Consolidated Statements of Changes in Net Assets

(From April 1, 2017 to March 31, 2018)

(In millions of yen)

	Stockholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total stockholders' equity
Balance as of April 1, 2017	250,930	103,537	331,679	(2,660)	683,486
Amount of change					
Net income attributable to owners of the parent			63,188		63,188
Purchase of treasury stock				(11)	(11)
Disposal of treasury stock			(0)	0	0
Changes in stockholders interest due to transaction with non-controlling interests		(1,232)			(1,232)
Increase due to changes in scope of consolidation		9	675		684
Net changes other than stockholders' equity					
Total changes	−	(1,223)	63,863	(10)	62,629
Balance as of March 31, 2018	250,930	102,314	395,542	(2,671)	746,115

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Unrealized gains on securities, net of taxes	Deferred gains (losses) on hedges, net of taxes	Land revaluation differences, net of taxes	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans, net of taxes	Total Accumulated other comprehensive income		
Balance as of April 1, 2017	17,475	(9,229)	(3,406)	7,708	(22,106)	(9,557)	55,476	729,404
Amount of change								
Net income attributable to owners of the parent								63,188
Purchase of treasury stock								(11)
Disposal of treasury stock								0
Changes in stockholders interest due to transaction with non-controlling interests								(1,232)
Increase due to changes in scope of consolidation								684
Net changes other than stockholders' equity	(141)	(683)	−	2,476	4,379	6,030	(7,080)	(1,049)
Total changes	(141)	(683)	−	2,476	4,379	6,030	(7,080)	61,579
Balance as of March 31, 2018	17,333	(9,913)	(3,406)	10,185	(17,726)	(3,527)	48,396	790,984

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. Matters Concerning the Scope of Consolidation

Kobe Steel, Ltd. (the "Company") has 212 subsidiaries, of which 173 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., Quintus Technologies AB, 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., Kobelco Construction Machinery (China) Co., Ltd., Chengdu Kobelco Construction Machinery Co., Ltd., Hangzhou Kobelco Construction Machinery Co., Ltd., Chengdu Kobelco Construction Machinery Financial Leasing Ltd., Kobelco Construction Machinery Southeast Asia Co., 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 2017, 12 companies, including Quintus Technologies AB, are newly consolidated and 10 companies, including Kobelco Cranes India Pvt., Ltd. are excluded from the scope of consolidation due to an absorption-type merger, etc.

39 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 39 non-consolidated subsidiaries and 55 affiliates, 41 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, LLC, Kobelco Angang Auto Steel Co., Ltd., Kobelco Spring Wire (Foshan) Co., Ltd., Kobelco Millcon Steel Co., Ltd., Ulsan Aluminum, Ltd., Wuxi Compressor Co., Ltd., Shinsho Corporation.

For fiscal year 2017, 2 companies, including Ulsan Aluminum, Ltd., are newly accounted for by the equity method and 3 companies, including KS Summit Steel CO., LTD., are excluded from the application of equity method mainly due to the transfer of shares.

39 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

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 inventories in the Machinery Business, Engineering Business and Construction Machinery Business (the book value on the balance sheets may be written down to market value due to decline in the profitability).

(2) Depreciation and amortization method for significant depreciable assets

a) Tangible fixed assets

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

ii) Leased assets

- Under finance leases that transfer ownership of the leased assets

By the same method as the owned fixed assets.

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

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

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

(3) Basis for recognition of significant allowances and provisions

a) Allowance for doubtful accounts

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

b) Provision for bonuses

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

c) Provision for product warranties

To provide for after-sales and after-construction and delivery warranty cost payments, mainly for steel castings and forgings in the Iron & Steel Business, Machinery Business, Engineering Business and Construction Machinery Business, provision is made at an estimated amount attributable to the fiscal year 2017 based on the actual warranty cost to sales ratio in the past, plus specifically estimated amount attributable to the fiscal year 2017 for certain individual cases.

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 2017.

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 2017, 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 2017.

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 2017.

h) Provision for customer compensation expenses

For expenses related to a response to the misconduct that through data falsification and/or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications were shipped or provided to customers as if they had met these requirements, including compensation for product exchanges and investigations carried out by customers, etc., provision is made at an estimated amount at the end of the fiscal year 2017.

i) 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 2017.

(4) Accounting method for retirement benefits

To provide for payments of retirement benefits to employees, the amount of retirement benefit obligations net of the amount of plan is established assets based on the amount expected at the end of the fiscal year 2017.

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

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

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

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

(5) Basis for recognition of revenue and expenses

Regarding revenues and expenses concerning construction contracts, they are recognized by applying the percentage of completion method where the outcome of the contract up to the end of the fiscal year 2017 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.

Additional Information

Introduction of a Board Benefit Trust (BBT) for Directors

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

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

1) Overview of transactions

This plan is a stock compensation plan under which money contributed by the Company is used as funds to acquire the Company’s shares through a trust. With regard to Directors and executive officers (hereinafter “Directors, 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	7,074	million yen
Tangible fixed assets	11,651	
Other	1,414	
Total	20,140	

(2) Collateralized debt

Short-term borrowings	265	million yen	
Long-term borrowings	14,143		
Total	14,408		*

* In addition to the above, borrowings of other subsidiaries and affiliates are collateralized by assets pledged as collateral. The corresponding loans balance was 872 million yen at the end of fiscal year 2017.

2. Accumulated Depreciation of Tangible Fixed Assets 2,404,688 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.	6,964 million yen	
Kobelco Millcon Steel Co., Ltd.	5,774	
Japan Aeroforge, Ltd.	3,440	
Other (22 companies and other)	4,216	*
Total	20,396	

The above includes activities similar to guarantees (150 million yen).

*Of which, 517 million yen is covered by reassurances from other companies.

Kobelco Construction Machinery (China) Co., Ltd., which is a consolidated subsidiary of the Company, sells construction machinery to customers through sales agents or leasing companies. Sales agents pledge guarantees to buy construction machinery, pledged as collateral at the amounts of the balance on bank loans or future minimum lease payments. Kobelco Construction Machinery (China) Co., Ltd. pledges reassurance for this guarantee. The balances of the reassurance were 14,474 million yen at the end of fiscal year 2017.

Chengdu Kobelco Construction Machinery (Group) Co., Ltd. presented in fiscal year 2016 changed its registered trade name to Kobelco Construction Machinery (China) Co., Ltd. from fiscal year 2017.

(2) Trade notes receivable discounted 78 million yen

(3) Trade notes receivable endorsed 1,966 million yen

(4) Repurchase obligation accompanying securitization of receivables 3,787 million yen

4. Contingent liabilities

The Kobe Steel Group discovered that misconduct had taken place. Through data falsification and/or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications (the “Affected Products”) were shipped or provided to customers as if they had met these requirements (the “Misconduct”).

The Kobe Steel Group, with the cooperation of its customers to which the Affected Products were shipped, is proceeding to carry out technical verifications on the impact (including safety) of its Affected Products on customers' products. Safety confirmation has been completed for most of the customers. Although the verification of the safety has not yet been completed for some customers, the Kobe Steel Group at this time has not confirmed cases that would require the immediate suspension of use or immediate recall of the products.

The Kobe Steel Group, in addition to undergoing an investigation by the investigation authorities in Japan on the Misconduct, has been under investigation by the U.S. Department of Justice since October 2017 for allegedly selling the Affected Products to customers in the United States.

In addition, three civil complaints have been brought against the Kobe Steel Group and other similar lawsuits may be filed in the future. The three civil complaints are as follows:

1. Class actions in Canada seeking compensation for economic loss caused by the automotive metal products manufactured by the Kobe Steel Group and the use of these products in the manufacture of automobiles.

2. A securities class action in the United States based on violations of the U.S. Securities Exchange Act (misrepresentation of the compliance system, etc.) concerning Kobe Steel's American Depository Receipts (ADR)

3. A class action in the United States seeking compensation for economic loss from the decline in the resale value of the plaintiffs' vehicles and other relief, arising from the use of metal products manufactured by Kobe Steel in the manufacture of the vehicles.

The investigation by the investigation authorities in Japan, the investigation by the U.S. Department of Justice and the above-mentioned civil complaints are all at an early stage. It is difficult to reasonably estimate the final penalties, compensation for damages, and other outcomes at this time, but they may possibly result in a monetary burden. In addition, there may be additional monetary burden due to compensation cost for the exchange of products by customers, compensation cost relating to the inspections by customers and other actions.

It is possible that these factors will affect Kobe Steel's consolidated financial results. However, as it is difficult to reasonably estimate the impact of these factors at this time, these factors have not been reflected in the consolidated financial statements.

Notes to Consolidated Statements of Income

1. Customer compensation expenses

   The 4,361 million yen of customer compensation expenses are expenses related to a response to the misconduct that through data falsification and/or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications were shipped or provided to customers as if they had met these requirements, including compensation for product exchanges and investigations carried out by customers, etc.

2. Dismantlement related expenses

   The 2,759 million yen of dismantlement related expenses are an additional posting of dismantlement construction expenses arising in line with the dismantlement of equipment, such as the blast furnace, in relation to construction of the power station at Kobe Works, and other expenses, owing to an increase in the scope of construction.

Notes to Consolidated Statements of Changes in Net Assets

1. Type and Total Number of Shares Issued at the End of Fiscal Year 2017

   Common stock 364,364,210 shares

2. Matters Concerning Dividends

(1) Dividends paid

Not applicable.

(2) Dividends with the record date in fiscal year 2017 and the effective date in fiscal year 2018

At the meeting of the Board of Directors to be held on May 16, 2018, the following matters concerning dividends on common stock are going to be discussed.

1)	Total dividends	10,924 million yen
2)	Dividends per share	30.0 yen
3)	Record date	March 31, 2018
4)	Effective date	June 22, 2018

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

Notes on Financial Instruments

1. Matters Concerning Status of Financial Instruments

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

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

Notes and accounts payable and borrowings are exposed to liquidity risk related to financing. The 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, 2018 are as follows.

(In millions of yen)

	Carrying amount *1	Fair value *1	Difference
(1) Cash and deposits	165,526	165,526	—
(2) Notes and accounts receivable - trade	324,811	324,811	—
(3) Investments in securities			
a) Securities of subsidiaries and affiliates	17,973	25,801	7,827
b) Available-for-sale securities	102,879	102,879	—
(4) Notes and accounts payable	(457,126)	(457,126)	—
(5) Short-term borrowings	(205,732)	(205,481)	251
(6) Bonds and notes due within one year	(14,000)	(14,056)	(56)
(7) Accounts payable-other	(54,436)	(54,436)	—
(8) Bonds and notes	(132,000)	(130,471)	1,528
(9) Long-term borrowings	(387,133)	(386,993)	139
(10) Derivative transactions *2			
a) Hedge accounting not applied	456	456	—
b) Hedge accounting applied	(13,182)	(13,182)	—

*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 and (2) Notes and accounts receivable-trade

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

(3) Investments in securities

Based mainly on quoted market prices, etc.

(4) Notes and accounts payable, (5) Short-term borrowings and (7) 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 70,051 million yen) are determined using the same method as (9) Long-term borrowings.

(6) Bonds and notes due within one year and (8) Bonds and notes

Based mainly on quoted market prices.

(9) 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.

(10) 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), (4) and (7) 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 (9) above).

Note 2: Non-listed equity securities (with carrying amount of 76,986 million yen) are not included in (3) Investments in securities a) Securities of subsidiaries and affiliates and b) Available-for-sale securities, as it is extremely difficult to determine their fair value since there is no market price and future cash flows cannot be estimated.

Notes on Per Share Information

Net assets per share	2,049.95 yen
Net income per share	174.43 yen

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

Significant subsequent events

Sale of shares of a subsidiary company

At the meeting of the Board of Directors held on April 27, 2018, the Company resolved to transfer part of the issued shares of Shinko Real Estate Co., Ltd., a consolidated subsidiary of the Company, as follows.

1. Names of parties acquiring the shares
   Tokyo Century Corporation and NIPPON TOCHI-TATEMONO Co., Ltd.
2. Businesses operated by the company to be transferred
   Real estate development, Construction, Sales, Brokering, Remodeling, Leasing, Building management, Condominium management
3. Reason for the transfer
   To achieve synergy by utilizing mutual customer bases, business know-how and the ability to provide financing and reinforce the business by building a strategic alliance relationship with both of the parties acquiring the shares
4. Execution date of the transfer
   Scheduled on July 1, 2018
5. Other information for the transfer
   (1) Legal form of the transfer
   Transferring part of the issued shares of Shinko Real Estate Co., Ltd. in exchange for cash consideration
   (2) Transfer price

Approximately 74.0 billion yen

(3) Income from the transfer

To post an extraordinary income of approximately 30.0 billion yen on a consolidated basis for the fiscal year 2018.

(4) Number of shares to be transferred and situation of shares held before and after transfer

1) No. of shares held before transfer

57,670 shares (ownership ratio of voting rights: 100.0%)

2) No. of shares to be transferred

43,253 shares

3) No. of shares held after transfer

14,417 shares (ownership ratio of voting rights: 25.0%)

Following the transfer, Shinko Real Estate Co., Ltd. will become a company accounted for by the equity method of the Company.

(Amounts are rounded down to the million yen.)

Non-Consolidated Statements of Changes in Net Assets

(From April 1, 2017 to March 31, 2018)

(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 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, 2017	250,930	100,789	100,789	353	2,634	155,427	158,415	(1,699)	508,435
Amount of change									
Reversal of reserve for special depreciation				(54)		54	–		–
Reversal of reserve for advanced depreciation of fixed assets					(180)	180	–		–
Net income						43,468	43,468		43,468
Purchase of treasury stock								(9)	(9)
Disposal of treasury stock						(0)	(0)	0	0
Net changes other than stockholders' equity									
Total changes	–	–	–	(54)	(180)	43,702	43,468	(8)	43,459
Balance as of March 31, 2018	250,930	100,789	100,789	299	2,454	199,130	201,884	(1,708)	551,895

	Valuation and translation adjustments			Total net assets
	Unrealized gains on securities, net of taxes	Deferred gains (losses) on hedges net of taxes	Total valuation and translation adjustments	
Balance as of April 1, 2017	12,955	(7,771)	5,184	513,620
Amount of change				
Reversal of reserve for special depreciation				–
Reversal of reserve for advanced depreciation of fixed assets				–
Net income				43,468
Purchase of treasury stock				(9)
Disposal of treasury stock				0
Net changes other than stockholders' equity	(166)	(198)	(364)	(364)
Total changes	(166)	(198)	(364)	43,094
Balance as of March 31, 2018	12,789	(7,969)	4,820	556,715

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

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Matters concerning Significant Accounting Policies

1. Basis and Method for Valuation of Securities

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

2. Basis for Valuation of Derivatives

Fair value basis

3. Basis and Method for Valuation of Inventories

Cost basis, determined by the average method for inventories in the Iron & Steel Business (except for cast forged steel products), Welding Business and Aluminum & Copper Businesses, and by the specific identification method for cast forged steel products in the Iron & Steel Business and inventories in the Machinery Business and Engineering Business (the book value on the balance sheet may be written down to market value due to decline in the profitability).

4. Depreciation and Amortization Method for Fixed Assets

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

5. Basis for Recognition of Allowances and Provisions

(1) Allowance for doubtful accounts

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

(2) Provision for bonuses

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

(3) Provision for product warranties

To provide for after-sales and after-construction and delivery warranty cost payments, for steel castings and forgings in the Iron & Steel Business, Machinery Business, and Engineering Business, provision is made at an estimated amount attributable to the fiscal year 2017 based on the actual warranty cost to sales ratio in the past, plus specifically estimated amount attributable to the fiscal year 2017 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 2017.

(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 2017.

(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 2017.

(7) Provision for customer compensation expenses

For expenses related to a response to the misconduct that through data falsification and/or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications were shipped or provided to customers as if they had met these requirements, including compensation for product exchanges and investigations carried out by customers, etc., provision is made at an estimated amount at the end of the fiscal year 2017.

(8) 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 2017.

(9) 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 2017.

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

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

6. Basis for Recognition of Revenue and Expenses

Regarding revenues and expenses concerning construction contracts, they are recognized by applying the percentage of completion method where the outcome of the contract up to the end of the fiscal year 2017 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

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

Securities of subsidiaries and affiliates	1,108 million yen	*

(2) Collateralized debt

Borrowings of subsidiaries and affiliates from financial institutions	14,009 million yen	*

* Of the assets pledged as collateral, 1,090 million yen are the mortgages established for borrowings of 12,852 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 1,872,850 million yen

3. Guarantee Liabilities

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

Kobelco Construction Machinery (China) Co., Ltd.	17,163 million yen	*1 *3
Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd.	11,873	
Chengdu Kobelco Construction Machinery Financial Leasing Ltd.	9,633	*1
Kobelco Angang Auto Steel Co., Ltd.	6,964	
Kobelco Millcon Steel Co., Ltd.	5,774	
Hangzhou Kobelco Construction Machinery Co., Ltd.	4,823	*1
Chengdu Kobelco Construction Machinery Co., Ltd.	4,145	*1
Other (16 companies and other)	20,544	*2
Total	80,923	

The above includes activities similar to guarantees (529 million yen).

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

*2 Of which, 2,458 million yen is covered by reassurances from other companies.

*3 Chengdu Kobelco Construction Machinery (Group) Co., Ltd. presented in fiscal year 2016 changed its registered trade name to Kobelco Construction Machinery (China) Co., Ltd. from fiscal year 2017.

(2) Repurchase obligation accompanying securitization of receivables 3,240 million yen

4. Contingent liabilities

The Kobe Steel Group discovered that misconduct had taken place. Through data falsification and/or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications (the "Affected Products") were shipped or provided to customers as if they had met these requirements (the "Misconduct").

The Kobe Steel Group, with the cooperation of its customers to which the Affected Products were shipped, is proceeding to carry out technical verifications on the impact (including safety) of its Affected Products on customers' products. Safety confirmation has been completed for most of the customers. Although the verification of the safety has not yet been completed for some customers, Kobe Steel at this time has not confirmed cases that would require the immediate suspension of use or immediate recall of the products.

The Kobe Steel Group, in addition to undergoing an investigation by the investigation authorities in Japan on the Misconduct, has been under investigation by the U.S. Department of Justice since October 2017 for allegedly selling the Affected Products to customers in the United States.

In addition, three civil complaints have been brought against the Kobe Steel Group and other similar lawsuits may be filed in the future. The three civil complaints are as follows:

1. Class actions in Canada seeking compensation for economic loss caused by the automotive metal products manufactured by the Kobe Steel Group and the use of these products in the manufacture of automobiles.

2. A securities class action in the United States based on violations of the U.S. Securities Exchange Act (misrepresentation of the compliance system, etc.) concerning Kobe Steel's American Depository Receipts (ADR)

3. A class action in the United States seeking compensation for economic loss from the decline in the resale value of the plaintiffs' vehicles and other relief, arising from the use of metal products manufactured by Kobe Steel in the manufacture of the vehicles.

The investigation by the investigation authorities in Japan, the investigation by the U.S. Department of Justice and the above-mentioned civil complaints are all at an early stage. It is difficult to reasonably estimate the final penalties, compensation for damages, and other outcomes at this time, but they may possibly result in a monetary burden. In addition, there may be additional monetary burden due to compensation cost for the exchange of products by customers, compensation cost relating to the inspections by customers and other actions.

It is possible that these factors will affect Kobe Steel's financial results. However, as it is difficult to reasonably estimate the impact of these factors at this time, these factors have not been reflected in the non-consolidated financial statements.

5. Monetary Receivables and Payables to Subsidiaries and Affiliates

Short-term monetary receivables	145,562 million yen
Long-term monetary receivables	37,912
Short-term monetary payables	79,656
Long-term monetary payables	225

Notes to Non-consolidated Statements of Income

1. Transactions with Subsidiaries and Affiliates

Operating transactions

Net sales	324,644 million yen
Purchases	591,417
Non-operating transactions	54,747

2. Customer compensation expenses

The 3,797 million yen of customer compensation expenses are expenses related to a response to the misconduct that through data falsification and/or fabrication of inspection results, products that did not meet, among others, public standards or customer specifications were shipped or provided to customers as if they had met these requirements, including compensation for product exchanges and investigations carried out by customers, etc.

3. Dismantlement related expenses

The 2,759 million yen of dismantlement related expenses are an additional posting of dismantlement construction expenses arising in line with the dismantlement of equipment, such as the blast furnace, in relation to construction of the power station at Kobe Works, and other expenses, owing to an increase in the scope of construction.

Notes to Non-consolidated Statements of Changes in Net Assets

Type and number of treasury stock at the end of fiscal year 2017

Common stock 1,452,035 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	35,766	–	–
	Kobelco Construction Machinery (China) Co., Ltd.	100.00% indirectly	Guarantees Interlocking directors, etc.	Guarantees	17,163	–	–
				Receipt of guarantee fees	27	Other current assets	12
Affiliates	Shinsho Corporation	13.33% directly and 0.13% 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	326,123	Trade accounts payable	19,713
	Kansai Coke and Chemicals Co., Ltd.	24.00% directly	Sales of coal, etc. Purchase of coke, etc. Interlocking directors, etc.	Sales of coal, etc.	80,377	Other accounts receivable	7,471
				Purchase of coke, etc.	87,758	Trade accounts	16,928

						payable	

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: Chengdu Kobelco Construction Machinery (Group) Co., Ltd. presented in fiscal year 2016 changed its registered trade name to Kobelco Construction Machinery (China) Co., Ltd. from fiscal year 2017.
The Company receives guarantee fees at an annual rate of 0.1% for guarantees relating to bank loans by Kobelco Construction Machinery (China) 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	1,534.02 yen
Net income per share	119.77 yen

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

Significant subsequent events

Sale of shares of a subsidiary company

At the meeting of the Board of Directors held on April 27, 2018, the Company resolved to transfer part of the issued shares of Shinko Real Estate Co., Ltd., a subsidiary of the Company, as follows.

1. Names of parties acquiring the shares
   Tokyo Century Corporation and NIPPON TOCHI-TATEMONO Co., Ltd.
2. Businesses operated by the company to be transferred
   Real estate development, Construction, Sales, Brokering, Remodeling, Leasing, Building management, Condominium management
3. Reason for the transfer
   To achieve synergy by utilizing mutual customer bases, business know-how and the ability to provide financing and reinforce the business by building a strategic alliance relationship with both of the parties acquiring the shares
4. Execution date of the transfer
   Scheduled on July 1, 2018
5. Other information for the transfer
   (1) Legal form of the transfer
   Transferring part of the issued shares of Shinko Real Estate Co., Ltd. in exchange for cash consideration
   (2) Transfer price

Approximately 74.0 billion yen

(3) Income from the transfer

To post an extraordinary income of approximately 35.0 billion yen for the fiscal year 2018.

(4) Number of shares to be transferred and situation of shares held before and after transfer

1) No. of shares held before transfer

57,670 shares (ownership ratio of voting rights: 100.0%)

2) No. of shares to be transferred

43,253 shares

3) No. of shares held after transfer

14,417 shares (ownership ratio of voting rights: 25.0%)

Following the transfer, Shinko Real Estate Co., Ltd. will become an affiliated company of the Company.

(Amounts are rounded down to the million yen.)