

## **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 210 subsidiaries, of which 166 subsidiaries are included in the scope of consolidation (the “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 Co., 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 U.S.A. Inc., Kobelco Construction Equipment India Pvt. Ltd., Kobelco Cranes Co., Ltd., Shinko Real Estate Co., Ltd., Kobelco Research Institute, Inc., Kobelco (China) Holding Co., Ltd., Kobe Steel USA Holdings Inc.

For fiscal year 2014, four companies, including Kobelco Machinery do Brasil Serviços Empresariais Ltda., are newly consolidated and two companies, including KOBELCO AIR WATER CRYOPLANT, LTD. are excluded from the scope of consolidation mainly due to stock sales.

44 unconsolidated 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 the Company’s share), retained earnings (corresponding to the Company’s share) and other indicators are insignificant compared to those of the consolidated companies.

#### **2. Matters Concerning the Application of the Equity Method**

Of the 44 unconsolidated subsidiaries and 58 affiliates, 44 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 Wire Rope Co., Ltd., PRO-TEC Coating Company, Kobelco Angang Auto Steel Co., Ltd., SRT Australia Pty Ltd., Wuxi Compressor Co., Ltd., Shinsho Corporation.

For fiscal year 2014, two companies, i.e., Kobelco Angang Auto Steel Co., Ltd. and KOBELCO AIR WATER CRYOPLANT LTD. are newly accounted for by the equity

method and three companies, including KYOCERA Medical Corporation, are excluded from the application of equity method due to stock sales.

44 unconsolidated subsidiaries, including Shinkyo Kaiun Co., Ltd., and 14 affiliates, including Zirco Products Co., Ltd., are not accounted for by the equity method because the aggregated amounts of their net income (corresponding to the Company's share), retained earnings (corresponding to the Company's share) 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 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 value).

#### (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 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 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 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.

f) Provision for structural reform related expenses

For expenses expected to arise related to structural reform of Iron & Steel Business, provision is made at an estimated amount at the end of the fiscal year.

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.

(4) Accounting method for retirement benefits

To provide for payments of retirement benefits to employees, an asset or liability is established at an amount of projected benefit obligation net of the fair value of plan assets based on the estimated amounts at the end of the fiscal year.

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

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 cost and unrecognized actuarial differences, net of applicable taxes, are stated in "Remeasurements of defined benefit plans, net of tax" in accumulated other comprehensive income of 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 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, 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" in net assets and "Minority 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

Consolidated taxation is applied.

(11) Changes in accounting policies

(Application of accounting standard for retirement benefits)

In the Accounting Standard for Retirement Benefits (Accounting Standards Board of Japan (hereinafter “ASBJ”) Statement No. 26, May 17, 2012, hereinafter the “Accounting Standard for Retirement Benefits”) and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, March 26, 2015, hereinafter the “Guidance on Retirement Benefits”), the Group adopted the provisions set forth in Article 35 of the Accounting Standard for Retirement Benefits and in Article 67 of the Guidance on Retirement Benefits since fiscal year 2014. The Group revised its calculation method of the retirement benefit obligation and service costs. In addition, the Group changed its attribution method of the projected retirement benefit from the straight-line basis to the benefit formula basis and changed the calculation method of the discount rate.

Following Article 37 in the Accounting Standard for Retirement Benefits, which stipulates transitional treatment of the new standard, at the beginning of fiscal year 2014, the effect of the changed calculation method for the retirement benefit obligation and service costs is adjusted in the retained earnings.

As a result, at the beginning of fiscal year 2014, retained earnings increased by 5,066 million yen. The application of the new accounting standard does not have material effect on profit or loss in fiscal year 2014.

(Application of the accounting standard for business combinations)

The “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, revised on September 13, 2013), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, revised on September 13, 2013), and “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, revised on September 13, 2013) could be applied from the beginning of the consolidated accounting period of fiscal year 2014. Accordingly, the Company applied these accounting standards (excluding Article 39 of ASBJ Statement No. 22, revised on September 13, 2013) from the first quarter of the consolidated accounting period of fiscal year 2014. Under these accounting standards, the Company recorded the differences caused by changes in the Company’s equity shares in subsidiaries in which the Company continues to control as capital surplus. In addition, the Company recorded acquisition-related costs as expenses in the fiscal periods in which the costs are incurred. Regarding business combinations, from the beginning of the first quarter of the fiscal year 2014, the Company changed the method to reflect changes in the allocation of the acquisition costs arising from confirmation of the provisional accounting treatment on the consolidated financial statements of the fiscal year that includes the acquisition date.

The Company has adopted these accounting standards from the beginning of the first quarter of fiscal year 2014, following transitional treatment based on Article 58-2(4) of “Accounting Standard for Business Combinations,” Article 44-5(4) of “Accounting Standard for Consolidated Financial Statements,” and Article 57-4(4) of “Accounting Standard for Business Divestitures”.

Adoption of these accounting standards does not have a material effect on profit or loss in fiscal year 2014 and capital surplus at the end of fiscal year 2014.

#### **Notes to Consolidated Balance Sheets**

##### **1. Assets Pledged as Collateral and Collateralized Debt**

###### **(1) Assets pledged as collateral**

Cash and deposits	17,694 million yen
Tangible fixed assets	71,793
<u>Other</u>	<u>18,219</u>
Total	107,708

###### **(2) Collateralized debt**

Short-term borrowings	13,498 million yen
<u>Long-term borrowings</u>	<u>15,632</u>
Total	29,130

2. Accumulated Depreciation of Tangible Fixed Assets 2,365,359 million yen

##### **3. Guarantee Liabilities**

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

Sichuan Chengdu Chenggong Construction Machinery Co., Ltd.	26,581 million yen
Sales agents of Chengdu Kobelco Construction Machinery (Group) Co., Ltd.	10,354
<u>Other (11 companies and other)</u>	<u>12,029</u>
Total	48,965

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 reinsurance for this guarantee. The balances of the reinsurance were 79,042 million yen at the end of fiscal year 2014.

(2) Trade notes receivable discounted 101 million yen

(3) Trade notes receivable endorsed 3,132 million yen

#### **Notes to Consolidated Statements of Income**

##### **Dismantlement related expenses**

Dismantlement related expenses of 10,457 million yen include expenses arising from dismantlement of equipment, such as the blast furnace, in relation to construction of the power station at Kobe Works.

#### **Notes to Consolidated Statements of Changes in Net Assets**

##### **1. Type and Total Number of Shares Issued at the End of Fiscal Year 2014**

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 16, 2014 Board of Directors' meeting	Common stock	14,554 million yen	4.0 yen	March 31, 2014	June 5, 2014	Retained earnings
October 31, 2014 Board of Directors' meeting	Common stock	7,277 million yen	2.0 yen	September 30, 2014	December 1, 2014	Retained earnings

### (2) Dividends with the record date in fiscal year 2014 and the effective date in fiscal year 2015

At the meeting to be held on May 15, 2015, the following matters concerning dividends on common stock is going to be discussed.

- a) Total dividends 7,277 million yen
  - b) Dividends per share 2.0 yen
  - c) Record date March 31, 2015
  - d) Effective date June 4, 2015
- Source of dividends are designed to be retained earnings.

## Notes on Financial Instruments

### 1. Matters Concerning Status of Financial Instruments

The 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 Group raises funds mainly by bank loans and commercial paper in relation to its projected income and working capital. The Group invests temporary excess cash in 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. 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, 2015 are as follows.

(in millions of yen)

	Carrying amount *1	Fair value *1	Difference
(1) Cash and deposits	103,181	103,181	—
(2) Notes and accounts receivable - trade	355,579	355,579	—
(3) Investments in securities			
a) Held-to-maturity debt securities	11	11	—
b) Securities of subsidiaries and affiliates	18,617	28,969	10,352
c) Available-for-sale securities	124,352	124,352	—
(4) Notes and accounts payable - trade	(424,269)	(424,269)	—
(5) Short-term borrowings	(221,371)	(222,136)	(764)
(6) Bonds and notes due within one year	(20,000)	(20,074)	(74)
(7) Accounts payable – other	(36,687)	(36,687)	—
(8) Bonds and notes	(131,000)	(135,978)	(4,978)
(9) Long-term borrowings	(304,974)	(312,571)	(7,596)
(10) Lease obligations (long-term liabilities)	(27,077)	(28,756)	(1,679)
(11) Derivative transactions *2			
a) Hedge accounting not applied	(112)	(112)	—
b) Hedge accounting applied	(2,965)	(2,965)	—

\*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.

(4) Notes and accounts payable – trade, (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 79,551 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 and (10) 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.

(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), (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 64,950 million yen) are not included in (3) 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	213.70 yen
Net income per share	23.81 yen

(Amounts are rounded down to the 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 value).

#### **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 with no residual value.   |
| (2) Intangible fixed assets  | By the straight-line method.<br>For software for internal use, by the straight-line method over the estimated internal use lives (five 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.

### (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.

### (6) Provision for structural reform related expenses

For expenses expected to arise related to structural reform of Iron & Steel Business, provision is made at an estimated amount at the end of the fiscal year.

### (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.

### (8) Provision for retirement benefits

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

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 Machinery Business and Engineering Business, revenues are recognized 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, 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 cost 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

Consolidated taxation is applied.

## 12. Changes in Accounting Policies

(Application of accounting standard for retirement benefits)

In the Accounting Standard for Retirement Benefits (Accounting Standards Board of Japan (hereinafter “ASBJ”) Statement No. 26, May 17, 2012, hereinafter the “Accounting Standard for Retirement Benefits”) and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, March 26, 2015, hereinafter the “Guidance on Retirement Benefits”), the Group adopted the provisions set forth in Article 35 of the Accounting Standard for Retirement Benefits and in Article 67 of the Guidance on Retirement Benefits since fiscal year 2014. The Group revised its calculation method of the retirement benefit obligation and service costs. In addition, the Group changed its attribution method of the projected retirement benefit from the

straight-line basis to the benefit formula basis and changed the calculation method of the discount rate.

Following Article 37 in the Accounting Standard for Retirement Benefits, which stipulates transitional treatment of the new standard, at the beginning of fiscal year 2014, the effect of the changed calculation method for the retirement benefit obligation and service costs is adjusted in the retained earnings brought forward.

As a result, at the beginning of fiscal year 2014, retained earnings brought forward increased by 3,067 million yen. The application of the new accounting standard does not have a material effect on profit or loss in fiscal year 2014.

(Application of the accounting standard for business combinations)

The “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, revised on September 13, 2013), the “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, revised on September 13, 2013) and others could be applied from the beginning of the accounting period of fiscal year 2014. Accordingly, the Company applied these accounting standards from the first quarter of the accounting period of fiscal year 2014. Under these accounting standards, the Company recorded acquisition-related costs as expenses in the fiscal periods in which the costs are incurred. Regarding business combinations, the Company changed the method to reflect changes in the allocation of the acquisition costs arising from confirmation of the provisional accounting treatment on the non-consolidated financial statements of the fiscal year that includes the acquisition date.

The Company has adopted these accounting standards from the beginning of the first quarter of fiscal year 2014, following transitional treatment based on Article 58-2(4) of “Accounting Standard for Business Combinations” and Article 57-4(4) of “Accounting Standard for Business Divestitures”.

Adoption of these accounting standards does not have an effect on profit or loss in fiscal year 2014 and other capital surplus at the end of fiscal year 2014.

## Notes to Non-consolidated Balance Sheets

### 1. Assets Pledged as Collateral and Collateralized Debt

#### (1) Assets pledged as collateral

Tangible fixed assets	7,321 million yen
Securities of subsidiaries and affiliates	3,018
Other	2,696
Total	13,036 *

#### (2) Collateralized debt

Borrowings of subsidiaries and affiliates from financial institutions  
28,084 million yen \*

\* Of the assets pledged as collateral at the end of fiscal year 2014, 13,018 million yen are the mortgages established for borrowings of 26,456 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 1,893,599 million yen

### 3. Guarantee Liabilities

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

Japan Aeroforge, Ltd.	4,410 million yen
Kobelco Angang Auto Steel Co., Ltd.	3,872
Kobe Aluminum Automotive Products, LLC	3,635
Shinko Real Estate Co., Ltd.	3,322
Kobe Aluminum Automotive Products (China) Co., Ltd.	3,161
Kobelco Compressors Manufacturing (Shanghai) Corporation	2,357
<u>Other (14 companies and other)</u>	<u>6,310</u>
Total	27,070

The above includes activities similar to guarantees (720 million yen).

### 4. Monetary Receivables and Payables to Subsidiaries and Affiliates

Short-term monetary receivables	128,718 million yen
Long-term monetary receivables	26,786
Short-term monetary payables	82,969
Long-term monetary payables	282

## Notes to Non-consolidated Statements of Income

### 1. Transactions with Subsidiaries and Affiliates

#### Operating transactions

Net sales	315,665 million yen
Purchases	609,922
Non-operating transactions	49,526

### 2. Dismantlement Related Expenses

Dismantlement related expenses of 10,457 million yen include expenses arising from dismantlement of equipment, such as the blast furnace, in relation to construction of the power station at Kobe Works.

## Notes to Non-consolidated Statements of Changes in Net Assets

Type and number of treasury stock at the end of fiscal year 2014

Common stock	5,039,069 shares
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## 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)	Relationship		Description of transactions	Transaction amounts (million yen)	Account	Fiscal year-end balance (million yen)
			Number of common directors	Business relationship				
Affiliates	Shinsho Corporation	13.33% directly and 0.19% indirectly (21.55%)	7	The Company sells certain finished goods and purchases raw materials for iron and steel and other (including materials for equipment).	Purchase of raw materials for iron and steel, other raw materials and materials for equipment	330,208	Trade accounts payable	23,536
	Kansai Coke and Chemicals Co., Ltd.	24.00% directly	5	The Company sells coal and purchases coke.	Sales of coal	60,031	Other accounts receivable	7,402
					Purchase of coke	68,121	Trade accounts payable	12,383

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	152.98 yen
Net income per share	14.37 yen

(Amounts are rounded down to the million yen.)