

**Consolidated 10-Year Summary**  
Kobe Steel, Ltd. and Consolidated Subsidiaries

Years ended March 31	Millions of yen										Change 2020/2019	Thousands of
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		U.S. dollars (Note 1)
<b>For the year</b>												
Net sales	¥ 1,858,574	¥ 1,864,691	¥ 1,685,529	¥ 1,824,699	¥ 1,886,895	¥ 1,822,806	¥ 1,695,864	¥ 1,881,158	¥ 1,971,870	¥ 1,869,836	(5.2) %	\$ 17,181,253
Cost of sales	1,570,779	1,635,862	1,510,512	1,537,250	1,581,528	1,548,384	1,465,577	1,595,230	1,704,972	1,638,738	(3.9)	15,057,780
Operating income	124,551	60,555	11,235	114,548	119,460	68,446	9,749	88,914	48,283	9,864	(79.6)	90,636
Ordinary income (loss)	89,083	33,780	(18,146)	85,044	101,688	28,928	(19,104)	71,149	34,629	(8,080)	-	(74,243)
Net income (loss) attributable to owners of the parent	52,940	(14,248)	(26,976)	70,192	86,550	(21,556)	(23,045)	63,188	35,940	(68,008)	-	(624,903)
Cash flows from operating activities	177,795	39,486	45,402	194,294	153,078	97,933	141,716	190,833	67,137	27,040	(59.7)	248,462
Cash flows from investing activities	(96,687)	(85,267)	(123,513)	(62,105)	(73,674)	(104,619)	(137,834)	(161,598)	(28,603)	(218,987)	-	(2,012,192)
Cash flows from financing activities	(98,196)	(40,233)	127,644	(138,502)	(156,027)	93,883	16,546	(66,599)	(9,562)	140,589	-	1,291,824
Capital expenditures	91,378	96,085	114,936	101,403	103,522	109,941	160,297	128,654	133,472	239,817	79.7	2,203,590
Depreciation	114,820	118,038	106,725	82,936	89,882	94,812	96,281	102,032	102,590	105,347	2.7	967,993
Research and development expenses	29,833	31,437	30,763	28,494	29,920	29,843	30,102	32,015	34,495	35,891	4.0	329,788
<b>At year end:</b>												
Total assets (Note 3)	2,231,533	2,159,512	2,226,997	2,288,637	2,300,242	2,261,135	2,310,436	2,352,115	2,384,973	2,411,192	1.1	22,155,580
Net assets	597,368	571,258	569,923	734,679	851,785	745,493	729,405	790,985	803,313	716,369	(10.8)	6,582,460
Outside debt	769,840	746,471	907,657	748,138	650,992	776,073	789,633	726,014	724,222	784,478	8.3	7,208,290
Outside debt, including IPP project financing	845,484	810,172	959,180	787,246	677,448	789,494	796,928	738,866	760,365	906,639	19.2	8,330,784
<b>Per share data:</b>												
Net income (loss) (yen/U.S. dollars) (Note 2) ¥	17.63	¥ (4.75)	¥ (8.99)	¥ 22.63	¥ 23.81	¥ (59.35)	¥ (63.54)	¥ 174.43	¥ 99.20	¥ (187.55)	-	\$ (1.72)
Net assets (yen/U.S. dollars) (Note 2)	182.81	171.84	170.63	184.11	213.70	1,903.80	1,860.37	2,049.95	2,041.29	1,811.10	(11.3)	16.64
Cash dividends (yen/U.S. dollars) (Note 2)	3.00	1.00	-	4.00	4.00	2.00	-	30.00	20.00	-	(100.0)	-
<b>Ratios:</b>											Points	
Operating income ratio (%)	6.7	3.2	0.7	6.3	6.3	3.8	0.6	4.7	2.4	0.5	(1.9)	
Ordinary income ratio (%)	4.8	1.8	(1.1)	4.7	5.4	1.6	(1.1)	3.8	1.8	(0.4)	(2.2)	
ROA (%) (Note 3)	4.0	1.5	(0.8)	3.8	4.4	1.3	(0.8)	3.1	1.5	(0.3)	(1.8)	
ROE (%)	9.9	(2.7)	(5.3)	11.9	12.0	(2.9)	(3.4)	8.9	4.8	(9.7)	(14.5)	
Equity ratio (%)	24.6	23.9	23.0	29.2	33.8	30.6	29.2	31.6	31.0	27.2	(3.8)	
Debt/equity ratio (times)	1.4	1.4	1.8	1.1	0.9	1.1	1.2	1.0	1.0	1.2	0.2	
Dividend payout ratio (%)	17.0	-	-	17.7	16.8	-	-	17.2	20.2	-	(20.2)	
Number of shares issued (in thousands)	3,115,061	3,115,061	3,115,061	3,643,642	3,643,642	3,643,642	364,364	364,364	364,364	364,364	-	
Number of employees	34,772	35,496	36,018	36,019	36,420	36,338	36,951	37,436	39,341	40,831	1,490	

Notes:

- For convenience only, U.S. dollar amounts in this report have been translated from Japanese yen amounts at the rate of ¥108.83 to US\$1.00, the rate of exchange prevailing on March 31, 2020.
- Kobe Steel, Ltd. carried out a share consolidation at a ratio of 10 shares to 1 share effective on October 1, 2016. Therefore, per share data takes into account this share consolidation.
- The Company applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) effective April 1, 2018. "Total assets" and "ROA" figures for 2018 are after retrospective application of the concerned accounting standard.

## Consolidated Balance Sheets

Kobe Steel, Ltd. and Consolidated Subsidiaries  
At March 31, 2020 and 2019

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
<b>Current assets:</b>			
Cash and deposits (Notes 7 and 25)	¥ 146,045	¥ 173,900	\$ 1,341,953
Notes and accounts receivable:			
Trade and finance	297,884	303,118	2,737,154
Unconsolidated subsidiaries and affiliates	44,765	52,866	411,328
Other	38,753	35,104	356,084
Allowance for doubtful accounts	(3,225)	(4,213)	(29,635)
	378,177	386,875	3,474,931
Merchandise and finished goods	184,415	178,080	1,694,521
Work-in-process (Note 8)	137,567	131,198	1,264,054
Raw materials and supplies	174,328	167,127	1,601,838
Other	45,945	65,070	422,178
Total current assets	1,066,477	1,102,250	9,799,475
<b>Property, plant and equipment (Note 7):</b>			
Land	139,518	144,460	1,281,984
Buildings and structures	761,319	746,925	6,995,492
Machinery and equipment	2,498,444	2,417,801	22,957,307
Construction in progress	139,974	83,312	1,286,168
	3,539,255	3,392,498	32,520,951
Less accumulated depreciation	(2,523,280)	(2,461,913)	(23,185,522)
Total property, plant and equipment	1,015,975	930,585	9,335,429
<b>Intangible assets</b>	32,665	32,640	300,151
<b>Investments and other assets:</b>			
Investments in securities (Note 5)	64,717	102,471	594,662
Investments in and advances to unconsolidated subsidiaries and affiliates	118,208	120,139	1,086,171
Long-term loans receivable	4,054	4,505	37,254
Deferred income taxes (note 22)	72,534	61,766	666,492
Net defined benefit asset (Note 27)	18,427	18,285	169,319
Other	56,506	55,918	519,204
Allowance for doubtful accounts	(38,371)	(43,586)	(352,577)
Total investments and other assets	296,075	319,498	2,720,525
	¥ 2,411,192	¥ 2,384,973	\$ 22,155,580

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
<b>Current liabilities:</b>			
Short-term borrowings (Note 7)	¥ 93,277	¥ 58,269	\$ 857,092
Current portion of long-term debt (Note 7)	99,007	80,329	909,739
Notes and accounts payable:			
Trade	342,424	396,528	3,146,411
Construction	41,790	37,741	383,997
Unconsolidated subsidiaries and affiliates	57,583	62,010	529,112
Other	10,588	10,488	97,285
	452,385	506,767	4,156,805
Advances from customers	36,635	28,441	336,624
Customers' and employees' deposits	15,091	11,047	138,664
Income and enterprise taxes payable	7,143	7,080	65,639
Provision for loss on construction contracts (Note 8)	16,953	10,429	155,772
Provision for dismantlement related expenses	2,315	1,612	21,271
Provision for customer compensation expenses	2,055	3,362	18,882
Other	88,211	104,392	810,534
Total current liabilities	813,072	811,728	7,471,022
<b>Long-term liabilities:</b>			
Long-term debt (Note 7)	714,355	621,767	6,563,953
Net defined benefit liability (Note 27)	94,518	81,079	868,496
Provision for environmental measures	3,000	2,699	27,567
Provision for dismantlement related expenses	1,959	3,344	18,004
Deferred income taxes (note 22)	12,624	13,607	115,993
Other	55,295	47,436	508,085
Total long-term liabilities	881,751	769,932	8,102,098
<b>Contingent liabilities (Note 11 and 12)</b>			
<b>Net assets:</b>			
Stockholders' equity:			
Common stock (Notes 13 and 24)	250,930	250,930	2,305,706
Authorized — 600,000,000 shares			
Issued — 364,364,210 shares			
Capital surplus (Note 13)	102,350	102,219	940,460
Retained earnings (Note 13)	345,661	415,321	3,176,149
Treasury stock, at cost (Note 24):	(2,262)	(2,614)	(20,781)
1,666,949 shares in 2020 and 2,055,945 shares in 2019			
	696,679	765,856	6,401,534
Accumulated other comprehensive income:			
Unrealized gains on securities, net of taxes	1,484	7,105	13,647
Unrealized losses on hedging derivatives, net of taxes	(15,873)	(14,031)	(145,852)
Land revaluation differences, net of taxes (Note 9)	(2,995)	(3,406)	(27,523)
Foreign currency translation adjustments	(1,984)	2,705	(18,231)
Remeasurements of defined benefit plans, net of taxes	(20,430)	(18,652)	(187,727)
	(39,798)	(26,279)	(365,686)
Non-controlling interests	59,488	63,736	546,612
Total net assets	716,369	803,313	6,582,460
	¥ 2,411,192	¥ 2,384,973	\$ 22,155,580

See accompanying notes.

## Consolidated Statements of Operations

Kobe Steel, Ltd. and Consolidated Subsidiaries

Years ended March 31, 2020 and 2019

	Millions of yen		Thousands of
			U.S. dollars (Note 1)
	2020	2019	2020
<b>Net sales</b>	¥ 1,869,836	¥ 1,971,870	\$ 17,181,253
<b>Cost of sales (Note 14)</b>	(1,638,738)	(1,704,972)	(15,057,780)
Gross profit	231,098	266,898	2,123,473
<b>Selling, general and administrative expenses (Note 16)</b>	(221,234)	(218,615)	(2,032,837)
Operating income	9,864	48,283	90,636
<b>Non-operating income (expenses):</b>			
Interest and dividend income	7,317	7,060	67,236
Interest expense	(9,187)	(9,154)	(84,414)
Secured employees' salaries, net of reimbursement	(6,534)	(6,432)	(60,037)
Equity in income of equity method companies	5,959	5,864	54,759
Dismantlement expense	(5,650)	(5,282)	(51,918)
Other, net (Note 5)	(9,849)	(5,710)	(90,505)
	(17,944)	(13,654)	(164,879)
Ordinary income (loss)	(8,080)	34,629	(74,243)
<b>Extraordinary income (loss):</b>			
Gain on sales of investment securities	7,587	31,485	69,711
Loss on impairment (Note 17)	(49,982)	(13,925)	(459,266)
Loss on valuation of investment securities (Note 5)	(15,090)	-	(138,655)
Gain related to subsidiary conversion (Note 18)	-	4,892	-
Loss on disaster (Note 19)	-	(3,354)	-
Customer compensation expenses (Note 20)	-	(2,587)	-
Environmental expenses (Note 21)	-	(2,154)	-
	(57,485)	14,357	(528,210)
<b>Income (loss) before income taxes and non-controlling interests</b>	(65,565)	48,986	(602,453)
<b>Income taxes (Note 22):</b>			
Current	10,268	13,995	94,341
Deferred	(7,505)	(3,537)	(68,957)
	2,763	10,458	25,384
<b>Income (loss) before non-controlling interests</b>	(68,328)	38,528	(627,837)
<b>Net income (loss) attributable to non-controlling interests</b>	(320)	2,588	(2,934)
<b>Net income (loss) attributable to owners of the parent</b>	¥ (68,008)	¥ 35,940	\$ (624,903)

Per share	Yen		U.S. dollars (Note 1)
	2020	2019	2020
Net income (loss)	¥ (187.55)	¥ 99.20	\$ (1.72)
Cash dividends applicable to the year	-	20.00	-

See accompanying notes.

## Consolidated Statements of Comprehensive Income

Kobe Steel, Ltd. and Consolidated Subsidiaries

Years ended March 31, 2020 and 2019

	Millions of yen		Thousands of
			U.S. dollars (Note 1)
	2020	2019	2020
<b>Income (loss) before non-controlling interests</b>	¥ (68,328)	¥ 38,528	\$ (627,837)
<b>Other comprehensive income (loss):</b>			
Unrealized losses on securities, net of taxes	(5,350)	(9,258)	(49,149)
Unrealized losses on hedging derivatives, net of taxes	(2,543)	(3,889)	(23,371)
Land revaluation differences, net of taxes	793	-	7,285
Foreign currency translation adjustments	(2,069)	(5,841)	(19,016)
Remeasurements of defined benefit plans, net of taxes	(1,818)	(851)	(16,704)
Share of other comprehensive gains and losses related to equity method companies	(2,636)	(3,906)	(24,218)
<b>Total other comprehensive income (loss) (Note 23)</b>	(13,623)	(23,745)	(125,173)
<b>Total comprehensive income (loss)</b>	¥ (81,951)	¥ 14,783	\$ (753,010)

Total comprehensive income (loss) attributed to:

Stockholders of the parent interests	¥ (81,595)	¥ 13,189	\$ (749,744)
Non-controlling interests	(356)	1,594	(3,266)

See accompanying notes.

	Thousands		Millions of yen									
	Number of shares of common stock	Common stock (Note 13)	Capital surplus (Note 13)	Retained earnings (Note 13)	Treasury stock	Unrealized gains on securities, net of taxes	Unrealized 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	Non-controlling interests	Total
Balance at April 1, 2018 (Restated Balance)	364,364	¥ 250,930	¥ 102,314	¥ 395,543	¥ (2,672)	¥ 17,334	¥ (9,914)	¥ (3,406)	¥ 10,186	¥ (17,726)	¥ 48,396	¥ 790,985
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				(1)	66							65
Changes in stockholders interest due to transaction with non-controlling interests			(95)									(95)
Increase (decrease) due to changes in scope of consolidation				(1,596)								(1,596)
Net changes in items other than stockholders' equity						(10,229)	(4,117)	-	(7,481)	(926)	15,340	(7,413)
Net changes during the year		-	(95)	19,778	58	(10,229)	(4,117)	-	(7,481)	(926)	15,340	12,328
Balance at April 1, 2019	364,364	¥ 250,930	¥ 102,219	¥ 415,321	¥ (2,614)	¥ 7,105	¥ (14,031)	¥ (3,406)	¥ 2,705	¥ (18,652)	¥ 63,736	¥ 803,313
Dividends of surplus				(3,641)								(3,641)
Net income attributable to owners of the parent				(68,008)								(68,008)
Purchase of treasury stock					(5)							(5)
Disposal of treasury stock				(1)	357							356
Changes in stockholders interest due to transaction with non-controlling interests			131									131
Increase (decrease) due to changes in scope of consolidation				1,990								1,990
Net changes in items other than stockholders' equity						(5,621)	(1,842)	411	(4,689)	(1,778)	(4,248)	(17,767)
Net changes during the year		-	131	(69,660)	352	(5,621)	(1,842)	411	(4,689)	(1,778)	(4,248)	(86,944)
Balance at March 31, 2020	364,364	¥ 250,930	¥ 102,350	¥ 345,661	¥ (2,262)	¥ 1,484	¥ (15,873)	¥ (2,995)	¥ (1,984)	¥ (20,430)	¥ 59,488	¥ 716,369

	Thousands		Thousands of U.S. dollars (Note 1)									
	Number of shares of common stock	Common stock (Note 13)	Capital surplus (Note 13)	Retained earnings (Note 13)	Treasury stock	Unrealized gains on securities, net of taxes	Unrealized 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	Non-controlling interests	Total
Balance at April 1, 2019	364,364	\$ 2,305,706	\$ 939,253	\$ 3,816,235	\$ (24,021)	\$ 65,290	\$ (128,925)	\$ (31,300)	\$ 24,859	\$ (171,388)	\$ 585,647	\$ 7,381,356
Dividends of surplus				(33,458)								(33,458)
Net income attributable to owners of the parent				(624,903)								(624,903)
Purchase of treasury stock					(42)							(42)
Disposal of treasury stock				(10)	3,282							3,272
Changes in stockholders interest due to transaction with non-controlling interests			1,207									1,207
Increase (decrease) due to changes in scope of consolidation				18,285								18,285
Net changes in items other than stockholders' equity						(51,643)	(16,927)	3,777	(43,090)	(16,339)	(39,035)	(163,257)
Net changes during the year		-	1,207	(640,086)	3,240	(51,643)	(16,927)	3,777	(43,090)	(16,339)	(39,035)	(798,896)
Balance at March 31, 2020	364,364	\$ 2,305,706	\$ 940,460	\$ 3,176,149	\$ (20,781)	\$ 13,647	\$ (145,852)	\$ (27,523)	\$ (18,231)	\$ (187,727)	\$ 546,612	\$ 6,582,460

See accompanying notes.

## Consolidated Statements of Cash Flows

Kobe Steel, Ltd. and Consolidated Subsidiaries

Years ended March 31, 2020 and 2019

	Millions of yen		Thousands of
	2020	2019	U.S. dollars (Note 1)
			2020
<b>Cash flows from operating activities:</b>			
Income (loss) before income taxes	¥ (65,565)	¥ 48,986	\$ (602,453)
Depreciation	105,347	102,590	967,993
Increase (decrease) in allowance for doubtful accounts	(5,254)	(10,282)	(48,273)
Increase (decrease) in provision for loss on construction contracts	6,524	796	59,944
Increase (decrease) in provision for dismantlement related expenses	(681)	(7,652)	(6,257)
Increase (decrease) in provision for misconduct related expenses	(1,307)	(221)	(12,013)
Increase (decrease) in liabilities for retirement benefits	13,165	7,550	120,967
Increase (decrease) in provision for environmental measures	862	1,921	7,920
Interest and dividend income	(7,317)	(7,060)	(67,236)
Interest expense	9,187	9,154	84,414
Loss (income) on sale of securities	(8,727)	(32,342)	(80,189)
Equity in loss (income) of equity method companies	(5,959)	(5,864)	(54,759)
Loss (income) on sale of plant and equipment	(41)	(1,871)	(380)
Loss on disposal of plant and equipment	1,727	2,163	15,871
Loss (gain) related to subsidiary conversion	-	(4,892)	-
Loss on impairment	49,982	13,925	459,266
Loss on write-down of investments in securities	15,120	214	138,934
Decrease (increase) in trade receivables from customers	26,530	(6,471)	243,776
Net decrease (increase) in lease receivables and investment assets	1,670	(4,164)	15,342
Decrease (increase) in inventories	(25,328)	(33,141)	(232,734)
Decrease (increase) in accounts receivable	2,582	(2,594)	23,721
Increase (decrease) in trade payables to customers	(59,360)	(1,377)	(545,439)
Increase (decrease) in accrued expenses	(7,779)	7,640	(71,475)
Other	(9,014)	5,350	(82,808)
Subtotal	36,364	82,358	334,132
Cash received for interest and dividends	11,089	9,905	101,897
Cash paid for interest	(9,106)	(9,012)	(83,668)
Cash paid for income taxes	(11,307)	(16,114)	(103,899)
Net cash provided by operating activities	27,040	67,137	248,462
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment and other assets	(245,386)	(132,456)	(2,254,764)
Proceeds from sale of property, plant and equipment and other assets	2,617	3,774	24,044
Purchase of investments in securities	(1,191)	(502)	(10,942)
Proceeds from sale of investments in securities	24,436	1,273	224,532
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(618)	-	(5,681)
Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation	-	69,400	-
Decrease (increase) in short-term loans receivable	(0)	347	(1)
Payments for long-term loans receivable	(150)	(124)	(1,376)
Proceeds from collection of long-term loans receivable	806	31,605	7,403
Other	499	(1,920)	4,593
Net cash used in investing activities	(218,987)	(28,603)	(2,012,192)
<b>Cash flows from financing activities:</b>			
Increase (decrease) in short-term borrowings	36,967	(84,936)	339,679
Proceeds from issuance of long-term borrowings	197,708	179,923	1,816,667
Repayment of long-term borrowings	(63,556)	(71,214)	(583,989)
Proceeds from issuance of bonds	-	1,500	-
Repayment of bonds	(22,215)	(14,065)	(204,126)
Proceeds from sale and leaseback transactions	7,301	4,795	67,087
Repayment of finance lease obligations	(8,207)	(3,406)	(75,407)
Payment of dividends	(3,730)	(14,509)	(34,275)
Payment of dividends to non-controlling interests	(2,651)	(1,355)	(24,355)
Other	(1,028)	(6,295)	(9,457)
Net cash provided by (used in) financing activities	140,589	(9,562)	1,291,824
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(932)</b>	<b>(2,797)</b>	<b>(8,569)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(52,290)</b>	<b>26,175</b>	<b>(480,475)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>197,217</b>	<b>165,268</b>	<b>1,812,156</b>
<b>Increase of cash and cash equivalents due to share exchange</b>	<b>-</b>	<b>5,735</b>	<b>-</b>
<b>Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation</b>	<b>732</b>	<b>39</b>	<b>6,723</b>
<b>Cash and cash equivalents at end of year (Note 25)</b>	<b>¥ 145,659</b>	<b>¥ 197,217</b>	<b>\$ 1,338,404</b>

See accompanying notes.

## Notes to Consolidated Financial Statements

Kobe Steel, Ltd. and Consolidated Subsidiaries

Years ended March 31, 2020 and 2019

### 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Kobe Steel, Ltd. ("the Company") and its consolidated subsidiaries ("the Group") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which differ in certain significant respects from accounting principles generally accepted in other countries, including accounting principles generally accepted in the United States, or U.S. GAAP, and International Financial Reporting Standards, or IFRS. The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective country of domicile, with necessary adjustments to be in accordance with Japanese GAAP.

The accompanying consolidated financial statements have been restructured and translated into English with certain expanded disclosure from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements. The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2020, which was ¥108.83 to U.S.\$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

### 2. Summary of Significant Accounting Policies

#### (1) Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries, the management of which is controlled by the Company. For the year ended March 31, 2020, the accounts of 175 (177 in 2019) subsidiaries have been included in the consolidated financial statements. Intercompany transactions and accounts have been eliminated. Seventy-six (79 in 2019) consolidated subsidiaries are consolidated using a fiscal period ending December 31, which differs from that of the Company. Any material transactions or events occurring during the January 1 to March 31 period are adjusted for in these consolidated financial statements. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling shareholders, are evaluated using the fair value at the time the Company acquired the control of the respective subsidiary.

Investments in unconsolidated subsidiaries and affiliates over which the Company has significant influence, except for insignificant companies, are accounted for by the equity method. For the year ended March 31, 2020, 38 (40 in 2019) affiliates were accounted for by the equity method. The difference between the cost of an investment in a subsidiary and the equity in the net assets of the subsidiary at the date of acquisition, if considered significant, is amortized over the estimated number of years when the amortization period can be determined or over five years when it cannot. Where the difference is small, it is recognized as expense when incurred. When the Company's share of the net losses of an affiliate exceeds the adjusted cost of the investment, the Company discontinues applying the equity method and the investment is reduced to zero. Losses in excess of the amounts due from the investee are recorded in other payables when the losses are expected to be shared by the Company.

#### (2) Securities

The Group has no trading securities. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as accumulated other comprehensive income in net assets. Realized gains and losses on the sale of such securities are computed using moving average cost based on the carrying value. Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving average cost.

If the market value of equity securities issued by unconsolidated subsidiaries and affiliated companies or available-for-sale securities declines significantly, the securities are stated at fair market value, and the difference between the fair market value and the carrying amount is recognized as a loss in the period of the decline.

If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, the securities are written down to net asset value with a corresponding charge in the statement of operations in the event net asset value declines significantly. In these cases, the fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

#### (3) 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.

#### (4) Provision for Loss on Construction Contracts

To provide for future losses on construction contracts, mainly for steel castings and forgings as well as titanium products in the Iron & Steel Business and in the Machinery Business and Engineering Business, provision is made based on the estimated loss on construction contracts at the end of the fiscal year.

#### (5) Provision for Environmental Measures

For the cost of PCB waste treatment required by "Act on Special Measures Concerning Promotion of Proper Treatment of Polychlorinated Biphenyl (PCB) Wastes" and others, provision is made at an estimated amount at the end of the fiscal year.

#### (6) 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.

#### (7) Provision for Customer Compensation Expenses

For expenses related to the response to the misconduct related to the data falsification and/or fabrication of inspection results in which 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.

#### (8) Inventories

Inventories are valued at the lower of cost or net realizable value. Cost is determined principally by the average method in the Iron & Steel, Welding, Aluminum & Copper and Electric Power segments and by the specific identification method for finished goods and work in progress in the Machinery, Engineering, and Construction Machinery segments.

#### (9) Depreciation

Depreciation of tangible and intangible assets is provided principally by the straight-line method. The useful life of these assets is determined mainly by schedules in Japanese tax laws. Intangible assets include software for internal use, which is amortized over the estimated useful life of five years. Depreciation of leased assets under finance leases that do not transfer ownership of the lease assets is provided by the straight-line method with the lease term as the useful life.

#### (10) Income Taxes

The Company and its domestic consolidated subsidiaries apply deferred tax accounting to recognize the tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting purposes. Deferred taxes related to temporary differences between financial accounting and tax reporting are also recognized by certain foreign consolidated subsidiaries.

#### (11) Employees' Severance and Retirement Benefits

The Company and its domestic consolidated subsidiaries provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of plan assets. The Group attributes expected benefits to periods by the benefit formula basis. Prior service cost is recognized in expenses using the straight-line method over mainly 16 years, which is within the average of the estimated remaining service years of employees. Actuarial gains and losses are recognized in expenses using the straight-line method over mainly 18 years for those accrued in 2019, mainly 20 years for those accrued in 2018, 2017 and 2016, mainly 19 years for those accrued in 2015, mainly 18 years for those accrued in 2014, mainly 17 years for those accrued in 2013 and 2012, mainly 16 years for those accrued in 2011 and 2010, mainly 15 years for those accrued in 2009 and mainly 14 years for those accrued in 2008 and 2007, all of which are within the average of the estimated remaining service years of employees commencing with the following period. Prior service cost and actuarial differences that are yet to be recognized in profit or loss are recognized within accumulated other comprehensive income (Remeasurements of defined benefit plans, net of taxes) in net assets after adjusting for tax effects.

#### (12) Translation of Foreign Currencies

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".

#### (13) Basis for recognition of revenue and expenses

Revenue and expenses under construction contracts are recognized by applying the percentage of completion method when the outcome of the contract up to the end of the fiscal year can be estimated reliably (with the estimate of percentage of completion based on the cost-to-cost method), or when it cannot be estimated reliably, by applying the completed contract method.

#### (14) Derivatives

The Company and its domestic consolidated subsidiaries state derivative financial instruments at fair value and recognize changes in the fair value as gain or loss unless the derivative financial instrument was used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers recognition of gain or loss resulting from changes in the fair value of a derivative financial instrument until the related loss or gain on the corresponding hedged item is recognized ("deferred hedge" method). Deferred gains and losses on these derivative instruments are reported, net of applicable income taxes, as a separate component of accumulated other comprehensive income in net assets.

If foreign currency exchange contracts are used as hedges and meet certain hedging criteria, the hedged items are stated at the forward exchange rates ("assigning" method). Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed ("exceptional" method).

#### (15)Accounting for consumption taxes

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

#### (16) Application of consolidated taxation system

A consolidated taxation system is applied.

#### (17) Cash and Cash Equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

#### (18)Treatment of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system

With regards to the transition to the group tax sharing system instituted by the Act for Partial Amendment of the Income Tax Act, etc. (Act No. 8 of 2020), and the items for which the nonconsolidated taxation system has been reviewed in line with the transition to the group tax sharing system, in accordance with Paragraph 3 of Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (Practical Issues Task Force (PITF) No. 39, March 31, 2020), the Company and some of its domestic consolidated subsidiaries have applied the provisions of the pre-amendment tax law to deferred tax assets and liabilities, instead of the provisions of Paragraph 44 of Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018).

#### (19) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no impact on previously reported results of operations or retained earnings.

#### (20) Unapplied Accounting Standards

(Accounting Standard for Revenue Recognition, etc.) Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 31, 2020) and Implementation Guidance on Disclosures about Fair Value of Financial Instruments(ASBJ Implementation Guidance No. 19, March 31, 2020).

##### (a) Summary of the Standards

ASBJ announced these standards following the move of The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the United States, which jointly developed comprehensive accounting standards for revenue recognition and announced "Revenue from Contracts with Customers" (IFRS 15 in the IASB and Topic 606 in the FASB) in May 2014.

ASBJ developed these standards based on the basic principles of IFRS 15, because they considered that it enables the comparability of financial statements. They added some alternative approaches in consideration of domestic business practice, without damaging the comparability.

##### (b) Effective Dates

Effective from April 1, 2021 (scheduled)

##### (c) Effect of Application of the Standards

The Company and its consolidated subsidiaries are in the process of measuring the effect on the consolidated financial statements.

#### (Accounting Standard for Fair Value Measurement" etc.)

Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019), Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Implementation Guidance No. 31, July 4, 2019) and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Implementation Guidance No. 19, March 31, 2020).

##### (a) Summary of the Standards

ASBJ announced these standards following the move of the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the United States, which have provided detailed guidance of almost the same contents for fair value measurement (IFRS 13 Fair Value Measurement by IFRS and Topic 820 Fair Value Measurement of Accounting Standards Codification by U.S. GAAP).

ASBJ developed these standards based on basically all the policies of IFRS 13 because they considered that it enables the comparability of financial statements of companies in Japan and abroad. They added some alternative approaches in consideration of domestic business practice, without damaging the comparability.

##### (b) Effective Dates

Effective from April 1, 2021 (scheduled)

##### (c) Effect of Application of the Standards

The Company and its consolidated subsidiaries are currently determining the effect on the consolidated financial statements.

#### (Accounting Standard for Disclosure of Accounting Estimates)

Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020).

##### (a) Summary of the Standards

ASBJ announced this standard responding to demands for Japanese standards of "Sources of estimation uncertainty", which is required to disclose (IAS 1 "Presentation of Financial Statements" Paragraph 125 in International Accounting Standards Board (IASB) ). ASBJ developed this standard referring to IAS 1 Paragraph 125 and determined that each company judge the specific disclosure contents.

##### (b) Effective Dates

Effective from March 31, 2021 (scheduled)

### 3. Leases

#### Operating Leases

Future minimum lease payments as lessee under operating leases at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Due within one year	¥ 4,343	¥ 4,558	\$ 39,902
Due after one year	32,516	34,512	298,778
	¥ 36,859	¥ 39,070	\$ 338,680

Future minimum lease fees receivable as lessor under operating leases at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Due within one year	¥ 74	¥ -	\$ 680
Due after one year	158	-	1,449
	¥ 232	¥ -	\$ 2,129

### 4. Financial Instruments

#### Policies for Using Financial Instruments

The Group raises long-term funds mainly by bank loans and bonds based on its capital budget. For short-term capital needs, the Group raises funds mainly by bank loans and commercial paper in relation to its projected income and working capital.

The Group invests temporary excess cash in highly liquid assets. The Group enters into derivative contracts to hedge the risks discussed below and does not enter into derivative transactions for trading or speculative purposes.

#### Financial Instruments, Exposure to Risk and Policies and Processes for Managing Risk

Notes and accounts receivable are exposed to the credit risks of customers. In order to manage these risks, the Group regularly monitors whether due dates are properly met for each customer and evaluates the credit standing of major customers based on credit management policies. Accounts receivable denominated in foreign currencies are exposed to the risk of changes in foreign currency exchange rates. In order to hedge these risks, the Group utilizes forward currency exchange contracts.

Investments in securities consist principally of the listed shares of customers and are exposed to the risk of change in quoted market prices. Quoted market prices for securities are regularly monitored and reported to the Board of Directors, and management evaluates the effectiveness of holding the securities taking into consideration the customer relationship.

Notes and accounts payable and borrowings are exposed to liquidity risk. The Group makes adequate financial plans to manage the risk. Floating rate long-term borrowings are exposed to the additional risk of change in interest rates. In order to manage the risk, the Group enters into interest rate swap agreements. Furthermore, accounts payable denominated in foreign currencies are exposed to the risk of changes in foreign currency exchange rates. The Group uses forward currency exchange contracts, non-deliverable forward contracts and currency option contracts to manage the risk of currency fluctuation.

Derivative transactions comprise forward currency exchange contracts, non-deliverable forward contracts, currency option contracts, currency swaps, interest rate swap agreements and commodity forward contracts to hedge the risk of movement in the market value of aluminum and copper. The Group is also exposed to credit risk in the event of nonperformance by the counterparties to its derivative instruments. However, the Group does not expect any counterparties to fail to meet their obligations because of the high credit rating of the counterparties. The Group has established policies and controls to manage both market and credit risk, including using only highly rated banks and trading companies as counterparties, hedging exposed positions, limiting transaction types and amounts and reporting to management.

#### Supplemental Information on Fair Values

Fair values of financial instruments include values estimated by using reasonable methods of valuation as well as values based on quoted market prices. Estimates resulting from these methods are subjective in nature and involve uncertainties and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. In addition, the contracted amounts of the derivative transactions presented in Note 6 do not reflect the exposure to market risk or credit risk of the derivative instruments themselves.

#### Fair Value of Financial Instruments

The carrying amounts of the financial instruments included in the consolidated balance sheets and their fair values at March 31, 2020 and 2019 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2020			2019			2020
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference	Difference
Cash and deposits	¥ 146,045	¥ 146,045	¥ -	¥ 173,900	¥ 173,900	¥ -	\$ -
Notes and accounts receivable—trade	297,884	297,884	-	303,118	303,118	-	-
Investments in securities:							
Securities of affiliates	13,467	12,218	(1,249)	13,263	20,309	7,046	(11,479)
Available-for-sale securities	52,914	52,914	-	90,114	90,114	-	-
Notes and accounts payable—trade	(342,424)	(342,424)	-	(396,528)	(396,528)	-	-
Short-term borrowings and current portion of long-term debt	(162,069)	(165,870)	(3,801)	(116,383)	(116,498)	(115)	(34,923)
Bonds included in current portion of long-term debt	(30,215)	(30,196)	19	(22,215)	(22,229)	(14)	175
Bonds included in long-term debt	(81,623)	(81,552)	71	(111,838)	(111,962)	(124)	654
Long-term borrowings included in long-term debt	(632,733)	(609,799)	22,934	(509,930)	(502,722)	7,208	210,732
Derivative transactions:							
Hedge accounting not applied	(437)	(437)	-	538	538	-	-
Hedge accounting applied	(22,283)	(22,283)	-	(18,597)	(18,597)	-	-

Notes:

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.

3. Methods used to estimate the fair values are as follows:

#### Cash and deposits, notes and accounts receivable—trade

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

#### Investments in securities

The fair values are estimated based mainly on quoted market prices.

#### Notes and accounts payable—trade, short-term borrowings and current portion of long-term debt

The carrying amounts approximate fair values because of the short maturities of these instruments. The fair values of the current portion of long-term debt are estimated based on the present values of future cash flows using the current borrowing rate for similar debt of comparable maturity.

#### Bonds

The fair values are estimated based mainly on quoted market prices.

#### Long-term borrowings

The fair values of long-term borrowings are estimated based on the present value of future cash flows using the current rate for similar borrowings of comparable maturity.

#### Derivative transactions

See Note 6.

Financial instruments whose fair values are difficult to estimate at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of
	2020	2019	U.S. dollars (Note 1)
Non-listed equity securities	¥ 82,299	¥ 86,631	\$ 756,217

The aggregate annual maturities of financial assets at March 31, 2020 and 2019 were as follows:

#### Cash and deposits

	Millions of yen		Thousands of
	2020	2019	U.S. dollars (Note 1)
Due within 1 year	¥ 146,045	¥ 173,900	\$ 1,341,953
Due after 1 year through 5 years	-	-	-
Due after 5 years through 10 years	-	-	-
Due after 10 years	-	-	-
	¥ 146,045	¥ 173,900	\$ 1,341,953

#### Notes and accounts receivable—trade

	Millions of yen		Thousands of
	2020	2019	U.S. dollars (Note 1)
Due within 1 year	¥ 281,413	¥ 282,945	\$ 2,585,805
Due after 1 year through 5 years	16,471	19,993	151,349
Due after 5 years through 10 years	-	180	-
Due after 10 years	-	-	-
	¥ 297,884	¥ 303,118	\$ 2,737,154

#### Available-for-sale securities

	Millions of yen		Thousands of
	2020	2019	U.S. dollars (Note 1)
Due within 1 year	¥ 30,215	¥ 22,215	\$ 277,635
Due after 1 year through 2 years	20,573	30,215	189,033
Due after 2 years through 3 years	25,150	20,573	231,094
Due after 3 years through 4 years	900	25,150	8,270
Due after 4 years through 5 years	-	900	-
Due after 5 years	35,000	35,000	321,603
	¥ 111,838	¥ 134,053	\$ 1,027,635

The aggregate annual maturities of long-term borrowings at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of
	2020	2019	U.S. dollars (Note 1)
Due within 1 year	¥ 68,792	¥ 58,114	\$ 632,104
Due after 1 year through 2 years	87,893	69,741	807,615
Due after 2 years through 3 years	51,437	82,437	472,636
Due after 3 years through 4 years	112,984	38,493	1,038,167
Due after 4 years through 5 years	75,063	104,623	689,724
Due after 5 years	305,355	214,635	2,805,811
	¥ 701,524	¥ 568,043	\$ 6,446,057

The aggregate annual maturities of lease obligations at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of
	2020	2019	U.S. dollars (Note 1)
Due within 1 year	¥ 23,291	¥ 35,544	\$ 214,011
Due after 1 year through 2 years	697	657	6,405
Due after 2 years through 3 years	647	608	5,948
Due after 3 years through 4 years	148	560	1,361
Due after 4 years through 5 years	61	58	558
Due after 5 years	24	32	217
	¥ 24,868	¥ 37,459	\$ 228,500

#### 5. Securities

The following tables summarize available-for-sale securities at March 31, 2020 and 2019.

	Millions of yen						Thousands of
	2020		Difference	2019		Difference	U.S. dollars (Note 1)
	Carrying amount	Acquisition cost		Carrying amount	Acquisition cost		2020
<b>Available-for-sale securities</b>							
Securities with available carrying amount exceeding acquisition cost:							
Equity securities	¥ 16,728	¥ 8,788	¥ 7,940	¥ 48,246	¥ 25,294	¥ 22,952	\$ 72,964
Other	-	-	-	-	-	-	-
	16,728	8,788	7,940	48,246	25,294	22,952	72,964
Securities with available carrying amount not exceeding acquisition cost:							
Other securities:							
Equity securities	36,186	43,082	(6,896)	41,868	56,993	(15,125)	(63,369)
Other	-	-	-	-	-	-	-
	36,186	43,082	(6,896)	41,868	56,993	(15,125)	(63,369)
	¥ 52,914	¥ 51,870	¥ 1,044	¥ 90,114	¥ 82,287	¥ 7,827	\$ 9,595

Unlisted stocks and others (¥11,803 million (\$108,450 thousand) for the year ended March 31, 2020 and ¥12,357 million for the year ended March 31, 2019) are not included in the above table because they do not have market prices.

Sales of available-for-sale securities for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of
	2020	2019	U.S. dollars (Note 1)
Sales	¥ 23,036	¥ 1,302	\$ 211,674
Gains on sales	7,603	945	69,861
Losses on sales	(4)	-	(38)

The Company and the Group have recognized loss on valuation of investments in securities classified as other securities of ¥15,091 million (\$138,662 thousand) and securities of affiliates of ¥26 million (\$242 thousand) for the year ended March 31, 2020.

#### 6. Derivative Transactions

Derivative transactions for which hedge accounting is not applied

Forward currency exchange contracts and currency swaps outstanding at March 31, 2020 and 2019 were as follows:

	Millions of yen						Thousands of
	2020		Recognized gain (loss)	2019		Recognized gain (loss)	U.S. dollars (Note 1)
	Contracted amount	Over one year		Contracted amount	Over one year		2020
<b>Foreign currency exchange contracts</b>							
To sell foreign currencies:							
U.S. dollars	¥ 16,962	¥ -	¥ 25	¥ 8,955	¥ -	¥ 81	\$ 227
Others	5,981	-	(66)	5,743	-	68	(610)
To buy foreign currencies:							
U.S. dollars	11,894	-	(243)	13,206	-	77	(2,233)
Others	4,763	-	(128)	15,445	-	133	(1,167)
<b>Currency swaps</b>							
Receiving Thai baht							
Paying U.S. dollars	¥ -	¥ -	¥ -	¥ 178	¥ -	¥ 176	\$ -
			¥ (412)			¥ 535	

Notes:

- Foreign currency exchange contracts  
The fair values are estimated by multiplying the contracted foreign currency amount by the forward rate.
- Currency swaps  
The fair values are estimated by obtaining quotes from counterparty banks.

Commodity forward contracts outstanding at March 31, 2020 and 2019 were as follows:

	Millions of yen						Thousands of
	2020		Recognized gain (loss)	2019		Recognized gain (loss)	U.S. dollars (Note 1)
	Contracted amount	Over one year		Contracted amount	Over one year		2020
<b>Commodity forward contracts</b>							
To buy commodities	¥ 142	¥ -	¥ (25)	¥ 194	¥ -	¥ 3	\$ (234)
			¥ (25)			¥ 3	\$ (234)

Note: The fair values are estimated by multiplying the contracted volume by the commodity future price.

**Derivative transactions for which hedge accounting is applied**

Forward currency exchange contracts and currency options outstanding at March 31, 2020 and 2019 were as follows:

	Millions of yen						Thousands of
	2020			2019			U.S. dollars (Note 1)
	Contracted amount		Fair value	Contracted amount		Fair value	2020
	Over one year	Fair value	Over one year	Fair value	Fair value		
<b>Hedges for which the "deferred hedge" method is applied</b>							
<b>Foreign currency exchange contracts</b>							
To sell foreign currencies:							
U.S. dollars	¥ 33,286	¥ 6,225	¥ (446)	¥ 30,064	¥ 9,063	¥ (588)	\$ (4,100)
Others	15,541	2,648	168	5,463	2,298	13	1,544
To buy foreign currencies:							
U.S. dollars	5,217	570	88	4,142	560	56	807
Others	6,289	1,318	(135)	5,682	756	(106)	(1,241)

**Foreign currency options**

To sell foreign currency options:

Call							
U.S. dollars	-	-	-	225	-	(0)	-
	[ - ]			[ 1 ]			

To buy foreign currency options:

Put							
U.S. dollars	-	-	-	225	-	(0)	-
	[ - ]			[ 1 ]			

**Hedges for which the "assigning" method is applied**
**Foreign currency exchange contracts**

To sell foreign currencies:							
U.S. dollars	¥ 27,710	¥ 220	¥ -	¥ 35,748	¥ 622	¥ -	\$ -
Others	24,089	499	-	25,143	93	-	-
To buy foreign currencies:							
U.S. dollars	1,054	-	-	376	-	-	-
Others	773	-	-	1,422	-	-	-

Notes:

- Foreign currency exchange contracts and non-deliverable forward contracts  
The fair values are estimated by multiplying the contracted foreign currency amount by the forward rate.
- Foreign currency options  
The fair values are estimated by obtaining quotes from counterparty banks.
- Hedges for which the "assigning" method is applied  
For certain accounts receivable and accounts payable denominated in foreign currencies for which foreign currency exchange contracts are used to hedge foreign currency fluctuations, the fair values are included in the fair values of the hedged accounts receivable and accounts payable.
- Option premiums are presented below the contracted amount with brackets [ ].  
Foreign currency options are zero cost options in which option premiums are not paid or received.

Interest rate swap agreements outstanding at March 31, 2020 and 2019 were as follows:

	Millions of yen						Thousands of
	2020			2019			U.S. dollars (Note 1)
	Contracted amount		Fair value	Contracted amount		Fair value	2020
	Over one year	Fair value	Over one year	Fair value	Fair value		
<b>Hedges for which the "deferred hedge" method is applied</b>							
Interest rate swap agreements							
To receive floating and pay fixed rates	¥ 299,430	¥ 261,950	¥ (20,562)	¥ 299,430	¥ 299,430	¥ (18,820)	\$ (188,939)
<b>Hedges for which the "exceptional" method is applied</b>							
Interest rate swap agreements							
To receive floating and pay fixed rates	¥ 70,382	¥ 67,500	¥ -	¥ 69,022	¥ 60,382	¥ -	\$ -

Notes:

- The fair values are estimated by obtaining quotes from counterparty banks.
- Hedges for which the "exceptional" method is applied  
For certain long-term debt for which interest rate swap agreements are used to hedge the variable risk to interest, the fair values are included in the fair values of the long-term debt.

Commodity forward contracts outstanding at March 31, 2020 and 2019 were as follows:

	Millions of yen						Thousands of
	2020			2019			U.S. dollars (Note 1)
	Contracted amount		Fair value	Contracted amount		Fair value	2020
	Over one year	Fair value	Over one year	Fair value	Fair value		
<b>Hedges for which the "deferred hedge" method is applied</b>							
Commodity forward contracts							
To sell commodities	¥ 1,944	¥ -	¥ 248	¥ 2,076	¥ -	¥ (42)	\$ 2,275
To buy commodities	14,132	1,688	(1,643)	12,327	-	890	(15,095)

Note: The fair values are estimated by multiplying the contracted volume by the commodity future price.

**7. Short-Term Borrowings and Long-Term Debt**

Short-term borrowings at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of
	2020	2019	U.S. dollars
			2020
Bank loans (average rate: 1.49% in 2020 and 2.17% in 2019)	¥ 93,277	¥ 58,269	\$ 857,092

Long-term debt at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of
	2020	2019	U.S. dollars
			2020
0.04% to 1.23% yen bonds, due 2020 through 2025	¥ 111,838	¥ 134,053	\$ 1,027,635
Loans, principally from banks and insurance companies, due 2020 through 2036	701,524	568,043	6,446,057
	813,362	702,096	7,473,692
Less current portion	99,007	80,329	909,739
	¥ 714,355	¥ 621,767	\$ 6,563,953

The aggregate annual maturities of long-term debt at March 31, 2020 were as follows:

	Millions of yen		Thousands of
	2020	2019	U.S. dollars
			2020
Due within 1 year	¥ 99,007		\$ 909,739
Due after 1 year through 2 years	108,465		996,648
Due after 2 years through 3 years	76,587		703,731
Due after 3 years through 4 years	113,884		1,046,436
Due after 4 years through 5 years	75,063		689,724
Due after 5 years	340,356		3,127,414
	¥ 813,362		\$ 7,473,692

At March 31, 2020 and 2019, assets pledged as collateral for short-term borrowings and long-term debt were as follows:

	Millions of yen				Thousands of	
	2020	2019	2020	2019	U.S. dollars (Note 1)	2020
<b>Assets pledged as collateral:</b>						
Property, plant and equipment, net of accumulated depreciation	¥ 136,777	¥ [77,429]	¥ 29,515	¥ [-]	\$ 1,256,800	\$ [711,466]
Other assets	30,317	[15,684]	11,842	[-]	278,563	[144,118]
	¥ 167,094	¥ [93,113]	¥ 41,357	¥ [-]	\$ 1,535,363	\$ [855,584]

Secured short-term borrowings and long-term borrowings:	¥ 123,305	¥ [46,906]	¥ 37,439	¥ [-]	\$ 1,133,004	\$ [431,002]
	¥ 123,305	¥ [46,906]	¥ 37,439	¥ [-]	\$ 1,133,004	\$ [431,002]

Notes:

- Amounts in brackets [ ] indicate those related to the factory foundation, etc.

### 8. Provision for Loss on Construction Contracts

Inventories for construction contracts with anticipated losses and provision for loss on construction contracts were not offset. The inventories for the construction contracts for which the provision for loss on construction contracts were provided were ¥4,560 million (\$41,899 thousand) for the year ended March 31, 2020 and ¥3,874 million for the year ended March 31, 2019. These amounts were included in "Work-in-process."

### 9. Land Revaluation

In the years ended March 31, 2002 and 2001, land used for operations was revaluated by certain consolidated subsidiaries in accordance with the Land Revaluation Law.

The revaluation amount, net of related taxes, is shown as accumulated other comprehensive income in net assets.

The excess of the carrying amounts of the revalued land over the fair values at March 31, 2020 and 2019 were as follows:

Revaluation date	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2020	2019	2020	
March 31, 2001	¥ 1,825	¥ 1,359	\$ 16,765	
March 31, 2002	¥ (4,410)	¥ (4,405)	\$ (40,517)	
	¥ (2,585)	¥ (3,046)	\$ (23,752)	

### 10. Commitment Line

The unexercised portion of facilities based on commitment line contracts at March 31, 2020 and 2019 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2020	2019	2020	
Total commitment line available	¥ 156,268	¥ 162,928	\$ 1,435,891	
Less amount utilized	¥ 30,000	¥ 11,312	\$ 275,659	
	¥ 126,268	¥ 151,616	\$ 1,160,232	

### 11. Contingent Liabilities Regarding Notes and Loans Guaranteed

Contingent liabilities regarding notes and loans guaranteed at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2020	2019	2020	
Trade notes discounted	¥ 422	¥ 349	\$ 3,875	
Trade notes endorsed	¥ 99	¥ 681	\$ 906	
Guarantees of loans:				
Related parties	¥ 15,575	¥ 19,026	\$ 143,111	
Others	¥ 613	¥ 705	\$ 5,637	
	¥ 16,709	¥ 20,761	\$ 153,529	

Guarantees of loans include contingent guarantees and letters of awareness of ¥280 million (\$2,569 thousand) for the year ended March 31, 2020, of which ¥68 million (\$622 thousand) was covered by reassurances from other companies and ¥227 million for the year ended March 31, 2019, of which ¥84 million was 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 up 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 reassurances for these guarantees. The balances of the reassurances were ¥14,488 million (\$133,125 thousand) for the year ended March 31, 2020 and ¥16,274 million for the year ended March 31, 2019.

### 12. Contingent Liabilities Regarding Repurchase Obligations Accompanying Securitization of Receivables

Contingent liabilities regarding repurchase obligations accompanying securitization of receivables at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2020	2019	2020	
	¥ 3,538	¥ 4,439	\$ 32,508	

### 13. Net Assets

Net assets comprise stockholders' equity, accumulated other comprehensive income and non-controlling interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006. The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

The Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (of retained earnings) or as additional paid-in capital (of capital surplus), depending on the equity account charged upon the payment of such dividends, until the total aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, generally with a resolution of the shareholders' meeting, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit or be capitalized.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, however, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

### 14. Cost of Sales

Gain/Loss on the write-down of inventories included in the cost of sales was a ¥3,396 million (\$31,202 thousand) loss for the year ended March 31, 2020 and a ¥4,140 million gain for the year ended March 31, 2019.

The provision for loss on construction contracts included in the cost of sales was ¥13,101 million (\$120,377 thousand) for the year ended March 31, 2020 and ¥8,149 million for the year ended March 31, 2019.

### 15. Research and Development Expenses

Research and development expenses included in cost of sales and selling, general and administrative expenses were ¥35,891 million (\$329,788 thousand) for the year ended March 31, 2020 and ¥34,495 million for the year ended March 31, 2019.

### 16. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2020 and 2019 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2020	2019	2020	
Freight	¥ 54,813	¥ 54,911	\$ 503,658	
Employees' compensation	¥ 46,359	¥ 45,043	\$ 425,972	
Research and development expenses	¥ 18,765	¥ 17,821	\$ 172,425	
Welfare and legal welfare expenses	¥ 12,719	¥ 12,060	\$ 116,866	
Commission fees	¥ 12,629	¥ 9,634	\$ 116,047	
Rent expenses	¥ 10,623	¥ 9,872	\$ 97,610	
Travel expenses	¥ 7,368	¥ 7,604	\$ 67,703	
Depreciation	¥ 5,557	¥ 5,893	\$ 51,058	
Provision for bonuses	¥ 4,947	¥ 5,346	\$ 45,459	
Directors' salaries	¥ 3,946	¥ 4,025	\$ 36,255	
Others	¥ 43,508	¥ 46,406	\$ 399,784	
	¥ 221,234	¥ 218,615	\$ 2,032,837	

## 17. Loss on Impairment

The Company and the Group recorded loss on impairment of ¥49,982 million (\$459,266 thousand) on the following asset groups for the fiscal year ended March 31, 2020. The breakdown of loss on impairment is as follows: buildings and structures of ¥11,703 million (\$107,539 thousand), machinery and equipment of ¥29,918 million (\$274,908 thousand), land of ¥4,799 million (\$44,095 thousand), construction in progress of ¥2,867 million (\$26,340 thousand) and intangible assets of ¥695 million (\$6,384 thousand).

Use	Location and number	Type	Thousands of	
			Millions of yen 2020	U.S. dollars (Note 1) 2020
Assets for titanium business*	Takasago-shi, Hyogo Prefecture and another location 2 cases in total	Machinery and equipment, etc.	¥ 13,470	\$ 123,773
Assets for manufacturing steel castings and forgings	Takasago-shi, Hyogo Prefecture 1 case	Machinery and equipment, etc.	10,811	99,340
Assets for manufacturing aluminum forgings for suspensions (Japan)	Inabe-shi, Mie Prefecture 1 case	Machinery and equipment, etc.	6,763	62,143
Assets for manufacturing aluminum forgings for suspensions (United States)	Kentucky, United States 1 case	Machinery and equipment, etc.	6,607	60,714
Assets for manufacturing aluminum castings and forgings	Inabe-shi, Mie Prefecture 1 case	Machinery and equipment, etc.	4,293	39,447
Assets for other business, etc.	Chuo-ku, Kobe-shi and other locations 13 cases in total	Machinery and equipment, etc.	8,038	73,849
			¥ 49,982	\$ 459,266

\*Includes assets for manufacturing forged titanium products assets for manufacturing pure titanium and jointly used assets

The Company and the Group conduct grouping per business location for business assets to recognize loss on impairment in principle, while considering the status of ongoing management of profit and loss and cash-generating units. In addition, idle assets are grouped individually.

The recoverable value of an asset is measured based on its value in use, etc., which is obtained by discounting the future cash flows mainly using a discount rate of 6% to 10%.

The circumstances that led to the recognition of loss on impairment by each major asset group are as follows:

### (1) Assets for titanium business

Book values of ¥13,470 million (\$123,773 thousand) were reduced to respective recoverable values, and such reductions were recorded as loss on impairment of ¥13,470 million (\$123,773 thousand) under extraordinary losses due to the decrease in profitability resulting from equipment productivity continuously falling below expectations.

### (2) Assets for manufacturing steel castings and forgings

Book values of ¥22,607 million (\$207,729 thousand) were reduced to respective recoverable values, and such reductions were recorded as loss on impairment of ¥10,811 million (\$99,340 thousand) under extraordinary losses due to the decrease in profitability resulting from slumping demand for shipbuilding and other factors.

### (3) Assets for manufacturing aluminum forgings for suspensions (Japan)

Book values of ¥10,314 million (\$94,773 thousand) were reduced to respective recoverable values, and such reductions were recorded as loss on impairment of ¥6,763 million (\$62,143 thousand) under extraordinary losses due to the decrease in profitability resulting from productivity deterioration associated with changes in product mix.

### (4) Assets for manufacturing aluminum forgings for suspensions (United States)

Book values of ¥20,935 million (\$192,361 thousand) were reduced to respective recoverable values, and such reductions were recorded as loss on impairment of ¥6,607 million (\$60,714 thousand) under extraordinary losses due to the decrease in profitability resulting from the supply capacity decline associated with equipment troubles and the related cost increase.

### (5) Assets for manufacturing aluminum castings and forgings

Book values of ¥8,176 million (\$75,122 thousand) were reduced to respective recoverable values, and such reductions were recorded as loss on impairment of ¥4,293 million (\$39,447 thousand) under extraordinary losses due to the decrease in profitability resulting from productivity deterioration associated with changes in product mix.

(6) Assets for other business, etc.

Book values of ¥10,129 million (\$93,071 thousand) were reduced to respective recoverable values, and such reductions were recorded as loss on impairment of ¥8,038 million (\$73,849 thousand) under extraordinary losses due to the decrease in profitability resulting from the deterioration of the order environment and other factors.

The Company and the Group recorded loss on impairment of ¥13,925 million on the following asset groups for the fiscal year ended March 31, 2019.

The breakdown of loss on impairment is as follows: buildings and structures of ¥2,245 million, machinery and equipment of ¥3,840 million, land of ¥72 million, construction in progress of ¥1,197 million and intangible assets of ¥6,571 million.

Use	Location and number	Type	Millions of yen	
			2019	
Assets for industrial machinery business	Vasteras, Sweden 1 case	Goodwill and other intangible assets	¥	6,260
Assets for manufacturing forged titan products	Takasago-shi, Hyogo Prefecture 1 case	Machinery and equipment, etc.		5,905
Assets for other business, etc.	Moji-ku, Kitakyushu-shi and other locations 6 cases in total	Machinery and equipment, etc.		1,760
			¥	13,925

The Company and the Group conduct grouping per business location for business assets to recognize loss on impairment in principle, while considering the status of ongoing management of profit and loss and cash-generating units. In addition, idle assets are grouped individually.

In regard to the above, book values were reduced to respective recoverable values, and the reductions were recorded as loss on impairment of ¥13,925 million under extraordinary losses due to the decrease in profitability resulting from current declining performance.

The recoverable value of an asset is measured based on its value in use, etc., which is obtained by discounting the future cash flows mainly using a discount rate of 6% to 15%.

## 18. Gain Related to Subsidiary Conversion

Gain related to subsidiary conversion of ¥4,892 million for the year ended March 31, 2019 was a result of a net of ¥7,273 million of gain from negative goodwill and ¥2,381 million of loss on step acquisitions recorded for having Shinko Wire Company, Ltd. as a subsidiary.

## 19. Loss on Disaster

The ¥3,354 million for the year ended March 31, 2019 of loss on disaster was a result of a net of ¥5,098 million 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 ¥1,744 million of insurance income related to such loss.

## 20. Customer Compensation Expenses

The ¥2,587 million for the year ended March 31, 2019 of customer compensation expenses were expenses related to a response to the misconduct related to the data falsification or fabrication of inspection results in which 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 investigations carried out by customers, etc.

## 21. Environmental Expenses

The ¥2,154 million for the year ended March 31, 2019 of environmental expenses were 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.

## 22. Income Taxes

Significant components of the Group's deferred income tax assets and liabilities at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of
	2020	2019	U.S. dollars (Note 1) 2020
Deferred income tax assets:			
Net defined benefit liability	¥ 28,317	¥ 24,217	\$ 260,194
Tax loss carryforwards	25,691	18,296	236,067
Impairment loss	20,579	8,498	189,095
Unrealized profit	13,537	17,386	124,383
Allowance for doubtful accounts	10,645	11,217	97,815
Accrued bonuses to employees	6,433	6,953	59,107
Loss on write-down of inventories	6,330	5,209	58,165
Unrealized losses on hedging derivatives	6,093	5,092	55,982
Other	42,680	42,841	392,182
Total deferred income tax assets	160,305	139,709	1,472,990
Valuation allowance related to tax loss carryforwards	(15,965)	(13,393)	(146,699)
Valuation allowance related to total deductible temporary difference, etc.	(56,698)	(42,501)	(520,976)
Valuation allowance	(72,663)	(55,894)	(667,675)
Deferred income tax assets	87,642	83,815	805,315
Deferred income tax liabilities:			
Gain on return of assets from retirement benefit trust	8,030	8,030	73,782
Land revaluation	2,458	3,251	22,590
Unrealized gains on securities	2,239	6,255	20,571
Special tax purpose reserve	1,777	1,520	16,329
Other	13,228	16,600	121,544
Total deferred income tax liabilities	27,732	35,656	254,816
Net deferred income tax assets	¥ 59,910	¥ 48,159	\$ 550,499

Amount of tax loss carryforwards and related deferred tax assets by tax loss carryforwards for the year ended March 31, 2020 and 2019 were as follows:

Tax loss carryforwards (Note 1)	Millions of yen		Thousands of
	2020	2019	U.S. dollars (Note 1) 2020
Due within 1 year	3,229	1,933	29,674
Due after 1 year through 2 years	5,215	3,051	47,922
Due after 2 years through 3 years	1,967	4,572	18,072
Due after 3 years through 4 years	1,040	1,119	9,553
Due after 4 years through 5 years	508	1,511	4,665
Due after 5 years	13,732	6,110	126,181
	¥ 25,691	¥ 18,296	\$ 236,067

Valuation allowance	Millions of yen		Thousands of
	2020	2019	U.S. dollars (Note 1) 2020
Due within 1 year	(2,386)	(881)	(21,925)
Due after 1 year through 2 years	(4,731)	(2,219)	(43,476)
Due after 2 years through 3 years	(1,914)	(4,150)	(17,587)
Due after 3 years through 4 years	(984)	(986)	(9,040)
Due after 4 years through 5 years	(500)	(161)	(4,590)
Due after 5 years	(5,450)	(4,996)	(50,081)
	¥ (15,965)	¥ (13,393)	\$ (146,699)

Deferred tax assets	Millions of yen		Thousands of
	2020	2019	U.S. dollars (Note 1) 2020
Due within 1 year	843	1,052	7,749
Due after 1 year through 2 years	484	832	4,446
Due after 2 years through 3 years	53	422	485
Due after 3 years through 4 years	56	133	513
Due after 4 years through 5 years	8	1,350	75
Due after 5 years	8,282	1,114	76,100
	¥ 9,726	¥ 4,903	\$ 89,368

The reconciliation of the statutory tax rate and the effective tax rate for the years ended March 31, 2020 and 2019 were as follows:

	2020	2019
Aggregate statutory income tax rate in Japan	30.6 %	30.6 %
Nondeductible entertainment expenses	-	3.3
Exclusion of dividends received	-	(1.9)
Equity in income (loss) of equity method companies	-	(1.6)
Decrease in valuation allowance	-	(2.8)
Differences in normal tax rates of subsidiaries	-	(3.3)
Tax deduction	-	(6.8)
Other	-	3.9
Effective income tax rate	- %	21.4 %

The reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2020 was not disclosed because a loss before income taxes was recorded for the year.

Notes:

1. Figures for the tax loss carryforwards were the amounts multiplied by the effective statutory tax rate.

### 23. Consolidated Statements of Comprehensive Income

Other comprehensive income for the years ended March 31, 2020 and 2019 was as follows:

	Millions of yen		Thousands of
	2020	2019	U.S. dollars (Note 1)
			2020
Unrealized gains (losses) on securities:			
Unrealized gains (losses) arising during the period	¥ (14,779)	¥ (12,241)	\$ (135,801)
Less reclassification adjustment included in net income	8,000	(1,010)	73,513
	(6,779)	(13,251)	(62,288)
Tax benefit (expense)	1,429	3,993	13,139
	(5,350)	(9,258)	(49,149)
Unrealized losses on hedging derivatives:			
Unrealized losses arising during the period	(5,409)	(5,217)	(49,697)
Less reclassification adjustment included in net income	1,370	(121)	12,587
Acquisition adjustment	353	(77)	3,245
	(3,686)	(5,415)	(33,865)
Tax benefit (expense)	1,143	1,526	10,494
	(2,543)	(3,889)	(23,371)
Land revaluation differences, net of taxes:			
Unrealized losses arising during the period	-	-	-
Less reclassification adjustment included in net income	-	-	-
	-	-	-
Tax benefit (expense)	793	-	7,285
	793	-	7,285
Foreign currency translation adjustments:			
Translation adjustments arising during the period	(2,101)	(5,841)	(19,310)
Less reclassification adjustment included in net income	32	-	294
	(2,069)	(5,841)	(19,016)
Tax benefit (expense)	-	-	-
	(2,069)	(5,841)	(19,016)
Remeasurements of defined benefit plans:			
Unrealized gains (losses) arising during the period	(7,166)	(5,208)	(65,843)
Less reclassification adjustment included in net income	4,674	4,206	42,946
	(2,492)	(1,002)	(22,897)
Tax benefit (expense)	674	151	6,193
	(1,818)	(851)	(16,704)
Share of other comprehensive income related to equity method companies:			
Unrealized gains (losses) arising during the period	(2,679)	(3,359)	(24,615)
Less reclassification adjustment included in net income	43	(547)	397
	(2,636)	(3,906)	(24,218)
Other comprehensive income	¥ (13,623)	¥ (23,745)	\$ (125,173)

### 24. Consolidated Statements of Changes in Net Assets

Changes in the number of shares issued and outstanding during the years ended March 31, 2020 and 2019 were as follows:

	Number of shares
Common stock outstanding	
Balance at March 31, 2018	364,364,210
(No increase)	-
(No decrease)	-
Balance at March 31, 2019	364,364,210
(No increase)	-
(No decrease)	-
Balance at March 31, 2020	364,364,210

Changes in the number of shares of treasury stock outstanding during the years ended March 31, 2020 and 2019 were as follows:

	Number of shares
Treasury stock outstanding	
Balance at March 31, 2018	2,118,007
Increase due to purchase of odd-lot stock	9,155
Decrease due to BBT	(69,100)
Decrease due to sale of odd-lot stock	(450)
Decrease due to consolidation of shares	(1,667)
Balance at March 31, 2019	2,055,945
Increase due to purchase of odd-lot stock	7,341
Decrease due to BBT	(395,800)
Decrease due to sale of odd-lot stock	(537)
Balance at March 31, 2020	1,666,949

Amount of dividend payments during the year ended March 31, 2020 was as follows:

Decision	Kind of stock	Millions of yen /	Yen/	Record date	Operative date
		Thousands of U.S. dollars (Note 1)	U.S. dollars (Note 1)		
At the Board of Directors' meeting held on May 15, 2019	Common stock	¥3,641	¥10.0	31-Mar-19	31-May-19
		\$32,807	\$0.09		

There were no dividends for which the record date belongs to the year ended March 31, 2020 and the operative date is in the year ending March 31, 2021.

### 25. Consolidated Statements of Cash Flows

The reconciliation of cash and cash equivalents in the consolidated statements of cash flows and the consolidated balance sheets at March 31, 2020 and 2019 was as follows:

	Millions of yen		Thousands of
	2020	2019	U.S. dollars (Note 1)
Cash and deposits in the consolidated balance sheets	¥ 146,045	¥ 173,900	\$ 1,341,953
Time deposits due over three months	(386)	(183)	(3,548)
Certificates of deposit included in the securities account, etc.,	-	23,500	-
Cash and cash equivalents in the consolidated statements of cash flows	¥ 145,659	¥ 197,217	\$ 1,338,404

## 26. Related Party Transactions

Transactions of the Company with related parties for the year ended March 31, 2020 consisted of the following:

Category	Name	Paid-in capital	Content of business	Percentage of ownership	Millions of yen / thousands of U.S. dollars (Note 1)			
					Transactions		Resulting accounting balance	
					Description of transactions	Amount	Account	Amount
Affiliate	Shinsho Corporation	¥5,650 million	Trades iron and steel, nonferrous metals, machinery	13.33% directly and 1.04% indirectly (21.56%)	Sales of our products	¥201,266 \$1,849,360	Accounts receivable	¥12,071 \$110,920
					Purchases of raw materials and materials for equipment	¥326,697 \$3,001,898	Accounts payable	¥19,077 \$175,294
Affiliate	Kansai Coke and Chemicals Co., Ltd.	¥6,000 million	Produces and sells industrial chemical products such as coke	24.00% directly	Sales of coal	¥68,276 \$627,368	Accounts receivable	¥6,890 \$63,310
					Purchases of coke	¥80,380 \$738,584	Accounts payable	¥20,079 \$184,497

Transactions of the Company with related parties for the year ended March 31, 2019 consisted of the following:

Category	Name	Paid-in capital	Content of business	Percentage of ownership	Millions of yen			
					Transactions		Resulting accounting balance	
					Description of transactions	Amount	Account	Amount
Affiliate	Shinsho Corporation	¥5,650 million	Trades iron and steel, nonferrous metals, machinery	13.33% directly and 1.04% indirectly (21.55%)	Sales of our products	¥214,014	Accounts receivable	¥14,037
					Purchases of raw materials and materials for equipment	¥317,770	Accounts payable	¥20,988
Affiliate	Kansai Coke and Chemicals Co., Ltd.	¥6,000 million	Produces and sells industrial chemical products such as coke	24.00% directly	Sales of coal	¥76,113	Accounts receivable	¥8,646
					Purchases of coke	¥86,454	Accounts payable	¥20,410

### Notes:

- The terms and conditions applicable to the above transactions were determined by the negotiation considering the market trend.
- The above amounts of transactions do not include transactions which were eliminated in the consolidation process with consolidated subsidiaries via Shinsho Corporation.
- Consumption taxes were not included in the amount of the transactions but were included in the amount of the resulting account balances.
- The number in parentheses is the percentage of shareholders who agree with the Company when exercising voting rights.

## 27. Employees' Severance and Retirement Benefits

### Summary of Adopted Retirement Benefits

The Company and its domestic consolidated subsidiaries operate two defined benefit retirement plans which consist of unfunded lump-sum payment plans and funded non-contributory pension plans. Some unfunded lump-sum payment plans became funded as a result of contributions of securities to retirement benefit trusts. The Company and certain domestic consolidated subsidiaries operate contribution pension plans.

Net defined benefit asset or liability in the consolidated balance sheet for the years ended March 31, 2020 and 2019 consisted of the following:

### Defined Benefit Retirement Plans

(1) Changes in projected benefit obligation

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Balance at beginning of year	¥ 159,857	¥ 155,527	\$ 1,468,867
Service costs / benefits earned during the year	11,868	11,223	109,049
Interest cost on projected benefit obligation	345	339	3,173
Actuarial differences arising during the period	151	(258)	1,388
Unrecognized prior service cost arising during the period	-	4	-
Amount of payment of retirement benefits	(7,529)	(11,172)	(69,177)
Adjustment from the simplified method to the principle method	539	-	4,952
Increase (decrease) due to change in scope of consolidation	121	4,303	1,111
Other	41	(109)	377
Balance at end of year	¥ 165,393	¥ 159,857	\$ 1,519,740

(2) Changes in plan assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Balance at beginning of year	¥ 97,062	¥ 101,670	\$ 891,867
Expected return on plan assets	309	314	2,837
Actuarial differences arising during the period	(6,944)	(5,433)	(63,806)
Amount of contribution by the employer	1,884	1,884	17,316
Amount of payment of retirement benefits	(2,997)	(4,068)	(27,537)
Increase (decrease) due to change in scope of consolidation	-	2,816	-
Other	(12)	(121)	(114)
Balance at end of year	¥ 89,302	¥ 97,062	\$ 820,563

(3) Reconciliation from projected benefit obligations and plan assets to net defined benefit liability and asset

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Funded projected benefit obligation	¥ 125,296	¥ 124,276	\$ 1,151,296
Plan assets	(89,302)	(97,062)	(820,563)
Unfunded projected benefit obligation	35,994	27,214	330,733
Net of defined benefit liability and asset	40,097	35,580	368,444
	76,091	62,794	699,177
Net defined benefit liability	94,518	81,079	868,496
Net defined benefit asset	(18,427)	(18,285)	(169,319)
Net of defined benefit liability and asset	¥ 76,091	¥ 62,794	\$ 699,177

## (4) Breakdown of severance and retirement benefit expenses

	Millions of yen		Thousands of
	2020	2019	U.S. dollars (Note 1)
Service costs / benefits earned during the year	¥ 11,868	¥ 11,223	\$ 109,049
Interest cost on projected benefit obligation	345	339	3,173
Expected return on plan assets	(309)	(314)	(2,837)
Amortization of actuarial differences	3,818	3,357	35,085
Amortization of prior service cost	785	822	7,212
Adjustment from the simplified method to the principle method	539	-	4,952
Other	85	27	781
Severance and retirement benefit expenses on defined benefit retirement plans	¥ 17,131	¥ 15,454	\$ 157,415

## (5) Breakdown of remeasurements of defined benefit plans

	Millions of yen		Thousands of
	2020	2019	U.S. dollars (Note 1)
Prior service cost	¥ 785	¥ 818	\$ 7,212
Actuarial differences	(3,277)	(1,820)	(30,109)
Total	¥ (2,492)	¥ (1,002)	\$ (22,897)

## (6) Accumulated breakdown of remeasurements of defined benefit plans

	Millions of yen		Thousands of
	2020	2019	U.S. dollars (Note 1)
Unrecognized prior service cost	¥ 5,706	¥ 6,491	\$ 52,428
Unrecognized actuarial differences	21,766	18,489	199,999
Total	¥ 27,472	¥ 24,980	\$ 252,427

## (7) Plan assets

## (a) Breakdown of plan assets

	2020		2019	
		%		%
Stock	29	%	34	%
General account of insurance company	41		38	
Bonds	24		22	
Other	6		6	
Total	100	%	100	%

## (b) The method used to determine long-term expected rate of return

Current and target asset allocations and historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

## (8) Actuarial assumptions

The principal actuarial assumptions at March 31, 2020 and 2019 were as follows:

	2020	2019
Discount rates	mainly 0.0%	mainly 0.0%
Long-term expected rate of return	mainly 0.3%	mainly 0.3%

## 28. Segment Information

## (1) Overview of Reportable Segments

The reportable segments of the Group are defined as components for which separate financial information is available and reviewed regularly by the Board of Directors to decide how to allocate management resources and to evaluate operating performance.

The Company has business units based on products and services (a part of which is made by subsidiaries), and every business unit and subsidiary plans domestic and foreign global strategies to operate their business.

The Group consists of segments of business units and subsidiaries based on products and services. The number of reportable segments of the Group is seven, consisting of the six business units of the Company and its subsidiaries (Iron & Steel, Welding, Aluminum & Copper, Machinery, Engineering and Electric Power) and a business unit of Kobelco Construction Machinery, which is the subsidiary of the Company and its subsidiaries (Construction Machinery).

## The main products and services of the reportable segments are as follows:

Iron & Steel: steel wire rods and bars, steel plates, steel sheets, pig iron, steel castings and forgings, titanium and steel powder

Welding: welding materials, welding systems, high functional materials and related services

Aluminum & Copper: aluminum sheets and plates, aluminum extrusions and fabricated products, aluminum castings and forgings, copper strips and copper tubes

Machinery: tire and rubber machinery, plastic processing machinery, advanced technology equipment, metalworking machinery, nonstandard compressors, standard compressors, chemical and energy equipment, nuclear power equipment and related services

Engineering: ironmaking processes, iron ore-pelletizing system, nuclear power products, chemical weapons destruction services, water treatment products, cooling towers, waste treatment and recycling, steel structures and sabo dams, urban transit systems and upgrading of low-rank coal, process equipment and environmental analysis

Construction Machinery: construction equipment, construction recycling machinery, metal recycling machinery resource recycling machinery and forestry machinery, crawler cranes, wheel cranes, specialized base machines for civil engineering and foundation work and work vessels

Electric Power: power supply

Other: including Kobelco Research Institute (material analysis and testing, structural assessment, manufacture and sale of sputtering targets and other) and other businesses

## (2) Methods used to Calculate Sales, Income (Loss), Assets and Other Items of Reportable Segments

The accounting policies of the reportable segments are the same as those described in Note 2, "Summary of Significant Accounting Policies."

Profit (loss) of reportable segments is based on ordinary income (loss). Intersegment sales prices are based on prices applicable to transactions with third parties.

## (3) Information about Sales, Income (Loss), Assets and Other Items of Reportable Segments

	Millions of yen		Thousands of
	2020	2019	U.S. dollars (Note 1)
Sales to outside customers:			
Iron & Steel	¥ 694,674	¥ 723,240	\$ 6,383,111
Welding	82,642	83,320	759,365
Aluminum & Copper	332,735	358,332	3,057,387
Machinery	156,937	161,272	1,442,038
Engineering	137,804	149,370	1,266,233
Construction Machinery	360,796	385,964	3,315,227
Electric Power	75,678	76,129	695,382
Other Businesses	25,537	32,676	234,642
Total sales to outside customers	¥ 1,866,803	¥ 1,970,303	\$ 17,153,385
Intersegment sales:			
Iron & Steel	¥ 29,076	¥ 30,714	\$ 267,169
Welding	1,129	628	10,373
Aluminum & Copper	691	721	6,346
Machinery	9,003	10,216	82,728
Engineering	3,732	2,384	34,296
Construction Machinery	73	113	675
Electric Power	-	-	-
Other Businesses	8,134	9,388	74,738
Total intersegment sales	¥ 51,838	¥ 54,164	\$ 476,325
Total sales:			
Iron & Steel	¥ 723,750	¥ 753,954	\$ 6,650,280
Welding	83,771	83,948	769,738
Aluminum & Copper	333,426	359,053	3,063,733
Machinery	165,940	171,488	1,524,766
Engineering	141,536	151,754	1,300,529
Construction Machinery	360,869	386,077	3,315,902
Electric Power	75,678	76,129	695,382
Other Businesses	33,671	42,064	309,380
Total segment sales	1,918,641	2,024,467	17,629,710
Adjustment	3,033	1,567	27,867
Elimination	(51,838)	(54,164)	(476,325)
Consolidated net sales	¥ 1,869,836	¥ 1,971,870	\$ 17,181,252
Segment income (loss):			
Iron & Steel	¥ (21,304)	¥ 4,734	\$ (195,751)
Welding	2,924	3,627	26,869
Aluminum & Copper	(20,498)	(1,525)	(188,351)
Machinery	9,628	1,207	88,471
Engineering	5,764	6,564	52,960
Construction Machinery	7,530	25,577	69,195
Electric Power	8,954	(327)	82,277
Other Businesses	3,332	2,339	30,619
Total segment income (loss)	(3,670)	42,196	(33,711)
Adjustment	(4,410)	(7,567)	(40,532)
Consolidated ordinary income	¥ (8,080)	¥ 34,629	\$ (74,243)

		Millions of yen		Thousands of
		2020	2019	U.S. dollars (Note 1)
Assets:				2020
	Iron & Steel	¥ 964,861	¥ 973,254	\$ 8,865,765
	Welding	79,630	78,543	731,694
	Aluminum & Copper	334,844	335,052	3,076,763
	Machinery	184,787	171,963	1,697,940
	Engineering	139,006	137,382	1,277,273
	Construction Machinery	341,043	358,700	3,133,723
	Electric Power	251,683	123,239	2,312,624
	Other Businesses	54,875	57,053	504,230
	Total segment assets	2,350,729	2,235,186	21,600,012
	Adjustment	60,463	149,787	555,568
	Total	¥ 2,411,192	¥ 2,384,973	\$ 22,155,580
Depreciation:				2020
	Iron & Steel	¥ 56,284	¥ 55,720	\$ 517,177
	Welding	2,428	2,244	22,311
	Aluminum & Copper	15,551	14,763	142,888
	Machinery	5,676	6,161	52,157
	Engineering	1,898	2,044	17,436
	Construction Machinery	12,904	12,338	118,570
	Electric Power	7,700	5,882	70,748
	Other Businesses	1,206	1,680	11,088
	Total segment depreciation	103,647	100,832	952,375
	Adjustment	1,700	1,758	15,618
	Total	¥ 105,347	¥ 102,590	\$ 967,993
Amortization of goodwill:				2020
	Iron & Steel	¥ -	¥ -	\$ -
	Welding	73	73	674
	Aluminum & Copper	-	-	-
	Machinery	87	202	798
	Engineering	3	24	24
	Construction Machinery	-	-	-
	Electric Power	-	-	-
	Other Businesses	-	-	-
	Total segment amortization of goodwill	163	299	1,496
	Adjustment	(3)	447	(24)
	Total	¥ 160	¥ 746	\$ 1,472
Interest income:				2020
	Iron & Steel	¥ 131	¥ 108	\$ 1,201
	Welding	346	333	3,183
	Aluminum & Copper	193	175	1,770
	Machinery	80	20	736
	Engineering	341	455	3,129
	Construction Machinery	2,638	2,149	24,237
	Electric Power	6	6	55
	Other Businesses	1	10	15
	Total segment interest income	3,736	3,256	34,326
	Adjustment	(535)	(540)	(4,913)
	Total	¥ 3,201	¥ 2,716	\$ 29,413
Interest expense:				2020
	Iron & Steel	¥ 3,699	¥ 3,605	\$ 33,985
	Welding	31	19	288
	Aluminum & Copper	2,665	2,191	24,489
	Machinery	320	248	2,943
	Engineering	52	55	477
	Construction Machinery	2,333	3,276	21,434
	Electric Power	1,554	598	14,280
	Other Businesses	56	91	512
	Total segment interest expense	10,710	10,083	98,408
	Adjustment	(1,523)	(929)	(13,994)
	Total	¥ 9,187	¥ 9,154	\$ 84,414
Equity in income (loss) of equity method companies:				2020
	Iron & Steel	¥ 3,747	¥ 3,725	\$ 34,433
	Welding	29	36	263
	Aluminum & Copper	(234)	(297)	(2,154)
	Machinery	140	423	1,282
	Engineering	382	303	3,511
	Construction Machinery	83	82	761
	Electric Power	-	-	-
	Other Businesses	2,133	1,753	19,606
	Total segment equity in income (loss) of equity method companies	6,280	6,025	57,702
	Adjustment	(321)	(161)	(2,943)
	Total	¥ 5,959	¥ 5,864	\$ 54,759
Investments in equity method companies:				2020
	Iron & Steel	¥ 56,325	¥ 53,929	\$ 517,555
	Welding	1,285	1,322	11,810
	Aluminum & Copper	32,512	35,923	298,742
	Machinery	732	1,336	6,728
	Engineering	1,893	1,294	17,397
	Construction Machinery	832	252	7,646
	Electric Power	-	-	-
	Other Businesses	23,172	22,819	212,916
	Total segment investments in equity method companies	116,751	116,875	1,072,794
	Adjustment	(1,817)	(1,412)	(16,704)
	Total	¥ 114,934	¥ 115,463	\$ 1,056,090
Capital expenditures:				2020
	Iron & Steel	¥ 55,247	¥ 58,811	\$ 507,647
	Welding	2,653	2,382	24,378
	Aluminum & Copper	34,331	28,139	315,451
	Machinery	4,811	4,140	44,204
	Engineering	1,810	2,731	16,634
	Construction Machinery	13,548	13,532	124,491
	Electric Power	123,549	20,136	1,135,250
	Other Businesses	1,448	3,301	13,299
	Total segment capital expenditures	237,397	133,172	2,181,354
	Adjustment	2,420	300	22,236
	Total	¥ 239,817	¥ 133,472	\$ 2,203,590

Notes:

Details about adjustments at March 31, 2020 and 2019 were as follows:

#### Segment sales

Sales of companies that do not belong to any segment are included in "Adjustment."

#### Segment income (loss)

	Millions of yen		Thousands of
	2020	2019	U.S. dollars (Note 1)
Companywide profit (loss)	¥ (294)	¥ (5,236)	\$ (2,704)
Other adjustments	(4,116)	(2,331)	(37,828)
Total	¥ (4,410)	¥ (7,567)	\$ (40,532)

Companywide profit (loss) is mainly financial profit or loss which is not allocated to reportable segments and other businesses.

Other adjustments are mainly intersegment transactions.

#### Assets

	Millions of yen		Thousands of
	2020	2019	U.S. dollars (Note 1)
Companywide assets	¥ 248,221	¥ 300,374	\$ 2,280,814
Other adjustments	(187,758)	(150,587)	(1,725,246)
Total	¥ 60,463	¥ 149,787	\$ 555,568

Companywide assets are mainly investments in securities which are not allocated to reportable segments or other businesses.

Other adjustments is mainly intersegment transactions.

#### Depreciation

Adjustment is related mainly to the assets of administrative departments which are not allocated to reportable segments or other businesses.

#### Interest income

Adjustment is related mainly to financial assets which are not allocated to reportable segments or other businesses.

#### Interest expense

Adjustment is related mainly to financial liabilities which are not allocated to reportable segments or other businesses.

#### Equity in income (loss) of equity method companies

Adjustment is related mainly to the income (loss) of affiliates which is not allocated to reportable segments or other businesses.

#### Investments in equity method companies

Adjustment is related mainly to intersegment transactions.

#### Capital expenditures

Adjustment is related mainly to the assets of administrative departments which are not allocated to reportable segments or other businesses.

#### Related Information

##### (1) Information by Geographic Area

(a) Net sales

	Millions of yen		Thousands of
	2020	2019	U.S. dollars (Note 1)
Japan	¥ 1,215,982	¥ 1,255,709	\$ 11,173,225
China	160,933	193,716	1,478,760
Others	492,921	522,445	4,529,268
Total	¥ 1,869,836	¥ 1,971,870	\$ 17,181,253

(b) Property, plant and equipment by geographic location

Substantially all of the Group's property, plant and equipment is located in Japan.

##### (2) Information by Major Customer

Net sales

	Millions of yen		Thousands of
	2020	2019	U.S. dollars (Note 1)
Shinsho Corporation	¥ 262,540	¥ 275,602	\$ 2,412,388

##### (3) Impairment Loss by Reportable Segments

	Millions of yen		Thousands of
	2020	2019	U.S. dollars (Note 1)
Impairment loss	¥ 24,968	¥ 5,905	\$ 229,422
	-	-	-
	19,283	720	177,181
	2,622	6,260	24,096
	-	-	-
	41	84	379
	-	-	-
	-	-	-
	3,068	956	28,187
Total segment impairment loss	49,982	13,925	459,265
Adjustment	-	-	-
Total	¥ 49,982	¥ 13,925	\$ 459,265

##### (4) Amortization and Balance of Goodwill by Reportable Segments

	Millions of yen		Thousands of
	2020	2019	U.S. dollars (Note 1)
Amortization of goodwill	¥ -	¥ -	\$ -
	73	73	674
	-	-	-
	87	202	798
	3	24	24
	-	-	-
	-	-	-
	-	-	-
	-	-	-
Total segment Amortization of goodwill	163	299	1,496
Adjustment	(3)	447	(24)
Total	¥ 160	¥ 746	\$ 1,472
Balance at the end of the period	¥ -	¥ -	\$ -
	562	636	5,167
	-	-	-
	409	-	3,757
	10	447	91
	-	-	-
	-	-	-
	-	-	-
Total segment balance of goodwill	981	1,083	9,015
Adjustment	(10)	(447)	(91)
Total	¥ 971	¥ 636	\$ 8,924

**(5) Gain from Negative Goodwill by Reportable Segments**

No gain on negative goodwill was recognized for the year ended March 31, 2020.

By making Shinko Wire Company, Ltd. ("Shinko Wire"), Kobelco Spring Wire (Foshan) Co., Ltd., and 9 other companies subsidiaries of the Company through the acquisition of shares, the Company recognized ¥7,273 million of negative goodwill for the year ended March 31, 2019 in the Iron & Steel Segment.

**29. Net Income (Loss) Per Share**

The basis of calculating net income (loss) per share for the years ended March 31, 2020 and 2019 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net income (loss) attributable to owners of the parent	Weighted average number of shares	Net income (loss) per share	Net income (loss) per share
For the year ended March 31, 2020				
Net loss attributable to common stockholders	¥ (68,008)	362,601	¥ (187.55)	\$ (1.72)
For the year ended March 31, 2019				
Net income attributable to common stockholders	¥ 35,940	362,295	¥ 99.20	\$ 0.91

**Notes:**

- Diluted net income per share is not presented for the fiscal years ended March 31, 2020 and 2019 as potential common stock did not exist.
- The shares held by the Board Benefit Trust (BBT) are recorded under net assets as treasury stock.  
In calculating net income (loss) per share, the number of shares of treasury stock excluded from the weighted-average number of shares issued during the fiscal year includes the number of shares held by the BBT (857 thousand of shares for the year ended March 31, 2020 and 1,171 thousand of shares for the year ended March 31, 2019).

**30. Additional Information****Introduction of Board Benefit Trust for Directors (BBT)**

The Company introduced a stock remuneration plan, a "Board Benefit Trust (BBT)," to more clearly link the remuneration 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 to encourage the Directors to contribute to the improvement of the medium- to long-term business performance and the enhancement of 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 Practical Issues Task Force (PITF) No. 30, March 26, 2015).

**(a) 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 and the cash equivalent to the amount converted from the market price of the Company's Shares (hereinafter the "Company's Shares, etc.") 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.

**(b) Kobe Steel stock remaining in the Trust**

The Company's stock remaining in the trust is posted as treasury stock as part of net assets based on the book value (excluding amounts for incidental expenses).

The corresponding treasury stock's book value was ¥681 million (\$6,259 thousand) for 758 thousand shares for the year ended March 31, 2020 and ¥1,037 million for 1,154 thousand shares for the year ended March 31, 2019.

**Change in reportable segments**

The Group consists of segments of business units and subsidiaries based on products and services. The reportable segments of the Group consist of the six units of the Company and its subsidiaries (Iron & Steel, Welding, Aluminum & Copper, Machinery, Engineering and Electric Power) and a unit of Kobelco Construction Machinery, which is the subsidiary of the Company and its subsidiaries (Construction Machinery).

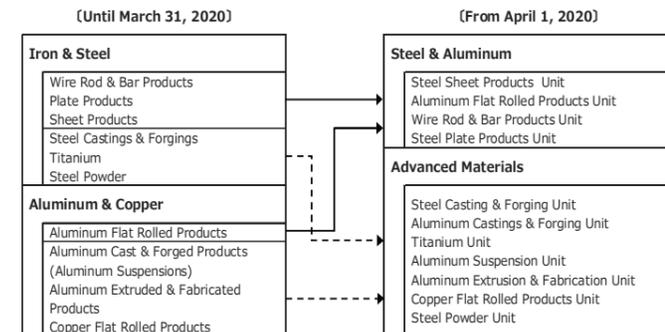
From the fiscal year ended March 31, 2021, the Company will change reportable segments and will reorganize "Iron & Steel" and "Aluminum & Copper" into "Steel & Aluminum" and "Advanced Materials" focusing on materials and parts (Please see the chart below).

Due to this reorganization, in fiscal year ended March 31, 2021, the reportable segments will become "Steel & Aluminum", "Advanced Materials", "Welding", "Machinery", "Engineering", "Construction Machinery" and "Electric Power".

The information about sales, income (loss), assets and other items of reportable segments of the Company and its consolidated subsidiaries for the fiscal year ended March 31, 2020 under the new segment classification are summarized as follows:

**Note:**

Due to this reorganization, the Company will introduce a business unit system for each product. "Steel & Aluminum" will consist of 4 units and "Advanced Materials" will consist of 7 units.

**Information about Sales, Income (Loss), Assets and Other Items of Reportable Segments****Information about Sales, Income (Loss), Assets and Other Items of Reportable Segments**

		Thousands of	
		Millions of yen	U.S. dollars (Note 1)
		2020	2020
Sales to outside customers:	Steel & Aluminum	¥ 740,922	\$ 6,808,074
	Advanced Materials	286,487	2,632,424
	Welding	82,642	759,365
	Machinery	156,937	1,442,038
	Engineering	137,804	1,266,233
	Construction Machinery	360,796	3,315,227
	Electric Power	75,678	695,382
	Other Businesses	25,537	234,642
	Total sales to outside customers	¥ 1,866,803	\$ 17,153,385
Intersegment sales:	Steel & Aluminum	¥ 39,314	\$ 361,235
	Advanced Materials	10,641	97,780
	Welding	1,129	10,373
	Machinery	9,003	82,728
	Engineering	3,732	34,296
	Construction Machinery	73	675
	Electric Power	-	-
	Other Businesses	8,134	74,738
	Total intersegment sales	¥ 72,026	\$ 661,825
Total sales:	Steel & Aluminum	¥ 780,236	\$ 7,169,309
	Advanced Materials	297,128	2,730,204
	Welding	83,771	769,738
	Machinery	165,940	1,524,766
	Engineering	141,536	1,300,529
	Construction Machinery	360,869	3,315,902
	Electric Power	75,678	695,382
	Other Businesses	33,671	309,380
	Total segment sales	¥ 1,938,829	\$ 17,815,210
	Adjustment	3,033	27,867
	Elimination	(72,026)	(661,825)
	Consolidated net sales	¥ 1,869,836	\$ 17,181,252
Segment income (loss):	Steel & Aluminum	¥ (16,510)	\$ (151,702)
	Advanced Materials	(25,287)	(232,354)
	Welding	2,924	26,869
	Machinery	9,628	88,471
	Engineering	5,764	52,960
	Construction Machinery	7,530	69,195
	Electric Power	8,954	82,277
	Other Businesses	3,332	30,619
	Total segment income (loss)	(3,665)	(33,665)
	Adjustment	(4,415)	(40,578)
	Consolidated ordinary income	¥ (8,080)	\$ (74,243)

		Thousands of	
		Millions of yen	U.S. dollars (Note 1)
		2020	2020
Assets:	Steel & Aluminum	¥ 1,022,415	\$ 9,394,606
	Advanced Materials	277,152	2,546,649
	Welding	79,630	731,694
	Machinery	184,787	1,697,940
	Engineering	139,006	1,277,273
	Construction Machinery	341,043	3,133,723
	Electric Power	251,683	2,312,624
	Other Businesses	54,875	504,230
	Total segment assets	2,350,591	21,598,739
	Adjustment	60,601	556,841
	Total	¥ 2,411,192	\$ 22,155,580
Depreciation:	Steel & Aluminum	¥ 56,006	\$ 514,612
	Advanced Materials	15,794	145,130
	Welding	2,428	22,311
	Machinery	5,676	52,157
	Engineering	1,898	17,436
	Construction Machinery	12,904	118,570
	Electric Power	7,700	70,748
	Other Businesses	1,206	11,088
	Total segment depreciation	103,612	952,052
	Adjustment	1,735	15,941
	Total	¥ 105,347	\$ 967,993
Amortization of goodwill:	Steel & Aluminum	¥ -	\$ -
	Advanced Materials	-	-
	Welding	73	674
	Machinery	87	798
	Engineering	3	24
	Construction Machinery	-	-
	Electric Power	-	-
	Other Businesses	-	-
	Total segment amortization of goodwill	163	1,496
	Adjustment	(3)	(24)
	Total	¥ 160	\$ 1,472
Interest income:	Steel & Aluminum	¥ 311	\$ 2,851
	Advanced Materials	13	120
	Welding	346	3,183
	Machinery	80	736
	Engineering	341	3,129
	Construction Machinery	2,638	24,237
	Electric Power	6	55
	Other Businesses	1	15
	Total segment interest income	3,736	34,326
	Adjustment	(535)	(4,913)
	Total	¥ 3,201	\$ 29,413
Interest expense:	Steel & Aluminum	¥ 4,430	\$ 40,699
	Advanced Materials	1,934	17,775
	Welding	31	288
	Machinery	320	2,943
	Engineering	52	477
	Construction Machinery	2,333	21,434
	Electric Power	1,554	14,280
	Other Businesses	56	512
	Total segment interest expense	10,710	98,408
	Adjustment	(1,523)	(13,994)
	Total	¥ 9,187	\$ 84,414
Equity in income (loss) of equity method companies:	Steel & Aluminum	¥ 3,171	\$ 29,139
	Advanced Materials	342	3,140
	Welding	29	263
	Machinery	140	1,282
	Engineering	382	3,511
	Construction Machinery	83	761
	Electric Power	-	-
	Other Businesses	2,133	19,606
	Total segment equity in income (loss) of equity method companies	6,280	57,702
	Adjustment	(321)	(2,943)
	Total	¥ 5,959	\$ 54,759
Investments in equity method companies:	Steel & Aluminum	¥ 79,628	\$ 731,676
	Advanced Materials	9,209	84,621
	Welding	1,285	11,810
	Machinery	732	6,728
	Engineering	1,893	17,397
	Construction Machinery	832	7,646
	Electric Power	-	-
	Other Businesses	23,172	212,916
	Total segment investments in equity method companies	116,751	1,072,794
	Adjustment	(1,817)	(16,704)
	Total	¥ 114,934	\$ 1,056,090

		Thousands of	
		Millions of yen	U.S. dollars (Note 1)
		2020	2020
Capital expenditures:	Steel & Aluminum	¥ 62,447	\$ 573,802
	Advanced Materials	27,099	249,000
	Welding	2,653	24,378
	Machinery	4,811	44,204
	Engineering	1,810	16,634
	Construction Machinery	13,548	124,491
	Electric Power	123,549	1,135,250
	Other Businesses	1,448	13,299
	Total segment capital expenditures	237,365	2,181,058
	Adjustment	2,452	22,532
	Total	¥ 239,817	\$ 2,203,590

Notes:

Details about adjustments at March 31, 2020 were as follows:

**Segment sales**

Sales of companies that do not belong to any segment are included in "Adjustment."

**Segment income (loss)**

		Thousands of	
		Millions of yen	U.S. dollars (Note 1)
		2020	2020
	Companywide profit (loss)	¥ (294)	\$ (2,704)
	Other adjustments	(4,121)	(37,874)
	Total	¥ (4,415)	\$ (40,578)

Companywide profit (loss) is mainly financial profit or loss which is not allocated to reportable segments and other businesses.

Other adjustments are mainly intersegment transactions.

**Assets**

		Thousands of	
		Millions of yen	U.S. dollars (Note 1)
		2020	2020
	Companywide assets	¥ 248,391	\$ 2,282,372
	Other adjustments	(187,790)	(1,725,531)
	Total	¥ 60,601	\$ 556,841

Companywide assets are mainly investments in securities which are not allocated to reportable segments or other businesses.

Other adjustments are mainly intersegment transactions.

**Depreciation**

Adjustment is related mainly to the assets of administrative departments which are not allocated to reportable segments or other businesses.

**Interest income**

Adjustment is related mainly to financial assets which are not allocated to reportable segments or other businesses.

**Interest expense**

Adjustment is related mainly to financial liabilities which are not allocated to reportable segments or other businesses.

**Equity in income (loss) of equity method companies**

Adjustment is related mainly to the income (loss) of affiliates which is not allocated to reportable segments or other businesses.

**Investments in equity method companies**

Adjustment is related mainly to intersegment transactions.

**Capital expenditures**

Adjustment is related mainly to the assets of administrative departments which are not allocated to reportable segments or other businesses.

**The affect of the novel coronavirus infection as a premise for making accounting estimates**

With sluggishness generally seen in the economic activity, the current world economic conditions worsen significantly both in Japan and overseas, affected by the outbreak of the novel coronavirus infection. The Company and the Group's businesses are directly and indirectly being affected and production and orders have clearly dropped.

Though it is difficult to estimate how the novel coronavirus infection will spread and when the outbreak will end, the Company and the Group assume that the affect on production and orders will generally decrease and end in fiscal 2020 (based on currently available information) and make accounting estimates such as recoverability of deferred tax assets, etc., accordingly.



## Independent auditor's report

To the Board of Directors of Kobe Steel, Ltd.:

### Opinion

We have audited the accompanying consolidated financial statements of Kobe Steel, Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of operations, comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and the audit and supervisory committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit and supervisory committee are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit and supervisory committee regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit and supervisory committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

## Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

## Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Daisuke Harada  
Designated Engagement Partner  
Certified Public Accountant

Hiroyuki Matano  
Designated Engagement Partner  
Certified Public Accountant

Sakurako Ohtsuki  
Designated Engagement Partner  
Certified Public Accountant

KPMG AZSA LLC

Osaka Office, Japan

June 24, 2020

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.