Consolidated Statements of Changes in Net Assets

(From April 1, 2021 to March 31, 2022)

(Millions of yen)

	Stockholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total stockholders' equity
Balance as of April 1, 2021	250,930	102,228	368,892	(2,261)	719,789
Cumulative impact of changes in accounting policies			(631)		(631)
Balance as of April 1, 2021 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 exchange		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)
Reversal of land revaluation difference			(5)		(5)
Net changes other than stockholders' equity					
Total changes	－	14,205	49,773	(0)	63,978
Balance as of March 31, 2022	250,930	116,434	418,033	(2,261)	783,136

	Accumulated other comprehensive income							
	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	Non-controlling interests	Total net assets
Balance as of April 1, 2021	15,757	(13,764)	(3,406)	(4,568)	(3,444)	(9,427)	59,013	769,375
Cumulative impact of changes in accounting policies								(631)
Balance as of April 1, 2021 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 exchange								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)
Reversal of land revaluation difference								(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 as of March 31, 2022	28,987	(13,141)	(3,400)	16,054	3,689	32,189	57,019	872,346

(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 201 subsidiaries, of which 169 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 Logistics, Ltd., Kobelco Bolt, Ltd., Shinko Engineering & Maintenance Co., Ltd., Tesac Shinko Wire Rope Co., Ltd., Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd., Kobelco Precision Technology Sdn. Bhd., Kobe Aluminum Automotive Products (China) Co., Ltd., Kobe Aluminum Automotive Products, LLC, Kobelco Aluminum Products & Extrusions Inc., Kobelco Welding of Qingdao Co., Ltd, Kobelco Welding of Korea Co., Ltd., Kobelco Compressors Corporation, Kobelco Machinery Engineering Co., Ltd., Shinko 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 2021, 7 companies, including Kobelco Compressors Asia (Singapore) Pte. Ltd. are newly consolidated and 13 companies, including Kobelco & Materials Copper Tube, Ltd. are excluded from the scope of consolidation due to the transfer of shares, etc.

32 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 32 non-consolidated subsidiaries and 50 affiliates, 37 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., Nippon Steel Kobelco Metal Products Co., Ltd., Kobelco Angang Auto Steel Co., Ltd., Ulsan Aluminum, Ltd., PRO-TEC Coating Company, LLC, Kobelco Millcon Steel Co., Ltd., Japan Aeroforge, Ltd., Hokuto Co., Ltd., Shinsho Corporation, Shinko Lease Co., Ltd., Shinko Real Estate Co., Ltd.

For fiscal year 2021, Nippon Steel Kobelco Metal Products Co., Ltd. is newly accounted for by the equity method and 2 companies, including Osaka Titanium Technologies Co., Ltd., are excluded from the application of equity method mainly due to share transfer, etc.

32 non-consolidated subsidiaries, including Kobe EN&M Vietnam Co., Ltd., and 13 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 other than shares, etc. that do not have a market price

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) Shares, etc. that do not have a market price — 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 2021 based on the actual warranty cost to sales ratio in the past, plus specifically estimated amount attributable to the fiscal year 2021 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 2021.

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 2021, 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 2021.

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 2021.

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 2021.

(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 2021.

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

Prior service costs are 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

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

Step 1: Identify a contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when or as the performance obligations are satisfied

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

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

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

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

(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.

(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

The Company and some of its domestic consolidated subsidiaries will transfer from the consolidated taxation system to the group tax sharing system from the next fiscal year. However, 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).

From the beginning of the next consolidated fiscal year, the Company plans to apply the Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System (ASBJ Guidance No. 42, August 12, 2021), which provides for the accounting treatment and disclosure of income taxes, local income taxes and tax effect accounting under the group tax sharing system.

Notes Regarding Changes in Accounting Policies

1. Application of the "Accounting Standard for Revenue Recognition," etc.

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter "Revenue Recognition Standard") and other standards from the beginning of the current fiscal year. The Company has decided to recognize revenue when control of a promised good or service is transferred to a customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. As a result, discounts, rebates, etc., which were previously deducted from net sales at the time the amount was determined, are now reflected in the transaction price at the time of revenue recognition.

The Company applies the Revenue Recognition Standard, etc. in accordance with the transitional treatment provided for in the proviso to Paragraph 84 of the Revenue Recognition Standard. The cumulative impact of retrospectively applying the new accounting policies to prior periods is adjusted to retained earnings at the beginning of the current fiscal year, with the new accounting policies applied from the beginning balance. However, the Company applies the method provided for in Paragraph 86 of the Revenue Recognition Standard, and does not apply the new accounting policies retrospectively to contracts for which substantially all revenue amounts had been recognized prior to the beginning of the current fiscal year in accordance with the previous treatment. In addition, applying the method stipulated in proviso (1) to Paragraph 86 of the Revenue Recognition Standard, contract modifications that occurred prior to the beginning of the current fiscal year were accounted for based on the terms of the contract after reflecting all contract modifications, with the cumulative impact adjusted to retained earnings at the beginning of the current fiscal year.

Furthermore, "notes and accounts receivable," which were presented under "current assets" in the consolidated balance sheets of the previous period, have been included under "notes receivable," "accounts receivable," and "contract assets" from the current fiscal year, and "other," which was presented under "current liabilities," has been included under "contract liabilities" and "other" from the current fiscal year.

The cumulative impact of this change has been reflected on net assets at the beginning of the current fiscal year. As a result, the beginning balance of retained earnings decreased by 631 million yen in the consolidated statements of changes in net assets.

The impact on the consolidated statements of income for the current fiscal year is immaterial.

2. Application of the "Accounting Standard for Fair Value Measurement," etc.

The Company has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019; hereinafter "Fair Value Measurement Standard") and other standards from the beginning of the current fiscal year, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Standard, etc. in accordance with the transitional treatment provided in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 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 and the consolidated statements of income.

In addition, notes on the breakdown of the fair value of financial instruments by appropriate classification, etc. are provided in the "Notes on Financial Instruments."

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 recoverability based on future cash flows and assesses whether or not it must recognize an impairment loss. If the 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.

The book value of fixed assets at the end of the fiscal year under review was 1,096,522 million yen (1,060,197 million yen for tangible fixed assets and 36,324 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 demand owing to the novel coronavirus infection, higher procurement costs for steel, and other factors. In future business plans, the Group has incorporated key assumptions, including an improvement in sales prices and an increase in units sold based on higher demand in sales areas owing to increased construction investment and expansion of the market share. 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 58,302 million yen (54,165 million yen for tangible fixed assets and 4,136 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 57,068 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, budget, 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 has incorporated key assumptions, including forecasts of demand and sales prices in the main businesses, when formulating business plans.

If projections of future taxable income fluctuate significantly as a result of the impact on the Group’s demand field caused by the stagnant supply chain and the prolonged global shortage of semiconductors, as well as delays in resolving the gap between prices for raw and other materials and energy and sales prices, 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

1. 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 670 million yen for 746 thousand shares.

2. 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 the Group forms accounting estimates of the recoverability of deferred tax assets based on information available at the time of writing. Although demand is currently declining in the automotive and other sectors due to production cutbacks caused by parts supply shortages, the impact is temporary and does not have a material impact on forming accounting estimates. The Group has assumed that the current and future impacts of the decline in production and order volume on the Group have largely been resolved, with the exception of certain demand fields, such as the aircraft sector, where the market is expected 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	248,772 million yen
Other	49,993
Total	298,765

(2) Collateralized debt

Short-term borrowings	7,433 million yen
Long-term borrowings	246,736
Total	254,169

2. Accumulated Depreciation of Tangible Fixed Assets 2,569,851 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.	4,854 million yen	*
Japan Aeroforge, Ltd.	1,764	
Other (13 companies and other)	1,335	*
Total	7,954	

*Of which, 2,507 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 12,750 million yen at the end of fiscal year 2021.

(2) Trade notes receivable endorsed 131 million yen

(3) Repurchase obligation accompanying securitization of receivables 5,695 million yen

Notes to Consolidated Statements of Income

Revenue from contracts with customers

Net sales consist primarily of revenue recognized from contracts with customers, and the amount of revenue recognized from other sources is not material.

Notes to Consolidated Statements of Changes in Net Assets

1. Type and Total Number of Shares Issued at the End of Fiscal Year 2021

Common stock 396,345,963 shares

2. Matters Concerning Dividends

(1) Dividends paid

Resolution	Type of stock	Total dividends	Dividends per share	Record date	Effective date	Source of dividends
May 17, 2021 Board of Directors' meeting	Common stock	3,641 million yen	10.0 yen	March 31, 2021	June 24, 2021	Retained earnings
November 5, 2021 Board of Directors' meeting	Common stock	3,641 million yen	10.0 yen	September 30, 2021	December 1, 2021	Retained earnings

(2) Dividends with the record date in fiscal year 2021 and the effective date in fiscal year 2022

At a meeting of the Board of Directors to be held on May 18, 2022, the Company intends to submit an agenda item concerning the payment of a dividends on common stock as follows.

1) Total dividends 11,882 million yen
2) Dividends per share 30.0 yen
3) Record date March 31, 2022
4) Effective date June 23, 2022

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, 2022 are as follows.

(Millions of yen)

	Carrying amount *3	Fair value *3	Difference
(1) Investments in securities *4			
a) Securities of subsidiaries and affiliates	5,688	4,441	(1,247)
b) Available-for-sale securities	90,248	90,248	—
(2) Short-term borrowings	(87,265)	(91,655)	(4,389)
(3) Bonds and notes due within one year	(25,150)	(25,170)	(20)
(4) Bonds and notes	(45,900)	(46,458)	(558)
(5) Long-term borrowings	(750,126)	(755,575)	(5,449)
(6) Lease obligations (long-term liabilities)	(51,427)	(50,515)	911
(7) Derivative transactions *5			
a) Hedge accounting not applied	(2,577)	(2,577)	—
b) Hedge accounting applied	(18,281)	(18,281)	—

*1 "Cash and deposits" are omitted, because they comprise cash and short-term instruments whose carrying amount approximates their fair value.

*2 "Notes receivable," "Accounts receivable," "Securities," "Notes and accounts payable," and "Accounts payable - other" are omitted, because they comprise short-term instruments whose fair value approximates their carrying amount.

*3 Liabilities are presented with parentheses ( ).

*4 Shares, etc. that do not have a market price are not included in "(1) Investments in securities" The carrying amount of these financial instruments in the consolidated balance sheets are as follows:

(Millions of yen)

Classification	Carrying amount in consolidated balance sheets
Unlisted shares, etc.	98,445

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

3. Fair value information by level within the fair value hierarchy

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

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

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

Level 3 fair value: Fair value measured using unobservable inputs

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

(1) Financial instruments measured at fair value in the consolidated balance sheets

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
(1) Investments in securities				
b) Available-for-sale securities	90,248	—	—	90,248
(7) Derivative transactions				
a) Hedge accounting not applied	—	(2,577)	—	(2,577)
b) Hedge accounting applied	—	(18,281)	—	(18,281)

(2) Financial instruments other than those measured at fair value in the consolidated balance sheets

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
(1) Investments in securities				
a) Shares of subsidiaries and affiliates	4,441	—	—	4,441
(2) Short-term borrowings	—	(91,655)	—	(91,655)
(3) Bonds and notes due within one year	—	(25,170)	—	(25,170)
(4) Bonds and notes	—	(46,458)	—	(46,458)
(5) Long-term borrowings	—	(755,575)	—	(755,575)
(6) Lease obligations (long-term liabilities)	—	(50,515)	—	(50,515)

Note: A description of the valuation technique(s) and inputs used in the fair value measurements

(1) Investments in securities

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

(2) Short-term borrowings, (5) Long-term borrowings, and (6) 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. They are all classified as Level 2.

(3) Bonds and notes due within one year and (4) Bonds and notes

The fair values are determined based on market prices (reference statistical prices and yields), etc. and are classified as Level 2.

(7) 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, and they are classified as Level 2.

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.
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 (5) above).

Notes on Revenue Recognition

1. Disaggregation of revenue from contracts with customers

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

(1) Breakdown by region

(Millions of yen)

	Reportable segments						
	Steel & Aluminum			Advanced Materials	Welding	Machinery	Engineering
	Steel	Aluminum sheet	Total				
Japan	572,580	105,589	678,170	193,029	42,867	61,623	107,973
China	41,293	31,442	72,735	23,265	7,256	41,779	7,652
Other	108,135	22,011	130,146	108,054	26,098	58,425	18,693
Net sales to external customers	722,009	159,042	881,052	324,349	76,222	161,828	134,319

	Reportable segments			Other (Note 1)	Total	Adjustment	Carrying amount in consolidated statements of income
	Construction Machinery	Electric Power	Total				
Japan	147,405	109,866	1,340,935	17,687	1,358,622	1,400	1,360,023
China	47,586	—	200,275	1,599	201,874	31	201,905
Other	176,557	—	517,977	2,647	520,624	29	520,653
Net sales to external customers	371,548	109,866	2,059,188	21,933	2,081,121	1,460	2,082,582

(2) Breakdown by the time of transfer of goods or services

(Millions of yen)

	Reportable segments						
	Steel & Aluminum			Advanced Materials	Welding	Machinery	Engineering
	Steel	Aluminum sheet	Total				
Goods or services transferred at a point in time	709,383	159,042	868,426	324,349	76,222	148,859	46,909
Goods or services transferred over a certain period of time	12,625	—	12,625	—	—	12,969	87,410

Net sales to external customers	722,009	159,042	881,052	324,349	76,222	161,828	134,319

	Reportable segments			Other (Note 1)	Total	Adjustment	Carrying amount in consolidated statements of income
	Construction Machinery	Electric power	Total				
Goods or services transferred at a point in time	362,099	109,866	1,936,733	21,421	1,958,154	1,434	1,959,588
Goods or services transferred over a certain period of time	9,449	—	122,455	512	122,967	26	122,993
Net sales to external customers	371,548	109,866	2,059,188	21,933	2,081,121	1,460	2,082,582

Note 1: "Other" segment is a business segment not included in the reportable segments and includes Kobelco Research Institute, Inc. (special alloys and other new materials (target materials, etc.), analysis of various materials, etc.) and other businesses.

Note 2: Net sales consist primarily of revenue recognized from contracts with customers, and the amount of revenue recognized from other sources is not material.

Note 3: Information on net sales broken down by region is based on the location of customers and broken down by country.

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

(1) Contract asset and contract liability balances

(Millions of yen)

	Amount
Receivables from contracts with customers (beginning balance)	273,985
Receivables from contracts with customers (ending balance)	328,098
Contract assets (beginning balance)	40,009
Contract assets (ending balance)	29,874
Contract liabilities (beginning balance)	36,108
Contract liabilities (ending balance)	45,218

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

Contract liabilities primality relate to advances received from customers. Revenue recognized in the current fiscal year that was included in the contract liability balance at the beginning of the period was 21,833 million yen. The amount of revenue recognized in the current fiscal year from performance obligations that were satisfied in the previous fiscal year is not material.

(2) Transaction price allocated to the remaining performance obligations

The Group has applied the practical expedient to the notes on transaction prices allocated to the remaining performance obligations, and does not disclose contracts with an original expected duration of one year or less. Such performance obligations primarily relate to the sales of products, construction contracts, and provision of services in the machinery and engineering businesses. The total transaction price allocated to the remaining performance obligations and the time frame over which the Group expects to recognize the amount as revenue are as follows.

(Millions of yen)

	Amount
Within one year	226,467
Over one year	240,325
Total	466,793

Notes on Per Share Information

Net assets per share 2,066.48 yen
Net income per share 160.23 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 746 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 750 thousand shares.

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

Non-Consolidated Statements of Changes in Net Assets

(From April 1, 2021 to March 31, 2022)

(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, 2021	250,930	100,789	100,789	129	1,925	155,093	157,148	(1,302)	507,565
Cumulative impact of changes in accounting policies						(997)	(997)		(997)
Balance as of April 1, 2021 reflecting changes in accounting policies	250,930	100,789	100,789	129	1,925	154,096	156,151	(1,302)	506,568
Amount of change									
Reversal of reserve for special depreciation				(47)		47	—		—
Reversal of reserve for advanced depreciation of fixed assets					(143)	143	—		—
Dividends of surplus						(7,282)	(7,282)		(7,282)
Net income						45,396	45,396		45,396
Share exchange		21,907	21,907						21,907
Purchase of treasury stock								(6)	(6)
Disposal of treasury stock						(1)	(1)	12	10
Net changes other than stockholders' equity									
Total changes	—	21,907	21,907	(47)	(143)	38,304	38,113	6	60,026
Balance as of March 31, 2022	250,930	122,697	122,697	82	1,781	192,401	194,264	(1,296)	566,595

	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, 2021	11,191	(511)	10,680	518,245
Cumulative impact of changes in accounting policies				(997)
Balance as of April 1, 2021 reflecting changes in accounting policies	11,191	(511)	10,680	517,248
Amount of change				
Reversal of reserve for special depreciation				—
Reversal of reserve for advanced depreciation of fixed assets				—
Dividends of surplus				(7,282)
Net income				45,396
Share exchange				21,907
Purchase of treasury stock				(6)
Disposal of treasury stock				10
Net changes other than stockholders' equity	12,059	(819)	11,240	11,240
Total changes	12,059	(819)	11,240	71,267
Balance as of March 31, 2022	23,250	(1,330)	21,920	588,515

(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 other than shares, etc. that do not have a market price: 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).
   Shares, etc. that do not have a market price: 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 2021 based on the actual warranty cost to sales ratio in the past, plus specifically estimated amount attributable to the fiscal year 2021 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 2021.

(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 2021.

(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 2021.

(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 2021.

(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 2021.

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

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

Step 1: Identify a contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

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

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

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

a)	Performance obligation satisfied at a point in time	For sales of products, in principle, revenue is recognized at the time of delivery of such product, since control of the product is transferred to a customer and the performance obligation is satisfied at that time. However, if the period from the time of shipment to the time when control of the product is transferred to a customer is a normal period of time, control of the product is deemed to be transferred to the customer at the time of shipment, and revenue is recognized at the time of shipment.
b)	Performance obligation satisfied over a certain period of time	For construction contracts, the Company primarily estimates the progress toward satisfaction of performance obligations to be provided to a customer and recognizes revenue based on such progress. Since the accrual of cost is an appropriate measure of the degree of progress of construction, the degree of progress is calculated as the ratio of the cumulative actual cost incurred to the estimated total cost. The consideration for transactions is received primarily in stages during the contract period, separately from the satisfaction of performance obligations, and the remaining amount is received after a specified period of time has elapsed following the satisfaction of performance obligations. For provision of services, revenue is recognized based on a percentage of the total amount of services transferred.

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

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

The Company will transfer from the consolidated taxation system to the group tax sharing system from the next fiscal year. However, 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).

From the beginning of the next fiscal year, the Company plans to apply the Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System (ASBJ Guidance No. 42, August 12, 2021), which provides for the accounting treatment and disclosure of income taxes, local income taxes and tax effect accounting under the group tax sharing system.

Notes Regarding Changes in Accounting Policies

1. Application of the "Accounting Standard for Revenue Recognition," etc.

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter "Revenue Recognition Standard") and other standards from the beginning of the current fiscal year. The Company has decided to recognize revenue when control of a promised good or service is transferred to a customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. As a result, discounts, rebates, etc., which were previously deducted from net sales at the time the amount was determined, are now reflected in the transaction price at the time of revenue recognition.

The Company applies the Revenue Recognition Standard, etc. in accordance with the transitional treatment provided for in the proviso to Paragraph 84 of the Revenue Recognition Standard. The cumulative impact of retrospectively applying the new accounting policies to prior periods is adjusted to retained earnings brought forward at the beginning of the current fiscal year, with the new accounting policies applied from the beginning balance. However, the Company applies the method provided for in Paragraph 86 of the Revenue Recognition Standard, and does not apply the new accounting policies retrospectively to contracts for which substantially all revenue amounts had been recognized prior to the beginning of the current fiscal year in accordance with the previous treatment. In addition, applying the method stipulated in proviso (1) to Paragraph 86 of the Revenue Recognition Standard, contract modifications that occurred prior to the beginning of the current fiscal year were accounted for based on the terms of the contract after reflecting all contract modifications, with the cumulative impact adjusted to retained earnings brought forward at the beginning of the current fiscal year. Furthermore, "accounts receivable," which were presented under "current assets" in the non-consolidated balance sheets of the previous period, have been included under "accounts receivable" and "contract assets" from the current fiscal year, and "advances received," which were presented under "current liabilities," have been included under "contract liabilities" from the current fiscal year.

The cumulative impact of this change has been reflected on net assets at the beginning of the current fiscal year. As a result, the beginning balance of retained earnings decreased by 997 million yen in the non-consolidated statements of changes in net assets.

The impact on the non-consolidated statements of income for the current fiscal year is immaterial.

2. Application of the “Accounting Standard for Fair Value Measurement,” etc.

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019; hereinafter “Fair Value Measurement Standard”) and other standards from the beginning of the current fiscal year, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Standard, etc. in accordance with the transitional treatment provided in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). This has no impact on the non-consolidated balance sheets and the non-consolidated statements of income.

Notes Regarding Accounting Estimates

Deferred tax assets

The Company recorded 12,249 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

1. 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.

2. 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 the Company forms accounting estimates of the recoverability of deferred tax assets based on information available at the time of writing. Although demand is currently declining in the automotive and other sectors due to production cutbacks caused by parts supply shortages, the impact is temporary and does not have a material impact on forming accounting estimates. The Company has assumed that the current and future impacts of the decline in production and order volume on the Company have largely been resolved, with the exception of certain demand fields, such as the aircraft sector, where the market is expected 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	66,444	*1 *2

(2) Collateralized debt

Borrowings of subsidiaries and affiliates from financial institutions 253,793 million yen *1 *2

*1 Of the assets pledged as collateral, 27,476 million yen are the mortgages established for borrowings of 55,027 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, 50,060 million yen are the mortgages established for borrowings of 198,260 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 2,010,291 million yen

3. Guarantee Liabilities

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

Kobe Aluminum Automotive Products, LLC.	4,942 million yen	
Kobelco Millcon Steel Co., Ltd.	4,854	*
Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd.	3,361	
Quintus Technologies AB	3,107	
Shinko Wuxi Compressor Co., Ltd.	2,970	
Other (12 companies and other)	6,859	*
Total	26,097	

The above includes activities similar to guarantees (77 million yen).

* Of which, 3,998 million yen is covered by reassurances from other companies.

(2) Repurchase obligation accompanying securitization of receivables 2,190 million yen

4. Monetary Receivables and Payables to Subsidiaries and Affiliates

Short-term monetary receivables	150,824 million yen
Long-term monetary receivables	150,266
Short-term monetary payables	93,077
Long-term monetary payables	391

Notes to Non-consolidated Statements of Income

Transactions with Subsidiaries and Affiliates

Operating transactions	
Net sales	444,863 million yen
Purchases	701,351
Non-operating transactions	80,260

Notes to Non-consolidated Statements of Changes in Net Assets

Type and number of treasury stock at the end of fiscal year 2021

Common stock 1,004,459 shares

(Note) 746,300 shares of Kobe Steel owned by Custody Bank of Japan, 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 provision for retirement benefits, 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	1,393 555	Long-term loans receivable Short-term loans receivable —	22,912 3,473 —
	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	102,425 14,736 640	Accounts receivable Contract liabilities Long-term loans receivable Other investments	705 49,675 38,789 1,269
	Kobe Steel International (USA) Inc.	100.00% indirectly	Loan of funds Interlocking directors, etc.	– Interest income	— 361	Long-term loans receivable Short-term loans receivable Other current assets	26,597 3,059 20
	Kobelco Compressors Corporation	51.00% directly	Interlocking directors, etc.	Absorption-type split Split assets Split liabilities	21,983 16,269	— —	— —
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	523,791	Accounts payable	37,262
	Kansai Coke and Chemicals Company, Limited.	24.00% directly	Supply of coal, etc. Purchase of coke, etc. Interlocking directors, etc.	Supply of coal, etc. Purchase of coke, etc.	86,545 91,172	Accounts receivable - other Accounts payable	14,064 21,843

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: With respect to the absorption-type company split, the Company's standard compressor business was transferred to Kobelco Compressors Corporation through a company split, and the amounts of assets, liabilities, etc. transferred were calculated based on the carrying amounts of the assets, liabilities, etc. of the standard compressor business. The Company received shares as consideration for the assets, liabilities, etc. transferred through the company split. Since the Company implemented the company split independently and all of the shares to be issued upon the company split were allocated to the Company, the amount was determined considering the amount of capital stock of Kobelco Compressors Corporation.

Note 3: Consumption taxes are not included in the amount of the transactions, but are included in the amount of fiscal year-end balances.

Note 4: 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	1,488.62 yen
Net income per share	120.84 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 746 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 750 thousand shares.

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