Consolidated Statements of Changes in Net Assets

(From April 1, 2020 to March 31, 2021)

(Millions of yen)

	Stockholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total stockholders' equity
Balance as of April 1, 2020	250,930	102,350	345,660	(2,261)	696,678
Amount of change					
Net income attributable to owners of the parent			23,234		23,234
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)
Increase due to changes in scope of consolidation			(1)		(1)
Change in treasury shares arising from change in equity in entities accounted for using equity method				2	2
Net changes other than stockholders' equity					
Total changes	—	(121)	23,231	0	23,111
Balance as of March 31, 2021	250,930	102,228	368,892	(2,261)	719,789

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Unrealized gains on securities, net of taxes	Deferred gains (losses) on hedges, net of taxes	Land revaluation differences, net of taxes	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans, net of taxes	Total Accumulated other comprehensive income		
Balance as of April 1, 2020	1,485	(15,873)	(2,995)	(1,984)	(20,430)	(39,797)	59,487	716,369
Amount of change								
Net income attributable to owners of the parent								23,234
Purchase of treasury stock								(2)
Disposal of treasury stock								0
Changes in stockholders interest due to transaction with non-controlling interests								(121)
Increase due to changes in scope of consolidation								(1)
Change in treasury shares arising from change in equity in entities accounted for using equity method								2
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 as of March 31, 2021	15,757	(13,764)	(3,406)	(4,568)	(3,444)	(9,427)	59,013	769,375

(Amounts are rounded down to the nearest million yen.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Important Matters Forming the Basis of the Preparation of Consolidated Financial Statements

1. Matters Concerning the Scope of Consolidation

Kobe Steel, Ltd. (the “Company”) has 212 subsidiaries, of which 175 subsidiaries are included in the scope of consolidation (the “Kobe Steel Group”). Names of major consolidated subsidiaries are as follows.

Nippon Koshuha Steel Co., Ltd., Kobelco Wire Company, Ltd., Kobelco Engineered Construction Materials Co., Ltd., Kobelco Logistics, Ltd., Shinko Bolt, Ltd., Shinko Engineering & Maintenance Co., Ltd., Tesac Shinko Wire Rope Co., Ltd., Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd., Kobe Precision Technology Sdn. Bhd., Kobelco & Materials Copper Tube, Ltd., Kobe Aluminum Automotive Products (China) Co., Ltd., Kobe Aluminum Automotive Products, LLC, Kobelco Aluminum Products & Extrusions Inc., Kobelco & Materials Copper Tube (Thailand) Co., Ltd., Kobelco & Materials Copper Tube (M) Sdn. Bhd., Kobe Welding of Qingdao Co., Ltd., Kobelco Welding of Korea Co., Ltd., Kobelco Compressors Corporation, Shinko Engineering Co., Ltd., Wuxi Compressor Co., Ltd., Kobelco Compressors Manufacturing (Shanghai) Corporation, Kobelco Industrial Machinery India Pvt. Ltd., Quintus Technologies AB, Kobelco Compressors America, Inc., Kobelco Eco-Solutions Co., Ltd., Kobelco Eco-Maintenance Co., Ltd., Midrex Technologies, Inc., Kobelco Construction Machinery Co., Ltd., Kobelco Construction Machinery Japan Co., Ltd., Toyosugiue Co., Ltd., Kobelco Construction Machinery (China) Co., Ltd., Chengdu Kobelco Construction Machinery Financial Leasing Ltd., Hangzhou Kobelco Construction Machinery Co., Ltd., Kobelco Construction Machinery Southeast Asia Co., Ltd., Kobelco Construction Equipment India Pvt. Ltd., Kobelco Construction Machinery Europe B.V., Kobelco International (S) Co., Pte. Ltd., Pt. Daya Kobelco Construction Machinery Indonesia, Kobelco Construction Machinery USA, Inc., Kobelco Power Kobe Inc., Kobelco Power Moka Inc., Kobelco Power Kobe No. 2, Inc., Kobelco Research Institute, Inc., Kobelco (China) Holding Co., Ltd., Kobe Steel USA Holdings Inc.

For fiscal year 2020, 3 companies, including Wuxi Compressor Co., Ltd. are newly consolidated and 3 companies, including Kobelco Steel Tube Co., Ltd. are excluded from the scope of consolidation due to the transfer of shares, etc.

37 non-consolidated subsidiaries, including Kobe EN&M Vietnam Co., Ltd., are excluded from the scope of consolidation because the aggregated amounts of their total assets, sales, net income (corresponding to amount of equity interest), retained earnings (corresponding to amount of equity interest) and other indicators are insignificant compared to those of the consolidated companies.

2. Matters Concerning the Application of the Equity Method

Of the 37 non-consolidated subsidiaries and 50 affiliates, 38 companies are accounted for by the equity method. Names of major companies accounted for by the equity method are as follows.

Kansai Coke and Chemicals Company, Limited., Kobelco Angang Auto Steel Co., Ltd., Ulsan Aluminum, Ltd., PRO-TEC Coating Company, LLC, Kobelco Millcon Steel Co., Ltd., Osaka Titanium Technologies Co., Ltd., Japan Aeroforge, Ltd., Hokuto Co., Ltd., Shinsho Corporation, Shinko Lease Co., Ltd., Shinko Real Estate Co., Ltd.

For fiscal year 2020, 2 companies, including Hokuto Co., Ltd., are newly accounted for by the equity method and 2 companies, including Wuxi Compressor Co., Ltd., are excluded from the application of equity method mainly due to making it a subsidiary through acquisition of additional shares.

37 non-consolidated subsidiaries, including Kobe EN&M Vietnam Co., Ltd., and 12 affiliates, including J&T Welding Supply Co., Ltd., are not accounted for by the equity method because the aggregated amounts of their net income (corresponding to amount of equity interest), retained earnings (corresponding to amount of equity interest) and other indicators are insignificant compared to those of the consolidated companies and companies accounted for by the equity method.

3. Matters Concerning Accounting Policies

(1) Basis and method for valuation of significant assets

A. Basis and method for valuation of securities

Available-for-sale securities

i) Securities with market quotations	Fair value basis, based on the market price etc. on the balance sheet date (with unrealized gains or losses, net of applicable taxes, stated in a separate component of net assets and cost of securities sold is primarily determined using the moving average method).
ii) Securities without market quotations	Cost basis, determined mainly using the moving average method.

B. Basis for valuation of derivatives

Fair value basis

C. Basis and method for valuation of inventories

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

(2) Depreciation and amortization method for significant depreciable assets

a) Tangible fixed assets

i) Owned fixed assets — Primarily by the straight-line method.

ii) Leased assets

- Under finance leases that transfer ownership of the leased assets

By the same method as the owned fixed assets.

- Under finance leases that do not transfer ownership of the leased assets

By the straight-line method over the respective lease term (equal to estimated useful lives) with no residual value.

b) Intangible fixed assets — Primarily by the straight-line method. For software for internal use, by the straight-line method over the estimated internal use lives (primarily 5 years).

(3) Basis for recognition of significant allowances and provisions

a) Allowance for doubtful accounts

To provide for potential losses on doubtful accounts, allowance is made at an amount based on the actual bad debt ratio in the past for normal accounts, and estimated uncollectible amounts based on specific collectability assessments for certain individual receivables, such as those with a possibility of default.

b) Provision for bonuses

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

c) Provision for product warranties

To provide for after-sales and after-construction and delivery warranty cost payments, mainly for steel castings and forgings as well as titanium products in the Advanced Materials Business, Machinery Business, Engineering Business and Construction Machinery Business, provision is made at an estimated amount attributable to the fiscal year 2020 based on the actual warranty cost to sales ratio in the past, plus specifically estimated amount attributable to the fiscal year 2020 for certain individual cases.

d) Provision for loss on construction contracts

To provide for future losses on construction contracts, mainly for steel castings and forgings as well as titanium products in the Advanced Materials Business, Machinery Business and Engineering Business, provision is made based on an estimated loss on construction contracts outstanding at the end of the fiscal year 2020.

e) Provision for loss on guarantees

Provision for future loss on guarantees is based on an estimate of total loss at the end of the fiscal year 2020, considering the financial position, etc. of the guaranteed parties on a case- by- case basis.

f) Provision for dismantlement related expenses

For expenses expected to arise from dismantlement of equipment in relation to construction of the power station at the Kobe Wire Rod & Bar Plant, provision is made at an estimated amount at the end of the fiscal year 2020.

g) Provision for customer compensation expenses

For expenses related to a response to the misconduct that through data falsification and/or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications were shipped or provided to customers as if they had met these requirements, including compensation for product exchanges and investigations carried out by customers, etc., provision is made at an estimated amount at the end of the fiscal year 2020.

h) Provision for environmental measures

For the cost of PCB waste treatment required by “Law Concerning Special Measure against Promotion of Proper Treatment of Polychlorinated Biphenyl (PCB) Waste” and others, provision is made at an estimated amount at the end of the fiscal year 2020.

(4) Accounting method for retirement benefits

To provide for payments of retirement benefits to employees, the amount of retirement benefit obligations net of the amount of plan is established assets based on the amount expected at the end of the fiscal year 2020.

In determining retirement benefit obligations, the benefit formula basis is adopted as the attribution method of the projected retirement benefit obligations.

Prior service costs are charged to income mainly using the straight-line method based on the average remaining service period of the employees.

Actuarial differences are charged to income from the period following the period in which it arises mainly using the straight-line method based on the average remaining service period of the employees.

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

(5) Basis for recognition of revenue and expenses

Regarding revenues and expenses concerning construction contracts, they are recognized by applying the percentage of completion method where the outcome of the contract up to the end of the fiscal year 2020 can be estimated reliably (with the estimate of percentage of completion based on the cost-to-cost method), or in case of not being estimated reliably, by applying the completed contract method.

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

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rates as of the consolidated balance sheet date, except for those hedged by foreign currency exchange contracts, with the resulting gains and losses recognized in income.

Assets and liabilities of consolidated foreign subsidiaries are translated into Japanese yen at the spot exchange rates as of the balance sheet date and revenues and expenses are translated into Japanese yen at average rates for the period, with the resulting gains and losses included in “Foreign currency translation adjustments” under net assets and “Non-controlling interests”.

(7) Principal method for hedge accounting

A. Method for hedge accounting	Deferred hedge method is applied. Assigning method is applied to monetary receivables and payables denominated in foreign currencies that are specifically covered by foreign currency exchange contracts and qualify for such assigning. Exceptional method is applied to interest rate swaps that meet specific matching criteria and qualify for such accounting.
B. Hedging instruments and hedged items	
a) Hedging instruments	Foreign currency exchange contracts, interest rate swap contracts and commodity forward contracts
b) Hedged items	Assets and liabilities exposed to losses from market fluctuations related to foreign exchange rates, interest rates and trading of bare metal such as aluminum (including those expected from forecasted transactions).

C. Hedging policy and method for assessing the hedge effectiveness

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

The Company assesses the hedge effectiveness in accordance with its internal rules.

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

<Hedge accounting for which the "Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR" is applied>
Of the above hedge-related items, the Company has applied the exceptional treatment defined in the "Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR" (Practical Issues Task Force (PITF) No. 40 of September 29, 2020) to all hedge-related items included in the applicable scope of this Practical Solution. The details of the hedge-related items to which this Practical Solution is applied are as follows.

Method for hedge accounting	Exceptional method is applied to interest rate swaps.
Hedging instruments	Interest rate swap contracts
Hedged items	Long-term borrowings
Type of hedge transaction	Transactions that fix cash flows

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

(9) Accounting for consumption taxes
The tax-exclusion method is applied for the consumption tax and the local consumption tax.

(10) Application of consolidated taxation system
Consolidated taxation system is applied.

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

Notes Regarding Accounting Estimates

1. Impairment of fixed assets
Regarding fixed assets, if the Group judges that there is an indication of impairment, such as continuous operating losses, the Group estimates future recoverability and assesses whether or not it must recognize an impairment loss. If the undiscounted total amount of future cash flows that will be generated by the asset group is below the book value of the fixed asset, the Group recognizes an impairment loss.
In the fiscal year under review, the Group recorded impairment losses of 13,509 million yen. A breakdown thereof is provided in "Notes to Consolidated Statements of Income 2. Loss on impairment."
In addition, the book value of fixed assets at the end of the fiscal year under review was 1,115,185 million yen (1,078,619 million yen for tangible fixed assets and 36,565 million yen for intangible fixed assets), including multiple asset groups for which the Group did not recognize an impairment loss despite there being an indication of impairment. The main asset groups to which this applies were as follows.

< Construction Machinery Business >

The Group judged that there was an indication of impairment for fixed assets used in the businesses of Kobelco Construction Machinery Co., Ltd., a subsidiary of the Company in the Construction Machinery Business, as a result of continuous operating losses caused by increasingly fierce competition overseas, lower profitability on exports owing to fluctuations in foreign exchange rates, lower demand owing to the novel coronavirus infection, and other factors. In future business plans, the Group has incorporated certain assumptions, including an improvement in sales prices and an increase in units sold based on capturing overseas demand, which is expected to increase, primarily in emerging markets. The undiscounted total amount of future cash flows estimated based on business plans formulated under these assumptions exceeded the book value of the fixed assets of 58,632 million yen (55,291 million yen for tangible fixed assets and 3,340 million yen for intangible fixed assets), and therefore the Group did not recognize an impairment loss.

If there are significant changes to the assumptions for these estimates, such as a large divergence between assumptions set when estimates were made and actual results, and future cash flows underperform as a result, the Group may recognize an impairment loss in the next consolidated fiscal year.

2. Deferred tax assets

The Group recorded 69,262 million yen in “deferred tax assets” under “investments and other assets” in “fixed assets” on the consolidated balance sheets for deductible temporary differences, tax losses carried forward, etc. with a high possibility of being deducted from future taxable income.

The Group has estimated taxable income over a certain future period based on the Medium-Term Management Plan and other business plans that management has judged to be appropriate, and has also made judgments about when specific deductible temporary differences are expected to be reversed. As such, the Group has judged that the possibility of recovery is high for deferred tax assets pertaining to deductible temporary differences expected to be reversed within a certain period, etc. In addition, the Group formulates business plans based on the assumptions provided in “Additional Information, Approach to the impact of the novel coronavirus infection when forming accounting estimates.”

If projections of future taxable income fluctuate significantly as a result of the renewed expansion of the impact of the novel coronavirus infection, an emergence of uncertainties that impact the Group’s demand fields, i.e., a prolonging of the global semiconductor shortage, or other factors, and the recoverability of deferred tax assets fluctuates significantly as a result, there may be a material impact on the recorded amount of deferred tax assets in the next consolidated fiscal year.

Additional Information

Introduction of a Board Benefit Trust (BBT) for Directors

The Company introduced a new stock compensation plan, a “Board Benefit Trust (BBT)”, to more clearly link the compensation of Directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee Members) and Executive Officers to the Company’s performance and the value of its stock, and in order to encourage the Directors to contribute to improve medium- to long-term business performance and enhance corporate value.

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

1) Overview of transactions

This plan is a stock compensation plan under which money contributed by the Company is used as funds to acquire the Company’s shares through a trust. With regard to Directors and Executive Officers (hereinafter “Directors and Other Executives”), in accordance with the director stock benefit rules established by the Company, the Company’s shares (hereinafter the “Company’s Shares and Money”) and the cash equivalent to the amount converted from the market price of the Company’s Shares are provided through the trust.

In addition, Directors and Other Executives shall receive the Company’s Shares and Money in principle every three years on a fixed date during the trust period.

2) Kobe Steel stock remaining in the Trust

The Company’s stock remaining in the trust is posted as treasury stock in a part of net assets based on the book value (excludes amounts for incidental expenses). The corresponding treasury stock’s book value at the end of the fiscal year under review was 681 million yen for 758 thousand shares.

Approach to the impact of the novel coronavirus infection when forming accounting estimates

It is difficult to forecast how the novel coronavirus infection will spread in future, when it will recede, etc., but when forming accounting estimates of the recoverability of deferred tax assets and other factors, the Group has assumed that, based on information available at the time of writing, the impact of the decline in production and order volume on the Group has largely been resolved, with the exception of certain demand fields, such as the industrial machinery sector, where the recovery in appetites for capital investment has been delayed, and the aircraft sector, where the market is expect to perform poorly for some years.

Notes to Consolidated Balance Sheets

1. Assets Pledged as Collateral and Collateralized Debt

(1) Assets pledged as collateral

Tangible fixed assets	206,371 million yen
Other	43,259
Total	249,631

(2) Collateralized debt

Short-term borrowings	7,320 million yen
Long-term borrowings	196,270
Total	203,591

2. Accumulated Depreciation of Tangible Fixed Assets 2,569,794 million yen

3. Guarantee Liabilities

(1) Guarantees of loans from financial institutions are provided to companies other than consolidated companies.

Kobelco Millcon Steel Co., Ltd.	11,898 million yen	
Japan Aeroforge, Ltd.	2,200	
Kobelco Angang Auto Steel Co., Ltd.	1,732	
Other (16 companies and other)	2,004	*
Total	17,837	

The above includes activities similar to guarantees (268 million yen).

*Of which, 6,037 million yen is covered by reassurances from other companies.

Kobelco Construction Machinery (China) Co., Ltd., which is a consolidated subsidiary of the Company, sells construction machinery to customers through sales agents or leasing companies. Sales agents pledge guarantees to buy construction machinery, pledged as collateral at the amounts of the balance on bank loans or future minimum lease payments. Kobelco Construction Machinery (China) Co., Ltd. pledges reassurance for this guarantee. The balances of the reassurance were 15,092 million yen at the end of fiscal year 2020.

(2) Trade notes receivable discounted 205 million yen

(3) Trade notes receivable endorsed 86 million yen

(4) Repurchase obligation accompanying securitization of receivables 5,484 million yen

Notes to Consolidated Statements of Income

1. Gain on sale of fixed assets
   Gain on sale of fixed assets is due to the sale of land, etc.
2. Loss on impairment
   The Company and the Group recorded loss on impairment (13,509 million yen) on the following assets group. The breakdown of loss on impairment is as follows: buildings and structures (1,586 million yen); machinery and equipment (6,269 million yen); tools, equipment and fixtures (361 million yen); land (4,110 million yen); construction in progress (965 million yen); software (212 million yen); and "other" under intangible fixed assets (2 million yen).

Use	Location and number	Type and amount (millions of yen)
Assets for manufacturing special steel products (Nippon Koshuha Steel Co., Ltd.)	Imizu-shi, Toyama Prefecture 1 time	Machinery and equipment, etc. 9,788
Assets to be disposed	Nada-ku, Kobe-shi and another location 2 times in total	Machinery and equipment, etc. 1,533
Assets for titanium business*	Takasago-shi, Hyogo Prefecture and another location 2 times in total	Machinery and equipment, etc. 1,218
Assets for other business, etc.	Takasago-shi, Hyogo Prefecture and other locations 5 times in total	Machinery and equipment, etc. 968

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

The Group conduct grouping per business location for business assets to recognize losses on impairment in principle, while considering the status of ongoing management of profit and loss and cash-generating units. In addition, idle assets are grouped individually.
The recoverable value of an asset is measured based on its value in use, etc., which is obtained by discounting the future cash flows mainly using a discount rate of 6%.
The circumstances that led to the recognition of loss on impairment by each major asset group are as follows.

(1) Assets for manufacturing special steel products (Nippon Koshuha Steel Co., Ltd.)
    Book values (17,193 million yen) were reduced to respective recoverable values, and such reductions were recorded as loss on impairment (9,788 million yen) under extraordinary losses due to a general worsening of demand conditions across the product sectors of tool steel, special alloy, bearing steel.
(2) Assets to be disposed
    Book values (1,652 million yen) were reduced to respective recoverable values, and such reductions were recorded as loss on impairment (1,533 million yen) under extraordinary losses due to the decision to partially dispose of facilities belonging to Kobe Wire Rod & Bar Plan etc.
(3) Assets for titanium business
    Book values (1,218 million yen) were reduced to respective recoverable values, and such reductions were recorded as loss on impairment (1,218 million yen) under extraordinary losses due to the decrease in profitability resulting from equipment productivity continuously being at a low level.

(4) Assets for other business, etc.
Book values (1,008 million yen) were reduced to respective recoverable values, and such reductions were recorded as loss on impairment (968 million yen) under extraordinary losses due to the decrease in profitability resulting from the deterioration of the order environment and other factors.

Notes to Consolidated Statements of Changes in Net Assets

1. Type and Total Number of Shares Issued at the End of Fiscal Year 2020

Common stock	364,364,210 shares

2. Matters Concerning Dividends

(1) Dividends paid

Not applicable.

(2) Dividends with the record date in fiscal year 2020 and the effective date in fiscal year 2021

At a meeting of the Board of Directors to be held on May 17, 2021, the Company intends to submit an agenda item concerning the payment of a dividends on common stock as follows.

1)	Total dividends	3,641	million yen
2)	Dividends per share	10.0	yen
3)	Record date	March 31, 2021	
4)	Effective date	June 24, 2021	

The Company intends for the source of dividends to be retained earnings.

Notes on Financial Instruments

1. Matters Concerning Status of Financial Instruments

The Kobe Steel Group raises long-term funds mainly by bank loans and issuance of bonds based on its capital budget as well as its investment and loan plan. For short-term capital needs, the Kobe Steel Group raises funds mainly by bank loans and commercial paper in relation to its projected income and working capital. The Kobe Steel Group invests temporary excess cash in secure financial assets.

Notes and accounts receivable are exposed to the credit risks of customers. In order to manage these risks, the Company follows its internal credit management rules and the consolidated subsidiaries follow similar rules. Investments in securities consist principally of the shares of customers and are exposed to the risk of changes in quoted market prices, etc. Quoted market prices of securities are regularly monitored and reported to the Board of Directors.

Notes and accounts payable and borrowings are exposed to liquidity risk related to financing. The Company controls financial plans at the group level to manage the risk.

Derivative transactions are utilized to avoid the risks from market fluctuations related to foreign exchange rates, interest rates and trading of aluminum bare metal etc. and the Group does not enter into derivative transactions for speculative purposes. In order to manage these risks, the Company follows its internal rules and the consolidated subsidiaries follow similar rules.

2. Matters concerning fair value of financial instruments

Carrying amount of financial instruments on the consolidated balance sheets, fair value and the difference as of March 31, 2021 are as follows.

(Millions of yen)

	Carrying amount *1	Fair value *1	Difference
(1) Cash and deposits	262,345	262,345	—
(2) Notes and accounts receivable - trade	313,994	313,994	—
(3) Securities			
Available-for-sale securities (negotiable certificates of deposit)	55,199	55,199	—
(4) Investments in securities			
a) Securities of subsidiaries and affiliates	11,783	13,406	1,622
b) Available-for-sale securities	68,862	68,862	—
(5) Notes and accounts payable	(382,751)	(382,751)	—
(6) Short-term borrowings	(161,803)	(166,346)	(4,542)
(7) Bonds and notes due within one year	(20,572)	(20,704)	(132)
(8) Accounts payable-other	(85,023)	(85,023)	—
(9) Bonds and notes	(61,050)	(61,108)	(58)
(10) Long-term borrowings	(744,382)	(700,877)	43,504
(11) Lease obligations (long-term liabilities)	(59,970)	(58,524)	1,445
(12) Derivative transactions *2			
a) Hedge accounting not applied	(1,148)	(1,148)	—
b) Hedge accounting applied	(17,830)	(17,830)	—

*1 Liabilities are presented with parentheses ( ).

*2 Assets and liabilities arising from derivative transactions are presented after offsetting and with parentheses ( ) if the offset results in a liability.

Note 1: Methods used to determine fair value of financial instruments and matters concerning securities and derivative transactions

(1) Cash and deposits, (2) Notes and accounts receivable-trade and (3) Securities

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

(4) Investments in securities

Based mainly on quoted market prices, etc.

(5) Notes and accounts payable, (6) Short-term borrowings and (8) Accounts payable-other

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

The fair values of long-term borrowings due within one year which are included in short-term borrowings (with a carrying amount of 88,959 million yen) are determined using the same method as (10) Long-term borrowings.

(7) Bonds and notes due within one year and (9) Bonds and notes

Based mainly on quoted market prices.

(10) Long-term borrowings and (11) Lease obligations (long-term liabilities)

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

(12) Derivative transactions

For foreign currency exchange contracts, the fair values are determined based on forward foreign exchange rate. For interest rate swaps and currency swaps, the fair values are determined based on quotes obtained from counterparty financial institutions. For commodity forward contracts, the fair values are determined based on commodity futures price.

For certain foreign currency exchange contracts for which the “assigning” method is applied, the fair values are included in the fair values of the hedged accounts receivable and accounts payable (see (2), (5) and (8) above).

For interest rate swaps for which the “exceptional” method is applied, the fair values are included in the fair values of the hedged long-term borrowings (see (10) above).

Note 2: Non-listed equity securities (with carrying amount of 91,769 million yen) are not included in (4) Investments in securities a) Securities of subsidiaries and affiliates and b) Available-for-sale securities, as it is extremely difficult to determine their fair value since there is no market price and future cash flows cannot be estimated.

Notes on Per Share Information

Net assets per share	1,958.57 yen
Net income per share	64.05 yen

Note: The Company’s shares (posted as treasury stock in stockholders’ equity) remaining in the trust related to the Board Benefit Trust (BBT) plan posted as treasury stock in stockholders’ equity are included in treasury stock. These are excluded from the calculation of the number of shares at the end of the period and the average number of shares during the period when calculating net assets per share and net income per share.

The number of such shares at the end of the period excluded from the calculation of net assets per share for this fiscal year was 758 thousand shares, while the average number of shares during the period excluded from the calculation of net income per share for this fiscal year was 758 thousand shares.

(Amounts are rounded down to the nearest million yen.)

Non-Consolidated Statements of Changes in Net Assets

(From April 1, 2020 to March 31, 2021)

(Millions of yen)

	Stockholders' equity									
		Capital surplus		Retained earnings						
				Other retained earnings						
	Common stock	Legal capital surplus	Total capital surpluses	Reserve for special depreciation	Reserve for advanced depreciation of fixed assets	Retained earnings brought forward	Total retained earnings	Treasury stock, at cost	Total stock-holders' equity
Balance as of April 1, 2020	250,930	100,789	100,789	190	2,096	146,974	149,261	(1,301)	499,679
Amount of change									
Reversal of reserve for special depreciation				(60)		60	—		—
Reversal of reserve for advanced depreciation of fixed assets					(171)	171	—		—
Net income						7,888	7,888		7,888
Purchase of treasury stock								(2)	(2)
Disposal of treasury stock						(1)	(1)	1	0
Net changes other than stockholders' equity									
Total changes	—	—	—	(60)	(171)	8,119	7,887	(1)	7,885
Balance as of March 31, 2021	250,930	100,789	100,789	129	1,925	155,093	157,148	(1,302)	507,565

	Valuation and translation adjustments			
	Unrealized gains on securities, net of taxes	Deferred gains (losses) on hedges net of taxes	Total valuation and translation adjustments	Total net assets
Balance as of April 1, 2020	(1,471)	(448)	(1,920)	497,759
Amount of change				
Reversal of reserve for special depreciation				—
Reversal of reserve for advanced depreciation of fixed assets				—
Net income				7,888
Purchase of treasury stock				(2)
Disposal of treasury stock				0
Net changes other than stockholders' equity	12,662	(62)	12,600	12,600
Total changes	12,662	(62)	12,600	20,486
Balance as of March 31, 2021	11,191	(511)	10,680	518,245

(Amounts are rounded down to the nearest million yen.)

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Matters concerning Significant Accounting Policies

1. Basis and Method for Valuation of Securities

(1) Securities of subsidiaries and affiliates	Cost basis, determined using the moving average method.
(2) Available-for-sale securities	
Securities with market quotations	Fair value basis, based on the market price etc. on the balance sheet date (with unrealized gains or losses, net of applicable taxes, stated in a separate component of net assets and cost of securities sold is primarily determined using the moving average method).
Securities without market quotations	Cost basis, determined using the moving average method.

2. Basis for Valuation of Derivatives
   Fair value basis

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

4. Depreciation and Amortization Method for Fixed Assets

(1) Tangible fixed assets	
a) Owned fixed assets	By the straight-line method.
b) Leased assets	
- Under finance leases that transfer ownership of the leased assets	By the same method as the owned fixed assets.
- Under finance leases that do not transfer ownership of the leased assets	By the straight-line method over the respective lease term (equal to estimated useful lives) with no residual value.
(2) Intangible fixed assets	By the straight-line method. For software for internal use, by the straight-line method over the estimated internal use lives (five (5) years).
(3) Long-term prepaid expenses	By the straight-line method.

5. Basis for Recognition of Allowances and Provisions

(1) Allowance for doubtful accounts

To provide for potential losses on doubtful accounts, allowance is made at an amount based on the actual bad debt ratio in the past for normal accounts, and estimated uncollectible amounts based on specific collectability assessments for certain individual receivables, such as those with a possibility of default.

(2) Provision for bonuses

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

(3) Provision for product warranties

To provide for after-sales and after-construction and delivery warranty cost payments, for steel castings and forgings as well as titanium products in the Advanced Materials Business, Machinery Business, and Engineering Business, provision is made at an estimated amount attributable to the fiscal year 2020 based on the actual warranty cost to sales ratio in the past, plus specifically estimated amount attributable to the fiscal year 2020 for certain individual cases.

(4) Provision for loss on construction contracts

To provide for future losses on construction contracts, for steel castings and forgings as well as titanium products in the Advanced Materials Business, Machinery Business and Engineering Business, provision is made based on an estimated loss on construction contracts outstanding at the end of the fiscal year 2020.

(5) Provision for dismantlement related expenses

For expenses expected to arise from dismantlement of equipment in relation to construction of the power station at the Kobe Wire Rod & Bar Plant, provision is made at an estimated amount at the end of the fiscal year 2020.

(6) Provision for customer compensation expenses

For expenses related to a response to the misconduct that through data falsification and/or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications were shipped or provided to customers as if they had met these requirements, including compensation for product exchanges and investigations carried out by customers, etc., provision is made at an estimated amount at the end of the fiscal year 2020.

(7) Provision for environmental measures

For the cost of PCB waste treatment required by “Law Concerning Special Measure against Promotion of Proper Treatment of Polychlorinated Biphenyl (PCB) Waste”, provision is made at an estimated amount at the end of the fiscal year 2020.

(8) Provision for retirement benefits

To provide for payments of retirement benefits to employees, provision is made based on the retirement benefit obligation and the estimated amount of plan assets at the end of the fiscal year 2020.

Prior service costs are charged to income using the straight-line method based on the average remaining service period of the employees.

Actuarial differences are charged to income from the period following the period in which it arises using the straight-line method based on the average remaining service period of the employees.

6. Basis for Recognition of Revenue and Expenses

Regarding revenues and expenses concerning construction contracts, they are recognized by applying the percentage of completion method where the outcome of the contract up to the end of the fiscal year 2020 can be estimated reliably (with the estimate of percentage of completion based on the cost-to-cost method), or in case of not being estimated reliably, by applying the completed contract method.

7. Basis for Translation of Assets and Liabilities Denominated in Foreign Currencies into Japanese Yen

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rates as of the balance sheet date, except for those hedged by foreign currency exchange contracts, with the resulting gains and losses recognized in income.

8. Method for Hedge Accounting

(1) Method for hedge accounting — Deferred hedge method is applied.
Assigning method is applied to monetary receivables and payables denominated in foreign currencies that are specifically covered by foreign currency exchange contracts and qualify for such assigning.
Exceptional method is applied to interest rate swaps and currency swaps that meet specific matching criteria and qualify for such accounting.

(2) Hedging instruments and hedged items

Hedging instruments — Foreign currency exchange contracts, interest rate swap contracts, currency swaps, and commodity forward contracts

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

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

The Company uses hedge transactions to reduce the risks from market fluctuations and does not enter into hedge transactions for speculative purposes.
The Company assesses the hedge effectiveness in accordance with its internal rules.

9. Accounting for Retirement Benefits

Accounting method for unrecognized prior service costs and unrecognized actuarial differences for retirement benefits are different from that applied in preparing the consolidated financial statements.

10. Accounting for Consumption Taxes

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

11. Application of Consolidated Taxation System

Consolidated taxation system is applied.

12. Treatment of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system

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

Notes Regarding Accounting Estimates

Deferred tax assets

The Company recorded 19,726 million yen in “deferred tax assets” under “investments and other assets” in “fixed assets” on the non-consolidated balance sheets for deductible temporary differences, tax losses carried forward, etc. with a high possibility of being deducted from future taxable income.

The main assumptions, etc. used in estimates of the above amounts are the same as those described in “Notes Regarding Accounting Estimates 2. Deferred tax assets” in the Notes to Consolidated Financial Statements.

Additional Information

Introduction of the Board Benefit Trust (BBT) for Directors and Other Executives

Notes on transactions that provide the Company’s shares through the trust for Directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee Members) and Executive Officers are omitted as the same details are contained in “Additional information” in the Notes to Consolidated Financial Statements.

Approach to the impact of the novel coronavirus infection when forming accounting estimates

It is difficult to forecast how the novel coronavirus infection will spread in future, when it will recede, etc., but when forming accounting estimates of the recoverability of deferred tax assets and other factors, the Company has assumed that, based on information available at the time of writing, the impact of the decline in production and order volume on the Company has largely been resolved, with the exception of certain demand fields, such as the industrial machinery sector, where the recovery in appetites for capital investment has been delayed, and the aircraft sector, where the market is expect to perform poorly for some years.

Notes to Non-consolidated Balance Sheets

1. Assets Pledged as Collateral and Collateralized Debt

(1) Assets pledged as collateral

Securities of subsidiaries and affiliates	11,110 million yen	*1 *2
Other	53,530	*1 *2

(2) Collateralized debt

Borrowings of subsidiaries and affiliates from financial institutions	202,719 million yen	*1 *2

*1 Of the assets pledged as collateral, 29,940 million yen are the mortgages established for borrowings of 61,362 million yen from financial institutions to Kobelco Power Moka Inc., which is one of the primary operators of the wholesale power supply business.

*2 Of the assets pledged as collateral, 34,682 million yen are the mortgages established for borrowings of 140,685 million yen from financial institutions to Kobelco Power Kobe No. 2, Inc., which is one of the primary operators of the wholesale power supply business.

2. Accumulated Depreciation of Tangible Fixed Assets 1,992,137 million yen

3. Guarantee Liabilities

(1) Guarantees of borrowings from financial institutions are provided to other companies.

Kobelco Millcon Steel Co., Ltd.	11,898 million yen	*2
Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd.	5,272	
Kobe Aluminum Automotive Products, LLC.	4,701	
Kobelco & Materials Copper Tube, Ltd.	4,453	*2
Chengdu Kobelco Construction Machinery Financial Leasing Ltd.	4,205	*1
Wuxi Compressor Co., Ltd.	4,083	
Other (16 companies and other)	13,186	*1 *2
Total	47,801	

The above includes activities similar to guarantees (421 million yen).

*1 Of which, 5,270 million yen is covered by reassurances from Kobelco Construction Machinery Co., Ltd.

*2 Of which, 9,321 million yen is covered by reassurances from other companies.

(2) Repurchase obligation accompanying securitization of receivables 2,643 million yen

4. Monetary Receivables and Payables to Subsidiaries and Affiliates

Short-term monetary receivables	143,513 million yen
Long-term monetary receivables	112,529
Short-term monetary payables	69,523
Long-term monetary payables	593

Notes to Non-consolidated Statements of Income

1. Transactions with Subsidiaries and Affiliates

Operating transactions	
Net sales	297,169 million yen
Purchases	461,445
Non-operating transactions	39,906

2. Gain on sale of fixed assets

Gain on sale of fixed assets is due to the sale of land, etc.

3. Loss on impairment

The Company recorded loss on impairment (2,912 million yen) on the following assets group. The breakdown of loss on impairment is as follows: buildings (46 million yen); structures (63 million yen); machinery and equipment (1,835 million yen); vehicles (1 million yen); tools, equipment and fixtures (137 million yen); construction in progress (803 million yen); software (23 million yen); and other intangible fixed assets (0 million yen).

Use	Location and number	Type and amount (millions of yen)
Assets to be disposed	Nada-ku, Kobe-shi and another location 2 times in total	Machinery and equipment, etc. 1,533
Assets for titanium business*	Takasago-shi, Hyogo Prefecture and another location 2 times in total	Machinery and equipment, etc. 1,218
Assets for business	Takasago-shi, Hyogo Prefecture 1 time	Machinery and equipment, etc. 160

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

The Company conducts grouping per business location for business assets to recognize losses on impairment in principle, while considering the status of ongoing management of profit and loss and cash-generating units. In addition, idle assets are grouped individually. The recoverable value of an asset is measured based on its value in use, etc., which is obtained by discounting the future cash flows using a discount rate of 6%.
The circumstances that led to the recognition of loss on impairment by each major asset group are as follows.

(1) Assets to be disposed
Book values (1,652 million yen) were reduced to respective recoverable values, and such reductions were recorded as loss on impairment (1,533 million yen) under extraordinary losses due to the decision to partially dispose of facilities belonging to Kobe Wire Rod & Bar Plant etc.

(2) Assets for titanium business
Book values (1,218 million yen) were reduced to respective recoverable values, and such reductions were recorded as loss on impairment (1,218 million yen) under extraordinary losses due to the decrease in profitability resulting from equipment productivity continuously being at a low level.

Notes to Non-consolidated Statements of Changes in Net Assets

Type and number of treasury stock at the end of fiscal year 2020

Common stock 1,007,771 shares

(Note) 757,900 shares of Kobe Steel owned by Trust & Custody Services Bank, Ltd. (Trust Account E) related to the Board Benefit Trust (BBT) are included in treasury stock listed above.

Notes on Tax Effect Accounting

Major causes for accrual of deferred tax assets are loss on write-down of equity securities and loss on impairment, and assets that are not recognized as recoverable are posted in the valuation reserve.

Notes on Transactions with Related Parties

Category	Company name	Ownership of voting rights etc. (Ownership percentage)	Relationships with related parties	Description of transactions	Transaction amounts (million yen)	Account	Fiscal year-end balance (million yen)
Subsidiaries	Kobelco Power Moka Inc.	100.00% directly	Loan of funds Contracted operation and management of power stations Interlocking directors, etc.	Recovery of funds Interest income	2,110 567	Long-term loans receivable Other current assets	27,779 1,070
	Kobelco Power Kobe No. 2, Inc.	100.00% directly	Contracted operations such as construction management of power stations Loan of funds Interlocking directors, etc.	Contracted operations such as construction management of power stations Loan of funds Interest income	27,424 13,656 359	Accounts receivable Advances received Long-term loans receivable Other investments	496 96,416 24,052 628
	Kobe Steel International (USA) Inc.	100.00% indirectly	Loan of funds Interlocking directors, etc.	Loan of funds Interest income	27,571 32	Long-term loans receivable Other current assets	27,571 1
Affiliates	Shinsho Corporation	13.33% directly and 1.04% indirectly (21.56%)	Sales of certain finished goods of the Company Purchase of raw materials Interlocking directors, etc.	Purchase of raw materials for iron and steel, other raw materials and materials for equipment	254,060	Trade accounts payable	21,971
	Kansai Coke and Chemicals Company, Limited.	24.00% directly	Sales of coal, etc. Purchase of coke, etc. Interlocking directors, etc.	Sales of coal, etc. Purchase of coke, etc.	44,210 60,602	Other accounts receivable Trade accounts payable	6,231 12,394

Note 1: The terms and conditions and policies for their determination:
The terms and conditions applicable to the above transactions are determined through price negotiations on an arm's length basis and with reference to normal market prices. Interest rates on loans are reasonably determined in consideration of market interest rates. The transaction amounts are shown on a net basis.

Note 2: Consumption taxes are not included in the amount of the transactions, but are included in the amount of fiscal year-end balances.

Note 3: The figure contained in parentheses is excluded from above number and represents the percentage of ownership with which the Company has received consent for exercise of voting rights.

Notes on Per Share Information

Net assets per share	1,426.27 yen
Net income per share	21.70 yen

Note: The Company's shares (posted as treasury stock in stockholders' equity) remaining in the trust related to the Board Benefit Trust (BBT) plan are included in treasury stock. These are excluded from the calculation of the number of shares at the end of the period and the average number of shares during the period when calculating net assets per share and net income per share.
The number of such shares at the end of the period excluded from the calculation of net assets per share for this fiscal year was 758 thousand shares, while the average number of shares during the period excluded from the calculation of net income per share for this fiscal year was 758 thousand shares.

(Amounts are rounded down to the nearest million yen.)