

Kobe Steel's Consolidated Financial Results for Fiscal 2021 (April 1, 2021-March 31, 2022)

May 11, 2022

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
 Annual shareholders meeting: June 22, 2022
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 Supplemental information available: Yes
 IR Briefing: Yes (in Japanese only)
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(Sums of less than 1 million yen are omitted.)

1. Consolidated results for FY2021 (April 1, 2021-March 31, 2022)

(1) Consolidated operating results

(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	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2021	2,082,582	22.1	87,622	188.2	93,233	475.9	60,083	158.6
FY2020	1,705,566	(8.8)	30,398	208.2	16,188	—	23,234	—

Note: Comprehensive income FY2021: 105,879 million yen [96.2%]

FY2020: 53,968 million yen [—%]

	Net income per share	Diluted net income per share	Ratio of net income to equity (ROE)	Ratio of ordinary income to total assets (ROA)	Ratio of operating income to net sales (ROS)
	Yen	Yen	%	%	%
FY2021	160.23	—	7.9	3.5	4.2
FY2020	64.05	—	3.4	0.6	1.8

Reference: Equity in income of affiliates FY2021: 14,126 million yen

FY2020: 666 million yen

(2) Consolidated financial position

	Total assets	Net assets	Equity capital ratio	Net assets per share
	Million yen	Million yen	%	Yen
FY2021	2,728,745	872,346	29.9	2,066.48
FY2020	2,582,873	769,375	27.5	1,958.57

Reference: Equity capital FY2021: 815,326 million yen FY2020: 710,362 million yen

(3) Consolidated cash flow

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
	Million yen	Million yen	Million yen	Million yen
FY2021	168,809	(161,510)	(69,143)	260,511
FY2020	194,798	(141,853)	118,444	317,310

2. Dividends

	Annual dividends					Total amount of dividends	Dividend payout ratio (consolidated)	Dividends on net assets (consolidated)
	1Q	2Q	3Q	4Q	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY2020	-	0.00	-	10.00	10.00	3,641	15.6	0.5
FY2021	-	10.00	-	30.00	40.00	15,523	25.0	2.0
FY2022 Forecast	-	-	-	-	-		-	

Kobe Steel has revised the dividend forecast for the fiscal year ending March 2022 to pay a year-end dividend of 30 yen, instead of 20 yen previously announced. For details, please refer to the Announcement on Revisions to Dividend Forecast for Fiscal 2021, ending March 31, 2022, announced today.

Dividends for fiscal 2022 are undetermined.

3. Consolidated earnings forecast for FY2022 (April 1, 2022-March 31, 2023)

(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
First half	1,160,000	19.3	25,000	(46.6)	35,000	(21.1)	30,000	(13.1)	76.03
Full year	2,370,000	13.8	80,000	(8.7)	80,000	(14.2)	60,000	(0.1)	152.07

For more information, please refer to the Financial Results for Fiscal 2021 and Forecast for Fiscal 2022, announced today.

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) 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

For details, please refer to the Notes to Consolidated Financial Statements, Changes in Accounting Policies on page 19.

(3) Number of issued shares (common stock)

	FY2021	FY2020
Number of issued shares (including treasury stock)	396,345,963 shares	364,364,210 shares
Number of shares of treasury stock	1,798,236 shares	1,670,210 shares
Average number of shares	374,961,348 shares	362,695,414 shares

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

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

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

The basis for dividend payments is continuous and stable distribution. Factors taken into overall consideration are the Company's financial condition, business performance, future capital requirements and other issues. As the outlook for many of these factors is unclear at this point, Kobe Steel is unable to make a dividend forecast for the fiscal year ending March 2023. When it becomes possible to make a forecast, Kobe Steel will promptly make an announcement.

1. Overview of Operating Results and Other Items

Fiscal 2021 Consolidated Operating Results

During fiscal 2021, the Japanese economy showed signs of recovery against the backdrop of increased exports accompanied by the recovery of overseas economies. Overseas economies continued to pick up with increases in personal consumption and capital investment in the United States and a recovery in personal consumption in Europe, but the overall pace of recovery slowed due to a decline in infrastructure investment in China and the resurgence of COVID-19. In addition, the business environment surrounding our Company continued to be severe due to the prolonged rise in raw material and energy prices and the impact of automotive production reductions that was exacerbated by a global shortage of semiconductors and a shortage of parts supply, triggered by the spread of COVID-19 infection in Southeast Asia and other factors.

Under these circumstances, our Company continued to make efforts to improve profitability, including cost reductions, ensure stable production, and strive to improve our sales prices.

As a result, the Company's consolidated financial results for fiscal 2021 are as follows: Net sales increased by 377 billion yen from the previous fiscal year, which was affected by the COVID-19 pandemic, to 2,082.5 billion yen; operating income increased by 57.2 billion yen from the previous fiscal year to 87.6 billion yen; ordinary income increased by 77 billion yen from the previous fiscal year to 93.2 billion yen. A loss on sales of investment securities of 9.2 billion yen was recorded as an extraordinary loss, and net income attributable to owners of the parent increased by 36.8 billion yen from the previous fiscal year to 60 billion yen.

Conditions in the business segments for fiscal 2021 follow below.

Steel & Aluminum

(Steel)

Sales volume of steel products increased from the previous fiscal year, mainly in the automotive and construction sectors. Sales prices were higher than the previous fiscal year due to factors such as the adjustment of sales prices according to an increase in the steel market prices and the resolution of the gap between rising raw material prices and sales prices.

As a result, net sales increased by 33.2% from the previous fiscal year to 751 billion yen. Ordinary income (loss) was 34.6 billion yen, an improvement of 57.9 billion yen from the previous fiscal year, due to an increase in sales volume and an improvement in inventory valuation resulting from a rise in raw material prices, despite a negative factor affected by a delayed resolution of the gap between rising raw material prices and sales prices.

(Aluminum)

Sales volume of aluminum flat rolled products increased from the previous fiscal year due to an increase in demand and sales expansion in the automotive sector, in addition to the expansion of sales of beverage can materials.

As a result, net sales increased by 23.7% from the previous fiscal year to 163.8 billion yen. Ordinary income increased by 2.2 billion yen from the previous fiscal year to 2.8 billion yen, due to an increase in sales volume and an improvement in gains and losses on inventory valuation.

Overall sales of steel and aluminum products increased by 31.4% to 914.9 billion yen, and ordinary income (loss) improved by 60.1 billion yen to 37.5 billion yen.

Advanced Materials

Sales volume of advanced materials increased from the previous fiscal year, mainly in the automotive, IT and semiconductor sectors.

As a result, net sales increased by 39.9% from the previous fiscal year to 333.2 billion yen. Ordinary income (loss) improved by 17.3 billion yen from the previous fiscal year to 5.1 billion yen, due to an increase in sales volume and an improvement in inventory valuation resulting from the rise in the copper market prices.

Welding

In Japan, sales volume of welding materials increased from the previous fiscal year, mainly in the architectural steel frame sector. Overseas sales increased due to a recovery in demand for automobiles and construction machinery in Southeast Asia. As a result, net sales increased by 9.9% from the previous fiscal year to 76.9 billion yen, and ordinary income increased by 1 billion yen from the previous fiscal year to 2.7 billion yen.

Machinery

Orders increased by 55.2% from the previous fiscal year to 206.6 billion yen due to a recovery in capital investment, and the order backlog was 157 billion yen.*

Net sales decreased by 4.8% from the previous fiscal year to 166.8 billion yen due to weak orders in the previous fiscal year due to the impact of the COVID-19. Ordinary income increased by 1 billion yen from the previous fiscal year to 12.5 billion yen due to an improvement in the profit margin with an increase in service contracts and changes in the project composition.

*Previously, orders received by Kobe Steel, Ltd. and its major consolidated subsidiaries were counted. From the current fiscal year, the Company changed the method to count orders received by the Company and all of its consolidated subsidiaries. Accordingly, orders received in the previous fiscal year have been recalculated.

Engineering

Orders increased by 83.8% from the previous fiscal year to 208.5 billion yen, with an order backlog of 343 billion yen, due to large-scale orders in the DRI-related business and waste treatment-related business.

While net sales were similar to the previous fiscal year at 135.6 billion yen, ordinary income increased by 3.3 billion yen from the previous fiscal year to 7.7 billion yen due to an improvement in the profit margin with the progress of overseas projects affected by the COVID-19 pandemic and changes in the project composition.

Construction Machinery

Unit sales of hydraulic excavators increased from the previous fiscal year, which was affected by the COVID-19 pandemic, due to recovery in demand accompanied by increased infrastructure investment particularly in Southeast Asia and Europe, despite a decline in demand in China where infrastructure investment has decreased. On the other hand, while unit sales of crawler cranes decreased in North America, affected by the engine certification problem, it remained similar to the previous fiscal year due to recovery in demand in India and Europe.

As a result, net sales increased by 11.5% from the previous fiscal year to 371.6 billion yen. Ordinary income decreased by 0.6 billion yen from the previous fiscal year to 12 billion yen due to a deterioration in the sales mix and an increase in procurement costs, despite the yen's depreciation against the dollar and the euro.

Electric Power

Electricity sales were lower than the previous fiscal year due to the difference in operating days resulting from the implementation of statutory inspections at the Moka Power Plant and the downturn in demand from the previous fiscal year that saw a rise in demand due to temporary power supply-demand tightness. The unit price of electric power increased from the previous fiscal year due to the increase in the price of coal for power generation.

As a result, net sales increased by 36.6% from the previous fiscal year to 109.8 billion yen. Ordinary income decreased by 7.4 billion yen from the previous fiscal year to 13.2 billion yen, mainly due to a decrease in sales volume of electricity.

Other Businesses

Net sales increased by 3.6% from the previous fiscal year to 28.8 billion yen, and ordinary income increased by 2.8 billion yen from the previous fiscal year to 7 billion yen.

Dividends for Fiscal 2021

Kobe Steel determines dividends taking its financial condition, business performance, future capital needs and other factors into overall consideration with the aim of paying dividends on a continuous and steady basis in principle. Based on this policy, Kobe Steel has decided to pay a year-end dividend of 30 yen per share for fiscal 2021 (or a total of 40 yen for the full fiscal year 2021).

Outlook for Fiscal 2022

Although domestic economic activities are gradually returning to normal, the outlook for the future remains uncertain due to the stagnation of supply chains, the prolonged global shortage of semiconductors, and soaring prices of raw and other materials and energy. Overseas economies are also showing signs of recovery, but a full-fledged recovery will take time. In addition, the Russia's invasion of Ukraine has caused turmoil in the world economy and rapid exchange rate fluctuations, increasing uncertainty in demand trends and costs.

Under these circumstances, Kobe Steel anticipates consolidated net sales of approximately 2,370 billion yen, operating income of approximately 80 billion yen, ordinary income of approximately 80 billion yen, and net income attributable to owners of the parent of approximately 60 billion yen for fiscal 2022. This forecast is based on assumptions of uncertain factors: sales volume in the materials businesses that may be affected by automobile production trends; orders in the machinery businesses that may be affected by infrastructure investment; the resolution of the gap between rising materials/energy prices and sales prices, etc. In addition, the forecast assumes that the Company will steadily implement the priority measures to establish a stable earnings base as set forth in the KOBELCO Group Medium-Term Management Plan (FY2021-FY2023).

For the outlook for fiscal 2022, the Company assumes the status of each segment as follows.

Steel & Aluminum

(Steel)

Sales volume of steel products is expected to exceed the current consolidated fiscal year due to recovery in demand for automobiles. As for the sales price of steel products, we will steadily promote the adjustment of sales prices according to an increase in the steel market prices and the resolution of the gap between rising raw material prices and sales prices.

While net sales are expected to increase, ordinary income is anticipated to decline due to factors such as a decline in inventory valuation gains in the current consolidated fiscal year, despite positive factors such as an increase in sales volume and the resolution of the gap between rising raw material prices and sales prices.

(Aluminum)

Sales volume of aluminum flat rolled products is expected to exceed the current consolidated fiscal year due to a recovery in demand for automobiles and steady demand for beverage can materials and IT/semiconductor products.

Sales and ordinary income are expected to increase due to an increase in sales volume and other factors.

Advanced Materials

Sales volume of advanced materials is expected to exceed the current consolidated fiscal year, mainly in suspensions, aluminum extrusions, copper plates, iron powder, etc., as demand for automobiles recovers.

Net sales and ordinary income are expected to decrease due to the transfer of the copper tube business and other factors such as a decline in inventory valuation gains resulting from the rise in the copper market prices in the current consolidated fiscal year, although the Company anticipates an increase in sales volume and the improvement of sales prices.

Welding

Sales volume of welding materials is expected to exceed the current consolidated fiscal year due to steady demand for architectural steel frame and recovery in demand for shipbuilding and automobiles.

Sales and ordinary income are expected to increase due to an increase in sales volume and the improvement in sales prices.

Machinery

Orders are expected to be lower than in the current consolidated fiscal year, in which the Company received orders for large-scale industrial machinery projects and multiple compressor projects in China, although the demand environment remains strong.

While net sales are expected to increase, ordinary income is expected to decrease due to the deterioration of project profitability caused by the rise in procurement prices.

Engineering

Orders are expected to be lower than in the current consolidated fiscal year, in which the Company received orders for large-scale projects in the DRI-related business and the waste treatment-related business, although the demand environment remains strong.

While net sales are expected to increase, ordinary income is expected to decrease due to the deterioration in the project composition, mainly in the DRI-related business.

Construction Machinery

Sales of hydraulic excavators are expected to exceed the current consolidated fiscal year due to the resumption of import of new models produced in Japan that conform to engine certification in North America and robust demand in Europe, despite a decline in demand in China. Sales of crawler cranes are expected to exceed the current consolidated fiscal year due to steady demand, mainly in Japan.

While net sales are expected to increase, ordinary income is expected to decline due to factors such as the delayed resolution of the gap between rising procurement prices and sales prices.

Electric Power

Net sales and ordinary income are expected to increase due to the full-year operation of the No. 3 unit of the Kobe Power Plant, which started operation in fiscal 2021, and the start of operation of the No. 4 unit of the Kobe Power Plant, which is scheduled for the second half of fiscal 2022.

Financial Condition

Total assets at the end of fiscal 2021 amounted to 2,728.7 billion yen, an increase of 145.8 billion yen from the end of the previous fiscal year, due to an increase in inventories caused by a rise in raw material prices. Liabilities increased by 42.9 billion yen from the end of the previous fiscal year to 1,856.3 billion yen, mainly due to an increase in notes and accounts payable due to a rise in raw material prices. Net assets increased by 102.9 billion yen from the end of the previous fiscal year to 872.3 billion yen, mainly due to the recording of net income attributable to owners of the parent. As a result, the equity ratio at the end of fiscal 2021 was 29.9%, an increase of 2.4 points from the end of the previous fiscal year.

In the current consolidated fiscal year, net cash used in operating activities resulted in an income of 168.8 billion yen, while net cash used in investing activities resulted in a loss of 161.5 billion yen, partly due to expenditures for large-scale strategic investments. As a result, free cash flow resulted in an income of 7.2 billion yen. Net cash used in financing activities resulted in a loss of 69.1 billion yen, reflecting an increase in repayment of borrowings.

The balance of interest-bearing debt including IPP project finance at the end of the current consolidated fiscal year decreased by 79.3 billion yen from the end of the previous consolidated fiscal year to 908.4 billion yen.

Cash flow indicators are as follows:

Consolidated cash flow Indicators

	FY2017	FY2018	FY2019	FY2020	FY2021
Equity capital ratio	31.6%	31.0%	27.2%	27.5%	29.9%
Equity capital ratio at market price	16.5%	12.7%	5.0%	10.6%	8.6%
Ratio of cash flow to interest-bearing debt (years)	3.9	11.3	33.5	5.1	5.4
Interest coverage ratio (times)	14.9	7.5	3.0	16.6	12.5

Notes:

- Each indicator was calculated from the consolidated financial figures.
- Equity capital ratio = Stockholders' equity / total assets
- Equity capital ratio at market price = Market capitalization / total assets
(Market capitalization was calculated by multiplying the share price at the end of term by the number of outstanding shares at the end of term.)
- Ratio of cash flow to interest-bearing debt = outside debt / cash flows from operating activities
- Interest coverage ratio = Cash flows from operating activities / interest payments

2. Basic Approach to the Selection of Accounting Standards

Although the Kobe Steel Group has decided to adopt the Japanese accounting standards for the time being, the Company is considering the adoption of International Financial Reporting Standards (IFRS), through examining the differences between the IFRS and the Japanese accounting standards and studying the impact of the adoption of IFRS on the Group.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

(In millions of yen)

ASSETS	FY2020 Ended March 31, 2021	FY2021 Ended March 31, 2022
Current Assets		
Cash and deposits	262,345	243,502
Notes and accounts receivable	313,994	—
Notes	—	31,129
Accounts receivable	—	296,969
Contract assets	—	29,874
Securities	55,199	17,200
Merchandise and finished goods	169,717	209,417
Work-in-process	122,114	138,664
Raw materials and supplies	158,442	225,053
Other	76,792	99,760
Allowance for doubtful accounts	(2,427)	(4,256)
Total current assets	1,156,180	1,287,314
Fixed Assets		
Property, plant and equipment		
Buildings and structures	247,469	292,487
Machinery and equipment	441,128	528,904
Tools, furniture and fixtures	14,935	14,191
Land	134,961	131,896
Construction in progress	240,123	92,718
Total property, plant and equipment	1,078,619	1,060,197
Intangible fixed assets		
Software	19,538	20,358
Other	17,026	15,966
Total intangible assets	36,565	36,324
Investments and other assets		
Investments in securities	172,415	194,381
Long-term loan	3,658	3,147
Deferred tax assets	69,262	57,068
Net defined benefit asset	19,456	19,536
Other	65,169	90,181
Allowance for doubtful accounts	(18,454)	(19,408)
Total investment and other assets	311,508	344,908
Total fixed assets	1,426,693	1,441,430
Total assets	2,582,873	2,728,745

LIABILITIES	FY2020 Ended March 31, 2021	FY2021 Ended March 31, 2022
Current liabilities		
Notes and accounts payable	382,751	539,267
Short-term borrowings	161,803	87,265
Current portion of bonds	20,572	25,150
Accounts payable - other	85,023	34,055
Income and enterprise taxes payable	9,587	8,318
Contract liabilities	—	45,218
Provision for bonuses	18,655	22,878
Provision for product warranties	15,780	14,390
Provision for loss on construction contracts	18,562	14,730
Provision for loss on guarantees	924	448
Provision for customer compensation expenses	1,397	343
Other	100,688	92,871
Total current liabilities	815,747	884,939
Long-term liabilities		
Bonds and notes	61,050	45,900
Long-term borrowings	744,382	750,126
Lease obligations	59,970	51,427
Deferred tax liabilities	6,638	8,158
Deferred tax liabilities for land revaluation	3,251	3,253
Net defined benefit liability	84,135	79,978
Provision for environmental measures	1,799	1,634
Provision for dismantlement related expenses	1,620	1,416
Other	34,901	29,563
Total long-term liabilities	997,750	971,459
Total liabilities	1,813,498	1,856,399
NET ASSETS		
Stockholders' equity		
Common stock	250,930	250,930
Capital surplus	102,228	116,434
Retained earnings	368,892	418,033
Treasury stock	(2,261)	(2,261)
Total stockholders' equity	719,789	783,136
Accumulated other comprehensive income		
Unrealized gains or losses on securities, net of taxes	15,757	28,987
Unrealized gains or losses on hedging derivatives, net of taxes	(13,764)	(13,141)
Land revaluation differences, net of taxes	(3,406)	(3,400)
Foreign currency translation adjustments	(4,568)	16,054
Remeasurements of defined benefit plans, net of taxes	(3,444)	3,689
Total accumulated other comprehensive income	(9,427)	32,189
Non-controlling interests	59,013	57,019
Total net assets	769,375	872,346
Total liabilities and net assets	2,582,873	2,728,745

Consolidated Statements of Income

(In millions of yen)

	FY2020 Ended March 31, 2021	FY2021 Ended March 31, 2022
Net sales	1,705,566	2,082,582
Cost of sales	1,482,378	1,774,778
Gross profit	223,188	307,803
Selling, general and administrative expenses		
Haulage expenses	45,955	56,161
Salaries and allowances	43,792	45,563
Research and development expenses	17,028	19,754
Other	86,013	98,701
Total selling, general and administrative expenses	192,789	220,181
Operating income	30,398	87,622
Non-operating income		
Interest income	2,197	2,270
Dividend income	2,692	3,258
Reimbursement of seconded employees' salaries	3,277	3,416
Equity in income of equity method companies	666	14,126
Compensation income	609	8,670
Other	15,563	12,714
Total non-operating income	25,006	44,457
Non-operating expenses		
Interest expense	11,526	13,236
Seconded employees' salaries	8,680	9,496
Other	19,009	16,113
Total non-operating expenses	39,216	38,846
Ordinary income	16,188	93,233
Extraordinary income		
Gain on sale of fixed assets	9,900	—
Gain on step acquisitions	3,259	—
Gain on sale of investment securities	2,909	—
Total extraordinary income	16,069	—
Extraordinary loss		
Loss on sale of investment securities	—	9,220
Loss on impairment	13,509	—
Total extraordinary loss	13,509	9,220
Income before income taxes and non-controlling interests	18,748	84,013
Income taxes		
Current	9,585	16,083
Deferred	(13,490)	4,239
Total income taxes	(3,904)	20,323
Income before non-controlling interests	22,653	63,689
Net loss attributable to non-controlling interests	(580)	3,606
Net income attributable to owners of the parent	23,234	60,083

Consolidated Statements of Comprehensive Income

(In millions of yen)

	FY2020 Ended March 31, 2021	FY2021 Ended March 31, 2022
Income before non-controlling interests	22,653	63,689
Other comprehensive income		
Unrealized gains or losses on securities, net of taxes	13,261	13,211
Unrealized gains or losses on hedging derivatives, net of taxes	3,233	(28)
Land revaluation differences, net of taxes	(792)	5
Foreign currency translation adjustments	(4,463)	19,335
Remeasurements of defined benefit plans, net of taxes	17,438	7,170
Share of other comprehensive gains and losses related to equity method companies	2,636	2,493
Total other comprehensive income	31,314	42,189
Comprehensive Income	53,968	105,879
Breakdown of total comprehensive income attributed to:		
Stockholders of the parent interests	53,605	101,700
Non-controlling interests	363	4,178

Consolidated Statements of Changes in Net Assets

(In millions of yen)

FY2020 (April 1, 2020 – March 31, 2021)

	Stockholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total stockholders' equity
Balance at the beginning of fiscal year	250,930	102,350	345,660	(2,261)	696,678
Cumulative effect of changes in accounting policies					
Balance at the beginning of the current period reflecting changes in accounting policies	250,930	102,350	345,660	(2,261)	696,678
Amount of change					
Dividends of surplus					
Net income attributable to owners of the parent			23,234		23,234
Share exchanges					
Purchase of treasury stock				(2)	(2)
Disposal of treasury stock			(1)	1	0
Changes in stockholders interest due to transaction with non-controlling interests		(121)			(121)
Change of scope of consolidation and equity method			(1)		(1)
Changes in treasury stock due to changes in scope of application of equity method					
Change in shares of parent owned by entities accounted for using equity method					
Change in treasury stock arising from change in equity in entities accounted for using equity method-treasury stock				2	2
Reversal of revaluation reserve for land					
Net changes other than stockholders' equity					
Total changes	-	(121)	23,231	0	23,111
Balance at the end of fiscal year	250,930	102,228	368,892	(2,261)	719,789

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Unrealized gains or losses on securities, net of taxes	Unrealized gains or losses on hedging derivatives, net of taxes	Land revaluation differences, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Total other comprehensive income		
Balance at the beginning of fiscal year	1,485	(15,873)	(2,995)	(1,984)	(20,430)	(39,797)	59,487	716,369
Cumulative effect of changes in accounting policies								
Balance at the beginning of the current period reflecting changes in accounting policies	1,485	(15,873)	(2,995)	(1,984)	(20,430)	(39,797)	59,487	716,369
Amount of change								
Dividends of surplus								
Net income attributable to owners of the parent								23,234
Share exchanges								
Purchase of treasury stock								(2)
Disposal of treasury stock								0
Changes in stockholders interest due to transaction with non-controlling interests								(121)
Change of scope of consolidation and equity method								(1)
Changes in treasury stock due to changes in scope of application of equity method								
Change in shares of parent owned by entities accounted for using equity method								
Change in treasury stock arising from change in equity in entities accounted for using equity method-treasury stock								2
Reversal of revaluation reserve for land								
Net changes other than stockholders' equity	14,272	2,108	(411)	(2,584)	16,985	30,370	(474)	29,895
Total changes	14,272	2,108	(411)	(2,584)	16,985	30,370	(474)	53,006
Balance at the end of fiscal year	15,757	(13,764)	(3,406)	(4,568)	(3,444)	(9,427)	59,013	769,375

Consolidated Statements of Changes in Net Assets

(In millions of yen)

FY2021 (April 1, 2021 – March 31, 2022)

	Stockholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total stockholders' equity
Balance at the beginning of fiscal year	250,930	102,228	368,892	(2,261)	719,789
Cumulative effect of changes in accounting policies			(631)		(631)
Balance at the beginning of the current period reflecting changes in accounting policies	250,930	102,228	368,260	(2,261)	719,158
Amount of change					
Dividends of surplus			(7,282)		(7,282)
Net income attributable to owners of the parent			60,083		60,083
Share exchanges		21,907			21,907
Purchase of treasury stock				(6)	(6)
Disposal of treasury stock			(1)	12	10
Changes in stockholders interest due to transaction with non-controlling interests		(7,701)			(7,701)
Change of scope of consolidation and equity method			(3,021)		(3,021)
Change in treasury stock due to change in scope of equity method				34	34
Change in shares of parent owned by entities accounted for using equity method				(41)	(41)
Change in treasury stock arising from change in equity in entities accounted for using equity method-treasury stock					
Reversal of revaluation reserve for land			(5)		(5)
Net changes other than stockholders' equity					
Total changes	—	14,205	49,773	(0)	63,978
Balance at the end of fiscal year	250,930	116,434	418,033	(2,261)	783,136

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Unrealized gains or losses on securities, net of taxes	Unrealized gains or losses on hedging derivatives, net of taxes	Land revaluation differences, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Total other comprehensive income		
Balance at the beginning of fiscal year	15,757	(13,764)	(3,406)	(4,568)	(3,444)	(9,427)	59,013	769,375
Cumulative effect of changes in accounting policies								(631)
Balance at the beginning of the current period reflecting changes in accounting policies	15,757	(13,764)	(3,406)	(4,568)	(3,444)	(9,427)	59,013	768,744
Amount of change								
Dividends of surplus								(7,282)
Net income attributable to owners of the parent								60,083
Share exchanges								21,907
Purchase of treasury stock								(6)
Disposal of treasury stock								10
Changes in stockholders interest due to transaction with non-controlling interests								(7,701)
Change of scope of consolidation and equity method								(3,021)
Change in treasury stock due to change in scope of equity method								34
Change in shares of parent owned by entities accounted for using equity method								(41)
Change in treasury stock arising from change in equity in entities accounted for using equity method-treasury stock								
Reversal of revaluation reserve for land								(5)
Net changes other than stockholders' equity	13,230	623	5	20,623	7,134	41,617	(1,993)	39,623
Total changes	13,230	623	5	20,623	7,134	41,617	(1,993)	103,601
Balance at the end of fiscal year	28,987	(13,141)	(3,400)	16,054	3,689	32,189	57,019	872,346

Consolidated Statements of Cash Flows

(In millions of yen)

	FY2020 Ended March 31, 2021	FY2021 Ended March 31, 2022
Cash flows from operating activities		
Income before income taxes	18,748	84,013
Depreciation	100,856	105,147
Increase (decrease) in liabilities for retirement benefits	18,231	7,904
Interest and dividend income	(4,889)	(5,529)
Interest expense	11,526	13,236
Loss (income) on sale of securities	(4,451)	9,220
Equity in loss (income) of equity method companies	(666)	(14,126)
Loss (income) on sale of plant and equipment	(9,900)	(545)
Loss on disposal of plant and equipment	1,391	1,452
Loss (income) on step acquisitions	(3,259)	—
Loss on impairment	13,509	—
Decrease (increase) in trade receivables from customers	39,484	(52,781)
Net decrease (increase) in lease receivables and investment assets	5,688	6,960
Decrease (increase) in inventories	40,929	(136,976)
Increase (decrease) in trade payables to customers	(12,582)	173,309
Increase (decrease) in accrued consumption taxes	14,633	(15,200)
Increase (decrease) in accounts receivable	1,921	(17,668)
Increase (decrease) in accrued expenses	(2,187)	7,413
Increase (decrease) in liabilities related to paid supply transactions	—	12,047
Other	(20,329)	10,475
Subtotal	208,654	188,355
Cash received for interest and dividends	6,805	8,107
Cash paid for interest	(11,700)	(13,462)
Cash paid for income taxes	(8,960)	(14,191)
Net cash provided by operating activities	194,798	168,809
Cash flows from investing activities		
Purchase of property, plant and equipment and other assets	(173,221)	(156,447)
Proceeds from sale of property, plant and equipment and other assets	13,361	1,581
Purchase of investments in securities	(1,286)	(5,975)
Proceeds from sale of investments in securities	5,264	2,385
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(668)	—
Proceeds from sale of investment in subsidiaries resulting in change in scope of consolidation	13,719	—
Payment for sale of investment in subsidiaries resulting in change in scope of consolidation	—	(4,007)
Decrease (increase) in short-term loans receivable	(912)	4
Payments for long-term loans receivable	(219)	(85)
Proceeds from collection of long-term loans receivable	940	815
Other	1,171	218
Net cash provided by investing activities	(141,853)	(161,510)

	FY2020 Ended March 31, 2021	FY2021 Ended March 31, 2022
Cash flows from financing activities		
Decrease (increase) in short-term loans receivable	(25,332)	(44,424)
Proceeds from issuance of long-term borrowings	202,587	78,179
Repayment of long-term borrowings	(71,344)	(91,173)
Proceeds from issuance of bonds	—	10,000
Repayment of bonds	(30,215)	(20,572)
Repayment of finance lease obligations	(8,492)	(10,205)
Payment of dividends	(52)	(7,248)
Payment of dividends to non-controlling interests	(776)	13,700
Proceeds from sale of shares of subsidiaries not resulting in change in scope of consolidation	—	14
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	—	(74)
Proceeds from non-controlling interests	229	13,700
Other		3,991
Net cash provided by (used in) financial activities	118,444	(69,143)
Effect of exchange rate changes on cash and cash equivalents	150	5,191
Increase (decrease) in cash and cash equivalents	171,540	(56,653)
Cash and cash equivalents at the beginning of fiscal year	145,658	317,310
Increase (decrease) in cash and cash equivalents resulting in change in scope of consolidation	8	(145)
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	102	—
Cash and cash equivalents at the end of fiscal year	317,310	260,511

Notes

Notes on premise of a going concern

None

Changes in Accounting Policies

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 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 fiscal year. The cumulative effects have been added to or subtracted from the balance of retained earnings at the beginning 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 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 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.

In addition, the Company has introduced separate account items of "notes," "accounts receivable," and "contract assets" in the list of current assets of the consolidated balance sheets since the current fiscal year, in place of "notes and accounts receivable" which was applied to the previous consolidated fiscal year. The Company also reclassified "other" in the list of current liabilities into the separate account items of "contract liabilities" and "other." Note that the Company has not reclassified its financial statements for the previous consolidated fiscal year with the new account items in accordance with the transitional procedures stipulated in Article 89-2 of the Accounting Standard for Revenue Recognition.

As the retrospective cumulative effects were reflected in net assets at the beginning of the current consolidated fiscal year, 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 consolidated statements of income for the current consolidated fiscal year.

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, hereinafter referred to as the Fair Value Accounting Standards) and other related guidelines from the beginning of the current consolidated fiscal year.

The Company will use new accounting methods as stipulated in the 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 consolidated balance sheets or the consolidated statements of income.

Changes in presentation method

Consolidated Statements of Income

Account items of "subsidies for employment adjustment" under "non-operating income," which was separately stated in the previous consolidated fiscal year, has been included in "other" from the current consolidated fiscal year due to its decreased financial importance. In addition, "compensation income," which was included in "other" under "non-operating income" in the previous fiscal year, has been reclassified and presented as a separate account item from the current fiscal year due to its increased financial importance. To reflect these changes in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, 3,425 million yen stated in "subsidies for employment adjustment" under "non-operating income" and 12,747 million yen stated in "other" in the consolidated statements of income for the previous fiscal year have been reclassified into 609 million yen in "compensation income" and 15,563 million yen in "other."

"Dismantlement expenses" under "non-operating expenses," which was separately stated in the previous consolidated fiscal year, has been included in "other" from the current consolidated fiscal year due to its decreased financial importance. To reflect this change in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, 4,603 million yen stated in "dismantlement expenses" under "non-operating expenses" and 14,406 million yen stated in "other" in the consolidated statements of income for the previous fiscal year have been reclassified into 19,009 million yen in "other."

Consolidated Statements of Cash Flows

"Increase (decrease) in allowance for doubtful accounts" under "cash flows from operating activities," which was stated as a separate account item in the previous fiscal year, has been included in "other" from the current fiscal year due to its decreased financial importance. In addition, "increase (decrease) in accrued income" and "increase (decrease) in accrued expenses," which were included in "other" under "cash flows from operating activities" in the previous fiscal year, have been separately presented from the current fiscal year due to their increased financial importance. To reflect these changes in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, (20,696) million yen stated in "increase (decrease) in allowance for doubtful accounts" under "cash flows from operating activities" and 100 million yen stated in "other" in the consolidated cash flow statements for the previous fiscal year have been reclassified into 1,921 million yen in "increase (decrease) in accrued income" and (2,187) million yen in "increase (decrease) in accrued expenses," and (20,329) million yen in "other."

"Proceeds from sale and leaseback transactions" under "cash flows from financing activities," which was stated as a separate account item in the previous fiscal year, has been included in "other" from the current fiscal year due to its decreased financial importance. In addition, "proceeds from non-controlling interests," which was included in "other" under "cash flows from financing activities" in the previous fiscal year, has been reclassified and presented separately from the current fiscal year due to its increased financial importance. To reflect these changes in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, 51,844 million yen stated in "proceeds from sale and leaseback transactions" and 227 million yen stated in "other" under "cash flows from financing activities" in the consolidated statements of cash flows for the previous fiscal year have been reclassified into 229 million yen in "proceeds from non-controlling interests" and 51,841 million yen in "other."

Segment Information

(In millions of yen)

		FY2020 Ended March 31, 2021	FY2021 Ended March 31, 2022
Sales to outside customers:	Steel & Aluminum	667,145	881,052
	Advanced Materials	229,843	324,349
	Welding	69,238	76,222
	Machinery	170,402	161,828
	Engineering	132,533	134,319
	Construction Machinery	333,127	371,548
	Electric Power	80,440	109,866
	Other Businesses	21,508	21,933
	Adjustment	1,326	1,460
	Total	1,705,566	2,082,582
Intersegment sales:	Steel & Aluminum	29,176	33,856
	Advanced Materials	8,285	8,912
	Welding	778	702
	Machinery	4,915	5,018
	Engineering	3,605	1,341
	Construction Machinery	52	82
	Electric Power	—	—
	Other Businesses	6,305	6,878
	Adjustment	(53,118)	(56,791)
	Total	—	—
Total sales:	Steel & Aluminum	696,321	914,909
	Advanced Materials	238,129	333,261
	Welding	70,017	76,924
	Machinery	175,318	166,847
	Engineering	136,138	135,661
	Construction Machinery	333,179	371,631
	Electric Power	80,440	109,866
	Other Businesses	27,813	28,812
	Adjustment	(51,791)	(55,331)
	Total	1,705,566	2,082,582
Ordinary income (loss):	Steel & Aluminum	(22,656)	37,536
	Advanced Materials	(12,185)	5,149
	Welding	1,771	2,781
	Machinery	11,464	12,564
	Engineering	4,443	7,755
	Construction Machinery	12,772	12,085
	Electric Power	20,662	13,259
	Other Businesses	4,230	7,046
	Adjustment	(4,314)	(4,944)
	Total	16,188	93,233