Consolidated Statements of Changes in Net Assets

(From April 1, 2016 to March 31, 2017)

(In millions of yen)

	Stockholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total stockholders' equity
Balance as of April 1, 2016	250,930	103,557	354,719	(1,556)	707,651
Amount of change					
Net loss attributable to owners of the parent			(23,045)		(23,045)
Purchase of treasury stock				(1,109)	(1,109)
Disposal of treasury stock			(1)	4	2
Changes in stockholders interest due to transaction with non-controlling interests		(20)			(20)
Increase due to changes in scope of consolidation			6		6
Net changes other than stockholders' equity					
Total changes	–	(20)	(23,040)	(1,104)	(24,165)
Balance as of March 31, 2017	250,930	103,537	331,679	(2,660)	683,486

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Unrealized gains on securities, net of taxes	Deferred gains (losses) on hedges	Land revaluation differences, net of taxes	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans, net of taxes	Total other comprehensive income		
Balance as of April 1, 2016	8,255	(7,929)	(3,406)	13,900	(26,465)	(15,645)	53,486	745,492
Amount of change								
Net loss attributable to owners of the parent								(23,045)
Purchase of treasury stock								(1,109)
Disposal of treasury stock								2
Changes in stockholders interest due to transaction with non-controlling interests								(20)
Increase due to changes in scope of consolidation								6
Net changes other than stockholders' equity	9,219	(1,300)		(6,191)	4,359	6,087	1,989	8,077
Total changes	9,219	(1,300)	–	(6,191)	4,359	6,087	1,989	(16,088)
Balance as of March 31, 2017	17,475	(9,229)	(3,406)	7,708	(22,106)	(9,557)	55,476	729,404

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. Matters Concerning the Scope of Consolidation

Kobe Steel, Ltd. (the "Company") has 213 subsidiaries, of which 171 subsidiaries are included in the scope of consolidation (the "Kobe Steel Group"). Names of major consolidated subsidiaries are as follows.

Nippon Koshuha Steel Co., Ltd., Kobelco Steel Tube Co., Ltd., Shinko Kenzai, Ltd., Kobelco Logistics, Ltd., Shinko Bolt, Ltd., Shinko Engineering & Maintenance Co., Ltd., Kobe Welding of Qingdao Co., Ltd., Kobe Welding of Korea Co., Ltd., Kobelco & Materials Copper Tube, Ltd., Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd., Kobe Aluminum Automotive Products (China) Co., Ltd., Kobelco & Materials Copper Tube (Thailand) Co., Ltd., Kobelco Aluminum Products & Extrusions Inc., Kobe Aluminum Automotive Products, LLC, Kobelco & Materials Copper Tube (M) Sdn. Bhd., Kobe Precision Technology Sdn. Bhd., Kobelco Compressors Corporation, Shinko Engineering Co., Ltd., Kobelco Compressors Manufacturing (Shanghai) Corporation, Kobelco Compressors America, Inc., Kobelco Eco-Solutions Co., Ltd., Kobelco Eco-Maintenance Co., Ltd., Midrex Technologies, Inc., Kobelco Construction Machinery Co., Ltd., KOBELCO Construction Machinery (East Japan) Co., Ltd., KOBELCO Construction Machinery (West Japan) Co., Ltd., Chengdu Kobelco Construction Machinery (Group) Co., Ltd., Chengdu Kobelco Construction Machinery Co., Ltd., Hangzhou Kobelco Construction Machinery Co., Ltd., Chengdu Kobelco Construction Machinery Financial Leasing Ltd., Thai Kobelco Construction Machinery Ltd., Kobelco International (S) Co., Pte. Ltd., Kobelco Construction Machinery Europe B.V., Kobelco Construction Machinery USA, Inc., Kobelco Construction Equipment India Pvt. Ltd., Kobelco Power Kobe Inc., KOBELCO POWER MOKA Inc., Shinko Real Estate Co., Ltd., Kobelco Research Institute, Inc., Kobelco (China) Holding Co., Ltd., Kobe Steel USA Holdings Inc.

For fiscal year 2016, six companies, including Kobelco Aluminum Products & Extrusions Inc., are newly consolidated and five companies, including Kobelco Cranes Co., Ltd. are excluded from the scope of consolidation due to an absorption-type merger, etc.

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

2. Matters Concerning the Application of the Equity Method

Of the 42 non-consolidated subsidiaries and 56 affiliates, 42 companies are accounted for by the equity method. Names of major companies accounted for by the equity method are as follows.

OSAKA Titanium technologies Co., Ltd., Shinko Wire Company, Ltd., Kansai Coke and Chemicals Co., Ltd., Japan Aeroforge, Ltd., Tesac Wirerope Co., Ltd., PRO-TEC Coating Company, Kobelco Angang Auto Steel Co., Ltd., Kobelco Spring Wire (Foshan) Co., Ltd., Kobelco Millcon Steel Co., Ltd., Wuxi Compressor Co., Ltd., Shinsho Corporation.

For fiscal year 2016, two companies, including SC WELDING CORPORATION, are newly accounted for by the equity method and three companies, including Kobelco

Personnel Co., Ltd., are excluded from the application of equity method mainly due to the transfer of shares.

42 non-consolidated subsidiaries, including Shinkyo Kaiun Co., Ltd., and 14 affiliates, including J&T Welding Supply Co., Ltd., are not accounted for by the equity method because the aggregated amounts of their net income (corresponding to amount of equity interest), retained earnings (corresponding to amount of equity interest) and other indicators are insignificant compared to those of the consolidated companies and companies accounted for by the equity method.

3. Matters Concerning Accounting Policies

(1) Basis and method for valuation of significant assets

A. Basis and method for valuation of securities

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

B. Basis for valuation of derivatives

Fair value basis

C. Basis and method for valuation of inventories

Cost basis, determined principally by the average method for inventories in the Iron & Steel Business, Welding Business, Aluminum & Copper Businesses and Electric Power Business, and by the specific identification method for finished goods and work in progress in the Machinery Business, Engineering Business and Construction Machinery Business (the book value on the balance sheet may be written down to market value due to decline in the profitability).

(2) Depreciation and amortization method for significant depreciable assets

a) Tangible fixed assets

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

(3) Basis for recognition of significant allowances and provisions

a) Allowance for doubtful accounts

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

b) Provision for bonuses

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

c) Provision for product warranties

To provide for the Company’s after-sales warranty cost payments for cast forged steel products of the Iron & Steel Business, industrial machinery of the Machinery Business and plants of the Engineering Business, provision is made at an estimated amount attributable to the fiscal year based on the actual warranty cost to sales ratio in the past, plus specifically estimated amount attributable to the fiscal year for certain individual cases.

Certain consolidated subsidiaries provide for after-sales warranty cost payments for finished goods at an estimated amount attributable to the fiscal year based on the actual warranty cost to sales ratio in the past.

d) Provision for loss on construction contracts

To provide for future losses on construction contracts, provision is made based on an estimated loss on construction contracts outstanding at the end of the fiscal year 2016.

e) Provision for loss on guarantees

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

f) Provision for structural reform related expenses

For expenses expected to arise related to structural reform of the steel business, provision is made at an estimated amount at the end of the fiscal year 2016.

g) Provision for dismantlement related expenses

For expenses expected to arise from dismantlement of equipment, such as the blast furnace, in relation to construction of the power station at Kobe Works, provision is made at an estimated amount at the end of the fiscal year 2016.

h) Provision for environmental measures

For the cost of PCB waste treatment required by “Law Concerning Special Measure against Promotion of Proper Treatment of Polychlorinated Biphenyl (PCB) Waste”, provision is made at an estimated amount at the end of the fiscal year 2016.

(4) Accounting method for retirement benefits

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

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

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

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

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

(5) Basis for recognition of revenue

For construction contracts of the Company’s Machinery Business and Engineering Business and of certain consolidated subsidiaries, revenues are recognized by applying the percentage of completion method where the outcome of the contract up to the end of the fiscal year can be estimated reliably (with the estimate of percentage of completion based on the cost-to-cost method), or in case of not being estimated reliably, by applying the completed contract method.

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

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

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

(7) Principal method for hedge accounting

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

B. Hedging instruments and hedged items

a) Hedging instruments: Foreign currency exchange contracts, interest rate swap contracts and commodity forward contracts

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

C. Hedging policy and method for assessing the hedge effectiveness

The Company and its consolidated subsidiaries use hedge transactions to reduce the risks from market fluctuations and do not enter into hedge transactions for speculative purposes.
The Company assesses the hedge effectiveness in accordance with its internal rules.
The consolidated subsidiaries assess the hedge effectiveness in accordance with similar internal rules through the Company’s responsible division or the subsidiary’s own responsible division.

(8) Method for amortization of goodwill

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

(9) Accounting for consumption taxes

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

(10) Application of consolidated taxation system

Consolidated taxation system is applied.

4. Changes in Presentation Method

“Lease receivables and investment assets” which was independently stated under “Current Assets” in the previous consolidated fiscal year, is indicated in “Other” from this fiscal 2016, as it has become insignificant in terms of amount.

“Lease obligations” which was independently stated under “Current Liabilities” in the previous consolidated fiscal year, is indicated in “Other” from this fiscal 2016, as it has become insignificant in terms of amount.

“Lease obligations” which was independently stated under “Long-term Liabilities” in the previous consolidated fiscal year, is indicated in “Other” from this fiscal 2016, as it has become insignificant in terms of amount.

5. Changes to 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, Kobe Steel began a review on measures for dealers. For dealers who are considered to be trading partners, Kobe Steel strengthened credit management, promoted collection negotiations on retained receivables, formulated a payment plan, and proceeded to select dealers carefully, including restricting and stopping transactions with dealers whose financial condition had deteriorated considerably. However, Kobe Steel 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 degree of certainty was not achieved for existing retained receivables. As a result, from the fiscal year under review, Kobe Steel 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 yen, and ordinary loss and net loss attributable to owners of the parent worsened by 22,250 million yen each.

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.

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

   From the fiscal year under review, the Company introduced a new stock compensation plan, a "Board Benefit Trust (BBT)", to more clearly link the compensation of Directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee Members) and executive officers to the Company's performance and the value of its stock, and in order to encourage the Directors to contribute to improve medium- to long-term business performance and enhance corporate value.

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

   1) Overview of transactions

      This plan is a stock compensation plan under which money contributed by the Company is used as funds to acquire the Company's shares through a trust. With regard to Directors and executive officers (hereinafter "Directors, etc."), in accordance with Director stock benefit rules established by the Company, the Company's shares (hereinafter the "Company's Shares, etc.") and the cash equivalent to the amount converted from the market price of the Company's Shares are provided through the trust. In addition, Directors, etc. shall receive the Company's Shares, etc. in principle every three years on a fixed date during the trust period.

   2) Kobe Steel stock remaining in the Trust

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

Notes to Consolidated Balance Sheets

1. Assets Pledged as Collateral and Collateralized Debt

(1) Assets pledged as collateral

Cash and deposits	19,592 million yen	
Tangible fixed assets	61,978	
Other	20,482	
Total	102,053	*1

(2) Collateralized debt

Short-term borrowings	363 million yen	
Long-term borrowings	8,921	
Total	9,284	*1, *2

*1 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 yen (capped at 28,000 million yen) at the end of fiscal year 2016.

*2 In addition to the above, borrowings of other subsidiaries and affiliates are collateralized by assets pledged as collateral. The corresponding loans balance was 969 million yen at the end of fiscal year 2016.

2. Accumulated Depreciation of Tangible Fixed Assets 2,457,789 million yen

3. Guarantee Liabilities

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

Kobelco Angang Auto Steel Co., Ltd.	8,381 million yen	
Kobelco Millcon Steel Co., Ltd.	4,242	
Japan Aeroforge, Ltd.	3,664	
Other (12 companies and other)	3,382	*
Total	19,669	

The above includes activities similar to guarantees (489 million yen).

*Of which, 502 million yen 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 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 yen at the end of fiscal year 2016.

(2) Trade notes receivable discounted 72 million yen

(3) Trade notes receivable endorsed 1,235 million yen

Notes to Consolidated Statements of Income

Reversal of allowance for doubtful accounts

The 8,141 million yen 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.

Notes to Consolidated Statements of Changes in Net Assets

1. Type and Total Number of Shares Issued at the End of Fiscal Year 2016

Common stock 364,364,210 shares

2. Matters Concerning Dividends

(1) Dividends paid

Not applicable.

(2) Dividends with the record date in fiscal year 2016 and the effective date in fiscal year 2017

Not applicable.

Notes on Financial Instruments

1. Matters Concerning Status of Financial Instruments

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

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

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

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

2. Matters concerning fair value of financial instruments

Carrying amount of financial instruments on the consolidated balance sheets, fair value and the difference as of March 31, 2017 are as follows.

(In millions of yen)

	Carrying amount *1	Fair value *1	Difference
(1) Cash and deposits	155,763	155,763	—
(2) Notes and accounts receivable - trade	295,332	295,332	—
(3) Securities			
Available-for-sale securities	45,502	45,502	—
(4) Investments in securities			
a) Held-to-maturity debt securities	3	3	—
b) Securities of subsidiaries and affiliates	17,072	20,988	3,915
c) Available-for-sale securities	108,500	108,500	—
(5) Notes and accounts payable	(414,090)	(414,090)	—
(6) Short-term borrowings	(191,983)	(192,413)	(429)
(7) Bonds and notes due within one year	(30,000)	(30,357)	(357)
(8) Accounts payable-other	(63,808)	(63,808)	—
(9) Bonds and notes	(146,000)	(147,864)	(1,864)
(10) Long-term borrowings	(428,943)	(437,683)	(8,739)
(11) Derivative transactions *2			
a) Hedge accounting not applied	31	31	—
b) Hedge accounting applied	(11,277)	(11,277)	—

*1 Liabilities are presented with parentheses ( ).

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

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

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

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

(4) Investments in securities

Based mainly on quoted market prices, etc.

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

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

The fair values of long-term borrowings due within one year which are included in short-term borrowings (with a carrying amount of 105,975 million yen) are determined using the same method as (10) Long-term borrowings.

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

Based mainly on quoted market prices.

(10) Long-term borrowings

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

(11) Derivative transactions

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

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

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

Note 2: Non-listed equity securities (with carrying amount of 40,987 million yen) are not included in (4) Investments in securities b) Securities of subsidiaries and affiliates and c) Available-for-sale securities, as it is extremely difficult to determine their fair value since there is no market price and future cash flows cannot be estimated.

Notes on Per Share Information

Net assets per share	1,860.36 yen
Net loss per share	63.54 yen

Note 1: The Company carried out a share consolidation at a ratio of 10 shares to 1 share effective on October 1, 2016. Therefore, net assets per share and net loss per share takes into account this share consolidation.

Note 2: The Company’s shares (posted as treasury stock in stockholders’ equity) remaining in the trust related to the Board Benefit Trust (BBT) plan posted as treasury stock in stockholders’ equity are included in treasury stock. These are excluded from the calculation of the average number of shares during the period when calculating net assets per share and net loss per share. The number of such shares at the end of the period excluded from the calculation of net assets per share for this fiscal year was 1,223 thousand shares, while the average number of shares during the period excluded from the calculation of net loss per share for this fiscal year was 815 thousand shares.

(Amounts are rounded down to the million yen.)

Non-Consolidated Statements of Changes in Net Assets

(From April 1, 2016 to March 31, 2017)

(In millions of yen)

	Stockholders' equity									
		Capital surplus		Retained earnings						
				Other retained earnings						
	Common stock	Legal capital surplus	Total capital surpluses	Reserve for special depreciation	Reserve for overseas investment loss	Reserve for advanced depreciation of fixed assets	Retained earnings brought forward	Total retained earnings	Treasury stock, at cost	Total stock-holders' equity
Balance as of April 1, 2016	250,930	100,789	100,789	2	11	2,770	161,952	164,737	(593)	515,863
Amount of change										
Provision of reserve for special depreciation				351			(351)	–		–
Reversal of reserve for special depreciation				(0)			0	–		–
Reversal of reserve for overseas investment loss					(11)		11	–		–
Provision of reserve for advanced depreciation of fixed assets						39	(39)	–		–
Reversal of reserve for advanced depreciation of fixed assets						(174)	174	–		–
Net loss							(6,319)	(6,319)		(6,319)
Purchase of treasury stock									(1,109)	(1,109)
Disposal of treasury stock							(1)	(1)	2	1
Net changes other than stockholders' equity										
Total changes	–	–	–	350	(11)	(135)	(6,524)	(6,321)	(1,106)	(7,427)
Balance as of March 31, 2017	250,930	100,789	100,789	353	–	2,634	155,427	158,415	(1,699)	508,435

	Valuation and translation adjustments			Total net assets
	Unrealized gains on securities, net of taxes	Deferred gains (losses) on hedges	Total valuation and translation adjustments	
Balance as of April 1, 2016	4,932	(6,220)	(1,288)	514,575
Amount of change				
Provision of reserve for special depreciation				–
Reversal of reserve for special depreciation				–
Reversal of reserve for overseas investment loss				–
Provision of reserve for advanced depreciation of fixed assets				–
Reversal of reserve for advanced depreciation of fixed assets				–
Net loss				(6,319)
Purchase of treasury stock				(1,109)
Disposal of treasury stock				1
Net changes other than stockholders' equity	8,023	(1,551)	6,472	6,472
Total changes	8,023	(1,551)	6,472	(954)
Balance as of March 31, 2017	12,955	(7,771)	5,184	513,620

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Matters concerning Significant Accounting Policies

1. Basis and Method for Valuation of Securities

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

2. Basis for Valuation of Derivatives
   Fair value basis

3. Basis and Method for Valuation of Inventories
   Cost basis, determined by the average method for finished goods, semi-finished goods and work in progress in the Iron & Steel Business (except for Takasago Steel Casting and Forging Plant), Welding Business and Aluminum & Copper Business, raw materials and supplies, and by the specific identification method for finished goods and work in progress in the Takasago Steel Casting and Forging Plant, Machinery Business and Engineering Business (the book value on the balance sheet may be written down to market value due to decline in the profitability).

4. Depreciation and Amortization Method for Fixed Assets

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

5. Basis for Recognition of Allowances and Provisions

(1) Allowance for doubtful accounts

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

(2) Provision for bonuses

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

(3) Provision for product warranties

To provide for after-sales warranty cost payments for cast and forged steel products of the Iron & Steel Business, industrial machinery of the Machinery Business and plants of the Engineering Business, provision is made at an estimated amount attributable to the fiscal year based on the actual warranty cost to sales ratio in the past, plus specifically estimated amount attributable to the fiscal year for certain individual cases.

(4) Provision for loss on construction contracts

To provide for future losses on construction contracts, provision is made based on an estimated loss on construction contracts outstanding at the end of the fiscal year 2016.

(5) Provision for structural reform related expenses

For expenses expected to arise related to structural reform of the steel business, provision is made at an estimated amount at the end of the fiscal year 2016.

(6) Provision for dismantlement related expenses

For expenses expected to arise from dismantlement of equipment, such as the blast furnace, in relation to construction of the power station at Kobe Works, provision is made at an estimated amount at the end of the fiscal year 2016.

(7) Provision for environmental measures

For the cost of PCB waste treatment required by "Law Concerning Special Measure against Promotion of Proper Treatment of Polychlorinated Biphenyl (PCB) Waste", provision is made at an estimated amount at the end of the fiscal year 2016.

(8) Provision for retirement benefits

To provide for payments of retirement benefits to employees, provision is made based on the retirement benefit obligation and the estimated amount of plan assets at the end of the fiscal year 2016.

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

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

6. Basis for Recognition of Revenue

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

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

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

8. Method for Hedge Accounting

(1) Method for hedge accounting	Deferred hedge method is applied. Assigning method is applied to monetary receivables and payables denominated in foreign currencies that are specifically covered by foreign currency exchange contracts and qualify for such assigning. Exceptional method is applied to interest rate swaps that meet specific matching criteria and qualify for such accounting.
(2) Hedging instruments and hedged items	
Hedging instruments	Foreign currency exchange contracts, interest rate swap contracts and commodity forward contracts
Hedged items	Assets and liabilities exposed to losses from market fluctuations related to foreign exchange rates, interest rates and trading of bare metal such as aluminum (including those expected from forecasted transactions).
(3) Hedging policy and method for assessing the hedge effectiveness	
	The Company uses hedge transactions to reduce the risks from market fluctuations and does not enter into hedge transactions for speculative purposes. The Company assesses the hedge effectiveness in accordance with its internal rules.

9. Accounting for Retirement Benefits

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

10. Accounting for Consumption Taxes

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

11. Application of Consolidated Taxation System

Consolidated taxation system is applied.

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.

2. Introduction of the Board Benefit Trust (BBT) for Directors, etc.

Notes on transactions that provide the Company’s shares through the trust for Directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee

Members) and executive officers are omitted as the same details are contained in "Additional information" in the Notes to Consolidated Financial Statements.

Notes to Non-consolidated Balance Sheets

1. Assets Pledged as Collateral and Collateralized Debt

(1) Assets pledged as collateral

Tangible fixed assets	6,493 million yen	
Securities of subsidiaries and affiliates	1,108	
Other	6,129	
Total	13,732	*1, *2

(2) Collateralized debt

Borrowings of subsidiaries and affiliates from financial institutions
8,611 million yen *1, *2

*1 Of the assets pledged as collateral which have been provided as revolving mortgages related to bank transactions of affiliated companies, some had no corresponding obligations. The corresponding asset balance was 12,623 million yen (capped at 28,000 million yen) at the end of the fiscal year 2016.

*2 Of the assets pledged as collateral, 1,090 million yen are the mortgages established for borrowings of 7,295 million yen from financial institutions to KOBELCO POWER MOKA Inc., which is one of the primary operators of the wholesale power supply business.

2. Accumulated Depreciation of Tangible Fixed Assets 1,943,181 million yen

3. Guarantee Liabilities

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

Chengdu Kobelco Construction Machinery (Group) Co., Ltd.	30,996 million yen	*1
Chengdu Kobelco Construction Machinery Financial Leasing Ltd.	12,212	*1
Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd.	11,664	
Kobelco Angang Auto Steel Co., Ltd.	8,381	
Chengdu Kobelco Construction Machinery Co., Ltd.	7,234	*1
Hangzhou Kobelco Construction Machinery Co., Ltd.	4,984	*1
Other (20 companies and other)	25,155	*2
Total	100,629	

The above includes activities similar to guarantees (910 million yen).

*1 The entire amount is covered by reassurances from Kobelco Construction Machinery Co., Ltd.

*2 Of which, 2,479 million yen is covered by reassurances from other companies.

4. Monetary Receivables and Payables to Subsidiaries and Affiliates

Short-term monetary receivables	156,334 million yen
Long-term monetary receivables	43,821
Short-term monetary payables	90,480
Long-term monetary payables	127

Notes to Non-consolidated Statements of Income

Transactions with Subsidiaries and Affiliates

Operating transactions	
Net sales	281,896 million yen
Purchases	514,363
Non-operating transactions	43,950

Notes to Non-consolidated Statements of Changes in Net Assets

Type and number of treasury stock at the end of fiscal year 2016

Common stock	1,443,537 shares

(Note) 1,222,800 shares of Kobe Steel owned by Trust & Custody Services Bank, Ltd. (Trust Account E) related to the Board Benefit Trust (BBT) are included in treasury stock listed above.

Notes on Tax Effect Accounting

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

Notes on Transactions with Related Parties

Category	Company name	Ownership of voting rights etc. (Ownership percentage)	Relationships with related parties	Description of transactions	Transaction amounts (million yen)	Account	Fiscal year-end balance (million yen)
Subsidiaries	Kobelco Construction Machinery Co., Ltd.	100.00% directly	Sales of steel materials, etc. Lease of commercial buildings and land Interlocking directors, etc.	Receipt of guarantees	55,428	–	–
	Chengdu Kobelco Construction Machinery (Group) Co., Ltd.	56.32% indirectly	Guarantees Interlocking directors, etc.	Guarantees	30,996	–	–
				Receipt of guarantee fees	21	Other current assets	13
Affiliates	Shinsho Corporation	13.33% directly and 0.19% indirectly (21.55%)	Sales of certain finished goods of the Company Purchase of raw materials Interlocking directors, etc.	Purchase of raw materials for iron and steel, other raw materials and materials for equipment	260,647	Trade accounts payable	16,864
	Kansai Coke and Chemicals Co., Ltd.	24.00% directly	Sales of coal, etc. Purchase of coke, etc. Interlocking directors, etc.	Sales of coal, etc.	59,720	Other accounts receivable	26,915
				Purchase of coke, etc.	67,759	Trade accounts payable	23,118

Note 1: The terms and conditions and policies for their determination:
The terms and conditions applicable to the above transactions are determined through price negotiations on an arm’s length basis and with reference to normal market prices.

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

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

Note 4: The Company receives guarantee fees at an annual rate of 0.1% for guarantees relating to bank loans by four subsidiaries of Kobelco Construction Machinery Co., Ltd., including Chengdu Kobelco Construction Machinery (Group) Co., Ltd.. Kobelco Construction Machinery Co., Ltd. pledges reassurance for the entire amount, and the Company pays no guarantee fees.

Notes on Per Share Information

Net assets per share	1,415.24 yen
Net loss per share	17.39 yen

Note 1: The Company carried out a share consolidation at a ratio of 10 shares to 1 share effective on October 1, 2016. Therefore, net assets per share and net loss per share take into account this share consolidation.

Note 2: The Company's shares (posted as treasury stock in stockholders' equity) remaining in the trust related to the Board Benefit Trust (BBT) plan are included in treasury stock. These are excluded from the calculation of the average number of shares during the period when calculating net assets per share and net loss per share. The number of such shares at the end of the period excluded from the calculation of net assets per share for this fiscal year was 1,223 thousand shares, while the average number of shares during the period excluded from the calculation of net loss per share for this fiscal year was 815 thousand shares.

(Amounts are rounded down to the million yen.)