KOBELCO

Annual Report 2017

Year ended March 31, 2017

Working in Unison,
Sharing Core Values

The Core Values of KOBELCO
are the Kobe Steel Group's commitments to society.
They represent the values shared by the Kobe Steel Group.

Core Values of KOBELCO

1. We provide technologies, products and services that win the trust and confidence of our customers we serve and the society in which we live.
2. We value each employee and support his and her growth on an individual basis, while creating a cooperative and harmonious environment.
3. Through continuous and innovative changes, we create new values for the society of which we are a member.

Six Pledges of KOBELCO Men and Women

We, the men and women of KOBELCO, in the spirit of honoring Core Values of KOBELCO, make the following Six Pledges:

1. Heightened Sense of Ethics and Professionalism

We not only follow the laws, corporate rules and societal norms, but also conduct our corporate activity in a fair and sound manner with the highest sense of ethics and professionalism.

2. Providing Superior Products and Services

We provide safe, sound and innovative products and services to our customers, and thereby contribute to the well-being and advancement of the society.

3. Establishing a Comfortable but Challenging Work Environment

We provide a safe and comfortable work environment, and we value each employee's character, personality and diversity, and provide each employee with a challenging work experience so as to allow each employee to use his and her fullest capability.

4. Living in Harmony with Local Community

We make efforts to be a good "corporate citizen" in each local community which serves as the base for our group.

5. Contribution to a Sustainable Environment

We aim to build a richer and more sustainable world, and we conduct environmentally friendly manufacturing and contribute to the betterment of the natural environment through our technologies, products and services.

6. Respect for Each Stakeholder

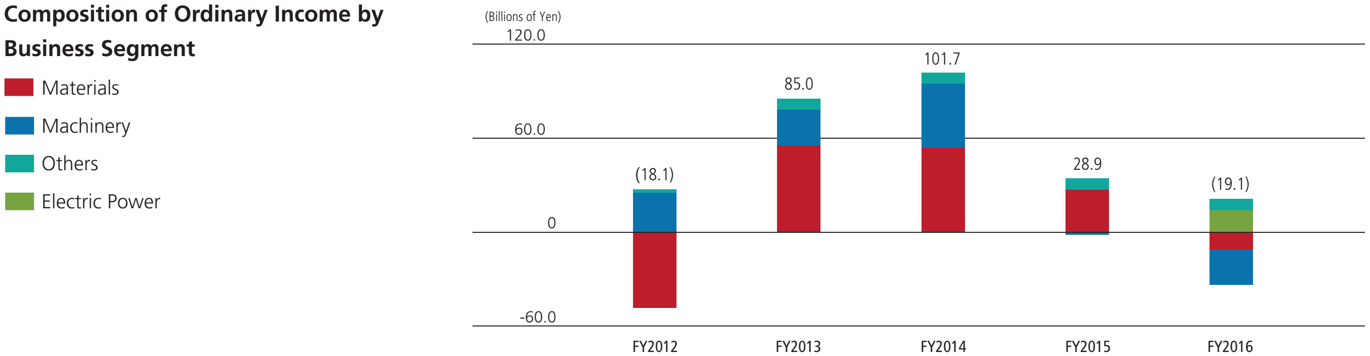
We respect all of our stakeholders, including customers, business associates, employees and shareholders, as our colleagues and build good and sound relationships with all of them.

Financial Highlights

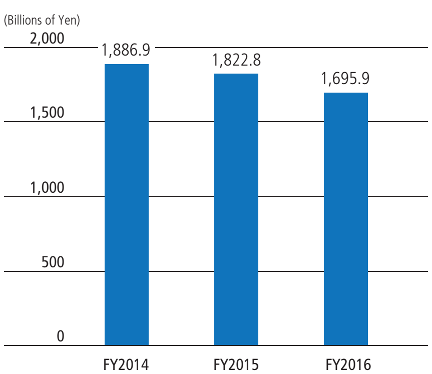
In fiscal 2016, the Kobe Steel Group launched a new medium-term management plan and aims to establish a business enterprise centered on the three core businesses of materials, machinery and electric power under its medium- to long-term vision KOBELCO VISION "G+." We intend to strengthen our stable earnings power under these initiatives.

Kobe Steel's competitive edge lies in its unique expertise and technologies accumulated in groupwide operations encompassing a wide variety of materials and machinery. By integrating these strengths, Kobe Steel will further enhance the corporate value of the entire Group as it aims to secure sustainable growth.

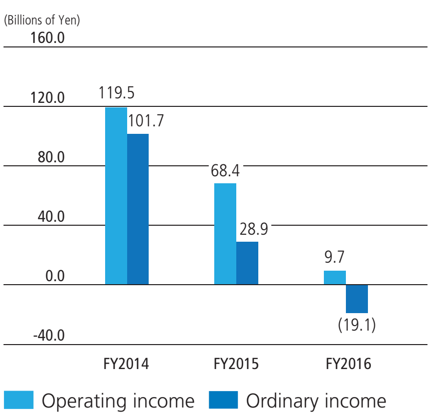
Composition of Ordinary Income by Business Segment



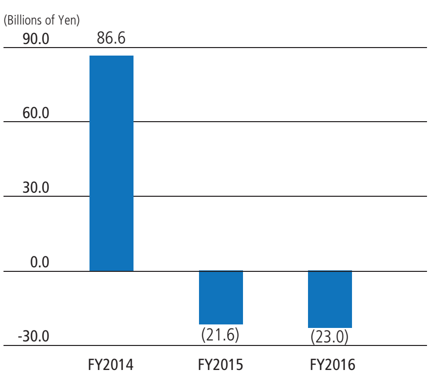
Net Sales



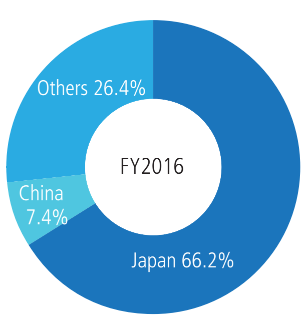
Operating Income and Ordinary Income



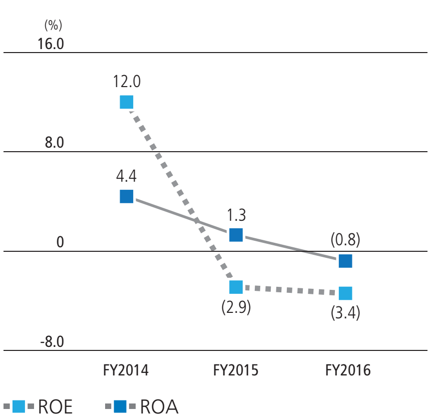
Net Income (Loss)



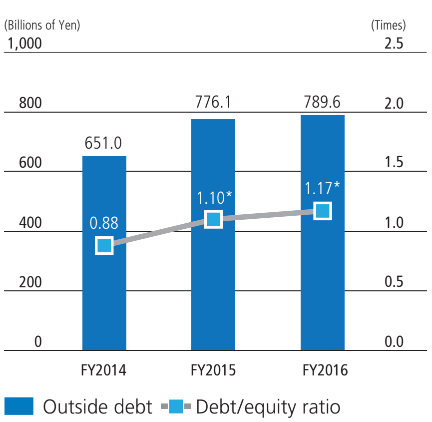
Net Sales by Region



ROE/ROA



Outside Debt and Debt/Equity Ratio



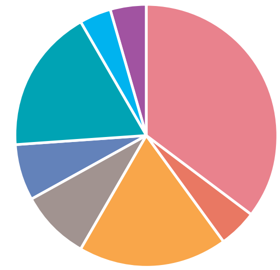
* D/E ratio: Debt (excluding IPP project financing)/stock-holders' equity
Excludes advanced borrowing (FY2015 : ¥90.0 billion FY2016: ¥117.6 billion)

At a Glance

Net Sales by Segment (%)

¥1,695.9 billion

Iron & Steel	35.4
Welding	4.7
Aluminum & Copper	18.4
Machinery	8.6
Engineering	6.9
Construction Machinery	17.7
Electric Power	4.0
Other Businesses	4.3



Iron & Steel
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Consisting of steel products, steel castings and forgings, titanium and steel powder, the Iron & Steel Business is strengthening its manufacturing capabilities to increase productivity and cost competitiveness. It is looking to provide overseas markets with its distinctive products and technologies and is shifting its focus to fields where demand is growing, including the transportation sector.

Welding
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We aim to be the most trusted welding solutions company in the world and achieve the No. 1 market share in Asia. We specialize in combining welding materials, welding robot systems and construction methods to develop total welding solutions.

Aluminum & Copper
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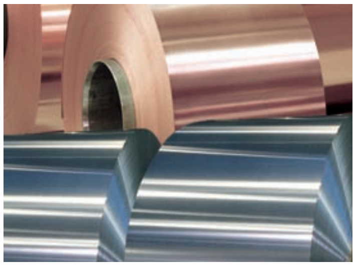

Having identified the transportation field as a major area of focus, we are working hard to enhance our products as we construct and strengthen our global supply system. As one of Japan's leading aluminum and copper producers, we are continually working to become an indispensable partner to customers around the world.

Machinery
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The Machinery business offers an extensive array of products, including industrial machinery, compressors and equipment for the nuclear and other energy industries. To meet global demand in growing markets, we strive to create original products and technologies, bolster our capabilities in production technology, and build an optimal production structure.

Engineering
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The Engineering business combines unique, industry-leading processes with a wide range of skills and know-how. The business flexibly meets customers' various evolving needs and gives back to society by providing value-added solutions.

Ordinary Income by Segment (%)*

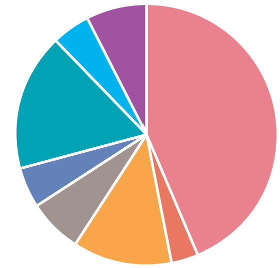
-¥19.1 billion

Iron & Steel	—
Welding	14.2
Aluminum & Copper	24.9
Machinery	12.2
Engineering	5.8
Construction Machinery	—
Electric Power	27.1
Other Businesses	15.8

Total Assets by Segment (%)

¥2,310.4 billion

Iron & Steel	43.7
Welding	3.4
Aluminum & Copper	12.1
Machinery	6.9
Engineering	4.9
Construction Machinery	17.0
Electric Power	4.7
Other Businesses	7.3



Construction Machinery

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On April 1, 2016, Kobelco Construction Machinery Co., Ltd. was reborn as a construction equipment manufacturer following its merger with Kobelco Cranes Co., Ltd. The company has been working to improve eco-friendly technologies. It is also engaged in developing products and services that combine excavator and crane technologies with IT solutions.

Electric Power

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Our power supply business began in fiscal 2002 with the Kobe Power Plant, which helps ensure a more stable power supply for the region. We are also currently pursuing plans to construct additional power plants.

Other Businesses: See p. 23

Contents

Caution Regarding Forward-Looking Statements

Certain statements in this annual report contain forward-looking statements concerning forecasts, assertions, prospects, intentions and strategies. The decisions and assumptions leading to these statements were based on information currently available to Kobe Steel. Due to possible changes in decisions and assumptions, future business operations, and internal and external conditions, actual results may differ materially from the projected forward-looking statements. Kobe Steel is not obligated to revise the forward-looking contents in this publication.

Definition of Ordinary Income (Loss)*

Ordinary income under accounting principles generally accepted in Japan (Japanese GAAP) is a category of income (loss) that comes after operating income (expense) and non-operating income (expense), but before extraordinary income and loss. It is also called "pretax recurring profit" or simply "pretax profit."

Uncertain and variable factors include, but are not limited to:

- Changes in economic outlook, demand and market conditions
- Political situation and trade and other regulations
- Changes in currency exchange rates
- Availability and market conditions of raw materials
- Products and services of competing companies, pricing policy, alliances, and business development including M&As
- Strategy changes of alliance partners

Hiroya Kawasaki
Chairman, President, CEO and Representative Director

Creating an Attractive Corporate Group **Full of Pride and Passion,** We Aim to Achieve **Sustainable Development.**

Fiscal 2016 in Review

Japan's economy in fiscal 2016 continued to gradually recover as corporate capital investment and personal consumption began to pick up and employment rates improved. Overseas, the United States and Europe also saw ongoing economic recovery, but growth in China and parts of Southeast Asia continued to decelerate.

In this economic environment, the volume of steel products sold by the Kobe Steel Group was lower than in the previous year as exports declined despite firm demand in the domestic automotive sector. The volume of aluminum rolled products sold was up year on year thanks to strong demand for automotive applications and can stock for beverage cans. The volume of copper rolled products sold also rose year on year due to higher demand for automotive terminal applications. Unit sales of hydraulic excavators decreased due to a drop in domestic demand and to marketing activities with stricter terms of sale in China. In addition, steel as well as aluminum and copper products saw sales prices fall owing to a stronger yen and lower raw material prices.

Reflecting these trends, the lower sales prices had a considerable impact, contributing to a ¥126.9 billion year-on-year decrease in fiscal 2016 net sales to ¥1,695.9 billion. Due in part to the posting of a temporary expense to reline a blast furnace in the Iron & Steel business and the additional posting of an allowance for retained receivables in the construction machinery business in China, ordinary income transitioned from income to loss, falling a total of ¥48.0 billion year on year to an ordinary loss of ¥19.1 billion. Kobe Steel posted extraordinary income of ¥8.1 billion, a total improvement of ¥47.7 billion from an extraordinary loss in the previous year, due mainly to the posting of gains on reversal of provisions for financing related to the wheel loader business in China in fiscal 2016. The Company posted a net loss attributable to owners of the parent of ¥23.0 billion, a worsening of ¥1.5 billion from the previous year.

Outlook for Fiscal 2017

Continued gradual recovery is anticipated in fiscal 2017 in Japan as corporate capital investment and personal consumption begin to recover and employment rates improve. Although the slowing pace of growth in China and India remains a concern, recovery is forecast to continue in the United States and Europe.

On the other hand, uncertainty persists amid concerns over the economic impact of growing protectionist trends and volatile exchange rates.

In light of these recent events, the Company has made some assumptions on a range of factors subject to fluctuation, including raw material prices as well as sales volumes and prices for steel, aluminum and copper rolled products and others. Taking these assumptions into account, in fiscal 2017, Kobe Steel forecasts net sales of about ¥1,870.0 billion, operating income of about ¥75.0 billion, ordinary income of about ¥50.0 billion, and net income attributable to owners of the parent of about ¥30.0 billion.

Fiscal 2016–2020 Group Medium-Term Management Plan

Under the Fiscal 2016–2020 Group Medium-Term Management Plan launched in April 2016, the Kobe Steel Group has adopted KOBELCO VISION "G+," a new vision aimed at further strengthening the Group's growth strategy centered on the three core business areas of materials, machinery and electric power to establish a solid business enterprise.

Allow me to go over the main initiatives we have implemented thus far. In materials, we decided to establish a U.S. manufacturing base for automotive aluminum extrusions and expand production capacity at our U.S. location for automotive aluminum forgings. We also decided to increase capacity at our domestic plant for automotive aluminum panel materials and establish a joint venture to produce rolled aluminum sheet in

South Korea. The need for lighter cars is growing as environmental regulations toughen worldwide. We aim to continue strengthening our aluminum business by steadily capturing growing market demand.

Furthermore, we are steadily progressing with the consolidation of upstream steelmaking operations at Kakogawa Works and the execution of additional profit enhancement measures. In particular, we are aiming to lift profits through both profit improvement measures and growth in the transportation field.

In machinery, we have undertaken initiatives in the fields of energy and infrastructure. We started up one of the world's largest testing facilities for nonstandard compressors and acquired the world's leading manufacturer of isostatic presses with the aim of turning our lineup of industrial machinery into a highly profitable business.

In construction machinery, having posted a large allowance for doubtful accounts during the year under review to cover business in China, we decided to dissolve joint ventures with Chinese partners and began reorganizing our marketing and production system. Kobe Steel is taking the lead in restructuring this business.

In electric power, new power projects in Moka and Kobe are progressing as planned as we aim to secure a stable long-term earnings base. In addition, with the goal of ensuring the ongoing steady operation of our existing Kobe Power Plant, we have concluded new power delivery contracts with The Kansai Electric Power Co., Inc. to take effect following the expiration of the current agreements.

For more information on the progress of our growth strategy centered on the three core business areas, please see the special feature on the following pages.

Regarding Dividend Payments

The Kobe Steel Group views the returning of profits to shareholders as one of its most important management issues. The Group aims to pay dividends on a stable and continuous basis. The actual amount of each dividend payout is decided after taking into full account the Company's performance during each period, the dividend payout ratio, investment capital needs for future growth, relative improvement in financial position and other factors. The dividend payout ratio we are targeting is 15% to 25% of consolidated net income.

Based on the above, in fiscal 2016, we did not pay out dividends. In making this decision, we took into consideration the need to continue strategic investment geared toward growth following the recording of a large net loss.

We sincerely apologize to all of our shareholders. We aim to turn a profit in fiscal 2017 and quickly begin paying out dividends again. We are devoting all of our efforts to improving profits.

Core Values of KOBELCO Next 100 Project

In April 2017, the Group launched the Core Values of KOBELCO Next 100 Project, which looks to the next century. This project aims to unite all employees in creating a better corporate group, namely an attractive corporate group full of pride and passion to ensure its sustained development.

In the previous fiscal year, the Group launched a new medium-term management plan and aims to establish a business enterprise centered on the three core businesses of materials, machinery and electric power under its medium- to long-term vision KOBELCO VISION "G+." The plan is now entering the important phase of implementation, and to realize our goals, we are currently promoting a range of strategic initiatives.

To better adjust to turbulent times and shifting values, the Company has embarked on work style reform, diversity promotion and other initiatives.

Given the current circumstances, we must once again ensure that all Group members share a unified understanding of the values that form the Group's core. We have therefore revisited our corporate philosophy established in 2006 and begun working to share these values among all Group employees.

Our corporate philosophy is reflected in all of our business activities, including those related to quality control, safety, compliance and corporate social responsibility. By promoting our philosophy inside and outside the Group, we aim to achieve sustained development and improve our corporate value.

To make it more apparent that this philosophy applies to the entire Group, we decided to rename it the Core Values of KOBELCO. These are the Group's commitments to society and express the values shared by the entire Group.

To fulfill these commitments, we newly established the Six Pledges of KOBELCO Men and Women, which outline concrete actions that all employees must uphold.

In Conclusion

Based on the Core Values of KOBELCO and the Six Pledges of KOBELCO Men and Women, the Group will continue to contribute to society while aiming to achieve sustained development.

We are focusing all of our efforts on quickly returning to profitability and once again paying out dividends. We will also continue to actively promote growth strategies and secure a stable earnings base centered on the three core businesses of materials, machinery and electric power. I would like to thank all our shareholders and other investors for their continued support as we move forward with our plans.

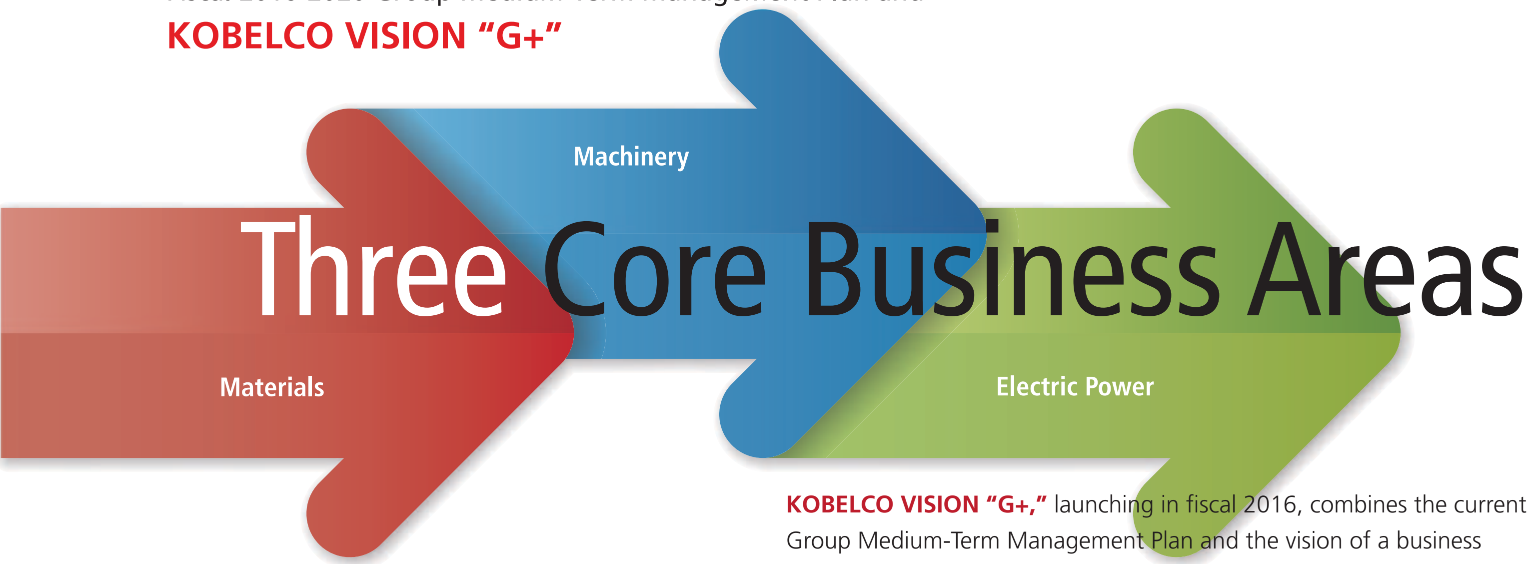
August 2017

Hiroya Kawasaki
Chairman, President, CEO and Representative Director

Fiscal 2016-2020 Group Medium-Term Management Plan and

KOBELCO VISION "G+"

Three Core Business Areas



KOBELCO VISION "G+," launching in fiscal 2016, combines the current Group Medium-Term Management Plan and the vision of a business enterprise established in three core business areas.

The new vision aims to further strengthen the Group's growth strategy centered on the three core business areas of materials, machinery and electric power to establish a solid business enterprise.

Growth Strategies for Three Core Business Areas

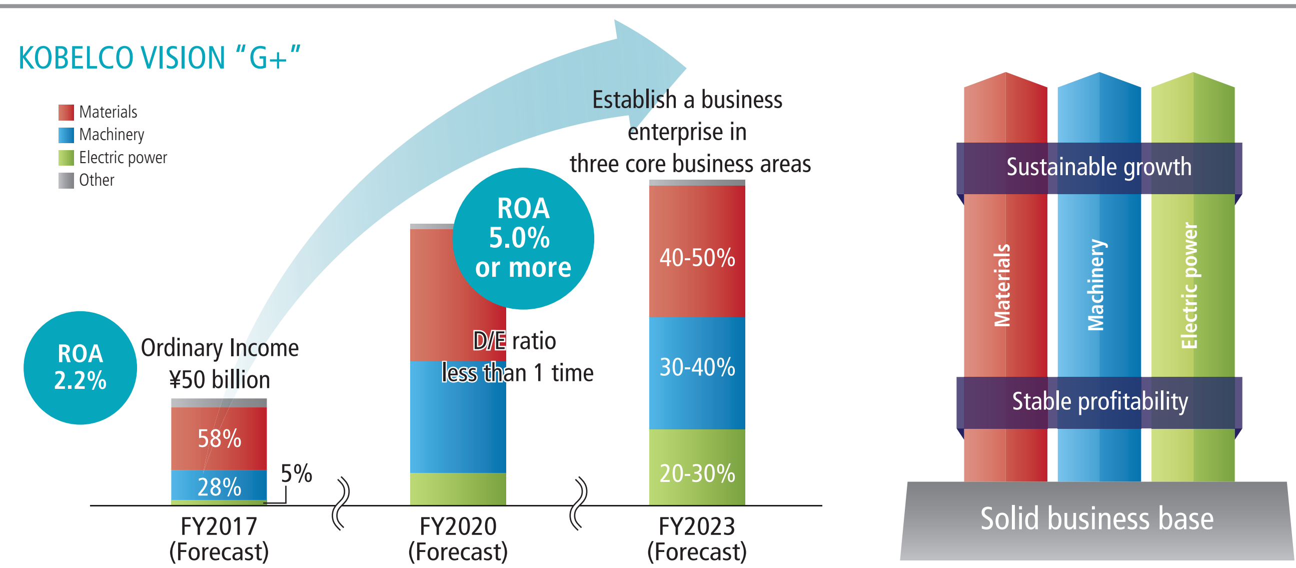
Materials	Machinery	Electric Power
I. Initiatives for weight savings in transportation II. Strengthening profitability in the steel business	I. Initiatives in the fields of energy and infrastructure II. Strengthening profitability in the construction machinery business	Initiatives aimed at stable profitability in the electric power business

Strengthening the Business Base

Common Strategies

I. Strengthening corporate governance
II. Securing and developing human resources
III. Strengthening technology development and *monozukuri* (manufacturing) capabilities

KOBELCO VISION "G+"

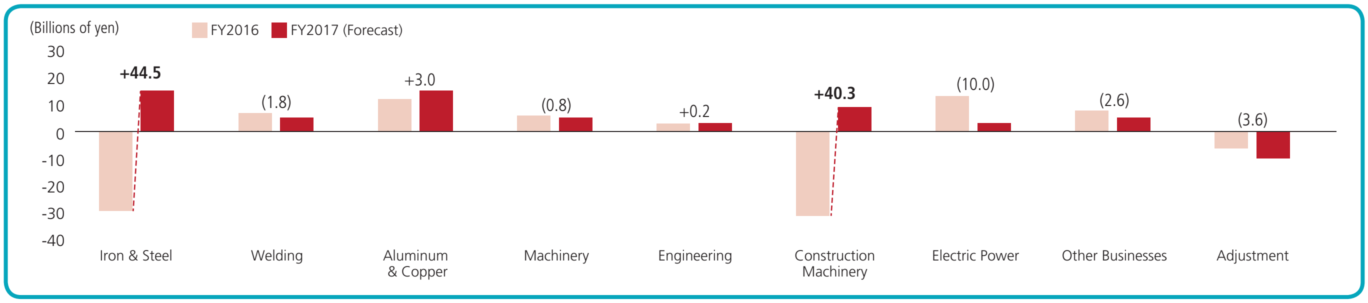


Fiscal 2016 Results and Fiscal 2017 Forecast

Business Performance in Fiscal 2016 and Forecast for Fiscal 2017

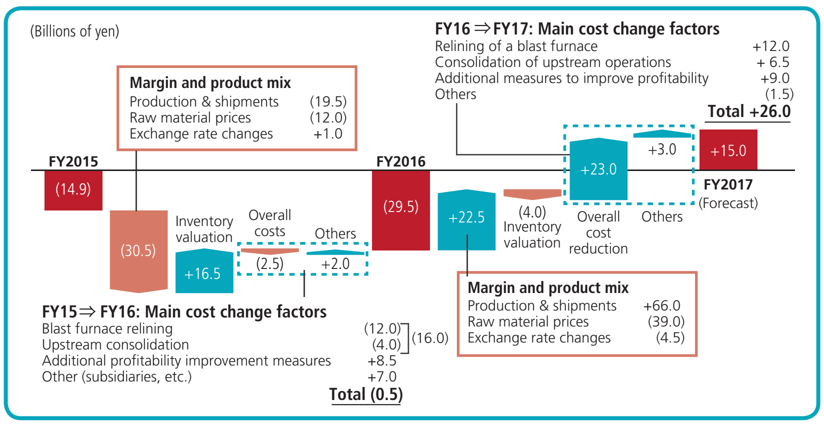
Year-on-Year Change in Ordinary Income by Segment

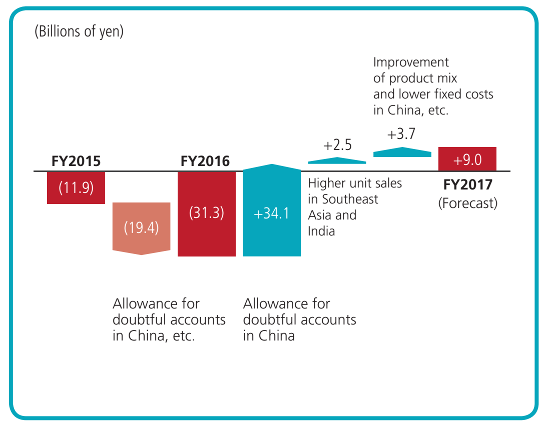
* Figures are based on the financial results for FY2016 announced on April 28, 2017.



Strengthening Profitability in Fiscal 2017

* Figures are based on the financial results for FY2016 announced on April 28, 2017.





Iron & Steel: The consolidation of upstream operations at Kakogawa Works is proceeding according to plan, heading toward completion in November 2017. It is expected to contribute to a ¥6.5 billion improvement in profit (compared with fiscal 2015). Additional measures to improve earnings, such as capital investment and cost cuts at the production level, are projected to contribute ¥9.0 billion.

Construction Machinery: In the hydraulic excavator business in China in fiscal 2016, we recorded an allowance for retained receivables due to generating a large amount of doubtful accounts. In fiscal 2017, we do not foresee posting any additional allowance at present. We will work earnestly to recover the receivables.

Financial Strategy

Basic Policy:

In principle, business cash flows are used to finance large strategic investments to grow the materials and machinery businesses, as well as regular investments that support the business foundation.

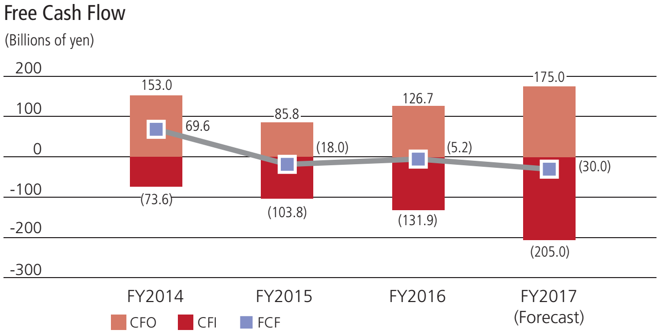
D/E ratio less than 1 time

Cash Generation Measures:

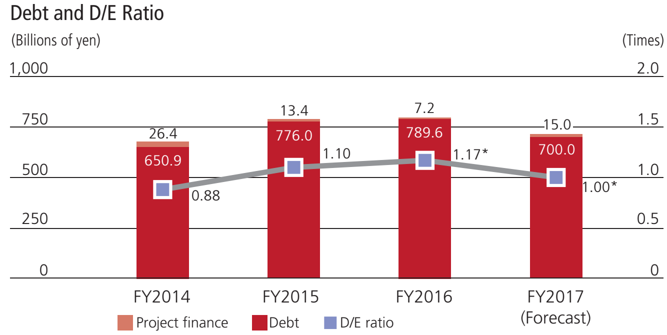
Consider and implement cash generation measures on a scale of ¥100.0 billion to steadily implement growth investments, while maintaining financial discipline.

* Cash generation measures already implemented in FY2016: Improve working capital ¥19 billion, asset sales ¥8 billion, etc.

Free Cash Flow



Debt and D/E Ratio



* D/E ratio: Debt (excluding IPP project financing)/stockholders' equity
Excludes advanced borrowing (FY2015 : ¥90.0 billion FY2016: ¥117.6 billion)

Materials (Iron & Steel, Welding, Aluminum & Copper)

Initiatives for Weight Reduction in Transportation

By providing lightweight materials along with joining and other application technologies, we are working to contribute to weight savings in automobiles as the only company supplying both steel and aluminum.

Initiatives for weight savings as the only company supplying both steel and aluminum

1. Cutting-edge Steel Materials
- Ultra high-strength steel
- Special steel wire rods
- Steel powder

2. Cutting-edge Aluminum Alloys
- Aluminum sheets
- Aluminum forged products
- Aluminum extrusions and fabricated products

3. Application Technologies
- Forming technologies
- Evaluation technologies and structure proposals
- Joining technologies for dissimilar materials to promote multi-material applications

1. Strategy for High-Strength Steel

Weight Reduction through the Use of Steel:
To achieve both crashworthiness and weight reduction, UHSS/HSS and/or PHS will be the main material for the body structure. (UHSS: Ultra high-strength steel with tensile strength of 780 MPa or higher.)

Body

Panels & closures
- Design properties (e.g. shape)
- Stiffness

↓
- Constraints to sheet thickness due to limitations to stiffness/rigidity. Use of aluminum and plastic will increase.

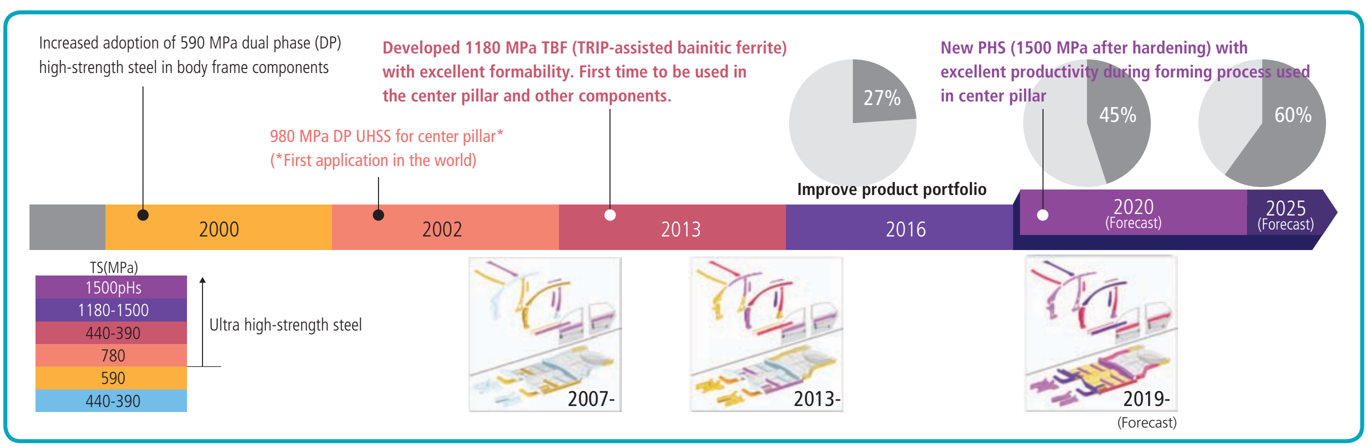
Body structure
- Crashworthiness (Strength, EA, etc.)
- Comfort (stiffness, NVH, etc.)

↓
- UHSS/HSS, which provides higher strength and weight reduction, will be the main material for the body structure.

We make full use of our annealing facility specializing in manufacturing HSS to develop and produce outstanding AHSS and UHSS of high strength and with excellent formability.

Our 980 MPa and 1180 MPa steels were the first in the world to be used in major body structural parts. We are a leader* in ultra high-strength steel.

* We supply 30% to 40% of the ultra high-strength steel to some Japanese auto makers.



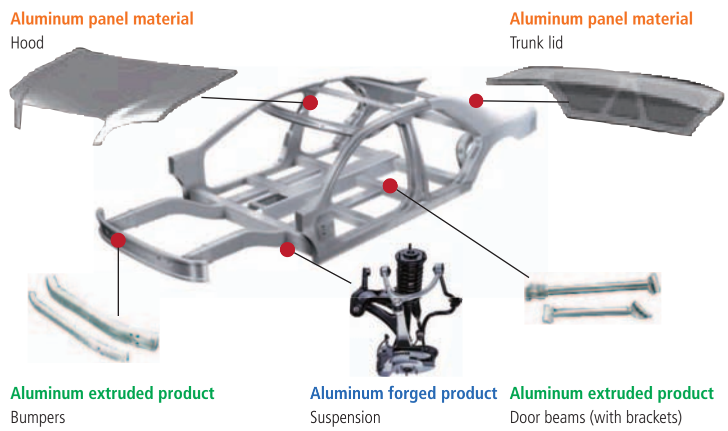
Our Global Supply Structure for Advanced High-Strength Steel

Local supply systems were established in the United States[1] and China[2] by transferring ultra high-strength steel manufacturing technology from Kakogawa Works, as the mother facility in Japan, to these overseas bases. The objective was to satisfy the demand of Japanese automakers for locally procured high-strength steel and to capture increasing demand for advanced high-strength steel in the North American and Chinese markets.

1. Kobe Steel established a joint venture with United States Steel Corporation—a leading supplier of high-strength steel in North America and the first to supply GA980 MPa in the region. It currently produces martensitic steel of up to 1500 MPa. Kobe Steel has transferred its proprietary high-strength steel technology to the joint venture, PRO-TEC Coating Company.
2. Kobe Steel established a joint venture with Angang Steel Company Limited and transferred its proprietary high-strength steel technology to the joint venture. Mass production began in 2016.

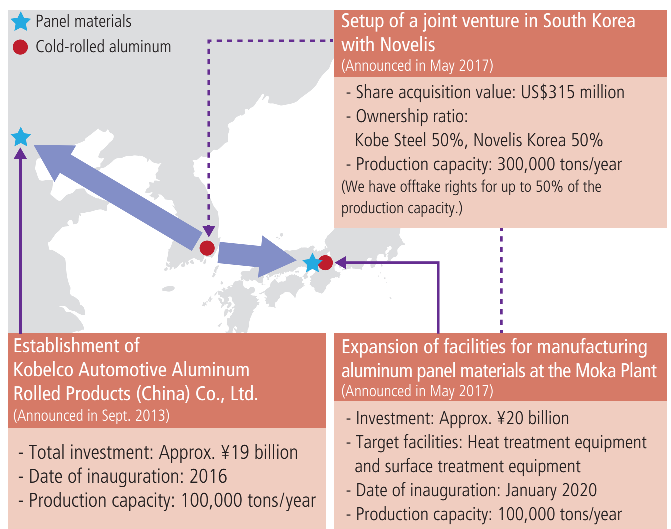
2. Initiatives for Aluminum

As the range of applications for aluminum expands in line with growing demand for lighter vehicles, our aluminum products are being used in various parts, including panels, suspensions and bumpers.



Advantages of Our Aluminum Panel Materials and Demand Forecast

Leveraging our alloy technologies and sophisticated surface control technology, cultivated through the production of aluminum stock for beverage cans, we have become Japan's top supplier of aluminum panel materials with a domestic market share of around 50%. We have gained high marks from our Japanese automotive customers and pursue technical development in partnership with a number of them. In reflecting the growing trend toward lighter vehicles, the demand forecast for 2025 calls for six to seven times current levels in the Japanese and Chinese markets. Accordingly, we need to establish a supply system to capture this future demand. In response to growing demand for aluminum panel materials in Japan and the rest of Asia, including China, we are boosting production capacity in upstream and downstream processes. The North American market remains under continued consideration.

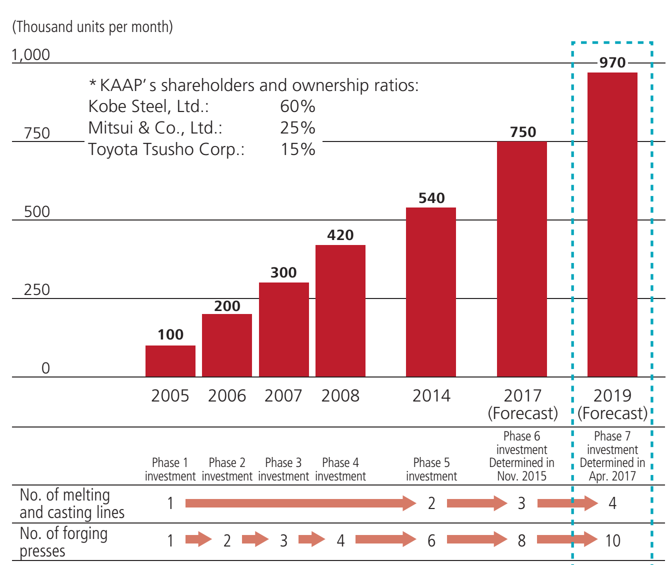


Advantages of Our Aluminum Forged Suspension Products and Demand Forecast

We already hold the largest market share worldwide, outperforming the competition with the advantages of our technologies and equipment.

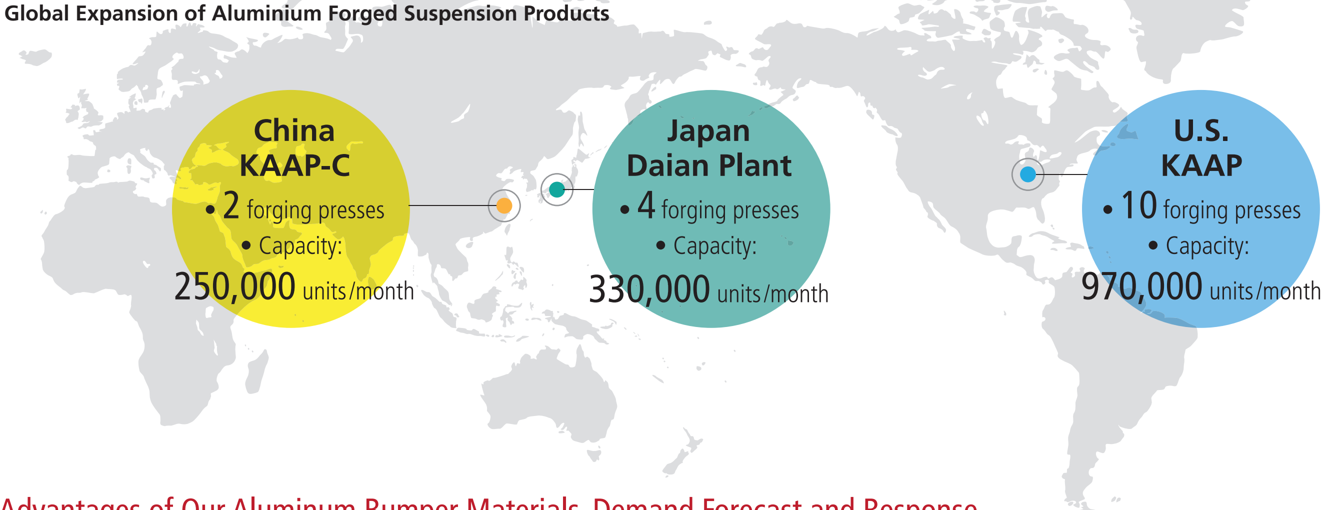
In North America, aluminum suspensions are increasingly being used and we are expecting them to account for 25% by 2025. We urgently need to expand capacity to capture growing demand. Based in the United States, Kobe Aluminum Automotive Products, LLC (KAAP) is expanding its production facilities in stages in a bid to respond to growing demand in North America. Response to further demand growth in 2025 remains to be addressed.

Production capacity trends of U.S.-based KAAP



Once the Phase 7 expansion is completed at KAAP, our total aluminum forged suspension products production capacity, including that of the plants in Japan, the United States and China, will be 1.55 million units per month. We will thus retain our commanding share of the global medium- and large-sized aluminum forged suspension market.

Global Expansion of Aluminium Forged Suspension Products

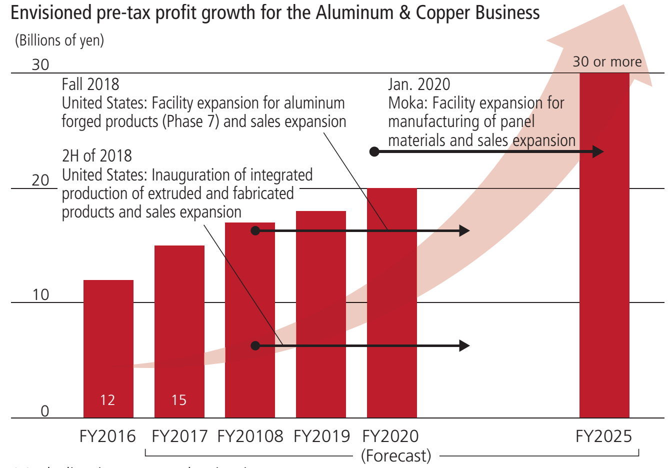


Advantages of Our Aluminum Bumper Materials, Demand Forecast and Response

Our technological advantages spring from the 7000 series alloy we developed ahead of the competition. In North America, the use of aluminum bumpers is steadily on the increase. The share of aluminum bumpers is expected to reach around 30% in 2020. Our new extrusion plant set up in the U.S. is scheduled to begin mass production of our original 7000 series aluminum alloy.

In the Aluminum & Copper Business, ordinary income is projected to reach ¥30.0 billion in 2025, when the effects of all the aforementioned strategic investments materialize.

Envisioned pre-tax profit growth for the Aluminum & Copper Business

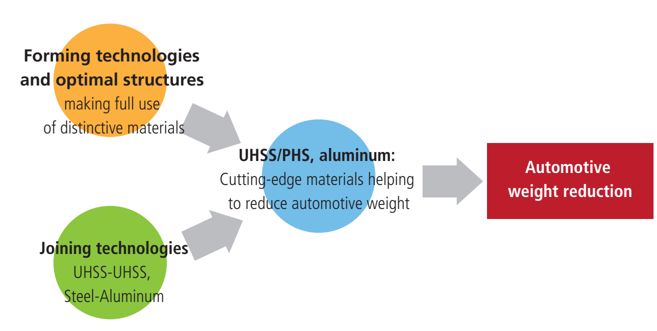


* Including inventory valuation impacts

3. Application Technologies

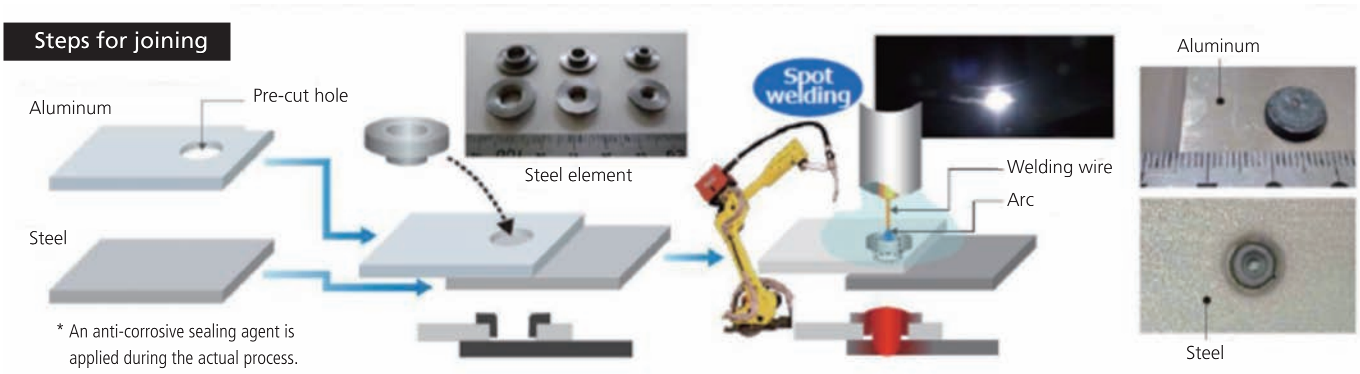
By leveraging strengths in ultra high-strength steel, aluminum and welding materials, we develop and provide application technologies to customers. We contribute to automotive weight reduction by combining cutting-edge materials with application technologies.

The number of joints between aluminum and steel components is rising in line with the growing use of aluminum. Due to ultra high-strength steel's increasing sophistication and the higher number of ingredients it contains, joining components made of ultra high-strength steel to like components or with aluminum alloys is an emerging issue. We can propose suitable joining applications that take into account customers' existing equipment.

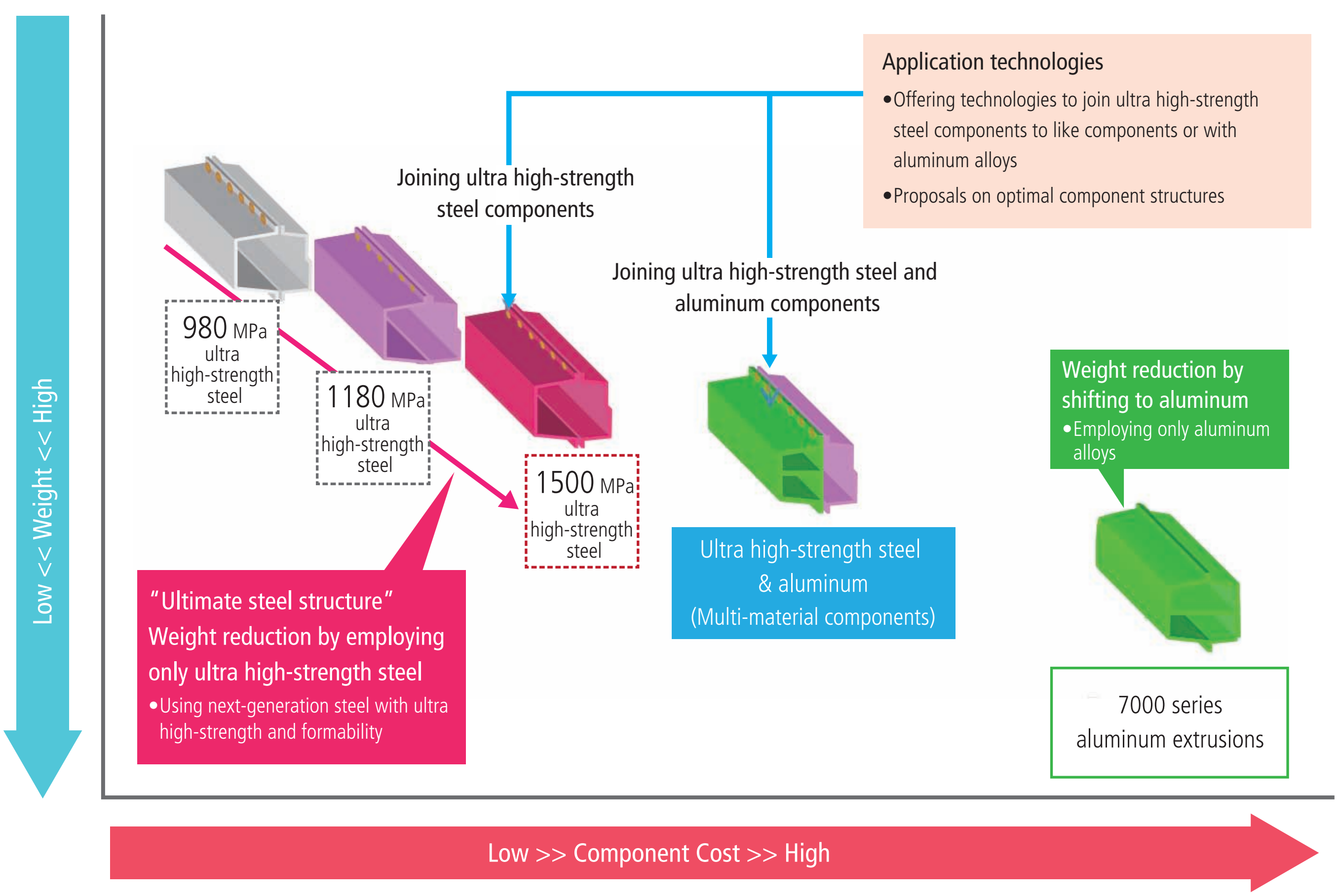


Dissimilar Metals Joining Process "Element Arc Spot Welding"

A new dissimilar metal joining process, Element Arc Spot Welding (EASW), was developed by utilizing our strengths in ultra high-strength steel, aluminum and welding materials. EASW is suitable for joining ultra high-strength steel to aluminum. It is also lower in cost and can be performed using our existing arc welding facilities.



We can provide various weight reduction options that combine ultra high-strength steel, aluminum and application technologies. That's difficult for other companies.



Machinery (Machinery, Engineering, Construction Machinery)

Initiatives in Energy and Infrastructure Fields

40 MW compressor test facility opens in April 2017, one of the largest in the world

This new facility is capable of conducting performance tests on nonstandard compressors with variable-speed 40 MW motors. It enables Kobe Steel to satisfy the conditions for entry to the large-capacity compressor market.

Kobe Steel acquires Swedish company Quintus Technologies

In April 2017, Kobe Steel acquired Swedish company Quintus Technologies AB, the world leader in isostatic presses. Its presses are widely applicable in the manufacture of high-performance products, such as aircraft parts, power generation turbine blades and semiconductor materials. It has achieved a strong presence in Europe and the United States primarily in the aerospace sector.

The acquisition strengthens our lineup of isostatic presses as a stable profit base for the Industrial Machinery Division.

Outline of Quintus Technologies AB

Headquarters	Västerås, Sweden
Plants	Västerås, Sweden and Columbus, Ohio, USA
Employees	188
CEO	Jan Söderström
Established	1940 (formerly the IP business unit of ABB)
Business	Manufacture, sale and service of isostatic presses and sheet metal forming equipment
Sales	2015: US$51 million (¥5.9 billion) 2016: US$61 million (¥7 billion)

Marketing begins for HyAC mini-A all-in-one compressor package in the United States.

In February 2017, Kobe Steel began marketing the HyAC mini-A all-in-one, compact compressor package for hydrogen refueling stations in the United States.

- The HyAC mini-A has a footprint that is 10% smaller than the HyAC mini sold in Japan.
- Sold with a dispenser made by Tatsuno Corporation, the HyAC mini-A is capable of everything from compressing hydrogen to fueling FCVs. This simplifies component procurement for customers and reduces onsite adjustment work.

Construction Machinery Business:

Rebuilding the China Business

1. Additional Posting of Allowance for Doubtful Accounts

(1) Additional Posting of Allowance for Doubtful Accounts

- Demand for construction machinery in China peaked in 2010 and continued to decrease until 2015. At the end of fiscal 2015, Kobe Steel posted an allowance for doubtful accounts of ¥21.1 billion due to the adverse business environment.
- Due to difficulty in collecting retained receivables for items sold in 2015 or earlier, we additionally posted an allowance for doubtful accounts of RMB 1.9 billion (approx. ¥31 billion) in the third quarter. (Balance of allowance RMB 3.2 billion)

(2) Factors Contributing to Retained Receivables

Payment delays have become more common among Chinese businesses. Under the operating structure guided by Chinese partners, our management of receivables and credit for dealers was inadequate. Traditionally, our sales policy prioritizes selling new machines and expanding our market share. Measures in place to manage and recover receivables were insufficient. In addition, the business environment severely deteriorated, and our excavator sales subsidiary was slow to appropriately respond to the rapidly worsening financial standing of dealers and users. These were the main reasons for the overdue receivables.

Construction Machinery Business: Rebuilding the China Business

2. Rebuilding the China Business

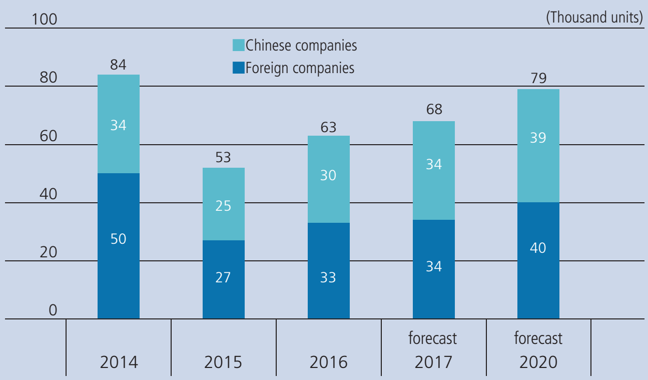
(1) Restructuring of capital relationship

- We dissolved the joint ventures at the end of March 2017.
- We recorded a reversal of provision for loans for the China wheel loader business at the end of fiscal 2016 as an extraordinary gain of ¥8.1 billion.

(2) Restructuring of production and sales structure

- We narrowed down the number of dealers, thereby strengthening the sales structure.
- We established a financial and credit management division in April 2017 to strengthen credit management and monitor dealers.
- We formulated a new plan that consolidates production at Chengdu (CKCM). Hangzhou (HKCM) will make and export complete machines and serve as a supply base for fabricated components in fiscal 2018.

Forecast of total demand



(3) Overview for fiscal 2017

- While demand for excavators is anticipated to recover in China, unit sales are expected to be similar to those for fiscal 2016 due to a sales policy that prioritizes receivables management.
- We aim to restore profitability in China under the new sales policy and structure.

Situation of allowance at the end of FY2016 (Billions of RMB/JPY)

Types of dealers		FY2016				
		Balance of credit			Allowance	
		Total	Receivables	Payment in subrogation	Balance	Ratio
Normal dealers		2.1	1.3	0.8	1.3	78%
Dealers whose contracts were terminated		1.5	0.3	1.2	1.5	
Total	(RMB)	3.6	1.6	2.0	2.8	
	(JPY)	60.6	26.2	34.4	47.2	

Types of dealers		FY2016		
		Balance of contingent liabilities	Allowance	
			Balance	Ratio
Normal dealers		2.5	0.3	15%
Dealers whose contracts were terminated		0.1	0.1	
Total	(RMB)	2.6	0.4	
	(JPY)	43.6	7.0	

Electric Power

Initiatives for Stable Earnings in the Electricity Supply Business

The Significance of Our Electric Power Business

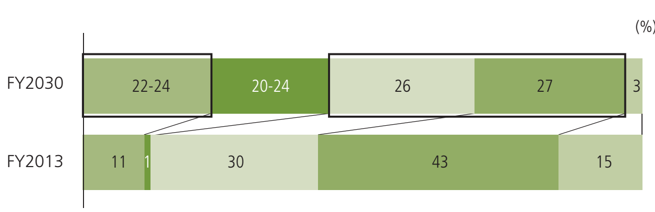
Japan's Energy Policy

Japan's energy policy is drastically changing. In 1995, the revision of the Electricity Business Act resulted in the wholesale power business. From 2011 to 2016, after the Great East Japan Earthquake, retail electricity sales were gradually deregulated. In 2015, simultaneously achieving safety, stable supply, economic efficiency and environmental adaptability by 2030 became policy. In 2020, power production separates from distribution and transmission.

High-Efficiency Power Plants

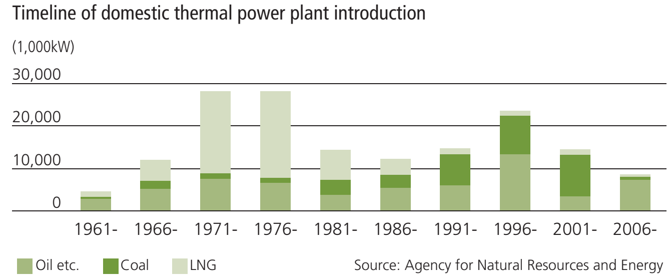
Domestic power demand should stay constant. Aging facilities must be replaced with state-of-the-art, high-efficiency power plants.

Ideal power generation structure in 2030 (Ministry of Economy,Trade and Industry)



Source: Agency for Natural Resources and Energy

Timeline of domestic thermal power plant introduction



Source: Agency for Natural Resources and Energy

Power Generation Structure in FY2030 (best mix): Coal and Natural Gas are Important Fuel Sources

Effective utilization of Kobe Steel's business infrastructure

No. 1 & 2 units, No. 3 & 4 units in Kobe (coal)

- Uses land, wharf and unloading equipment at the steelworks. Uses technology and know-how cultivated through in-house power plant operations.
- Is an urban power plant near a demand area (Less transmission loss)

No. 1 & 2 units in Moka (city gas)

- Uses technology and know-how cultivated through in-house power plant operations
- Is Japan's first inland full-scale power plant (Backup for metropolitan area)

Our electric power business contributes to Japan's energy policy.

Outlook of Earnings Growth in the Electric Power Business

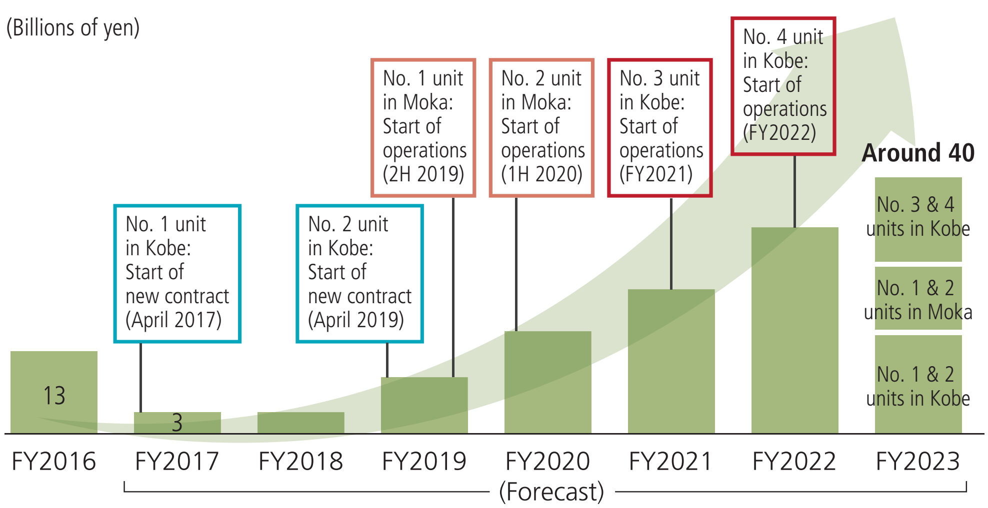
Initiatives Aimed at Establishing a Medium- to Long-Term, Stable Profit Base

- Signed a contract to extend operations of the No. 1 and 2 units in Kobe by around 10 years, following the completion in 2017 and 2019, respectively, of their current contracts, which began in 2002 and 2004
- Slated to commence operations around 2023, the No. 3 and 4 units in Kobe will join the No. 1 and 2 units in Moka in generating long-term stable profits.

(Current) No. 1 & 2 units in Kobe	
Contract partner	Kansai Electric Power Co., Inc.
Power Generation Capacity	1,400,000 kW (700,000 kW×2)
Start of Operations	No. 1 unit: April 2002 No. 2 unit: April 2004
Contract Period	Currently: 15 years After renewal: around 10 years
(New) No. 1 & 2 units in Moka	
Contract partner	Tokyo Gas Co., Ltd.
Power Generation Capacity	1,248,000 kW (624,000 kW×2)
Start of Operations	No. 1 unit: 2H 2019 No. 2 unit: 1H 2020
Contract Period	15 years
(New) No. 3 & 4 units in Kobe (tentative name)	
Contract partner	Kansai Electric Power Co., Inc.
Power Generation Capacity	1,300,000 kW (650,000 kW×2)
Start of Operations	No. 3 unit: FY2021 No. 4 unit: FY2022
Contract Period	30 years
Total: Around 3,950,000 kW	

Initiatives Aimed at Stable Profitability in the Electric Power Supply Business

- Until fiscal 2019, when the Moka No. 1 and 2 units will begin operations, business performance is expected to be lower than that of fiscal 2016 due to large one-time expenses, including upfront expenses for new projects.
- In fiscal 2020, business performance is expected to be at least as good as it was in fiscal 2016. Around fiscal 2023, when all projects will have launched, segment profit is projected to be around ¥40.0 billion.



* Allowing for anticipatory expenses and other one-time expenses until new projects are completed.
* The figures for FY2017 and after in the chart are forecast values.

Review of Operations

Iron & Steel

Strengthening Manufacturing Capabilities for High Value-Added Products

Net sales -6.8%	FY2015: ¥665.8 billion FY2016: ¥620.6 billion
Ordinary loss –	FY2015: ¥15.0 billion FY2016: ¥29.6 billion
Ordinary income ratio –	FY2015: – FY2016: –

Fiscal 2016 Overview

The sales volume of steel products was down year on year due to lower exports despite firm domestic automotive sector sales. Sales prices fell due to the high yen and drop in primary raw material prices in fiscal 2016.

Along with demand, sales of steel castings and forgings declined in the overseas shipbuilding sector. Titanium products saw a sales volume decrease for plant and other applications.

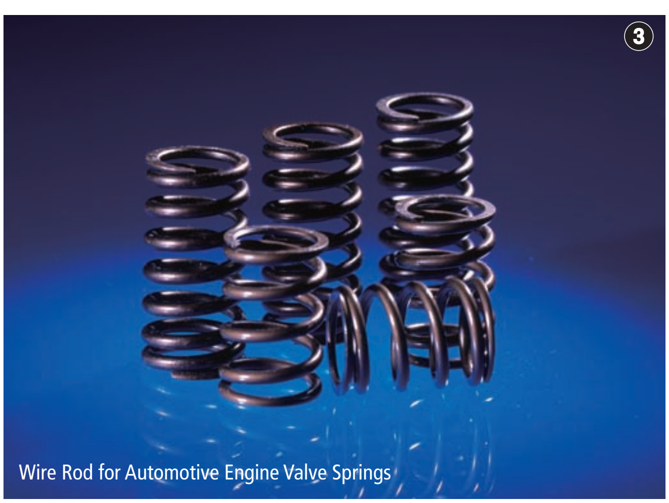
As a result, consolidated segment sales in fiscal 2016 decreased 6.8% year on year to ¥620.6 billion. Ordinary loss* worsened by ¥14.6 billion to ¥29.6 billion, due to lower sales prices and the posting of expenses associated with the refurbishment of a blast furnace.

Fiscal 2017 Outlook

- The sales volume of steel products is anticipated to be higher than the previous year due to firm demand in the automotive and construction sectors.
- This segment is anticipated to return to profitability as it will no longer be affected by the relining of a blast furnace at Kakogawa Works and also owing to improvement in margins and cost reduction including additional measures to improve profitability.
- Consolidation of upstream operations will be completed in November 2017 as planned.


High-Strength Steel Sheet ❶


Built-Up Crankshaft ❷


❸ Wire Rod for Automotive Engine Valve Springs

❶ Kobe Steel is the first manufacturer in the industry and in the world to successively commercialize high-strength steel sheet, which reduces automotive weight and provides greater protection in the event of collision. Kobe Steel has successfully prototyped steel sheet with the world's highest tensile strength.

❷ A rotating shaft, or a journal, and a component connected to a piston, called a throw, are produced separately and later assembled into a crankshaft. Manufactured under stringent quality control, our built-up crankshafts are unmatched in precision and delivered on time.

❸ With an excellent balance of integrated capabilities in manufacturing, processing and product development, Kobe Steel has a large share of the domestic and overseas markets for wire rod used in engine valve springs and suspension springs, steel for bearings and gears, and cold heading quality (CHQ) wire rod for nuts and bolts.

Welding

Striving to Be Asia's No. 1 Welding Solutions Company

Net sales -10.8%
FY2015: ¥92.3 billion
FY2016: ¥82.3 billion

Ordinary income -15.7%
FY2015: ¥8.1 billion
FY2016: ¥6.9 billion

Ordinary income ratio -0.5 points
FY2015: 8.8%
FY2016: 8.3%

● Fiscal 2016 Overview

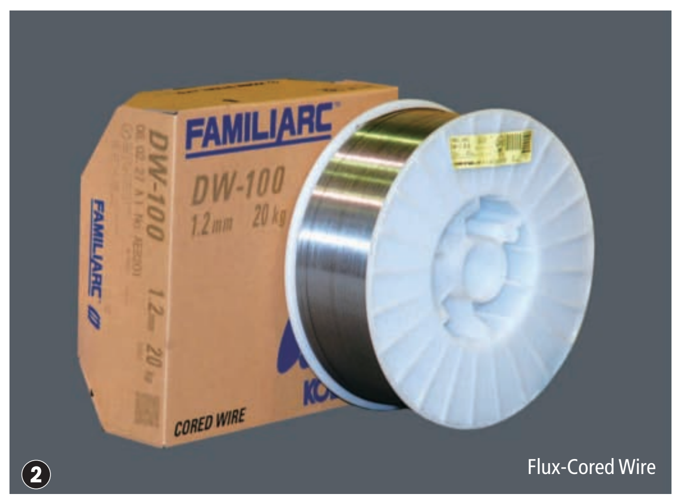
The sales volume of welding materials decreased compared with the previous consolidated fiscal year. Due to construction delays, demand remained sluggish in the energy sector in Japan. Sluggish demand also persisted in the overseas shipbuilding and energy sectors. On the other hand, sales of welding systems increased compared with the previous consolidated fiscal year, owing to steady investments in automation in the construction sector in Japan.

As a result, consolidated segment sales in fiscal 2016 declined 10.8%, compared with the previous consolidated fiscal year, to ¥82.3 billion. Ordinary income* decreased ¥1.2 billion, compared with the previous consolidated fiscal year, to ¥6.9 billion.

● Fiscal 2017 Outlook

- Demand for welding materials for use in the overseas shipbuilding sector is on a downward trend.
- Demand for welding systems in the construction sector in Japan is expected to be lower than the previous year, which saw a high level of investment in automation.
- Although we plan to increase sales prices and reduce costs, ordinary income is anticipated to decrease.

Welding Materials for a Wide Range of Applications
❶



❷ Flux-Cored Wire


❸ REGARC™ 2-Arc Welding Robot System for Structural Steel

❶ Our top-class, high-quality welding materials are indispensable in such diverse sectors as construction, shipbuilding, oil storage facilities, and pipeline maintenance. We supply around 800 varieties, from covered welding electrodes to welding wires and fluxes for automatic and semi-automatic welding. They have earned the trust of industry worldwide as technical products suited to a wide array of welding conditions.

❷ Flux-cored wires enable high-efficiency welding and are used across a wide range of sectors, including shipbuilding, bridge construction, infrastructure, energy and industrial machinery. They significantly reduce man-hours in the welding process, increase welding efficiency and improve the external appearance of the weld bead.

❸ We developed a revolutionary new welding process, the REGARC™ method, for use in welding systems for structural steel. The method greatly reduces the sputter and fumes that occur during CO_2 gas-shielded welding, which is the primary method used for welding structural steel thick plates, construction machinery and products in other fields. This process will help customers improve both productivity and welding quality.

Aluminum & Copper

A Leading Domestic Supplier of Materials for Lighter Vehicles and Aircraft

Net sales -6.4%
FY2015: ¥345.5 billion
FY2016:
¥323.3 billion

Ordinary income -20.5%
FY2015: ¥15.1 billion
FY2016:
¥12.0 billion

Ordinary income ratio -0.7 points
FY2015: 4.4%
FY2016:
3.7%

Fiscal 2016 Overview

The sales volume of aluminum rolled products increased compared with the previous consolidated fiscal year, as demand remained firm for can stock for beverage cans and from the automotive sector.

The sales volume of copper rolled products increased compared with the previous consolidated fiscal year, as demand rose for copper strips used in automotive terminals. The sales volume of copper tubes also increased compared with the previous consolidated fiscal year, as demand remained firm for air conditioners.

However, due to lower sales prices from the high yen and lower ingot prices, consolidated segment sales in fiscal 2016 decreased 6.4%, compared with previous consolidated fiscal year, to ¥323.3 billion. Ordinary income* decreased ¥3.1 billion, compared with the previous consolidated fiscal year, to ¥12.0 billion, due to a worsening in inventory valuation from the fall in lower ingot prices.

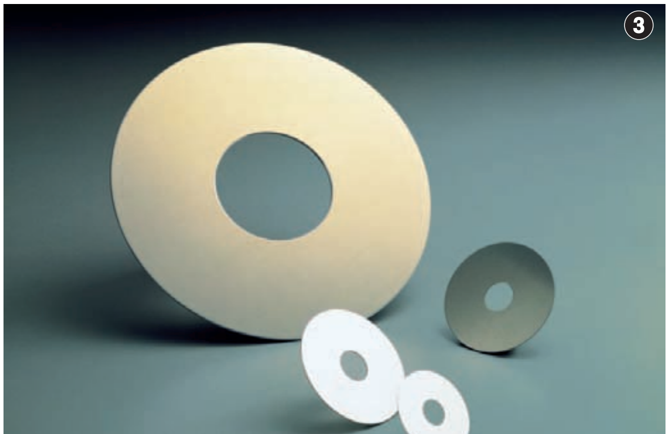
Fiscal 2017 Outlook

- We anticipate that expanded and new facilities, due to higher demand for aluminum rolled products mainly in the automotive sector, will increase fixed costs.
- Ordinary income is expected to improve due to higher sales of aluminum and copper rolled products, cost reduction, and inventory valuation gains from recovery in the aluminum and copper ingot market.

Aluminum Automotive Panels

❶

❷ Aluminum Bottle and Can Stock



❸ Aluminum Disk Blanks

❶ Aluminum is being used in more and more mass-produced vehicles. Swiftly paying attention to this trend, Kobe Steel capitalizes on its comprehensive technical strength, from materials and design to assembly, to meet the needs for aluminum in automobiles.

❷ Kobe Steel supplies around 30% of the aluminum beverage can stock in Japan. Moreover, we have about 70% of the market share for bottle can stock, which requires complex processing.

❸ We supply nearly 60% of the aluminum disk blanks for hard disk drives worldwide. With production centers in Japan and Malaysia, we are contributing to an advanced information society.

Machinery

Pursuing Growth Strategies Aimed at Building a Global Business

Net sales -5.2%	Ordinary income -12.8%	Ordinary income ratio -0.4 points
FY2015: ¥159.0 billion FY2016: ¥150.7 billion	FY2015: ¥6.8 billion FY2016: ¥5.9 billion	FY2015: 4.3% FY2016: 3.9%

Fiscal 2016 Overview

Due to sluggish demand in energy-related sectors, stagnation of the Chinese economy and other factors, consolidated orders in fiscal 2016 decreased 8.7%, compared with the previous consolidated fiscal year, to ¥128.2 billion. The consolidated backlog of orders at the end of fiscal 2016 came to ¥127.8 billion.

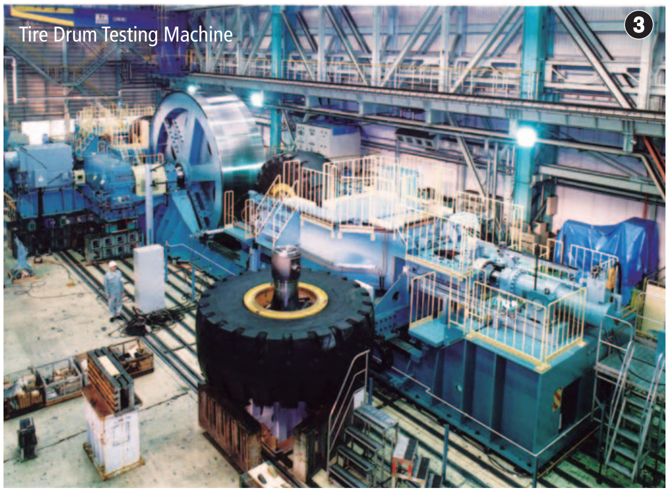
Consolidated segment sales in fiscal 2016 declined 5.2%, compared with the previous consolidated fiscal year, to ¥150.7 billion, due to a decrease from energy-related sectors and other factors. Ordinary income* decreased ¥0.9 billion, compared with the previous consolidated fiscal year, to ¥5.9 billion.

Fiscal 2017 Outlook

- By strengthening product competitiveness through lower costs and expanding the after-sales service business, we expect orders to increase.
- On the other hand, we anticipate ordinary income will decrease because of continued sluggish demand in energy-related sectors and deterioration of profit due to intensifying competition.

Nonstandard Compressor ❶

❷ Kobelion Standard Compressors



Tire Drum Testing Machine ❸

❶ Kobe Steel provides users around the world with high-performance nonstandard compressors, including high-pressure screw compressors with world-leading compression capacity and screw compressors for the recovery and reuse of natural gas, which can help combat global warming.

❷ The energy-saving Kobelion compressor provides a considerable reduction in running costs. The Kobelion has won the Japan Society of Mechanical Engineers (JSME) Award and many other prizes for its outstanding technology.

❸ Kobe Steel offers a wide lineup of industrial machinery, including tire and rubber machinery, plastic processing machinery, advanced coating equipment and metalworking machinery. In particular, Kobe Steel specializes in products for rubber mixing, tire testing, and plastic mixing and pelletizing, offering a variety of globally competitive distinctive products in these fields.

Engineering

Expanding Business Worldwide by Leveraging Technology and Know-how

Net sales -8.0%
FY2015: ¥131.7 billion
FY2016: ¥121.2 billion

Ordinary income -40.2%
FY2015: ¥4.7 billion
FY2016: ¥2.8 billion

Ordinary income ratio -1.3 points
FY2015: 3.6%
FY2016: 2.3%

Fiscal 2016 Overview

Consolidated orders in fiscal 2016 increased 34.9%, compared with the previous consolidated fiscal year, to ¥174.2 billion, owing to orders for several large projects in the waste treatment-related business. The consolidated backlog of orders at the end of fiscal 2016 stood at ¥179.9 billion.

Sales declined mainly in the nuclear power-related business and waste treatment-related business. As a result, consolidated segment sales in fiscal 2016 decreased 8.0%, compared with the previous consolidated fiscal year, to ¥121.2 billion. Ordinary income* decreased ¥1.9 billion, compared with the previous consolidated fiscal year, to ¥2.8 billion, due to a change in the type of orders.

Fiscal 2017 Outlook

- Orders in fiscal 2017 are expected to be lower than in fiscal 2016, which saw several large orders received in the waste treatment-related business.
- On the other hand, owing to the progress of the orders, ordinary income is anticipated to be similar to the previous year.


MIDREX® Direct Reduction Plant ①


Grid-Type Sabo Dam ②


Wood-Fueled Biomass Power Station in Ono City ③

❶ We are promoting technology around the world, including the MIDREX® Process, a proprietary process using natural gas to make direct reduced iron; the ITmk3® Process, a new ironmaking process; the FASTMET® Process for recycling steel mill waste; the KOBELCO Pelletizing System, which produces iron ore pellets; and the Upgraded Brown Coal (UBC®) Process.

❷ To answer the increasingly diverse needs for erosion control, Kobe Steel offers grid-type sabo dams for debris control, woody debris trapping, groundsill work, avalanche control work, and other solutions compatible with the natural environment.

❸ Fukui Green Power Co., Ltd., with an equity stake from Kobelco Eco-Solutions, completed construction of the Ono Power Station in Ono, Fukui Prefecture. This wood-fueled biomass power station, which uses regular lumber and forest residue from local thinning operations, began transmitting power in March 2016.

Construction Machinery

Delivering New Solutions by Creatively Linking Excavators and Cranes

Net sales -7.7%	FY2015: ¥336.2 billion FY2016: **¥310.5 billion**	
Ordinary loss –	FY2015: ¥11.9 billion FY2016: **¥31.4 billion**	
Ordinary income ratio –	FY2015: – FY2016: **–**	

● Fiscal 2016 Overview

Unit sales of hydraulic excavators decreased, compared with the previous consolidated fiscal year, due to lower demand in Japan mainly from the rental business and to undertaking marketing activities in China with stricter sales terms.

Unit sales of crawler cranes also declined compared with the previous consolidated fiscal year, mainly in Southeast Asia, due to a decrease in energy-related projects brought about by sluggish crude oil prices.

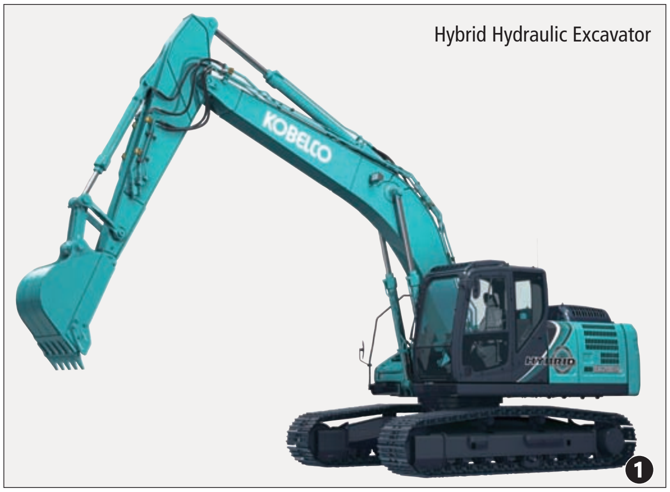
As a result, consolidated segment sales in fiscal 2016 decreased 7.7%, compared with the previous consolidated fiscal year, to ¥310.5 billion. Ordinary loss* worsened by ¥19.5 billion, compared with the previous consolidated fiscal year, to ordinary loss* of ¥31.4 billion, due to profit deterioration from the fewer number of units sold and the high yen and the additional posting of an allowance for retained receivables in the China business.

● Fiscal 2017 Outlook

- Unit sales of hydraulic excavators are expected to be higher in fiscal 2017 than fiscal 2016. Demand in Japan, North America and Europe is expected to remain at a certain scale, while in China and emerging countries demand is anticipated to recover.

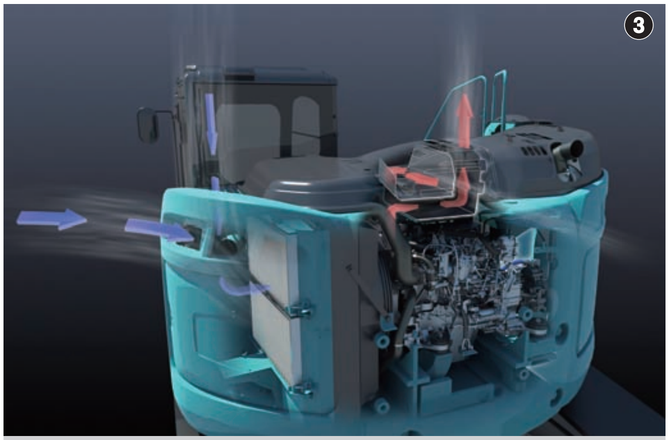
  Unit sales of crawler cranes in fiscal 2017 are expected to be similar to fiscal 2016. Overseas demand is anticipated to remain sluggish primarily in the energy-related sector.

  Segment sales in fiscal 2017 are forecast to increase compared with fiscal 2016, owing mainly to an increase in unit sales of hydraulic excavators.



Hybrid Hydraulic Excavator

Telescopic Boom Crawler Crane
TK-G Series



Integrated Noise & Dust Reduction Cooling System (iNDr)

❶ We completed the world's first hybrid hydraulic excavator in 2006 and began sales of 8-ton and 20-ton models. In November 2016, we launched a cutting-edge hybrid model, a 20-ton class unit (SK200H). In another industry first, the new model's hybrid system draws on a large-capacity lithium-ion battery for all operations, cutting fuel consumption up to 19 percent and improving workload capacity up to 10 percent.

❷ Our TK Series of telescopic boom crawler cranes has long garnered acclaim from customers. In June 2017, we began sales in Japan of the newest model—the TK-G Series. While being less than three meters wide during transport, it retains the original series' sturdy structure capable of holding up to tough civil engineering and foundation work, compact lay-out with superior operability, and high lifting capacity.

❸ iNDr is an advanced cooling system developed by Kobelco Construction Machinery that combines the features of noise and dust reduction. Minimal openings for air intake and exhaust, a redesigned layout of the cooling fan and engine, and an angled pathway for the air flowing within the engine enclosure significantly reduce the noise emitted.

Electric Power

Contributing to the Stable Supply of Electricity and a More Stable Profit Base

Net sales -8.0%
FY2015: ¥76.7 billion
FY2016:
¥70.6 billion

Ordinary income -24.9%
FY2015: ¥17.4 billion
FY2016:
¥13.1 billion

Ordinary income ratio -4.2 points
FY2015: 22.7%
FY2016:
18.5%

Fiscal 2016 Overview

The amount of electricity sold was at the same level compared with the previous consolidated fiscal year. However, due to the high yen and a drop in the price of coal for power generation until the second quarter of fiscal 2016, the unit price of electricity decreased compared with the previous consolidated fiscal year.

As a result, consolidated segment sales in fiscal 2016 decreased 8.0%, compared with the previous consolidated fiscal year, to ¥70.6 billion. Ordinary income* decreased ¥4.3 billion, compared with the previous consolidated fiscal year, to ¥13.1 billion, due to a lag in reflecting fuel cost fluctuation in the unit price of electricity and other factors.

Fiscal 2017 Outlook

- Although we will maintain stable operation of the Kobe Power Plant's Nos. 1 and 2 units, we forecast that ordinary income will decrease temporarily due to a renewal of the No. 1 unit's contract, anticipatory expenses for new projects, and other factors.

1. The Kobe Power Plant was established as the cornerstone of a new business following revisions to the Electricity Business Act in April 1995. In establishing the power station, we fully capitalized on existing infrastructure at Kobe Works and our expertise in in-house power generation in the Iron & Steel Business. Wholesale power supply commenced in fiscal 2002. All generated power is supplied to The Kansai Electric Power Co., Inc. On April 1, 2016, Kobe Steel changed the name of the company Shinko Kobe Power Inc. to Kobelco Power Kobe, Inc. to incorporate the Group's KOBELCO brand.

2. **Moka Power Plant (under construction)** We have established a plan to construct a 1.248 million kW power station on land adjacent to the Moka Plant in Tochigi Prefecture. A contract for power supply was formed with Tokyo Gas Co., Ltd. in September 2014. Construction is currently under way, with plans to begin operation of the No. 1 unit in the second half of 2019. In January 2016, we established Kobelco Power Moka, Inc. as a special purpose company.

3. **(Provisional name) Kobe Works Thermal Power Plant (in planning)** Upstream operations at Kobe Works are scheduled to end in 2017. As a result, we are pursuing plans to construct a 1.3 million kW power station on the site of the works' blast furnace. A contract for power delivery was formed with The Kansai Electric Power Co., Inc. on March 2015.

   Environmental assessments are under way, with plans to begin operation of the first of two units in fiscal 2021. The new power station will feature cutting-edge, ultra-supercritical pressure generation equipment. As an urban power station, it will also feature advanced environmental equipment suited to the location that meets the highest possible standards.

Project	Country	Description	Schedule
Nos. 1 & 2 units at Kobe (Kobelco Power Kobe, Inc.)	Japan	Pulverized coal-fired, supercritical pressure power generation equipment started from 2002. New contracts were formed as current contracts are ending. Capacity: 1.4 mil. kW (700,000 kW × 2)	Apr. 2002 No. 1 unit starts up Apr. 2004 No. 2 unit starts up [Starts of new contracts] No. 1 unit from Apr. 2017 No. 2 unit from Apr. 2019
Nos. 1 & 2 units at Moka (Kobelco Power Moka, Inc.)	Japan	Japan's first full-scale inland power station. Will have one of Japan's highest levels of generation efficiency. Will be equipped with a gas turbine combined cycle system, using city gas as fuel. Capacity: 1.248 mil. kW (624,000 kW x 2)	Jun. 2016 construction began 2H 2019 No. 1 unit starts up 1H 2020 No. 2 unit starts up
Nos. 3 & 4 units at Kobe (provisional name: Kobe Works Thermal Power Plant)	Japan	To feature cutting-edge coal-fired, ultra-supercritical pressure generation equipment Capacity: 1.3 mil. kW (650,000 kW x 2)	FY2021 No. 3 unit starts up FY2022 No. 4 unit starts up

Other Businesses

Net sales +0.5%	FY2015: ¥74.5 billion	FY2016: ¥74.9 billion
Ordinary income +3.5%	FY2015: ¥7.4 billion	FY2016: ¥7.6 billion
Ordinary income ratio +0.3 points	FY2015: 9.9%	FY2016: 10.2%

● Fiscal 2016 Overview

At Shinko Real Estate Co., Ltd., both the residential property sales business and the leasing business remained firm. At Kobelco Research Institute, Inc., orders decreased in the testing and research business for the automotive sector.

Due to these conditions, consolidated segment sales in fiscal 2016 were similar to the previous consolidated fiscal year at ¥74.9 billion. Ordinary income* increased ¥0.2 billion, compared with the previous consolidated fiscal year, to ¥7.6 billion.

● Fiscal 2017 Outlook

- At Shinko Real Estate Co., Ltd., both the residential property sales business and leasing business are anticipated to remain firm. At Kobelco Research Institute, Inc., demand is expected to remain firm in the testing and research business for the automotive sector.

  From the above, segment sales in fiscal 2017 are expected to increase compared with fiscal 2016.

Shinko Real Estate Co., Ltd.

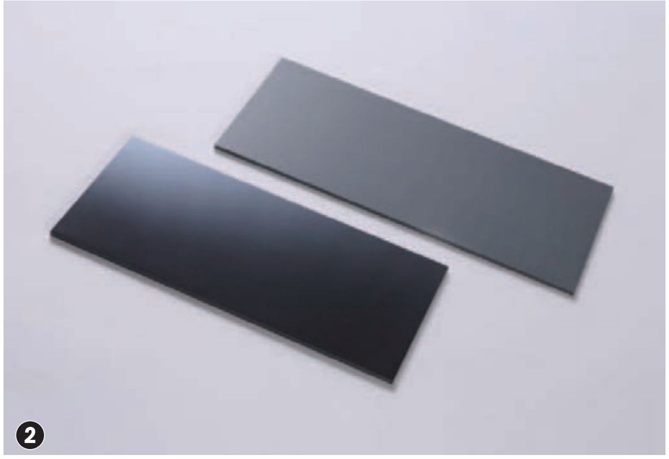
Shinko Real Estate Co., Ltd. is a core unit in the comprehensive lifestyle business of the Kobe Steel Group. This company is engaged in real estate development, sales, brokering, remodeling, the operation and management of public facilities, and insurance services. Its main operations focus on developing its G-clef series of condominiums.

By providing reliable and stable products and services, Shinko Real Estate contributes to the development of its customers' homes and their peace of mind.

Kobelco Research Institute, Inc.

Kobelco Research Institute, Inc. possesses advanced technologies in diverse fields, including materials, chemistry, machinery and electronics. As a comprehensive testing and research company as well as a solutions provider, it carries out testing and analyses of materials and structures. The company also makes sputtering targets and inspection equipment for a wide range of fields, including semiconductors, flat panel displays and photovoltaic power generation systems. It is expanding its manufacturing capabilities to maximize companywide synergies, including by developing specialized material products.

1 Artist's rendition of the completed G-clef Senri Aobaoka



2 Oxide semiconductor sputtering target material

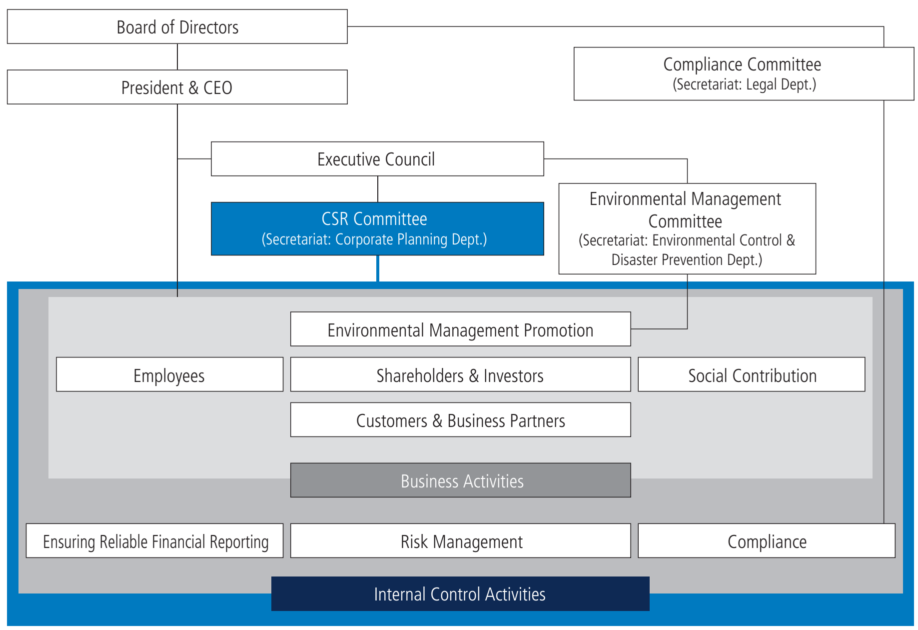
CSR Promotion System

Amid a drastically changing operating environment, in 2006 we established a CSR Committee that is in charge of determining policies related to corporate social responsibility and providing centralized implementation.

To facilitate discussion, make proposals and conduct follow-up verification of important matters, we also established a Compliance Committee to advise the Board of Directors.

The CSR Committee's Report Production Subcommittee compiles information concerning CSR activities and publishes it each year in the form of a sustainability report.

CSR Promotion Structure



Corporate Governance

With its operating environment undergoing major changes, Kobe Steel (the Company) is being strongly urged to increase its self-monitoring capability and take on even greater responsibility than before. It is, therefore, keenly aware that it cannot survive nor raise its corporate value without strictly adhering to rules and regulations and effective corporate governance.

CORPORATE GOVERNANCE

Basic Concept of Corporate Governance

The Company believes the basis of its corporate value is the promotion of its diversified businesses, composed of various segments with different demand fields, business environments, sales channels and business scales, and the leveraging of that synergy. The Company believes it is impossible to pursue technical development and innovations, which form the foundation for the Company's continued growth, without integrating discussions with the shop floor.

Furthermore, to advance its diversified businesses, the Company believes it is necessary to actively discuss and undertake appropriate decision-making with regard to the risk management of its various businesses and the distribution of management resources as well as to flexibly supervise business executions by the Board of Directors. It is desirable that members with the correct understanding regarding the business execution side attend the Board of Directors meetings, without completely separating supervision from execution.

In line with this approach and in order to ensure comprehensive audits, the Company had chosen to be a company with corporate auditors with investigation authority. Also, to further strengthen the supervisory function of the Board of Directors and to accelerate decision-making with regard to management, on June 22, 2016, Kobe Steel switched to a company with an audit and supervisory committee model, which gives those in charge of audits voting rights on the Board of Directors.

Directors (Excluding Those Who Are Audit & Supervisory Committee Members)

The number of directors (excluding those who are Audit & Supervisory Committee Members) shall be no more than 15 as stipulated under the Articles of Incorporation of the Company. The Board of Directors is constituted of an appropriate number of members in light of their diversity and to ensure that directors are able to conduct substantial discussions at the Board of Directors meetings.

The Board of Directors consists of the Chairman of the Board, the President and executive directors in charge of important posts in the head office division, business divisions or the technical development division.

Also, to enhance active discussion, appropriate decision-making and supervision, it is necessary to take into consideration the perspectives of stakeholders, such as minority shareholders, as well to welcome those who can provide objective, fair and neutral perspectives. In principle, several outside directors are appointed to the Board. At present, the Company has appointed five Outside Directors, two of whom are not Audit & Supervisory Committee Members.

These Outside Directors (excluding those who are Audit & Supervisory Committee Members) attend Board of Directors meetings every month and provide appropriate advice, taking into account a fair and neutral viewpoint or the viewpoint of stakeholders, such as minority shareholders, as necessary for the Company's continued growth. Outside Directors also play roles to exercise their voting rights at Board of Directors meetings, supervise the Board of Directors meetings, and supervise conflicts of interests between the Company and its executives.

Directors Who Are Audit & Supervisory Committee Members and the Structure of the Audit & Supervisory Committee

Kobe Steel, which is a company with an audit and supervisory committee, has five members on its Audit & Supervisory Committee: two inside and three outside members. This is not only in line with the rules on Audit & Supervisory Committees in Japan's Companies Act, which requires at least three non-executive directors (a majority of which must comprise outside directors), it ensures transparency and fairness and encourages satisfactory auditing for the integrated management of expansive business segments.

In addition, the Company enables thorough auditing by appointing full-time inside Audit & Supervisory Committee Members by resolution of the Audit & Supervisory Committee.

Inside Audit & Supervisory Committee Members cooperate with management and the Audit & Supervisory Committee to guide and manage the internal audit division. Outside Audit & Supervisory Committee Members provide specialized auditing knowledge and ensure fairness. To assure best outcomes, outside Audit & Supervisory Committee Members are appointed from legal, financial and industrial fields that enable the provision of specialized knowledge necessary for auditing.

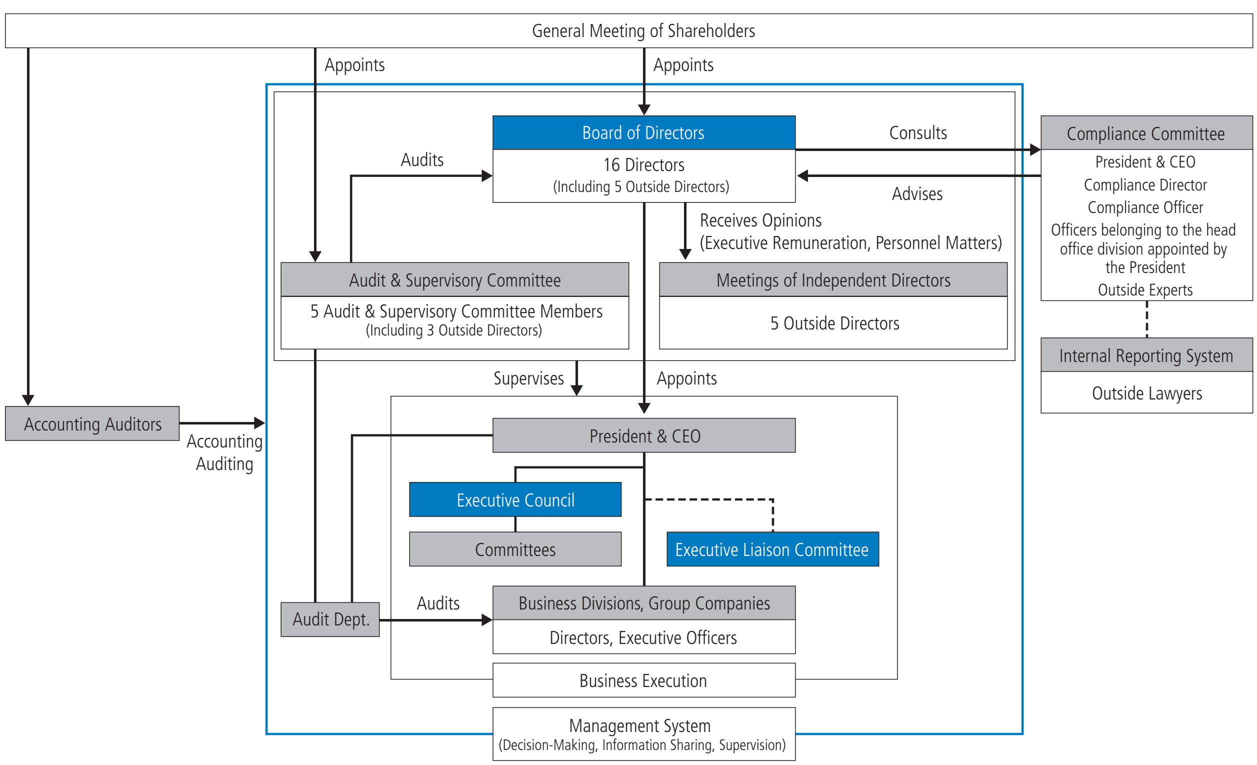
In addition, some Audit & Supervisory Committee Members possess considerable knowledge of finance and accounting to improve the effectiveness of auditing.

Board of Directors and Executive Functions

The Company's Board of Directors is charged with carrying out careful deliberations and decision making on important issues pertaining to the execution of business and other statutory matters as well as with supervising the execution of business.

However, the Company determines standards for deliberation at the Board of Directors meetings so as not to obstruct quick decision-making at the board meetings. The Company delegates authority within a certain scope to persons in charge of the execution of business, including the President and other executives. Additionally, the Company has established a system that can delegate management and promptly make business decisions by appointing executive officers as assistants to directors that execute business. The term for directors (excluding those who are Audit & Supervisory Committee Members) and executive officers shall be one year to enable the Company to quickly respond to drastic changes in the business environment.

Corporate Governance



Initiatives to Maintain the Effectiveness of the Board of Directors

The Company undertakes the following matters in order for the Board of Directors to make the appropriate decision and fulfill the supervising function.

The Audit & Supervisory Committee examines decision-making regarding business execution by the Board of Directors and implementation of effective business executions stipulated in the fundamental policy regarding the internal control system through interviews with each director every year.

The Company basically distributes materials for a meeting of the Board of Directors to each director at least three days before the meeting depending on the necessity, to enable active and sufficient deliberation at the meeting. The Company therefore promotes the use of electronic methods to enable each director to receive such materials, paying strict attention to protect the Company's confidential information regardless of where each director is.

The Company provides each director with adequate information and explains the necessary information in addition to producing materials for the meetings of the Board of Directors depending on the necessity such as requirements from directors and so on.

The Corporate Planning Department serves as the secretariat for the Board of Directors and such a secretariat determines and maintains the yearly schedule of meetings of the Board of Directors and anticipated agenda of these meetings to whatever extent possible, before each fiscal year begins.

Additionally, the secretariat coordinates with the business divisions the number of items on the agenda, frequency of meetings, and whether the Board of Directors has adequate time for discussion.

Directors and the Audit & Supervisory Committee make efforts to enhance the effectiveness of the supervising function of the Board of Directors by asking for advice from outside authorities at the Company's expense, as necessary.

The Board of Directors and the Audit & Supervisory Committee confirm whether each director and Audit & Supervisory Committee Member is ensured to smoothly receive information required by them through supervision and audit of the Company's internal control system.

With respect to effectiveness of the Board of Directors on the whole, each director answers a questionnaire. The Audit & Supervisory Committee primarily evaluates results of the questionnaire and the Board of Directors finally discusses and evaluates the effectiveness, and abstracts tasks every fiscal year. The Board of Directors reconsiders items of such questionnaires based on results of evaluation every fiscal year. Furthermore, the Audit & Supervisory Committee holds an interview with each director based on the result of this evaluation. The Company is going to disclose a summary of the evaluation results every fiscal year.

Establishment of Independent Outside Directors Meetings

The Company has established the "Meetings of Independent Directors" as a forum where the Company appoints its executives, gives hearings to opinions from Outside Directors and provides Outside Directors with information with respect to the management of the Company's business for the purpose of maximizing the roles of Outside Directors.

The Meetings of Independent Directors consist of Independent Directors only. A regular meeting is held every quarter and ad-hoc meetings are held, if necessary.

Executive directors of the Company attend the Meetings of Independent Directors at their discretion and furnish information to and exchange opinions with the Independent Directors thereof.

Furthermore, to encourage information sharing between the Audit & Supervisory Committee, the internal audit division and the internal control division, the Corporate Planning Department serves as the secretariat of the Meetings of Independent Directors and is supported by the Audit Department and Human Resources Department.

Policy on Selecting Director Candidates

The Company has outlined and disclosed its standards for independent directors and its policy for determining the qualities a director needs in order to fulfill the mandate from shareholders. The Company selects candidates in line with this policy.

* For more details on this corporate governance policy, please refer to the PDF entitled Basic Policy and Initiatives on the Corporate Governance of Kobe Steel, Ltd. on the Corporate Governance page of the Company's website (http://www.kobelco.co.jp/english/) under the About Kobe Steel section.

Internal Audits, Audits by the Audit & Supervisory Committee and Accounting Audit System

Internal Audits

With regard to internal audits, the Company established the Audit Department as an independent audit organization. In particular, audits on issues such as compliance, the environment and information security are implemented by the divisions respectively supervising these areas jointly with or in cooperation with the Audit Department. The Audit Department collaborates with the internal control division to audit and confirm the level of control exercised by the internal control division and provide feedback based on the results of their work.

Accounting Audits

Accounting audits are conducted by three certified public accountants (CPAs) from KPMG. Other CPAs and junior accountants from KPMG AZSA LLC. are responsible for assisting with the accounting audits.

Cooperation between Internal Audits, Audits by the Audit & Supervisory Committee and Accounting Audits

The Audit & Supervisory Committee routinely meets with accounting auditors to closely collaborate through the exchange of views about the audit system, the audit plan and audit status. Also, when necessary, the Audit & Supervisory Committee accompanies accounting auditors on their audits of business sites and receives timely reports about the progress of those audits. Furthermore, the Audit & Supervisory Committee is routinely informed about audit policies and plans by the internal audit division. The Audit & Supervisory Committee also maintains close cooperation with others through reports they receive about the status of internal control system implementation, including compliance and risk management status and the audit results, thereby enabling them to conduct efficient audits.

Directors' Remuneration

A resolution was made at the 163rd Ordinary General Meeting of Shareholders held on June 22, 2016 for the Company to establish new remuneration amounts for directors, switch to a more performance-based remuneration system, as well as to introduce a medium- and long-term incentive-based remuneration system founded on share-based payment, in line with the transition from a company with an Audit & Supervisory Board to a company with an Audit & Supervisory Committee. As the Company has changed the remuneration system accordingly, remuneration and other amounts to Directors and Audit & Supervisory Board Members are stated separately before and after the transition to a company with an Audit & Supervisory Committee.

Before the transition to a company with an Audit & Supervisory Committee

(From April 1, 2016 to the 163rd Ordinary General Meeting of shareholders on June 22, 2016)

Category	Total Remuneration (Millions of Yen)	Breakdown of Total Remuneration (Millions of Yen)	Number of Individuals
		Base Pay	
Inside Directors	113	113	9
Inside Audit & Supervisory Board Members	16	16	2
Outside Directors	16	16	5

Note 1: The 151st General Meeting of Shareholders held on June 25, 2004 passed a resolution to set the limit of remuneration to ¥63 million a month for Directors (does not include compensation for duties performed by directors who concurrently serves as an employee) and to ¥11 million a month for Audit & Supervisory Board Members.

Note 2: Directors' remuneration is determined based on the Company's performance-based compensation system. Adjusting base remuneration for each position based on the performance of the entire company and individual businesses that fiscal year makes outcome accountability clear for each business.

In view of this role that they assume, Outside Directors are not eligible for performance-based compensation.

Audit & Supervisory Board Members are remunerated based on their function in light of directors' remuneration and other factors.

Director and Audit & Supervisory Board Member remuneration is limited to amounts determined at each General Meeting of Shareholders.

As for the methods for determining these amounts, policy concerning Directors' remuneration is determined by the Board of Directors while audit & supervisory board members' remuneration policy is determined by all Audit & Supervisory Board Members.

Note 3: The Company does not pay bonuses to Directors and Audit & Supervisory Board Members.

Note 4: In addition to the remuneration, etc. listed above, based on a resolution at the 151st Ordinary General Meeting of Shareholders held on June 25, 2004, one Director was paid ¥47 million as a retirement benefit payment upon termination.

After the transition to a company with an Audit & Supervisory Committee

(from the conclusion of the 163rd Ordinary General Meeting of Shareholders (June 22, 2016 to March 31, 2017)

Category	Number of Individuals	Total Remuneration (Millions of Yen)	Breakdown of Total Remuneration (Millions of Yen)		
			Base Pay	Performance based Pay	Share-based Pay
Inside Directors	9	298	298	—	—
Inside Audit & Supervisory Board Members	2	50	50	—	—
Outside Directors	5	52	52	—	—

Note 1: At the 163rd Ordinary General Meeting of Shareholders held on June 22, 2016, a resolution was made to set the limit of remuneration for Directors (excluding Directors who are Audit & Supervisory Committee Members) including fixed remuneration as being within a total of ¥650 million per fiscal year and performance-based remuneration as being within a total of ¥350 million per fiscal year, and the limit of remuneration for Directors who are Audit & Supervisory Committee Members as being within a total of ¥132 million per fiscal year. Furthermore, as a new stock remuneration for Directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee Members), a resolution was passed that introduced a stock remuneration plan, Board Benefit Trust (BBT), to which the Company has contributed an amount of ¥570 million for a three-fiscal year period.

Approach to amount of remuneration, etc. for Directors of the Company and decisions involving its method of calculation are described in pages 28.

Note 2: The Company does not pay bonuses to Directors.

Note 3: The Company views the significant downward revision to the earnings and the postponement of the annual dividend as a serious matter, and for the time being will reduce the fixed remuneration for Directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee Members) by 5% to 10%. Furthermore, in consideration of significant losses incurred at Group companies, Chairman, President, CEO and Representative Director, and certain Directors have voluntarily returned their remuneration (10%, for three months).

Note 4: Totals for performance-based remuneration and stock remuneration are estimated payments. Due to the profit level in fiscal year 2016 and the postponement of the annual dividend, in accordance with the Company's Director remuneration system, the Company will not pay performance-based remuneration and stock remuneration.

Approach to Amount of Director Remuneration, Etc. and Decisions Involving its Method of Calculation

In order to improve medium- to long-term corporate value, the Company aims to have a system of remuneration that effectively acts as an incentive for its Directors to carry out their expected roles in their fullest capabilities and proposes the following Director remuneration system.

1. Fundamental Policy of Remuneration of the Company's Directors

The system should:

a. Be a system able to secure talented human resources who can be responsible for the Company's continued expansion and appropriately remunerate them.

b. Be a system able to share values widely with stakeholders and promote not only short-term growth but also medium- to long-term growth.

c. Create a system that incentivizes the accomplishment of consolidated business result targets while sufficiently considering the characteristics of each business so that Directors can fully carry out their roles.

d. Regarding the composition of the remuneration system and the necessity of its reevaluation, ensure the objectivity and transparency of judgments regarding remuneration decisions by listening to and considering the opinions of Meeting of Independent Directors composed entirely of Independent Directors.

2. Remuneration Framework

a. Remuneration for the Company's Directors (excluding Directors who are Audit & Supervisory Committee Members) will consist of fixed compensation, performance-based compensation linked to the achievement of business results targets during individual fiscal years, and medium- to long-term incentive compensation based on stock compensation with the goal of sharing values with shareholders. Taking into consideration their duties, part-time Internal Directors and Outside Directors will not be eligible for performance-based compensation, and Outside Directors will not be eligible for medium- to long-term incentive compensation.

b. The standard amount of performance-based compensation for each rank will be at the level of 25% to 30% of fixed compensation, and the value of medium- to long-term incentives paid per fiscal year will be at the level of 25% to 30% of fixed compensation.

c. The Company's Directors who are Audit & Supervisory Committee Members will only be paid fixed compensation as Director remuneration, taking into consideration their duties.

3. Performance-Based System

a. The amount of performance-based compensation will be determined using net income attributable to owners of the parent (hereinafter "net income") and net income of each business division as evaluation indicators. Target standards used in evaluations will be based on the net income standard of the Company as a whole, which becomes "consolidated ROA of 5% or more" as stated in the medium-term management plan. Additionally, target standards for each business division will be based on the same net income standard for each business division of "ROA of 5% or more in each business division," and according to the accomplishment of these targets for both the Company as a whole and in each business division, a coefficient of 0% to 200% will be multiplied to the base amount in order to determine the amount paid.

b. For medium- to long-term incentive compensation, a system known as Board Benefit Trust (BBT) will be adopted in order to raise the consciousness for contribution from Directors regarding continuously improving corporate value. Payments based on this system will use a base point number established for each rank and a number of points according to a coefficient of 0-100% will be provided each fiscal year based on whole-company net income and the state of dividend payment, and on a fixed date during each trust period of three years, a number of the Company's shares and a cash equivalent to the amount converted from the market price of the Company's shares will be provided according to the number of points provided.

4. Method to Determine Remuneration Standard

a. Director remuneration survey data from an external specialized agency will be used as a base to determine remuneration standards commensurate with the Company's corporate scale and the duties expected of Directors.

5. Method to Determine and Examine the Policy regarding Remuneration

a. The policy concerning remuneration for Directors (excluding Directors who are Audit & Supervisory Committee Members) is determined by the Board of Directors, and the policy concerning remuneration for Directors who are Audit & Supervisory Committee Members is determined by all Audit & Supervisory Committee Members.

b. The Company receives opinions from the Meetings of Independent Directors comprised of all Independent Directors regarding ways for and necessity to revise the remuneration system. If it is necessary to revise the remuneration system, the Company will present a revised remuneration plan at a meeting of the Board of Directors and it will be resolved.

Dividend Policy

The Company positions the return of profits to shareholders as a key issue for management and works to improve corporate value throughout the Group by operating businesses with a medium- to long-term perspective.

The Company decides on the dividend after duly considering the financial standing of the Company, business performance, future capital needs and other factors. In determining dividend amounts, the Company looks at each period's business performance and payout ratio, with a focus on making continuous, stable dividend payments.

The Company makes allocations of retained earnings for purposes that include investments necessary for future growth in order to bolster earnings and improve the balance sheet.

For the time being, to conduct profit-sharing commensurate with business performance, the Company shall set the payout ratio to between 15% and 25% of consolidated net profit.

The Company's Articles of Incorporation stipulate that dividends of surplus shall be determined via a resolution of the Board of Directors in accordance with Article 459, Paragraph 1 and Article 460, Paragraph 1 of the Companies Act.

Dividends of surplus shall be distributed by a resolution of the Board of Directors twice a fiscal year on the record dates stipulated in the Articles of Incorporation: once at interim period and once at fiscal year end. Payment of dividends on other record dates shall be conducted after establishing the record date at a separate meeting of the Board of Directors.

While following a basic policy of paying dividends on a continuous and stable basis, the Company decides on the dividend after duly considering its financial standing, business performance, future capital needs and other factors.

COMPLIANCE INITIATIVES

The Kobe Steel Group recognizes that the viability of a business concern is contingent upon adherence to laws and regulations as well as the observation of social norms. Accordingly, the Group is working to ensure thorough compliance, which it considers a top management priority.

Moreover, we have recently established the Core Values of KOBELCO and the Six Pledges of KOBELCO Men and Women, which together form a code of conduct that Group employees must follow.

* For more details, see the inside front cover of this report.

Corporate Code of Ethics

The Corporate Code of Ethics sets out principles and guidelines to ensure that we act as a good corporate citizen in accordance with all applicable laws, regulations and social norms. It consists of the Corporate Ethical Principles, Standards of Corporate Conduct, and Implementation Guidelines for the Corporate Code of Ethics.

The Corporate Ethical Principles are a set of seven guidelines that the Company, its directors, officers and employees are required to follow when engaging in business activities. Based on our commitment to enforcing and strengthening compliance, these principles represent the foundations on which we fulfill our corporate social responsibilities, by contributing to the environment and interacting effectively with our customers, business partners, employees, members of the local community, and other stakeholders. The Standards of Corporate Conduct set out guidelines for particularly important activities for the implementation of the Corporate Ethical Principles in day-to-day operations. The Standards of Corporate Conduct are implemented by individual employees based on operating manuals containing detailed explanations.

Seven Guidelines under the Corporate Ethical Principles

1. The Company will operate business fairly and honestly and comply with applicable laws, rules and principles of society.
2. The Company will contribute to society by offering excellent products and services, while paying attention to product safety and protection of personal information of customers and partners.
3. The Company will create a safe, comfortable and productive workplace and respect the individuality, differences and diversity of employees.
4. The Company will respect the interests of stakeholders in the Company.
5. The Company will be a good corporate citizen that contributes to local communities.
6. The Company will devote itself to protecting the environment and creating a comfortable society.
7. The Company will respect the culture and customs of other nations and contribute to the growth and development of their communities.

Compliance Committee

The Company has a Compliance Committee that advises the Board of Directors. Three of its members are company directors, while five come from outside the company in order to maintain fairness and neutrality. The Committee proposes recommended plans, checks on progress, and deliberates cases reported through the internal reporting (whistleblowing) system.

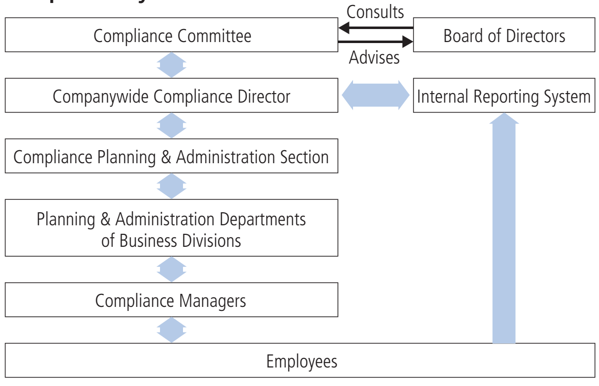
We appoint a companywide compliance director and a companywide compliance officer. We have also set up a dedicated Compliance Planning & Administration Section in the Legal Department to work in partnership with planning and administrative departments and with compliance managers stationed in our business units.

Compliance Measures

In fiscal year 2016, the Compliance Committee met five (5) times. Activities included formulation of compliance activity plans for fiscal year 2016, and monitoring the status of implementation of compliance activities.

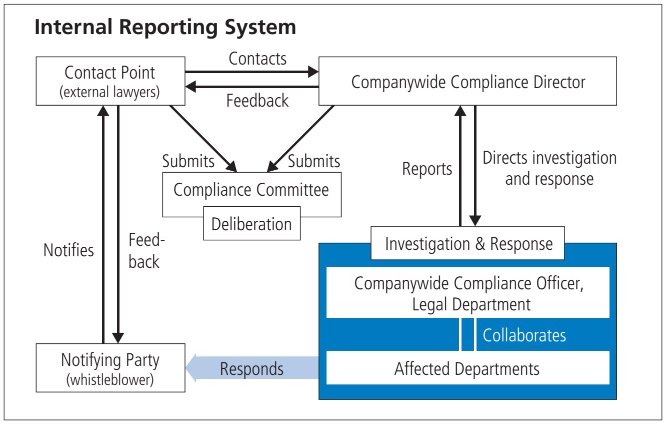
Furthermore, based on compliance activity plans for fiscal year 2016, the Company implemented compliance training for executives of the Company and its group companies, and training and legal education separated by employment level for responsible persons and supervisors in each business segment, newly appointed managers, and newly hired persons, etc. Additionally, the Company also implemented legal compliance training for group companies both within and outside of Japan, based on examples of past and current scandals.

Compliance System



Internal Reporting System

Our internal reporting (whistleblowing) system is one of the methods we use to prevent risks associated with legal, ethical and other compliance-related issues from materializing and spreading, by quickly identifying problems and implementing appropriate measures. If employees come across any form of illegal conduct within the company, the system enables them to report the matter directly to a designated outside lawyer who operates from a neutral standpoint. The contents of such reports are then investigated by the Compliance Committee and appropriate action is taken. Similar systems have also been rolled out for Group companies.



Risk Management Activities

The aim of risk management at the Kobe Steel Group is to enable departments to identify risks independently and take remedial action.

Every department formulates and implements their own Risk Management Plan, based on "operating risks" applicable to their own operations, and "shared risks" specified by the relevant staff department at corporate headquarters according to regulatory revisions and social changes. At the end of the fiscal year, the heads of each business unit and department, including top management, review the results of risk management activities over the course of the year and provide feedback for the following year.

Essentially, each business unit implements compliance and risk management activities based on the PDCA (Plan, Do, Check, Act) cycle. The aim of ongoing activities such as these is to establish an organizational culture that is highly sensitive to compliance, within the context of individual operations.

Group Company Compliance System

In addition to establishing compliance committees or equivalent bodies at all Group companies and drawing up a Kobe Steel Group Corporate Code of Ethics, we have also introduced an internal reporting system.

Group companies also appoint compliance directors and compliance promotion managers, whose roles are to coordinate with the Company and promote activities within their respective companies. Risk management activities in line with those at the Company are carried out at all Group companies.

Matters concerning Anti-Takeover Measures

Basic Policy on Corporate Control

The Company has formed unique business domains over its 110 year history, which extends back to its establishment in 1905. The peripheral fields of the materials and machinery businesses span especially broad areas, and the diversity of the individual businesses that comprise these business fields has enabled the Company to be the first to harness particular synergies. In addition, these businesses are supported by a wide range of stakeholders, including the Company's employees who boldly take on challenges in R&D and on the production floor, business partners and customers in Japan and abroad—mainly in the fields of transportation vehicles, energy and infrastructure—with whom the Company has nurtured relationships of trust over many years.

Furthermore, the Company supplies a wide range of customers with unique and diverse product lineups that encompass its materials businesses' difficult-to-substitute materials and components and its machinery businesses' energy efficient and eco-friendly products. In addition, by providing electricity—a crucial component of social infrastructure—through its electric power business the Company provides services that benefit society. The Company believes it has a significant responsibility to society that it is addressing through these activities.

The Company provides unique and high-value-added products and creates synergistic effects by exchanging and combining technologies among its businesses. This practice has allowed the Company to build up relationships of trust with stakeholders, fulfill the duty of providing social infrastructure, and gain the trust of society. The Company considers these to be the bedrock of its corporate value.

The Company, as a listed company, thinks that any large-scale purchase of the Company's shares involving a change of its corporate control should be approved if such purchase facilitates the protection and enhancement of its corporate value, which is generated from the sources described above, and, ultimately, the common interests of its shareholders in the course of open stock trading.

However, the Company believes that a party which will have an impact on its financial and business policy decisions must be one that fully understands the sources of its corporate value such as the Company's management principles and the relationship of mutual trust it shares with its stakeholders, which are necessary and indispensable for the enhancement of corporate value and, ultimately, the common interests of its shareholders. Such a party must also be able to protect and enhance the Company's corporate value and, ultimately, the common interests of its shareholders as a result.

The Company must therefore strive to secure its corporate value and the common interests of its shareholders by taking appropriate action in accordance with the relevant laws and regulations in response to persons who are engaging in or aim to engage in a large-scale purchase.

Special Initiatives to Help Enforce the Basic Policy on Corporate Control

Initiatives to Improve Corporate Value by Carrying Out Business Strategies

In April 2016, the Company formulated the Fiscal Year 2016-2020 Group Medium-Term Management Plan and started initiatives under the new medium- to long-term business vision, KOBELCO VISION "G+" which will establish a solid business enterprise aimed at further strengthening the three core business areas of the materials businesses, machinery businesses, and the electric power business.

The Company plans to focus its management resources in growing fields anticipated to expand over the medium to long term such as weight savings in transportation as well as energy and infrastructure. The Company plans to increase the original added value of the Kobe Steel Group. By achieving a strong competitive edge, the Company aims to expand and grow its businesses and contribute to society.

Initiatives to Improve Corporate Value by Strengthening Corporate Governance

The Company considers the strengthening of corporate governance a necessary part of ongoing efforts to improve corporate value.

The Company has worked to strengthen corporate governance through a variety of measures. These include transitioning to a company with an Audit & Supervisory Committee, revising the Board of Directors roster, and newly establishing the Meetings of Independent Directors, which consist of all of the Independent Directors and provide objective opinions regarding executives' appointments and remuneration.

Going forward, the Company will continue looking for ways to further strengthen corporate governance. The Company will reference opinions presented at the Meetings of Independent Directors and the results of the Board of Directors' effectiveness evaluation, which are based on an annual survey of each director and an evaluation of the survey results by the Audit & Supervisory Committee.

Initiatives to Prevent Unsuitable Parties from Having an Impact on the Company's Financial and Business Policy Decisions in Light of Its Basic Policy on Corporate Control

The Company will request that persons who are engaging in or aim to engage in a large-scale purchase provide necessary and sufficient information to allow the shareholders to appropriately determine the question of the large-scale purchase in accordance with relevant laws and regulations from the viewpoint of ensuring its corporate value and the common interests of its shareholders, disclose the opinions of the Board of Directors of the Company, and endeavor to secure necessary time and information for the shareholders to consider such large-scale purchase.

Further, if it is rationally judged that there is a risk of damage to the Company's corporate value and the common interests of shareholders unless timely defensive measures are implemented, the Company will endeavor to secure its corporate value and the common interests of its shareholders, as an obvious obligation of the Board of Directors entrusted with management of the Company by its shareholders, by promptly deciding the content of the concrete measures deemed most appropriate at the time in accordance with the relevant laws and regulations and executing such measures.

Financial Section

Consolidated 10-Year Summary

Kobe Steel, Ltd. and Consolidated Subsidiaries

Years ended March 31	2008	2009	2010	2011
	Millions of yen			
For the year:				
Net sales	¥2,132,406	¥2,177,290	¥1,671,022	¥1,858,574
Cost of sales	1,757,342	1,890,318	1,475,461	1,570,779
Operating income	202,399	116,934	46,016	124,551
Ordinary income (loss)	157,919	60,876	10,259	89,083
Net income (loss) attributable to owners of the parent	88,923	(31,438)	6,305	52,940
Cash flows from operating activities	124,317	118,200	172,893	177,795
Cash flows from investing activities	(187,381)	(127,405)	(120,324)	(96,687)
Cash flows from financing activities	31,155	138,700	(29,641)	(98,196)
Capital expenditures	150,585	118,044	128,739	91,378
Depreciation	111,514	128,701	118,835	114,820
Research and development expenses	30,139	31,029	28,255	29,833
At year-end:				
Total assets	2,329,006	2,295,489	2,249,346	2,231,533
Net assets (Note 2)	647,797	513,461	557,002	597,368
Outside debt	713,352	855,972	837,770	769,840
Outside debt including IPP project financing	823,404	954,791	925,120	845,484
Per share data:				
Net income (loss) (yen/U.S. dollars (Note 1))	¥ 29.63	¥ (10.47)	¥ 2.10	¥ 17.63
Diluted net income (yen/U.S. dollars (Note 1))	—	—	—	—
Net assets (yen/U.S. dollars (Note 1))	199.81	159.58	172.09	182.81
Cash dividends (yen/U.S. dollars (Note 1))	7.00	3.50	1.50	3.00
Ratios:				
Operating income ratio (%)	9.5	5.4	2.8	6.7
Ordinary income ratio (%)	7.4	2.8	0.6	4.8
ROA (%)	6.9	2.6	0.5	4.0
ROE (%)	14.9	(5.8)	1.3	9.9
Equity ratio (%)	25.8	20.9	23.0	24.6
Debt/equity ratio (times)	1.3	1.7	1.6	1.4
Dividend payout ratio (%)	23.6	—	71.4	17.0
Number of shares issued (in thousands)	3,115,061	3,115,061	3,115,061	3,115,061
Number of employees	33,657	33,526	33,629	34,772

Notes: 1. For convenience only, U.S. dollar amounts in this report have been translated from Japanese yen amounts at the rate of ¥112.19 to US$1.00, the rate of exchange prevailing on March 31, 2017.

2. Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5, issued by the Accounting Standards Board of Japan on December 9, 2005) and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8, issued by the Accounting Standards Board of Japan on December 9, 2005).

3. Kobe Steel, Ltd. carried out a share consolidation at a ratio of 10 shares to 1 share effective on October 1, 2016.
Therefore, net income (loss) per share takes into account this share consolidation.

	Millions of yen						Thousands of U.S. dollars (Note 1)
2012	2013	2014	2015	2016	2017	Change 2017/2016	2017
¥1,864,691	¥1,685,529	¥1,824,699	¥1,886,895	¥1,822,806	¥1,695,864	(7.0)	$15,116,002
1,635,862	1,510,512	1,537,250	1,581,528	1,548,384	1,465,577	(5.3)	13,063,352
60,555	11,235	114,548	119,460	68,446	9,749	(85.8)	86,900
33,780	(18,146)	85,044	101,688	28,928	(19,104)	—	(170,279)
(14,248)	(26,976)	70,192	86,550	(21,556)	(23,045)	—	(205,411)
39,486	45,402	194,294	153,078	97,933	141,716	44.7	1,263,180
(85,267)	(123,513)	(62,105)	(73,674)	(104,619)	(137,834)	31.7	(1,228,574)
(40,233)	127,644	(138,502)	(156,027)	93,883	16,546	(82.4)	147,479
96,085	114,936	101,403	103,522	109,941	160,297	45.8	1,428,803
118,038	106,725	82,936	89,882	94,812	96,281	1.5	858,200
31,437	30,763	28,494	29,920	29,843	30,102	0.9	268,315
2,159,512	2,226,997	2,288,637	2,300,242	2,261,135	2,310,436	2.2	20,593,955
571,258	569,923	734,679	851,785	745,493	729,405	(2.2)	6,501,512
746,471	907,657	748,138	650,992	776,073	789,633	1.7	7,038,354
810,172	959,180	787,246	677,448	789,494	796,928	0.9	7,103,377
¥ (4.75)	¥ (8.99)	¥ 22.63	¥ 23.81	¥ (59.35)	¥ (63.54)	—	$ (0.57)
—	—	—	—	—	—	—	—
171.84	170.63	184.11	213.70	1,903.80	1,860.37	(2.3)	16.58
1.00	—	4.00	4.00	2.00	—	(100.0)	—
						Points	
3.2	0.7	6.3	6.3	3.8	0.6	(3.2)	
1.8	(1.1)	4.7	5.4	1.6	(1.1)	(2.7)	
1.5	(0.8)	3.8	4.4	1.3	(0.8)	(2.1)	
(2.7)	(5.3)	11.9	12.0	(2.9)	(3.4)	(0.4)	
23.9	23.0	29.2	33.8	30.6	29.2	(1.4)	
1.4	1.8	1.1	0.9	1.1	1.2	0.1	
—	—	17.7	16.8	—	—	—	
3,115,061	3,115,061	3,643,642	3,643,642	3,643,642	364,364	(3,279,278)	
35,496	36,018	36,019	36,420	36,338	36,951	613	

Analysis of Results

Net sales

FY2016 **¥1,695.9** billion
FY2015 ¥1,822.8 billion
-7.0%

Operating income

FY2016 **¥9.7** billion
FY2015 ¥68.4 billion
-85.8%

Ordinary income (loss)

FY2016 **-¥19.1** billion
FY2015 ¥28.9 billion
—

Net income (loss) attributable to owners of the parent

FY2016 **-¥23.0** billion
FY2015 -¥21.6 billion
—

Japan's economy in fiscal 2016 (April 1, 2016–March 31, 2017) is slowly recovering with improvement in the employment situation and signs of recovery in corporate capital investment and personal spending. Overseas, the United States and Europe continued to recover. Meanwhile, in China and parts of Southeast Asia sluggish growth rates persisted.

In this economic environment at the Kobe Steel Group, the sales volume of steel products decreased compared with the previous consolidated fiscal year. Although domestic demand in the automotive sector remained firm, exports declined. The sales volume of aluminum rolled products increased compared with the previous consolidated fiscal year, as demand remained firm for can stock for beverage cans and from the automotive sector. The sales volume of copper rolled products increased compared with the previous consolidated fiscal year, due to increased demand for automotive terminals.

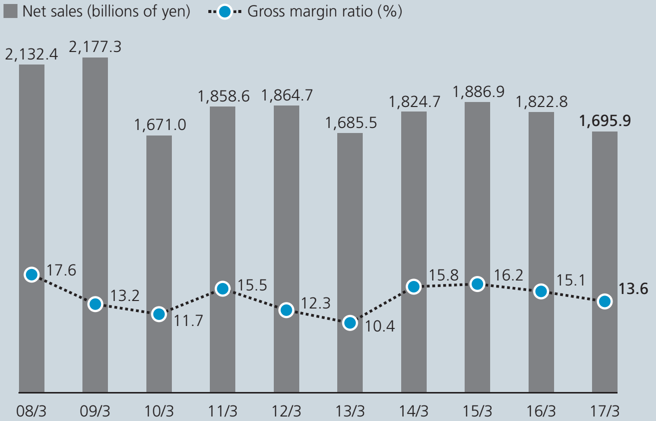
Unit sales of hydraulic excavators decreased compared with the previous consolidated fiscal year, due to lower demand in Japan and to undertaking marketing activities in China with stricter sales terms.

In addition, the sales prices of steel, aluminum and copper products decreased, affected by the high yen and decline in raw material prices.

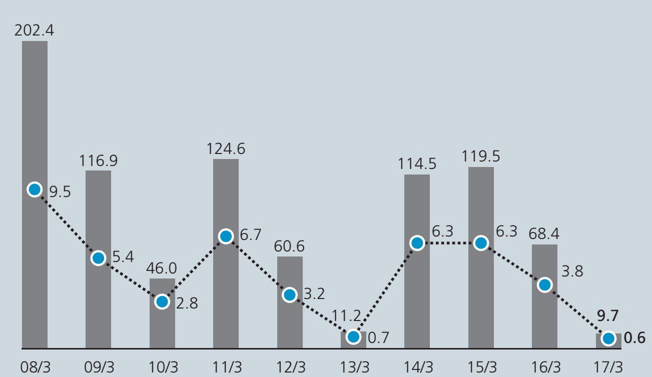
As a result, consolidated sales in fiscal 2016, largely affected by lower sales prices, went down ¥126.9 billion, compared with the previous consolidated fiscal year, to ¥1,695.9 billion. Operating income decreased ¥58.7 billion, compared with the previous consolidated fiscal year, to ¥9.7 billion due to the posting of a one-time expense for the relining of a blast furnace in the Iron & Steel business and the additional posting of an allowance for retained receivables in the Construction Machinery segment's China segment and other factors. Ordinary income* decreased ¥48.0 billion, compared with the previous consolidated fiscal year, to ordinary loss of ¥19.1 billion.

Extraordinary gains and losses increased ¥47.7 billion, compared with the previous consolidated fiscal year to extraordinary gains of ¥8.1 billion. No extraordinary losses were posted, compared with the previous consolidated fiscal year, which recorded extraordinary losses. In addition, Kobe Steel recorded a reversal of provision for loans for the China wheel loader business in the consolidated fiscal year. Net loss attributable to owners of the parent in fiscal 2016 worsened by ¥1.5 billion compared with previous consolidated fiscal year, to ¥23.0 billion.

Net sales / Gross margin ratio



Operating income / Operating income ratio



Analysis of Cash Flows

Cash flows from operating activities

FY2016 **¥141.7** billion

FY2015 ¥97.9 billion

¥43.8 billion

Cash flows from investing activities

FY2016 **-¥137.8** billion

FY2015 -¥104.6 billion

-¥33.2 billion

Free cash flows

FY2016 **¥3.9** billion

FY2015 -¥6.7 billion

¥10.6 billion

Cash flows from financing activities

FY2016 **¥16.5** billion

FY2015 ¥93.9 billion

-¥77.3 billion

Analysis of Financial Conditions

Total assets

FY2016 **¥2,310.4** billion

FY2015 ¥2,261.1 billion

+2.2%

Net assets

FY2016 **¥729.4** billion

FY2015 ¥745.5 billion

-2.2%

Equity ratio

FY2016 **29.2**%

FY2015 30.6%

-1.4 points

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥141.7 billion after posting loss before income taxes and non-controlling interests of ¥11.0 billion and depreciation of ¥96.3 billion.

Cash Flows from Investing Activities

Net cash used in investing activities came to -¥137.8 billion due to the purchase of fixed assets and other items.

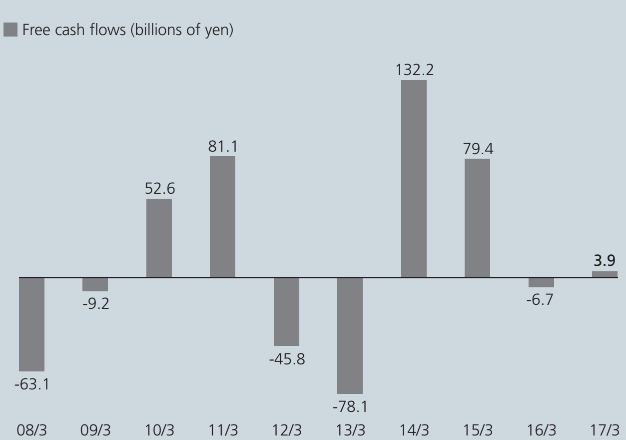
Cash Flows from Financing Activities

Net cash provided by financing activities totaled ¥16.5 billion due to the increase of borrowings and other items.

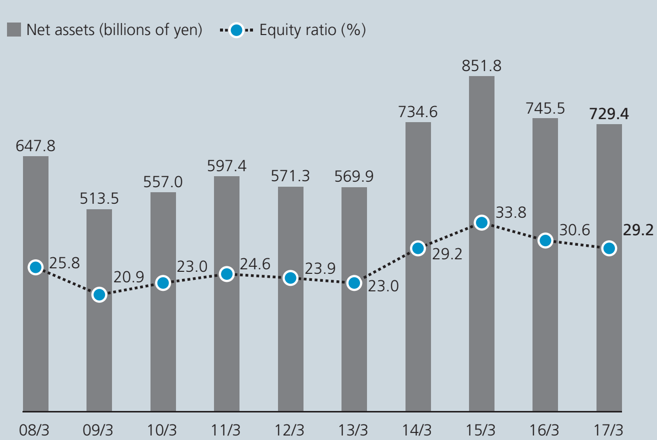
Total assets at the end of fiscal year 2016 increased ¥49.3 billion, compared with the end of fiscal year 2015, to ¥2,310.4 billion due to the increase in property, plant and equipment since capital investment exceeded depreciation, although notes and accounts receivable decreased. Due to the posting of net loss attributable to owners of the parent and other factors, net assets at the end of fiscal year 2016 decreased ¥16.1 billion, compared with the end of fiscal year 2015, to ¥729.4 billion. As a result, the net worth ratio at the end of fiscal year 2016 was 29.2%, a decrease of 1.4 points compared with the end of fiscal year 2015.

At the end of fiscal year 2016, outside debt, which includes IPP project financing, increased ¥7.4 billion, compared with the end of fiscal year 2015, to ¥796.9 billion.

Free cash flows



Net assets / Equity ratio



Discussed below are a number of factors affecting the business and financial situation of the Kobe Steel Group that could have a material impact on investor decisions. Furthermore, forward-looking statements in this text represent decisions made by the Kobe Steel Group at the end of the fiscal year ended March 31, 2017.

1. Economic Conditions in Key Markets

Automobiles, shipbuilding, electrical machinery, construction and civil engineering, IT, beverage containers and industrial machinery constitute the principal areas contributing to the Kobe Steel Group's domestic sales. In the fiscal year ended March 31, 2017, overseas sales represented 33.8% of total sales, with Asia, including China—the largest single source of demand in the region—accounting for over half of overseas sales.

The Kobe Steel Group's performance could therefore be affected by demand trends in these fields, regional economic conditions, decreases in net sales and orders received, and delays in the collection of receivables due to a deterioration in customers' financial conditions and other factors. In addition, political and social trends, difficulties in supervising and regulating local businesses, and labor issues as well as changes in customs duties, import and export regulations, trade and taxes, and other statutory regulations could affect the Kobe Steel Group's performance.

Moreover, domestic and foreign companies in each of its product markets present the Kobe Steel Group with intense competition, which could affect the Group's performance if competitors were to develop products with superior performance or quickly put out new products.

2. Fluctuations in Steel Volume and Prices

The volume and price of steel sold by the Kobe Steel Group are affected by trends in domestic and overseas demand as well as global steel supply and demand and market conditions.

Domestic steel sales are broadly divided between contract sales, for which product volume and specifications are directly negotiated with customers before shipment, and spot sales of products that are shipped for use by unspecified customers. Nearly all of Kobe Steel's sales are of the contract variety. Spot sales prices are more sensitive to fluctuations in the supply and demand balance, although contract sales prices are also eventually affected. In addition, the sales volume and price of steel exports, which comprise about 30% of steel shipments, are affected by regional variations in the balance of supply and demand. Fluctuations in steel shipments and prices could affect the Kobe Steel Group's performance.

3. Fluctuating Prices of Raw Materials

Steel raw material prices and ocean freight charges for iron ore, coal, ferroalloys, nonferrous metals and scrap procured by the Kobe Steel Group are affected by global market conditions, exchange rates, statutory regulations, natural disasters, political trends and other factors. Fluctuations in these prices and charges could affect the Kobe Steel Group's performance.

Because a limited number of suppliers and countries around the world produce iron ore and coking coal in particular, global market conditions tend to be strongly affected by the balance of supply and demand.

In the Aluminum & Copper segment, fluctuations in aluminum and copper ingot prices are passed on to customers in the product prices. Nevertheless, when the spot prices of aluminum and copper ingots fluctuate wildly over the short term, the Kobe Steel Group's performance could be temporarily affected by inventory valuations.

The Kobe Steel Group procures submaterials, including refractory products, and capital investment-related materials as well as materials for electrical components, hydraulic equipment and internal combustion engines. Fluctuations in prices for these materials and equipment could affect the Kobe Steel Group's performance.

In addition, significant changes in the above-mentioned raw material prices or the trading relationships with the suppliers of these materials and equipment could also affect the Kobe Steel Group's performance.

4. Impact of Environmental Regulations

Waste and byproducts arise during the production process, especially in the Iron & Steel and Aluminum & Copper segments. Although the Kobe Steel Group makes every effort to comply with domestic and foreign environmental regulations, expenditures could arise because of stricter regulations and other factors, including requirements to clean up contaminated soil at old factory sites that have already been sold.

If production restraints and taxes are imposed on such emissions as carbon dioxide, this would restrict the business activities of the Kobe Steel Group, especially in the Iron & Steel segment, and could affect the Kobe Steel Group's performance.

5. Impact on Operations due to Accidents, Natural Disasters, Etc.

The production equipment of the Kobe Steel Group includes equipment that is operated at high temperatures and pressures, such as blast furnaces and basic oxygen furnaces used for iron and steel production. The Group also has factories that handle materials and chemicals under high-temperature conditions. The Kobe Steel Group takes every possible measure to prevent accidents that could affect people or property. Nevertheless, should a serious accident occur, production activities could be hindered and the Kobe Steel Group's performance could be affected.

If a natural disaster such as a massive earthquake or typhoon were to strike, an infectious disease such as a new strain of influenza were to spread or some other unpredictable situation were to occur, these events could hinder operations and affect the Kobe Steel Group's performance.

6. Litigation Risks

The Kobe Steel Group's business activities span a wide range of fields in Japan and abroad. In carrying out these activities, the Kobe Steel Group strives to observe applicable laws, regulations and social norms, and is guided by business practices that are sound, fair and impartial. Nevertheless, whether or not there has been a violation of a law or regulation by a Kobe Steel Group company or employee, a lawsuit or other litigation could be filed in relation to product liability laws and intellectual property rights. Fines could be handed down for violating said law and could, as a result, affect the Group's performance or reputation. In addition, the Kobe Steel Group may be unable to legally protect its technology and know-how in accordance with intellectual property laws, which could affect the Group's performance.

7. Financial Risk

(1) Exchange Rate Fluctuations

Foreign currency denominated transactions of the Kobe Steel Group are primarily U.S. dollar-based, with U.S. dollar-based transactions showing an import surplus in the fiscal year under review. As a short-term measure to protect against fluctuations in exchange rates, the Kobe Steel Group has taken out foreign exchange contracts. However, because of the difficulties in totally eliminating volatility risks, foreign exchange fluctuations could affect the Kobe Steel Group's performance.

(2) Interest Rate Fluctuations

Total outside debt for the Kobe Steel Group at March 31, 2017 stood at ¥789.6 billion (¥796.9 billion, including project financing related to the Electric Power business). Fluctuations in interest rates and other terms of this debt, new borrowings and corporate bonds, etc., could, due to changing financial conditions and other factors, affect the Group's performance.

(3) Financing and Debt Guarantees

The Kobe Steel Group provides financing and other assistance primarily to affiliates and also stands as guarantor for a portion of loans from financial institutions for affiliates. Delays in the recovery of loans or requests to fulfill the guarantor obligations for debt could affect the Kobe Steel Group's performance.

(4) Decline in Value of Inventories

If the asset value of inventories held by the Group were to decline due to decreased profitability, this could affect the Kobe Steel Group's performance.

(5) Fluctuating Prices of Investment Securities

At March 31, 2017, the consolidated balance sheet amount for investment securities held by the Kobe Steel Group stood at ¥166.5 billion. Fluctuations in the prices of investment securities associated with changes in the share prices of listed shares could affect the Kobe Steel Group's performance.

Furthermore, actuarial differences could arise in the calculation of liability for severance and retirement benefits due to fluctuations in the share prices of listed shares, which are included in pension funds, and affect the Kobe Steel Group's performance.

(6) Recording of Deferred Income Taxes

With respect to deferred income taxes, future taxable income is reasonably estimated and collectability is determined and then recorded. Nevertheless, if significant changes arise, such as changes in the estimate of future taxable income, deferred income taxes could be reversed and this could affect the Group's performance.

(7) Decline in Value of Fixed Assets

If the value of fixed assets held by the Group declines due to decreased market value or decreased profitability, this could affect the Kobe Steel Group's performance.

8. Medium-Term Management Plan

The Kobe Steel Group unveiled its Medium-Term Management Plan in April 2016. The assumptions set out in the plan, including the market conditions and exchange rates in certain growth fields and regions, could differ from reality and, depending on the degree to which they differ, it may not be possible to execute the plan as originally expected. There is also the possibility that the Kobe Steel Group will be unable to successfully carry out the initiatives outlined in the plan, including growing business in the fields of lighter vehicles and energy and infrastructure, strengthening the profitability of the steel and construction machinery businesses, and stabilizing earnings in the electric power business. In addition, while the Kobe Steel Group is promoting business alliances and joint ventures with overseas companies, these endeavors may not go smoothly as there may be difficulty in providing services or developing products and the synergistic effects originally envisioned may not come to fruition. It is also possible that the Kobe Steel Group will not secure the future business opportunities it originally foresaw.

Furthermore, the financial condition and business performance of the Kobe Steel Group could be affected by events other than those mentioned above that could not be anticipated at March 31, 2017.

Financial Section

Consolidated Balance Sheets

Kobe Steel, Ltd. and Consolidated Subsidiaries
At March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2017	2016	2017
Current assets:			
Cash and deposits (Notes 7 and 21)	¥ 155,764	¥ 155,021	$ 1,388,393
Notes and accounts receivable:			
Trade and finance	256,990	317,502	2,290,666
Unconsolidated subsidiaries and affiliates	86,624	56,253	772,122
Other	24,946	24,448	222,360
Allowance for doubtful accounts	(4,652)	(3,899)	(41,469)
	363,908	394,304	3,243,679
Securities (Note 5)	45,503	31,000	405,587
Merchandise and finished goods	158,513	168,383	1,412,896
Work-in-process (Note 8)	126,109	125,045	1,124,068
Raw materials and supplies	134,400	133,596	1,197,964
Deferred income taxes (Note 18)	21,665	20,574	193,107
Other	38,461	18,956	342,824
Total current assets	1,044,323	1,046,879	9,308,518
Property, plant and equipment (Note 7):			
Land	195,608	194,591	1,743,538
Buildings and structures	770,335	757,501	6,866,343
Machinery and equipment	2,409,065	2,339,554	21,473,090
Construction in progress	55,095	46,213	491,083
	3,430,103	3,337,859	30,574,054
Less accumulated depreciation	(2,457,789)	(2,411,028)	(21,907,384)
Total property, plant and equipment	972,314	926,831	8,666,670
Intangible assets	24,147	19,470	215,241
Investments and other assets:			
Investments in securities (Note 5)	121,985	108,998	1,087,310
Investments in and advances to unconsolidated subsidiaries and affiliates	69,122	75,227	616,108
Long-term loans receivable	5,038	5,122	44,904
Deferred income taxes (Note 18)	27,540	28,194	245,481
Net defined benefit asset (Note 23)	16,355	16,125	145,781
Other	96,505	70,391	860,187
Allowance for doubtful accounts	(66,893)	(36,102)	(596,245)
Total investments and other assets	269,652	267,955	2,403,526
	¥2,310,436	¥2,261,135	$20,593,955

LIABILITIES AND NET ASSETS	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars (Note 1) 2017
Current liabilities:			
Short-term borrowings (Note 7)	¥ 86,008	¥ 118,914	$ 766,632
Current portion of long-term debt (Note 7)	135,975	138,024	1,212,011
Notes and accounts payable:			
Trade	355,343	313,436	3,167,334
Construction	43,946	26,712	391,710
Unconsolidated subsidiaries and affiliates	64,502	50,598	574,937
Other	14,963	14,247	133,373
	478,754	404,993	4,267,354
Advances from customers	31,193	31,657	278,039
Customers' and employees' deposits	15,307	19,976	136,434
Income and enterprise taxes payable	6,606	5,347	58,882
Provision for loss on construction contracts (Note 8)	6,938	7,218	61,840
Provision for structural reform related expenses	4,628	—	41,249
Provision for dismantlement related expenses	1,293	—	11,527
Deferred income taxes (Note 18)	1,764	326	15,720
Other	80,678	87,211	719,113
Total current liabilities	849,144	813,666	7,568,801
Long-term liabilities:			
Long-term debt (Note 7)	574,944	532,493	5,124,734
Net defined benefit liability (Note 23)	70,159	77,166	625,361
Provision for environmental measures	878	1,062	7,824
Provision for structural reform-related expenses	—	5,322	—
Provision for dismantlement-related expenses	8,660	11,028	77,194
Deferred income taxes (Note 18)	13,698	9,816	122,092
Other	63,548	65,089	566,437
Total long-term liabilities	731,887	701,976	6,523,642
Contingent liabilities (Note 11)			
Net assets:			
Stockholders' equity:			
Common stock (Notes 12 and 20)	250,930	250,930	2,236,652
Authorized — 600,000,000 shares			
Issued — 364,364,210 shares			
Capital surplus (Note 12)	103,538	103,558	922,877
Retained earnings (Note 12)	331,679	354,720	2,956,408
Treasury stock, at cost (Note 20):	(2,661)	(1,556)	(23,717)
2,108,414 shares in 2017 and 877,933 shares in 2016			
	683,486	707,652	6,092,220
Accumulated other comprehensive income:			
Unrealized gains on securities, net of taxes	17,476	8,256	155,769
Unrealized losses on hedging derivatives, net of taxes	(9,230)	(7,930)	(82,271)
Land revaluation differences, net of taxes (Note 9)	(3,406)	(3,406)	(30,362)
Foreign currency translation adjustments	7,709	13,901	68,713
Remeasurements of defined benefit plans, net of taxes	(22,107)	(26,466)	(197,042)
	(9,558)	(15,645)	(85,193)
Non-controlling interests	55,477	53,486	494,485
Total net assets	729,405	745,493	6,501,512
	¥2,310,436	¥2,261,135	$20,593,955

See accompanying notes.

Financial Section

Consolidated Statements of Operations

Kobe Steel, Ltd. and Consolidated Subsidiaries

Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net sales	¥1,695,864	¥1,822,806	$15,116,002
Cost of sales (Note 13)	(1,465,577)	(1,548,384)	(13,063,352)
Gross profit	230,287	274,422	2,052,650
Selling, general and administrative expenses (Note 15)	(220,538)	(205,976)	(1,965,750)
Operating income	9,749	68,446	86,900
Non-operating income (expenses):			
Interest and dividend income	5,866	8,025	52,289
Interest expense	(13,402)	(15,177)	(119,457)
Seconded employees' salaries, net of reimbursement	(6,454)	(6,696)	(57,526)
Foreign exchange gain (loss)	(2,226)	(4,134)	(19,840)
Equity in income (loss) of equity method companies	1,879	(7,770)	16,748
Dismantlement expense	(6,742)	(3,915)	(60,096)
Other, net	(7,774)	(9,851)	(69,297)
	(28,853)	(39,518)	(257,179)
Ordinary income (loss)	(19,104)	28,928	(170,279)
Extraordinary income (loss):			
Reversal of allowance for doubtful accounts (Note 16)	8,142	—	72,572
Loss on business of subsidiaries and associates (Note 17)	—	(37,363)	—
Loss on write-down of investment securities	—	(2,184)	—
	8,142	(39,547)	72,572
Income (loss) before income taxes and non-controlling interests	(10,962)	(10,619)	(97,707)
Income taxes (Note 18):			
Current	8,718	14,677	77,707
Deferred	(380)	8,386	(3,387)
	8,338	23,063	74,320
Income (loss) before non-controlling interests	(19,300)	(33,682)	(172,027)
Net income (loss) attributable to non-controlling interests	3,745	(12,126)	33,384
Net income (loss) attributable to owners of the parent	¥ (23,045)	¥ (21,556)	$ (205,411)

	Yen		U.S. dollars (Note 1)
Per share	2017	2016	2017
Net income (loss)	¥ (63.54)	¥ (59.35)	$ (0.57)
Cash dividends applicable to the year	—	2.00	—

See accompanying notes.

Financial Section

Consolidated Statements of Comprehensive Income

Kobe Steel, Ltd. and Consolidated Subsidiaries

Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Loss before non-controlling interests	¥(19,300)	¥(33,682)	$(172,027)
Other comprehensive income (loss):			
Unrealized gains (losses) on securities, net of taxes	8,763	(18,096)	78,110
Unrealized losses on hedging derivatives, net of taxes	(786)	(5,859)	(7,003)
Land revaluation differences, net of taxes	—	176	—
Foreign currency translation adjustments	(6,893)	(12,108)	(61,439)
Remeasurements of defined benefit plans, net of taxes	4,476	(17,560)	39,893
Share of other comprehensive income related to equity method companies	(563)	(1,424)	(5,017)
Total other comprehensive income (Note 19)	4,997	(54,871)	44,544
Total comprehensive income	¥(14,303)	¥(88,553)	$(127,483)
Total comprehensive income (loss) attributed to:			
Stockholders of the parent interests	¥(16,957)	¥(72,306)	$(151,149)
Non-controlling interests	2,654	(16,247)	23,666

See accompanying notes.

Financial Section

Consolidated Statements of Changes in Net Assets

Kobe Steel, Ltd. and Consolidated Subsidiaries

Years ended March 31, 2017 and 2016

	Thousands	Millions of yen										
	Number of shares of common stock	Common stock (Note 12)	Capital surplus (Note 12)	Retained earnings (Note 12)	Treasury stock	Unrealized gains on securities, net of taxes	Unrealized losses on hedging derivatives, net of taxes	Land revaluation differences, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Non-controlling interests	Total
Balance at April 1, 2015 (Restated Balance)	3,643,642	¥250,930	¥100,783	¥392,652	¥(2,996)	¥27,098	¥(2,415)	¥(3,561)	¥22,892	¥ (8,891)	¥75,293	¥851,785
Dividends of surplus				(14,536)								(14,536)
Net loss attributable to owners of the parent				(21,556)								(21,556)
Share exchanges				(1,856)	3,408							1,552
Purchase of treasury stock					(1,970)							(1,970)
Disposal of treasury stock				(1)	2							1
Changes in stockholders interest due to transaction with non-controlling interests			2,775									2,775
Increase (decrease) due to changes in scope of consolidation				(2)								(2)
Adjustment to land revaluation				19								19
Net changes in items other than stockholders' equity						(18,842)	(5,515)	155	(8,991)	(17,575)	(21,807)	(72,575)
Net changes during the year			2,775	(37,932)	1,440	(18,842)	(5,515)	155	(8,991)	(17,575)	(21,807)	(106,292)
Balance at April 1, 2016	3,643,642	250,930	103,558	354,720	(1,556)	8,256	(7,930)	(3,406)	13,901	(26,466)	53,486	745,493
Share consolidation	(3,279,278)											
Dividends of surplus												
Net loss attributable to owners of the parent				(23,045)								(23,045)
Purchase of treasury stock					(1,109)							(1,109)
Disposal of treasury stock				(2)	4							2
Changes in stockholders interest due to transaction with non-controlling interests			(20)									(20)
Increase (decrease) due to changes in scope of consolidation				6								6
Adjustment to land revaluation												—
Net changes in items other than stockholders' equity						9,220	(1,300)	—	(6,192)	4,359	1,991	8,078
Net changes during the year	(3,279,278)		(20)	(23,041)	(1,105)	9,220	(1,300)	—	(6,192)	4,359	1,991	(16,088)
Balance at March 31, 2017	364,364	¥250,930	¥103,538	¥331,679	¥(2,661)	¥17,476	¥(9,230)	¥(3,406)	¥ 7,709	¥(22,107)	¥55,477	¥729,405

	Thousands	Thousands of U.S. dollars (Note 1)										
	Number of shares of common stock	Common stock (Note 12)	Capital surplus (Note 12)	Retained earnings (Note 12)	Treasury stock	Unrealized gains on securities, net of taxes	Unrealized losses on hedging derivatives, net of taxes	Land revaluation differences, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Non-controlling interests	Total
Balance at April 1, 2016	3,643,642	$2,236,652	$923,058	$3,161,778	$(13,873)	$ 73,588	$(70,680)	$(30,362)	$123,902	$(235,903)	$476,753	$6,644,913
Share consolidation	(3,279,278)											
Dividends of surplus												—
Net loss attributable to owners of the parent				(205,411)								(205,411)
Purchase of treasury stock					(9,885)							(9,885)
Disposal of treasury stock				(17)	41							24
Changes in stockholders interest due to transaction with non-controlling interests			(181)									(181)
Increase (decrease) due to changes in scope of consolidation				58								58
Adjustment to land revaluation												—
Net changes in items other than stockholders' equity						82,181	(11,591)	—	(55,189)	38,861	17,732	71,994
Net changes during the year	(3,279,278)		(181)	(205,370)	(9,844)	82,181	(11,591)	—	(55,189)	38,861	17,732	(143,401)
Balance at March 31, 2017	364,364	$2,236,652	$922,877	$2,956,408	$(23,717)	$155,769	$(82,271)	$(30,362)	$ 68,713	$(197,042)	$494,485	$6,501,512

See accompanying notes.

Financial Section

Consolidated Statements of Cash Flows

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Cash flows from operating activities:			
Income (loss) before income taxes	¥ (10,962)	¥ (10,619)	$ (97,707)
Depreciation	96,281	94,812	858,200
Increase in allowance for doubtful accounts	32,651	16,858	291,030
Interest and dividend income	(5,866)	(8,025)	(52,289)
Interest expense	13,402	15,177	119,457
Loss (income) on sale of securities	(711)	(1,686)	(6,340)
Loss on write-down of investments in securities	—	2,184	—
Equity in loss (income) of equity method companies	(1,879)	7,770	(16,748)
Gain on sale of plant and equipment	(101)	(64)	(902)
Loss on disposal of plant and equipment	2,479	1,801	22,099
Reversal of allowance for doubtful accounts	(8,142)	—	(72,572)
Loss on business of subsidiaries and associates	—	37,363	—
Decrease in trade receivables from customers	3,584	10,536	31,945
Net decrease (increase) in lease receivables and investment assets	2,357	7,076	21,009
Decrease (increase) in inventories	(2,081)	11,349	(18,548)
Increase in accounts receivable	(30,353)	(1,961)	(270,551)
Decrease in trade payables to customers	62,635	(56,431)	558,294
Other	3,563	4,009	31,765
Subtotal	156,857	130,149	1,398,142
Cash received for interest and dividends	8,550	9,667	76,210
Cash paid for interest	(12,546)	(15,853)	(111,828)
Cash paid for income taxes	(11,145)	(26,030)	(99,344)
Net cash provided by operating activities	141,716	97,933	1,263,180
Cash flows from investing activities:			
Purchase of property, plant and equipment and other assets	(138,984)	(99,172)	(1,238,829)
Proceeds from sale of property, plant and equipment and other assets	2,910	3,043	25,938
Purchase of investments in securities	(446)	(7,125)	(3,980)
Proceeds from sale of investments in securities	1,888	6,582	16,827
Payment for investments in capital	—	(957)	—
Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation	408	—	3,637
Increase in short-term loans receivable	(5,714)	(10,467)	(50,929)
Payments for long-term loans receivable	(232)	(278)	(2,067)
Proceeds from collection of long-term loans receivable	498	674	4,436
Other	1,838	3,081	16,393
Net cash used in investing activities	(137,834)	(104,619)	(1,228,574)
Cash flows from financing activities:			
Decrease in short-term borrowings	(25,992)	(18,712)	(231,678)
Proceeds from issuance of long-term debt	177,857	163,192	1,585,320
Repayment of long-term borrowings	(98,561)	(86,180)	(878,522)
Proceeds from issuance of bonds	—	80,000	—
Repayment of bonds	(35,000)	(20,000)	(311,971)
Repayment of finance lease obligations	(5,696)	(6,729)	(50,770)
Purchase of treasury stock	(1,109)	(1,702)	(9,885)
Payment of dividends	(17)	(14,492)	(153)
Other	5,064	(1,494)	45,138
Net cash used in financing activities	16,546	93,883	147,479
Effect of exchange rate changes on cash and cash equivalents	(4,746)	(4,583)	(42,304)
Increase (decrease) in cash and cash equivalents	15,682	82,614	139,781
Cash and cash equivalents at beginning of year	184,337	101,654	1,643,078
Increase in cash and cash equivalents resulting from change in scope of consolidation	399	19	3,555
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	—	50	—
Cash and cash equivalents at end of year (Note 21)	¥200,418	¥184,337	$1,786,414

See accompanying notes.

Notes to Consolidated Financial Statements

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Kobe Steel, Ltd. ("the Company") and its consolidated subsidiaries ("the Group") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which differ in certain significant respects from accounting principles generally accepted in other countries, including accounting principles generally accepted in the United States, or U.S. GAAP, and International Financial Reporting Standards, or IFRS.

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective country of domicile, with necessary adjustments to be in accordance with Japanese GAAP.

The accompanying consolidated financial statements have been restructured and translated into English with certain expanded disclosure from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2017, which was ¥112.19 to U.S.$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(1) Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries, the management of which is controlled by the Company. For the year ended March 31, 2017, the accounts of 171 (170 in 2016) subsidiaries have been included in the consolidated financial statements. Intercompany transactions and accounts have been eliminated.

Seventy-nine (73 in 2016) consolidated subsidiaries are consolidated using a fiscal period ending December 31, which differs from that of the Company. Any material transactions or events occurring during the January 1 to March 31 period are adjusted for in these consolidated financial statements.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling shareholders, are evaluated using the fair value at the time the Company acquired the control of the respective subsidiary.

Investments in unconsolidated subsidiaries and affiliates over which the Company has significant influence, except for insignificant companies, are accounted for by the equity method. For the year ended March 31, 2017, 42 (43 in 2016) affiliates were accounted for by the equity method.

The difference between the cost of an investment in a subsidiary and the equity in the net assets of the subsidiary at the date of acquisition, if considered significant, is amortized over the estimated number of years when the amortization period can be determined or over five years when it cannot. Where the difference is small, it is recognized as expense when incurred.

When the Company's share of the net losses of an affiliate exceeds the adjusted cost of the investment, the Company discontinues applying the equity method and the investment is reduced to zero. Losses in excess of the amounts due from the investee are recorded in other payables when the losses are expected to be shared by the Company.

(2) Securities

The Group has no trading securities. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as accumulated other comprehensive income in net assets.

Realized gains and losses on the sale of such securities are computed using moving average cost based on the carrying value at March 31, 2000 or at the later date of purchase.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies or available-for-sale securities declines significantly, the securities are stated at fair market value, and the difference between the fair market value and the carrying amount is recognized as a loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, the securities are written down to net asset value with a corresponding charge in the statement of operations in the event net asset value declines significantly. In these cases, the fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(3) Allowance for Doubtful Accounts

The Group provides for doubtful accounts principally at an amount based on the actual ratio of bad debts in the past plus the estimated uncollectible amounts of certain individual receivables.

(4) Provision for Loss on Construction Contracts

Provision for loss on construction contracts is stated at an amount based on the estimated loss from construction contracts at the end of the fiscal year.

(5) Provision for Environmental Measures

The provision for environmental measures for obligatory PCB treatment is stated as an estimated cost at the end of the fiscal year.

(6) Provision for Structural Reform-Related Expenses

The provision for structural reform related expenses is stated at an amount based on the estimated cost for structural reform of the steel business at the end of the fiscal year.

(7) Provision for Dismantlement-Related Expenses

Provision for dismantlement related expenses is stated at an amount based on the estimated cost for dismantling and disposal of the blast furnace facilities due to construction of a power station at Kobe Works at the end of the fiscal year.

(8) Inventories

Inventories are valued at the lower of cost or net realizable value. Cost is determined principally by the average method in the Iron & Steel, Welding and Aluminum & Copper segments and by the specific identification method for finished goods and work in progress in the Machinery, Engineering, Kobelco Eco-Solutions, and Construction Machinery segments.

(9) Depreciation

Depreciation of tangible and intangible assets is provided principally by the straight-line method.

The useful life of these assets is determined mainly by schedules in Japanese tax laws. Intangible assets include software for internal use, which is amortized over the estimated useful life of five years.

Depreciation of leased assets under finance leases that do not transfer ownership of the lease assets is provided by the straight-line method with the lease term as the useful life.

(10) Income Taxes

The Company and its domestic consolidated subsidiaries apply deferred tax accounting to recognize the tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting purposes.

Deferred taxes relating to temporary differences between financial accounting and tax reporting are also recognized by certain foreign consolidated subsidiaries.

(11) Employees' Severance and Retirement Benefits

The Company and its domestic consolidated subsidiaries operate two defined benefit retirement plans which consist of unfunded lump-sum payment plans and funded non-contributory pension plans. Some unfunded lump-sum payment plans became funded as a result of contributions of securities to retirement benefit trusts. Certain domestic consolidated subsidiaries operate contribution pension plans.

The Company and its domestic consolidated subsidiaries provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of plan assets. The Group attributes expected benefits to periods by the benefit formula basis.

Prior service cost is recognized in expenses using the straight-line method over mainly 16 years, which is within the average of the estimated remaining service years of employees. Actuarial gains and losses are recognized in expenses using the straight-line method over mainly 20 years for those accrued in 2017, mainly 19 years for those accrued in 2016, mainly 18 years for those accrued in 2015, mainly 17 years for those accrued in 2014 and 2013, mainly 16 years for those accrued in 2012 and 2011, mainly 15 years for those accrued in 2010, mainly 14 years for those accrued in 2009 and 2008 and mainly 12 years for those accrued in and before 2007, all of which are within the average of the estimated remaining service years of employees commencing with the following period.

(12) Bond Issuance Costs

Bond issuance costs are recognized as expense when incurred.

(13) Translation of Foreign Currencies

Receivables and payables denominated in foreign currencies are translated into Japanese yen at year-end rates.

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at year-end rates, except net asset accounts, which are translated at historical rates. Statements of operations of consolidated overseas subsidiaries are translated into Japanese yen at average rates for the period, except items resulting from transactions with the Company, which are translated at rates used by the Company.

The Company and its domestic consolidated subsidiaries report foreign currency translation adjustments in net assets and non-controlling interests.

(14) Construction Contracts

The Company and its domestic consolidated companies apply the percentage of completion method to work in which the outcome of individual contracts can be estimated reliably, otherwise, the completed contract method is applied.

(15) Derivatives

The Company and its domestic consolidated subsidiaries state derivative financial instruments at fair value and recognize changes in the fair value as gain or loss unless the derivative financial instrument was used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers recognition of gain or loss resulting from changes in the fair value of the derivative financial instruments until the related loss or gain on the corresponding hedged item is recognized ("deferred hedge" method). Deferred gains and losses on these derivative instruments are reported, net of applicable income taxes, as a separate component of accumulated other comprehensive income in net assets.

If foreign currency exchange contracts are used as hedges and meet certain hedging criteria, the hedged items are stated at the forward exchange rates ("assigning" method). Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed ("exceptional" method).

(16) Consumption Tax

Consumption tax withheld upon sale, as well as that paid for purchases of goods or services, is recorded as a liability or an asset and is excluded from the relevant revenue, costs or expenses.

(17) Consolidated Tax Return

From the year ended March 31, 2004, the Company has filed a consolidated tax return with certain domestic subsidiaries.

(18) Cash and Cash Equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(19) Changes in Accounting Estimates

In posting the allowance for doubtful accounts on retained receivables owned by a sales subsidiary in China in the Construction Machinery segment, the Company had used a method to calculate the uncollectible amount taking into account the financial condition of the customers.

In the course of considering restructuring measures for the hydraulic excavator business in China due to continued sluggish demand, the Company began a review on measures for dealers.

For dealers who are also considered to be customers, the Company strengthened credit management, promoted collection negotiations on retained receivables, formulated a repayment plan, and proceeded to select dealers carefully, including restricting and stopping transactions with dealers whose financial condition had deteriorated considerably.

However, the Company judged that the uncertainty of receivables collection is increasingly growing.

Looking at the actual situation that collection would be difficult and prolonged, a repayment plan with a high certainty of receivables recovery was not formulated for existing retained receivables.

As a result, from the fiscal year under review, an accounting method used to estimate the allowance for doubtful accounts on receivables has been changed to a method that calculates the remaining amount, after deducting the expected recoverable amount by sell-off of collateral assets from retained receivables, as the uncollectible amount.

With this change, operating income for the fiscal year under review decreased ¥22,250 million, and ordinary loss and net loss attributable to owners of the parent worsened by ¥22,250 million each.

(20) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no impact on previously reported results of operations or retained earnings.

3. Leases

Operating leases

Future minimum lease payments as lessee under operating leases at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Due within one year	¥ 3,765	¥ 4,358	$33,558
Due after one year	7,305	9,862	65,117
	¥11,070	¥14,220	$98,675

Future minimum lease fees receivable as lessor under operating leases at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Due within one year	¥ 292	¥ 370	$ 2,604
Due after one year	1,517	2,076	13,523
	¥1,809	¥ 2,446	$16,127

4. Financial Instruments

Policies for using financial instruments

The Group raises long-term funds mainly by bank loans and bonds based on its capital budget. For short-term capital needs, the Group raises funds mainly by bank loans and commercial paper in relation to its projected income and working capital. The Group invests temporary excess cash in highly liquid assets. The Group enters into derivative contracts to hedge the risks discussed below and does not enter into derivative transactions for trading or speculative purposes.

Financial instruments, exposure to risk, and policies and processes for managing risk

Notes and accounts receivable are exposed to the credit risks of customers. In order to manage these risks, the Group continually monitors whether due dates are properly met for each customer and evaluates the credit standing of major customers based on credit management policies. Accounts receivable denominated in foreign currencies are exposed to the risk of changes in foreign currency exchange rates. In order to hedge these risks, the Group utilizes forward currency exchange contracts.

Investments in securities consist principally of the listed shares of customers and are exposed to the risk of changes in quoted market prices. Quoted market prices of securities are regularly monitored and reported to the Board of Directors, and management evaluates the effectiveness of holding the securities taking into consideration the customer relationship.

Notes and accounts payable and borrowings are exposed to liquidity risk. The Group makes adequate financial plans to manage the risk.

Floating rate long-term borrowings are exposed to the additional risk of changes in interest rates. In order to manage the risk, the Group enters into interest rate swap agreements. Furthermore, accounts payable denominated in foreign currencies are exposed to the risk of changes in foreign currency exchange rates. The Group uses forward currency exchange contracts, non-deliverable forward and currency option contracts to manage the risk of currency fluctuations.

Derivative transactions comprise forward currency exchange contracts, non-deliverable forward, currency option contracts, currency swaps, interest rate swap agreements, as described above and commodity forward contracts to hedge the risk of movements in the market value of aluminum and copper. The Group is also exposed to credit risk in the event of nonperformance by the counterparties to its derivative instruments. However, the Group does not expect any counterparties to fail to meet their obligations because of the high credit rating of the counterparties. The Group has established policies and controls to manage both market and credit risk, including using only highly rated banks and trading companies as counterparties, hedging exposed positions, limiting transaction types and amounts and reporting to management.

Supplemental information on fair values

Fair values of financial instruments include values estimated by using reasonable methods of valuation as well as values based on quoted market prices. Estimates resulting from these methods are subjective in nature and involve uncertainties and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. In addition, the contracted amounts of the derivative transactions presented in Note 6 do not reflect the exposure to market risk or credit risk of the derivative instruments themselves.

Fair value of financial instruments

The carrying amounts of the financial instruments included in the consolidated balance sheets and their fair values at March 31, 2017 and 2016 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2017			2016			2017
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference	Difference
Cash and deposits	¥155,764	¥155,764	¥ —	¥155,021	¥155,021	¥ —	$ —
Notes and accounts receivable—trade	256,990	256,990	—	291,223	291,223	—	—
Securities:							
Available-for-sale securities (Negotiable certificates of deposit)	45,503	45,503	—	31,000	31,000	—	—
Investments in securities:							
Held-to-maturity debt securities	4	4	—	8	8	—	—
Securities of subsidiaries and affiliates	17,072	20,988	3,916	16,071	18,886	2,815	34,904
Available-for-sale securities	108,500	108,500	—	95,674	95,674	—	—
Notes and accounts payable—trade	(355,343)	(355,343)	—	(313,436)	(313,436)	—	—
Short-term borrowings and current portion of long-term debt	(191,984)	(192,413)	(429)	(221,937)	(222,765)	(828)	(3,826)
Bonds included in current portion of long-term debt	(30,000)	(30,357)	(357)	(35,000)	(35,429)	(429)	(3,182)
Bonds included in long-term debt	(146,000)	(147,865)	(1,865)	(176,000)	(178,536)	(2,536)	(16,621)
Long-term borrowings included in long-term debt	(428,944)	(437,684)	(8,740)	(356,493)	(358,239)	(1,746)	(77,903)
Derivative transactions:							
Hedge accounting not applied	32	32	—	165	165	—	—
Hedge accounting applied	(11,277)	(11,277)	—	(10,404)	(10,404)	—	—

Notes:

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.
3. Methods used to estimate the fair values are as follows:

Cash and deposits, notes and accounts receivable—trade and securities

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

Investments in securities

The fair values are estimated based mainly on quoted market prices.

Notes and accounts payable—trade, short-term borrowings and current portion of long-term debt

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

The fair values of the current portion of long-term debt are estimated based on the present values of future cash flows using the current borrowing rate for similar debt of comparable maturity.

Bonds

The fair values are estimated based mainly on quoted market prices.

Long-term borrowings

The fair values of long-term borrowings are estimated based on the present value of future cash flows using the current rate for borrowings for similar borrowings of comparable maturity.

Derivative transactions

See Note 6.

Financial instruments whose fair values are difficult to estimate at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Non-listed equity securities	¥40,987	¥44,161	$365,336

The aggregate annual maturities of financial assets at March 31, 2017 and 2016 were as follows:

Cash and deposits

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Due within 1 year	¥155,764	¥155,021	$1,388,393
Due after 1 year through 5 years	—	—	—
Due after 5 years through 10 years	—	—	—
Due after 10 years	—	—	—
	¥155,764	¥155,021	$1,388,393

Notes and accounts receivable—trade

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Due within 1 year	¥254,079	¥287,806	$2,264,722
Due after 1 year through 5 years	2,340	2,696	20,855
Due after 5 years through 10 years	571	721	5,089
Due after 10 years	—	—	—
	¥256,990	¥291,223	$2,290,666

Available-for-sale securities

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Due within 1 year	¥45,503	¥31,000	$405,587
Due after 1 year through 5 years	—	—	—
Due after 5 years through 10 years	—	—	—
Due after 10 years	—	—	—
	¥45,503	¥31,000	$405,587

Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Due within 1 year	¥4	¥4	$33
Due after 1 year through 5 years	0	4	0
Due after 5 years through 10 years	—	—	—
Due after 10 years	—	—	—
	¥4	¥8	$33

The aggregate annual maturities of bonds at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Due within 1 year	¥ 30,000	¥ 35,000	$ 267,404
Due after 1 year through 2 years	14,000	30,000	124,788
Due after 2 years through 3 years	22,000	14,000	196,096
Due after 3 years through 4 years	30,000	22,000	267,404
Due after 4 years through 5 years	20,000	30,000	178,269
Due after 5 years	60,000	80,000	534,806
	¥176,000	¥211,000	$1,568,767

The aggregate annual maturities of long-term borrowings at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Due within 1 year	¥105,976	¥103,024	$ 944,608
Due after 1 year through 2 years	65,597	103,127	584,697
Due after 2 years through 3 years	52,979	64,134	472,226
Due after 3 years through 4 years	54,915	42,392	489,483
Due after 4 years through 5 years	66,650	38,730	594,085
Due after 5 years	188,802	108,110	1,682,879
	¥534,919	¥459,517	$4,767,978

The aggregate annual maturities of other interest bearing debt at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Due within 1 year	¥22,236	¥20,728	$198,199
Due after 1 year through 2 years	726	637	6,467
Due after 2 years through 3 years	624	654	5,563
Due after 3 years through 4 years	521	554	4,641
Due after 4 years through 5 years	434	453	3,872
Due after 5 years	336	872	2,996
	¥24,877	¥23,898	$221,738

5. Securities

The following table summarizes held-to-maturity debt securities at March 31, 2017 and 2016.

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2017			2016			2017
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference	Difference
Held-to-maturity debt securities							
Securities with available carrying amount not exceeding fair value:							
Non-listed domestic bonds	¥4	¥4	¥—	¥8	¥8	¥—	$—

The following tables summarize available-for-sale securities at March 31, 2017 and 2016.

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2017			2016			2017
	Carrying amount	Acquisition cost	Difference	Carrying amount	Acquisition cost	Difference	Difference
Available-for-sale securities							
Securities with available carrying amount exceeding acquisition cost:							
Equity securities	¥ 64,850	¥30,555	¥34,295	¥ 54,142	¥ 29,380	¥24,762	$305,688
Other	—	—	—	—	—	—	—
	64,850	30,555	34,295	54,142	29,380	24,762	305,688
Securities with available carrying amount not exceeding acquisition cost:							
Other securities:							
Equity securities	43,650	56,311	(12,661)	41,532	57,489	(15,957)	(112,855)
Other	45,503	45,503	—	31,000	31,000	—	—
	89,153	101,814	(12,661)	72,532	88,489	(15,957)	(112,855)
	¥154,003	¥132,369	¥21,634	¥126,674	¥117,869	¥ 8,805	$192,833

Sales of available-for-sale securities for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Sales	¥946	¥2,658	$8,433
Gains on sales	501	1,685	4,466
Losses on sales	—	(1)	—

6. Derivative Transactions

Derivative transactions for which hedge accounting is not applied

Forward currency exchange contracts outstanding at March 31, 2017 and 2016 were as follows:

	Millions of yen								Thousands of U.S. dollars (Note 1)
	2017				2016				2017
	Contracted amount				Contracted amount				
		Over one year	Fair value	Recognized gain (loss)		Over one year	Fair value	Recognized gain (loss)	Fair value
Foreign currency exchange contracts									
To sell foreign currencies:									
U.S. dollars	¥6,450	¥ —	¥ (72)	¥ (72)	¥3,650	¥ —	¥ 51	¥ 51	$ (643)
Others	4,946	—	368	368	7,944		7,780 195	195	3,275
To buy foreign currencies:									
U.S. dollars	4,126	—	(62)	(62)	815	—	(4)	(4)	(553)
Others	5,303	207	(177)	(177)	3,612		366 (145)	(145)	(1,584)
Non-deliverable forward									
To buy foreign currencies:									
Korean won	¥ 457	¥ —	¥ 47	¥ 47	¥ —	¥ —	¥ —	¥ —	$ 415
Foreign currency options									
To sell foreign currency options:									
Put									
U.S. dollars	¥ 123	¥ —	¥ 0	¥ 0	¥ —	¥ —	¥ —	¥ —	$ 0
	[3]				—				
Call									
U.S. dollars	643	—	11	11	659	—	9	9	101
	[17]				[14]				
To buy foreign currency options:									
Put									
U.S. dollars	643	—	(3)	(3)	659	—	8	8	(26)
	[17]				[14]				
Call									
U.S. dollars	123	—	(2)	(2)	—	—	—	—	(14)
	[3]				—				
Currency swaps									
Receiving Chinese yuan									
Paying Japanese yen	¥ —	¥ —	¥ —	¥ —	¥ 661	¥ —	¥ 57	¥ 57	$ —
Receiving Thailand baht									
Paying Japanese yen	1,800	—	(4)	(4)	—	—	—	—	(37)
Receiving Thailand baht									
Paying U.S. dollars	559	373	(82)	(82)	—	—	—	—	(733)
				¥ 24				¥171	

Notes:

1. Foreign currency exchange contracts and non-deliverable forward
   The fair values are estimated by multiplying the contracted foreign currency amount by the forward rate.
2. Foreign currency options and currency swaps
   The fair values are estimated by obtaining quotes from counterparty banks.
3. Option premiums are presented below the contracted amount with brackets [ ].
   Foreign currency options are zero cost options, which means that option premiums are not paid or received.

Commodity forward contracts outstanding at March 31, 2017 and 2016 were as follows:

	Millions of yen								Thousands of U.S. dollars (Note 1)
	2017				2016				2017
	Contracted amount				Contracted amount				
		Over one year	Fair value	Recognized gain (loss)		Over one year	Fair value	Recognized gain (loss)	Fair value
Commodity forward contracts									
To sell commodities	¥ —	¥—	¥—	¥—	¥ 325	¥—	¥ 2	¥ 2	$—
To buy commodities	215	—	9	9	517	—	(8)	(8)	80
				9				¥(6)	80

Note: The fair values are estimated by multiplying the contracted volume by the commodity future price.

Derivative transactions for which hedge accounting is applied

Forward currency exchange contracts outstanding at March 31, 2017 and 2016 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2017			2016			2017
	Contracted amount			Contracted amount			
		Over one year	Fair value		Over one year	Fair value	Fair value
Hedges for which the "deferred hedge" method is applied							
Foreign currency exchange contracts							
To sell foreign currencies:							
U.S. dollars	¥26,294	¥7,693	¥(302)	¥24,900	¥5,326	¥1,056	$(2,687)
Others	7,453	3,277	45	5,253	2,176	123	402
To buy foreign currencies:							
U.S. dollars	2,639	352	122	3,153	616	17	1,091
Others	5,316	661	(11)	3,482	464	(112)	(102)
Non-deliverable forward							
To buy foreign currencies:							
Korean won	¥ 4	¥ —	¥ 0	¥ —	¥ —	¥ —	$ 4
Foreign currency options							
To sell foreign currency options:							
Put							
U.S. dollars	¥ 4,539	¥ —	¥ (7)	¥ 7,117	¥ —	¥ (121)	$ (60)
	[102]			[125]			
Call							
U.S. dollars	228	—	0	260	—	0	0
	[1]			[5]			
To buy foreign currency options:							
Put							
U.S. dollars	228	—	(0)	260	—	(0)	(2)
	[1]			[5]			
Call							
U.S. dollars	4,539	—	(48)	7,117	—	(28)	(427)
	[102]			[125]			

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2017			2016			2017
	Contracted amount			Contracted amount			
		Over one year	Fair value		Over one year	Fair value	Fair value
Hedges for which the "assigning" method is applied							
Foreign currency exchange contracts							
To sell foreign currencies:							
U.S. dollars	¥31,142	¥1,063	¥ —	¥37,840	¥ 350	¥ —	$ —
Others	12,067	86	—	12,039	576	—	—
To buy foreign currencies:							
U.S. dollars	5,221	1,249	—	9,914	3,339	—	—
Others	3,820	16	—	13,240	2,888	—	—

Notes:
1. Foreign currency exchange contracts and non-deliverable forward
   The fair values are estimated by multiplying the contracted foreign currency amount by the forward rate.
2. Foreign currency options
   The fair values are estimated by obtaining quotes from counterparty banks.
3. Hedges for which the "assigning" method is applied
   For certain accounts receivable and accounts payable denominated in foreign currencies for which foreign currency exchange contracts are used to hedge the foreign currency fluctuations, the fair values are included in the fair values of the hedged accounts receivable and accounts payable.
4. Option premiums are presented below the contracted amount with brackets [ ]. Foreign currency options are zero cost options, which means that option premiums are not paid or received.

Interest rate swap agreements outstanding at March 31, 2017 and 2016 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2017			2016			2017
	Contracted amount			Contracted amount			
		Over one year	Fair value		Over one year	Fair value	Fair value
Hedges for which the "deferred hedge" method is applied							
Interest rate swap agreements							
To receive floating and pay fixed rates	¥258,190	¥251,190	¥(12,619)	¥223,190	¥223,190	¥(11,079)	$(112,483)
Hedges for which the "exceptional" method is applied							
Interest rate swap agreements							
To receive floating and pay fixed rates	¥ 91,533	¥ 80,557	¥ —	¥127,551	¥ 97,192	¥ —	$ —

Notes:
1. The fair values are estimated by obtaining quotes from counterparty banks.
2. Hedges for which the "exceptional" method is applied
   For certain long-term debt for which interest rate swap agreements are used to hedge the variable risk to interest, the fair values are included in the fair values of the long-term debt.

Commodity forward contracts outstanding at March 31, 2017 and 2016 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2017			2016			2017
	Contracted amount			Contracted amount			
		Over one year	Fair value		Over one year	Fair value	Fair value
Hedges for which the "deferred hedge" method is applied							
Commodity forward contracts							
To sell commodities	¥ 2,877	¥—	¥ (139)	¥ 2,285	¥—	¥ 69	$ (1,243)
To buy commodities	11,932	—	1,682	36,541	—	(328)	14,988

Note: The fair values are estimated by multiplying the contracted volume by the commodity future price.

7. Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Bank loans (average rate: 2.76% in 2017 and 3.15% in 2016)	¥86,008	¥118,914	$766,632

Long-term debt at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
0.30% to 2.50% yen bonds, due 2017 through 2025	¥176,000	¥211,000	$1,568,767
Loans, principally from banks and insurance companies, due 2017 through 2031	534,919	459,517	4,767,978
	710,919	670,517	6,336,745
Less current portion	135,975	138,024	1,212,011
	¥574,944	¥532,493	$5,124,734

The aggregate annual maturities of long-term debt at March 31, 2017 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2017	2017
Due within 1 year	¥135,975	$1,212,011
Due after 1 year through 2 years	79,597	709,485
Due after 2 years through 3 years	74,979	668,322
Due after 3 years through 4 years	84,915	756,887
Due after 4 years through 5 years	86,650	772,354
Due after 5 years	248,803	2,217,686
	¥710,919	$6,336,745

At March 31, 2017 and 2016, assets pledged as collateral for short-term borrowings and long-term debt were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Assets pledged as collateral:			
Cash and deposits	¥ 19,593	¥ 16,644	$174,640
Property, plant and equipment, net of accumulated depreciation	61,979	67,067	552,445
Other assets	20,482	16,886	182,568
	¥102,054	¥100,597	$909,653
Secured short-term borrowings and long-term borrowings:	9,285	15,789	82,757
	¥ 9,285	¥ 15,789	$ 82,757

Notes:

1. For the year ended March 31, 2017, of the assets pledged as collateral which have been provided as revolving mortgages related to bank transactions, some had no corresponding obligations.
   The corresponding asset balance was ¥89,131 million (capped at ¥28,000 million) and ¥2,184 million (capped at ¥76,280 million) for the year ended March 31, 2016.
2. In addition to the above, borrowings of other subsidiaries and affiliates are collateralized by assets pledged as collateral.
   The corresponding loan balance was ¥970 million ($8,642 thousand) for the year ended March 31, 2017, and ¥1,080 million ($9,587 thousand) for the year ended March 31, 2016.

8. Provision for Loss on Construction Contracts

Inventories for construction contracts with anticipated losses and provision for loss on construction contracts were not offset. The inventories for the construction contracts for which the provision for loss on construction contracts were provided were ¥3,195 million ($28,476 thousand) for the year ended March 31, 2017 and ¥3,608 million for the year ended March 31, 2016. These amounts were included in “Work-in-process.”

9. Land Revaluation

In the years ended March 31, 2002 and 2001, land used for operations was revaluated by certain consolidated subsidiaries in accordance with the Land Revaluation Law. The revaluation amount, net of related taxes, is shown as accumulated other comprehensive income in net assets.

The excess of the carrying amounts of the revalued land over its fair values at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
Revaluation date	2017	2016	2017
March 31, 2001	¥ 1,026	¥ 541	$ 9,149
March 31, 2002	(4,680)	(4,631)	(41,723)
	¥(3,654)	¥(4,090)	$(32,573)

10. Commitment Line

The unexercised portion of facilities based on commitment line contracts at March 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Total commitment line available	¥130,978	¥132,026	$1,167,464
Less amount utilized	6,704	7,344	59,756
	¥124,274	¥124,682	$1,107,708

11. Contingent Liabilities

At March 31, 2017 and 2016, the Group was contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Trade notes discounted	¥ 73	¥ 64	$ 649
Trade notes endorsed	1,236	603	11,016
Guarantees of loans:			
Related parties	19,546	21,765	174,219
Others	124	4,238	1,108
	¥20,979	¥26,670	$186,992

Guarantees of loans include contingent guarantees and letters of awareness of ¥489 million ($4,359 thousand) for the year ended March 31, 2017 and ¥17 million for the year ended March 31, 2016. And, of which, ¥503 million is covered by reassurances from other companies.

Chengdu Kobelco Construction Machinery Group 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 up construction machinery, pledged as collateral at the amounts of the balance on bank loans or future minimum lease payments. Chengdu Kobelco Construction Machinery Group Co., Ltd. pledges reassurance for this guarantee. The balances of the reassurance were ¥19,715 million ($175,731 thousand) for the year ended March 31, 2017 and ¥46,830 million for the year ended March 31, 2016.

12. Net Assets

Net assets comprise stockholders' equity, accumulated other comprehensive income and non-controlling interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

13. Cost of Sales

Loss on the write-down of inventories included in the cost of sales was ¥6,869 million ($61,224 thousand) for the year ended March 31, 2017 and ¥3,877 million for the year ended March 31, 2016.

Provision for loss on construction contracts included in the cost of sales was ¥5,320 million ($47,416 thousand) for the year ended March 31, 2017 and ¥5,286 million for the year ended March 31, 2016.

14. Research and Development Expenses

Research and development expenses included in cost of sales and selling, general and administrative expenses were ¥30,102 million ($268,315 thousand) for the year ended March 31, 2017 and ¥29,843 million for the year ended March 31, 2016.

15. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2017 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Freight	¥ 47,230	¥ 46,516	$ 420,978
Employees' compensation	39,582	40,957	352,816
Research and development expenses	13,448	13,636	119,868
Welfare and legal welfare expenses	10,317	10,603	91,961
Travel expenses	7,588	8,594	67,639
Rent expenses	7,584	7,552	67,603
Commission fees	6,420	6,794	57,228
Provision for bonuses	4,417	4,859	39,367
Depreciation	4,396	4,507	39,186
Directors' salaries	3,838	4,141	34,209
Others	75,717	57,817	674,895
	¥220,537	¥205,976	$1,965,750

16. Reversal of allowance for doubtful accounts

The ¥8,142 million of reversal of allowance for doubtful accounts posted as extraordinary income provided in the previous fiscal year pertains to borrowings by Sichuan Chengdu Chenggong Construction Machinery Co., Ltd., an affiliated company that operates the wheel loader business, with improved outlook for recoverability amidst the ongoing restructuring of the construction machinery business in China.

17. Loss on Business of Subsidiaries and Associates

The loss on business of subsidiaries and associates of ¥37,363 million ($331,589 thousand) was booked mainly as loss on the write-down of investment securities, provision of loans, and provision of guarantee obligations with regard to the Company's affiliate, operating the wheel loader business Sichuan Chengdu Chenggong Construction Machinery Co., Ltd., which has been affected by the rapid worsening of the business environment in the construction machinery sector in China. This loss comprises ¥14,121 million for provision of allowance for doubtful accounts, ¥10,349 million provision for loss on guarantees, ¥9,752 million for write-down of investment securities, ¥2,009 million for impairment loss of fixed assets and ¥1,132 million for other items.

Impairment loss of fixed assets related to the loss mentioned above is as follows.

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2016	2016
Assets to be disposed:		
Buildings and structures, etc. (Sichuan Province, China: 1 property in total)	¥2,009	$17,910

The Company and its consolidated subsidiaries group their fixed assets based, in principle, on the unit of business establishments and recognized impairment loss for the assets whose fair value had diminished significantly compared to the book value.

With regard to the above, an impairment loss of ¥2,009 million has been recorded on a book value reduction to the recoverable amount, at a consolidated subsidiary in the crane business which has suspended production activities amid a worsening business environment and plans to dispose or sell the fixed assets that it holds. These comprise buildings and structures of ¥1,360 million, machinery and equipment of ¥521 million and ¥128 million in intangible assets.

Please note that with regard to the recoverable amounts from assets to be disposed, calculations are based on net sales value. In cases where sale or conversion is difficult, residual value is used.

18. Income Taxes

Significant components of the Group's deferred income tax assets and liabilities at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Deferred income tax assets:			
Net defined benefit liability	¥ 20,861	¥ 22,789	$ 185,947
Tax loss carryforwards	17,788	14,876	158,552
Allowance for doubtful accounts	17,738	10,040	158,095
Unrealized profit	17,440	17,262	155,453
Impairment loss	10,619	10,626	94,654
Accrued bonuses to employees	6,275	6,497	55,931
Loss on write-down of inventories	5,401	4,439	48,145
Unrealized losses on securities	4,017	5,026	35,807
Other	48,910	43,176	435,953
Total deferred income tax assets	149,049	134,731	1,328,537
Valuation allowance	(70,384)	(55,655)	(627,361)
Deferred income tax assets	78,665	79,076	701,176
Deferred income tax liabilities:			
Unrealized gains on securities	9,793	6,818	87,284
Gain on return of assets from retirement benefit trust	8,030	8,030	71,572
Land revaluation	3,251	3,251	28,981
Special tax purpose reserve	2,053	2,137	18,301
Other	21,795	20,214	194,262
Total deferred income tax liabilities	44,922	40,450	400,400
Net deferred income tax assets	¥ 33,743	¥ 38,626	$ 300,776

The differences between the statutory tax rate and the effective tax rate for financial statement purposes for the years ended March 31, 2017 and 2016 are not disclosed because a loss before income taxes was recorded.

Since amendments to the Japanese tax regulations were enacted into law on November 18, 2016 and the time to raise the consumption tax rate to 10% was postponed from April 1, 2017 to October 1, 2019, the breakdown of the statutory tax rate utilized for the measurement of deferred tax assets and liabilities in the current fiscal year changed from the previous year.

As a result, the amounts of deferred income tax assets (net of deferred income tax liabilities) decreased by ¥449 million ($4,006 thousand) while income taxes - deferred increased by ¥449 million ($4,006 thousand).

19. Consolidated Statements of Comprehensive Income

Other comprehensive income for the years ended March 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Unrealized gains (losses) on securities:			
Unrealized gains (losses) arising during the period	¥ 12,600	¥(26,048)	$ 112,306
Less: reclassification adjustment included in net income (loss)	151	(559)	1,349
	12,751	(26,607)	113,655
Tax benefit (expense)	(3,988)	8,511	(35,545)
	8,763	(18,096)	78,110
Unrealized losses on hedging derivatives:			
Unrealized losses arising during the period	269	(11,767)	2,394
Less: reclassification adjustment included in net income (loss)	(1,056)	4,011	(9,405)
Acquisition adjustment	(206)	628	(1,840)
	(993)	(7,128)	(8,851)
Tax benefit (expense)	207	1,269	1,848
	(786)	(5,859)	(7,003)
Land revaluation differences:			
Less: reclassification adjustment included in net income (loss)	—	—	—
Tax benefit (expense)	—	176	—
	—	176	—
Foreign currency translation adjustments:			
Translation adjustments arising during the period	(6,783)	(12,245)	(60,457)
Less: reclassification adjustment included in net income (loss)	(110)	137	(982)
	(6,893)	(12,108)	(61,439)
Tax benefit (expense)	—	—	—
	(6,893)	(12,108)	(61,439)
Remeasurements of defined benefit plans:			
Unrealized gains (losses) arising during the period	¥ 3,817	¥(23,324)	$ 34,021
Less: reclassification adjustment included in net income (loss)	2,220	(486)	19,792
	6,037	(23,810)	53,813
Tax benefit (expense)	(1,561)	6,250	(13,920)
	4,476	(17,560)	39,893
Share of other comprehensive income related to equity method companies:			
Unrealized gains (losses) arising during the period	(676)	(1,452)	(6,020)
Less: reclassification adjustment included in net income (loss)	113	28	1,003
	(563)	(1,424)	(5,017)
Other comprehensive income	¥ 4,997	¥(54,871)	$ 44,544

20. Consolidated Statements of Changes in Net Assets

Changes in the number of shares issued and outstanding during the years ended March 31, 2017 and 2016 were as follows:

	Number of shares
Common stock outstanding	
Balance at March 31, 2015	3,643,642,100
(No increase)	—
(No decrease)	—
Balance at March 31, 2016	3,643,642,100
(No increase)	—
Decrease	(3,279,277,890)
Balance at March 31, 2017	364,364,210

Changes in the number of treasury stock outstanding during the years ended at March 31, 2017 and 2016 were as follows:

	Number of shares
Treasury stock outstanding	
Balance at March 31, 2015	10,082,049
Increase due to purchase of odd-lot stock	122,015
Decrease due to sale of odd-lot stock	(8,753)
Decrease due to stock exchange	(10,416,154)
Increase due to stock exchange	9,000,000
Decrease due to other reasons, net	0
Balance at March 31, 2016	8,779,337
Increase due to purchase of odd-lot stock	40,017
Increase due to BBT	12,228,000
Decrease due to sale of odd-lot stock	(6,625)
Decrease due to consolidation of shares	(18,922,603)
Decrease due to other reasons, net	(9,712)
Balance at March 31, 2017	2,108,414

Amount of dividend payments during the year ended March 31, 2017 was as follows:

		Millions of yen / Thousands of U.S. dollars (Note 1)	Yen / U.S. dollars (Note 1)		
Decision	Kind of stock	Total payments	Cash dividends per share	Record date	Operative date
At the Board of Directors' meeting held on May 15, 2016	Common stock	—	—	March 31, 2016	June 4, 2016
At the Board of Directors' meeting held on October 30, 2016	Common stock	—	—	September 30, 2016	December 1, 2016

There were no dividends for which the record date belongs to the year ended March 31, 2016. The operative date is in the year ended March 31, 2017.

21. Consolidated Statements of Cash Flows

The reconciliation of cash and cash equivalents in the consolidated statements of cash flows and the consolidated balance sheets at March 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Cash and deposits in the consolidated balance sheets	¥155,764	¥155,021	$1,388,393
Time deposits due over three months	(849)	(1,684)	(7,566)
Certificate of deposits included in the securities account etc.,	45,503	31,000	405,587
Cash and cash equivalents in the consolidated statements of cash flows	¥200,418	¥184,337	$1,786,414

22. Related Party Transactions

Transactions of the Company with related parties for the year ended March 31, 2017 consisted of the following:

					Millions of yen / Thousands of U.S. dollars (Note 1)			
					Transactions		Resulting accounting balance	
Category	Name	Paid-in capital	Content of business	Percentage of ownership	Description of transactions	Amount	Account	Amount
Affiliate	Shinsho Corporation	¥5,650 million	Trades iron and steel, nonferrous metals, machinery	13.33% directly and 0.19% indirectly (21.55%)	Sales of our products	¥184,678 $1,646,117	Accounts receivable	¥12,725 $113,426
					Purchases of raw materials and materials for equipment	¥259,479 $2,312,856	Accounts payable	¥16,864 $150,318
Affiliate	Kansai Coke and Chemicals Co., Ltd.	¥6,000 million	Produces and sells industrial chemical products such as coke	24.00% directly	Sales of coal	¥59,721 $532,318	Accounts receivable	¥26,916 $239,914
					Purchases of coke	¥67,759 $603,970	Accounts payable	¥23,118 $206,064

Transactions of the Company with related parties for the year ended March 31, 2016 consisted of the following:

					Millions of yen / Thousands of U.S. dollars (Note 1)			
					Transactions		Resulting accounting balance	
Category	Name	Paid-in capital	Content of business	Percentage of ownership	Description of transactions	Amount	Account	Amount
Affiliate	Shinsho Corporation	¥5,650 million	Trades iron and steel, nonferrous metals, machinery	13.33% directly and 0.19% indirectly (21.55%)	Sales of our products	¥194,593 $1,726,952	Accounts receivable	¥13,817 $122,617
					Purchases of raw materials and materials for equipment	¥269,449 $2,391,274	Accounts payable	¥17,369 $154,141
Affiliate	Kansai Coke and Chemicals Co., Ltd.	¥6,000 million	Produces and sells industrial chemical products such as coke	24.00% directly	Sales of coal	¥52,132 $462,654	Accounts receivable	¥6,496 $57,648
					Purchases of coke	¥59,979 $532,293	Accounts payable	¥12,349 $109,593

Notes:
1. The terms and conditions applicable to the above transactions were determined on an arm's length basis and with reference to normal market prices.
2. Consumption taxes are not included in the amount of the transactions, but are included in the amount of the resulting account balances.
3. The figures contained in parentheses represent the percentage of ownership which the Company retains related to securities held in employees' retirement benefit trusts.

Transactions of the Company's consolidated subsidiaries with related parties for the year ended March 31, 2017 consisted of the following:

Category	Name	Paid-in capital	Content of business	Percentage of ownership	Millions of yen / Thousands of U.S. dollars (Note 1)			
					Transactions		Resulting accounting balance	
					Description of transactions	Amount	Account	Amount
Affiliate	Sichuan Chengdu Chenggong Construction Machinery Co., Ltd.	(CNY) 140 million	Produces and sells construction machinery	48.35% indirectly	Guarantees of bank loans	¥1,532 $13,657	—	—
					Loans	¥5,961 $53,130	Investments and other assets: Other	¥18,420 $164,190

Notes:
1. The amount of guarantees (included in current liabilities, other) to bank loans of Sichuan Chengdu Chenggong Construction Machinery Co., Ltd., was decreased by ¥5,961 million because of changing to loans from guarantees and so on. As a result, the amount of ¥1,532 million was accounted for as provision for loss on guarantees to bank loans of Sichuan Chengdu Chenggong Construction Machinery Co., Ltd., for the year ended March 31, 2017.
2. The amount of loans to Sichuan Chengdu Chenggong Construction Machinery Co., Ltd., was increased by ¥5,961 million because of changing to loans from guarantees. On the other hand, the amount of reversal of allowance for doubtful accounts for the year ended March 31, 2017 was ¥8,142 million because of improving outlook for recoverability. As a result, the amount of ¥11,523 million was accounted for as allowance for doubtful accounts arising from the collection of loans from Sichuan Chengdu Chenggong Construction Machinery Co., Ltd., for the year ended March 31, 2017.

Transactions of the Company's consolidated subsidiaries with related parties for of the year ended March 31, 2016 consisted of the following:

Category	Name	Paid-in capital	Content of business	Percentage of ownership	Millions of yen / Thousands of U.S. dollars (Note 1)			
					Transactions		Resulting accounting balance	
					Description of transactions	Amount	Account	Amount
Affiliate	Sichuan Chengdu Chenggong Construction Machinery Co., Ltd.	(CNY) 140 million	Produces and sells construction machinery	48.35% indirectly	Guarantees of bank loans	¥11,913 $105,727	—	—
					Loans	¥10,496 $93,150	Investments and other assets: Other	¥13,510 $119,897

Note: The amount of transactions is the balance of guarantees at the end of the year.

23. Employees' Severance and Retirement Benefits

Summary of adopted retirement benefits

The Company and its domestic consolidated subsidiaries operate two defined benefit retirement plans which consist of unfunded lump-sum payment plans and funded non-contributory pension plans. Some unfunded lump-sum payment plans became funded as a result of contributions of securities to retirement benefit trusts. Certain domestic consolidated subsidiaries operate contribution pension plans.

Net defined benefit asset or liability in the consolidated balance sheet for the years ended March 31, 2017 and 2016 consisted of the following:

Defined benefit retirement plans

(1) Changes in projected benefit obligation

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Balance at beginning of year	¥161,379	¥150,604	$1,438,451
Service costs / benefits earned during the year	10,220	8,765	91,098
Interest cost on projected benefit obligation	266	1,744	2,374
Actuarial differences arising during the period	2,373	17,051	21,150
Unrecognized prior service cost arising during the period	—	177	—
Amount of payment of retirement benefits	(18,083)	(16,722)	(161,186)
Other	204	(240)	1,814
Balance at end of year	¥156,359	¥161,379	$1,393,701

(2) Changes in plan assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Balance at beginning of year	¥100,338	¥111,068	$894,362
Expected return on plan assets	597	620	5,318
Actuarial differences arising during the period	6,350	(6,379)	56,603
Amount of donation from employer	1,718	1,694	15,312
Amount of payment of retirement benefits	(6,442)	(6,665)	(57,418)
Other	(6)	0	(54)
Balance at end of year	¥102,555	¥100,338	$914,123

(3) Reconciliation from projected benefit obligations and plan assets to net defined benefit liability and asset

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Funded projected benefit obligation	¥125,310	¥131,572	$1,116,948
Plan assets	(102,555)	(100,338)	(914,123)
	22,755	31,234	202,825
Unfunded projected benefit obligation	31,049	29,807	276,753
Net of defined benefit liability and asset	53,804	61,041	479,578
Net defined benefit liability	70,159	77,166	625,361
Net defined benefit asset	(16,355)	(16,125)	(145,781)
Net of defined benefit liability and asset	¥ 53,804	¥ 61,041	$ 479,580

(4) Breakdown of severance and retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Service costs / benefits earned during the year	¥10,220	¥8,765	$ 91,098
Interest cost on projected benefit obligation	266	1,744	2,374
Expected return on plan assets	(597)	(620)	(5,318)
Amortization of actuarial differences	1,389	(1,315)	12,379
Amortization of prior service cost	841	999	7,492
Other	57	68	502
Severance and retirement benefit expenses on defined benefit retirement plans	¥12,176	¥9,641	$108,527

(5) Breakdown of remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Prior service cost	¥ 652	¥ 825	$ 5,815
Actuarial differences	5,385	(24,634)	47,998
Total	¥6,037	¥(23,809)	$53,813

(6) Accumulated breakdown of remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Unrecognized prior service cost	¥ 8,090	¥ 8,743	$ 72,113
Unrecognized actuarial differences	21,163	26,547	188,632
Total	¥29,253	¥35,290	$260,745

(7) Plan assets

(a) Breakdown of plan assets

	2017	2016
Stock	39%	32%
General account of insurance company	37	41
Bonds	22	24
Other	2	3
Total	100%	100%

(b) The method to determine long-term expected rate of return

Current and target asset allocations and historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(8) Actuarial assumptions

The principal actuarial assumptions at March 31, 2017 and 2016 were as follows:

	2017	2016
Discount rates	mainly 0.0%	mainly 0.0%
Long-term expected rate of return	mainly 0.8%	mainly 0.8%

24. Segment Information

(1) Overview of reportable segments

The reportable segments of the Group are defined as components for which separate financial information is available and reviewed regularly by the Board of Directors to decide how to allocate management resources and to evaluate operating performance.

The Company has business units based on products and services (a part of which is made by subsidiaries) and every business unit and subsidiary plans domestic and foreign global strategies to operate their business.

The Group consists of segments of business units and subsidiaries based on products and services. In the fiscal year ended March 31, 2016, the reportable segments of the Group consisted of the five business units of the Company and its subsidiaries (Iron & Steel Business, Welding Business, Aluminum & Copper Business, Machinery Business and Engineering Business) and three business units of subsidiaries (Kobelco Eco-Solutions, Kobelco Construction Machinery and Kobelco Cranes).

From the fiscal year ended March 31, 2017, the Company changed its reportable segments. The "Engineering Business" and "Kobelco Eco-Solutions" segments were integrated into a single "Engineering" segment, and the "Kobelco Construction Machinery" and "Kobelco Cranes" segments were integrated into a single "Construction Machinery" segment.

Also, the Company newly established a business segment called "Electric Power."

The Company merged the electric power supply business that the "Iron & Steel Business" segment operates at Kobe Works and the two new electric power generation projects at Moka, Tochigi Prefecture and Kobe, Hyogo Prefecture under the head office into the "Electric Power" segment.

Lastly, the Company changed the name of the business segments of "Iron & Steel Business," "Welding Business," "Aluminum & Copper Business" and "Machinery Business" to "Iron & Steel," "Welding," "Aluminum & Copper" and "Machinery."

Due to these changes, in fiscal year ended March 31, 2017, the reportable segments have become "Iron & Steel," "Welding," "Aluminum & Copper," "Machinery," "Engineering," "Construction Machinery" and "Electric Power."

The information about sales, income (loss), assets and other items of reportable segments of the Company and its consolidated subsidiaries for the fiscal year ended March 31, 2016 are presented under the new segment classification.

The main products and services of the reportable segments are as follows:

Iron & Steel: steel wire rods and bars, steel plates, steel sheets, pig iron, steel castings and forgings, titanium, steel powder

Welding: welding materials, welding systems, high functional materials and related services

Aluminum & Copper: aluminum sheets and plates, aluminum extrusions and fabricated products, aluminum castings and forgings, copper strips and copper tubes

Machinery: tire and rubber machinery, plastic processing machinery, advanced technology equipment, metalworking machinery, nonstandard compressors, standard compressors, chemical and energy equipment, nuclear power equipment and related services

Engineering: ironmaking processes, iron ore-pelletizing system, nuclear power products, chemical weapons destruction services, water treatment, cooling towers, waste treatment and recycling, steel structures and sabo dams, urban transit systems, upgrading of low-rank coal, process equipment and environmental analysis

Construction Machinery: construction equipment, construction recycling machinery, metal recycling machinery, resource recycling machinery and forestry machinery, crawler cranes, wheel cranes, specialized base machines for civil engineering and foundation work, and work vessels
Electric Power: power supply
Other Businesses: Shinko Real Estate (real estate development, construction, sales and other), Kobelco Research Institute (material analysis and testing, structural assessment, manufacture and sale of sputtering targets and other) and other businesses

(2) Methods to calculate sales, income (loss), assets and other items of reportable segments

The accounting policies of the reportable segments are the same as those described in Note 2, "Summary of Significant Accounting Policies." Profit (loss) of reportable segments is based on ordinary income (loss). Intersegment sales prices are based on prices applicable to transactions with third parties.

(3) Information about sales, income (loss), assets and other items of reportable segments

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2017	2016	2017
Sales to outside customers:	Iron & Steel	¥ 594,624	¥ 636,797	$ 5,300,144
	Welding	81,681	91,436	728,063
	Aluminum & Copper	322,454	344,624	2,874,173
	Machinery	139,625	148,252	1,244,544
	Engineering	117,441	128,566	1,046,806
	Construction Machinery	310,358	336,163	2,766,363
	Electric Power	70,605	76,746	629,338
	Other Businesses	56,637	57,679	504,825
	Total sales to outside customers	¥1,693,425	¥1,820,263	$15,094,256
Intersegment sales:	Iron & Steel	¥ 25,989	29,006	231,648
	Welding	593	817	5,287
	Aluminum & Copper	874	839	7,786
	Machinery	11,085	10,751	98,806
	Engineering	3,741	3,146	33,349
	Construction Machinery	137	63	1,219
	Electric Power	—	—	—
	Other Businesses	18,238	16,850	162,570
	Total intersegment sales	¥ 60,657	¥ 61,472	$ 540,665
Total sales:	Iron & Steel	¥ 620,613	¥ 665,803	$ 5,531,792
	Welding	82,274	92,253	733,350
	Aluminum & Copper	323,328	345,463	2,881,959
	Machinery	150,710	159,003	1,343,350
	Engineering	121,182	131,712	1,080,155
	Construction Machinery	310,495	336,226	2,767,582
	Electric Power	70,605	76,746	629,338
	Other Businesses	74,875	74,529	667,395
	Total segment sales	1,754,082	1,881,735	15,634,921
	Adjustment	2,440	2,543	21,746
	Elimination	(60,658)	(61,472)	(540,665)
	Consolidated net sales	¥1,695,864	¥1,822,806	$15,116,002
Segment income (loss):	Iron & Steel	¥ (29,557)	¥ (14,985)	$ (263,458)
	Welding	6,855	8,129	61,101
	Aluminum & Copper	12,020	15,121	107,144
	Machinery	5,897	6,764	52,559
	Engineering	2,810	4,697	25,045
	Construction Machinery	(31,399)	(11,930)	(279,875)
	Electric Power	13,082	17,415	116,609
	Other Businesses	7,610	7,357	67,838
	Total segment income (loss)	(12,682)	32,568	(113,037)
	Adjustment	(6,422)	(3,640)	(57,242)
	Consolidated ordinary income	¥ (19,104)	¥ 28,928	$ (170,279)

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2017	2016	2017
Assets:	Iron & Steel	¥ 936,390	¥ 840,812	$ 8,346,466
	Welding	72,907	73,765	649,852
	Aluminum & Copper	258,593	246,009	2,304,959
	Machinery	148,247	158,854	1,321,392
	Engineering	104,821	113,408	934,315
	Construction Machinery	364,625	436,011	3,250,069
	Electric Power	101,739	102,405	906,848
	Other Businesses	157,702	155,554	1,405,668
	Total segment assets	2,145,024	2,126,818	19,119,569
	Adjustment	165,412	134,317	1,474,386
	Total	¥2,310,436	¥2,261,135	$20,593,955
Depreciation:	Iron & Steel	¥ 50,705	¥ 47,458	$ 451,952
	Welding	2,223	2,317	19,815
	Aluminum & Copper	12,400	11,564	110,529
	Machinery	4,300	4,355	38,330
	Engineering	2,002	2,351	17,844
	Construction Machinery	12,457	14,087	111,032
	Electric Power	7,797	7,837	69,496
	Other Businesses	3,096	3,501	27,603
	Total segment depreciation	94,980	93,470	846,601
	Adjustment	1,301	1,342	11,599
	Total	¥ 96,281	¥ 94,812	$ 858,200
Amortization of goodwill:	Iron & Steel	¥ —	¥ —	$ —
	Welding	—	—	—
	Aluminum & Copper	—	—	—
	Machinery	—	—	—
	Engineering	—	—	—
	Construction Machinery	—	—	—
	Electric Power	—	—	—
	Other Businesses	—	—	—
	Total segment amortization of goodwill	—	—	—
	Adjustment	—	—	—
	Total	¥ —	¥ —	$ —
Interest income:	Iron & Steel	¥ 62	¥ 82	$ 551
	Welding	253	227	2,257
	Aluminum & Copper	106	183	948
	Machinery	224	167	1,998
	Engineering	327	339	2,912
	Construction Machinery	2,062	4,016	18,379
	Electric Power	0	293	2
	Other Businesses	22	29	193
	Total segment interest income	3,056	5,336	27,240
	Adjustment	(617)	(698)	(5,499)
	Total	¥ 2,439	¥ 4,638	$ 21,741
Interest expense:	Iron & Steel	¥ 3,450	¥ 5,217	$ 30,754
	Welding	13	6	115
	Aluminum & Copper	1,346	1,456	11,994
	Machinery	69	63	618
	Engineering	78	77	699
	Construction Machinery	5,686	7,098	50,683
	Electric Power	537	655	4,783
	Other Businesses	336	412	2,989
	Total segment interest expense	11,515	14,984	102,635
	Adjustment	1,887	193	16,822
	Total	¥ 13,402	¥ 15,177	$ 119,457

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2017	2016	2017
Equity in income (loss) of equity method companies:	Iron & Steel	¥ 1,794	¥ (6,999)	$ 15,986
	Welding	34	57	303
	Aluminum & Copper	305	10	2,720
	Machinery	(1,399)	(551)	(12,471)
	Engineering	355	179	3,164
	Construction Machinery	(28)	(1,588)	(250)
	Electric Power	—	—	—
	Other Businesses	1,142	1,157	10,185
	Total segment equity in income (loss) of equity method companies	2,203	(7,735)	19,637
	Adjustment	(324)	(35)	(2,889)
	Total	¥ 1,879	¥ (7,770)	$ 16,748
Investments in equity method companies:	Iron & Steel	¥ 56,120	56,363	$ 500,223
	Welding	1,312	1,232	11,693
	Aluminum & Copper	790	485	7,041
	Machinery	1,022	2,223	9,109
	Engineering	1,160	1,018	10,337
	Construction Machinery	141	299	1,259
	Electric Power	—	—	—
	Other Businesses	8,927	10,039	79,577
	Total segment investments in equity method companies	69,472	71,659	619,239
	Adjustment	(1,391)	(977)	(12,399)
	Total	¥ 68,081	¥ 70,682	606,840
Capital expenditures:	Iron & Steel	¥ 94,496	¥ 48,553	$ 842,289
	Welding	2,437	2,660	21,722
	Aluminum & Copper	22,891	21,221	204,037
	Machinery	8,156	4,145	72,699
	Engineering	1,641	4,706	14,627
	Construction Machinery	13,842	17,395	123,380
	Electric Power	9,177	7,140	81,795
	Other Businesses	4,197	3,586	37,409
	Total segment capital expenditures	156,837	109,406	1,397,958
	Adjustment	3,460	535	30,845
	Total	¥160,297	¥109,941	$1,428,803

Notes:

Details about adjustments at March 31, 2017 and 2016 were as follows:

Segment sales

Sales of companies that do not belong to any segment are included in "Adjustment."

Segment income (loss)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Companywide profit (loss)	¥ (780)	¥ 8,116	$ (6,950)
Other adjustments	(5,642)	(11,756)	(50,292)
Total	¥(6,422)	¥ (3,640)	$(57,242)

Companywide profit (loss) is mainly financial profit or loss which is not allocated to reportable segments and other businesses.

Other adjustments is mainly intersegment transactions.

Assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Companywide assets	¥375,004	¥354,607	$3,342,573
Other adjustments	(209,592)	(220,290)	(1,868,187)
Total	¥165,412	¥134,317	$1,474,386

Companywide assets are mainly investments in securities which are not allocated to reportable segments or other businesses.
Other adjustments is mainly intersegment transactions.

Depreciation

Adjustment is related mainly to the assets of administrative departments which are not allocated to reportable segments or other businesses.

Interest income

Adjustment is related mainly to intersegment transactions.

Interest expense

Adjustment is related mainly to financial liabilities which are not allocated to reportable segments or other businesses.

Equity in income (loss) of equity method companies

Adjustment is related mainly to the income (loss) of affiliates which is not allocated to reportable segments or other businesses.

Investments in equity method companies

Adjustment is related mainly to intersegment transactions.

Capital expenditures

Adjustment is related mainly to the assets of administrative departments which are not allocated to reportable segments or other businesses.

Related information

(1) Information by geographic area

(a) Net sales

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Japan	¥1,122,835	¥1,160,154	$10,008,337
China	125,700	146,663	1,120,417
Others	447,329	515,989	3,987,248
Total	¥1,695,864	¥1,822,806	$15,116,002

(b) Property, plant and equipment by geographic location

Substantially all of the Group's property, plant and equipment is located in Japan.

(2) Information by major customer

Net sales

		Millions of yen		Thousands of U.S. dollars (Note 1)
	Related segment	2017	2016	2017
Shinsho Corporation	Iron & Steel etc.	¥231,085	¥245,471	$2,059,769

Impairment loss by reportable segments

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2017	2016	2017
Impairment loss	Iron & Steel	¥—	¥ —	$—
	Welding	—	—	—
	Aluminum & Copper	—	—	—
	Machinery	—	—	—
	Engineering	—	—	—
	Construction Machinery	—	2,009	—
	Electric Power	—	—	—
	Other Businesses	—	—	—
	Total segment impairment loss	—	2,009	—
	Adjustment	—	—	—
	Total	¥—	¥2,009	$—

25. Net Income (Loss) Per Share

The basis of calculating net income (loss) per share for the years ended March 31, 2017 and 2016 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net income (loss) attributable to owners of the parent	Weighted average number of shares	Net income (loss) per share	Net income (loss) per share
For the year ended March 31, 2017				
Net loss attributable to common stockholders	**¥(23,045)**	**362,668**	**¥(63.54)**	**$(0.57)**
For the year ended March 31, 2016				
Net loss attributable to common stockholders	¥(21,556)	363,221	¥(59.35)	$(0.53)

26. Additional Information

(1) Application of the Revised Implementation Guidance on Recoverability of Deferred Tax Assets

The Company applied the Revised Implementation Guidance on Recoverability of Deferred Tax Assets
(Accounting Standards Board of Japan (ASBJ) Guidance No. 26, March 28, 2016) from the fiscal year under review.

(2) Introduction of a Board Benefit Trust for Directors (BBT)

From the fiscal year under review, the Company introduced a new stock remuneration plan, a "Board Benefit Trust (BBT)," to more clearly link the remuneration 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 to encourage the Directors to contribute to the improvement of the medium- to long-term business performance and the enhancement of 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).

(a) 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, etc."), in accordance with Director stock benefit rules established by the Company, the Company's shares and the cash equivalent to the amount converted from the market price of the Company's Shares (hereinafter the "Company's Shares, etc.") are provided through the trust. In addition, Directors, etc., shall receive the Company's Shares, etc., in principle every three years on a fixed date during the trust period.

(b) Kobe Steel stock remaining in the Trust

The Company's stock remaining in the trust is posted as treasury stock as part of net assets based on the book value (excluding amounts for incidental expenses). The corresponding treasury stock's book value at the end of the fiscal year under review was ¥1,099 million for 1,223 thousand shares.

KPMG

Independent Auditor's Report

To the Board of Directors of Kobe Steel, Ltd.:

We have audited the accompanying consolidated financial statements of Kobe Steel, Ltd. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheets as at March 31, 2017 and 2016, and the consolidated statements of operations, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kobe Steel, Ltd. and its consolidated subsidiaries as at March 31, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 (19) Changes in Accounting Estimates to the consolidated financial statements, the method of calculating the allowance for doubtful accounts on retained receivables owned by a sales subsidiary in China in the Construction Machinery segment has been changed for the year ended March 31, 2017.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 21, 2017
Osaka, Japan

Investor Information

(As of March 31, 2017)

Notes: 1. The Company carried out a 1-for-10 reverse stock split of its shares on October 1, 2016.
2. On the same day, the Company changed the number of shares constituting one unit from 1,000 shares to 100 shares.

Fiscal Year: April 1 – March 31

Ordinary General Meeting of Shareholders: June of each year

Authorized and Issued Shares Authorized: 600,000,000 shares
Issued: 364,364,210 shares

Principal Shareholders

At March 31, 2017, the 10 largest shareholders of the Company's stockholdings were as follows:

	Number of Shares Held	Shareholding Ratio (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	14,349,200	3.94
The Master Trust Bank of Japan, Ltd. (Trust Account)	12,646,400	3.47
Nippon Steel & Sumitomo Metal Corporation	10,734,500	2.95
Nippon Life Insurance Company	10,118,942	2.78
Japan Trustee Services Bank, Ltd. (Trust Account 9)	9,871,600	2.71
Japan Trustee Services Bank, Ltd. (Trust Account 5)	6,649,000	1.82
Mizuho Bank, Ltd.	6,466,930	1.77
Mitsubishi UFJ Trust and Banking Corporation	5,232,900	1.44
Japan Trustee Services Bank, Ltd. (Trust Account 1)	4,962,400	1.36
Japan Trustee Services Bank, Ltd. (Trust Account 2)	4,852,500	1.33

Listing and Quotations

Kobe Steel is listed on the Tokyo Stock Exchange and the Nagoya Stock Exchange in Japan. American Depositary Receipts for common stock are traded over the counter in the United States.

Depositary for American Depositary Receipts

The Bank of New York Mellon
101 Barclay Street, New York, NY 10286, U.S.A.
Tel: +1-201-680-6825 U.S. toll free: +1-888-269-2377 (888-BNY-ADRS)
E-mail: shrrelations@bnymellon.com
URL: http://www.adrbnymellon.com
TICKER SYMBOL: KBSTY CUSIP: 499892107 DR EXCHANGE: OTC

Distribution of Shares

- Japanese financial institutions: **32.92%**
- Japanese financial instruments business operators: **1.70%**
- Other Japanese corporations: **16.63%**
- Japanese individuals and others: **27.14%**
- Foreign investors: **21.61%**

Directors' Shareholdings

The following is a list of the Directors (including Directors who are Audit & Supervisory Committee Members) and their stockholdings in the Company at March 31, 2017

	Number of shares of the Company owned		Number of shares of the Company owned
Hiroya Kawasaki	28,500	Kazuhide Naraki	24,400
Yoshinori Onoe	17,000	Takao Kitabata	3,700
Akira Kaneko	13,300	Hiroshi Ochi	2,300
Naoto Umehara	14,600	Hiroaki Fujiwara	14,200
Mitsugu Yamaguchi	9,000	Yoshimasa Yamamoto	4,610
Shohei Manabe	12,700	Takashi Okimoto	6,400
Fusaki Koshiishi	9,800	Yoshiiku Miyata	300
Toshiya Miyake	9,400	Hidero Chimori	200

Public Notices

http://www.kobelco.co.jp
Note: All public notices of the Company shall be given by electronic means. In the event that the Company is unable to give electronic public notice, the public notices shall be published in the *Nihon Keizai Shimbun*.

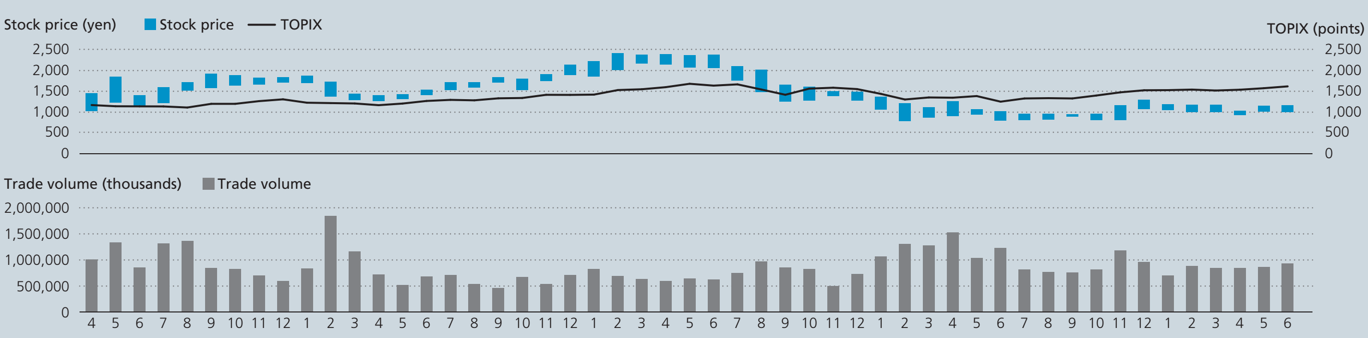
Transfer Agent & Office

Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan

Independent Auditors

KPMG AZSA LLC
6-5, Kawara-machi 3-chome, Chuo-ku, Osaka 541-0048, Japan

Common Stock Price Range Tokyo Stock Exchange (High/Low) (As for June 30, 2017)



Note: The stock price and trading volume before October 2016 have been adjusted to reflect the reverse stock split.

Company Outline (As of March 31, 2017)

Directors (Including Directors Who Are Audit & Supervisory Committee Members) (As of June 21, 2017)

Company Name: Kobe Steel, Ltd.

Corporate Logo and Brand Name of the Kobe Steel Group: KOBELCO

Founded: September 1, 1905

Incorporated: June 28, 1911

Capital: ¥250,930,033,900

Chairman, President, CEO and Representative Director: Hiroya Kawasaki

Employees: 11,034 (Consolidated 36,951)

Information:

Kobe Head Office: 2-4, Wakinohama-Kaigandori 2-chome, Chuo-ku, Kobe, Hyogo 651-8585, Japan
Tel: +81-78-261-5111 Fax: +81-78-261-4123

Tokyo Head Office: IR Group, Corporate Planning Department, Kobe Steel, Ltd.
9-12, Kita-Shinagawa 5-chome, Shinagawa-ku, Tokyo 141-8688, Japan
Tel: +81-3-5739-6043 Fax: +81-3-5739-5973

USA: Kobe Steel USA Inc.
535 Madison Avenue, 5th Floor, New York, NY 10022, U.S.A.
Tel: +1-212-751-9400 Fax: +1-212-355-5564

URL: http://www.kobelco.co.jp

Directors (Including Directors who are Audit & Supervisory Committee Members)

Chairman, President, CEO and Representative Director

Hiroya Kawasaki

Executive Vice Presidents and Representative Directors

Yoshinori Onoe*
Akira Kaneko*
Naoto Umehara
Mitsugu Yamaguchi *

Directors, Senior Managing Executive Officers

Shohei Manabe*
Fusaki Koshiishi*
Toshiya Miyake

Director (part time)

Kazuhide Naraki**

Outside Directors

Takao Kitabata
Hiroyuki Bamba

Directors, Audit & Supervisory Committee Members

Hiroaki Fujiwara
Yoshimasa Yamamoto

Outside Directors, Audit & Supervisory Committee Members

Takashi Okimoto
Yoshiiku Miyata
Hidero Chimori

* Head of a business unit
** Subsidiary President and CEO

KOBELCO

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