

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
 Securities report submission: June 22, 2022
 Dividend payments begin: June 23, 2022
 Supplemental information available: Yes
 IR Briefing: Yes (in 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 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 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 | FY2021 |
|--|-----------------------------|-----------------------------|
| | Ended March 31, 2021 | 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 |