Consolidated Statements of Changes in Net Assets

(From April 1, 2015 to March 31, 2016)

(In millions of yen)

	Stockholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total stockholders' equity
Balance as of April 1, 2015	250,930	100,782	392,652	(2,996)	741,368
Amount of change					
Dividends of surplus			(14,536)		(14,536)
Net loss attributable to owners of the parent			(21,556)		(21,556)
Share exchanges			(1,855)	3,407	1,552
Purchase of treasury stock				(1,970)	(1,970)
Disposal of treasury stock			(1)	2	1
Changes in stockholders interest due to transaction with non-controlling interests		2,775			2,775
Decrease due to changes in scope of consolidation			(1)		(1)
Reversal of land revaluation			18		18
Net changes other than stockholders' equity					
Total changes	–	2,775	(37,932)	1,439	(33,717)
Balance as of March 31, 2016	250,930	103,557	354,719	(1,556)	707,651

	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, 2015	27,097	(2,415)	(3,560)	22,892	(8,891)	35,122	75,293	851,785
Amount of change								
Dividends of surplus								(14,536)
Net loss attributable to owners of the parent								(21,556)
Share exchanges								1,552
Purchase of treasury stock								(1,970)
Disposal of treasury stock								1
Changes in stockholders interest due to transaction with non-controlling interests								2,775
Decrease due to changes in scope of consolidation								(1)
Reversal of land revaluation								18
Net changes other than stockholders' equity	(18,841)	(5,514)	154	(8,991)	(17,574)	(50,768)	(21,806)	(72,574)
Total changes	(18,841)	(5,514)	154	(8,991)	(17,574)	(50,768)	(21,806)	(106,292)
Balance as of March 31, 2016	8,255	(7,929)	(3,406)	13,900	(26,465)	(15,645)	53,486	745,492

(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 170 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., Kobe Special Tube Co., Ltd., Shinko Kenzai, Ltd., Shinko Kobe Power Inc., Kobelco Logistics, Ltd., Shinko Bolt, Ltd., Sakai Steel Sheets Works, Ltd., Shinko Engineering & Maintenance Co., Ltd., NI Welding Corporation, 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., Kobe Aluminum Automotive Products, LLC, Kobe Precision Technology Sdn. Bhd., Kobelco Compressors Corporation, Shinko Engineering Co., Ltd., Kobelco Compressors Manufacturing (Shanghai) Corporation, Kobelco Compressors America, Inc., Midrex Technologies, Inc., Kobelco Eco-Solutions Co., Ltd., Kobelco Eco-Maintenance Co., Ltd., 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 Cranes Co., Ltd., Shinko Real Estate Co., Ltd., KOBELCO POWER MOKA INC., Kobelco Research Institute, Inc., Kobelco (China) Holding Co., Ltd., Kobe Steel USA Holdings Inc.

For fiscal year 2015, six companies, including KOBELCO POWER MOKA INC., are newly consolidated and two companies, including Kobe Steel Sohar Project Construction & Company LLC are excluded from the scope of consolidation due to liquidation.

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, 43 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 2015, Kobelco Millcon Steel Co., Ltd. is newly accounted for by the equity method and two companies, including Clean Kobe Recycle Co., Ltd., are excluded from the application of equity method mainly due to liquidation.

42 non-consolidated subsidiaries, including Shinkyo Kaiun Co., Ltd., and 13 affiliates, including J&T Welding Supply Co., Ltd., are not accounted for by the equity method because the aggregated amounts of their net income (corresponding to amount of equity interest), retained earnings (corresponding to amount of equity interest) and other indicators are insignificant compared to those of the consolidated companies and companies accounted for by the equity method.

3. Matters Concerning Accounting Policies

(1) Basis and method for valuation of significant assets

A. Basis and method for valuation of securities

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 and Aluminum & Copper Businesses, and by the specific identification method for finished goods and work in progress in the Machinery Business, Engineering Business, Kobelco Eco-Solutions, Kobelco Construction Machinery and Kobelco Cranes (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 industrial machinery of the Machinery Business, plants of the Engineering Business and cast and forged steel products of the Iron & Steel 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.

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 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.

g) 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.

h) 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.

(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) Method of treatment of deferred assets

Bond issuance cost is fully expensed as incurred.

(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.

4. Changes in Presentation Method

The Company has applied Paragraph 39 in the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, revised on September 13, 2013), the presentation of net income has been changed, and the presentation of minority interests has been changed to non-controlling interests.

Notes to Consolidated Balance Sheets

1. Assets Pledged as Collateral and Collateralized Debt

(1) Assets pledged as collateral

Cash and deposits	16,643 million yen	
Tangible fixed assets	67,066	
Other	16,886	
Total	100,597	*1

(2) Collateralized debt

Short-term borrowings	13,769 million yen	
Long-term borrowings	2,019	
Total	15,789	*1, *2

*1 Of the assets pledged as collateral, 2,184 million yen have been provided as revolving mortgages (capped at 76,280 million yen) related to bank transactions. As of the end of the fiscal year 2015, consolidated basis, there were no corresponding obligations.

*2 In addition to the above, 1,080 million yen in borrowings of other subsidiaries and affiliates are collateralized by assets pledged as collateral.

2. Accumulated Depreciation of Tangible Fixed Assets 2,411,028 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.	8,947 million yen
Japan Aeroforge, Ltd.	4,038
Sales agents of Chengdu Kobelco Construction Machinery (Group) Co., Ltd.	3,844
Kobelco Millcon Steel Co., Ltd.	3,241
Sichuan Chengdu Chenggong Construction Machinery Co., Ltd.	2,012
Other (13 companies and other)	3,384
Total	25,468

The above includes activities similar to guarantees (16 million yen).

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 46,829 million yen at the end of fiscal year 2015.

(2) Trade notes receivable discounted 63 million yen

(3) Trade notes receivable endorsed 603 million yen

Notes to Consolidated Statements of Income

Loss on business of subsidiaries and associates

The loss on business of subsidiaries and associates of 37,363 million yen is booked as provision for loss on valuation of shares, and for loans and guarantee obligations chiefly with regard to the Company's affiliate, operating the business of wheel loaders Sichuan Chengdu Chenggong Construction Machinery Co., Ltd., which has been affected by the rapid worsening of the business environment in the construction machinery sector in China.

These provisions comprise 14,120 million yen for the allowance for doubtful accounts, 10,348 million yen for provision for loss on guarantees, 9,751 million yen for loss on write-down of investment securities, 2,009 million yen for loss on impairment of fixed assets, and 1,132 million yen for other items.

Of the losses at the affiliate above, loss on impairment of fixed assets is as follows.

Use	Location and number of sites	Type and amount
Assets to be disposed	Sichuan Province, China (1)	Buildings and structures, etc. 2,009 million yen

As a rule, groupings are carried out by the Kobe Steel Group based on each individual business site, to recognize impairment losses.

With regard to the above, an impairment loss of 2,009 million yen has been recorded on a book value reduction to the recoverable amount, at a consolidated subsidiary in the crane business which has suspended production activities amid a worsening business environment and plans to dispose of or sell the fixed assets that it holds.

These comprise buildings and structures of 1,360 million yen, machinery and equipment of 434 million yen, tools, furniture and fixtures of 85 million yen and 128 million yen in intangible fixed assets.

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

Notes to Consolidated Statements of Changes in Net Assets

1. Type and Total Number of Shares Issued at the End of Fiscal Year 2015

   Common stock 3,643,642,100 shares

2. Matters Concerning Dividends

   (1) Dividends paid

Resolution	Type of stock	Total dividends	Dividends per share	Record date	Effective date	Source of dividends
May 15, 2015 Board of Directors' meeting	Common stock	7,277 million yen	2.0 yen	March 31, 2015	June 4, 2015	Retained earnings
October 30, 2015 Board of Directors' meeting	Common stock	7,259 million yen	2.0 yen	September 30, 2015	December 1, 2015	Retained earnings

   (2) Dividends with the record date in fiscal year 2015 and the effective date in fiscal year 2016

   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, 2016 are as follows.

(In millions of yen)

	Carrying amount *1	Fair value *1	Difference
(1) Cash and deposits	155,021	155,021	—
(2) Notes and accounts receivable - trade	323,849	323,849	—
(3) Securities			
Available-for-sale securities (negotiable certificates of deposit)	31,000	31,000	—
(4) Investments in securities			
a) Held-to-maturity debt securities	7	7	—
b) Securities of subsidiaries and affiliates	16,071	18,886	2,815
c) Available-for-sale securities	95,674	95,674	—
(5) Notes and accounts payable	(360,802)	(360,802)	—
(6) Short-term borrowings	(221,937)	(222,765)	(827)
(7) Bonds and notes due within one year	(35,000)	(35,429)	(429)
(8) Accounts payable-other	(43,578)	(43,578)	—
(9) Bonds and notes	(176,000)	(178,535)	(2,535)
(10)Long-term borrowings	(356,492)	(358,239)	(1,746)
(11)Lease obligations (long-term liabilities)	(24,066)	(25,571)	(1,504)
(12) Derivative transactions *2			
a) Hedge accounting not applied	164	164	—
b) Hedge accounting applied	(10,404)	(10,404)	—

*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 103,023 million yen) are determined using the same method as (10) Long-term borrowings.

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

Based mainly on quoted market prices.

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

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

(12) Derivative transactions

For foreign currency exchange contracts, the fair values are determined based on forward foreign exchange rate. For interest rate swaps, 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 44,160 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	190.38 yen
Net loss per share	5.93 yen

(Amounts are rounded down to the million yen.)

Non-Consolidated Statements of Changes in Net Assets

(From April 1, 2015 to March 31, 2016)

(In millions of yen)

	Stockholders' equity									
		Capital surplus		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, 2015	250,930	100,789	100,789	3	88	2,880	184,375	187,347	(2,301)	536,765
Amount of change										
Adjustment due to change in tax rate				0	0	65	(65)	–		–
Reversal of reserve for special depreciation				(0)			0	–		–
Reversal of reserve for overseas investment loss					(76)		76	–		–
Reversal of reserve for advanced depreciation of non-current assets						(175)	175	–		–
Dividends of surplus							(14,536)	(14,536)		(14,536)
Net loss							(6,217)	(6,217)		(6,217)
Share exchanges							(1,855)	(1,855)	3,407	1,552
Purchase of treasury stock									(1,701)	(1,701)
Disposal of treasury stock							(1)	(1)	2	1
Net changes other than stockholders' equity										
Total changes	–	–	–	(0)	(76)	(110)	(22,423)	(22,610)	1,708	(20,902)
Balance as of March 31, 2016	250,930	100,789	100,789	2	11	2,770	161,952	164,737	(593)	515,863

	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, 2015	22,434	(2,554)	19,880	556,645
Amount of change				
Adjustment due to change in tax rate				–
Reversal of reserve for special depreciation				–
Reversal of reserve for overseas investment loss				–
Reversal of reserve for advanced depreciation of non-current assets				–
Dividends of surplus				(14,536)
Net loss				(6,217)
Share exchanges				1,552
Purchase of treasury stock				(1,701)
Disposal of treasury stock				1
Net changes other than stockholders' equity	(17,501)	(3,666)	(21,168)	(21,168)
Total changes	(17,501)	(3,666)	(21,168)	(42,070)
Balance as of March 31, 2016	4,932	(6,220)	(1,288)	514,575

(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 industrial machinery of the Machinery Business, plants of the Engineering Business and cast and forged steel products of the Iron & Steel 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 2015.

(5) 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 2015.

(6) 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 2015.

(7) 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 2015.

(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 2015.

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. Method of treatment of deferred assets

Bond issuance cost is fully expensed as incurred.

10. 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.

11. Accounting for Consumption Taxes

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

12. Application of Consolidated Taxation System

Consolidated taxation system is applied.

Notes to Non-consolidated Balance Sheets

1. Assets Pledged as Collateral and Collateralized Debt

(1) Assets pledged as collateral

Tangible fixed assets	6,906 million yen	
Securities of subsidiaries and affiliates	4,108	
Other	2,804	
Total	13,820	*1, *2

(2) Collateralized debt

Borrowings of subsidiaries and affiliates from financial institutions
14,893 million yen *1, *2

*1 Of the assets pledged as collateral, 1,090 million yen have been provided as revolving mortgages (capped at 76,280 million yen) related to bank transactions. As of the end of the fiscal year 2015, there were no corresponding obligations.

*2 Of the assets pledged as collateral, 12,711 million yen are the mortgages established for borrowings of 13,420 million yen from financial institutions to Shinko Kobe Power Inc., which is the primary operator of the wholesale power supply business.

2. Accumulated Depreciation of Tangible Fixed Assets 1,918,190 million yen

3. Guarantee Liabilities

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

Kobelco Angang Auto Steel Co., Ltd.	8,947 million yen
Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd.	8,797
Japan Aeroforge, Ltd.	4,410
Kobe Aluminum Automotive Products, LLC	3,331
Kobelco Millcon Steel Co., Ltd.	3,241
Kobe Aluminum Automotive Products (China) Co., Ltd.	2,768
Other (18 companies and other)	11,565
Total	43,062

The above includes activities similar to guarantees (580 million yen).

4. Monetary Receivables and Payables to Subsidiaries and Affiliates

Short-term monetary receivables	139,488 million yen
Long-term monetary receivables	39,749
Short-term monetary payables	68,493
Long-term monetary payables	204

Notes to Non-consolidated Statements of Income

Transactions with Subsidiaries and Affiliates

Operating transactions	
Net sales	302,900 million yen
Purchases	511,402
Non-operating transactions	49,346

Notes to Non-consolidated Statements of Changes in Net Assets

Type and number of treasury stock at the end of fiscal year 2015

Common stock 2,120,511 shares

Notes on Tax Effect Accounting

Major causes for accrual of deferred tax assets are loss on write-down of equity securities and impairment loss.

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)
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	270,638	Trade accounts payable	17,368
	Kansai Coke and Chemicals Co., Ltd.	24.00% directly	Sales of coal, etc. Purchase of coke, etc. Interlocking directors, etc.	Sales of coal, etc.	52,131	Other accounts receivable	6,495
				Purchase of coke, etc.	59,978	Trade accounts payable	12,348

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.

Notes on Per Share Information

Net assets per share	141.30 yen
Net loss per share	1.70 yen

(Amounts are rounded down to the million yen.)