

Consolidated Balance Sheets

Kobe Steel, Ltd. and Consolidated Subsidiaries

At March 31, 2026 and 2025

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Current assets			
Cash and deposits (Note 28)	¥ 189,233	¥ 220,122	\$ 1,183,594
Notes receivable - trade	18,401	22,492	115,096
Accounts receivable - trade	365,741	346,900	2,287,597
Contract assets (Note 25)	48,541	35,039	303,609
Merchandise and finished goods	256,049	265,939	1,601,508
Work in process (Note 8)	169,624	172,738	1,060,949
Raw materials and supplies	264,552	283,426	1,654,691
Other	79,432	75,030	496,825
Allowance for doubtful accounts	(5,102)	(5,435)	(31,913)
Total current assets	1,386,473	1,416,256	8,671,960
Non-current assets			
Property, plant and equipment			
Buildings and structures, net	276,047	286,849	1,726,589
Machinery, equipment and vehicles, net	504,752	535,498	3,157,072
Tools, furniture and fixtures, net	18,675	16,978	116,810
Land (Note 9)	164,364	166,797	1,028,051
Construction in progress	57,060	41,004	356,898
Total property, plant and equipment	1,020,901	1,047,127	6,385,423
Intangible assets			
Software	45,887	37,572	287,014
Other	11,793	12,597	73,761
Total intangible assets	57,680	50,170	360,776
Investments and other assets			
Investment securities (Note 5)	215,448	214,144	1,347,563
Long-term loans receivable	1,591	1,990	9,956
Deferred tax assets (Note 23)	39,605	48,040	247,721
Retirement benefit asset (Note 30)	49,739	27,147	311,106
Other	116,261	108,174	727,179
Allowance for doubtful accounts	(22,517)	(21,998)	(140,841)
Total investments and other assets	400,129	377,498	2,502,685
Total non-current assets	1,478,711	1,474,796	9,248,884
Total assets	¥ 2,865,184	¥ 2,891,053	\$ 17,920,845

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Current liabilities			
Notes and accounts payable - trade	¥ 363,837	¥ 365,655	\$ 2,275,688
Short-term borrowings (Note 7)	143,700	190,327	898,800
Commercial papers	26,000	-	162,621
Current portion of bonds payable (Note 7)	10,000	35,000	62,546
Lease liabilities (Note 7)	6,005	31,846	37,561
Accounts payable - other	57,655	50,553	360,615
Income taxes payable	11,866	10,630	74,222
Contract liabilities (Note 25)	78,987	75,541	494,043
Provision for bonuses	27,133	27,576	169,714
Provision for product warranties	19,680	20,527	123,092
Provision for loss on construction contracts (Note 8)	5,795	6,080	36,248
Provision for dismantlement related expenses	1,939	1,227	12,133
Provision for loss on joint venture agreement	395	138	2,476
Other	97,855	99,445	612,059
Total current liabilities	850,853	914,551	5,321,825
Non-current liabilities			
Bonds payable (Note 7)	135,000	130,000	844,383
Long-term borrowings (Note 7)	428,373	479,192	2,679,342
Lease liabilities (Note 7)	20,838	19,966	130,337
Deferred tax liabilities (Note 23)	19,483	11,245	121,862
Deferred tax liabilities for land revaluation (Note 23)	3,256	3,256	20,365
Retirement benefit liability (Note 30)	45,067	58,187	281,884
Provision for dismantlement related expenses	8,351	10,119	52,233
Provision for loss on joint venture agreement	6,741	7,553	42,165
Other	16,766	19,920	104,871
Total non-current liabilities	683,877	739,441	4,277,444
Total liabilities	1,534,731	1,653,993	9,599,270
Net assets			
Shareholders' equity			
Share capital (Notes 13)	250,930	250,930	1,569,489
Capital surplus (Note 13)	123,920	119,861	775,086
Retained earnings (Note 13)	689,112	632,946	4,310,186
Treasury shares (Note 27)	(1,288)	(2,010)	(8,059)
Total shareholders' equity	1,062,674	1,001,727	6,646,703
Accumulated other comprehensive income (Note 26)			
Valuation difference on available-for-sale securities	48,959	47,885	306,229
Deferred gains or losses on hedges	4,534	(743)	28,364
Revaluation reserve for land (Note 9)	4,959	4,958	31,021
Foreign currency translation adjustment	74,870	69,485	468,291
Remeasurements of defined benefit plans	65,325	38,483	408,588
Total accumulated other comprehensive income	198,650	160,069	1,242,495
Non-controlling interests	69,128	75,262	432,376
Total net assets	1,330,453	1,237,059	8,321,575
Total liabilities and net assets	¥ 2,865,184	¥ 2,891,053	\$ 17,920,845

See accompanying notes.

Consolidated Statements of Income

Kobe Steel, Ltd. and Consolidated Subsidiaries

Years ended March 31, 2026 and 2025

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Net sales (Notes 14 and 25)	¥ 2,436,581	¥ 2,555,031	\$ 15,240,063
Cost of sales (Note 15 and 16)	(2,033,357)	(2,131,813)	(12,718,020)
Gross profit	403,224	423,218	2,522,043
Selling, general and administrative expenses (Note 17)			
Transportation costs	(64,625)	(62,275)	(404,210)
Salaries and allowances	(60,404)	(57,501)	(377,814)
Research and development expenses (Note 16)	(25,963)	(25,121)	(162,393)
Other	(122,347)	(119,598)	(765,245)
Total selling, general and administrative expenses	(273,340)	(264,496)	(1,709,663)
Operating profit	129,883	158,721	812,380
Non-operating income			
Interest income	3,144	2,630	19,668
Dividend income	5,183	5,155	32,420
Seconded employees' reimbursement	3,914	3,211	24,484
Foreign exchange gains	2,954	-	18,480
Share of profit of entities accounted for using equity method	14,120	11,774	88,318
Other	12,848	27,451	80,366
Total non-operating income	42,166	50,223	263,739
Non-operating expenses			
Interest expenses	(13,404)	(13,911)	(83,842)
Seconded employees' salaries	(10,691)	(9,731)	(66,869)
Foreign exchange losses	-	(4,080)	-
Dismantlement expenses	(11,454)	(8,744)	(71,643)
Other	(15,163)	(15,283)	(94,842)
Total non-operating expenses	(50,713)	(51,752)	(317,197)
Ordinary profit	121,336	157,192	758,921
Extraordinary income			
Gain on sale of investment securities (Note 18)	21,867	-	136,775
Gain on sale of non-current assets (Note 19)	7,072	5,459	44,234
Gain on bargain purchase (Note 24,31)	-	16,708	-
Gain on step acquisitions	-	313	-
Total extraordinary income	28,939	22,481	181,009
Extraordinary losses			
Impairment losses (Note 20)	(24,158)	(27,401)	(151,105)
Loss on sale of shares of subsidiaries and associates (Note 21)	(5,243)	-	(32,798)
Dismantlement related expenses (Note 22)	-	11,180	-
Total extraordinary losses	(29,402)	(38,581)	(183,903)
Profit before income taxes	120,873	141,091	756,027
Income taxes (Note 23)			
Income taxes - current	(22,222)	(34,150)	(138,996)
Income taxes - deferred	(817)	13,858	(5,110)
Total income taxes	(23,039)	(20,292)	(144,107)
Profit	97,833	120,799	611,919
Profit attributable to non-controlling interests	4,115	618	25,742
Profit attributable to owners of parent	¥ 93,717	¥ 120,180	\$ 586,176

See accompanying notes.

Consolidated Statements of Comprehensive Income

Kobe Steel, Ltd. and Consolidated Subsidiaries

Years ended March 31, 2026 and 2025

	Millions of yen		Thousands of U.S. dollars (Note 1)			
	2026	2025	2026			
Profit	¥	97,833	¥	120,799	\$	611,919
Other comprehensive income						
Valuation difference on available-for-sale securities		1,266		(21,709)		7,919
Deferred gains or losses on hedges		5,266		6,165		32,937
Revaluation reserve for land		-		(92)		-
Foreign currency translation adjustment		6,003		25,697		37,552
Remeasurements of defined benefit plans, net of tax		27,078		10,900		169,364
Share of other comprehensive income of entities accounted for using equity method		1,043		(1,070)		6,528
Total other comprehensive income (Note 26)		40,658		19,890		254,303
Comprehensive income	¥	138,491	¥	140,689	\$	866,222
Comprehensive income						
Comprehensive income attributable to owners of parent	¥	132,297	¥	137,704	\$	827,482
Comprehensive income attributable to non-controlling interests		6,193		2,985		38,740

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Kobe Steel, Ltd. and Consolidated Subsidiaries

Years ended March 31, 2026 and 2025

Millions of yen					
	Share capital (Notes 13)		Capital surplus (Note 13)		Retained earnings (Note 13)
					Treasury shares (Note 27)
Balance at April 1, 2024	¥	250,930	¥	116,325	¥ 548,951
Dividends of surplus					(35,646)
Profit attributable to owners of parent					120,180
Purchase of treasury shares					(800)
Disposal of treasury shares					(0)
Change in ownership interest of parent due to transactions with non-controlling interests			3,407		
Change of scope of consolidation and equity method					(196)
Change in shares of parent owned by consolidated subsidiaries and entities accounted for using equity method			128		481
Reversal of revaluation reserve for land					(343)
Net changes in items other than shareholders' equity					
Total changes during period		-	3,536		83,994
Balance at April 1, 2025	¥	250,930	¥	119,861	¥ 632,946
Dividends of surplus					(37,549)
Profit attributable to owners of parent					93,717
Share exchanges			658		3,185
Purchase of treasury shares					(3,164)
Disposal of treasury shares			0		730
Change in ownership interest of parent due to transactions with non-controlling interests			3,365		
Change in shares of parent owned by entities accounted for using equity method			35		70
Change in treasury shares arising from change in equity in entities accounted for using equity method					(99)
Reversal of revaluation reserve for land					(1)
Net changes in items other than shareholders' equity					
Total changes during period		-	4,059		56,166
Balance at March 31, 2026	¥	250,930	¥	123,920	¥ 689,112
					(1,288)

Millions of yen

	Valuation difference on available-for-sale securities (Note 26)	Deferred gains or losses on hedges (Note 26)	Revaluation reserve for land (Notes 9 and 26)	Foreign currency translation adjustment (Note 26)	Remeasurements of defined benefit plans (Note 26)	Non-controlling interests	Total
Balance at April 1, 2024	¥ 70,610	¥ (6,911)	¥ 4,707	¥ 45,950	¥ 27,845	¥ 70,784	¥ 1,127,346
Dividends of surplus							(35,646)
Profit attributable to owners of parent							120,180
Purchase of treasury shares							(800)
Disposal of treasury shares							156
Change in ownership interest of parent due to transactions with non-controlling interests							3,407
Change of scope of consolidation and equity method							(196)
Change in shares of parent owned by subsidiaries, etc.							609
Reversal of revaluation reserve for land							(343)
Net changes in items other than shareholders' equity	(22,725)	6,167	251	23,534	10,638	4,478	22,345
Total changes during period	(22,725)	6,167	251	23,534	10,638	4,478	109,713
Balance at April 1, 2025	¥ 47,885	¥ (743)	¥ 4,958	¥ 69,485	¥ 38,483	¥ 75,262	¥ 1,237,059
Dividends of surplus							(37,549)
Profit attributable to owners of parent							93,717
Share exchanges							3,843
Purchase of treasury shares							(3,164)
Disposal of treasury shares							730
Change in ownership interest of parent due to transactions with non-controlling interests							3,365
Change in shares of parent owned by entities accounted for using equity method							105
Change in treasury shares arising from change in equity in entities accounted for using equity method							(99)
Reversal of revaluation reserve for land							(1)
Net changes in items other than shareholders' equity	1,074	5,278	1	5,384	26,841	(6,134)	32,446
Total changes during period	1,074	5,278	1	5,384	26,841	(6,134)	93,393
Balance at March 31, 2026	¥ 48,959	¥ 4,534	¥ 4,959	¥ 74,870	¥ 65,325	¥ 69,128	¥ 1,330,453

Thousands of U.S. dollars (Note 1)

	Share capital (Notes 13)	Capital surplus (Note 13)	Retained earnings (Note 13)	Treasury shares (Note 27)
Balance at April 1, 2025	\$ 1,569,489	\$ 749,698	\$ 3,958,881	\$ (12,572)
Dividends of surplus			(234,863)	
Profit attributable to owners of parent			586,176	
Share exchanges		4,116		19,921
Purchase of treasury shares				(19,793)
Disposal of treasury shares		0		4,570
Change in ownership interest of parent due to transactions with non-controlling interests		21,051		
Change in shares of parent owned by entities accounted for using equity method		219		439
Change in treasury shares arising from change in equity in entities accounted for using equity method				(625)
Reversal of revaluation reserve for land			(9)	
Net changes in items other than shareholders' equity				
Total changes during period	-	25,388	351,304	4,512
Balance at March 31, 2026	\$ 1,569,489	\$ 775,086	\$ 4,310,186	\$ (8,059)

Thousands of U.S. dollars (Note 1)

	Valuation difference on available-for-sale securities (Note 26)	Deferred gains or losses on hedges (Note 26)	Revaluation reserve for land (Notes 9 and 26)	Foreign currency translation adjustment (Note 26)	Remeasurements of defined benefit plans (Note 26)	Non-controlling interests	Total
Balance at April 1, 2025	\$ 299,506	\$ (4,653)	\$ 31,015	\$ 434,609	\$ 240,704	\$ 470,746	\$ 7,737,427
Dividends of surplus							(234,863)
Profit attributable to owners of parent							586,176
Share exchanges							24,038
Purchase of treasury shares							(19,793)
Disposal of treasury shares							4,571
Change in ownership interest of parent due to transactions with non-controlling interests							21,051
Change in shares of parent owned by entities accounted for using equity method							659
Change in treasury shares arising from change in equity in entities accounted for using equity method							(625)
Reversal of revaluation reserve for land							(9)
Net changes in items other than shareholders' equity	6,722	33,017	6	33,681	167,883	(38,370)	202,941
Total changes during period	6,722	33,017	6	33,681	167,883	(38,370)	584,147
Balance at March 31, 2026	\$ 306,229	\$ 28,364	\$ 31,021	\$ 468,291	\$ 408,588	\$ 432,376	\$ 8,321,575

See accompanying notes.

Consolidated Statements of Cash Flows

Kobe Steel, Ltd. and Consolidated Subsidiaries

Years ended March 31, 2026 and 2025

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Cash flows from operating activities:			
Profit before income taxes	¥ 120,873	¥ 141,091	\$ 756,027
Depreciation	123,948	122,439	775,258
Increase (decrease) in retirement benefit liability	8,170	8,417	51,106
Interest and dividend income	(8,328)	(7,785)	(52,089)
Interest expenses	13,404	13,911	83,842
Loss (gain) on sale of investment securities	(22,752)	(2,429)	(142,311)
Loss (gain) on sale of shares of subsidiaries and associates	5,243	(0)	32,798
Share of loss (profit) of entities accounted for using equity method	(14,120)	(11,774)	(88,318)
Loss (gain) on sale of property, plant and equipment	(7,040)	(5,111)	(44,036)
Loss on retirement of property, plant and equipment	3,138	3,763	19,629
Impairment losses	24,158	27,401	151,105
Gain on bargain purchase	-	(16,708)	-
Loss (gain) on step acquisitions	-	(313)	-
Increase (decrease) in provision for dismantlement related expenses	(1,056)	9,357	(6,608)
Increase (decrease) in provision for loss on joint venture agreement	(554)	(1,553)	(3,470)
Decrease (increase) in trade receivables	(25,932)	25,686	(162,197)
Net decrease (increase) in lease receivables and investments in leases	(2,686)	322	(16,804)
Decrease (increase) in inventories	19,965	(11,201)	124,880
Increase (decrease) in trade payables	(4,690)	(84,330)	(29,339)
Increase (decrease) in accrued consumption taxes	(5,193)	(12,719)	(32,481)
Decrease (increase) in accounts receivable-other	3,353	4,844	20,974
Increase (decrease) in deposits received	(4,884)	14,284	(30,551)
Other, net	(6,284)	(5,058)	(39,309)
Subtotal	218,732	212,534	1,368,104
Interest and dividends received	20,137	17,908	125,956
Interest paid	(13,685)	(13,872)	(85,596)
Income taxes paid	(23,501)	(68,309)	(146,995)
Net cash provided by (used in) operating activities	201,683	148,261	1,261,468
Cash flows from investing activities:			
Purchase of property, plant and equipment and intangible assets	(124,435)	(113,266)	(778,306)
Proceeds from sale of property, plant and equipment and intangible assets	10,682	4,898	66,814
Purchase of investment securities	(2,636)	(4,731)	(16,488)
Proceeds from sale of investment securities	32,239	2,289	201,650
Purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 28)	-	(7,352)	-
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	105	-	662
Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation (Note 28)	10,094	637	63,140
Decrease (increase) in short-term loans receivable	171	(505)	1,074
Long-term loan advances	(226)	(178)	(1,418)
Proceeds from collection of long-term loans receivable	633	4,545	3,962
Other, net	(289)	(210)	(1,808)
Net cash provided by (used in) investing activities	¥ (73,659)	¥ (113,873)	\$ (460,717)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	¥ (13,199)	¥ (49,091)	\$ (82,559)
Proceeds from issuance of commercial papers	26,000	-	162,621
Proceeds from long-term borrowings	58,475	73,735	365,746
Repayments of long-term borrowings	(144,969)	(126,101)	(906,740)
Proceeds from issuance of bonds	15,000	50,000	93,820
Redemption of bonds	(35,000)	-	(218,914)
Repayments of finance lease liabilities	(29,834)	(8,822)	(186,604)
Proceeds from sale and leaseback transactions	5,665	3,692	35,435
Purchase of treasury shares	(3,164)	(801)	(19,793)
Dividends paid	(37,468)	(35,568)	(234,355)
Dividends paid to non-controlling interests	(2,105)	(2,546)	(13,171)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(1,765)	(2,647)	(11,040)
Proceeds from disposal of treasury shares of subsidiaries	-	1,922	-
Other, net	(43)	0	(272)
Net cash provided by (used in) financing activities	(162,410)	(96,227)	(1,015,827)
Effect of exchange rate change on cash and cash equivalents	3,542	7,844	22,154
Net increase (decrease) in cash and cash equivalents	(30,844)	(53,995)	(192,922)
Cash and cash equivalents at beginning of period	219,872	278,728	1,375,236
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	-	(4,860)	-
Cash and cash equivalents at end of period (Note 28)	¥ 189,028	¥ 219,872	\$ 1,182,313

See accompanying notes.

Notes to Consolidated Financial Statements

Kobe Steel, Ltd. and Consolidated Subsidiaries

Years ended March 31, 2026 and 2025

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, 2026, which was ¥159.88 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, 2026, the accounts of 163 (169 in 2025) subsidiaries have been included in the consolidated financial statements. Intercompany transactions and accounts have been eliminated.

74 (77 in 2025) 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, 2026, 30 (35 in 2025) 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 otherwise, over five years when it cannot. When the difference is immaterial, it is recognized as expense when incurred.

(2) Securities

The Group has no trading securities. Equity securities issued by subsidiaries and associated 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 associated 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 associated companies not accounted for by 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) Derivatives

The Company and its 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).

(4) Inventories

Cost basis, determined by the average method for inventories in the Steel & Aluminum Business, Advanced Materials Business (except for cast forged steel products), Welding Business and Electric Power Business, and by the specific identification method for cast forged steel products in the Advanced Materials Business and inventories in the Machinery Business, Engineering Business and Construction Machinery Business (the book value on the balance sheets may be written down to market value due to decline in the profitability).

(5) Depreciation and amortization method of significant depreciable assets

Depreciation of tangible and amortization of intangible assets are 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 leased assets is provided by the straight-line method with the lease term as the useful life.

(6) 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.

(7) Provision for bonuses

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

(8) Provision for product warranties

To provide for after-sales, after-construction and delivery warranty cost payments, which are mainly for steel castings and forgings as well as titanium products in the Advanced Materials Business, Machinery Business, and Engineering Business, provision is estimated at the end of the year based on the actual warranty cost to sales ratio in the past, plus specifically estimated amount for certain individual cases.

(9) Provision for Loss on Construction Contracts

To provide for future losses on construction contracts, mainly for steel castings and forgings in the Advanced Materials Business, Machinery Business and Engineering Business, provision is made based on an estimated loss on construction contracts outstanding at the end of the year.

(10) Provision for dismantlement related expenses

In relation to the dismantlement and removal of equipment at the Kakogawa Works to secure land for the transformation of the production structure, provision is made based on the estimated expenses expected to arise therefrom at the end of the year.

(11) Provision for loss on joint venture agreement

To expand the automotive aluminum panel business in China and respond to the CO₂ reduction needs of automakers, Kobelco Baosteel Automotive Aluminum Rolled Products Co., Ltd., a joint venture with Baoshan Iron & Steel Co., Ltd. and Baowu Aluminum Technology Co., Ltd., was established in January 2025.

The Group is advancing a shift to a business model that completes the entire process from procurement of base material to manufacturing and sales of aluminum panels within China. Accordingly, the volume of base material purchased from Ulsan Aluminum, Ltd. is expected to decrease. However, under the joint venture agreement with Novelis Korea Ltd., the Group is obliged to bear a certain proportion of the amount equivalent to fixed costs regardless of the purchase volume of the base material. As it is expected that the fixed costs would exceed the amount commensurate with the purchase volume, provision is made based on an estimated amount of such excess at the end of the year.

(12) Employees' Severance and Retirement Benefits

In determining retirement benefit obligations, the benefit formula basis is adopted as the attribution method of the projected retirement benefit obligations up to the current consolidated fiscal year.

Prior service costs are primarily amortized using the straight-line method over the average remaining service period of employees when the costs arise.

Actuarial differences are primarily allocated using the straight-line method over the average remaining service period of employees when the differences arise, and are recognized as expenses from the fiscal year following the year in which they arise.

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

(13) Basis for recognition of revenue and expenses

The Group applies the following five steps with respect to recognition of revenue.

Step 1: Identify a contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when or as the performance obligations are satisfied

In relation to recognition of revenue from contracts with customers, the nature of the principal performance obligations for major businesses of the Group and the typical timing of the satisfaction of those performance obligations (i.e., the typical timing of revenue recognition) are as follows.

Revenues from the materials business (steel and aluminum, advanced materials, and welding) are primarily from product sales; revenues from the machinery business (machinery, engineering, and construction machinery) are primarily from product sales, construction contracts, and provision of services; and revenues from the electric power business are primarily from the supply of electric power.

(a) Performance obligations satisfied at a point in time

For sales of products, in principle, revenue is recognized at the time of delivery of the product since control of the product is transferred to the customer and the performance obligation is satisfied at that time. However, if the period from the time of shipment to the time when control of the product is transferred to the customer is a normal period of time, control of the product is deemed to be transferred to the customer at the time of shipment, and revenue is recognized at the time of shipment. For the provision of services, the performance obligation is satisfied when the services are provided, and revenue is recognized at that time. For supply of electric power, the performance obligation is satisfied when the electric power is supplied, and the Company recognizes revenue based on the amount of electric power supplied to the customer, as measured by meter readings taken on the contractually specified measurement dates.

(b) Performance obligations satisfied over a certain period of time

For construction contracts, the Company primarily estimates the progress toward the satisfaction of performance obligations to be provided to the customer and recognizes revenue based on such progress. Since the accrual of cost is an appropriate measure of the degree of progress of construction, the degree of progress is calculated as the ratio of the cumulative actual cost incurred to the estimated total cost. The consideration for a transaction is received primarily in stages during the contract period, separately from the satisfaction of performance obligations, and the remaining amount is received after a specified period of time has elapsed following the satisfaction of the performance obligations. For the provision of services, revenue is recognized based on a percentage of the total amount of services transferred.

Revenue is measured at the amount of consideration promised in the contract with the customer, less discounts, rebates, etc. If the consideration promised in the contract with the customer includes variable consideration such as a discount, the Company includes an estimate of the variable consideration in the transaction price only to the extent that it is highly unlikely that a significant reversal in the amount of cumulative revenue recognized will occur when the uncertainty associated with the variable consideration is subsequently resolved. The consideration for the transaction is generally received within approximately one year of the satisfaction of the performance obligation and does not include a significant financial component.

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

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rates at 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 at 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" and "Non-controlling interests" under net assets.

(15) Principal method for hedge accounting**A. Method for hedge accounting**

Deferred hedge method is applied.

Allocation method is applied to monetary receivables and payables denominated in foreign currencies that are specifically covered by foreign currency exchange contracts and qualify for such assigning.

Exceptional method is applied to interest rate swaps that meet specific matching criteria and qualify for such accounting.

B. Hedging instruments and hedged items**(a) Hedging instruments**

Foreign currency exchange contracts, interest rate swap contracts, commodity forward contracts, and non-deliverable forward (NDF)

(b) Hedged items

Assets and liabilities exposed to losses from market fluctuations related to foreign exchange rates, interest rates and trading of base metal such as aluminum (including those expected from forecasted transactions).

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

The Group uses hedge transactions to reduce the risks from market fluctuations and do not enter into hedge transactions for speculative purposes.

The Company assesses the hedge effectiveness based on its internal rules, which are in accordance with Japanese GAAP.

The consolidated subsidiaries assess the hedge effectiveness in accordance with similar internal rules through the Company's responsible divisions or the subsidiary's own responsible divisions.

(16) Method for amortization of goodwill

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

(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) Method for recording deferred assets

Bond issuance costs are recognized at cost at the time of expenditure.

(19) Reclassifications

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

(20) Significant accounting estimates

Impairment of long-lived assets

Regarding assets or asset groups, if the Group determines that there is an impairment indicator, such as recurring operating losses from operating activities, the Group compares the total undiscounted future cash flows expected to be generated from the assets or asset groups with their carrying amounts and assesses whether or not an impairment loss should be recognized. As a result, if the total undiscounted future cash flows expected to be generated from the assets or asset groups are below the carrying amounts, the Group recognizes an impairment loss. In measuring an impairment loss, the recoverable amount is determined as the higher of value in use or net selling price.

Details of impairment loss recognized in the consolidated financial statements are described in Note 20, "Impairment Losses", and the carrying amounts of long-lived assets and the amounts of impairment losses were as follows.

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2026	2025	2026	
Property, plant and equipment	¥ 1,020,901	¥ 1,047,127	\$ 6,385,423	
Intangible assets	57,680	50,170	360,776	
Total carrying amount of long-lived assets	¥ 1,078,582	¥ 1,097,298	\$ 6,746,199	
Impairment losses	¥ 24,158	27,401	\$ 151,105	

Among the asset groups for which impairment losses were recognized for the year ended March 31, 2026, the principal asset group was as follows.

< Aluminum rolled products >

Regarding long-lived assets used in the Company's aluminum rolled products business, the Group determined that there was an impairment indicator, as operating losses have persisted primarily due to delays in expanding sales of automotive panel materials and delays in passing increased procurement costs on to sales prices. The Group then assessed the recoverability of the asset group and, as the total undiscounted future cash flows expected to be generated from the asset group were below the carrying amount, recognized an impairment loss for the year ended March 31, 2026.

The recoverable amount is measured based on value in use, which is calculated as the present value of future cash flows. Future cash flows are estimated taking into consideration of uncertainty and are based on business plans prepared by management, incorporating key assumptions such as sales volumes based on market forecasts, cost reductions through the promotion of business restructuring, and optimization of production systems.

The carrying amounts of long-lived assets after recognition of impairment losses and the amounts of impairment losses for the asset group were as follows.

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2026	2025	2026	
Property, plant and equipment	¥ 12,097	¥ 34,984	\$ 75,666	
Intangible assets	1,205	3,017	7,543	
Total carrying amount of long-lived assets	¥ 13,303	¥ 38,001	\$ 83,209	
Impairment losses	¥ 20,985	-	\$ 131,256	

If there are significant changes to the assumptions underlying these estimates, such as a large divergence between the assumptions used at the time the estimates were made and actual results, which results in the underperformance of future cash flows, the Group may recognize additional impairment losses in the following consolidated fiscal year.

(21) Accounting standards issued but not yet effective

(Accounting Standards for Leases)

Accounting Standard for Leases (ASBJ Statement No. 34, September 13, 2024) and Implementation Guidance on Accounting Standard for Leases (ASBJ Guidance No. 33, September 13, 2024), etc.

(1) Overview

As part of efforts by the Accounting Standards Board of Japan (ASBJ) to align Japanese accounting standards with international standards, a new lease accounting standard has been developed that requires lessees to recognize assets and liabilities for all leases.

This standard is based on a single accounting model similar to IFRS 16, but instead of adopting all provisions of IFRS 16, it incorporates only the key requirements. The aim is to establish a simplified and user-friendly lease accounting standard that enables the use of IFRS 16 in individual financial statements without requiring significant adjustments. Under this standard, lessees are required to apply a single accounting model in which depreciation of right-of-use assets and interest expense on lease liabilities are recognized for all leases, regardless of whether they are classified as finance leases or operating leases, consistent with IFRS 16.

(2) Scheduled Date of Application

The standard is scheduled to be effective from the beginning of the fiscal year ending March 31, 2028.

(3) Impact of the Application of the Standard

The impact of applying the “Accounting Standard for Leases” and related guidance on the consolidated financial statements is currently under evaluation.

3. Leases

Operating Leases

Future minimum lease payments as lessee under operating leases at March 31, 2026 and 2025 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Due within one year	¥ 6,966	¥ 4,366	\$ 43,570
Due after one year	53,438	28,293	334,244
	¥ 60,405	¥ 32,660	\$ 377,815

Future minimum lease fees receivable as lessor under operating leases at March 31, 2026 and 2025 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Due within one year	¥ 39	¥ 38	\$ 245
Due after one year	137	171	860
	¥ 176	¥ 210	\$ 1,106

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 papers in relation to its projected income and working capital. The Group invests temporary excess cash in secure financial 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 Steel & Aluminum and Advanced Materials. 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, 2026 and 2025 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2026			2025			2026
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference	Difference
(1) Investments in securities:							
① Shares of subsidiaries and associates	¥ 8,972	¥ 8,502	¥ (469)	¥ 7,966	¥ 7,127	¥ (838)	\$ (2,938)
② Available-for-sale securities	108,817	108,817	-	114,502	114,502	-	-
(2) Short-term borrowings	(143,700)	(143,441)	258	(190,327)	(190,442)	(114)	1,617
(3) Current portion of bonds payable	(10,000)	(9,981)	19	(35,000)	(35,004)	(4)	118
(4) Bonds payable	(135,000)	(134,782)	217	(130,000)	(129,697)	302	1,361
(5) Long-term borrowings	(428,373)	(420,124)	8,249	(479,192)	(475,399)	3,792	51,595
(6) Derivative transactions:							
① Hedge accounting not applied	(3,150)	(3,150)	-	(1,933)	(1,933)	-	-
② Hedge accounting applied	6,164	6,164	-	(1,201)	(1,201)	-	-

Notes:

1. "Cash and deposits" is omitted as it is cash and the carrying amounts approximate fair values because of the short maturities of deposits.
2. "Notes - trade", "Accounts receivable - trade", "Notes and accounts payable - trade" and "Accounts payable - other" are omitted as the carrying amounts approximate fair values because of the short maturities of these instruments.
3. Liabilities are presented with parentheses ().
4. Assets and liabilities arising from derivative transactions are presented after offsetting and with parentheses () if the offset results in a liability.
5. Financial instruments without fair values at March 31, 2026 and 2025 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Non-listed equity securities	¥ 97,658	¥ 91,675	\$ 610,826

The aggregate annual maturities of financial assets at March 31, 2026 and 2025 were as follows:

Cash and deposits

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Due within 1 year	¥ 189,233	¥ 220,122	\$ 1,183,594
Due after 1 year through 5 years	-	-	-
Due after 5 years through 10 years	-	-	-
Due after 10 years	-	-	-
	¥ 189,233	¥ 220,122	\$ 1,183,594

Notes receivable - trade

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Due within 1 year	¥ 18,401	¥ 22,492	\$ 115,096
Due after 1 year through 5 years	-	0	-
Due after 5 years through 10 years	-	-	-
Due after 10 years	-	-	-
	¥ 18,401	¥ 22,492	\$ 115,096

Accounts receivable - trade

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Due within 1 year	¥ 352,703	¥ 337,291	\$ 2,206,053
Due after 1 year through 5 years	13,037	9,608	81,543
Due after 5 years through 10 years	-	-	-
Due after 10 years	-	-	-
	¥ 365,741	¥ 346,900	\$ 2,287,597

The aggregate annual maturities of financial liabilities at March 31, 2026 and 2025 were as follows:

Short-term borrowings

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Due within 1 year	¥ 35,705	¥ 48,180	\$ 223,326
Due after 1 year through 2 years	-	-	-
Due after 2 years through 3 years	-	-	-
Due after 3 years through 4 years	-	-	-
Due after 4 years through 5 years	-	-	-
Due after 5 years	-	-	-
	¥ 35,705	¥ 48,180	\$ 223,326

Bonds payable

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Due within 1 year	¥ 10,000	¥ 35,000	\$ 62,546
Due after 1 year through 2 years	22,000	10,000	137,603
Due after 2 years through 3 years	37,000	22,000	231,423
Due after 3 years through 4 years	18,000	37,000	112,584
Due after 4 years through 5 years	40,000	18,000	250,187
Due after 5 years	18,000	43,000	112,584
	¥ 145,000	¥ 165,000	\$ 906,927

Long-term borrowings

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Due within 1 year	¥ 107,994	¥ 142,146	\$ 675,474
Due after 1 year through 2 years	100,082	107,146	625,985
Due after 2 years through 3 years	86,987	99,101	544,079
Due after 3 years through 4 years	76,371	85,559	477,679
Due after 4 years through 5 years	71,713	75,890	448,543
Due after 5 years	93,218	111,493	583,055
	¥ 536,368	¥ 621,338	\$ 3,354,815

Other interest bearing debt

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Due within 1 year	¥ 55,251	¥ 51,881	\$ 345,580
Due after 1 year through 2 years	7,128	6,356	44,586
Due after 2 years through 3 years	4,307	4,668	26,940
Due after 3 years through 4 years	3,456	3,347	21,616
Due after 4 years through 5 years	2,580	3,089	16,137
Due after 5 years	6,055	4,820	37,877
	¥ 78,779	¥ 74,164	\$ 492,736

Fair value information by level within the fair value hierarchy

The fair value of financial instruments is classified into the following three levels according to the observability and materiality of inputs used to measure fair value.

Level 1 fair value: Fair value measured using observable inputs, i.e., quoted prices in active markets for assets or liabilities that are the subject of the measurement

Level 2 fair value: Fair value measured using observable inputs other than Level 1 inputs

Level 3 fair value: Fair value measured using unobservable inputs

If multiple inputs are used that are significant to the fair value measurement, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement.

Financial instruments measured at fair value in the consolidated balance sheets at March 31, 2026 and 2025 were as follows:

(1) Investments in securities:**② Available-for-sale securities**

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2026	2025	2026	
Level 1	¥ 108,817	¥ 114,502	\$ 680,620	
Level 2	-	-	-	
Level 3	-	-	-	
	¥ 108,817	¥ 114,502	\$ 680,620	

(6) Derivative transactions:**① Hedge accounting not applied**

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2026	2025	2026	
Level 1	¥ -	¥ -	\$ -	
Level 2	(3,150)	(1,933)	(19,703)	
Level 3	-	-	-	
	¥ (3,150)	¥ (1,933)	\$ (19,703)	

(6) Derivative transactions:**② Hedge accounting applied**

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2026	2025	2026	
Level 1	¥ -	¥ -	\$ -	
Level 2	6,164	(1,201)	38,554	
Level 3	-	-	-	
	¥ 6,164	¥ (1,201)	\$ 38,554	

Financial instruments other than those measured at fair value in the consolidated balance sheets at March 31, 2026 and 2025 were as follows:

(1) Investments in securities:

① Shares of subsidiaries and associates

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2026	2025	2026	
Level 1	¥ 8,502	¥ 7,127	\$ 53,179	
Level 2	-	-	-	
Level 3	-	-	-	
	¥ 8,502	¥ 7,127	\$ 53,179	

(2) Short-term borrowings

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2026	2025	2026	
Level 1	¥ -	¥ -	\$ -	
Level 2	(143,441)	(190,442)	(897,183)	
Level 3	-	-	-	
	¥ (143,441)	¥ (190,442)	\$ (897,183)	

(3) Current portion of bonds payable

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2026	2025	2026	
Level 1	¥ -	¥ -	\$ -	
Level 2	(9,981)	(35,004)	(62,428)	
Level 3	-	-	-	
	¥ (9,981)	¥ (35,004)	\$ (62,428)	

(4) Bonds payable

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2026	2025	2026	
Level 1	¥ -	¥ -	\$ -	
Level 2	(134,782)	(129,697)	(843,022)	
Level 3	-	-	-	
	¥ (134,782)	¥ (129,697)	\$ (843,022)	

(5) Long-term borrowings

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2026	2025	2026	
Level 1	¥ -	¥ -	\$ -	
Level 2	(420,124)	(475,399)	(2,627,746)	
Level 3	-	-	-	
	¥ (420,124)	¥ (475,399)	\$ (2,627,746)	

Note:

A description of the valuation technique and inputs used in the fair value measurements

Investments in securities

Listed shares are valued using market prices. As listed shares are traded in active markets, their fair value is classified as Level 1.

Short-term borrowings and long-term borrowings

The fair values of short-term borrowings and long-term borrowings are determined based on the present value by discounting the sum of the principal and interest by the assumed rate which would be applied if similar new borrowings were entered into. The fair values of floating rate long-term borrowings hedged by interest rate swaps that qualify for hedge accounting and meet specific matching criteria for an exceptional method are calculated by discounting the sum of the principal and interest, including the differential paid or received under the swap agreements, by the reasonably estimated rate which would be applied if similar new borrowings were entered into. They are all classified as Level 2.

Bonds and notes due within one year and bonds and notes

The fair values of bonds and notes due within one year and bonds and notes are determined based on market prices (reference statistical prices and yields) etc., and are classified as Level 2.

Derivative transactions

For foreign currency exchange contracts, the fair values are determined based on the discounted present value method using observable inputs, including forward foreign exchange rates. For interest rate swaps and currency swaps, the fair values are determined based on quotes obtained from counterparty financial institutions with which contracts calculated primarily by the discounted present value method using observable inputs, including interest rates and foreign exchange rates, have been entered into. For commodity forward contracts, the fair values are determined based on the discounted present value method using observable inputs, including commodity futures prices, and classified as Level 2.

5. Securities

The following tables summarize available-for-sale securities at March 31, 2026 and 2025.

	Millions of yen						Thousands of U.S. dollars (Note 1)	
	2026			2025			2026	
	Carrying amount	Acquisition cost	Difference	Carrying amount	Acquisition cost	Difference	Difference	
Available-for-sale securities								
Securities with available carrying amount exceeding acquisition cost:								
Equity securities	¥ 107,224	¥ 40,083	¥ 67,140	¥ 113,016	¥ 47,495	¥ 65,521	\$	419,944
Subtotal	107,224	40,083	67,140	113,016	47,495	65,521		419,944
Securities with available carrying amount not exceeding acquisition cost:								
Equity securities	1,593	2,262	(669)	1,485	2,311	(825)		(4,188)
Subtotal	1,593	2,262	(669)	1,485	2,311	(825)		(4,188)
	¥ 108,817	¥ 42,346	¥ 66,471	¥ 114,502	¥ 49,806	¥ 64,695	\$	415,755

Unlisted stocks and others (¥12,691 million (\$79,380 thousand) for the year ended March 31, 2026 and ¥13,844 million for the year ended March 31, 2025) 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, 2026 and 2025 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2026	2025	2026	
Sales	¥ 31,366	¥ 1,969	\$	196,188
Gains on sales	21,867	1,732		136,775
Losses on sales	-	-		-

6. Derivative Transactions

Derivative transactions for which hedge accounting is not applied

Forward currency exchange contracts outstanding at March 31, 2026 and 2025 were as follows:

Millions of yen													Thousands of U.S. dollars (Note 1)
													2026
													2026
													Fair value
													Fair value
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Derivative transactions for which hedge accounting is applied

Forward currency exchange contracts and currency options outstanding at March 31, 2026 and 2025 were as follows:

Millions of yen												Thousands of U.S. dollars (Note 1)		
	2026					2025					2026			
	Contracted amount		Fair value	Contracted amount		Fair value	Fair value	Fair value						
		Over one year			Over one year									
Hedges for which the "deferred hedge" method is applied														
Foreign currency exchange contracts														
To sell foreign currencies:														
U.S. dollars	¥	24,714	¥	4,461	¥	(1,027)	¥	26,455	¥	8,824	¥	(1,633)	\$	(6,429)
Others		40,542		3,206		(931)		12,443		671		(121)		(5,825)
To buy foreign currencies:														
U.S. dollars		6,980		2,556		504		9,344		3,102		274		3,157
Others		28,625		599		474		6,065		1,025		115		2,968
Non-deliverable forward														
To buy foreign currencies:														
Korean won	¥	1,848	¥	-	¥	(25)	¥	2,175	¥	-	¥	(26)	\$	(157)
Hedges for which the "assigning" method is applied														
Foreign currency exchange contracts														
To sell foreign currencies:														
U.S. dollars	¥	12,743	¥	3,083	¥	-	¥	13,599	¥	3,992	¥	-	\$	-
Others		13,032		1,046		-		12,283		747		-		-
To buy foreign currencies:														
U.S. dollars		757		124		-		1,195		333		-		-
Others		2,357		1		-		2,022		-		-		-

Note:

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.

Interest rate swap agreements outstanding at March 31, 2026 and 2025 were as follows:

Millions of yen												Thousands of U.S. dollars (Note 1)		
2026						2025						2026		
Contracted amount			Fair value			Contracted amount			Fair value			Fair value		
Over one year						Over one year								
Hedges for which the "deferred hedge" method is applied														
Interest rate swap agreements														
To receive floating and pay fixed rates	¥	185,140	¥	155,910	¥	7,444	¥	214,060	¥	185,140	¥	82	\$	46,564
Hedges for which the "exceptional" method is applied														
Interest rate swap agreements														
To receive floating and pay fixed rates	¥	12,840	¥	7,500	¥	-	¥	47,400	¥	12,840	¥	-		-

Note:

Hedges for which the "exceptional" method is applied

For certain long-term borrowings 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 borrowings.

Commodity forward contracts outstanding at March 31, 2026 and 2025 were as follows:

Millions of yen											Thousands of U.S. dollars (Note 1)			
2026						2025						2026		
Contracted amount			Fair value			Contracted amount			Fair value			Fair value		
Over one year						Over one year								
Hedges for which the "deferred hedge" method is applied														
Commodity forward contracts														
To sell commodities	¥	2,752	¥	-	¥	(291)	¥	2,559	¥	-	¥	137	\$	(1,823)
To buy commodities		2,697		-		15		2,053		-		(29)		100

7. Borrowings, Bonds Payable and Others

Short-term borrowings and current portion of bonds payable at March 31, 2026 and 2025 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Short term borrowings (average rate: 2.22% in 2026)	¥ 35,705	¥ 48,180	\$ 223,326
Current portion of long-term borrowings (average rate: 1.28% in 2026)	107,994	142,146	675,474
Current portion of bonds (average: 0.20% in 2026)	10,000	35,000	62,546
Current portion of lease liabilities (average rate: 2.62% in 2026)	6,005	31,846	37,561
	¥ 159,705	¥ 257,173	\$ 998,909

Bonds payable at March 31, 2026 and 2025 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
0.92% yen bonds, due 2025	¥ -	¥ 25,000	\$ -
0.82% yen bonds, due 2025	-	10,000	-
0.20% yen bonds, due 2026	10,000	10,000	62,546
0.55% yen bonds, due 2028	12,000	12,000	75,056
1.00% yen bonds, due 2033	8,000	8,000	50,037
0.87% yen bonds, due 2029	10,000	10,000	62,546
1.42% yen bonds, due 2034	10,000	10,000	62,546
0.98% yen bonds, due 2027	22,000	22,000	137,603
1.11% yen bonds, due 2029	8,000	8,000	50,037
2.16% yen bonds, due 2031	15,000	-	93,820
Zero Coupon Convertible Bonds due 2028	25,000	25,000	156,367
Zero Coupon Convertible Bonds due 2030	25,000	25,000	156,367
	¥ 145,000	¥ 165,000	\$ 906,930

The details of the convertible bonds are as follows:

	Zero Coupon Convertible Bonds due 2028
	Common stock
Total issue price of stock acquisition rights	Zero
Initial conversion price	¥2,212.8 (\$13.84) per share
Total issue price	¥25,000 million (\$156,367 thousand)
Total issue price of shares issued upon the exercise of stock acquisition rights	-
Percentage of stock acquisition rights granted	100%
Exercise period	December 28, 2023 through November 30, 2028

If there is a request from a person who intends to exercise the stock acquisition rights, the full amount to be paid upon the exercise of the stock acquisition rights will be deemed to have been paid in lieu of the full redemption of the bonds to which the stock acquisition rights are attached.

In addition, when the stock acquisition rights are exercised, such request will be deemed to have been made.

As the payment of a dividend of ¥40 per share was approved at the meeting of the board of directors on 20 May 2026, the conversion price for its Zero Coupon Convertible Bonds due 2028 was adjusted from ¥2,212.8 to ¥2,173.4.

	Zero Coupon Convertible Bonds due 2030
	Common stock
Total issue price of stock acquisition rights	Zero
Initial conversion price	¥2,116.8 (\$13.23) per share
Total issue price	¥25,000 million (\$156,367 thousand)
Total issue price of shares issued upon the exercise of stock acquisition rights	-
Percentage of stock acquisition rights granted	100%
Exercise period	December 28, 2023 through November 29, 2030

If there is a request from a person who intends to exercise the stock acquisition rights, the full amount to be paid upon the exercise of the stock acquisition rights will be deemed to have been paid in lieu of the full redemption of the bonds to which the stock acquisition rights are attached.

In addition, when the stock acquisition rights are exercised, such request will be deemed to have been made.

As the payment of a dividend of ¥40 per share was approved at the meeting of the board of directors on 20 May 2026, the conversion price for its Zero Coupon Convertible Bonds due 2030 was adjusted from ¥2,116.8 to ¥2,079.1.

Long-term borrowings at March 31, 2026 and 2025 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Loans, principally from banks and insurance companies, due 2027 through 2036 (average rate: 1.60% in 2026)	¥ 428,373	¥ 479,192	\$ 2,679,342

Lease liabilities at March 31, 2026 and 2025 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Finance lease agreements due 2027 through 2046 (average rate: 3.56% in 2026)	¥ 20,838	¥ 19,966	\$ 130,337

The aggregate annual maturities of bonds payable at March 31, 2026 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2026	2026
Due within 1 year	¥ 10,000	\$ 62,546
Due after 1 year through 2 years	22,000	137,603
Due after 2 years through 3 years	37,000	231,423
Due after 3 years through 4 years	18,000	112,584
Due after 4 years through 5 years	40,000	250,187

The aggregate annual maturities of long-term borrowings (excluding the current portion) at March 31, 2026 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2026	2026
Due after 1 year through 2 years	¥ 100,082	\$ 625,985
Due after 2 years through 3 years	86,987	544,079
Due after 3 years through 4 years	76,371	477,679
Due after 4 years through 5 years	71,713	448,543

The aggregate annual maturities of lease liabilities (excluding the current portion) at March 31, 2026 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2026	2026
Due after 1 year through 2 years	¥ 6,002	\$ 37,545
Due after 2 years through 3 years	3,454	21,607
Due after 3 years through 4 years	2,965	18,549
Due after 4 years through 5 years	2,391	14,956

At March 31, 2026 and 2025, assets pledged as collateral for short-term borrowings and long-term borrowings were as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)			
	2026		2025		2026			
Assets pledged as collateral:								
Property, plant and equipment, net of accumulated depreciation	¥ 218,500	¥ [216,195]	¥ 239,007	¥ [236,332]	\$ 1,366,652	\$ [1,352,234]		
Cash and deposits	59,844	[55,559]	51,725	[50,429]	374,308	[347,504]		
Other assets	23,026	[10,917]	35,464	[23,306]	144,022	[68,285]		
	¥ 301,371	¥ [282,671]	¥ 326,198	¥ [310,068]	\$ 1,884,983	\$ [1,768,024]		
Secured short-term borrowings and long-term borrowings:	¥ 186,499	¥ [186,305]	¥ 217,153	¥ [216,785]	\$ 1,166,497	\$ [1,165,283]		
	¥ 186,499	¥ [186,305]	¥ 217,153	¥ [216,785]	\$ 1,166,497	\$ [1,165,283]		

Note:

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 ¥1,524 million (\$9,532 thousand) for the year ended March 31, 2026 and ¥1,435 million for the year ended March 31, 2025. 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 revalued 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 difference has not been stated because the fair value at March 31, 2026 and at March 31, 2025 exceeded the carrying amount of the revalued amount.

10. Commitment Line

The unexercised portion of facilities based on commitment line contracts at March 31, 2026 and 2025 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Total commitment line available	¥ 200,000	¥ 200,000	\$ 1,250,938
Less amount utilized	-	-	-
	¥ 200,000	¥ 200,000	\$ 1,250,938

11. Contingent Liabilities Regarding Notes and Loans Guaranteed

Contingent liabilities regarding notes and loans guaranteed at March 31, 2026 and 2025 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Trade notes endorsed	¥ 451	¥ 1,520	\$ 2,822
Guarantees of loans:			
Related parties	2,529	2,785	15,822
Others	12	20	78
	¥ 2,993	¥ 4,325	\$ 18,724

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 ¥275 million (\$1,725 thousand) for the year ended March 31, 2026 and ¥1,010 million for the year ended March 31, 2025.

12. Contingent Liabilities Regarding Repurchase Obligations Accompanying Securitization of Receivables

Contingent liabilities regarding repurchase obligations accompanying securitization of receivables at March 31, 2026 and 2025 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
	¥ 2,235	¥ 2,660	\$ 13,982

13. Net Assets

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

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. Revenue recognized from contracts with customers

Revenue recognized from contracts with customers and revenue recognized from other sources are not stated separately because the amount of revenue recognized from other sources is not material. Revenue recognized from contracts with customers is presented in "(1) Disaggregation of revenue from contracts with customers" of Note 24.

15. Cost of Sales

Loss on the write-down of inventories included in the cost of sales was ¥128 million (\$801 thousand) loss for the year ended March 31, 2026 and ¥1,525 million loss for the year ended March 31, 2025.

The provision for loss on construction contracts included in the cost of sales was ¥3,641 million (\$22,777 thousand) for the year ended March 31, 2026 and ¥4,936 million for the year ended March 31, 2025.

16. Research and Development Expenses

Research and development expenses included in cost of sales and selling, general and administrative expenses were ¥46,682 million (\$291,985 thousand) for the year ended March 31, 2026 and ¥43,598 million for the year ended March 31, 2025.

17. Selling, General and Administrative Expenses

Provision for allowances and other expenses included in selling, general and administrative expenses were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Provision for bonuses	¥ 7,210	¥ 7,171	\$ 45,098
Provision of allowance for doubtful accounts	1,073	2,631	6,712
Retirement benefit expenses	2,490	2,581	15,575
Depreciation	10,052	7,502	62,874

18. Gain on sale of investment securities

Gain on sale of investment securities of ¥21,867 million (\$136,775 thousand) for the year ended March 31, 2026, was mainly due to the sale of strategic holdings of the Company.

19. Gain on sale of non-current assets

Gain on sale of non-current assets of ¥7,072 million (\$44,234 thousand) for the year ended March 31, 2026, was mainly due to the sale of land of the Company.

Gain on sale of non-current assets of ¥5,459 million for the year ended March 31, 2025, was mainly due to the transfer of land use rights of Hangzhou Kobelco Construction Machinery Co., Ltd.

20. Impairment Losses

(1) The fiscal year ended March 31, 2026

The Group recognized impairment losses of ¥24,158 million (\$151,105 thousand) on the below asset groups for the fiscal year ended March 31, 2026. The breakdown of impairment losses was as follows: buildings and structures of ¥10,861 million (\$67,938 thousand), machinery, equipment and vehicles of ¥8,320 million (\$52,043 thousand), tools, furniture and fixtures of ¥847 million (\$5,300 thousand), land of ¥1,866 million (\$11,672 thousand), construction in progress of ¥976 million (\$6,106 thousand), software of ¥1,206 million (\$7,545 thousand), and other intangible assets of ¥79 million (\$498 thousand).

Use	Location and number	Type	Millions of yen		Thousands of U.S. dollars (Note 1)	
			2026		2026	
Assets for manufacturing aluminum rolled products	Mooka-shi, Tochigi 1 case	Machinery, equipment and vehicles, etc.	¥	20,985	\$	131,256
Other assets for business use, etc.	Ogaki-shi, Gifu, etc 11 cases in total	Machinery, equipment and vehicles, etc.		3,173		19,849
			¥	24,158	\$	151,105

In the Group's determination of impairment losses, the assets for business use are, in principle, grouped basically by business office while taking into consideration of the management accounting classification and cash generating unit on the basis that revenues and expenses are continuously measured. Idle assets are grouped for each individual property. The background for recognizing impairment losses for each main asset group and the method for determining the recoverable amount are as follows.

Assets for manufacturing aluminum rolled products

The book value of ¥34,288 (\$214,465 thousand) million was reduced to the recoverable amount due to lower profitability as a result of sluggish sales of aluminum panel materials for automobiles, and the amount of such reduction is recognized as an impairment loss of ¥20,985 million (\$131,256 thousand) in extraordinary losses. The recoverable amount is calculated based on the value in use calculated by discounting future cash flows at a discount rate of 7%.

(2) The fiscal year ended March 31, 2025

The Group recognized impairment losses of ¥27,401 million on the below asset groups for the fiscal year ended March 31, 2025. The breakdown of impairment losses was as follows: buildings and structures of ¥6,568 million, machinery, equipment and vehicles of ¥8,415 million, tools, furniture and fixtures of ¥955 million, land of ¥4,378 million, construction in progress of ¥588 million, software of ¥6,392 million, other intangible assets of ¥105 million, and investment and other assets of ¥25 million.

Use	Location and number	Type	Millions of yen	
			2025	
Assets for manufacturing construction machinery (Kobelco Construction Machinery Co., Ltd.)	Saeki Ward, Hiroshima and others 1 case	Buildings and structures, etc.	¥	16,877
Assets for manufacturing specialty steel products (Nippon Koshuha Steel Co., Ltd.)	Imizu Toyama 1 case	Machinery, equipment and vehicles, etc.		6,912
Assets for manufacturing steel powder	Takasago, Hyogo 1 case	Machinery, equipment and vehicles, etc.		2,591
Idle assets, etc.	Sichuan Province, China and others 8 cases in total	Machinery, equipment and vehicles, etc.		1,020
			¥	27,401

In the Group's determination of impairment losses, the assets for business use are, in principle, grouped by manufacturing site or plant while taking into consideration of management accounting classification and cash generating unit on the basis of which revenues and expenses are continuously measured. Idle assets which are not used for business are grouped individually.

A recoverable amount is measured primarily by a net sales value, which is based on an appraisal value, estimated sales value, and others.

The background for recognizing impairment losses for each main asset group was as follows.

① Assets for manufacturing construction machinery (Kobelco Construction Machinery Co., Ltd.)

The book value of ¥67,756 million was reduced to the recoverable amount due to lower profitability as a result of the delay in the recovery of unit sales, which had declined due to the impact of engine certification issue, caused by a fall in demand in Japan and Europe, and the reduction of ¥16,877 million was recognized as an impairment loss under extraordinary losses. The recoverable amount was measured based on the net sales value, which is calculated using the appraisal value, etc.

② Assets for manufacturing specialty steel products (Nippon Koshuha Steel Co., Ltd.)

The book value of ¥6,912 million was reduced to the recoverable amount due to lower profitability as a result of worsening of demands and other factors, and the reduction of ¥6,912 million was recognized as an impairment loss under extraordinary losses. The recoverable amount was measured based on the value in use and evaluated at memorandum value.

③ Assets for manufacturing steel powder

The book value of ¥2,591 million was reduced to the recoverable amount due to lower profitability as a result of stagnant orders primarily for automobiles, and the reduction of ¥2,591 million was recognized as an impairment loss under extraordinary losses. The recoverable value was measured based on the value in use and evaluated at memorandum value.

21. Loss on sale of shares of subsidiaries and associates

Loss on sale of shares of subsidiaries and associates of ¥5,243 million (\$32,798 thousand) for the year ended March 31, 2026, was due to the sale of shares of Nippon Koshuha Steel Co., Ltd. For details, please refer to Note 24, "Business Combination."

22. Provision for dismantlement related expenses

Dismantlement related expenses of ¥11,180 million for the year ended March 31, 2025, were due to the anticipated costs associated with dismantlement of equipment of No. 1 Blast Furnace (inactive facility) of Kakogawa Works. The Kobelco Group Medium-Term Management Plan (Fiscal 2024–2026) positions taking on the challenge of realizing carbon neutrality as a priority and is looking at measures to reduce CO₂ in the steelmaking process. The Group decided to dismantle the equipment of No.1 Blast Furnace of Kakogawa Works in the previous fiscal year as it is necessary to embark on securing land within Kakogawa Works suitable for production structure reforms in fiscal 2025, which is aimed at achieving the 2030 target of a 30–40% reduction (as compared to with fiscal 2013) and the vision of achieving carbon neutrality by 2050.

23. Income Taxes

Significant components of the Group's deferred income tax assets and liabilities at March 31, 2026 and 2025 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Deferred tax assets:			
Impairment losses	¥ 31,508	¥ 25,648	\$ 197,076
Tax loss carryforwards	13,656	22,672	85,414
Retirement benefit liability	13,341	15,183	83,446
Unrealized profit	11,218	12,841	70,171
Provision for bonuses	9,743	9,734	60,939
Temporary difference from investments in related companies	9,243	7,398	57,815
Loss on valuation of inventories	6,811	6,831	42,604
Provision for product warranties	6,073	6,091	37,986
Allowance for doubtful accounts	2,768	2,855	17,318
Other	37,970	39,840	237,490
Total deferred tax assets	142,335	149,097	890,263
Valuation allowance related to tax loss carryforwards	(11,169)	(10,623)	(69,862)
Valuation allowance related to total deductible temporary difference, etc.	(37,156)	(41,863)	(232,404)
Valuation allowance	(48,326)	(52,487)	(302,267)
Deferred tax assets	94,008	96,610	587,996
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	21,152	20,402	132,301
Fair value adjustments of consolidated subsidiaries	11,519	11,891	72,052
Retirement benefit asset	10,255	581	64,147
Gain on return of assets from retirement benefit trust	8,263	8,263	51,683
Revaluation reserve for land	3,255	3,256	20,364
Other	22,695	18,676	141,953
Total deferred tax liabilities	77,142	63,070	482,502
Net deferred tax assets	¥ 16,866	¥ 33,539	\$ 105,493

Amount of tax loss carryforwards and related deferred tax assets by tax loss carryforwards for the year ended March 31, 2026 and 2025 were as follows:

Tax loss carryforwards (Note 1)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Due within 1 year	48	1,842	302
Due after 1 year through 2 years	2,186	60	13,678
Due after 2 years through 3 years	1,934	2,370	12,100
Due after 3 years through 4 years	3,361	2,167	21,023
Due after 4 years through 5 years	3,493	3,559	21,853
Due after 5 years	2,631	12,671	16,456
	¥ 13,656	¥ 22,672	\$ 85,414

Notes:

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

Valuation allowance

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Due within 1 year	(48)	(1,842)	(302)
Due after 1 year through 2 years	(2,185)	(54)	(13,671)
Due after 2 years through 3 years	(1,774)	(2,340)	(11,095)
Due after 3 years through 4 years	(2,818)	(1,986)	(17,627)
Due after 4 years through 5 years	(3,195)	(2,444)	(19,986)
Due after 5 years	(1,147)	(1,953)	(7,178)
	¥ (11,169)	¥ (10,623)	\$ (69,862)

Deferred tax assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Due within 1 year	-	-	-
Due after 1 year through 2 years	1	5	6
Due after 2 years through 3 years	160	29	1,004
Due after 3 years through 4 years	542	180	3,395
Due after 4 years through 5 years	298	1,115	1,866
Due after 5 years	1,483	10,718	9,277
	¥ 2,486	¥ 12,049	\$ 15,551

The reconciliation of the statutory tax rate and the effective tax rate for the years ended March 31, 2026 and 2025 were as follows:

	2026	2025
Aggregate statutory income tax rate in Japan	30.6 %	30.6 %
Nondeductible entertainment expenses	0.8	0.5
Nontaxable dividends received	(0.5)	(0.2)
Share of profit of entities accounted for using equity method	(2.0)	(1.3)
Increase (Decrease) in valuation allowance	(1.2)	0.0
Differences in normal tax rates of subsidiaries	(2.6)	(2.6)
Tax deduction	(5.3)	(5.6)
Gain on bargain purchase	-	(3.6)
Other	(0.6)	(3.5)
Effective income tax rate	19.1 %	14.4 %

Accounting for income taxes and tax effect accounting

The Company and some of its domestic consolidated subsidiaries have adopted the group tax sharing system. In addition, income taxes, as well as their tax effects, are accounted for and disclosed under Practical Solution on the Accounting and Disclosure under the Group Tax Sharing System (ASBJ Guidance No. 42, August 12, 2021).

24. Business Combination

Share exchange to make Nippon Koshuha Steel Co., Ltd. a wholly owned subsidiary (a common control transaction) and transfer of its shares (business divestiture)

The Company and Nippon Koshuha Steel Co., Ltd. (Nippon Koshuha Steel) carried out a share exchange on February 2, 2026, as the effective date, pursuant to the share exchange agreement entered into on May 12, 2025, under which Nippon Koshuha Steel became the wholly owned subsidiary of the Company.

In addition, pursuant to the share transfer agreement entered into on May 12, 2025, after Nippon Koshuha Steel distributed to the Company, by way of a dividend in kind, assets of Nippon Koshuha Steel relating to its iron casting business, including shares of Koshuha Foundry Co., Ltd. (Koshuha Foundry) held by Nippon Koshuha Steel, all shares of Nippon Koshuha Steel were transferred to Daido Steel Co., Ltd. (Daido Steel). Both transactions were carried out on February 2, 2026, which was the same effective date as that of the share exchange.

Common control transactions

(1) Outline of the business combination

① Name and business of the acquired company

Acquired company name: Nippon Koshuha Steel Co., Ltd.

Business of the acquired company: Manufacture and sale of special steel and iron casting products

② Date of the business combination

February 2, 2026

③ Legal form of the business combination

Share exchange

④ Name of the company after the business combination

There was no change in the name of the company after the business combination.

⑤ Other matters with regard to the transaction

In response to increasingly severe business conditions, the Company determined that, in order to achieve the sustainable growth of Nippon Koshuha Steel and enhance the corporate value of the Group as a whole, it would be optimal to make Nippon Koshuha Steel a wholly owned subsidiary, transfer its special steel business to Daido Steel, which possesses a high level of expertise and management know-how, and continue to operate the iron casting business within the Group.

This transaction aims to strengthen the competitiveness of each business and restructure the business portfolio.

(2) Outline of accounting treatment

The transaction was treated as a common control transaction in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21 of January 16, 2019) and the "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 of January 16, 2019).

(3) Purchase of additional shares of the subsidiary

① Acquisition cost and breakdown

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2026		2026	
Consideration for acquisition (Treasury shares)	¥	4,022	\$	25,161
Acquisition cost	¥	4,022	\$	25,161

②Exchange ratio and calculation method, and the number of shares delivered by class of shares

(a)Exchange ratio by class of shares

0.26 shares of the common stock of the Company for each share of common stock of Nippon Koshuha Steel.

(b)Calculation method for the exchange ratio

The Company and Nippon Koshuha Steel agreed upon and determined the above share exchange ratio through discussions between the two companies, after comprehensively taking into consideration of such factors as the financial position, business performance trends and share price trends of each counterparty, based on the results of the share exchange ratio calculations submitted by third-party valuers and the results of due diligence conducted by each company.

(c)Number of shares delivered

1,840,272 shares

(4) Details about the change in shareholders' equity by the transaction with non-controlling shareholders

①Main reason for the change in capital surplus

Acquisition of additional shares of the subsidiary

②The amount of capital surplus decreased due to the transaction with non-controlling shareholders

¥1,365 million (\$8,541 thousands)

The share exchange and the share transfer have been treated as a single integrated transaction. Accordingly, the above decrease in capital surplus represents the difference between the non-controlling interests arising from the changes in ownership interests related to the cast iron business that continues to be operated by the Company and the acquisition cost. The difference relating to the transferred special steel business (¥3,483 million (\$21,785 thousands)) has been included in loss on sale of shares of affiliates associated with the business divestiture.

Business divestiture

(1) Outline of the business divestiture

①Name of purchasing company: Daido Steel Co., Ltd.

②Description of the divested business

Consolidated subsidiaries: Nippon Koshuha Steel Co., Ltd. and two other companies

Business of the divested companies: Manufacture and sale of special steel products

③Objectives of the business divestiture

Omitted, because it is the same as that stated in "Common control transactions – (1) Outline of the business combination - ⑤Other matters with regard to the transaction."

④Date of the business divestiture

February 2, 2026

⑤Other information on the business divestiture including the legal form thereof

Transfer of shares of Nippon Koshuha Steel for cash consideration received

(2) Outline of the accounting treatment applied

①Amount of gain/loss on transfer

Loss on sale of shares of subsidiaries and associates ¥5,243 million (\$32,798 thousand)

②Book values of assets and liabilities related to the transferred business and the breakdown by major items

		Millions of yen	Thousands of U.S. dollars (Note 1)
		2026	2026
Current assets	¥	25,021	\$ 156,499
Non-current assets		1,844	11,535
Total assets	¥	26,865	\$ 168,034
Current liabilities		15,585	97,479
Non-current liabilities		2,261	14,145
Total liabilities	¥	17,846	\$ 111,624

③Accounting treatment

The difference between the amount corresponding to shareholders' equity of Nippon Koshuha Steel and two other companies and the transfer price has been recorded in extraordinary losses as "Loss on sale of shares of subsidiaries and associates."

(3) Reportable segments including the divested business

Steel & Aluminum

(4) Estimated effect on profit/loss of the divested business in the consolidated statements of operations

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2026	2026
Sales	¥ 15,151	\$ 94,769
Operating income	¥ 69	\$ 436

25. Revenue Recognition

(1) Disaggregation of revenue from contracts with customers

The following is a breakdown of the Group's net sales by reportable segments, broken down by region and by the time of the transfer of the goods or services.

① Breakdown by region for the years ended March 31, 2026 and 2025 was as follows:

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2026	2025	2026
Japan	Steel & Aluminum:	¥ 774,182	¥ 830,544	\$ 4,842,272
	Steel	643,454	703,065	4,024,607
	Aluminum sheet	130,728	127,478	817,665
	Advanced Materials	179,214	169,203	1,120,930
	Welding	46,742	47,079	292,361
	Machinery	107,139	97,887	670,127
	Engineering	126,626	113,711	792,009
	Construction Machinery	145,724	148,784	911,460
	Electric Power	203,201	258,807	1,270,960
	Other Businesses	4,083	7,000	25,544
	Subtotal	¥ 1,586,915	¥ 1,673,018	\$ 9,925,666
America	Steel & Aluminum:	38,788	43,960	242,608
	Steel	31,688	38,719	198,199
	Aluminum sheet	7,100	5,240	44,408
	Advanced Materials	50,430	53,078	315,428
	Welding	6,660	5,835	41,661
	Machinery	25,315	21,572	158,339
	Engineering	1,847	3,469	11,552
	Construction Machinery	50,970	57,127	318,806
	Electric Power	-	-	-
	Other Businesses	-	310	-
	Subtotal	¥ 174,012	¥ 185,354	\$ 1,088,396
Other	Steel & Aluminum:	148,498	203,510	928,814
	Steel	113,540	138,029	710,161
	Aluminum sheet	34,958	65,481	218,653
	Advanced Materials	90,573	82,071	566,508
	Welding	42,206	40,307	263,989
	Machinery	136,559	132,184	854,135
	Engineering	63,048	55,208	394,346
	Construction Machinery	192,777	181,945	1,205,761
	Electric Power	-	-	-
	Other Businesses	-	129	-
	Subtotal	¥ 673,663	¥ 695,357	\$ 4,213,555
Segment total	Steel & Aluminum:	961,469	1,078,015	6,013,695
	Steel	788,682	879,815	4,932,968
	Aluminum sheet	172,786	198,200	1,080,727
	Advanced Materials	320,218	304,353	2,002,866
	Welding	95,610	93,222	598,012
	Machinery	269,014	251,644	1,682,601
	Engineering	191,521	172,389	1,197,909
	Construction Machinery	389,472	387,858	2,436,027
	Electric Power	203,201	258,807	1,270,960
	Other Businesses	4,083	7,439	25,544
	Total sales to external customers	2,434,591	2,553,730	15,227,618
	Adjustment	1,989	1,301	12,444
	Consolidated sales to external customers	¥ 2,436,581	¥ 2,555,031	\$ 15,240,063

② Breakdown by the time of the transfer of the goods or services for the years ended March 31, 2026 and 2025 was as follows:

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2026	2025	2026
Goods or services transferred at a point in time	Steel & Aluminum:	¥ 947,495	¥ 1,059,076	\$ 5,926,293
	Steel	774,709	860,876	4,845,565
	Aluminum sheet	172,786	198,200	1,080,727
	Advanced Materials	320,218	304,353	2,002,866
	Welding	95,610	93,222	598,012
	Machinery	236,302	222,718	1,477,996
	Engineering	50,411	56,366	315,305
	Construction Machinery	376,564	374,252	2,355,297
	Electric Power	203,201	258,807	1,270,960
	Other Businesses	3,612	6,936	22,597
Subtotal		¥ 2,233,416	¥ 2,375,734	\$ 13,969,330
Goods or services transferred over a certain period of time	Steel & Aluminum:	13,973	18,938	87,402
	Steel	13,973	18,938	87,402
	Aluminum sheet	-	-	-
	Advanced Materials	-	-	-
	Welding	-	-	-
	Machinery	32,712	28,925	204,605
	Engineering	141,110	116,022	882,603
	Construction Machinery	12,907	13,605	80,730
	Electric Power	-	-	-
	Other Businesses	471	502	2,946
Subtotal		¥ 201,175	¥ 177,996	\$ 1,258,288
Segment total	Steel & Aluminum:	961,469	1,078,015	6,013,695
	Steel	788,682	879,815	4,932,968
	Aluminum sheet	172,786	198,200	1,080,727
	Advanced Materials	320,218	304,353	2,002,866
	Welding	95,610	93,222	598,012
	Machinery	269,014	251,644	1,682,601
	Engineering	191,521	172,389	1,197,909
	Construction Machinery	389,472	387,858	2,436,027
	Electric Power	203,201	258,807	1,270,960
	Other Businesses	4,083	7,439	25,544
Total sales to external customers		2,434,591	2,553,730	15,227,618
Adjustment		1,989	1,301	12,444
Consolidated sales to external customers		¥ 2,436,581	¥ 2,555,031	\$ 15,240,063

Notes:

1. "Other" segment is a business segment not included in the reportable segments and includes operating companies under the management of the head office.
2. Revenues from other sources are included in revenues from contracts with customers, as most of the revenue from external customers are revenue from contracts with customers.
3. Information on net sales by region is based on the location of customers and broken down by country.

(2) Information to understand the amount of revenue for the current fiscal year and subsequent fiscal years

① Contract asset and contract liability balances at March 31, 2026 and 2025 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Receivables from contracts with customers (beginning balance)	¥ 369,393	¥ 373,148	\$ 2,310,444
Receivables from contracts with customers (ending balance)	384,142	369,393	2,402,694
Contract assets (beginning balance)	35,039	37,077	219,162
Contract assets (ending balance)	48,541	35,039	303,609
Contract liabilities (beginning balance)	75,541	67,502	472,490
Contract liabilities (ending balance)	78,987	75,541	494,043

Contract assets relate to the consideration for transactions for which an invoice has not yet been issued under the contract for revenue recognized based on progress, mainly in the machinery and engineering businesses. Once the right to the consideration becomes unconditional, it is reclassified to receivables from contracts with customers.

Contract liabilities primarily relate to advances received from customers. Revenue recognized in the current fiscal year that was included in the contract liability balance at the beginning of the period was ¥45,236 million (\$282,941 thousand) for the year ended March 31, 2026 and ¥42,245 million for the year ended March 31, 2025. The amount of revenue recognized in the current fiscal year from performance obligations that were satisfied in the previous fiscal year was not material.

② Transaction price allocated to the remaining performance obligations

The total transaction price allocated to the remaining performance obligations and the time frame over which the Group expects to recognize the amount as revenue were as follows. The performance obligations primarily relate to the sales of products, construction contracts, and the provision of services in the machinery and engineering businesses.

The Group has applied the practical expedient to the notes on transaction prices allocated to the remaining performance obligations and does not disclose contracts with an original expected duration of one year or less.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Within one year	¥ 295,597	¥ 327,273	\$ 1,848,869
Over one year	350,306	388,679	2,191,060
	¥ 645,904	¥ 715,953	\$ 4,039,930

26. Consolidated Statements of Comprehensive Income

Reclassification adjustments and tax effects for each component of other comprehensive income for the years ended March 31, 2026 and 2025 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Valuation difference on available-for-sale securities:			
Unrealized gains arising during the period	¥ 24,087	¥ (29,586)	\$ 150,659
Less reclassification adjustment included in profit	(22,020)	(1,084)	(137,730)
	2,067	(30,670)	12,928
Income taxes and tax effects	(800)	8,960	(5,009)
	1,266	(21,709)	7,919
Deferred gains or losses on hedges:			
Unrealized gains arising during the period	5,686	5,035	35,569
Less reclassification adjustment included in profit	1,739	4,766	10,881
Adjustments of acquisition cost for assets	(36)	(1,173)	(231)
	7,389	8,628	46,220
Income taxes and tax effects	(2,123)	(2,462)	(13,282)
	5,266	6,165	32,937
Revaluation reserve for land:			
Unrealized losses arising during the period	-	-	-
Less reclassification adjustment included in profit	-	-	-
	-	-	-
Income taxes and tax effects	-	(92)	-
	-	(92)	-
Foreign currency translation adjustment:			
Translation adjustments arising during the period	5,961	25,697	37,286
Less reclassification adjustment included in profit	42	-	265
	6,003	25,697	37,552
Remeasurements of defined benefit plans:			
Unrealized gains arising during the period	42,819	21,165	267,824
Less reclassification adjustment included in profit	(3,255)	(2,171)	(20,364)
	39,563	18,994	247,460
Income taxes and tax effects	(12,485)	(8,093)	(78,095)
	27,078	10,900	169,364
Share of other comprehensive gains related to equity method companies:			
Unrealized gains arising during the period	3,138	(765)	19,627
Less reclassification adjustment included in profit	(2,094)	(305)	(13,098)
	1,043	(1,070)	6,528
Total other comprehensive income	¥ 40,658	¥ 19,890	\$ 254,303

27. Consolidated Statements of Changes in Net Assets

Changes in the number of shares issued and outstanding during the years ended March 31, 2026 and 2025 were as follows:

	Number of shares
Common shares outstanding	
Balance at March 31, 2024	396,345,963
(No increase)	-
(No decrease)	-
Balance at March 31, 2025	396,345,963
(No increase)	-
(No decrease)	-
Balance at March 31, 2026	396,345,963

Changes in the number of treasury shares outstanding during the years ended March 31, 2026 and 2025 were as follows:

	Number of shares
Treasury shares outstanding	
Balance at March 31, 2024	1,389,177
Increase due to purchase of odd-lot shares	7,977
Increase in equity ratio in the Company by consolidated subsidiaries	688,578
Increase due to BBT	396,200
Decrease due to sale of odd-lot shares	(364)
Decrease due to sale of treasury shares attributable to the Company by consolidated subsidiaries	(1,045,248)
Decrease due to BBT	(105,000)
Balance at March 31, 2025	1,331,320
Increase due to treasury stock acquired based on the resolution passed at the Board of Directors' meeting	1,900,000
Increase due to purchase of odd-lot shares	25,304
Increase due to gain by associates accounted for by the equity method	74,406
Decrease due to sale of odd-lot shares	(136)
Decrease due to share delivery in connection with the share exchange to make Nippon Koshuha Steel Co., Ltd. a wholly owned subsidiary	(1,840,272)
Decrease due to sale of treasury shares attributable to the Company by equity-method affiliates	(106,292)
Decrease due to BBT	(491,400)
Balance at March 31, 2026	892,930

Amount of dividend payments during the year ended March 31, 2026 was as follows:

Decision	Kind of stock	Millions of yen / Thousands of U.S. dollars (Note 1)	Yen/ U.S. dollars (Note 1)	Record date	Operative date
		Total payments	Cash dividends per share		
At the Board of Directors' meeting held on May 19, 2025	Common share	¥21,783 \$136,249	¥55.00 \$0.34	March 31, 2025	June 3, 2025
At the Board of Directors' meeting held on November 10, 2025	Common share	¥15,766 \$98,615	¥40.00 \$0.25	September 30, 2025	December 1, 2025

Notes:

1. The total amount of dividends resolved at the Board of Directors' meeting held on May 19, 2025 includes dividends of ¥34 million (\$215 thousand) for shares of the Company held by "Board Benefit Trust (BBT)"
2. The total amount of dividends resolved at the Board of Directors' meeting held on November 10, 2025 includes dividends of ¥5 million (\$33 thousand) for shares of the Company held by BBT.

Dividends for which the record date belongs to the year ended March 31, 2026, and the operative date is in the year ending March 31, 2027 would be as follows:

Decision	Kind of stock	Source of dividends	Millions of yen / Thousands of U.S. dollars (Note 1)	Yen/ U.S. dollars (Note 1)	Record date	Operative date
			Total payments	Cash dividends per share		
At the Board of Directors' meeting held on May 20, 2026	Common share	Retained earnings	¥15,839	¥40.00	March 31, 2026	June 5, 2026
			\$99,069	\$0.25		

Note: The total amount of dividends resolved at the Board of Directors' meeting held on May 20, 2026 includes dividends of ¥5 million (\$33 thousand) for share of the Company held by BBT.

28. 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, 2026 and 2025 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Cash and deposits in the consolidated balance sheets	¥ 189,233	¥ 220,122	\$ 1,183,594
Time deposits due over three months	(204)	(249)	(1,280)
Cash and cash equivalents in the consolidated statements of cash flows	¥ 189,028	¥ 219,872	\$ 1,182,313

In the year ended March 31, 2025, the breakdown of assets and liabilities on the date of the business combination as Kansai Coke and Chemicals Co., Ltd. and another company became consolidated subsidiaries due to purchase of additional shares, and the relationship between the acquisition cost of additional shares of Kansai Coke and Chemicals Co., Ltd. and the purchase of shares of subsidiaries resulting in change in scope of consolidation were as follows:

	Millions of yen
	2025
Current assets	¥ 51,850
Non-current assets	62,957
Current liabilities	(60,937)
Non-current liabilities	(13,938)
Non-controlling interests	(9,983)
Gain on bargain purchase	(16,708)
Acquisition cost of shares	13,241
Acquisition cost up to the time of control acquisition	(1,440)
Carrying amount on equity method until control acquisition	(2,483)
Gain on step acquisitions	(313)
Acquisition cost of additional shares	9,003
Cash and cash equivalents	(1,651)
Deduction : Purchase of shares of subsidiaries resulting in change in scope of consolidation	¥ 7,352

In the year ended March 31, 2026, the breakdown of assets and liabilities at the time of sale as Nippon Koshuha Steel Co., Ltd. and two other companies ceased to be consolidated subsidiaries due to the sale of shares, and the proceeds from sale of shares of Nippon Koshuha Steel Co., Ltd. and proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation, were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2026	2026
Current assets	¥ 25,021	\$ 156,499
Non-current assets	1,844	11,535
Current liabilities	(15,585)	(97,479)
Non-current liabilities	(2,261)	(14,145)
Accumulated other comprehensive income	71	446
Non-controlling interests	(3,661)	(22,893)
Loss on sale of shares of subsidiaries and associates	(5,243)	(32,798)
Proceeds from sale of shares	186	1,164
Collection of loans receivable from subsidiaries	8,706	54,455
Cash and cash equivalents	(111)	(697)
Accounts payable	1,313	8,217
Net : Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation	¥ 10,094	\$ 63,140

29. Related Party Transactions

Transactions of the Company with related parties for the year ended March 31, 2026 consisted of the following:

					Millions of yen / Thousands of U.S. dollars (Note 1)			
Category	Name	Paid-in capital	Content of business	Percentage of ownership	Transactions		Resulting accounting balance	
					Description of transactions	Amount	Account	Amount
Associates	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	¥251,418	Accounts receivable	¥29,023
						\$1,572,543		\$181,529
					Purchases of raw materials and materials for equipment	¥472,679	Accounts payable	¥35,334
						\$2,956,461		\$221,003

Transactions of the Company with related parties for the year ended March 31, 2025 consisted of the following:

					Millions of yen			
Category	Name	Paid-in capital	Content of business	Percentage of ownership	Transactions		Resulting accounting balance	
					Description of transactions	Amount	Account	Amount
Associates	Shinsho Corporation	¥5,650 million	Trades iron and steel, nonferrous metals, machinery	13.35% directly and 1.04% indirectly (21.58%)	Sales of our products	¥272,348	Accounts receivable	¥17,560
					Purchases of raw materials and materials for equipment	¥599,653	Accounts payable	¥29,249

Notes:

1. The terms and conditions applicable to the above transactions were determined by the negotiation considering the market trend.
2. The above amounts of transactions do not include transactions with consolidated subsidiaries via Shinsho Corporation, that were eliminated through the consolidation process.
3. The number in parentheses is the percentage of shareholders who agree with the Company when exercising voting rights.

30. 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, 2026 and 2025 consisted of the following:

Defined Benefit Retirement Plans

(1) Changes in projected benefit obligation

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Balance at beginning of year	¥ 141,983	¥ 152,367	\$ 888,060
Service costs	9,359	10,254	58,543
Interest cost on projected benefit obligation	2,407	1,298	15,055
Actuarial differences arising during the period	(6,566)	(18,523)	(41,068)
Unrecognized prior service cost arising during the period	(10,226)	(54)	(63,966)
Amount of payment of retirement benefits	(6,301)	(5,600)	(39,415)
Increase (decrease) due to change in scope of consolidation	(2,689)	2,020	(16,821)
Exchange difference	230	269	1,441
Adjustment from the simplified method to the principle method	104	-	652
Other	(48)	(47)	(303)
Balance at end of year	¥ 128,252	¥ 141,983	\$ 802,178

(2) Changes in plan assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Balance at beginning of year	¥ 110,942	¥ 109,015	\$ 693,913
Expected return on plan assets	265	240	1,661
Actuarial differences arising during the period	26,026	2,587	162,789
Amount of contribution by the employer	1,072	1,253	6,706
Amount of payment of retirement benefits	(4,148)	(4,276)	(25,946)
Increase (decrease) due to change in scope of consolidation	(1,156)	2,082	(7,235)
Other	(77)	40	(486)
Balance at end of year	¥ 132,924	¥ 110,942	\$ 831,401

(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)
	2026	2025	2026
Funded projected benefit obligation	¥ 87,491	¥ 99,780	\$ 547,233
Plan assets	(132,924)	(110,942)	(831,401)
	(45,432)	(11,162)	(284,168)
Unfunded projected benefit obligation	40,760	42,202	254,945
Net of defined benefit liability and asset	¥ (4,672)	¥ 31,040	\$ (29,222)
Net defined benefit liability	45,067	58,187	281,884
Net defined benefit asset	(49,739)	(27,147)	(311,106)
Net of defined benefit liability and asset	¥ (4,672)	¥ 31,040	\$ (29,222)

(4) Breakdown of severance and retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Service costs	¥ 9,359	¥ 10,254	\$ 58,543
Interest cost on projected benefit obligation	2,407	1,298	15,055
Expected return on plan assets	(265)	(240)	(1,661)
Amortization of actuarial differences	(3,229)	(2,194)	(20,196)
Amortization of prior service cost	(122)	23	(764)
Other	(3)	(44)	(20)
Severance and retirement benefit expenses on defined benefit retirement plans	¥ 8,146	¥ 9,096	\$ 50,955

(5) Breakdown of remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Prior service cost	¥ 10,104	¥ 78	\$ 63,202
Actuarial differences	29,459	18,916	184,258
Total	¥ 39,563	¥ 18,994	\$ 247,460

(6) Breakdown of accumulated remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Unrecognized prior service cost	¥ (18,124)	¥ (8,019)	\$ (113,362)
Unrecognized actuarial differences	(78,672)	(49,213)	(492,071)
Total	¥ (96,796)	¥ (57,232)	\$ (605,433)

(7) Plan assets

(a) Breakdown of plan assets

	2026		2025	
Stock	51	%	40	%
General account of insurance company	27		33	
Bonds	12		15	
Other	10		12	
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, 2026 and 2025 were as follows:

	2026	2025
Discount rates	mainly 2.7%	mainly 2.0%
Long-term expected rate of return	mainly 0.8%	mainly 0.1%

Defined contribution plan

Required contributions of the Company and its domestic consolidated subsidiaries for the years ended March 31, 2026 and 2025 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2026	2025	2026
Required contributions	¥ 3,652	¥ 3,393	\$ 22,847

31. 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 (some of which are made by subsidiaries), and every business unit and subsidiary plans domestic and foreign global strategies to operate their businesses.

The Group consists of segments of business units and subsidiaries based on products and services. There are seven reportable segments within the Group : "Steel & Aluminum," "Advanced Materials," "Welding," "Machinery," "Engineering," "Construction Machinery," and "Electric Power."

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

Steel & Aluminum:	Wire rods and bars, steel sheets (hot-rolled, cold-rolled, surface treated), steel plates, aluminum flat-rolled products, and other (steel billets, foundry pig iron, pig iron for steelmaking, slag products)
Advanced Material:	Steel castings and forgings, aluminum-alloy and magnesium-alloy castings and forgings, titanium and titanium alloy, aluminum-alloy forgings and fabricated products, aluminum extrusions and fabricated products, copper rolled products, and steel powder
Welding:	Welding materials (covered welding electrodes, wires for automatic and semi-automatic welding, fluxes), welding robots, welding machines, robotic welding systems, welding-related testing, analysis, and consulting
Machinery:	Equipment for energy and chemical fields, equipment for nuclear power plants, tire and rubber machinery, plastic processing machinery, ultra-high-pressure presses, vapor deposition systems, metalworking machinery, various compressors, refrigeration compressors, heat pumps, various plants (steel rolling, nonferrous metals, etc.), various internal combustion engines, special alloys and other new materials (target materials, etc.), analysis and testing of material
Engineering:	Various plants (direct reduction ironmaking, pelletizing, petrochemical, nuclear power-related, water treatment, waste treatment, etc.), urban transit systems, pharmaceutical and fine chemical machinery
Construction Machinery:	Hydraulic excavators, mini excavators, environmental recycling machinery, crawler cranes, wheel cranes, remote operation system for heavy machinery, and crane construction planning support software
Electric Power:	Electric power and heat supply
Other:	High-pressure gas cylinder manufacturing

(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 profit (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 U.S. dollars (Note 1)
		2026	2025	2026
Sales to outside customers:	Steel & Aluminum	¥ 961,469	¥ 1,078,015	\$ 6,013,695
	Advanced Materials	320,218	304,353	2,002,866
	Welding	95,610	93,222	598,012
	Machinery	269,014	251,644	1,682,601
	Engineering	191,521	172,389	1,197,909
	Construction Machinery	389,472	387,858	2,436,027
	Electric Power	203,201	258,807	1,270,960
	Other Businesses	4,083	7,439	25,544
Total sales to outside customers		¥ 2,434,591	¥ 2,553,730	\$ 15,227,618
Intersegment sales:	Steel & Aluminum	¥ 35,447	¥ 38,145	\$ 221,715
	Advanced Materials	12,651	12,776	79,130
	Welding	853	689	5,338
	Machinery	13,727	13,512	85,861
	Engineering	2,376	2,459	14,866
	Construction Machinery	88	179	553
	Electric Power	-	-	-
	Other Businesses	1,810	1,488	11,324
Total intersegment sales		¥ 66,956	¥ 69,251	\$ 418,791
Total sales:	Steel & Aluminum	¥ 996,917	¥ 1,116,160	\$ 6,235,411
	Advanced Materials	332,869	317,129	2,081,996
	Welding	96,463	93,911	603,351
	Machinery	282,741	265,157	1,768,463
	Engineering	193,898	174,848	1,212,775
	Construction Machinery	389,560	388,038	2,436,581
	Electric Power	203,201	258,807	1,270,960
	Other Businesses	5,894	8,928	36,868
Total segment sales		2,501,548	2,622,981	15,646,410
Adjustment		1,989	1,301	12,444
Elimination		(66,956)	(69,251)	(418,791)
Consolidated net sales		¥ 2,436,581	¥ 2,555,031	\$ 15,240,063
Segment profit (loss):	Steel & Aluminum	¥ 2,885	¥ 23,658	\$ 18,046
	Advanced Materials	8,704	10,705	54,441
	Welding	5,861	5,242	36,662
	Machinery	46,703	32,580	292,115
	Engineering	12,627	16,100	78,979
	Construction Machinery	12,366	18,792	77,351
	Electric Power	34,764	52,310	217,439
	Other Businesses	5,090	3,827	31,836
Total segment income (loss)		129,002	163,216	806,872
Adjustment		(7,666)	(6,023)	(47,950)
Consolidated ordinary income		¥ 121,336	¥ 157,192	\$ 758,921

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2026	2025	2026
Assets:	Steel & Aluminum	¥ 1,168,557	¥ 1,203,027	\$ 7,308,963
	Advanced Materials	307,354	279,094	1,922,409
	Welding	106,616	95,860	666,855
	Machinery	290,940	270,873	1,819,743
	Engineering	202,383	179,501	1,265,844
	Construction Machinery	407,505	387,658	2,548,820
	Electric Power	359,085	375,260	2,245,971
	Other Businesses	46,401	44,478	290,229
	Total segment assets	2,888,845	2,835,755	18,068,837
	Adjustment	(23,660)	55,297	(147,991)
	Total	¥ 2,865,184	¥ 2,891,053	\$ 17,920,845
Depreciation:	Steel & Aluminum	¥ 61,481	¥ 61,829	\$ 384,550
	Advanced Materials	9,661	8,775	60,428
	Welding	2,498	2,425	15,626
	Machinery	7,290	6,939	45,602
	Engineering	2,893	2,651	18,095
	Construction Machinery	11,063	12,443	69,195
	Electric Power	24,275	24,771	151,836
	Other Businesses	218	309	1,366
	Total segment depreciation	119,382	120,145	746,703
	Adjustment	4,565	2,293	28,555
	Total	¥ 123,948	¥ 122,439	\$ 775,258
Amortization of goodwill:	Steel & Aluminum	¥ -	¥ 4	\$ -
	Advanced Materials	-	-	-
	Welding	73	73	458
	Machinery	375	498	2,351
	Engineering	-	-	-
	Construction Machinery	-	-	-
	Electric Power	-	-	-
	Other Businesses	-	-	-
	Total segment amortization of goodwill	449	575	2,810
	Adjustment	-	-	-
	Total	¥ 449	¥ 575	\$ 2,810
Interest income:	Steel & Aluminum	¥ 607	¥ 625	\$ 3,796
	Advanced Materials	117	87	737
	Welding	624	582	3,905
	Machinery	808	642	5,054
	Engineering	1,459	986	9,128
	Construction Machinery	1,387	1,559	8,677
	Electric Power	90	69	568
	Other Businesses	8	4	52
	Total segment interest income	5,103	4,557	31,921
	Adjustment	(1,958)	(1,927)	(12,252)
	Total	¥ 3,144	¥ 2,630	\$ 19,668
Interest expense:	Steel & Aluminum	¥ 5,004	¥ 4,729	\$ 31,300
	Advanced Materials	3,824	3,884	23,919
	Welding	37	40	236
	Machinery	419	583	2,624
	Engineering	89	122	560
	Construction Machinery	2,812	2,655	17,589
	Electric Power	4,491	5,544	28,090
	Other Businesses	55	63	344
	Total segment interest expense	16,733	17,624	104,665
	Adjustment	(3,329)	(3,712)	(20,822)
	Total	¥ 13,404	¥ 13,911	\$ 83,842

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2026	2025	2026
Share of profit (loss) of entities accounted for using equity method:	Steel & Aluminum	¥ 9,675	¥ 8,233	\$ 60,519
	Advanced Materials	129	(28)	812
	Welding	(0)	26	(0)
	Machinery	102	283	642
	Engineering	(491)	(570)	(3,072)
	Construction Machinery	625	541	3,909
	Electric Power	-	-	-
	Other Businesses	4,998	3,867	31,262
	Total segment share of profit (loss) of entities accounted for using equity method	15,040	12,354	94,072
	Adjustment	(919)	(579)	(5,754)
Total		¥ 14,120	¥ 11,774	\$ 88,318
Investments in equity method companies:	Steel & Aluminum	¥ 105,899	¥ 89,231	\$ 662,369
	Advanced Materials	1,033	904	6,466
	Welding	1,324	1,340	8,281
	Machinery	360	1,315	2,257
	Engineering	7,408	6,156	46,339
	Construction Machinery	9,642	9,049	60,311
	Electric Power	-	-	-
	Other Businesses	33,922	31,340	212,174
	Total segment investments in equity method companies	159,592	139,338	998,200
	Adjustment	(6,987)	(6,201)	(43,705)
Total		¥ 152,604	¥ 133,137	\$ 954,494
Capital expenditures:	Steel & Aluminum	¥ 68,050	¥ 57,264	\$ 425,636
	Advanced Materials	11,978	13,276	74,924
	Welding	4,049	2,274	25,328
	Machinery	15,640	8,591	97,825
	Engineering	3,046	3,161	19,056
	Construction Machinery	13,287	19,433	83,108
	Electric Power	8,890	2,450	55,608
	Other Businesses	406	295	2,543
	Total segment capital expenditures	125,351	106,748	784,032
	Adjustment	3,211	9,144	20,089
Total		¥ 128,562	¥ 115,893	\$ 804,121

Notes:

Details about adjustments at March 31, 2026 and 2025 were as follows:

Segment sales

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

Segment profit (loss)

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2026	2025	2026
Companywide profit (loss)	¥	(6,828)	¥ (658)	\$ (42,707)
Other adjustments		(838)	(5,365)	(5,242)
Total	¥	(7,666)	¥ (6,023)	\$ (47,950)

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 U.S. dollars (Note 1)
	2026	2025	2026
Companywide assets	¥ 272,802	¥ 307,631	\$ 1,706,297
Other adjustments	(296,463)	(252,334)	(1,854,289)
Total	¥ (23,660)	¥ 55,297	\$ (147,991)

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, as well as intersegment transactions.

Interest expense

Adjustment is related mainly to financial liabilities which are not allocated to reportable segments or other businesses, as well as intersegment transactions.

Equity in income (loss) of equity method companies

Adjustment is related mainly to the income (loss) of affiliates which are 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 U.S. dollars (Note 1)
	2026		2025		2026
Japan	¥	1,588,713	¥	1,674,229	\$ 9,936,910
America		174,151		185,408	1,089,266
Others		673,716		695,394	4,213,886
Total	¥	2,436,581	¥	2,555,031	\$ 15,240,063

(b) Property, plant and equipment by geographic location

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

(2) Information by Major Customer

Net sales

Related segment		Millions of yen		Thousands of U.S. dollars (Note 1)
		2026	2025	2026
Shinsho Corporation	Steel & Aluminum, etc.	¥ 267,072	¥ 289,835	\$ 1,670,457

(3) Impairment Loss by Reportable Segments

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2026	2025	2026
Impairment loss	Steel & Aluminum	¥ 21,000	¥ 7,326	\$ 131,350
	Advanced Materials	163	2,591	1,020
	Welding	-	-	-
	Machinery	1,511	99	9,453
	Engineering	82	-	517
	Construction Machinery	196	17,383	1,231
	Electric Power	-	-	-
	Other Businesses	1,200	-	7,511
	Total segment impairment loss	24,155	27,401	151,084
	Adjustment	3	-	20
	Total	¥ 24,158	¥ 27,401	\$ 151,105

(4) Amortization and Balance of Goodwill by Reportable Segments

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2026	2025	2026
Amortization of goodwill	Steel & Aluminum	¥ -	¥ 4	\$ -
	Advanced Materials	-	-	-
	Welding	73	73	458
	Machinery	375	498	2,351
	Engineering	-	-	-
	Construction Machinery	-	-	-
	Electric Power	-	-	-
	Other Businesses	-	-	-
	Total segment amortization of goodwill	449	575	2,810
	Adjustment	-	-	-
Total		449	575	2,810
Balance at the end of the period	Steel & Aluminum	-	-	-
	Advanced Materials	-	-	-
	Welding	122	195	764
	Machinery	1,711	2,049	10,707
	Engineering	-	-	-
	Construction Machinery	-	-	-
	Electric Power	-	-	-
	Other Businesses	-	-	-
	Total segment balance of goodwill	1,834	2,244	11,471
	Adjustment	-	-	-
Total		¥ 1,834	¥ 2,244	\$ 11,471

(5) Gain on bargain purchase by Reportable Segments

For the fiscal year ended March 31, 2025, the Company recorded a gain on bargain purchase of ¥16,708 million under extraordinary income in the Steel & Aluminum segment, resulting from the acquisition of additional shares of Kansai Coke & Chemicals Co., Ltd., which led to its consolidation as a subsidiary.

32. Profit per share

The basis of calculating profit per share for the years ended March 31, 2026 and 2025 was as follows:

	Millions of	Thousands of shares	Yen	U.S. dollars (Note 1)
	Profit attributable to owners of parent	Weighted average number of shares	Profit per share	Profit per share
For the year ended March 31, 2026				
Profit attributable to common stockholders	¥ 93,717	394,088	¥ 237.80	\$ 1.48
For the year ended March 31, 2025				
Profit attributable to common stockholders	¥ 120,180	394,489	¥ 304.64	\$ 2.03

Notes:

1. Diluted profit per share is not presented as there is no dilutive common share.
2. The shares held by the Board Benefit Trust (BBT) are recorded under net assets as treasury shares. In calculating profit (loss) per share, the number of treasury shares excluded from the weighted-average number of shares issued during the fiscal year includes the number of shares held by the BBT (287 thousand of shares for the year ended March 31, 2026 and 598 thousand of shares for the year ended March 31, 2025).

33. Fee-related Information

(1) Fees to Certified Public Accountants (KPMG AZSA LLC)

(a) Audit fees

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2026	2025	2026	
The Company	¥ 211	¥ 197	\$ 1,323	
Consolidated subsidiaries	342	311	2,145	
	¥ 554	¥ 508	\$ 3,468	

(b) Non-audit fees

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2026	2025	2026	
The Company	¥ 47	¥ 37	\$ 297	
Consolidated subsidiaries	5	38	36	
	¥ 53	¥ 76	\$ 333	

Notes:

1. The fiscal year ended March 31, 2026

The non-audit services provided to our Company mainly comprised advisory services related to sustainability disclosures, among other things. In addition, the non-audit services provided to our consolidated subsidiaries mainly comprised referred work for overseas subsidiaries, among others.

2. The fiscal year ended March 31, 2025

The non-audit services provided to our Company mainly comprised advisory services related to sustainability disclosures, among other things. In addition, the non-audit services provided to our consolidated subsidiaries mainly comprised advisory services related to the enhancement of internal audit operations, among others.

(2) Fees to Certified Public Accountants (KPMG network firms, excluding KPMG AZSA LLC)

(a) Audit fees

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2026	2025	2026	
The Company	¥ -	¥ -	\$ -	
Consolidated subsidiaries	115	135	725	
	¥ 115	¥ 135	\$ 725	

(b) Non-audit fees

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2026	2025	2026	
The Company	¥ 86	¥ 76	\$ 542	
Consolidated subsidiaries	116	172	727	
	¥ 202	¥ 249	\$ 1,269	

Notes:

1. The fiscal year ended March 31, 2026

The non-audit services provided to our Company mainly comprised advisory services related to the consideration of new businesses, among other things. In addition, the non-audit services provided to our consolidated subsidiaries mainly comprised advisory services related to taxation, among others.

2. The fiscal year ended March 31, 2025

The non-audit services provided to our Company mainly comprised advisory services related to the consideration of new businesses, among other things. In addition, the non-audit services provided to our consolidated subsidiaries mainly comprised advisory services related to taxation, among others.

34. Additional Information

Introduction of a Board Benefit Trust (BBT) for Directors

The Company introduced a stock compensation plan, or BBT, to link the compensations of Directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee Members) and Executive Officers more clearly to the Company's performance and the value of its stock and to encourage the Directors to contribute to improve medium- to long-term business performance and enhance corporate value.

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

(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, etc., in accordance with the director stock benefit rules established by the Company, the Company's shares (hereinafter the "Company's Shares and Money") are provided through the trust.

In addition, Directors and Other Executives shall receive the Company's Shares and Money 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 recorded as treasury shares as part of net assets based on the book value (excludes amounts for incidental expenses). The corresponding treasury shares book value was ¥201 million (\$1,261 thousand) for 136 thousand shares for the year ended March 31, 2026 and ¥932 million for 627 thousand shares for the year ended March 31, 2025.



Independent auditor's report

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

Report on the Audit of the Consolidated Financial Statements

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, 2026 and 2025, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and 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, 2026 and 2025, and its consolidated financial performance and its consolidated 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 of public interest entities 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of the Group's valuation of long-lived assets used by Kobe Steel's aluminum rolled products business

The key audit matter	How the matter was addressed in our audit
In the consolidated balance sheet of Kobe Steel, Ltd. (the "Company") and its consolidated subsidiaries (collectively, the "Group") for the current fiscal year, property,	The primary procedures we performed to assess the appropriateness of the Group's valuation of long-lived assets used by the Company's aluminium rolled products business included the following:

plant and equipment of ¥1,020,901 million and intangible assets of ¥57,680 million were recognized. As described in Note 2, “Summary of Significant Accounting Policies, (20) Significant accounting estimates, Impairment of long-lived assets” to the consolidated financial statements, the Group recognized an impairment loss on long-lived assets in the Company’s aluminum rolled products business amounting to ¥20,985 million in the consolidated statement of income for the current fiscal year.

While these long-lived assets are depreciated or amortized in a systematic manner, they are required to be tested for impairment whenever there is an impairment indicator. The impairment test is performed by comparing the undiscounted future cash flows expected to be generated from the asset groups with their carrying amounts. If the recognition of an impairment loss is considered necessary, the carrying amount is reduced to the recoverable amount, and the resulting decrease in the carrying amount is recognized as an impairment loss.

The Company’s aluminum rolled products business has incurred recurring operating losses for consecutive years, primarily due to delays in expanding sales of automotive panel materials and delays in passing increased procurement costs on to sales prices, which constituted indicators of impairment. Accordingly, the Group performed an impairment test during the current fiscal year. As a result, since the estimated undiscounted future cash flows were less than the carrying amount of the relevant long-lived assets, it was determined that an impairment loss should be recognized.

The Group used the value in use as the recoverable amount to measure the impairment loss. The future cash flows, which formed the basis for determining the value in use, were estimated based on key assumptions, including sales volume derived from market forecasts in management’s the business plan and cost reductions to be achieved through restructuring initiatives and optimization of production systems, taking

(1) Internal control testing

We tested the design and operating effectiveness of certain of the Group’s internal controls relevant to the valuation of long-lived assets.

(2) Assessment of the appropriateness of estimated undiscounted future cash flows

We assessed the appropriateness of key assumptions included in the business plan that formed the basis for estimating future cash flows by inquiring of the personnel responsible for the business department and the accounting department regarding the basis on which those assumptions were developed, and by performing the following procedures, among others:

- assessed the consistency of the future cash flows with the business plan, including budgets for the next fiscal year approved by the board of directors;
- assessed the reasonableness of sales volume based on the market forecasts by obtaining market trend and other forecast reports published by an external organization, evaluating the consistency of the Company’s demand forecasts with such reports, and inspecting documentation of customer negotiations;
- assessed the feasibility of planned cost reduction through restructuring initiatives and optimization of production systems, by inspecting relevant minutes of the board of directors’ meetings and the business department as well as other supporting materials; and
- assessed whether uncertainty in key assumptions used by management for estimating future cash flows was appropriately reflected considering historical performance relative to the past business plans.

(3) Assessment of the appropriateness of the discount rate

We compared the discount rate applied by management with an independent estimate developed by valuation specialists within our domestic network firms using external information.

into consideration uncertainties associated with those assumptions. Accordingly, management's judgment thereon had a significant effect on the calculation of value in use.

In addition, selecting appropriate models and input data for estimating the discount rate, used to calculate value in use, required a high degree of valuation expertise.

We, therefore, determined that our assessment of the appropriateness of the Group's valuation of long-lived assets used by the Company's aluminum rolled products business was of most significance in our audit of the consolidated financial statements for the current fiscal year and, accordingly, a key audit matter.

Other Information

The other information comprises the information included in the disclosure documents that contain or accompany the audited financial statements, but does not include the consolidated financial statements and our auditor's report thereon.

We do not perform any work on the other information as we determine such information does not exist.

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 with regard to 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.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purpose 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the audit and supervisory committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Fee-related Information

Fees paid or payable to our firm and to other firms within the same network as our firm for audit and non-audit services provided to the Company and its subsidiaries are described in “Fee-related information” included in Note 33 of the Consolidated financial statements.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2026 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.

Hisaki Nakajima

Designated Engagement Partner

Certified Public Accountant

Ken Tsukamoto

Designated Engagement Partner

Certified Public Accountant

Tomoyuki Haruna

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Osaka Office, Japan

June 18, 2026

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.