

Kobe Steel's Consolidated Financial Results for the First Half of Fiscal 2021 (April 1-September 30, 2021)

November 5, 2021

Company name: Kobe Steel, Ltd.
 Code number: 5406
 Stock exchanges listed: Tokyo and Nagoya, Japan
 Website: <https://www.kobelco.co.jp/english/>
 Representative: Mitsugu Yamaguchi, President, CEO and Representative Director
 Filing of half-yearly report: November 5, 2021
 Dividend payments begin: December 1, 2021
 Supplemental information available: Yes
 IR Briefing: Yes (Japanese only)
 Contact: General Administration and CSR Department
 Tel. +81 (0) 3 5739-6010

(Sums of less than 1 million yen are omitted.)

1. Consolidated results for the first half of FY2021 (April 1-September 30, 2021)

(1) Consolidated operating results

(The percentage indicates the change from the corresponding period of the previous year.)

	Net sales		Operating income (loss)		Ordinary income (loss)		Net income (loss) attributable to owners of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2021 1H	972,182	25.2	46,814	—	44,336	—	34,519	—
FY2020 1H	776,406	(17.8)	(27,142)	—	(35,259)	—	(15,209)	—

Note: Comprehensive income FY2021 1H: 55,850 million yen [—%]
 FY2020 1H: (15,151) million yen [—%]

	Net income (loss) per share	Diluted net income per share
	Yen	Yen
FY2021 1H	95.16	—
FY2020 1H	(41.93)	—

(2) Consolidated financial position

	Total assets	Net assets	Equity capital ratio
	Million yen	Million yen	%
FY2021 1H	2,627,481	816,821	28.8
FY2020	2,582,873	769,375	27.5

Reference: Equity capital FY2021 1H: 756,392 million yen FY2020: 710,362 million yen

2. Dividends

	Annual dividends				
	1Q	2Q	3Q	4Q	Total
	Yen	Yen	Yen	Yen	Yen
FY2020	—	0.00	—	10.00	10.00
FY2021	—	10.00	—	—	—
FY2021 Forecast	—	—	—	—	—

Revision to the dividend forecast for FY2021 from the previous announcement: No

The dividend for the end of fiscal 2021 is undetermined.

3. Consolidated earnings forecast for FY2021 (April 1, 2021-March 31, 2022)

(The percentage indicates the change from the corresponding period of the previous year.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	2,090,000	22.5	85,000	179.6	75,000	363.3	50,000	115.2	133.32

Revision to the consolidated forecast for FY2021 from the previous announcement: Yes

Notes

(1) Changes in the number of material subsidiaries in this fiscal year

(Changes in specified subsidiaries due to changes in scope of consolidation): No

(2) Adoption of specific accounting procedures for preparing the quarterly consolidated financial statements: No

(3) Changes in accounting policies, estimates and restatement on the preparation of consolidated financial statements

- Changes in accounting policies due to revised accounting standards: Yes

- Other changes: No

- Changes in accounting estimates: No

- Restatement: No

(4) Number of issued shares (common stock)

	FY2021 1H	FY2020
Number of issued shares (including treasury stock)	364,364,210 shares	364,364,210 shares
Number of shares of treasury stock	1,637,874 shares	1,670,210 shares
Average number of shares (1H)	362,718,142 shares	362,696,662 shares

Explanation on the Appropriate Use of the Forecast and Other Special Notes

The above forecast is based on currently available information as of today.

Actual results may differ considerably due to various changeable conditions in the future.

For preconditions on the forecast and other related factors, please refer to the IR briefing material, "Financial Results for the First Half of Fiscal 2021 and Forecast for the Full Fiscal Year" .

CONSOLIDATED FINANCIAL STATEMENTS**Consolidated Balance Sheets**

(In millions of yen)

ASSETS	FY2020 Ended March 31, 2021	FY2021 1H Ended September 30, 2021
Current Assets		
Cash and deposits	262,345	229,769
Notes and accounts receivable	313,994	-
Notes and accounts receivable, and contract assets	-	320,915
Securities	55,199	55,199
Merchandise and finished goods	169,717	186,998
Work-in-process	122,114	133,511
Raw materials and supplies	158,442	185,512
Other	76,792	78,537
Allowance for doubtful accounts	(2,427)	(2,555)
Total current assets	1,156,180	1,187,890
Fixed Assets		
Property, plant and equipment		
Buildings and structures	247,469	264,966
Machinery and equipment	441,128	465,854
Land	134,961	135,377
Other	255,059	216,299
Total property, plant and equipment	1,078,619	1,082,499
Intangible fixed assets	36,565	36,338
Investments and other assets		
Investments in securities	172,415	178,713
Other	157,547	158,847
Allowance for doubtful accounts	(18,454)	(16,807)
Total investment and other assets	311,508	320,753
 Total fixed assets	 1,426,693	 1,439,591
 Total assets	 2,582,873	 2,627,481

LIABILITIES	FY2020 Ended March 31, 2021	FY2021 1H Ended September 30, 2021
Current liabilities		
Notes and accounts payable	382,751	461,886
Short-term borrowings	161,803	116,537
Current portion of bonds	20,572	45,540
Income and enterprise taxes payable	9,587	6,056
Provisions	55,321	52,673
Other	185,711	151,556
Total current liabilities	815,747	834,251
Long-term liabilities		
Bonds and notes	61,050	45,975
Long-term borrowings	744,382	737,985
Lease obligations	59,970	57,751
Net defined benefit liability	84,135	87,461
Provisions	3,419	3,294
Other	44,792	43,941
Total long-term liabilities	997,750	976,408
Total liabilities	1,813,498	1,810,659
NET ASSETS		
Stockholders' equity		
Common stock	250,930	250,930
Capital surplus	102,228	102,228
Retained earnings	368,892	396,116
Treasury stock	(2,261)	(2,225)
Total stockholders' equity	719,789	747,050
Accumulated other comprehensive income		
Unrealized gains or losses on securities, net of taxes	15,757	22,911
Unrealized gains or losses on hedging derivatives, net of taxes	(13,764)	(14,519)
Land revaluation differences, net of taxes	(3,406)	(3,406)
Foreign currency translation adjustments	(4,568)	5,837
Remeasurements of defined benefit plans, net of taxes	(3,444)	(1,481)
Total accumulated other comprehensive income	(9,427)	9,342
Non-controlling interests	59,013	60,429
Total net assets	769,375	816,821
Total liabilities and net assets	2,582,873	2,627,481

Consolidated Statements of Income

(In millions of yen)

	FY2020 1H Ended September 30, 2020	FY2021 1H Ended September 30, 2021
Net sales	776,406	972,182
Cost of sales	710,762	821,236
Gross profit	65,644	150,946
Selling, general and administrative expenses	92,787	104,131
Operating income (loss)	(27,142)	46,814
Non-operating income		
Interest income	1,087	925
Dividend income	1,649	1,660
Reimbursement of seconded employees' salaries	1,640	1,760
Equity in income of equity method companies	—	5,907
Other	6,164	5,734
Total non-operating income	10,541	15,987
Non-operating expenses		
Interest expense	5,253	6,632
Seconded employees' salaries	4,314	4,557
Equity in loss of equity method companies	1,533	—
Other	7,557	7,275
Total non-operating expenses	18,658	18,465
Ordinary income (loss)	(35,259)	44,336
Extraordinary income		
Gain on sale of fixed assets	9,816	—
Gain on step acquisitions	3,259	—
Gain on sale of investment securities	3,106	—
Total extraordinary income	16,183	—
Extraordinary loss		
Loss on impairment	2,539	—
Total extraordinary loss	2,539	—
Income (loss) before income taxes and non-controlling interests	(21,616)	44,336
Income Taxes		
Current	2,233	7,538
Deferred	(10,097)	41
Total income taxes	(7,863)	7,579
Income (loss) before non-controlling interests	(13,752)	36,756
Net income attributable to non-controlling interests	1,457	2,237
Net income (loss) attributable to owners of the parent	(15,209)	34,519

Consolidated Statements of Comprehensive Income

(In millions of yen)

	FY2020 1H Ended September 30, 2020	FY2021 1H Ended September 30, 2021
Income (loss) before non-controlling interests	(13,752)	36,756
Other comprehensive income		
Unrealized gains or losses on securities, net of taxes	2,529	7,202
Unrealized gains or losses on hedging derivatives, net of taxes	1,387	(1,269)
Land revaluation differences, net of taxes	(792)	—
Foreign currency translation adjustments	(5,619)	11,407
Remeasurements of defined benefit plans, net of taxes	1,819	2,136
Share of other comprehensive gains and losses related to equity method companies	(724)	(383)
Total other comprehensive income	(1,399)	19,093
Comprehensive Income	(15,151)	55,850
Breakdown of total comprehensive income attributed to:		
Stockholders of the parent interests	(16,638)	53,288
Non-controlling interests	1,486	2,561

Notes

Notes on the going concern assumption: None

Notes on substantial changes in the amount of shareholders' equity: None

Changes in the accounting policy

Adoption of the Accounting Standard for Revenue Recognition and other related guidelines

Kobe Steel has adopted the Accounting Standard for Revenue Recognition issued by the Accounting Standards Board of Japan (ASBJ Statement No. 29, March 31, 2020) and other related guidelines from the beginning of the first quarter of the current consolidated fiscal year. Based on this, the Company will recognize revenue when the control of the promised goods or services has been transferred to customers, at the amount expected to be received in exchange for those goods or services. Accordingly, the Company will reflect the amounts of discounts, rebates and the like, which were previously deducted from net sales when the amount was fixed, in the transaction price at the time of revenue recognition.

In adopting the Accounting Standard for Revenue Recognition and other related guidelines, the Company relies on the transitional procedures provided in the proviso of Article 84 of the Accounting Standard for Revenue Recognition. The new accounting method has been applied to the balance from the beginning of the current consolidated fiscal year with retrospective cumulative effects, which could have arisen from the application of the new accounting method in the periods prior to the beginning of the current first quarter, being added to or subtracted from the balance of retained earnings at the beginning of the first quarter of the current consolidated fiscal year.

On the other hand, the new accounting method was not applied retrospectively to contracts in which almost all of the revenue amounts were recognized in accordance with the previous procedures before the beginning of the first quarter of the current consolidated fiscal year pursuant to the provision of Article 86 of the Accounting Standard for Revenue Recognition. In addition, pursuant to the method set forth in Item (1) of the supplementary provision of Article 86 of the Accounting Standard for Revenue Recognition, the contractual changes that were made prior to the beginning of the first quarter of the current consolidated fiscal year have been accounted with cumulative effects being added to or subtracted from the balance of retained earnings at the beginning of the first quarter of the current consolidated fiscal year in accordance with the terms and conditions after all contractual changes have been made.

As a result, the balance of retained earnings at the beginning of the current fiscal year decreased by 631 million yen. This has only a slight impact on the current half-yearly consolidated statements of income.

With the adoption of the Accounting Standard for Revenue Recognition and other related guidelines, the Company has introduced a new account item of "notes and accounts receivable, and contract assets" in the list of current assets of the consolidated balance sheets since the current first quarter, in place of "notes and accounts receivable" which was formerly applied to the previous consolidated fiscal years. The Company has not reclassified its financial statements for the previous consolidated fiscal year with the new account item in accordance with the transitional procedures stipulated in Article 89-2 of the Accounting Standard for Revenue Recognition.

Adoption of the Accounting Standard for Fair Value Measurement and other related guidelines

The Company has adopted the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019) and other related guidelines from the beginning of the first quarter of the current consolidated fiscal year.

The Company will use new accounting methods stipulated in Fair Value Accounting Standards and other related guidelines in accordance with the transitional procedures specified in Article 19 of the Fair Value Accounting Standards and Article 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019).

This has no impact on the quarterly consolidated financial statements.