscal year 2018

Common stock	1,391,640 shares

(Note) 1,153,700 shares of Kobe Steel owned by Trust & Custody Services Bank, Ltd. (Trust Account E) related to the Board Benefit Trust (BBT) are included in treasury stock listed above.

Notes on Tax Effect Accounting

Major causes for accrual of deferred tax assets are loss on write-down of equity securities and tax loss carryforwards, and assets that are not recognized as recoverable are posted in the valuation reserve.

Notes on Transactions with Related Parties

Category	Company name	Ownership of voting rights etc. (Ownership percentage)	Relationships with related parties	Description of transactions	Transaction amounts (million yen)	Account	Fiscal year-end balance (million yen)
Subsidiaries	Kobelco Construction Machinery Co., Ltd.	100.00% directly	Sales of steel materials, etc. Lease of commercial buildings and land Interlocking directors, etc.	Receipt of guarantees	26,116	–	–
Affiliates	Shinsho Corporation	13.33% directly and 1.04% indirectly (21.55%)	Sales of certain finished goods of the Company Purchase of raw materials Interlocking directors, etc.	Purchase of raw materials for iron and steel, other raw materials and materials for equipment	319,476	Trade accounts payable	20,987
	Kansai Coke and Chemicals Co., Ltd.	24.00% directly	Sales of coal, etc. Purchase of coke, etc. Interlocking directors, etc.	Sales of coal, etc.	76,113	Other accounts receivable	8,646
				Purchase of coke, etc.	86,453	Trade accounts payable	20,410

Note 1: The terms and conditions and policies for their determination:
The terms and conditions applicable to the above transactions are determined through price negotiations on an arm's length basis and with reference to normal market prices.

Note 2: Consumption taxes are not included in the amount of the transactions, but are included in the amount of fiscal year-end balances.

Note 3: The figure contained in parentheses is excluded from above number and represents the percentage of ownership with which the Company has received consent for exercise of voting rights.

Note 4: The Company guarantees relating to bank loans by Chengdu Kobelco Construction Machinery Financial Leasing Ltd. and Kobelco Construction Machinery (China) Co., Ltd. Kobelco Construction Machinery Co., Ltd. pledges reassurance for the entire amount, and the Company pays no guarantee fees.

Notes on Per Share Information

Net assets per share 1,528.60 yen
Net income per share 39.52 yen

Note: The Company's shares (posted as treasury stock in stockholders' equity) remaining in the trust related to the Board Benefit Trust (BBT) plan are included in treasury stock. These are excluded from the calculation of the number of shares at the end of the period and the average number of shares during the period when calculating net assets per share and net income per share.
The number of such shares at the end of the period excluded from the calculation of net assets per share for this fiscal year was 1,154 thousand shares, while the average number of shares during the period excluded from the calculation of net income per share for this fiscal year was 1,171 thousand shares.

(Amounts are rounded down to the nearest million yen.)