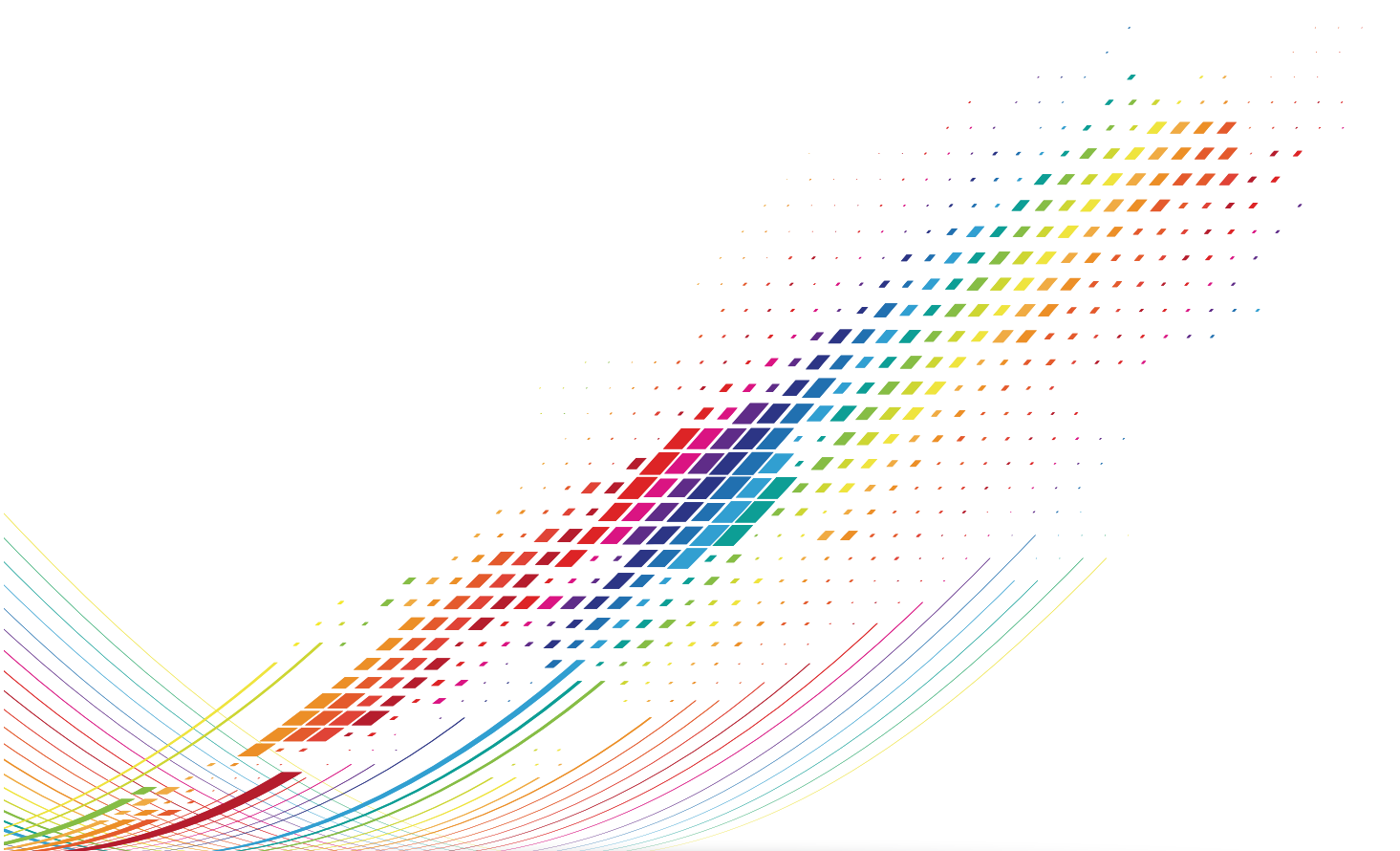




KOBE STEEL GROUP

Annual Report 2014

Year ended March 31, 2014



Building
a Foundation for Growth

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Laying the Foundation for Stable Profits and Business Growth

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Caution Regarding Forward-Looking Statements

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

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

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

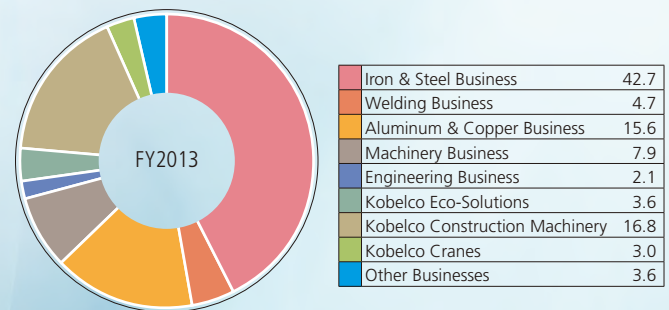


Securing Sustainable Growth by Harnessing the Comprehensive Strengths of the Kobe Steel Group

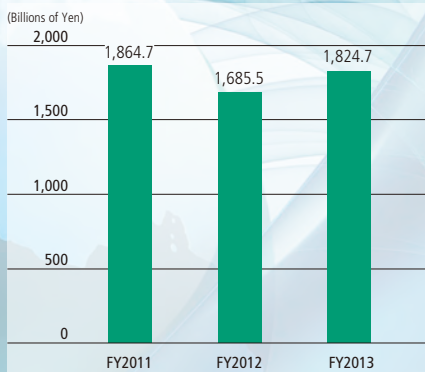
In fiscal 2010, we launched KOBELCO VISION "G," which laid out our business vision over the medium to long term and set forth "creating new value and achieving global growth" as a management goal that since then we have been working to achieve.

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

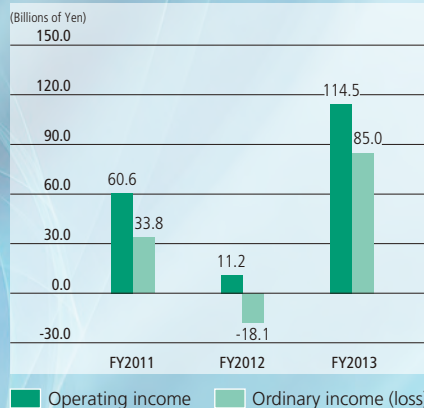
Composition of Net Sales by Business Segment (%)



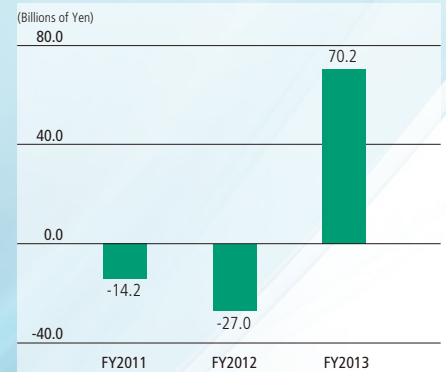
Net Sales



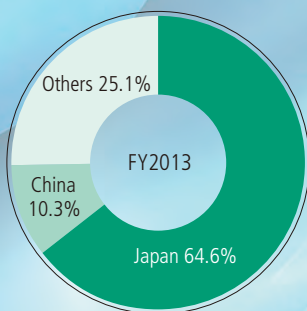
Operating Income and Ordinary Income (Loss)



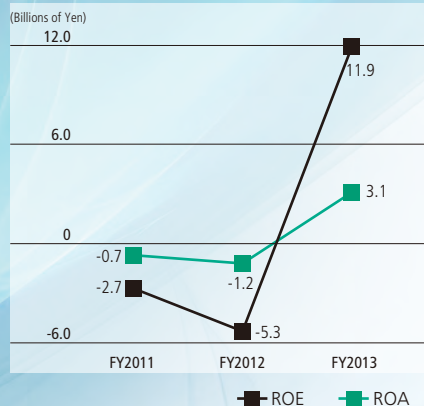
Net Income (Loss)



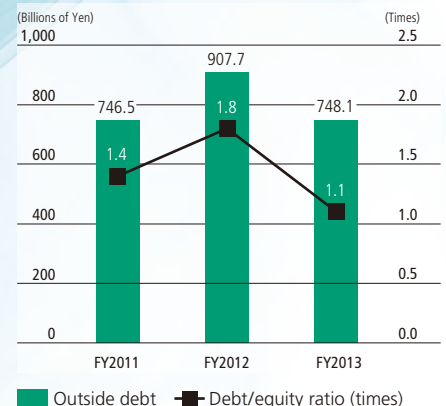
Net Sales by Region



ROE*/ROA**



Outside Debt and Debt/Equity Ratio



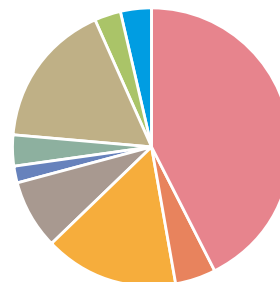
The Kobe Steel Group, a global enterprise built around Kobe Steel, Ltd., is engaged in a wide range of fields, with its major businesses concentrated on materials and machinery. The materials businesses comprise iron and steel, welding, and aluminum and copper products, while machinery includes industrial and construction machinery, as well as engineering and environmental solutions. Other important businesses are wholesale power supply and real estate.

* Percentage calculations are before elimination and adjustment for consolidation.

Net Sales by Segment (%)*

¥1,824.7 billion

Iron & Steel Business	42.7
Welding Business	4.7
Aluminum & Copper Business	15.6
Machinery Business	7.9
Engineering Business	2.1
Kobelco Eco-Solutions	3.6
Kobelco Construction Machinery	16.8
Kobelco Cranes	3.0
Other Businesses	3.6



Iron & Steel Business

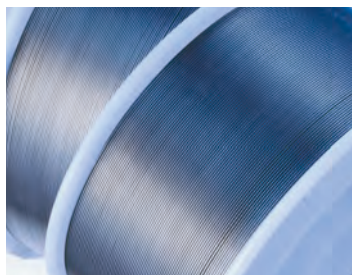
p. 14 to 15



Consisting of steel products, steel castings and forgings, titanium, steel powder and wholesale power supply, the Iron & Steel Business is strengthening its manufacturing capabilities to increase productivity and cost competitiveness. It is looking to provide overseas markets with its “Only One” products and technologies and shifting its focus to fields of growing demand.

Welding Business

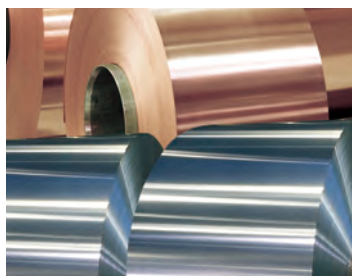
p. 16 to 17



By combining welding materials, welding systems, power sources, equipment and construction methods, we contribute to industries around the world through our welding technologies. We aim to be a top manufacturer globally by maintaining our No. 1 position in Japan and the ASEAN region as we strive to spur our overseas development.

Aluminum & Copper Business

p. 18 to 19



Defining applications for automotive and IT industries as priority areas, we aspire to enhance and enrich our products with distinctive value. As one of Japan’s leading aluminum and copper producers, we are stepping up our overseas operations, backed by long-nurtured technologies and trust built up over the years.

Machinery Business

p. 20 to 21

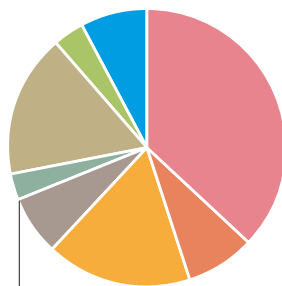


The Machinery Business offers an extensive array of products, including industrial machinery, compressors and equipment for the nuclear and other energy industries. To meet global demand in growing markets, it strives to create original products and technologies, bolster its capabilities in production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

Ordinary Income by Segment (%)*

¥85.0 billion

Iron & Steel Business	38.9
Welding Business	8.3
Aluminum & Copper Business	17.6
Machinery Business	7.5
Engineering Business	-4.6
Kobelco Eco-Solutions	3.0
Kobelco Construction Machinery	17.5
Kobelco Cranes	3.7
Other Businesses	8.1

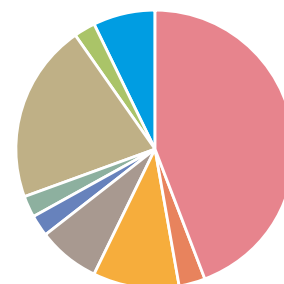


Engineering Business: -4.6%

Total Assets by Segment (%)*

¥2,288.6 billion

Iron & Steel Business	44.3
Welding Business	3.2
Aluminum & Copper Business	9.9
Machinery Business	7.3
Engineering Business	2.3
Kobelco Eco-Solutions	2.7
Kobelco Construction Machinery	20.6
Kobelco Cranes	2.7
Other Businesses	7.0



Engineering Business

p. 22 to 23



This business has an impressive track record in plant engineering, mainly in the ironmaking and energy sectors. It has done pioneering work in developing direct reduced iron processes requiring no blast furnace and a new ironmaking method, playing a leading role in this field. We remain committed to expanding our business around the world.

Kobelco Eco-Solutions

p. 24 to 25



As an environmental solution company that meets the needs of the current age, Kobelco Eco-Solutions Co., Ltd. contributes to society by offering technologies that help protect the global environment and improve living conditions.

Kobelco Construction Machinery

p. 26 to 27



Kobelco Construction Machinery Co., Ltd. specializes in hydraulic excavators. It is dedicated to developing original products with a focus on high fuel efficiency and low-noise features to meet diverse customer needs.

Kobelco Cranes

p. 28 to 29



Kobelco Cranes Co., Ltd. is a construction machinery manufacturer specializing in cranes. It aspires to create attractive products and to strengthen its business foundation by globalizing its operations.

Using the technologies and brand power it has developed, Kobelco is becoming a company that plays a more active role in the world.

Other Businesses: See p. 30



We are committed to becoming a corporate group with a prominent position in the global market

Hiroya Kawasaki President, CEO and Representative Director

Fiscal 2013 in Review

The Japanese economy continued its steady rebound due in part to increased public investment, including recovery efforts related to the Great East Japan Earthquake. Also, on the back of monetary, fiscal, and other government economic measures, export industries began to pick up owing to a correction in the yen, which remained high until the previous year. In overseas markets, while the U.S. economy continued to record gradual recovery, Europe remained weak. In China, although economic growth was sustained, the overall pace continued to slow.

Against this economic backdrop, the Kobe Steel Group saw its sales volume of steel products and aluminum rolled products increase in fiscal 2013 compared with the previous year due to strong demand from the automotive sector and the correction in the high yen that brought about an improvement in the export environment. The sales volume of copper rolled products increased year on year thanks in part to firm demand from the automotive sector and a sustained recovery in demand for semiconductors.

The sales volume of hydraulic excavators rose in Japan owing to demand arising from earthquake recovery efforts and a last-minute market surge prior to the implementation of stricter exhaust emission regulations. The sales volume overseas also grew compared with the previous year as the slowdown in the Chinese economy seemed to have bottomed out and sales continued to steadily expand in North America and Europe, although demand remained sluggish in Southeast Asia.

As a result, fiscal 2013 consolidated net sales were up ¥139.2 billion year on year to ¥1,824.7 billion. Consolidated ordinary income amounted to ¥85.0 billion, a ¥103.2 billion reversal from a loss in the previous

fiscal year, owing to progress in reducing overall costs, a favorable change in inventory valuation, and a change in the depreciation method for fixed assets.

Outlook for Fiscal 2014

The world economy is anticipated to continue recovering in fiscal 2014. Although demand in fiscal 2014 is expected to soften in the wake of the last-minute surge in demand in fiscal 2013 prior to the consumption tax increase on April 1, domestic demand is forecast to benefit from reconstruction demand and government fiscal policy.

In overseas markets, demand is expected to continue to gradually recover, particularly in North America and Europe. However, the overall outlook is unclear due to the slowdown in Chinese economic growth and the possible worsening of economic conditions in many developing countries due to a tapering off of quantitative easing in the United States. For the Kobe Steel Group, demand is anticipated to be strong across all its business segments. However, there are concerns that sluggish demand in developing countries as well as the ongoing overstock of steel products in the Asian region will negatively affect operations.

Under these conditions, Kobe Steel anticipates that consolidated sales will reach approximately ¥1,950.0 billion in fiscal 2014 and ordinary income is forecast to reach approximately ¥80.0 billion.

Progress of the Kobe Steel Group's 2013–2015 Medium-Term Business Plan

In May 2013, the Kobe Steel Group announced its Fiscal 2013–2015 Medium-Term Business Plan.

We have positioned the three-year period of the current medium-term business plan beginning from fiscal 2013 as a time to rebuild the Group's business

foundation. At the same time, we view this period as a time for establishing a foundation for stable profits and business growth.

To rebuild our business foundation, we will tackle the following four issues: strengthening the profitability of the steel business, improving the competitiveness of the Company, improving financial performance, and securing sales volume in growth sectors and regions.

With regard to strengthening the profitability of the steel business, we successfully achieved our goal of a ¥30.0 billion increase in fiscal 2013 thanks to raw material cost improvements attributable to lower procurement expenses, despite falling short of our fixed costs reduction target owing to increased production.

As for our progress toward improving the competitiveness of the Company, although due to stepped up production in fiscal 2013 we were unable to meet some original targets, such as for fixed costs, our initiatives yielded a roughly ¥19.0 billion year-on-year

improvement in earnings. We will continue to move forward with competitiveness improvement initiatives while striving to remain nimble in our response to changes in the business environment to maximize earnings.

As for our progress in improving financial performance, in fiscal 2013, we secured ¥120.0 billion in cash, exceeding the original plan by ¥20.0 billion, through such cash creation measures as asset reduction involving selling investment securities and cutting inventory. As a result, outside debt at the end of fiscal 2013 decreased ¥159.5 billion to ¥748.1 billion from ¥907.7 billion at the end of fiscal 2012 and the debt/equity ratio improved to 1.11 times.

In fiscal 2014, we forecast outside debt to be around ¥700.0 billion and the debt/equity ratio to improve to 1.0 times due to the securing of earnings as we continue to improve our financial position.

An overview of the important issues we are now addressing as we build a foundation for stable profits and business growth is presented in the special feature section on the following pages.

D/E Ratio Results and Outlook

	End of FY2012	End of FY2013	End of FY2014 Outlook
D/E Ratio (times)	1.75	1.11	1.0

Initiatives for Rebuilding the Business Foundation

Key Measures		Initiatives	Medium-Term Plan	(Effects of the measures, compared with FY2012)	
			FY2013–2015	FY2013–2014 (ongoing)	
				FY2013	Total
Strengthening the profitability of the Steel Business (Includes improving the competitiveness of the Company)		<ul style="list-style-type: none"> • Capital investment • Reducing costs at manufacturing level • Reducing raw material costs • Reducing fixed costs 	¥60.0 billion	¥30.0 billion	¥44.0 billion
Improving the competitiveness of the Company		<ul style="list-style-type: none"> • Reducing labor cost* • Reducing fixed costs • Reducing procurement costs • Strengthening manufacturing capabilities 	¥30.0 billion	¥19.0 billion	¥18.0 billion
Improving financial performance	Cash generation	<ul style="list-style-type: none"> • Reducing inventory • Securitizing accounts receivable • Selling assets • Carefully selecting investments 	¥120.0 billion	¥120.0 billion	¥150.0 billion

* Began cuts to director remuneration and manager salaries in April 2014

Public Offerings to Raise Capital

To successfully reform our business foundation and lay the foundation for stable earnings and business growth as set out in the medium-term plan, we implemented a public offering to raise capital in February 2014, our first such issuance in 24 years.

We procured a total of ¥83.6 billion through the issuance of new shares and disposition of treasury shares by way of public offering. We will allocate ¥13.2 billion of the funds to the Iron & Steel Business for the establishment of a joint venture in China to manufacture cold-rolled, high-strength steel for automotive parts and the Aluminum & Copper Business for the establishment of a company in China to manufacture aluminum sheet for automotive panels.

The remaining funds will be used for the construction of a new hot-metal treatment plant at Kakogawa Works; capital investment in highly efficient in-house power plants and other measures to strengthen profitability in the steel business; and capital investment related to reforming the structure of the steel business by consolidating Kobe Works' upstream processes at the Kakogawa Works, which is a more cost-efficient producer of iron and steel.

Regarding Dividend Payments

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

In fiscal 2012, even though we did everything we possibly could to improve profitability, with much regret, we were unable to pay a dividend because of the net loss we recorded, the second year in a row following a net loss in fiscal 2011. In fiscal 2013, considering the improved conditions in our financial position and the current and prospective business environment, we decided to resume the distribution of dividends and paid out a dividend of ¥4 per share.

In Conclusion

As I mentioned previously, we cannot take lightly the business environment the Group faces in fiscal 2014. We remain focused on successfully carrying out the medium-term plan by increasing our competitiveness and bolstering our business structure.

I would like to thank all of our shareholders, investors and other stakeholders and ask for their continued understanding and support.

August 2014



President, CEO and Representative Director

Laying the Foundation for Stable

Reinforcing Our
Competitiveness

Since April 2010, Kobe Steel has been striving to fulfill its medium- to long-term business vision, KOBELCO VISION “G,” which aims to create new value and achieve global growth. To fulfill this vision, and with a commitment to securing the Group’s sustainable growth, in May 2013 we formulated a medium-term business plan in which our first priority is rebuilding our business base. We are moving forward and laying a solid foundation to secure stable profits and business growth.

In the Iron & Steel Business, we are working to strengthen the profitability of the steel business as we aim to build a stable earnings structure. We are also working to reform the structure of the steel business by raising our competitiveness.

01 Strengthening the Profitability of the Steel Business

Earnings impact from strengthening the profitability of the steel business

FY2013 actual earnings impact:

¥ **30.0** billion

FY2013–2015

earnings impact target:

¥ **60.0** billion

Kobe Steel is focused on creating a stable earnings structure for the Iron & Steel Business. In this pursuit, we have implemented various cost-cutting measures, such as reducing costs at the shop floor level, decreasing the cost of raw materials and lowering fixed expenses. We are also increasing the competitiveness of our high-end “Only One” products.

The new hot-metal treatment plant at Kakogawa Works went into operation in April 2014. By enabling almost all the molten iron to undergo hot-metal treatment, the new plant enables Kobe Steel to raise even higher its production capacity for value-added products that require a high level of cleanliness. In addition, we are striving to achieve a good return on our investments, including a revamped accelerated cooling facility for heavy plate and a highly efficient in-house gas-fired electric power plant. Moreover we are building a more stable earnings structure by expanding sales and bolstering our product lineup.

Kakogawa Works Facilities

- New hot-metal treatment plant (operational since April 2014)
- Accelerated cooling facility for heavy plate (operations slated for FY2014)
- Highly efficient gas-fired electric power plant (operations slated for FY2014)



New hot-metal treatment plant at Kakogawa Works

Profits and Business Growth

02 Reforming the Structure of the Steel Business

Improving Cost Competitiveness by Integrating Upstream Facilities into Kakogawa Works

Consolidation of upstream operations and equipment upgrades are anticipated to yield cost savings of

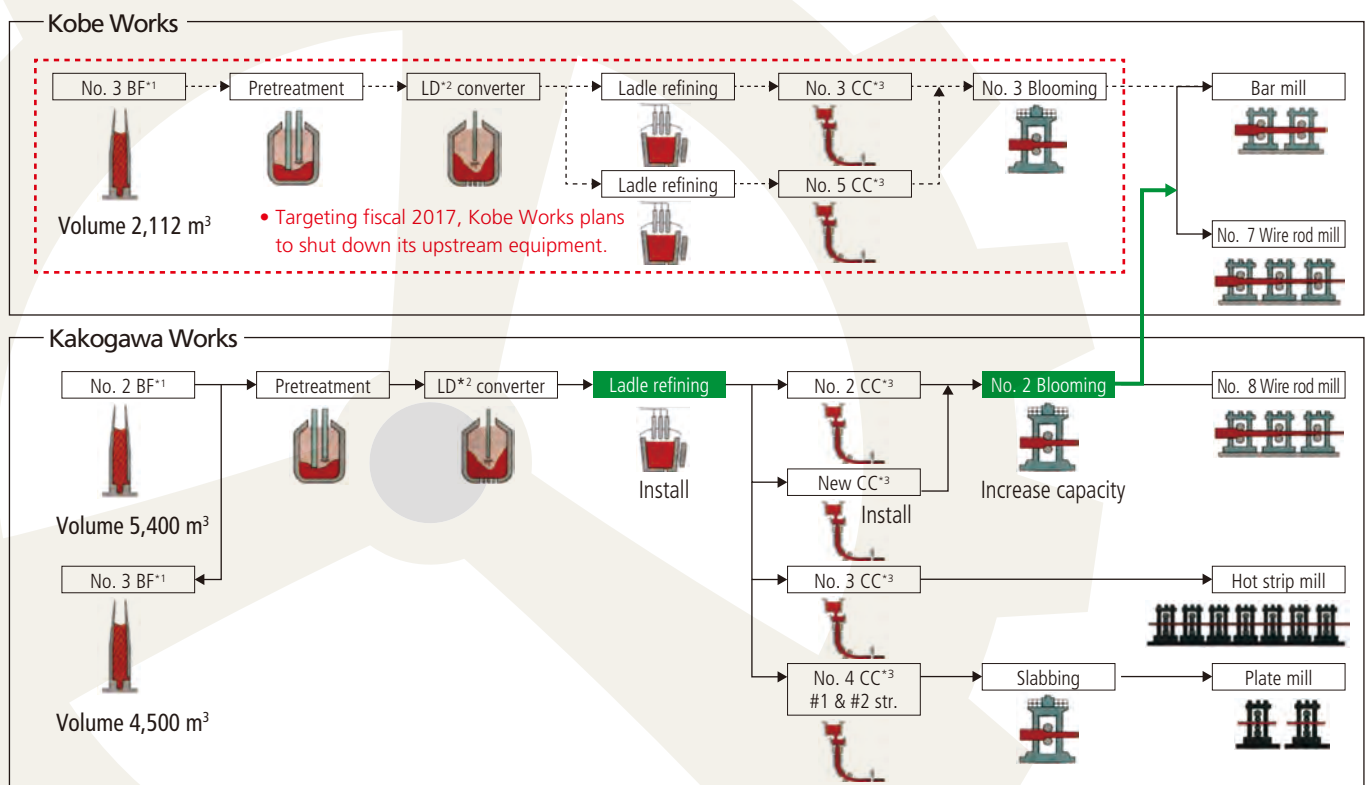
over **¥15.0** billion per year.

The business environment in the medium to long term is highly likely to see a slowdown as manufacturers shift operations overseas, especially in the automotive industry. With a large number of new steel plants set to come on line in 2015 in Southeast Asia, competition is only expected to continue heating up.

Amid this environment, it is critical that Kobe Steel's earnings structure in its steel business is stable so that it may execute its growth strategies. We must ensure a business structure that will not incur losses even if, for example, the crude steel production of Japan declines from the present level.

To accomplish this, and as part of reforming the structure of the steel business, Kobe Steel decided to shut down the blast furnace and all other upstream production facilities at Kobe Works in fiscal 2017 and consolidate the production of semi-finished products, which are used as the raw materials to make steel products, at Kakogawa Works. We intend to invest ¥65.0 billion in Kakogawa Works to reinforce its production facilities, such as the continuous casting facilities. We anticipate achieving cost savings of over ¥15.0 billion per year from the consolidation.

Production Process Flow



*1 BF: Blast furnace *2 LD: Linz-Donawitz *3 CC: Continuous caster

Special Feature:

Laying the Foundation for Stable Profits and Business Growth

Securing Greater Competitiveness and Expanding Profitability in Each Business Segment

In the construction machinery, compressor and other businesses, we have established locations around the world and are boldly pursuing global growth strategies. In addition, we are expanding our business and creating new products, such as binary power generation systems and products for hydrogen stations, by leveraging the diverse technologies and other strengths of the Group and combining technologies through Groupwide projects.

In addition, we are active in the power supply business, viewing it as a stable earnings base into the future.

01 Kobelco Construction Machinery

Accelerating Global Expansion in Six Regions



Hydraulic excavator
(North American model)

In the construction machinery business, we allowed our global alliance with CNH Global N.V. to expire at the end of 2012 and are currently rebuilding our sales and service networks in the six regions of North America, South America, Europe, the Middle East, the Commonwealth of Independent States and Africa. We are steadily increasing sales in European and U.S. markets, which we have newly reentered, and are building up a sales network that can cover 90% of the North American market.

Turning to production, we have been delivering products to meet the needs of our customers for fuel efficiency through our optimized manufacturing system, which went into full operation in May 2012 at four locations that draw on the resources of the Global Engineering Center. We are continuing our efforts to promote the fuel-efficient KOBELCO brand around the world.

FY2015—Establish a Strong Global Brand

Market Share Targets for Excavators

Global share: **10%**

China: **15%** or more
(among foreign companies)

Japan: **20%** or more

Southeast Asia: **25%** or more

North America: **7%** or more

● Production bases ● Sales bases

02 Groupwide Projects

Initiatives for a Hydrogen-Based Society

Outlook for the spread of fuel cell vehicles and hydrogen stations:

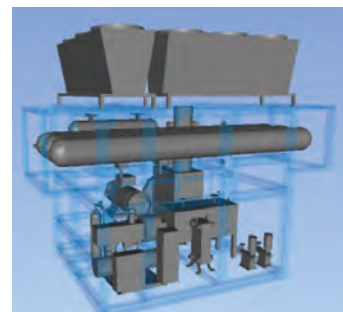
2015: Fuel cell vehicles begin to gain popularity among the general public

2025 outlook:
Fuel cell vehicles: 2 million

Hydrogen stations: 1,000

Reference: "Toward Commercialization and Wide Use of Fuel Cells" by the Fuel Cell Commercialization Conference of Japan (FCCJ)

Cutaway diagram of the HyAC mini package



Kobe Steel manufactures the principal components of hydrogen stations, including hydrogen compressors, heat exchangers and refrigeration compressors as well as basic materials, including the special stainless steel essential for ultrahigh-pressure components. In addition, Shinko Engineering & Maintenance Co., Ltd. has developed a simulation that selects the optimum equipment specifications for filling the hydrogen fuel cells used in vehicles. We have built a system that supplies the necessities for building hydrogen stations in terms of both hardware and software.

03 The Power Supply Business

Expanding Our Stable Earnings Base

Shinko Kobe Power Station:

1.4 million kW

Kakogawa Works
(in-house electric power plant):

0.6 million kW

Electric Power Station in Moka:

1.2 million kW
(planned for 2020)

Electric Power Station in Kobe:

1.4 million kW (max.)
(planned for FY2021)

Leveraging the know-how cultivated by constructing and operating the coal-fired power generation station at Kobe Works and Kakogawa Works' highly efficient gas-fired in-house power plants, Kobe Steel is expanding its power supply business as a future stable earnings base.

We aim to construct gas-turbine combined cycle (GTCC) power plants in Moka, Tochigi Prefecture, and a coal-fired power station on land that will be made available at Kobe Works when the blast furnace is shut down, as we reform the structure of the steel business.

Building Japan's First Inland Electric Power Station

Kobe Steel to Begin Operations at Power Station in Moka in 2019

This power station will be supplied with city gas by Tokyo Gas Co., Ltd. and will have two GTCC plants that will generate electricity. We plan to construct the power station near our Moka aluminum rolling plant. The generation capacity is expected to be 1.2 million kW. The station's No. 1 Power Plant is slated to come on line in the latter half of 2019 and the No. 2 Power Plant in the first half of 2020.

Repurposing the Site of a Blast Furnace

Kobe Steel to Begin Operations of a Coal-Fired Power Station in 2021

We are planning a green urban power station that features highly energy-efficient generation facilities. It will be constructed on the site of the current blast furnace at the Kobe Works, which will be made available after the blast furnace is shut down. The power station will have a maximum generation capacity of 1.4 million kW. We are aiming to begin supplying electricity between fiscal 2021 and 2022.

Special Feature:

Laying the Foundation for Stable Profits and Business Growth

Making Cars Lighter

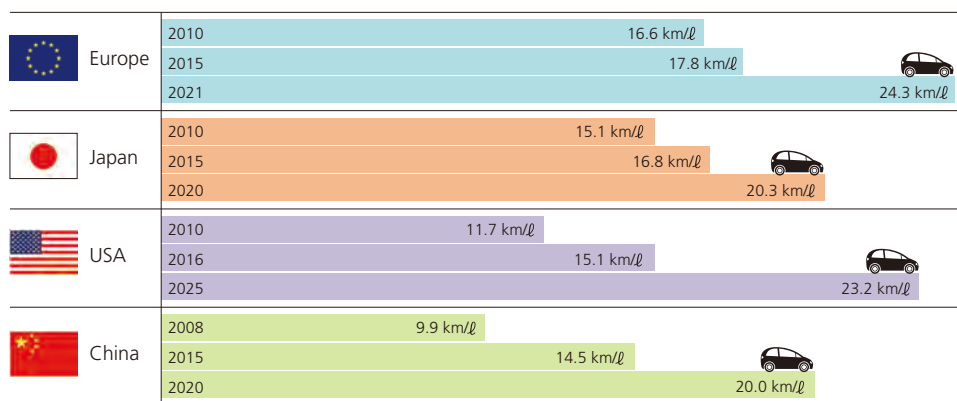
With protecting the global environment becoming increasingly important, automakers around the world are making their cars lighter to improve fuel economy and thus reduce CO₂ emissions. Also spurring automakers to reduce vehicle weight has been the recent tightening of regulations on fuel consumption. As the batteries of eco-friendly vehicles, including hybrid, electric and fuel-cell cars, are intrinsically heavy, the main focus is to make car bodies even lighter. At the same time, this cannot be done at the cost of sacrificing collision safety performance.

Against this backdrop, Kobe Steel is helping to make lighter cars a reality by providing superior steel and aluminum products.

01 Trends in Environmental Regulations

Although individual countries' regulations regarding the fuel economy of automobiles vary, there is a clear across-the-board trend toward progressively stricter regulations, as seen in the graph and table below.

Global Trends in Fuel Economy Regulations
(Kobe Steel estimates)



Region	Regulations	2010	2015	2021
Europe	CO ₂	2010: 140 g/km	2015: 130 g/km	2021: 95 g/km
	Fuel economy	2010: 16.6 km/l	2015: 17.8 km/l	2021: 24.3 km/l
Japan	Fuel economy	2010: 15.1 km/l	2015: 16.8 km/l (23.5% higher than fiscal 2004 levels)	2020: 20.3 km/l (24.1% higher than fiscal 2009 levels)
USA	Fuel economy	2010: 27.5 mpg (11.7 km/l)	2016: 35.5 mpg (15.1 km/l)	2025: 54.5 mpg (23.2 km/l)
China	Fuel economy	2008: 10.1 l/100km (9.9 km/l)	2015: 6.9 l/100km (14.5 km/l)	2020: 5.0 l/100km (20.0 km/l)

02 Kobe Steel's Initiatives

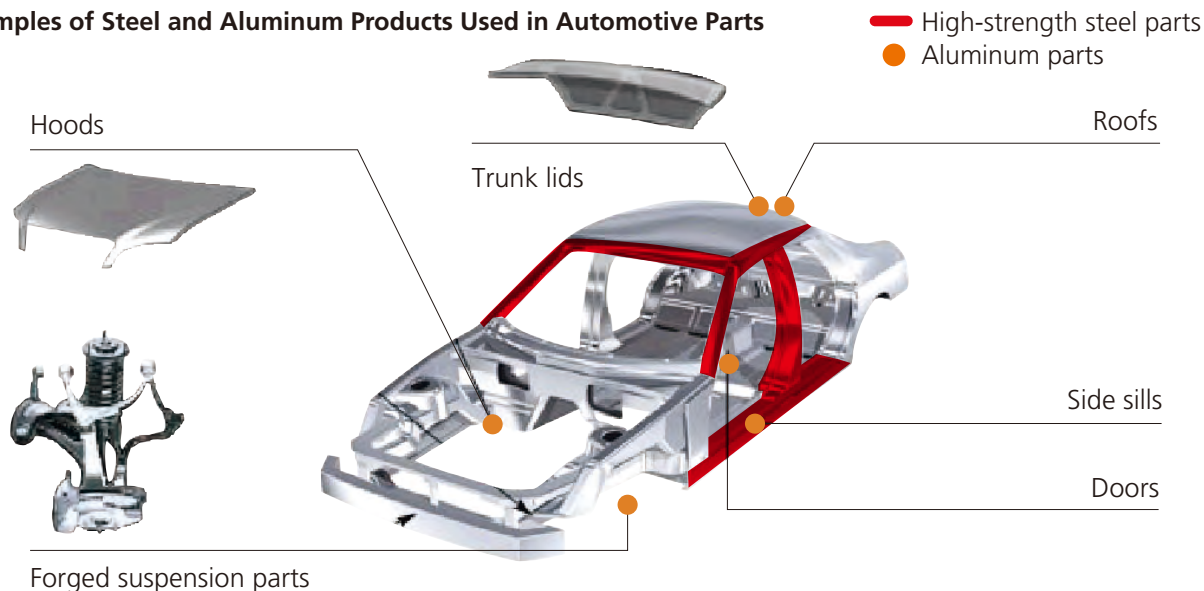
Market Penetration of Kobe Steel Products

In steel products, Kobe Steel's aggressive R&D has yielded high-strength steel sheet that automakers have been putting to use, especially in car bodies and frames.

In aluminum products, in collaboration with automakers we have developed panels and other materials for hoods and trunk lids as well as forgings for suspensions from the design stage that every major automaker has adopted.

(See diagram on next page.)

Examples of Steel and Aluminum Products Used in Automotive Parts



Kobe Steel's High-Strength Steel and Aluminum Supply Structure

Kobe Steel is building a supply structure for lighter automotive materials in North America, China and Europe in addition to Japan.

Region	Steel Parts	Aluminum Parts	
		Rolled Products	Castings and Forgings
Europe	Signed a cooperative agreement with voestalpine regarding technology for automotive steel sheet	Signed a technical cooperative agreement with Hydro Aluminium Rolled Products GmbH for aluminum sheet used in automotive body panels	
Japan	Kakogawa Works	Moka Plant	Daian Plant
USA	PRO-TEC Coating Company	(Joint venture under consideration)	Kobe Aluminum Automotive Products, LLC
	Production and sale of automotive cold-rolled high-strength steel sheet and hot-dipped galvanized high-strength steel sheet	Production and sale of aluminum sheet for automotive body panels and heat exchangers	Production and sale of aluminum forgings for automotive suspensions
China	Kobelco Angang Auto Steel Co., Ltd.	Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd.	Kobe Aluminum Automotive Products (China) Co., Ltd.
	Production and sale of automotive cold-rolled high-strength steel sheet (slated to come on line in 2016)	Production and sale of aluminum sheet for automotive body panels (slated to come on line in 2016)	Production and sale of aluminum forgings for automotive suspensions

03 Future Initiatives

Going forward, we expect the focus of technologies used to cut vehicle weight to shift toward multi-materials, in other words products that combine high-strength steel and aluminum to optimize performance.

Lightweight car bodies are not possible when using only steel and keeping costs low is not possible when using only aluminum. Our experience in dealing with both high-strength steel and aluminum makes us uniquely positioned to leverage the strong points of both materials, and we aim to exercise this leverage for optimum performance. Through the aforementioned efforts, we are working to differentiate ourselves from other companies that can only offer either high-strength steel or aluminum.

Iron & Steel Business

Strengthening Manufacturing Capabilities for Advanced, High Value-Added Products



Crankshafts (Build-Up Type)

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

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



Wire Rod for Automotive Engine Valve Springs



High-Strength Steel Sheet

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

Main Products and Services

STEEL PRODUCTS

[Steel Wire Rod and Bar]

- Ordinary steel wire rod
- Special steel wire rod
- Ordinary steel bar
- Special steel bar

[Steel Plate]

[Steel Sheet]

- Hot-rolled steel sheet
- Cold-rolled steel sheet
- Electrogalvanized steel sheet
- Hot-dipped galvanized steel sheet
- Pre-painted steel sheet

[Pig Iron]

STEEL CASTINGS AND FORGINGS

[Ship Parts]

- Crankshafts
- Engine parts
- Shafts
- Ship hull parts

[Industrial Machinery Parts]

- Mold steel
- Work rolls
- Bridge parts
- Heavy-wall pressure vessels

TITANIUM

- Titanium for aircraft parts
- Titanium for heat exchangers
- Titanium for construction
- Titanium for golf clubs
- Titanium for motorcycle mufflers
- Titanium for wristwatches
- Titanium for IT applications

STEEL POWDER

- Steel powder for powder metallurgy
- Steel powder for handwarmers
- Steel powder for deoxidizers
- Steel powder for soil remediation and groundwater purification
- Steel powder for magnetic applications
- Fine powder for metal injection molding

WHOLESALE POWER SUPPLY

Net sales **+8.8%**
¥808.5 billion

Ordinary income **+¥83.8 billion**
¥33.6 billion

Ordinary income ratio **(-) 4.2%**

Fiscal 2013 Overview

Automotive demand has been strong both in Japan and overseas and the sales volume of steel products therefore increased in comparison with the previous year. Sales prices also increased due to a rise in steel prices.

Sales of steel castings and forgings declined due to sluggish demand in the shipbuilding industry and lower sales prices. However, sales of titanium products increased.

As a result, consolidated segment sales in fiscal 2013 were up 8.8% to ¥808.5 billion. Ordinary income recovered from a loss of

¥50.2 billion in the previous year to income of ¥33.6 billion owing to progress in reducing overall costs, a favorable change in inventory valuation, and a change in the depreciation method for fixed assets.

	Billions of yen		Change
	2012	2013	
Net sales	¥742.8	¥808.5	+8.8%
Ordinary income (loss)	(50.2)	33.6	-

TOPICS

Hot-Metal Treatment Plant Starts up at Kakogawa Works

Kobe Steel completed a new hot-metal treatment plant at Kakogawa Works with two reactors for desulfurization and one dephosphorization furnace, all of which went into operation in April 2014. The new facility enables nearly all the molten iron produced at the works to undergo hot-metal treatment and has improved the production system to facilitate the expansion of sales



The new hot-metal treatment plant

of high-end products that meet requirements for a high degree of cleanliness. The increased reaction efficiency of the desulfurization and dephosphorization processes means that a lower volume of auxiliary materials is consumed and yield is improved, greatly cutting costs.

Kobe Steel to Reline No. 3 Blast Furnace at Kakogawa Works

Kobe Steel plans to reline the 20-year-old No. 3 Blast Furnace at its Kakogawa Works in December 2016, which will require the furnace to go offline for 90 days at the end of September 2016 and cost approximately ¥20 billion. The outer steel shell of the blast furnace will be retained and the use of copper staves, noted for their high cooling efficiency, will be expanded. The inner profile of the blast furnace will be optimized and improvements will be made to the raw material charging system to ensure stable operation while allowing the greater use of low-cost raw materials, thereby further reducing operating costs.



No. 3 Blast Furnace at Kakogawa Works

Kobe Steel and Angang Steel Sign Joint Venture Agreement to Make Automotive Cold-Rolled High-Strength Steel in China

Kobe Steel and China's Angang Steel Company Limited, a leading subsidiary of Anshan Iron & Steel Group Complex signed an agreement in October 2013 to establish a joint venture in China to produce and sell advanced cold-rolled high-strength steel sheet for automobiles.

The new company, to be called Kobelco Angang Auto Steel Co., Ltd., will construct a continuous annealing line with a production



Ansteel Group Corporation Chairman Zhang Guangning (third from right) shaking hands with Kobe Steel President Hiroya Kawasaki (second from right)

capacity of 600,000 metric tons per year within one of Anshan Iron and Steel Group Complex's steel-works. Plans call for production to begin in early 2016. Total investments are anticipated to reach 1.75 billion yuan (¥28.9 billion).

Kobe Steel to Supply Titanium Forgings for Main Landing Gears of Airbus A350 XWB Planes

Kobe Steel has signed a contract to supply France-based Messier-Bugatti-Dowty (Safran Group) with titanium forgings for the main landing gears of the Airbus A350 XWB planes.

The main landing gear parts will be manufactured by Kobe Steel and Group member, Japan Aeroforge, Ltd. Until the formation of Japan Aeroforge, Japan did not have production equipment to make large titanium forgings. Kobe Steel is already Japan's leading integrated producer of commercially pure titanium and titanium alloy products, supplying titanium forged products of outstanding quality to the aerospace industry. This agreement makes Kobe Steel Japan's first supplier of large-scale titanium forged parts.

Welding Business

Striving to Be the Most Trusted Welding Company by Providing Welding Solutions



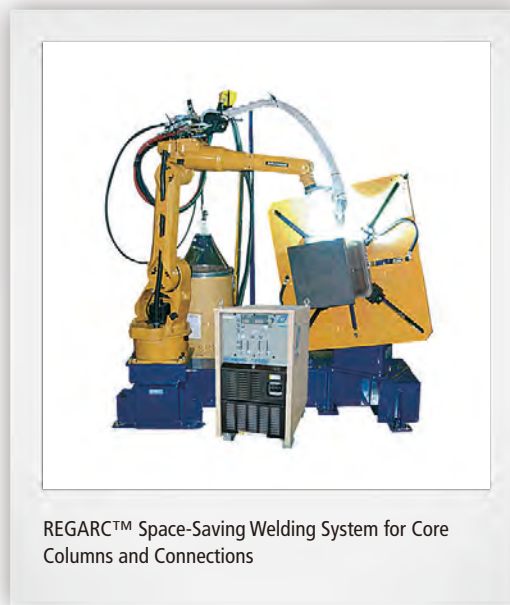
Non-Copper-Coated Solid Wires (SE Wire Series)

- ▲ With a new wire surface treatment technology, non-copper-coated solid wire offers a revolutionary level of wire feedability and unrivaled arc stability. The copper coating process is eliminated from the manufacturing process to minimize the impact on the global environment.

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



Flux-Cored Wires



REGARC™ Space-Saving Welding System for Core Columns and Connections

- ◀ Using digitally controlled welding robots and process technology, the REGARC™ system optimally feeds the welding wire, reducing the spatter that occurs during CO₂ gas-shielded arc welding by 10%.

Main Products and Services

WELDING MATERIALS

- Covered arc welding electrodes
- Flux-cored and solid welding wires for semi-automatic welding
- Solid wires and dosed fluxes for submerged arc welding
- TIG welding rods
- Backing materials

WELDING SYSTEMS

- Robot systems for welding steel frames
- Welding systems for bridge construction
- Welding systems for construction machinery
- Other types of robot welding systems
- Off-line teaching systems
- Welding robots
- Welding power sources


TESTING AND INSPECTION


- Testing, analysis, inspection, commissioned research
- Educational guidance
- Consulting
- Maintenance and inspection of industrial robots, power sources and equipment

HIGH FUNCTIONAL MATERIALS

- High functional filters that deodorize, dehumidify, decompose ozone, and remove harmful gases and oil mist
- Odor neutralizers

OVERSEAS OPERATIONS

Net sales +7.5%
 ¥88.3 billion

Ordinary income +234.2%
 ¥7.2 billion

Ordinary income ratio +5.5 points
 8.2%

● Fiscal 2013 Overview

The sales volume of welding materials was virtually unchanged from the previous year. Domestic demand was strong in the automotive and construction sector, and in the second half of fiscal 2013 demand from the shipbuilding industry was also on a track to recovery. However, China's economic growth rate continued to slow.

Sales of welding robot systems increased in comparison with the previous year. Although demand was sluggish in the construction machinery sector, particularly in China, demand from Japan's construction sector increased.

As a result, consolidated segment sales in fiscal 2013 increased 7.5% in comparison with the previous year to ¥88.3 billion due to the correction of the high yen rate. Ordinary income increased ¥5.0 billion to ¥7.2 billion owing to progress in reducing overall costs.

	Billions of yen		Change
	2012	2013	
Net sales	¥82.2	¥88.3	+7.5%
Ordinary income	2.2	7.2	+234.2%

● TOPICS

Strengthening Overseas Business

Thai-Kobe Welding Co., Ltd. was the Kobe Steel Group's first overseas base, and it has retained the number one market share in Asia since its establishment. In 2011, we further increased our presence in the ASEAN region by assigning overall regional control to our company in Singapore, Kobelco Welding Asia Pacific Pte. Ltd., which continually works to strengthen marketing, technology, service and manufacturing capabilities while upgrading and expanding development functions throughout the region. In fiscal 2013, we set up a representative office in Indonesia, and at Kobe Welding (Malaysia) Sdn. Bhd. we are moving proactively to meet rising demand for covered welding electrodes by expanding production capacity, with start-up in January 2015.

In China, we are promoting initiatives focused on improving operations and marketing. Also, we commenced activities under a new dealer system to further expand sales and orders in the world's largest market amid fierce competition.

In addition, our efforts to expand sales in the fields of energy and offshore structures have come to fruition. We have received orders for welding materials for a large-scale offshore structure in South Korea, LNG ships and storage tanks in China, and pipelines in Russia. Going forward, we will promote solutions that bring together our various technologies and business strengths, aiming to further expand sales and reinforce our ability to respond to orders.



Kobe Welding (Malaysia) Sdn. Bhd.

Developing Welding Solutions and Processes

Robotic welding is rapidly shifting toward automation, versatility and improved labor efficiency. Even amid this trend, demand for higher efficiency is especially strong with regard to medium and heavy steel plate for the steel frames of high-rise buildings as well as in the area of construction machinery.

We are the only manufacturer that supplies both welding materials and welding systems. To leverage this strength, we are maximizing our performance, incorporating our welding materials into robot systems while aiming to become true partners with our users.

Our REGARC™ series of welding robot systems, a strong seller in Japan, pairs robots with welding materials for CO₂ gas-shielded arc welding, resulting in lower spatter and fumes and a high deposition rate. We will continue to develop new welding solutions that combine welding materials, technology and welding systems to provide products sure to satisfy our customers.



Large-scale column assembly welding system for core columns and connections

Product Quality Policy

Striving to be the most trusted welding solutions company, we have formulated a product quality policy to raise awareness of and control over product quality in the Welding Business while continuously striving to improve operations.

Product Quality Policy

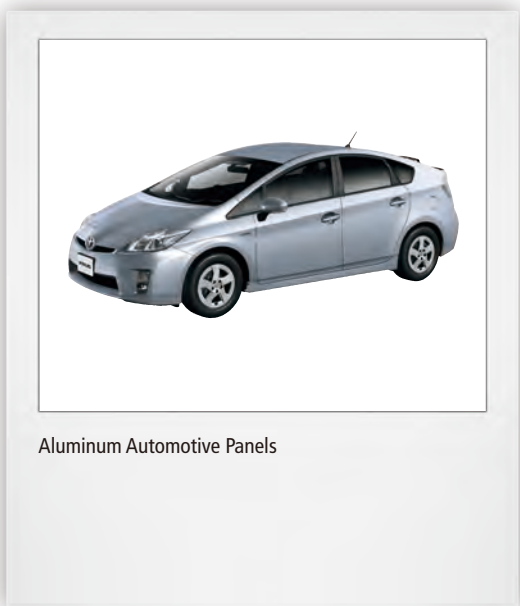
Aiming to be the most trusted welding solutions company, we will provide superior products and services as our customers' best partner and in cooperation with the broader community.

- We will consider our customers' situation when providing solutions.
- We will bring together our wealth of technology to develop innovative products.
- We will use our superior manufacturing capabilities to achieve consistent product quality.

Every employee will work hard to continuously improve operations.

Aluminum & Copper Business

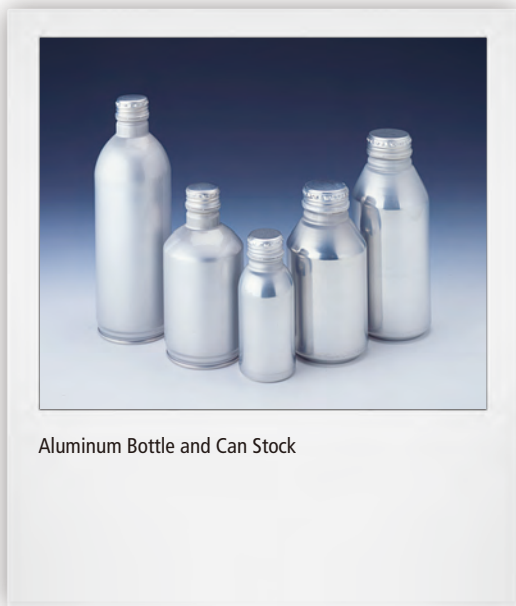
One of Japan's Leading Suppliers to the Automotive and IT Industries



Aluminum Automotive Panels

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

▶ Kobe Steel supplies 30% or more of the aluminum beverage can stock in Japan. Moreover, we have a commanding 70% share of the market for bottle can stock, which requires complicated processing.



Aluminum Bottle and Can Stock



Aluminum Disk Blanks

◀ Kobe Steel supplies nearly 60% of the disk blanks worldwide. With production centers in Japan and Malaysia, we are contributing to an advanced information society.

Main Products and Services

ALUMINUM SHEET AND PLATE

- Can stock
- Automotive body panel material
- Disk material
- General sheet and plate

ALUMINUM EXTRUSIONS AND FABRICATED PRODUCTS

- Extrusions (shapes, tubes, bars)
- Fabricated products

ALUMINUM AND MAGNESIUM CASTINGS AND FORGINGS

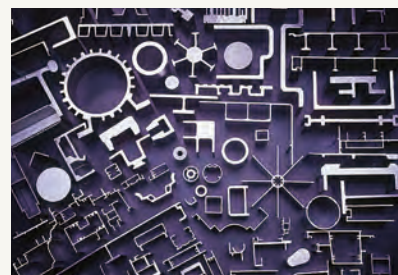
- Castings
- Forgings
- Fabricated products

COPPER SHEET AND STRIP


- Leadframe material for semiconductors
- Material for terminals and connectors


COPPER TUBE


- Copper tube for air conditioners
- Copper tube for construction and hot water supply



Aluminum extrusions

Net sales +12.8%
 **¥295.7 billion**

Ordinary income +287.6%
 **¥15.2 billion**

Ordinary income ratio +3.6 points
 **5.1 %**

● Fiscal 2013 Overview

The sales volume of aluminum rolled products, castings and forgings increased in comparison with the previous year owing to strong demand from the automotive sector.

The sales volume of copper rolled products increased in comparison with the previous year. Demand was strong for copper sheet and strip used in automotive terminals. Demand for copper tube was also firm due to strong demand for air conditioners in Japan and overseas.

In addition to these conditions, increases in ingot prices were reflected in higher sales prices of products. As a result, consolidated

segment sales in fiscal 2013 grew 12.8% year on year to ¥295.7 billion. Ordinary income increased ¥11.3 billion to ¥15.2 billion owing to a favorable change in inventory valuation, in addition to progress in reducing overall costs.

	Billions of yen		Change
	2012	2013	
Net sales	¥262.2	¥295.7	+12.8%
Ordinary income	3.9	15.2	+287.6%

● TOPICS

Globally Expanding Aluminum Sheet for Automobiles

In January 2014, Kobe Steel established Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd. in the Xiqing Economic-Technological Development Area in Tianjin, China to produce aluminum sheet for automotive body panels. The new company is the first China-based Japanese concern of its kind. Construction is now under way and the plant is scheduled to come on line in 2016 with Kobe Steel supplying master coils for processing.

In June 2013, Kobe Steel entered into a technical cooperation agreement with Germany's Hydro Aluminium Rolled Products GmbH for aluminum sheet technologies for automotive body panels. This and the new base in China strengthen Kobe Steel's technical network and ability to meet growing demand.

Kobe Steel, Toyota Tsusho Explore Production of Automotive Aluminum Sheet in the United States

On May 26, 2014, Kobe Steel and Toyota Tsusho Corporation announced they had begun considering the establishment of a joint venture to produce and sell aluminum sheet for automotive body panels and automotive heat exchangers in the United States.

With the aim of reaching a decision by the end of September 2014, the two companies are studying the project. The joint venture would produce and sell aluminum sheet mainly for automotive body panels as well as automotive heat exchangers. Operations would start in 2017.

Reflecting the constant tightening of U.S. Corporate Average Fuel Economy (CAFE) standards, automakers are scrambling to make vehicles lighter. North American annual demand for aluminum body panels is anticipated to increase substantially from the current approximately 100,000 tons to over 1 million tons in 2020.

By constantly striving to meet the global procurement needs of its customers, Kobe Steel is further strengthening its automotive aluminum business.

Third Phase of Expansion at KAAP China

Kobe Aluminum Automotive Products (China) Co., Ltd. (or KAAP China), which produces and sells aluminum forgings for automotive suspensions, decided to further expand production capacity by adding a third forging press in response to growing demand for aluminum suspension parts in China. Total capital investment for the third-phase expansion will come to around ¥2.0 billion, and the new forging press is slated to come online in autumn 2015. Kobe Steel has established a production network in Japan, China and the United States, with integrated production systems in all three locations. In the United States, Kobe Aluminum Automotive Products, LLC in Bowling Green, Kentucky, is also expanding its facilities, with operations slated to begin in August 2014. The expansion at KAAP China will enable Kobe Steel to meet rising global demand for aluminum suspension parts.

Profile of Kobe Aluminum Automotive Products (China) Co., Ltd.

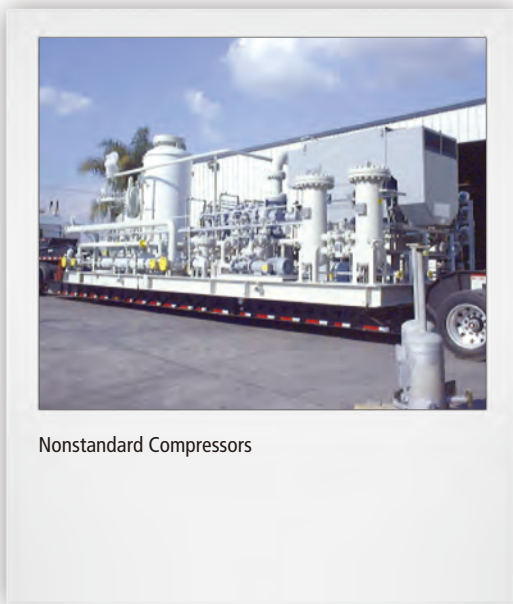
Location: Suzhou New District, Suzhou, Jiangsu Province, China
 Established: September 2010
 President: Yuji Numabe
 Employees: About 170
 Capital: ¥3 billion
 Equity share: Kobe Steel 60%, Mitsui & Co., Ltd. 25%, Toyota Tsusho Corporation 15%

Major Phases 1 & 2:
 equipment: Melting furnace, casting line, billet processing line
 6,300 metric ton mechanical forging press (2 units)
 Heat treatment equipment (2 lines)

Phase 3:
 6,300 metric ton mechanical forging press (1 unit)

Machinery Business

Pursuing a Growth Strategy Aimed at Building a Global Business



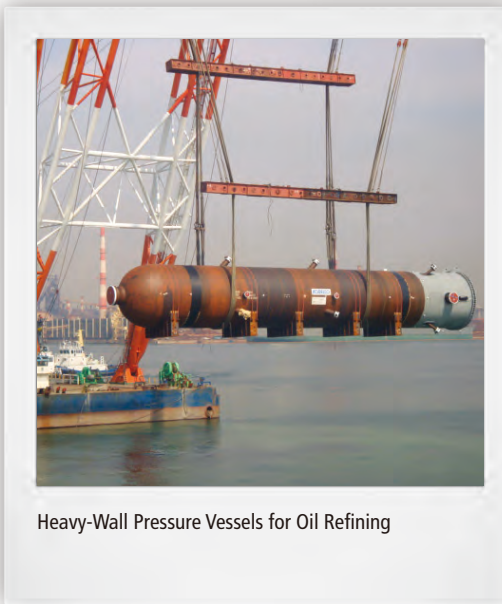
Nonstandard Compressors

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

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



Kobelion® Standard Compressor



Heavy-Wall Pressure Vessels for Oil Refining

◀ Using its proprietary improved steel for enhanced performance, Kobe Steel is equipped to produce the world's largest class of pressure vessels, weighing up to 2,000 metric tons per unit, to meet today's needs for larger pressure vessels.

Main Products and Services

INDUSTRIAL MACHINERY

[Tire and Rubber Machinery]

- Batch mixers
- Twin-screw extruders
- Tire curing presses
- Tire testing machines

[Plastic Processing Machinery]

- Large-capacity mixing and pelletizing systems
- Continuous mixers
- Twin-screw extruders
- Optical fiber making equipment

[Advanced Technology Equipment]

- Physical vapor deposition systems (AIP, UBMS)
- Analysis systems and ion beam equipment (HRBS)
- Vacuum web coater (Roll to Roll Coater)

[Metalworking Machinery]

- Steel and nonferrous metal rolling mills
- Automatic flatness control systems
- Continuous casters
- Isostatic pressing systems (HIP, CIP)

[Chemical and Energy Equipment]

- Heavy-wall pressure vessels (reactors)
- ALEX (brazed aluminum heat exchangers)
- LNG vaporizers (open rack vaporizers, intermediate fluid vaporizers)
- Air separation units
- Stacked Multi-Channel Reactor (SMCR)
- Diffusion-bonded Compact Heat Exchanger (DCHE)

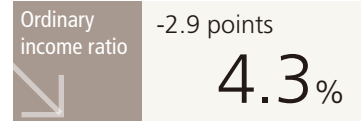
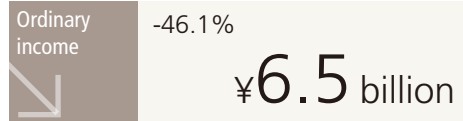
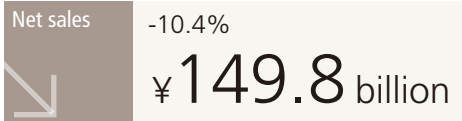
[Nuclear Equipment]

- Spent fuel storage and transport casks
- Fuel channels

COMPRESSORS

[Nonstandard Compressors]

- Screw compressors
 - Centrifugal compressors
 - Reciprocating compressors
- ##### [Standard Compressors]
- Standard air compressors
 - Screw refrigeration compressors
 - Heat pumps



● Fiscal 2013 Overview

Amid robust energy demand, particularly overseas, demand for compressors used in the oil refining and petrochemical industries continued to be strong. As a result, consolidated orders in fiscal 2013 increased 39.6% in comparison with the previous year to ¥152.8 billion. The backlog of orders at the end of the fiscal year (ended March 31, 2014) stood at ¥122.2 billion.

However, consolidated segment sales in fiscal 2013 decreased 10.4% year on year to ¥149.8 billion due to the concentration of sales of plastic processing machinery and other large-ticket items in

the previous fiscal year. Ordinary income decreased ¥5.5 billion to ¥6.5 billion.

	Billions of yen		Change
	2012	2013	
Net sales	¥167.1	¥149.8	-10.4%
Ordinary income	12.0	6.5	-46.1%

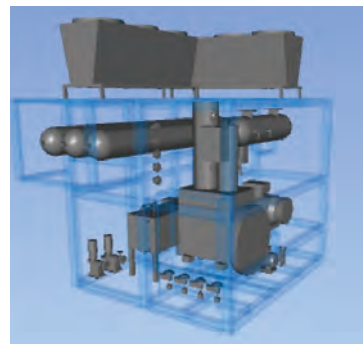
● TOPICS

Kobe Steel Launches HyAC Mini Hydrogen Compressor Package for Hydrogen Stations

Cutting costs and size by consolidating some of the principal components of a hydrogen station into one unit, Kobe Steel has developed the HyAC mini hydrogen compressor package.

In 2012, we developed the HyAC high-pressure hydrogen compressor and a diffusion-bonded compact heat exchanger (DCHE). In the course of supplying these devices for demonstration hydrogen stations, we have gained a wealth of knowledge regarding their optimal characteristics. Bringing together that know-how with compact design technology developed in our standard compressor business, we were able to successfully bundle some of the principal components of a hydrogen station, including high-pressure compressors and cooling equipment. Packaging these components reduces hydrogen station construction costs about 20% compared with conventional stations. Moreover, the space requirement of our HyAC mini package is approximately 50% of that needed to install each component separately.

The main components of the HyAC mini package, including the high-pressure hydrogen compressor, DCHE and refrigeration compressor, can be manufactured by Kobe Steel. The package is also highly expandable, allowing the add-on of pressure accumulators. It takes only an hour to fully supply hydrogen to six fuel cell vehicles. These are just some of the many superior qualities of the HyAC mini, which is backed by our excellent track record of supplying products for hydrogen stations and chemical plants with a high level of reliability.



Cutaway diagram of the HyAC mini package

Engineering Business

Adding Value through the Integration of Advanced Technologies



Steel Structures and Sabo Dams

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

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



MIDREX® Direct Reduction Plant



Urban Transit Systems

◀ Kobe Steel provides automated guideway transit systems, short-distance transit systems and guideway bus systems that help ease traffic congestion in urban areas.

Main Products and Services

IRONMAKING PROCESSES

- MIDREX® Direct Reduction Process
- KOBELCO-Pelletizing Process
- FASTMET® Process
- FASTMELT® Process
- ITmk3® Process
- Upgraded Brown Coal (UBC®) Process

NUCLEAR POWER

- Radioactive waste disposal plants
- Nuclear equipment (spent fuel casks for transport and storage, fuel channels)

CHEMICAL WEAPONS DESTRUCTION

- Demilitarization system and facilities for destroying chemical weapons
- Total services to eliminate abandoned chemical weapons including identification, recovery, transportation, storage, and disposal

STEEL STRUCTURES AND SABO

- Steel grid-type structures for erosion control (dams, woody debris trapping, etc.)
- Flared seawalls, sound insulation systems
- Sound absorbing panels for the underside of elevated roads
- Cable production and installation

URBAN TRANSIT SYSTEMS

- Advanced urban transit systems (automated guideway transit, sky rail, guideway buses)
- Platform door systems
- Construction engineering

Net sales -15.9%
 ¥39.1 billion

Ordinary loss -¥2.6 billion
 -¥3.9 billion

● Fiscal 2013 Overview

Consolidated orders in fiscal 2013 increased 48.3% in comparison with the previous year to ¥49.8 billion owing to an uptick in orders from the nuclear power industry in Japan and for large direct reduction plants in North America and Russia. The backlog of orders at the end of fiscal 2013 came to ¥83.4 billion.

Consolidated segment sales in fiscal 2013 decreased 15.9% in comparison with the previous year to ¥39.1 billion due to the ongoing construction of the large direct reduction plants. Ordinary loss was up ¥2.6 billion to ¥3.9 billion.

	Billions of yen		Change
	2012	2013	
Net sales	¥46.5	¥39.1	-15.9%
Ordinary loss	(1.3)	(3.9)	—

● TOPICS

New Order for a MIDREX® DR Plant in the United States

The Kobe Steel U.S. subsidiary Midrex Technologies, Inc., in a consortium with Siemens Industry Inc., received an order from voestalpine for a direct reduction plant with an annual production capacity of 2 million tons to be constructed near Corpus Christie, Texas. This plant will have the world's highest production capacity of any plant using the MIDREX® Direct Reduction (DR) Process. Production of direct reduced iron (DRI) is expected to commence in early 2016.

The project encompasses the development of ports and other facilities in addition to the construction of the direct reduction plant, bringing the total cost to €550 million (¥71.5 billion).

Motivating voestalpine's order were the production achievements of MIDREX® Plants, the superior technology of the MIDREX® Process and the engineering ingenuity of Siemens. Global production of DRI was a record-breaking 75 million metric tons in 2013, with production from MIDREX® Plants constituting about 63%.

The same consortium received a second order in August 2012 to supply the Russian company Lebedinsky GOK with its third direct reduction plant, which will have an annual production capacity of 1.8 million metric tons, making 2013 the second consecutive year the consortium has received a large-scale order.

Since natural gas in the United States is only about 25% of the price in Europe, voestalpine is planning to use natural gas as the reductant at the Texas plant to produce hot briquetted iron, a compacted form of DRI, for export to Europe.



Hot briquetted iron

Waste Treatment Begins in Fukushima Contamination Zone

A consortium consisting of Kobelco Eco-Solutions and Kobe Steel has received an order for waste treatment inside the Fukushima Prefecture contamination zone. In November 2013, we signed a contract to this effect with the Japanese Ministry of the Environment, Tohoku Regional Environment Office and Fukushima Environmental Restoration Office.

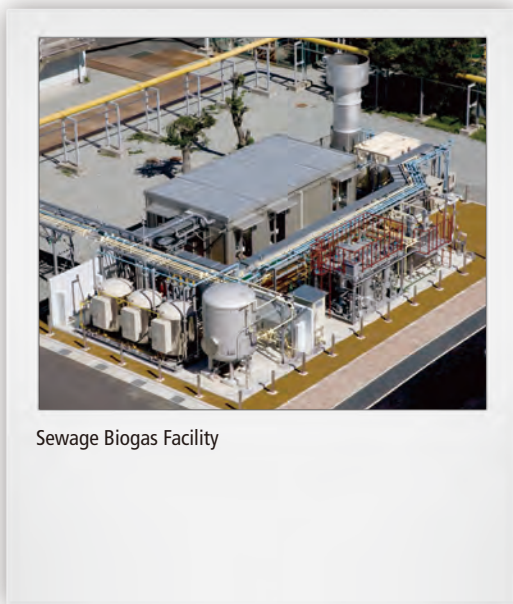
Within the contamination zone, the highest priority is to treat waste generated by cleanup activities (cleanup waste) and people clearing out their residences (domestic waste) after being allowed to temporarily return following the revisions to restrictions pertaining to the restricted zone.

The consortium's main tasks will be the design and construction of a temporary incinerator to reduce the volume of domestic waste in litate village. Kobelco Eco-Solutions and Kobe Steel won the contract thanks to the excellent hermeticity and ease of assembly/disassembly of Kobelco Eco-Solutions's fluidized-bed incinerators as well as Kobe Steel's outstanding radioactive material handling technologies, which are backed by a solid track record.

Feeling a duty to help the villages, towns, cities and prefectures that comprise the nation, the Kobe Steel Group actively pursues initiatives toward the development and utilization of relevant technologies. Throughout the Group, we are putting our best efforts into developing and applying our technologies and know-how toward speeding recovery from the Great East Japan Earthquake.

Kobelco Eco-Solutions

An Environmental Solution Company that Meets the Requirements of the Times



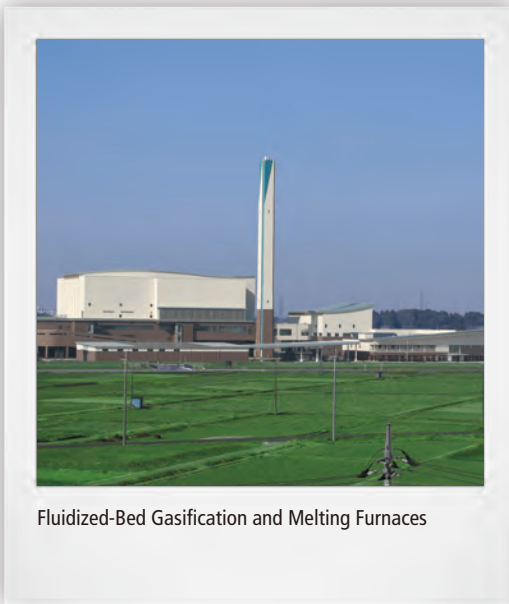
Sewage Biogas Facility

▲ Working with local authorities and gas companies, we have developed a gasification facility that is capable of refining biogas produced by sewage sludge to the same quality as city gas. We began injecting sewage biogas into city gas pipes in October 2010.

▶ Kobelco Eco-Solutions offers a full array of water treatment facilities, including water and sewage treatment plants, industrial water and wastewater treatment plants, sludge treatment plants, and pure and ultrapure water production plants. It also operates a water supply business selling pure and ultrapure water.



Water Treatment Facilities



Fluidized-Bed Gasification and Melting Furnaces

◀ These furnaces are friendly to the environment as they make use of the energy in waste to carry out processes from incineration to ash melting for volume reduction and conversion into slag. This helps reduce the burden on final disposal sites while decreasing CO₂ and other emissions.

Main Products and Services

WATER TREATMENT

- City water, sewage and industrial water treatment plants and equipment, ultrapure and pure water production equipment, industrial water processing and wastewater treatment systems
- Recycling systems for sewage sludge, foodstuffs, and other organic waste

COOLING TOWERS

- Industrial cooling towers
- Cooling towers for district heating and cooling
- Super-low-noise cooling towers

WASTE TREATMENT AND RECYCLING


- Municipal waste incineration and melting plants (fluidized-bed gasification and melting furnace, stoker-type incinerator, fluidized-bed incineration furnace, plasma melting furnace)
- Bulky waste and other recycling facilities
- PCB waste treatment plant

PROCESS EQUIPMENT

- Glass-lined equipment
- Polymerizers and reactors
- Separation and refinement equipment
- Powder equipment
- High-purity hydrogen oxygen generators


ENVIRONMENTAL ANALYSIS

- Water and sewage quality inspection
- Water quality testing at factories and research centers
- Measurement of industrial wastes (PCB, metals, organic matter, etc.)

Net sales -6.2%

¥68.2 billion

Ordinary income -33.5%

¥2.6 billion

Ordinary income ratio -1.6 points

3.8%

Fiscal 2013 Overview

Despite receiving the order for the Sennan Clean Center from Miyagi Prefecture's Sennan Regional Administrative Association, consolidated orders in fiscal 2013 were down 2.3% in comparison with the previous year, which saw similar orders for large projects, to ¥71.9 billion. The order backlog at the end of fiscal 2013 stood at ¥47.2 billion.

Consolidated segment sales in fiscal 2013 were down 6.2% year on year to ¥68.2 billion. Although sales increased due to the completion of existing large orders in the waste treatment business,

sales decreased in the water treatment business and the chemical and food equipment business. Ordinary income fell ¥1.3 billion from the previous year to ¥2.6 billion due to a change in the types of projects undertaken.

	Billions of yen		Change
	2012	2013	
Net sales	¥72.7	¥68.2	-6.2%
Ordinary income	3.9	2.6	-33.5%

TOPICS

Environment Ministry Commissions Incineration Verification Project for Sewage Sludge Containing Radioactive Material

Kobelco Eco-Solutions Co., Ltd., in conjunction with Kobe Steel, Ltd., Japan Sewage Works Agency and Mitsubishi Research Institute, Inc., was commissioned by the Japanese Ministry of the Environment to conduct a verification project involving radioactive waste incineration from September 2013 to March 2014.

The work entailed the installation of a temporary incineration facility inside the Upstream Abukuma River Basin Prefectural Sewage Treatment Center in Fukushima Prefecture and carrying out an incineration verification project involving radioactive sewage sludge that had been stored for an extended period.

Kobelco Eco-Solutions' duties included the design and manufacture of the facility for processing the sewage sludge, while Kobe Steel was responsible for overall operations and the handling of the radioactive material.

Using our technology and know-how, we will continue striving to help hasten the recovery and revitalization of areas affected by the 2011 nuclear accident.



Sludge incinerator

Glass-Lined Equipment Plant Begins Operations

The Kobelco Eco-Solutions Group's first overseas manufacturing base, a glass-lined equipment factory, has commenced operations.

The factory was constructed in the Long Duc Industrial Park, * Vietnam, on a 10,000 m² site. The factory itself is 3,000 m² and contains sufficient space for future expansion.

Items produced include glass-lined heat exchangers and reactors. At present, production is mainly for the Japanese market. However, manufacturing and sales will be gradually expanded to include Southeast Asian markets.



Construction completion ceremony for the Long Duc Plant

With the start of operations at this factory, the Group is further increasing its presence in Southeast Asia in both the water treatment business and the glass-lined equipment business.

* Kobelco has a partial equity stake in the Park.

Two Waste Treatment Facilities Go into Operation

Kobelco Eco-Solutions recently completed the construction of two waste treatment plants: the Nishiakigawa Sanitation Association Waste Treatment Plant for the Tokyo-based Nishiakigawa Sanitation Association and the Haga Regional Waste Treatment Plant for Tochigi Prefecture's Haga Regional Administrative Association. Both facilities are run by a special purpose company in which the Kobelco Eco-Solutions Group holds equity. Long-term comprehensive operations for the next 20 years began in April 2014.

In addition, in January 2014, we won the bid for the tentatively named Sennan Clean Center from Miyagi Prefecture's Sennan Regional Administrative Association.

We will continue to use technology accumulated over the years to contribute to environmental preservation and the formation of a recycling-based society.



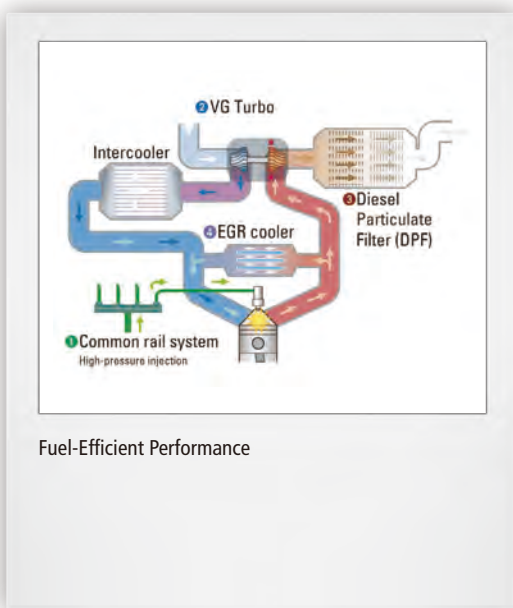
Nishiakigawa Sanitation Association Waste Treatment Plant



Haga Regional Waste Treatment Plant

Kobelco Construction Machinery

Building a Business that Has Flexibility and Resilience to Deal with the Changing Business Environment



Fuel-Efficient Performance

▲ Engine power loss has been minimized through better fuel-efficient performance, a rethinking of the hydraulic system's power loss, and other improvements. Fuel consumption and CO₂ emission have been reduced across all product lines by using technology that reduces power loss without diminishing workload.

▶ The company offers unique environmental products for construction, metal, resources and forestry recycling. The SK3500D demolition machine (right), developed for demolishing ultra-large buildings, has a maximum reach of 65 meters, equivalent to a 21-story building.

It is listed in the Guinness Book of World Records as the demolition machine with the world's longest reach.



Environmental Recycling Machines



Integrated Noise & Dust Reduction Cooling System (iNDR)

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

Main Products and Services

CONSTRUCTION MACHINERY

- Hydraulic excavators
- Mini excavators
- Wheel loaders
- Mini wheel loaders

ENVIRONMENTAL RECYCLING MACHINERY

- [Construction Recycling]
 - Building demolition machines
- [Metal Recycling]
 - Automobile dismantling machines
 - Magnet machines
 - Scrap loader machines, etc.
- [Resource Recycling]
 - Resource handling machines, etc.
- [Forestry Machinery]
 - Processor machines
 - Harvesters
 - Grapple machines



Standard hydraulic excavator




SK200H 20-ton class hybrid hydraulic excavator





Hydraulic excavator (North American model)



Zero tail swing excavator

Net sales +18.8%

¥318.2 billion

Ordinary income +120.6%

¥15.1 billion

Ordinary income ratio +2.2 points

4.8%

● Fiscal 2013 Overview

Unit sales of hydraulic excavators by Kobelco Construction Machinery Co., Ltd. in fiscal 2013 increased in comparison with the previous year. Contributing to the rise, the domestic market saw a last-minute surge in demand prior to the implementation of stricter exhaust gas emission regulations in April, in addition to ongoing reconstruction demand due to the Great East Japan Earthquake. In overseas markets, although demand remained sluggish in Southeast Asia, the slide in demand in China appeared to have bottomed out, while sales in North America and Europe steadily expanded.

As a result, consolidated segment sales in fiscal 2013 increased 18.8% in comparison with the previous year to ¥318.2 billion. Ordinary income increased ¥8.3 billion year on year to ¥15.1 billion.

	Billions of yen		Change
	2012	2013	
Net sales	¥267.8	¥318.2	+18.8%
Ordinary income	6.9	15.1	+120.6%

● TOPICS

Steadily Rebuilding U.S. and European Distribution Networks

In January 2013, Kobelco Construction Machinery resumed independent operations in Europe and the United States for the first time in 10 years. Kobelco Construction Machinery U.S.A. Inc. was established in Houston, Texas, and Kobelco Construction Machinery Europe B.V. (KCME) in the Netherlands. Both companies are working to build sales and distribution networks. We are striving to firmly

reestablish the KOBELCO brand through such activities as developing dealer networks, holding meetings with dealers and exhibiting at major expos.



Opening ceremony of KCME's new office

Bolstering Our Lineup of Fuel-Efficient, Low-Noise Mini Excavators

Kobelco mini excavators are often used in urban areas for repairing roads and laying foundations. In late 2013, we began selling five new models with further improved fuel-efficiency in the 2.8-ton to 5.0-ton class. Capable of operating in S-mode, the new models lower fuel consumption up to 36% compared with previous models.



Ultra-short rear swing mini excavator SK30SR

In addition, they feature the integrated Noise and Dust reduction (iNDr) engine cooling system—previously installed only in hydraulic excavators six tons or more—for quieter performance and easier maintenance.

Accelerating Cost Competitiveness at the Itsukaichi Factory

Since kicking off operations in May 2012, the Itsukaichi Factory, our main factory in Japan, has doubled production compared with the former Gion Factory owing to its elimination of in-process inventory

on production lines by directly connecting the production lines for manufacturing, coating and assembly. This approach was introduced under the slogan "Smart & Clean!"

In addition, handling systems inside and outside the factory are completely separate. This and other measures to keep out dirt and dust, such as installing air quality meters inside the factory, have allowed us to better ensure the high quality of our excavators. Furthermore, we constantly strive to create a safe working environment where everyone can work comfortably, periodically providing opportunities for presentations attended by directors. Such activities



The assembly line at the Itsukaichi Factory

are a continuation of improvement efforts begun while still at the former Gion Factory.

The Itsukaichi Factory will continue to progress as the flagship factory of our global production network.

* The Itsukaichi Factory was one of five factories in Japan to receive a Best Factory Award from *Nikkei Monozukuri*.

Typhoon Recovery Efforts in the Philippines

To support recovery efforts from Typhoon Haiyan, which struck the central Philippines in November 2013, Kobelco Construction Machinery, in conjunction with Singapore-based Kobelco International (S) Co., Pte. Ltd., donated an SK210LC hydraulic excavator to the Guiuan regional government and dispatched an



The donated SK210LC excavator in operation

operator from its Philippines distributor. Hoping to contribute to a swift recovery, Kobelco is committed to providing support.

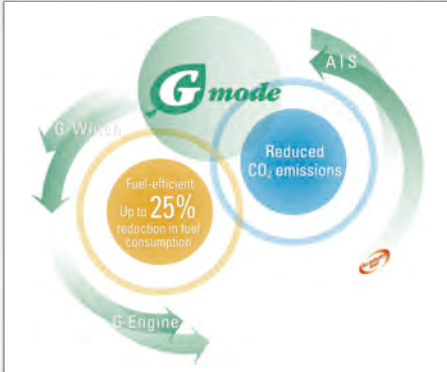
Kobelco Cranes

The Top Manufacturer of Lattice Boom Crawler Cranes in the World

► Kobelco Cranes offers a wide variety of crawler cranes, including large models for building long bridges, wind, thermal, and nuclear power plants and other large-scale structures, as well as small and midsize models with robustness, advanced control and high versatility. Boasting extensive experience and an impressive track record in advanced design and production technologies, Kobelco Cranes seeks to develop competitive products to meet the needs of users around the world.

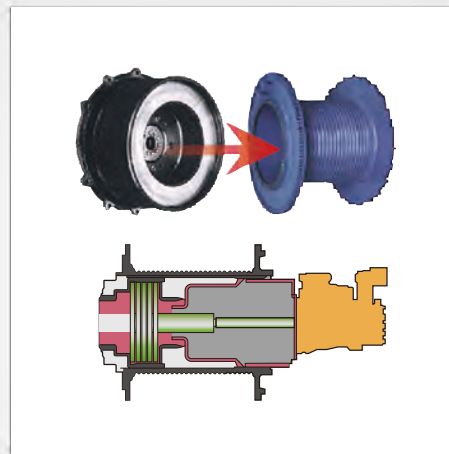


Crawler Cranes



G-mode

▲ Kobelco Cranes adopted a totally new energy-saving assist system on all new models called the "G-mode" system, which is a generic name for such assist systems as the Auto Idle Stop System, G-Winch and G-Engine.



Wet-Type Disk Brakes Offer Powerful, Stable Braking

◀ Kobelco's winches feature independently developed wet brakes. Forced oil cooling makes these brakes resistant to the reduction in braking ability that occurs when temperatures rise, so that they are well suited to working for long periods. The use of multi-plate disks ensures sufficient braking capacity and means that braking can be performed with a modicum of force. What's more, the brakes themselves are compact and encased in drums.

Main Products and Services

CRAWLER CRANES

- Multi-purpose lattice boom crawler cranes
- Large-sized crawler cranes
- Telescopic boom crawler cranes

WHEEL CRANES

- City conscious rough terrain cranes
- Mini rough terrain cranes
- Lattice boom wheel cranes
- All terrain cranes

SPECIALIZED BASE MACHINES FOR CIVIL ENGINEERING & FOUNDATION WORK

WORK VESSELS




City conscious rough terrain crane



Large-sized crawler crane

Net sales +24.5%
 **¥56.6 billion**

Ordinary income +¥5.5 billion
 **¥3.2 billion**

Ordinary income ratio (–)
 **5.6%**

Fiscal 2013 Overview

Kobelco Cranes Co., Ltd.'s unit sales of crawler cranes in fiscal 2013 showed year on year growth. In Japan, unit sales were up on the back of government economic measures and reconstruction demand from the Great East Japan Earthquake. Overseas, unit sales grew in Southeast Asia.

As a result, consolidated segment sales in fiscal 2013 rose 24.5% in comparison with the previous year to ¥56.6 billion. Also, ordinary income increased ¥5.5 billion to ¥3.2 billion due to an

improvement in export profits brought about by the correction in the overvaluation of the yen.

	Billions of yen		Change
	2012	2013	
Net sales	¥45.5	¥56.6	+24.5%
Ordinary income (loss)	(2.3)	3.2	–

TOPICS

New Large Sized Crawler Cranes: SL6000G/SL4500G and SL6000S/SL4500S

Kobelco Cranes Co., Ltd. developed the fully hydraulic crawler cranes SL6000G and SL4500G (lifting capacities: 550 tons/400 tons), and the SL6000S and SL4500S (lifting capacities: 550 tons/400 tons), launching them worldwide on April 20, 2013.

Quieter and smoother than previous models, the SL6000G and SL4500G are equipped with engines that meet EPA Interim Tier IV and Euro stage IIIB emissions regulations, proactively addressing safety and ecological considerations.



SL4500G crawler crane

The newly developed SL6000G and SL4500G, and SL6000S and SL4500S are redesigned models of the highly successful SL6000 and SL4500 and represent the evolution of the SL series, with improved and modernized cabs, a user-friendly interface with touch screen technology and improved transport capacity, logistics and efficiency. Moreover, their enhanced lifting capacities will surely win favor at many construction sites.

Exhibiting at CONEXPO 2014

CONEXPO-CON/AGG 2014, one of the three biggest construction machinery expos in the world, was held over five days from March 4 through 8 at the Las Vegas Convention Center. The event, held every three years, usually features exhibitions by over 2,400 companies from 170 countries and attracts over 130,000 attendees.

Kobelco Cranes exhibited the CK2750G with a 275 US-ton lifting capacity, the CK1600G with a 160 US-ton lifting capacity, and the CK1100G with a 110 US-ton lifting capacity from our North American G-Series. G series cranes are being actively used in the energy infrastructure field, which is seeing particularly rapid expansion

related to shale oil and gas—an area currently garnering a great deal of attention in North America.



North American G-Series CK2750G



Kobelco's exhibit

Kobelco and Manitowoc Celebrate 10 Years of Partnership

At CONEXPO 2014 in Las Vegas, Nevada, executives from Kobelco Cranes and Manitowoc Cranes gathered to celebrate the 10th anniversary of their crane supply agreement.

The celebration included an exchange of commemorative gifts by representatives of both companies. Representing the two companies were Akihiko Tsukamoto, Kobelco Cranes' president and CEO, and Eric Etchart, Manitowoc Cranes' president.

The agreement being celebrated entails the supply and worldwide sale of Kobelco crawler cranes in classes up to 120 US tons through the Manitowoc Distribution network. Also covered is a reciprocal arrangement in which Manitowoc Cranes supplies all-terrain cranes to Kobelco Cranes for sale in Japan.



10th Anniversary Ceremony



President Tsukamoto and President Etchart shaking hands

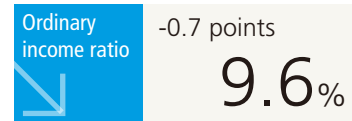
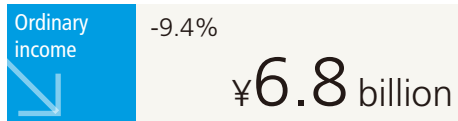
Other Businesses

Shinko Real Estate Co., Ltd.

Steadily Developing the Real Estate Business and Expanding Property Management Services

Kobelco Research Institute, Inc.

Supporting R&D and Production Technologies for All Industries



● Fiscal 2013 Overview

At Shinko Real Estate Co., Ltd., the number of property handovers decreased. At Kobelco Research Institute, Inc., although demand was strong in the testing and research businesses, demand was weak in the sputtering target material business.

Due to these conditions, consolidated segment sales in fiscal 2013 decreased 2.8% in comparison with the previous year to ¥71.2 billion. Ordinary income fell ¥0.7 billion to ¥6.8 billion.

	Billions of yen		Change
	2012	2013	
Net sales	¥73.2	¥71.2	-2.8%
Ordinary income	7.6	6.8	-9.4%

● TOPICS

Shinko Real Estate Co., Ltd.

Residential Units at G-clef Senri Aobaoka on Sale since January 2014.

Owner: Shinko Real Estate Co., Ltd.

Total residential units: 130

Features:

- The building structure has been streamlined using Obayashi Corporation's Center Intensive Performance (CIP) system, a new construction method for mid- to high-rise apartment buildings that provides greater freedom with regard to the configuration of units and layout of rooms.
- This large-scale development project features a park and other public facilities in addition to a condominium, single-family homes, and a corporate dormitory for Kobe Steel employees. It is situated on the 2.5 hectares comprising the former site of company housing and dormitories for Kobe Steel.

Other properties with residential units currently for sale:

G-clef Mikage Park Grace

(20 units; Higashinada-ku, Kobe; sales only by Shinko Real Estate)

G-clef Suma Myodani Residence

(35 units; Suma-ku, Kobe; sales only by Shinko Real Estate)

Proud City Kobe Seishin Minami

(236 units; Nishi-ku, Kobe; joint sales with Nomura Real Estate Development Co., Ltd.)

Geo Senri Chuo

(514 units; Toyonaka, Osaka Prefecture; joint sales with Hankyu

Realty Co., Ltd. and Sumitomo Corporation)

The Parkhouse Gion Residence

(141 units; joint sales with Mitsubishi Jisho Residence Co., Ltd.)



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

Kobelco Research Institute, Inc.

Development of an Inline Inspection System for Oxide Semiconductors Used in FPDs

Kobelco Research Institute, Inc. and Kobe Steel have developed an inline inspection system for oxide semiconductors, which are used for the thin-film transistors (TFTs) essential to flat panel displays (FPDs). We have already begun delivering these systems to FPD manufacturers worldwide.

Oxide semiconductors, especially those containing indium gallium zinc oxide (IGZO), have recently attracted attention for enabling lower power consumption and higher display density in the FPDs used in mobile devices and tablet PCs. Previously, the mass production of oxide semiconductors faced a major hurdle in that TFT characteristics could not be evaluated prior to fabrication.

Kobelco Research Institute had previously developed differential microwave photoconductivity decay (μ -PCD) technology for evaluating the crystallinity of low-temperature polysilicon (LTPS) as well as the contamination of silicon devices during manufacturing processes. More recently, with the technological collaboration of Kobe Steel, we applied this technology to oxide semiconductor thin films. Our analysis of the signal from the thin film revealed that this system allows the evaluation of both the mobility and stability of TFTs. Based on this finding, we developed a unique verification method that makes it possible to evaluate the characteristics of TFTs inline before they are fully fabricated—a world first.

Using this system, FPD manufacturers are thus able to control the post-fabrication performance of TFTs immediately after the thin



A differential μ -PCD system for large substrates (Generation 8.5 mother glass: 2.2 × 2.5 m)

films are deposited on the oxide semiconductors, the first stage in the manufacturing process. We can now expect vastly greater manufacturing yields in the area of next-generation FPDs.

Domestic and Overseas Offices

Head Offices

Kobe Head Office

2-4, Wakinohama-Kaigandori 2-chome, Chuo-ku, Kobe,
Hyogo 651-8585, Japan
Tel: (078) 261-5111 Fax: (078) 261-4123

Tokyo Head Office

9-12, Kita-Shinagawa 5-chome, Shinagawa-ku,
Tokyo 141-8688, Japan
Tel: (03) 5739-6000 Fax: (03) 5739-6903

Branch Offices

Osaka

Midosuji Mitsui Building, 1-3, Bingomachi 4-chome, Chuo-ku,
Osaka, Osaka 541-8536, Japan
Tel: (06) 6206-6111 Fax: (06) 6206-6101

Nagoya

Nagoya Prime Central Tower, 27-8, Meieki 2-chome, Nishi-ku,
Nagoya, Aichi 451-0045, Japan
Tel: (052) 584-6111 Fax: (052) 584-6105

Sales Offices

Hokkaido (Sapporo)
Tohoku (Sendai)
Niigata (Niigata)
Hokuriku (Toyama)
Shikoku (Takamatsu)
Chugoku (Hiroshima)
Kyushu (Fukuoka)
Okinawa (Naha)

Research Laboratory

Kobe Corporate Research Laboratories
5-5, Takatsukadai 1-chome, Nishi-ku, Kobe,
Hyogo 651-2271, Japan
Tel: (078) 992-5600 Fax: (078) 992-5532

Overseas Offices

New York

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

Detroit

Kobe Steel USA Inc.
19575 Victor Parkway, Suite 250, Livonia, MI 48152, U.S.A.
Tel: +1-734-462-7757 Fax: +1-734-462-7758

Singapore

Kobe Steel Asia Pte. Ltd.
72 Anson Road, #11-01A Anson House,
Singapore 079911, Republic of Singapore
Tel: +65-6221-6177 Fax: +65-6225-6631

Hong Kong

Kobe Steel Asia Pte. Ltd.
Room 1604, MassMutual Tower, 38 Gloucester Road,
Wanchai, Hong Kong
Tel: +852-2865-0040 Fax: +852-2520-6347

Bangkok

Kobe Steel, Ltd.
Bangkok Office
10th Floor, Sathorn Thani Tower II, 92/23 North Sathorn Road,
Khwaeng Silom, Khet Bangrak, Bangkok 10500,
Kingdom of Thailand
Tel: +66-2636-8971 to 8974 Fax: +66-2636-8675

Beijing

Kobe Steel, Ltd.
Beijing Office
Unit 1005, Bldg. A, The Lucky Tower,
No. 3 North Dongsanhuan Road, Chaoyang District,
Beijing 100027, People's Republic of China
Tel: +86-10-6461-8491 Fax: +86-10-6461-8490

Shanghai

Kobelco (China) Holding Co., Ltd.
Room 3701, Hong Kong New World Tower,
300 Huai Hai Zhong Road, Luwan District, Shanghai 200021,
People's Republic of China
Tel: +86-21-6415-4977 Fax: +86-21-6415-9409

Main Operating Locations in Japan

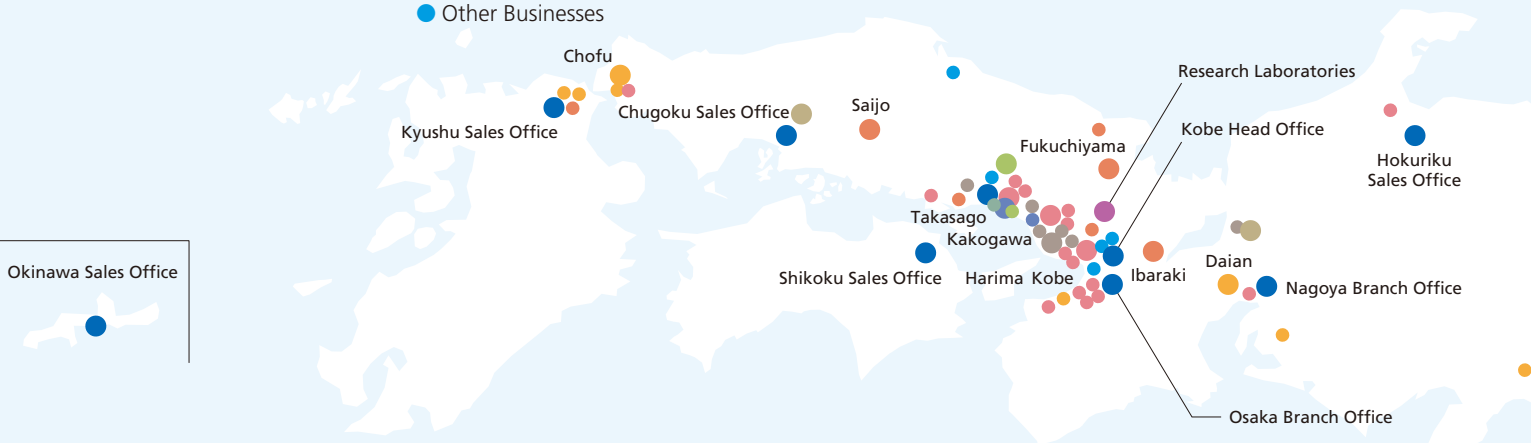
(At July 31, 2014)

Kobe Steel, Ltd.

- Iron & Steel
- Welding
- Aluminum & Copper
- Machinery
- Engineering
- Head Offices, Branch Offices and Sales Offices
- Research Laboratories

Group Companies by Business Segment

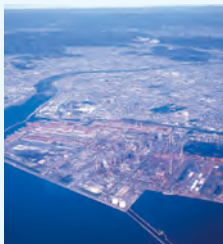
- Iron & Steel
- Welding
- Aluminum & Copper
- Machinery
- Engineering
- Kobelco Eco-Solutions
- Kobelco Construction Machinery
- Kobelco Cranes
- Other Businesses



Kobe Steel, Ltd.

- **Iron & Steel**
 - Kakogawa Works -Kakogawa, Hyogo Prefecture
 - Research & Development Laboratory -Kakogawa, Hyogo Prefecture
 - Kobe Works -Kobe, Hyogo Prefecture
- **Welding**
 - Fujisawa Plant and Technical Center -Fujisawa, Kanagawa Prefecture
 - Ibaraki Plant -Ibaraki, Osaka Prefecture
 - Saijo Plant -Higashi-Hiroshima, Hiroshima Prefecture
 - Fukuchiyama Plant -Fukuchiyama, Kyoto Prefecture
- **Aluminum & Copper**
 - Moka Plant -Moka, Tochigi Prefecture
 - Chofu Works -Shimonoseki, Yamaguchi Prefecture
 - Daian Plant -Inabe, Mie Prefecture
- **Machinery**
 - Harima Plant -Kako-gun, Hyogo Prefecture

- **Head Offices, Branch Offices and Sales Offices**
 - Kobe Head Office -Kobe, Hyogo Prefecture
 - Tokyo Head Office -Shinagawa-ku, Tokyo
 - Osaka Branch Office -Osaka, Osaka Prefecture
 - Nagoya Branch Office -Nagoya, Aichi Prefecture
 - Hokkaido Sales Office -Sapporo, Hokkaido
 - Tohoku Sales Office -Sendai, Miyagi Prefecture
 - Niigata Sales Office -Niigata, Niigata Prefecture
 - Hokuriku Sales Office -Toyama, Toyama Prefecture
 - Shikoku Sales Office -Takamatsu, Kagawa Prefecture
 - Chugoku Sales Office -Hiroshima, Hiroshima Prefecture
 - Kyushu Sales Office -Fukuoka, Fukuoka Prefecture
 - Okinawa Sales Office -Naha, Okinawa Prefecture
 - Takasago Works -Takasago, Hyogo Prefecture
- **Research Laboratories**
 - Kobe Corporate Research Laboratories -Kobe, Hyogo Prefecture



Kakogawa Works



Kobe Works



Fujisawa Plant



Moka Plant



Chofu Works



Takasago Works

Hokkaido Sales Office

Niigata Sales Office
Tohoku Sales Office

Moka

Tokyo
Head Office

Fujisawa

Group Companies by Business Segment

● Iron & Steel

OSAKA Titanium Technologies Co., Ltd. -Amagasaki, Hyogo Prefecture
 Kansai Coke and Chemicals Co., Ltd. -Kakogawa, Hyogo Prefecture
 KS Summit Steel Co., Ltd. -Ichikawa, Chiba Prefecture
 Sakai Steel Sheets Works, Ltd. -Sakai, Osaka Prefecture
 Sanwa Tekko Co., Ltd. -Ama-gun, Aichi Prefecture
 Shinko Engineering & Maintenance Co., Ltd. -Kobe, Hyogo Prefecture
 Shinko Kenzai, Ltd. -Amagasaki, Hyogo Prefecture
 Shinko Wire Company, Ltd. -Amagasaki, Hyogo Prefecture
 Shinko Kohan Kako, Ltd. -Ichikawa, Chiba Prefecture
 Shinko Kobe Power Inc. -Kobe, Hyogo Prefecture
 Shinko Slag Products Co., Ltd. -Kobe, Hyogo Prefecture
 Kobe Special Tube Co., Ltd. -Shimonoseki, Yamaguchi Prefecture
 Kobelco Logistics Ltd. -Kobe, Hyogo Prefecture
 Shinko Bolt, Ltd. -Ichikawa, Chiba Prefecture
 Ceratechno Co., Ltd. -Akashi, Hyogo Prefecture
 Tesac Wire rope Co., Ltd. -Kaizuka, Osaka Prefecture
 Japan Aeroforge, Ltd. -Kurashiki, Okayama Prefecture
 Nippon Koshuha Steel Co., Ltd. -Imizu, Toyama Prefecture

● Welding

Shinko Actec Co., Ltd. -Toyooka, Hyogo Prefecture
 Hanshin Yosetsu Kizai Co., Ltd. -Okayama, Okayama Prefecture

● Aluminum & Copper

Kobelco & Materials Copper Tube, Ltd. -Hadano, Kanagawa Prefecture
 Shinko Aluminium Wire Co., Ltd. -Sakai, Osaka Prefecture
 Shinko-North Co., Ltd. -Kasumigaura, Ibaraki Prefecture
 Shinko Fab Tech, Ltd. -Shimonoseki, Yamaguchi Prefecture
 Shinko Metal Products Co., Ltd. -Kitakyushu, Fukuoka Prefecture
 Shinko Leadmikk Co., Ltd. -Kitakyushu, Fukuoka Prefecture
 Toyotsu Nonferrous Center Corporation -Anjo, Aichi Prefecture

● Machinery

Kobelco Compressors Corporation -Shinagawa-ku, Tokyo *Sales location
 Shinko Air Water Cryoplant, Ltd. -Kobe, Hyogo Prefecture
 Kobelco Shinwa Co., Ltd. -Akashi, Hyogo Prefecture
 Shinko Inspection & Service Co., Ltd. -Takasago, Hyogo Prefecture
 Shinko Engineering Co., Ltd. -Ogaki, Gifu Prefecture
 Shinko Techno Engineering Co., Ltd. -Takasago, Hyogo Prefecture
 Shinko AirTech, Ltd. -Kobe, Hyogo Prefecture

● Engineering

Kobe Heating and Cooling Supply Co., Ltd. -Kobe, Hyogo Prefecture

● Kobelco Eco-Solutions

Kobelco Eco-Solutions Co., Ltd. -Kako-gun, Hyogo Prefecture

● Kobelco Construction Machinery

Kobelco Construction Machinery Co., Ltd.
 -Hiroshima, Hiroshima Prefecture and Ogaki, Gifu Prefecture

● Kobelco Cranes

Kobelco Cranes Co., Ltd. -Akashi, Hyogo Prefecture

● Other Businesses

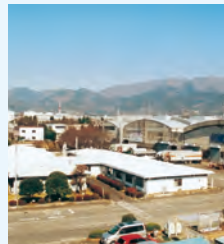
Kobelco Research Institute, Inc. -Kobe, Hyogo Prefecture
 Japan Superconductor Technology, Inc. -Kobe, Hyogo Prefecture
 Shinko Industrial Co., Ltd. -Kurayoshi, Tottori Prefecture
 Shinko Real Estate Co., Ltd. -Kobe, Hyogo Prefecture



Nippon Koshuha Steel Co., Ltd.



Hanshin Yosetsu Kizai Co., Ltd.



Kobelco & Materials Copper Tube, Ltd.



Kobelco Construction Machinery Co., Ltd.



Kobelco Cranes Co., Ltd.



Shinko Industrial Co., Ltd.

Main Operating Locations Overseas

(At July 31, 2014)



Kobe Steel, Ltd.'s Overseas Offices

- Kobe Steel USA Inc. -New York and Detroit, USA
- Kobe Steel Asia Pte. Ltd. -Singapore and Hong Kong
- Bangkok Office -Thailand
- Beijing Office -China
- Kobelco (China) Holding Co., Ltd. -Shanghai, China

Asia and Oceania

● Iron & Steel

- Kobe Steel Asia Pte. Ltd. -Singapore
- Kobe CH Wire (Thailand) Co., Ltd. -Thailand
- Mahajak Kyodo Co., Ltd. -Thailand
- Kobe Wire Products (Foshan) Co., Ltd. -Guangdong, China
- Jiangyin Sugita Fasten Spring Wire Co., Ltd. -Jiangsu, China
- Kobe Special Steel Wire Products (Pinghu) Co., Ltd. -Zhejiang, China
- Kobelco Spring Wire (Foshan) Co., Ltd. -Guangdong, China

● Welding

- Kobelco Welding Asia Pacific Pte. Ltd. -Singapore
- Kobe Welding (Malaysia) Sdn. Bhd. -Malaysia
- Kobe MIG Wire (Thailand) Co., Ltd. -Thailand
- Thai-Kobe Welding Co., Ltd. -Thailand
- Kobe Welding of Korea Co., Ltd. -South Korea
- Kobelco Welding Marketing of Korea Co., Ltd. -South Korea
- Kobelco Welding India Pvt. Ltd. -India
- Kobe Welding of Tangshan Co., Ltd. -Hebei, China
- Kobe Welding of Qingdao Co., Ltd. -Shandong, China
- Kobe Welding of Shanghai Co., Ltd. -Shanghai, China

● Aluminum & Copper

- Singapore Kobe Pte. Ltd. -Singapore
- Kobelco & Materials Copper Tube (Malaysia) Sdn. Bhd. -Malaysia
- Kobelco & Materials Copper Tube (Thailand) Co., Ltd. -Thailand
- Kobe Precision Technology Sdn. Bhd. -Malaysia
- Kobe Electronics Material (Thailand) Co., Ltd. -Thailand
- Suzhou Kobe Copper Technology Co., Ltd. -Jiangsu, China
- Kobe Aluminum Automotive Products (China) Co., Ltd. -Jiangsu, China
- Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd. -Tianjin, China

● Machinery

- Yiyang Yishen Rubber Machinery Co., Ltd. -Hunan, China
- Kobelco Compressors Manufacturing (Shanghai) Corporation -Shanghai, China
- Wuxi Compressor Co., Ltd. -Jiangsu, China
- Kobelco Machinery Asia Pte. Ltd. -Singapore
- Kobelco Machinery India Private Limited -India
- L&T Kobelco Machinery Private Limited -India
- Kobelco Advanced Lube-System Asia Co., Ltd. -Busan, Korea

● Engineering

- Midrex Metallurgy Technology Services (Shanghai) Ltd. -Shanghai, China
- Midrex Technologies India Private, Ltd. -India



Kobe Welding of Tangshan Co., Ltd.



Kobelco Compressors Manufacturing (Shanghai) Corporation



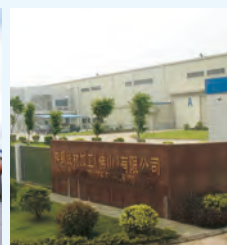
Kobe Precision Technology Sdn. Bhd.



Hangzhou Kobelco Construction Machinery Co., Ltd.



Kobelco & Materials Copper Tube (Thailand) Co., Ltd.



Kobe Wire Products (Foshan) Co., Ltd.

USA

Europe and the Middle East

● Welding

Kobelco Welding of Europe B.V. -Netherlands

● Machinery

Kobelco Machinery Europe GmbH. -Germany

Kobelco Machinery Middle East FZE. -UAE

● Engineering

Midrex UK, Ltd. -London

● Kobelco Construction Machinery

Kobelco Construction Machinery Europe B.V. -Netherlands

● Kobelco Cranes

Kobelco Cranes Europe Ltd. -UK & Netherlands

Kobelco Cranes Middle East FZE. -UAE

United States

● Iron & Steel

PRO-TEC Coating Company -Ohio

Grand Blanc Processing, LLC -Michigan

● Welding

Kobelco Welding of America Inc. -Texas

● Aluminum & Copper

Kobe Aluminum Automotive Products, LLC -Kentucky

● Machinery

KOBELCO Advanced Coating (America), Inc. -Illinois

Kobelco Compressors Manufacturing Indiana, Inc. -Indiana

Kobelco Stewart Bolling, Inc. -Ohio

Kobelco Compressors America, Inc. -California

● Engineering

Midrex Technologies, Inc. -North Carolina

● Kobelco Construction Machinery

Kobelco Construction Machinery U.S.A. Inc. -Texas

● Kobelco Cranes

Kobelco Cranes North America Inc. -Texas

● Other

Kobe Steel USA Holdings Inc. -Delaware

Kobe Steel USA Inc. -New York

Kobe Steel International (USA) Inc. -New York

South America

● Machinery

Kobelco Machinery do Brazil Ltda. -Sao Paulo, Brazil

● Kobelco Eco-Solutions

Kobelco Eco-Solutions Vietnam Co., Ltd. -Vietnam

Kobelco Eco-Solutions Malaysia Co., Ltd. -Malaysia

● Kobelco Construction Machinery

Chengdu Kobelco Construction Machinery (Group) Co., Ltd. -Sichuan, China

Chengdu Kobelco Construction Machinery Co., Ltd. -Sichuan, China

Chengdu Kobelco Construction Machinery Financial Leasing Ltd. -Sichuan, China

Hangzhou Kobelco Construction Machinery Co., Ltd. -Zhejiang, China

Kobelco Precision Machinery Hangzhou Co., Ltd. -Zhejiang, China

Kobelco International (S) Co., Pte. Ltd. -Singapore

Ricon Private Limited -Singapore

Thai Kobelco Construction Machinery Ltd. -Thailand

Kobelco Construction Equipment India Pvt. Ltd. -India

Kobelco Construction Machinery Australia Pty. Ltd. -Australia

P.T. Daya Kobelco Construction Machinery Indonesia -Indonesia

Kobelco Construction Machinery Malaysia Sdn. Bhd. -Malaysia

Kobelco Construction Machinery Vietnam Co., Ltd. -Vietnam

● Kobelco Cranes

Kobelco Cranes South East Asia Pte. Ltd. -Singapore

Kobelco Cranes India Pvt. Ltd. -India

Kobelco Cranes (Shanghai) Co., Ltd. -Shanghai, China

Chengdu Kobelco Cranes Co., Ltd. -Sichuan, China

● Other

Kobelco Precision Parts (Suzhou) Co., Ltd. -Jiangsu, China

Suzhou Shinko-Shoji Material Co., Ltd. -Jiangsu, China



Kobelco Welding of Europe B.V.



PRO-TEC Coating Company



Kobe Aluminum Automotive Products, LLC

R&D and Intellectual Property Activities

Supporting the Kobe Steel Group, the Technical Development Group engages in basic and advanced research and works closely with the business segments. Kobe Steel's laboratories pursue the development of truly distinctive "Only One" products and ever higher levels of manufacturing excellence.

The Technical Development Group serves as Kobe Steel's R&D base, undertaking research to enhance the profitability of the business segments while pioneering new products and technologies for the future.

R&D Activities

Materials Research Laboratory

The Materials Research Laboratory (MRL) bases its research on four technical fields: refining and solidification, materials design, mechanical working and surface control. For the materials business, MRL works to develop new high-performance products based on material and surface design and control as well as to optimize manufacturing processes. For machinery-related businesses, MRL focuses on creating differentiated products utilizing its expertise in materials. MRL also strives to develop new businesses based on high value-added products.

Mechanical Engineering Research Laboratory

At the core of the Mechanical Engineering Research Laboratory are the fields of structure, strength, dynamics, acoustics, fluid and heat transfer, combustion, advanced simulation technology in the chemical field and testing, measurement and analysis technologies. This laboratory focuses on enhancing product performance and production processes, streamlining designs, and developing new products and technologies to improve product development capabilities in machinery, materials, the environment, energy and steel structures.

Production Systems Research Laboratory

The Production Systems Research Laboratory (PSRL) introduces innovation to production technologies to bolster the Group's manufacturing capabilities, utilizing cutting-edge technologies for measurement and inspection, control, production planning, information systems and signal processing. It also seeks to develop new lineups of products that have at their core the strong technologies it has cultivated.

Electronics Research Laboratory

The core technologies of the Electronics Research Laboratory (ERL) include those related to thin-film materials, microfabrication and superconductivity. ERL plays a part in strengthening the Kobe Steel Group's business competitiveness in such growth fields as nanotechnology, the environment and energy. In addition, it capitalizes on its electromagnetic design and electronic control technologies in its efforts to develop novel products in power electronics and to make inroads into new businesses.

Coal & Energy Technology Department

The Coal & Energy Technology Department (CETD) is developing energy conversion technologies such as upgrading low-grade coal through dewatering and deashing, coal liquefaction and the hydrocracking of heavy oil. CETD is striving to find ways to effectively use the world's untapped natural resources and contribute to securing stable and diversified energy sources for Japan.

R&D-Related Subsidiaries

- Kobelco Research Institute, Inc.
- Shinko Research Co., Ltd.

Recent R&D Achievements

Corrosion-Resistant Designs Primarily for Steel Used in Shipbuilding

Kobe Steel, Ltd. has been continuously upgrading its steel composition design technology to improve corrosion resistance, specifically, the formation of a fine, stable oxidized layer or film on the surface of the steel to protect it in corrosive environments. Films that form on conventional steel are coarse and unstable, offering no protection, so with time, the corrosion progresses. But films that form on steel designed with our technology get even finer as the corrosion progresses, decelerating the rate of corrosion over time (Fig. 1).

This technology has been applied to weathering steel and other materials used mainly in bridges. Looking further afield, we tested our new steel on the bottom plate of the cargo oil tanks of six crude oil tankers. The results confirmed favorable corrosion resistance in a real environment with a significant reduction in pits, localized areas of corrosion that progress rapidly (Fig. 2). Our newly developed steel, receiving approval from ClassNK, has been installed in a ship, marking the first time that steel meeting the new standards for oil tank corrosion protection required by the International Maritime Organization has been adopted. We will continue to develop corrosion-resistant steel to help improve safety and lower environmental loads and will apply this technology to counter the corrosion of ships and machines.



Fig. 1 Schematic illustration of corrosion resistance improvement

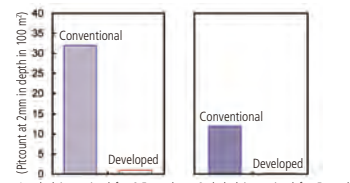


Fig. 2 Examples of effect of corrosion-resistant steel in tanker

New Oxide Semiconductor Materials for FPDs

Indium gallium zinc oxide (IGZO) thin films have been garnering attention in recent years as semiconductor materials for use in the backplanes of flat panel displays (FPDs), and limited mass production and adoption of such materials have already commenced. IGZO thin films have roughly 20 times higher field-effect mobility than conventional amorphous silicon thin films, which have field-effect mobility of 0.5 cm²/Vs. In addition, IGZO is easy to deposit over large areas using the sputtering method.

The Electronics Research Laboratory is developing oxide semiconductor thin films to replace IGZO thin films. Research is being conducted in two areas: (1) oxide semiconductor thin films that do not dissolve when exposed to the wet etchants used for the formation of aluminum interconnection and (2) oxide semiconductor thin films that have five times the field-effect mobility of IGZO thin films.

In the first area of development, because IGZO thin films dissolve when exposed to the mixed acid wet etchants widely used for the formation of aluminum interconnection, when fabricating thin-film transistors (TFTs) with oxide semiconductors, a protective film known as an

etch stop layer (ESL) must be used (Fig. 1a). If the need for such a film were eliminated, it would be possible to use a back channel etch (BCE) structure that requires no protective layers. This has many merits, including the simplification of the manufacturing process and the ease of controlling the channel length between the electrode source and drain. Applying the combinatorial method to design the composition of the oxide semiconductor thin film, we have succeeded in developing a new oxide semiconductor thin film that enables BCE structure. This new thin film has received considerable praise from many FPD manufacturers.

In the second area of development, we revised the indium composition—used for its high electron mobility—succeeding in developing a new oxide semiconductor thin film that achieves 70 cm²/Vs, which is seven or more times higher than the field-effect mobility of IGZO thin films.

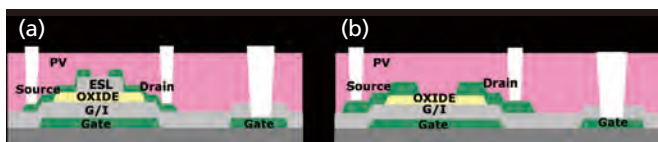
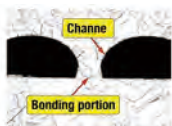


Fig. 1 TFT structures, a. ESL structure, b. BCE structure

Microchannel Heat Exchanger and Reactor

Kobe Steel's brazed aluminum heat exchanger ALEX has been successfully used in air separation and natural gas liquefaction processes. We provide high-performance heat exchangers featuring plate-fins constructed from multiple layers of workable aluminum. Looking to expand into even more applications, the Mechanical Engineering Research Laboratory and the Energy & Nuclear Equipment Business Unit developed a microchannel heat exchanger. The microchannels give the heat exchangers the following characteristics.

1. Resilience to thermal stress: By enabling higher-quality welds, these heat exchangers allow the attainment of strengths equivalent to the base material.
2. High durability to pressure and heat: The heat exchangers can be used at temperatures of up to 900°C and pressures of up to 100 MPa if using materials of optimal quality and flow passages of optimal size.
3. Compactness: Thanks to their high heat transfer performance and large heat transfer area, the heat exchangers are about one tenth the size of conventional multichannel heat exchangers.
4. High corrosion-resistance: The heat exchangers can be used for such applications as water cooling through the use of SUS316L or other materials.



Microchannel flow passages

By creating many semicircular microchannel flow passages as shown in Fig. 1, we increased the surface area of the microchannel heat exchanger, enabling very high heat transfer performance. This performance can be adjusted by modifying the size and shape of the microchannel flow passages. We used basic laboratory equipment to create a database of the heat transfer and pressure drop characteristics required for heat exchangers adapted to microchannel flow passages. This is reflected in our design technology.

Furthermore, we applied the design and equipment manufacturing technology developed for the creation of microchannels to advance the development and practical application of the Stacked Multi-Channel Reactor SMCR[®], a microchannel reactor capable of the mass processing of extractions and reactions.

Since the 1990s, microchannel reactors have been popular as they are superior to conventional reactors like mixing tanks in terms of heat transfer performance and mass transfer rates due to their flow passages with diameters of only a few millimeters or less. These microchannel reactors, however, are difficult to mass produce and have been used only in the small-volume production of high-value-added products, including pharmaceuticals. To overcome this hurdle, we developed a multichannel construction by creating very small flow passages in plates made of metal and other substances and then layering and welding these plates together. This led to the development of the large-scale mass reactor SMCR[®], which enables the mixing and extracting of a liquid or gas by uniformly passing it through 10,000 or more flow passages.

The SMCR[®] possesses a throughput capacity of tens of thousands of tons per year and can be applied to the mass production of basic chemicals. In addition, it can uniformly control temperature and features superior reaction efficiency and heat transfer performance. It enables the significant miniaturization of equipment compared with conventional reactors and is expected to facilitate a reduction in the use of solvents as well as to improve energy efficiency. Kobe Steel will continue to broaden the range of applications for SMCR[®] into polymerization, extraction, gas absorption and other fields in the chemical industry while continuing to work to reduce environmental burdens.

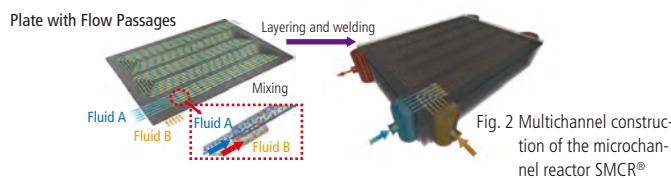


Fig. 2 Multichannel construction of the microchannel reactor SMCR[®]

Intellectual Property Activities

Overseas Intellectual Property Acquisition and Risk Hedging

Through the application and use of intellectual property (IP), the Kobe Steel Group ensures that its research and development and business activities can operate without restrictions. The Group also engages in IP activities to raise its corporate value. To ensure that no restrictions are placed on its overseas business development activities under KOBELCO VISION "G," the Kobe Steel Group's long-term business vision, the Group not only acquires patents in the countries in which it does business, when such acquisition comes as a condition for forming a business partnership, it also places a priority on technology agreements to hedge against businesses risks such as patent infringement by competitors and technology leakage, as well as to raise business profitability.

Overview of Fiscal 2013

In fiscal 2013, Kobe Steel applied for nearly 800 new patents in Japan, primarily to protect "Only One" products, giving the Company approximately 6,000 patents in Japan and 4,600 patents overseas as of the end of fiscal 2013. As a result of the globalization of its business, Kobe Steel is strengthening its application of new patents overseas, especially in Asia, which now accounts for almost one-third of its total number of patent applications.

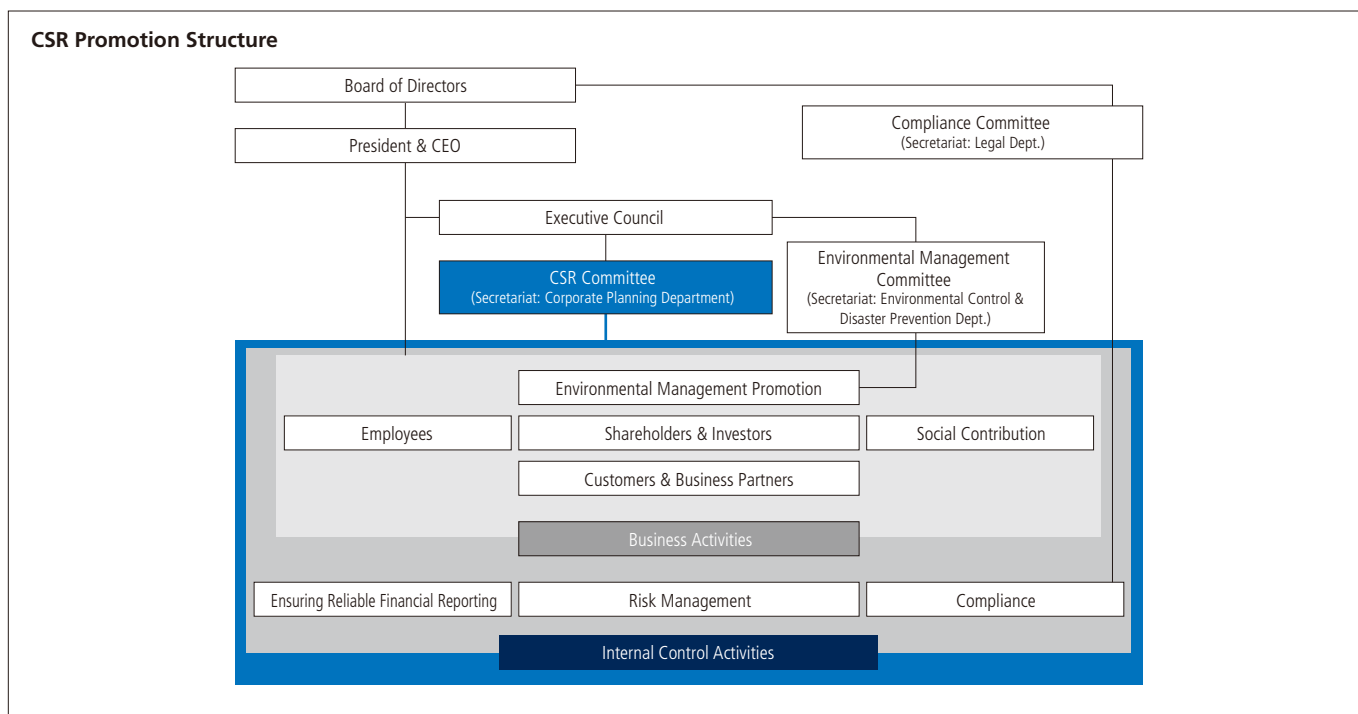
Moreover, Kobe steel is fortifying its IP activities in Asia, including China, by 1) increasing the number of patents applied for, 2) bolstering agreements with business alliance partners and 3) protecting the KOBELCO brand against counterfeit goods and patent infringement.

CSR Promotion System

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

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

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



Corporate Governance

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

CORPORATE GOVERNANCE

Basic Concept of Corporate Governance

In place of a corporate system with committees that completely separates the supervision and execution of business operations, Kobe Steel opted for a corporate system with an Audit & Supervisory Board in order to achieve a more agile management driven by people who are familiar with Kobe Steel's businesses. In addition, with the goal of achieving an increasingly transparent and fair business structure, the Company is taking various initiatives including the selection of outside directors and the strengthening of supervisory functions.

Board of Directors and Audit & Supervisory Board Members Structure of the Board of Directors

As stipulated in Article 18 of Kobe Steel's Articles of Incorporation, the Board of Directors may consist of no more than 15 members. To encourage active and wide discussion, Kobe Steel's Board is comprised of the president, key directors at corporate headquarters and the directors of the five major business divisions. In addition, there are two outside directors who have no conflicting interests with the Company, for a total of 11 board members. An additional role of the outside directors is to serve as members of the Independent Committee established under Kobe Steel's Policy on the Large-Scale Purchasing of its Shares. The Independent Committee is convened when a large-scale purchase of the Company's shares is proposed. These meetings are in addition to the regular meetings held twice a year to collect information about the business environment surrounding the Company and its performance during the said period as well as external factors, including recent Companies Act revisions and stock market conditions. By sharing knowledge and discussing the aforementioned topics, the Independent Committee members prepare for contingencies so that they are able to make recommendations to the Board of Directors that are fair, impartial and appropriate.

Structure of the Audit & Supervisory Board

In accordance with Japan's Companies Act, the Audit & Supervisory Board must consist of three or more Audit & Supervisory Board Members, the half or more of whom must be outside Audit & Supervisory Board Members. The Company has appointed five Audit & Supervisory Board Members, including three outside Audit & Supervisory Board Members from legal, financial and industrial circles in order to ensure more transparent and fair business management as well as better supervisory functions.

With the appointment of two outside directors and three outside Audit & Supervisory Board Members, the Company's Board of Directors consists of five individuals who are separated from business execution and hold fair and neutral positions. These changes have helped to improve Kobe Steel's governance system.

Business Execution Structure

Directors and Corporate Officers

Appointed by shareholders at the General Meeting of Shareholders, directors who have legal responsibilities to shareholders, business partners and other stakeholders play a central role in business execution and control the business operations of principal business divisions. Corporate officers, under the leadership of the directors, are responsible for conducting business affairs and, therefore, occupy an important position at Kobe Steel. Although not consti-

tuting a legal body, officers of the Company are elected by the Board of Directors and carry out duties that the president assigns to them.

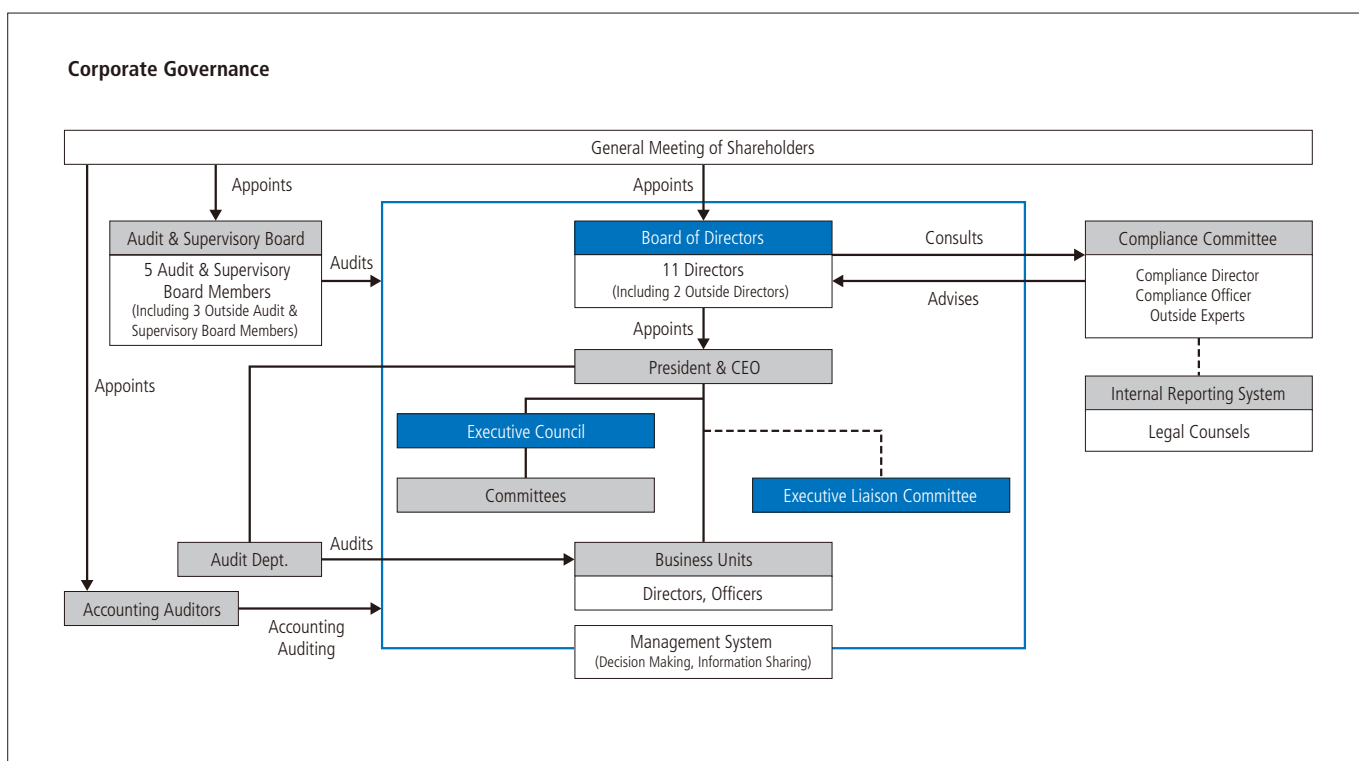
To enable the Company to quickly respond to a rapidly changing business environment, the term of office of both directors and officers has been set at one year.

Management System

Business units, the Group Executive Council (held quarterly) and the Executive Council (held semimonthly) convene to discuss the business direction, including the business strategy of the Group, as well as to confer over matters deliberated on in the Board of Directors meetings.

The Executive Liaison Committee (held quarterly) is composed of directors responsible for business execution, corporate officers, executive technical advisors, and the presidents and directors of affiliates appointed by the president and shares information on important management issues.

Other committees may be set up as forums for relevant parties to consider the president's and senior executives' advice before deliberating on issues that have a material impact on the overall business of the Company.



Internal Audits, Audit & Supervisory Board Members and Accounting Audit System

Internal Audits

Kobe Steel established the Audit Department as an independent auditing body to conduct internal audits. Audits, especially those conducted for compliance, the environment and information security, are carried out cooperatively or in partnership between the Audit Department and the respective administrative departments at headquarters.

Accounting Audits

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

Coordination between Internal Audits, Audit & Supervisory Board Members and Accounting Audits

Corporate auditors routinely meet with accounting auditors to closely collaborate through the exchange of views about the audit system, the audit plan and audit status. Also, when necessary, Audit & Supervisory Board Members accompany accounting auditors on their audits of business sites and receive timely reports about the progress of those audits. Furthermore, Audit & Supervisory Board Members are routinely informed about audit policies and plans by the internal Audit Department. Audit & Supervisory Board Members also maintain close cooperation with others through reports they receive about the status of internal control system implementation, including compliance and risk management status and the audit results, thereby enabling them to conduct efficient audits.

Directors' Remuneration

Total remuneration for directors and Audit & Supervisory Board Members in the fiscal year ended March 2014 is as follows:

	Total Remuneration (Millions of Yen)	Breakdown of Total Remuneration (Millions of Yen)	Number of Individuals
		Base Pay	
Internal Directors	372	372	8
Internal Audit & Supervisory Board Members	64	64	2
Outside Directors	66	66	5

Note 1. At the 151st General Meeting of Shareholders held on June 25, 2004, it was resolved that remuneration for directors be set at ¥63 million or lower per month (not including portions of their remuneration as employees) and remuneration for Audit & Supervisory Board Members be set at ¥11 million or lower per month.

Note 2. Considering the operating environment, we implemented measures to further reduce directors' remuneration until March 2014, having already adjusted it for business performance. Specifically, the amount was reduced a maximum of 10% and on average 7%, after April 2012. It was then uniformly reduced an additional 10% in December 2012 for a total reduction amounting to a maximum of 20% and on average 17%. In addition, directors' bonuses have not been paid out.

Policies Regarding the Setting of Remuneration Levels for Directors and the Method for Calculating Remuneration

[Summary of Policies]

Remuneration for directors is linked to performance. The base pay for directors, set by their position, varies with the performance of the entire company and each business segment every fiscal year. In this way, the Company clarifies accountability for each business.

However, outside directors' remuneration is not linked to performance but awarded in consideration of their responsibilities.

The remuneration for Audit & Supervisory Board Members is set according to their responsibilities and after taking into account director remuneration and other factors.

Remuneration for directors and Audit & Supervisory Board Members is paid within the limits set forth by resolution of the General Meeting of Shareholders.

[Method for Deciding Policies]

The policy related to the remuneration system for directors is decided by the Board of Directors. The policy related to Audit & Supervisory Board Member remuneration is decided through the deliberation of all Audit & Supervisory Board Members.

Dividend Policy

The Kobe Steel Group views the return of profits to shareholders as one of its most important management issues. The Group strives to raise corporate value by expanding its businesses over the medium- to long-term.

Profits are distributed as dividends after duly considering the Group's financial standing, business performance, future capital needs and other factors. The Group aims to pay dividends on a stable and continuous basis. The actual amount of each dividend is decided after taking into full account the Company's performance during that period, the dividend payout ratio and other factors.

Through the allotment of internal reserves to provide investment capital for future growth, the Group improves and strengthens its financial position while improving its profitability.

Taking into consideration profit sharing based on its financial performance, the standard dividend payout ratio we are currently targeting is 15% to 25% of consolidated net income.

Cash dividends are determined by the Board of Directors as set out in the Articles of Incorporation based on Article 459(1) and Article 460(1) of Japan's Companies Act.

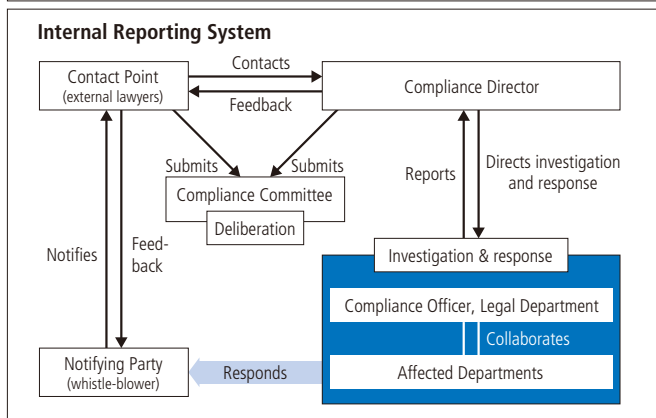
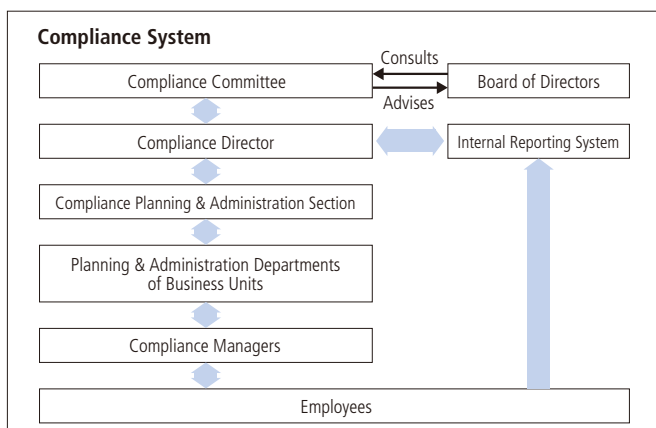
As a general rule, the Board of Directors distributes dividends twice a year on the record dates of the end of the first half of the fiscal year and the end of fiscal year as stipulated in the Articles of Incorporation. However, the Board of Directors can decide to distribute dividends on different record dates.

In light of the above and taking into consideration the substantial improvement in business performance compared with the previous fiscal year, we decided to pay a year-end dividend of ¥4 per share.

COMPLIANCE INITIATIVES

Compliance Committee

The Compliance Committee was established as an advisory body to the Board of Directors. Two of its members are Company directors. Five come from outside the Company in order to maintain fairness and neutrality. The Committee works to raise the effectiveness of compliance management not only through the drafting of compliance programs and confirmation of their progress status, but also by submitting measures related to reports made through the Internal Reporting System for discussion at Board of Directors meetings. In addition, a compliance director and a compliance officer have been appointed and we maintain a dedicated Compliance Planning & Administration Section in the Legal Department to work in partnership with the planning and administrative departments of business units and compliance managers in other departments.



Corporate Code of Ethics

The Corporate Code of Ethics sets out principles and guidelines established to maintain legal compliance and make Kobe Steel a better company. The Corporate Code of Ethics consists of the Corporate Ethical Principles and Standards of Corporate Conduct. Major Group companies have also formulated similar policies.

The Corporate Ethical Principles set forth the standards by which Kobe Steel, its directors, officers and employees must comply in conducting the Company's various business activities and covers the following principles.

From Kobe Steel's Corporate Code of Ethics:

Kobe Steel will:

1. Operate business fairly and honestly and comply with applicable laws, rules and principles of society.
2. Contribute to society by offering excellent products and services. In particular, pay special attention to product safety and the protection of personal and customer information.
3. Create a safe, comfortable and productive workplace and respect the individuality and differences of employees.
4. Respect the interests of stakeholders. Maintain healthy, positive relations with society at large, including customers, partners, employees and shareholders.
5. Be a good corporate citizen that contributes to local communities.
6. Contribute to protecting the environment and creating a livable society.
7. Respect the culture and customs of other nations and contribute to the growth and development of their communities.

Standards of Corporate Conduct were specifically established as particularly important standards of behavior that allow the Corporate Ethical Principles to be put into practice in employees' daily work activities. An operational manual has been created to explain in greater detail each item set out in the Standards of Corporate Conduct so that employees are thoroughly trained.

Risk Management Activities

Kobe Steel has been carrying out risk management activities with the goal of achieving an organizational culture that is highly sensitive to compliance issues.

This means that, in addition to compliance risks that are universal throughout the Company in light of legal and societal changes, after the divisions have identified and checked the risks within their individual businesses, they formulate an annual risk management plan while consulting internal Company rules, manuals and other documentation as necessary. Every year, each division implements the Plan, Do, Check, Action (PDCA) cycle by implementing the plan (Do), reviewing the results (Check) and reflecting any improvements in next year's risk management plan (Action).

In addition, staff, mainly from corporate headquarters, visit offices and plants to ensure that the PDCA cycle for Companywide risk management activities is being properly implemented. They verify what progress has been made while collaborating with each location's compliance department.

To ensure effectiveness, the results of the year's activities of each division are incorporated in plans for the next year and subsequent years after executive management has verified them.

Measures and policies are also adopted based on risk management activities with the goal of creating a corporate culture that is more highly sensitive to compliance issues.

Group Company Compliance System

Each Kobe Steel Group company has established a Compliance Committee and a Corporate Code of Ethics and has introduced an Internal Reporting System. A compliance officer and compliance promotion manager have been appointed in each company and pursue their efforts in coordination with Kobe Steel. Group companies also engage in risk management activities.

Basic Policies for Parties Affecting Policy Decisions of Kobe Steel's Financial and Business Affairs

(hereinafter, "Basic Policies on Corporate Control")

BASIC POLICY

Kobe Steel, Ltd. (hereinafter, "Kobe Steel" or the "Company"), as a listed company, naturally accepts, in the course of open stock trading, large-scale purchases of its shares (hereinafter, "Large-Scale Purchases" or "Large-Scale Purchasing") that result in changes in corporate control if such purchase facilitates the protection and enhancement of its corporate value and, ultimately, the common interests of its shareholders.

However, Japanese capital markets have recently witnessed a number of instances in which corporate shares have been rapidly purchased on a massive scale without the adequate disclosure of information to public shareholders or investors. Large-scale purchases or proposals of this type may cause irreparable harm to Kobe Steel or may not provide its shareholders with needed information or sufficient time for them to determine whether to accept these large-scale purchases. Such purchases may harm Kobe Steel's corporate value and, ultimately, the common interests of its shareholders.

More specifically, Kobe Steel is engaged in a wide range of businesses, including in the materials and machinery sectors, and because the Company has broad business interests, it has numerous stakeholders and many synergies created as a result of its businesses. Kobe Steel views all of these factors as sources of its corporate value. Therefore, if Large-Scale Purchasers who lack an adequate understanding of these stakeholder relationships and synergies among businesses were to control the finances and the business policies of Kobe Steel, the corporate value of the Company and, ultimately, the common interests of its shareholders could be impaired. Accordingly, Kobe Steel believes that any party that is to have any influence over its financial and business policy decisions must be one that fully understands the Company's management principles, the sources of its corporate value, and the relationships of mutual trust it shares with its stakeholders, which are necessary and indispensable for the enhancement of corporate value and, ultimately, the common interests of shareholders. Therefore, such a party must also be able to protect and enhance Kobe Steel's corporate value and, ultimately, the common interests of its shareholders. On the contrary, Kobe Steel views any party involved in a Large-Scale Purchase or proposal described above to be an unsuitable party to have influence over its financial and business policy decisions.

In light of Kobe Steel's operating environment—with ever intensifying international competition—corporate acquisitions are quite naturally increasing. Therefore, a Large-Scale Purchase of our stock that materially impacts our management policies is undeniably possible.

On the other hand, in the takeover bid system that would be used in such Large-Scale Purchases, as long as it is at least based on the current system, there may be times when shareholders do not have sufficient information or time to review the relative merits of a Large-Scale Purchase in order to make a decision.

In light of past large merger and acquisition projects in Japan and abroad, even when conducted amicably, in many cases it has taken more than six months to negotiate an agreement. To contribute to increasing corporate value and, ultimately, the common interests of shareholders, Large-Scale Purchases, even those that are undertaken without the prior consent of management, must be ensured the same time period for information disclosure and examination and evaluation as is provided in the case of friendly acquisitions. The Company believes that procedures to ensure this are necessary when shareholders select the party who is to be in control of determining the Company's financial and business policies.

With the above in mind, Kobe Steel established the rules outlined below.

INITIATIVES TO PREVENT UNSUITABLE PARTIES FROM INFLUENCING KOBE STEEL'S FINANCIAL AND BUSINESS POLICY DECISIONS IN LIGHT OF ITS BASIC POLICY ON CORPORATE CONTROL

At the General Meeting of Shareholders held on June 26, 2013, the following plan (hereinafter, "the Plan") to prevent Kobe Steel's financial and business policies from being controlled by parties deemed inappropriate was approved.

Overview of the Plan

The Plan stipulates that the following procedures be taken when a Large-Scale Purchase of the Company's shares is made.

1. Purpose of the Plan

In the event of a proposed Large-Scale Purchase, i.e., a purchase of 15% or more of Kobe Steel's stock, the potential Large-Scale Purchaser is required to provide sufficient information in advance for the review of all shareholders, who will determine whether or not to allow the purchase. The Board of Directors will then be given a period of time to examine and evaluate the proposed Large-Scale Purchase based on the information provided, and the Large-Scale Purchase may not be initiated until after the period has elapsed.

2. Establishment of an Independent Committee

To prevent its Board of Directors from making arbitrary judgments and ensure that procedures under the share purchasing rules remain objective, fair and reasonable, an Independent Committee has been established independent from the Board of Directors. Comprising at least three members, the Independent Committee is composed of outside attorneys, certified public accountants, tax accountants, academic experts and outside managers as well as outside directors of the Company.

3. Provision of Required Information

With respect to Large-Scale Purchasers of Kobe Steel's stock, shareholders and the Board of Directors must decide whether the proposed Large-Scale Purchase would further improve corporate value as well as the common interests of shareholders. To reach that decision, information is required prior to the Large-Scale Purchase about the purpose of the share acquisition, the computational basis for the purchase price, the underlying assets of the purchase funds and the post-share acquisition management policy.

However, Kobe Steel shall not overstep its position in pursuing said information, such as demanding that the proposed Large-Scale Purchaser provides information exceeding the standards necessary and sufficient for the shareholders, Board of Directors and Independent Committee of the Company to decide whether the Large-Scale Purchase is appropriate.

4. Examination and Evaluation

After disclosing that it has received necessary and sufficient information, the Independent Committee will secure an examination and evaluation period for both the Board of Directors and itself of 60 days in the case of a takeover bid of all of the Company's shares with Japanese yen in cash or 90 days in all other cases.

Should the Independent Committee rationally judge it is necessary for the evaluation period for the proposed Large-Scale Purchase to be extended, the Company shall extend such period by up to 60 days, and the relevant Large-Scale Purchase shall be implemented, if approved, after the extended evaluation period.

The Independent Committee will report to the Board of Directors on whether it should initiate takeover defense measures based on its examination of and judgment of the legitimacy regarding the Large-Scale Purchase.

However, should the Independent Committee recommend that the Board of Directors take defensive measures, the resolution of

such recommendation will require at least one affirmative vote from a Committee member who serves as an outside director of the Company.

5. Initiation of Takeover Defense Measures

The Board of Directors will decide whether to initiate takeover defense measures after giving serious consideration to the Independent Committee's report.

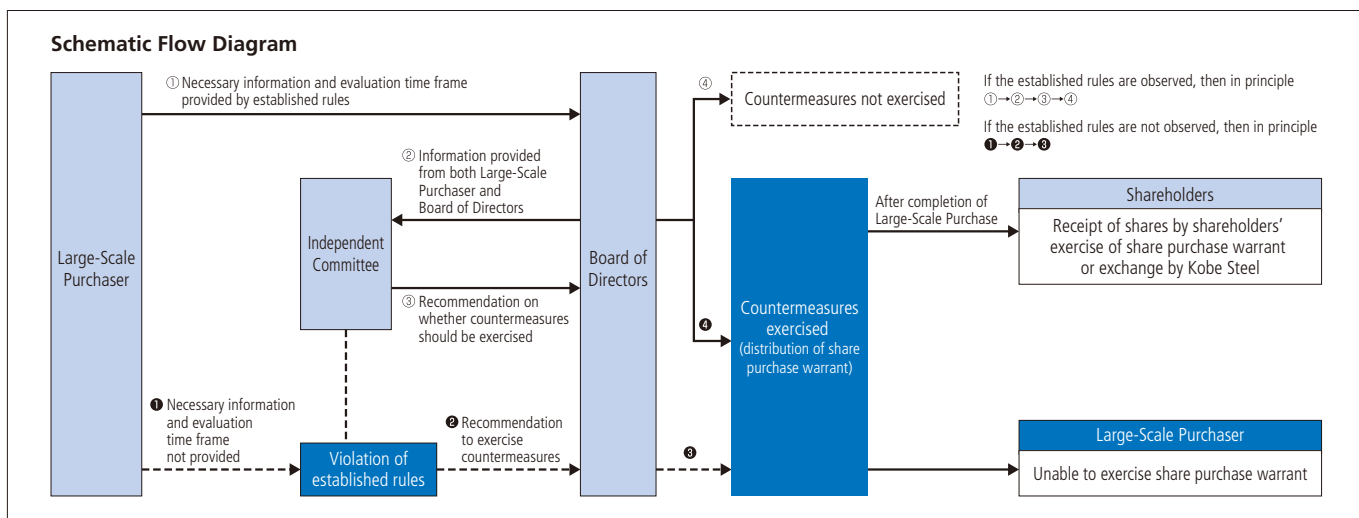
- a. If the proposed Large-Scale Purchaser does not follow the measures laid out in the Plan, takeover defense measures will be initiated as a general rule.
- b. If the proposed Large-Scale Purchaser does follow the measures laid out in the Plan, takeover defense measures will not be initiated as a general rule, even in the event that the Board of Directors is tentatively opposed, and the display of opinions opposed to the Large-Scale Purchase, the disclosure of substitute plans and other such actions are prohibited. However, if it is determined that the Large-Scale Purchase will cause irreparable damage or be detrimental to corporate value, takeover defense measures may be initiated.

6. Summary of Takeover Defense Measures

The takeover defense measures involve the distribution of share purchase warrants to shareholders under certain terms and conditions, which include prohibiting the exercise of the share purchase warrants by a Large-Scale Purchaser. As part of the share purchase warrants' terms and conditions, the Board of Directors shall not attach any redemption clauses to the effect that the Company will provide cash as consideration for the redemption of those warrants held by any Large-Scale Purchaser.

7. Effective Term

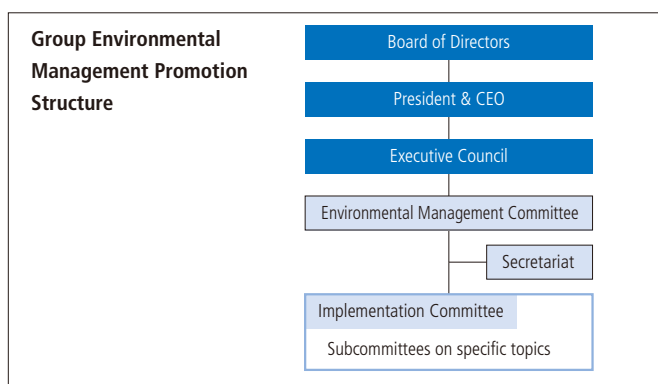
The effective term closes with the end of the first Board of Directors meeting to be held after the General Meeting of Shareholders, which is scheduled for June 2015.



Note: Details of the Plan can be found on the Kobe Steel website (<http://www.kobelco.co.jp/english/>). In the Press Release section, click on the link dated April 26, 2013, titled "Continuation of Kobe Steel, Ltd.'s Policy on Large-Scale Purchasing of its Shares (Anti-Takeover Measures)."

Environmental Management Promotion

Recognizing that its mission is to pass on to future generations a healthy world in which all living organisms are nurtured, the Kobe Steel Group has formulated a Basic Environmental Management Policy and six principal initiatives. The Group is promoting environmental management in every facet of its business. The Environmental Management Committee was established as a body for studying and recommending these initiatives with the goal of creating an environmentally advanced business enterprise in which all Group employees participate in environmental management.



BASIC ENVIRONMENTAL MANAGEMENT POLICY

Aiming to remain an advanced environmental business enterprise, the Kobe Steel Group shall fulfill its corporate social responsibilities, improve its environmental capabilities and raise its corporate value by putting the following three principles into practice:

- ① Environmentally friendly manufacturing
- ② Contributing to the environment through products, technologies and services
- ③ Coexisting and cooperating with society

Further Enhancing Corporate Value through Groupwide Environmental Management

—Improving the Group's Environmental Capabilities—

Six Principal Initiatives

- ① Environmentally friendly manufacturing
 - Global-warming countermeasures
 - Promoting resource recycling
 - Appropriate management of chemical substances
 - Reducing the environmental impact
- ② Contributing to the environmental through products, technologies and services
- ③ Disclosure of environmental information
- ④ Coexisting and cooperating with society
- ⑤ Promoting initiatives with full employee participation
- ⑥ Thorough risk management

The Kobe Steel Group Will Continue to Steadily Promote Environmental Management

Makoto Mizuguchi
Chairman of the Environmental Management Committee (Senior Officer)

The Kobe Steel Group shall fulfill its corporate social responsibilities, improve its environmental capabilities and raise its corporate value by putting into practice the three principles of ensuring environmentally friendly manufacturing; contributing to the environment through products, technologies and services; and cooperating with local communities.

In the years ahead under this environmental management policy, we will continue to pursue sound and steady environmental activities with the aim of becoming a corporate group that prospers along with the local community.



CSR ACTIVITIES IN COOPERATION WITH LOCAL COMMUNITIES

The Kobe Steel Group engages in cooperative environmental activities with local communities. Since fiscal 2013, Group members have pulled together to promote the KOBELCO Green Project, which comprises such varied CSR activities as forest conservation to preserve biodiversity and youth outreach programs to nurture future generations.

Kobelco Green Project

Forest Conservation Activities

The Kobe Steel Group first got involved in forest volunteer activities in autumn 2011 at two forests located in Hyogo Prefecture. The first project is KOBELCO Green Forest, a managed woodland of about two hectares within the grounds of the Greenpia Miki, a recreation area, where the Group and the Federation of Kobe Steel Workers Unions work hand-in-hand with in conservation. The second is ECOWAY Green Forest, a 0.6-hectare area around the summit of Rokkosan Aburakobushi in Kobe City's Nada Ward, where we engage in conservation activities in the spring and autumn.

More than 1,300 Group employees have participated in conservation activities at these two forests to date. Thanks to our efforts over the past two years, the forests are beginning to return to their original glory, slowly but surely.

The Ibaraki Plant recently launched farmland and woodland conservation activities in the Zenihara area of Ibaraki City through the Adopt-a-Forest program, which is organized by the Osaka prefectural government to encourage businesses and forest owners to work together to counter deforestation. Activities commenced with a signing ceremony held on March 20, 2014 at Osaka Prefecture's official residence that was attended by representatives from the Osaka prefectural government, Ibaraki city government, Zenihara Community Association, the local Kobe Steel workers union and the Ibaraki Plant. This is the first time within the prefecture that an initiative through the Adopt-a-Forest program promotes the conservation of both farmland and woodland.



Children also helped out with the conservation activities.



The forest is returning to its original glory.



The signing ceremony for forest conservation activities in Zenihara, Ibaraki City

The First KOBELCO Forest Fairy Tale Prize

● Turning Sylvan Dreams into Stories

This story competition is our newest environmental activity and takes as its theme the ideas of "forest" and "children." Forests nurture a colorful assortment of creatures and play an integral role in enriching our lives.

The Kobe Steel Group introduced the KOBELCO Forest Fairy Tale Prize as a way to ensure that future generations appreciate the importance of the environment. We hope that children will read these picture books, think about the importance of forests and other natural environments, and open their hearts and minds.

A judging panel headed by children's book illustrator and Hyogo Prefecture native Moe Nagata combed through 347 submissions from 21 prefectures, and in the end awarded 12 prizes. Of these, the two entries awarded gold prizes were turned into picture books featuring illustrations by Moe Nagata and Roko.



The gold prize winning stories were turned into picture books.

Directors, Audit & Supervisory Board Members and Corporate Officers

(At June 25, 2014)

Chairman of the Board and Representative Director

Hiroshi Sato

President, CEO and Representative Director

Hiroya Kawasaki

Head Office

Senior Managing Director

Naoto Umehara

Managing Director

Yasuaki Sugizaki

Executive Officer

Seiji Okita

Senior Officer

Takafumi Morichi

Officers

Toshiya Miyake

Kazuaki Kawahara

Jiro Kitagawa

Koji Yamamoto

Iron & Steel Business

Executive Vice President and Representative Director

Yoshinori Onoe*

Executive Officers

Yukimasa Miyashita

Koji Fujii

Senior Officers

Shinya Miyawaki

Takashi Goto

Makoto Mizuguchi

Koichiro Shibata

Officers

Yasushi Tsushima

Hiroaki Matsubara

Yoshihiro Oka

Welding Business

Senior Managing Director

Tsuyoshi Kasuya*

Senior Officer

Fusaki Koshiishi

Aluminum & Copper Business

Senior Managing Director

Akira Kaneko*

Senior Officers

Hiroshi Kato

Takumi Fujii

Machinery Business

Executive Vice President and Representative Director

Kazuhide Naraki*

Executive Officer

Takao Ohama

Senior Officers

Mitsugu Yamaguchi

Akio Matsuda

Engineering Business

Executive Vice President and Representative Director

Jun Tanaka*

Senior Officers

Shohei Manabe

Kazuto Morisaki

Officer

Hiroshi Ishikawa

Outside Directors

Takao Kitabata

Hiroshi Ochi

Audit & Supervisory Board Members

Hiroaki Fujiwara

Yoshimasa Yamamoto

Shigeo Sasaki**

Takashi Okimoto**

Shinya Sakai**

* Head of the business unit

** Outside Audit & Supervisory Board Member

Financial Section

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Consolidated 10-Year Summary

Kobe Steel, Ltd. and Consolidated Subsidiaries

Years ended March 31	Millions of yen			
	2005	2006	2007	2008
For the year:				
Net sales	¥1,443,772	¥1,667,313	¥1,910,296	¥2,132,406
Cost of sales	1,140,422	1,297,291	1,543,158	1,757,342
Operating income	166,577	220,395	208,624	202,399
Ordinary income (loss)	116,028	176,933	183,279	157,919
Net income (loss)	51,289	84,559	109,669	88,923
Cash flows from operating activities	225,751	198,181	172,786	124,317
Cash flows from investing activities	(50,543)	(94,215)	(128,557)	(187,381)
Cash flows from financing activities	(163,945)	(93,593)	(48,823)	31,155
Capital expenditures	66,016	92,319	133,649	150,585
Depreciation	80,290	79,507	86,687	111,514
Research and development expenses	19,700	24,121	24,893	30,139
At year end:				
Total assets	1,901,202	2,074,242	2,241,570	2,329,006
Net assets (Note 2)	379,213	530,000	636,432	647,797
Outside debt	669,241	589,101	621,227	713,352
Outside debt including IPP project financing	811,572	720,909	742,276	823,404
Per share data:				
Net income (loss) (yen/U.S. dollars (Note 1))	¥ 17.28	¥ 27.94	¥ 35.37	¥ 29.63
Diluted net income (yen/U.S. dollars (Note 1))	16.48	27.25	—	—
Net assets (yen/U.S. dollars (Note 1))	127.80	170.65	194.46	199.81
Cash dividends (yen/U.S. dollars (Note 1))	3.00	6.00	7.00	7.00
Ratios:				
Operating income ratio (%)	11.5	13.2	10.9	9.5
Ordinary income ratio (%)	8.0	10.6	9.6	7.4
ROA (%)	2.7	4.1	4.9	3.8
ROE (%)	14.5	18.6	19.5	14.9
Equity ratio (%)	19.9	25.6	26.4	25.8
Debt/equity ratio (times)	1.8	1.2	1.2	1.3
Dividend payout ratio (%)	17.4	21.5	19.8	23.6
Number of shares issued (in thousands)	2,976,070	3,115,061	3,115,061	3,115,061
Number of employees	27,067	29,068	31,828	33,657

Notes: 1. For convenience only, U.S. dollar amounts in this report have been translated from Japanese yen amounts at the rate of ¥102.92 to US\$1.00, the rate of exchange prevailing on March 31, 2014.

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

Millions of yen							Thousands of U.S. dollars (Note 1)	
2009	2010	2011	2012	2013	2014	Change 2014/2013	2014	
¥2,177,290	¥1,671,022	¥1,858,574	¥1,864,691	¥1,685,529	¥1,824,699	8.3%	\$17,729,290	
1,890,318	1,475,461	1,570,779	1,635,862	1,510,512	1,537,250	1.8	14,936,357	
116,934	46,016	124,551	60,555	11,235	114,548	919.6	1,112,984	
60,876	10,259	89,083	33,780	(18,146)	85,044	—	826,316	
(31,438)	6,305	52,940	(14,248)	(26,976)	70,192	—	682,001	
118,200	172,893	177,795	39,486	45,402	194,294	327.9	1,887,816	
(127,405)	(120,324)	(96,687)	(85,267)	(123,513)	(62,105)	—	(603,431)	
138,700	(29,641)	(98,196)	(40,233)	127,644	(138,502)	—	(1,345,724)	
118,044	128,739	91,378	96,085	114,936	101,403	(11.8)	985,256	
128,701	118,835	114,820	118,038	106,725	82,936	(22.3)	805,832	
31,029	28,255	29,833	31,437	30,763	28,494	(7.4)	276,858	
2,295,489	2,249,346	2,231,533	2,159,512	2,226,997	2,288,637	2.8	22,237,047	
513,461	557,002	597,368	571,258	569,923	734,679	28.9	7,138,351	
855,972	837,770	769,840	746,471	907,657	748,138	(17.6)	7,269,125	
954,791	925,120	845,484	810,172	959,180	787,246	(17.9)	7,649,108	
¥ (10.47)	¥ 2.10	¥ 17.63	¥ (4.75)	¥ (8.99)	¥ 22.63	—	\$ 0.22	
—	—	—	—	—	—	—	—	
159.58	172.09	182.81	171.84	170.63	184.11	7.9	1.79	
3.50	1.50	3.00	1.00	—	4.00	—	0.04	
							Points	
5.4	2.8	6.7	3.2	0.7	6.3	5.6		
2.8	0.6	4.8	1.8	(1.1)	4.7	5.7		
(1.4)	0.3	2.4	(0.7)	(1.2)	3.1	4.3		
(5.8)	1.3	9.9	(2.7)	(5.3)	11.9	17.1		
20.9	23.0	24.6	23.9	23.0	29.2	6.2		
1.7	1.6	1.4	1.4	1.8	1.1	(0.7)		
—	71.4	17.0	—	—	17.7	—		
3,115,061	3,115,061	3,115,061	3,115,061	3,115,061	3,643,642	528,581		
33,526	33,629	34,772	35,496	36,018	36,019	1		

Analysis of Results

Net sales		Operating income	
FY2013	¥1,824.7 billion	FY2013	¥114.5 billion
FY2012	¥1,685.5 billion	FY2012	¥11.2 billion
	+8.3%		+919.6%
Ordinary income (loss)		Net income (loss)	
FY2013	¥85.0 billion	FY2013	¥70.2 billion
FY2012	-¥18.1 billion	FY2012	-¥27.0 billion

Japan's economy continued to recover in fiscal 2013, ended March 31, 2014, with export industries beginning to pick up owing to a correction in the yen, which had remained high until the latter half of fiscal 2012, thanks to monetary, fiscal, and other government economic measures. Public investment, including recovery spending related to the Great East Japan Earthquake, also increased. In overseas markets, while the U.S. economy continued to gradually recover, that of Europe remained weak. And, although China's economy remained on a growth path, the overall pace of expansion continued to decelerate.

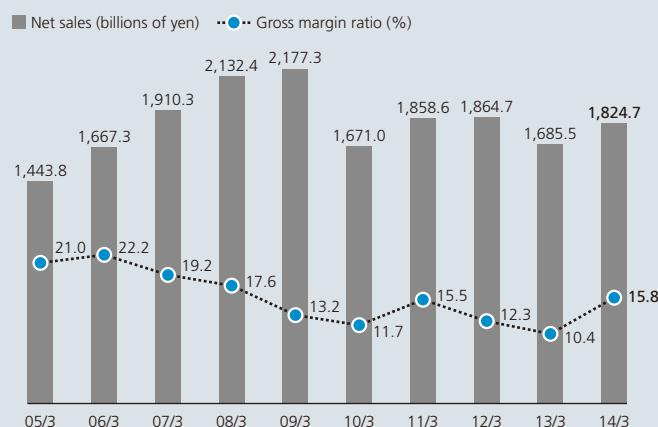
In this economic environment, the Kobe Steel Group recorded an increase in the volume of steel products sold (tons sold) in fiscal 2013 compared with the previous year due to strong demand from the automotive sector and a correction in the high yen bringing about an improvement in the export environment, which enabled Kobe Steel to steadily address overseas demand. Strong demand from the automotive sector also drove expansion in the volume of aluminum rolled products sold. In addition, copper rolled products saw a rise in sales volume in fiscal 2013 owing to strong demand for automotive terminals and a recovery in demand for semiconductors. Unit sales of hydraulic excavators increased in comparison

with the previous year. Domestic demand for excavators grew, driven by reconstruction demand related to the Great East Japan Earthquake and a last-minute surge in demand prior to the implementation of stricter exhaust gas emission regulations. In overseas markets, China's economy seemed to have hit bottom and sales steadily expanded in North America and Europe, while demand remained sluggish in Southeast Asia.

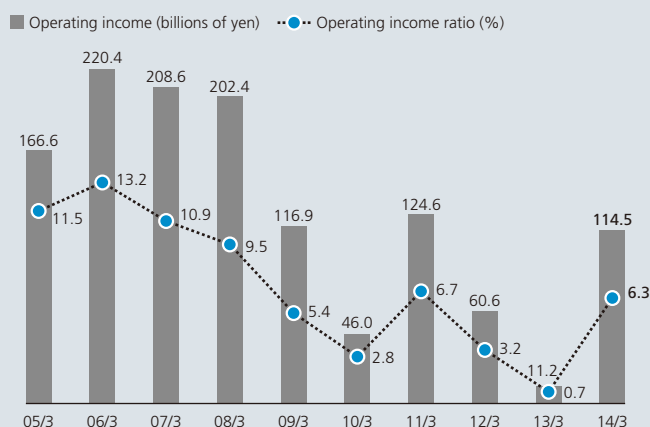
As a result, Kobe Steel's consolidated net sales in fiscal 2013 were up ¥139.2 billion in comparison with the previous year to ¥1,824.7 billion. Owing to progress in reducing overall costs, a favorable change in inventory valuation and a change in the depreciation method for fixed assets, operating income rose ¥103.3 billion year on year to ¥114.5 billion and ordinary income showed a ¥103.2 billion turnaround to ¥85.0 billion. In addition, Kobe Steel posted a gain on sale of securities as extraordinary income, principally the sale of shares held in Nabtesco Corporation. On the other hand, having decided to transfer upstream production from the Kobe Works to the Kakogawa Works to reform the structure of its steel business, Kobe Steel posted as an extraordinary loss an impairment loss on facilities planned for shutdown at the Kobe Works. As a result, net income improved ¥97.2 billion from a loss (of ¥27.0 billion) in the previous year to ¥70.2 billion.

The Kobe Steel Group's Fiscal 2013–2015 Medium-Term Business Plan, formulated in May 2013, sets out two management goals: rebuilding the business foundation and establishing a base for stable profits and business growth. To achieve these goals and maintain steady growth, in fiscal 2013 Kobe Steel augmented its paid-in capital through a public offering. Through the issuance of 632,500,000 shares, disposal of treasury stock, and other steps, Kobe Steel raised ¥83.6 billion that it plans to use to finance strategic investments, including automotive-sector related investment in the Iron & Steel Business and Aluminum & Copper Business. The funds will also be used to strengthen the profitability of the Iron & Steel Business and reform its structure.

Net sales / Gross margin ratio



Operating income / Operating income ratio



Analysis of Cash Flows

Cash flows from operating activities

FY2013 **¥194.3** billion

FY2012 ¥45.4 billion

+¥148.9 billion

Cash flows from investing activities

FY2013 **-¥62.1** billion

FY2012 -¥123.5 billion

+¥61.4 billion

Free cash flows

FY2013 **¥132.2** billion

FY2012 -¥78.1 billion

+¥210.3 billion

Cash flows from financing activities

FY2013 **-¥138.5** billion

FY2012 ¥127.6 billion

-¥266.1 billion

Analysis of Financial Condition

Total assets

FY2013 **¥2,288.6** billion

FY2012 ¥2,227.0 billion

+2.8%

Net assets

FY2013 **¥734.7** billion

FY2012 ¥569.9 billion

+28.9%

Equity ratio

FY2013 **29.2%**

FY2012 23.0%

+6.2 points

Cash Flows from Operating Activities

Net cash provided by operating activities came to ¥194.3 billion thanks in large part to posting income before income taxes and minority interests of ¥88.2 billion and depreciation of ¥82.9 billion.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥62.1 billion due in large part to an outflow of ¥95.4 billion from the purchase of property, plant and equipment and other assets as well as an inflow of ¥32.1 billion in proceeds from the sale of investments in securities.

Cash Flows from Financing Activities

Despite proceeds from the issuance of common stock and disposal of treasury stock by public offering, net cash used in financing activities amounted to ¥138.5 billion due mainly to the repayment of borrowings.

Although investments in securities decreased due to their sale, cash and deposits as well as notes and accounts receivable were up compared with the end of the previous fiscal year. As a result, total assets in fiscal 2013 rose ¥61.6 billion year on year to ¥2,288.6 billion. Net assets increased ¥164.8 billion to ¥734.7 billion. Retained earnings grew with the posting of net income, and common stock and capital surplus swelled due to the issuance of new shares and the disposal of treasury stock by public offering. As a result, the equity ratio at the end of fiscal 2013 was 29.2%, an increase of 6.2 points compared with the previous year.

At the end of fiscal 2013, outside debt, which includes IPP project financing, was down ¥171.9 billion year on year to ¥787.2 billion.

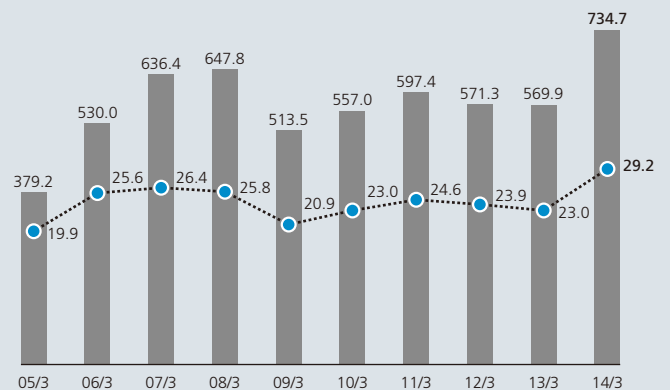
Free cash flows

■ Free cash flows (billions of yen)



Net assets / Equity ratio

■ Net assets (billions of yen) ● Equity ratio (%)



Business Risks

Discussed below are a number of factors affecting the business and financial situation of the Kobe Steel Group encompasses that could have a material impact on investor decisions. Furthermore, forward-looking statements in this text represent decisions made by the Kobe Steel Group at the end of the fiscal year ended March 31, 2014.

1. Economic Conditions in Key Markets

Automobiles, shipbuilding, electrical machinery, construction and civil engineering, IT, beverage containers and industrial machinery constitute the principal areas contributing to the Kobe Steel Group's domestic sales. In the fiscal year ended March 31, 2014, overseas sales represented 35.4% of total sales, with Asia, including China—the largest single source of demand in the region—accounting for over half of overseas sales.

The Kobe Steel Group's performance is therefore affected by demand trends in these fields, regional economic conditions and other factors. In addition, political and social trends, difficulties in supervising and regulating local businesses, and labor issues as well as changes in customs duties, import and export regulations, trade and taxes, and other statutory regulations could affect the Kobe Steel Group's performance.

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

2. Fluctuations in Steel Volume and Prices

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

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

3. Fluctuating Prices of Raw Materials

Steel raw material prices and ocean freight charges for iron ore, coal, ferroalloys, nonferrous metals and scrap procured by the Kobe Steel Group are affected by global market conditions, exchange rates, statutory regulations, natural disasters, political trends and

other factors. Fluctuations in these prices and charges could affect the Kobe Steel Group's performance.

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

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

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

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

4. Impact of Environmental Regulations

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

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

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

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

If a natural disaster such as a massive earthquake or typhoon were to strike, an infectious disease such as a new strain of influenza were to spread or some other unpredictable situation were to

occur, these events could hinder operations and affect the Kobe Steel Group's performance.

6. Litigation Risks

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

7. Financial Risk

(1) Exchange Rate Fluctuations

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

(2) Interest Rate Fluctuations

Total outside debt for the Kobe Steel Group at March 31, 2014 stood at ¥748.1 billion (¥787.2 billion, including project financing related to the wholesale power supply business). Fluctuations in interest rates and other terms of this debt, new borrowings and corporate bonds, etc., could, due to changing financial conditions and other factors, affect the Group's performance.

(3) Decline in Value of Inventories

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

(4) Fluctuating Prices of Investment Securities

At March 31, 2014, the consolidated balance sheet amount for investment securities held by the Kobe Steel Group stood at ¥179.6 billion. Fluctuations in the prices of investment securities associated with changes in the share prices of listed shares could affect the Kobe Steel Group's performance.

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

(5) Recording of Deferred Income Taxes

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

(6) Decline in Value of Fixed Assets

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

8. Medium-Term Business Plan

The Kobe Steel Group unveiled its Medium-Term Business Plan in May 2013. The assumptions set out in the plan, including the market conditions and exchange rates in certain growth fields and regions, could differ from reality and, depending on the degree to which they differ, it may not be possible to execute the plan as originally expected. There is also the possibility that the Kobe Steel Group will be unable to successfully carry out the initiatives outlined in the plan, including strengthening the profitability of the steel business, strategically growing the machinery-related businesses and expanding the power supply business. In addition, while the Kobe Steel Group is promoting business alliances and joint ventures with overseas companies, these endeavors may not go smoothly as there may be difficulty in providing services or developing products and the synergistic effects originally envisioned may not come to fruition. It is also possible that the Kobe Steel Group will not secure the future business opportunities it originally foresaw.

Furthermore, the financial condition and business performance of the Kobe Steel Group could be affected by events other than those mentioned above that could not be anticipated at March 31, 2014.

Consolidated Balance Sheets

Kobe Steel, Ltd. and Consolidated Subsidiaries
At March 31, 2014 and 2013

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Current assets:			
Cash and deposits (Notes 7 and 20)	¥ 151,930	¥ 114,103	\$ 1,476,196
Notes and accounts receivable:			
Trade and finance	353,661	304,476	3,436,274
Unconsolidated subsidiaries and affiliates	50,338	54,652	489,094
Other	73,081	79,200	710,075
Allowance for doubtful accounts	(4,995)	(2,277)	(48,535)
	472,085	436,051	4,586,908
Merchandise and finished goods	149,831	161,432	1,455,797
Work-in-process (Note 8)	112,697	109,903	1,094,997
Raw materials and supplies	138,210	129,184	1,342,891
Deferred income taxes (Note 17)	26,727	26,098	259,683
Other	16,118	15,146	156,612
Total current assets	1,067,598	991,917	10,373,084
Property, plant and equipment (Note 7):			
Land	198,713	201,293	1,930,750
Buildings and structures	741,226	727,632	7,201,962
Machinery and equipment	2,237,816	2,191,383	21,743,258
Construction in progress	39,572	31,506	384,490
	3,217,327	3,151,814	31,260,460
Less accumulated depreciation	(2,304,311)	(2,243,979)	(22,389,333)
Total property, plant and equipment	913,016	907,835	8,871,127
Intangible assets	19,952	20,185	193,862
Investments and other assets:			
Investments in securities (Note 5)	115,038	134,500	1,117,737
Investments in and advances to unconsolidated subsidiaries and affiliates	84,978	83,427	825,667
Long-term loans receivable	5,762	5,716	55,982
Deferred income taxes (Note 17)	18,994	17,404	184,551
Net defined benefit asset (Note 22)	42,528	—	413,218
Other	23,471	68,914	228,054
Allowance for doubtful accounts	(2,700)	(2,901)	(26,235)
Total investments and other assets	288,071	307,060	2,798,974
	¥2,288,637	¥2,226,997	\$22,237,047

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Current liabilities:			
Short-term borrowings (Note 7)	¥ 188,133	¥ 203,618	\$ 1,827,951
Current portion of long-term debt (Note 7)	87,702	193,470	852,141
Notes and accounts payable:			
Trade	341,754	311,964	3,320,575
Construction	22,694	21,891	220,498
Unconsolidated subsidiaries and affiliates	73,769	73,169	716,764
Other	13,449	11,032	130,678
	451,666	418,056	4,388,515
Current portion of lease obligations	13,342	18,311	129,632
Advances from customers	32,388	28,136	314,688
Customers' and employees' deposits	19,759	17,925	191,988
Income and enterprise taxes payable	10,684	4,704	103,807
Provision for loss on construction contracts (Note 8)	8,344	8,508	81,075
Deferred income taxes (Note 17)	1,091	846	10,597
Other	78,148	69,308	759,312
Total current liabilities	891,257	962,882	8,659,706
Long-term liabilities:			
Long-term debt (Note 7)	511,411	562,039	4,969,016
Lease obligations	18,948	23,651	184,101
Employees' severance and retirement benefits (Note 22)	—	51,557	—
Net defined benefit liability (Note 22)	72,653	—	705,920
Provision for environmental measures	1,454	1,809	14,129
Provision for structural reform related expenses	5,632	—	54,724
Deferred income taxes (Note 17)	22,958	23,910	223,064
Other	29,645	31,226	288,036
Total long-term liabilities	662,701	694,192	6,438,990
Contingent liabilities (Note 11)			
Net assets:			
Stockholders' equity:			
Common stock (Notes 12 and 19)	250,930	233,313	2,438,108
Authorized — 6,000,000,000 shares			
Issued — 3,643,642,100 shares in 2014 and 3,115,061,100 shares in 2013			
Capital surplus (Note 12)	100,742	83,125	978,840
Retained earnings (Note 12)	322,347	253,199	3,132,016
Treasury stock, at cost (Note 19):	(2,983)	(51,615)	(28,991)
9,975,426 shares in 2014 and 114,187,811 shares in 2013			
	671,036	518,022	6,519,973
Accumulated other comprehensive income:			
Unrealized gains on securities, net of taxes	13,266	21,148	128,897
Unrealized losses on hedging derivatives, net of taxes	(1,814)	(1,686)	(17,626)
Land revaluation differences, net of taxes	(3,369)	(3,347)	(32,732)
Foreign currency translation adjustments	3,062	(22,086)	29,755
Remeasurements of defined benefit plans, net of taxes	(13,183)	—	(128,094)
	(2,038)	(5,971)	(19,800)
Minority interests	65,681	57,872	638,178
Total net assets	734,679	569,923	7,138,351
	¥2,288,637	¥2,226,997	\$22,237,047

See accompanying notes.

Consolidated Statements of Operations

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Net sales	¥1,824,699	¥1,685,529	\$17,729,290
Cost of sales (Note 13)	(1,537,250)	(1,510,512)	(14,936,357)
Gross profit	287,449	175,017	2,792,933
Selling, general and administrative expenses (Note 15)	(172,901)	(163,782)	(1,679,949)
Operating income	114,548	11,235	1,112,984
Non-operating income (expenses):			
Interest and dividend income	6,120	6,910	59,462
Interest expense	(18,573)	(20,119)	(180,457)
Seconded employees' salaries, net of reimbursement	(6,875)	(8,182)	(66,796)
Foreign exchange gain	2,852	4,094	27,709
Equity in income (loss) of equity method companies	(2,794)	1,438	(27,146)
Subsidy income	3,156	1,876	30,660
Other, net	(13,390)	(15,398)	(130,100)
	(29,504)	(29,381)	(286,668)
Ordinary income (loss)	85,044	(18,146)	826,316
Extraordinary income (loss):			
Gain on sale of securities	25,186	—	244,710
Gain on negative goodwill	3,839	1,923	37,301
Gain on transfer of distribution rights	3,219	—	31,272
Transfer related subsidy income	2,029	—	19,720
Impairment loss (Note 16)	(21,931)	(2,358)	(213,092)
Structural reform related expenses	(5,726)	—	(55,635)
Loss on write-down of investments in capital	(3,451)	—	(33,530)
Loss on write-down of investments in securities	—	(6,650)	—
	3,165	(7,085)	30,746
Income (loss) before income taxes and minority interests	88,209	(25,231)	857,062
Income taxes (Note 17):			
Current	14,784	9,899	143,644
Deferred	(245)	(11,950)	(2,382)
	14,539	(2,051)	141,262
Income (loss) before minority interests	73,670	(23,180)	715,800
Minority interests in income of subsidiaries	3,478	3,796	33,799
Net income (loss)	¥ 70,192	¥ (26,976)	\$ 682,001

Per share	Yen		U.S. dollars (Note 1)
	2014	2013	2014
Net income (loss)	¥ 22.63	¥ (8.99)	\$ 0.22
Cash dividends applicable to the year	4.00	—	0.04

See accompanying notes.

Consolidated Statements of Comprehensive Income

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Income (loss) before minority interests	¥73,670	¥(23,180)	\$715,800
Other comprehensive income (loss):			
Unrealized gains (losses) on securities, net of taxes	(8,362)	7,774	(81,245)
Unrealized losses on hedging derivatives, net of taxes	(281)	(720)	(2,731)
Land revaluation differences, net of taxes	(7)	518	(66)
Foreign currency translation adjustments	31,921	18,864	310,148
Share of other comprehensive income related to equity method companies	2,348	1,390	22,813
Total other comprehensive income (Note 18)	25,619	27,826	248,919
Total comprehensive income	¥99,289	¥ 4,646	\$964,719
Total comprehensive income attributable to:			
Stockholders of the parent	¥87,324	¥ (3,522)	\$848,462
Minority interests	11,965	8,168	116,257

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Thousands		Millions of yen									
	Number of shares of common stock	Common stock (Note 12)	Capital surplus (Note 12)	Retained earnings (Note 12)	Treasury stock	Unrealized gains on securities, net of taxes	Unrealized losses on hedging derivatives, net of taxes	Land revaluation differences, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Minority interests	Total
Balance at April 1, 2012	3,115,061	¥233,313	¥ 83,125	¥280,583	¥(51,628)	¥13,020	¥(1,013)	¥(4,141)	¥(37,579)	¥ —	¥55,578	¥571,258
Net loss				(26,976)								(26,976)
Purchase of treasury stock					(8)							(8)
Disposal of treasury stock				(18)	21							3
Decrease due to changes in scope of consolidation				(102)								(102)
Adjustment to land revaluation				(288)								(288)
Net changes in items other than stockholders' equity						8,128	(673)	794	15,493	—	2,294	26,036
Net changes during the year				(27,384)	13	8,128	(673)	794	15,493	—	2,294	(1,335)
Balance at April 1, 2013	3,115,061	233,313	83,125	253,199	(51,615)	21,148	(1,686)	(3,347)	(22,086)	—	57,872	569,923
Issuance of new shares	528,581	17,617	17,617									35,234
Net income				70,192								70,192
Share exchanges				(168)	219							51
Purchase of treasury stock					(24)							(24)
Disposal of treasury stock				(2)	48,437							48,435
Decrease due to changes in scope of consolidation				(889)								(889)
Adjustment to land revaluation				15								15
Net changes in items other than stockholders' equity						(7,882)	(128)	(22)	25,148	(13,183)	7,809	11,742
Net changes during the year	528,581	17,617	17,617	69,148	48,632	(7,882)	(128)	(22)	25,148	(13,183)	7,809	164,756
Balance at March 31, 2014	3,643,642	¥250,930	¥100,742	¥322,347	¥ (2,983)	¥13,266	¥(1,814)	¥(3,369)	¥ 3,062	¥(13,183)	¥65,681	¥734,679

	Thousands		Thousands of U.S. dollars (Note 1)									
	Number of shares of common stock	Common stock (Note 12)	Capital surplus (Note 12)	Retained earnings (Note 12)	Treasury stock	Unrealized gains on securities, net of taxes	Unrealized losses on hedging derivatives, net of taxes	Land revaluation differences, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Minority interests	Total
Balance at April 1, 2013	3,115,061	\$2,266,938	\$807,670	\$2,460,156	\$(501,510)	\$205,480	\$(16,380)	\$(32,518)	\$(214,599)	\$ —	\$562,296	\$5,537,533
Issuance of new shares	528,581	171,170	171,170									342,340
Net income				682,001								682,001
Share exchanges				(1,635)	2,134							499
Purchase of treasury stock					(238)							(238)
Disposal of treasury stock				(20)	470,623							470,603
Decrease due to changes in scope of consolidation				(8,636)								(8,636)
Adjustment to land revaluation				150								150
Net changes in items other than stockholders' equity						(76,583)	(1,246)	(214)	244,354	(128,094)	75,882	114,099
Net changes during the year	528,581	171,170	171,170	671,860	472,519	(76,583)	(1,246)	(214)	244,354	(128,094)	75,882	1,600,818
Balance at March 31, 2014	3,643,642	\$2,438,108	\$978,840	\$3,132,016	\$(28,991)	\$128,897	\$(17,626)	\$(32,732)	\$ 29,755	\$(128,094)	\$638,178	\$7,138,351

See accompanying notes.

Consolidated Statements of Cash Flows

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	¥ 88,209	¥ (25,231)	\$ 857,062
Depreciation	82,936	106,725	805,832
Interest and dividend income	(6,120)	(6,910)	(59,462)
Interest expense	18,573	20,119	180,457
Gain on sale of securities	(25,261)	(453)	(245,443)
Loss on write-down of investments in securities	327	6,650	3,174
Equity in income (loss) of equity method companies	2,794	(1,438)	27,146
Impairment loss	21,931	2,358	213,092
Gain on negative goodwill	(3,839)	(1,923)	(37,301)
Gain on transfer of distribution rights	(3,219)	—	(31,272)
Transfer related subsidy income	(2,029)	—	(19,720)
Loss on write-down of investments in capital	3,451	—	33,530
Structural reform related expenses	5,726	—	55,635
Gain on sale of property, plant and equipment	(1,239)	(162)	(12,041)
Loss on disposal of property, plant and equipment	1,905	3,280	18,508
Decrease (increase) in trade receivables from customers	(5,329)	10,495	(51,775)
Decrease (increase) in lease receivables and investment assets	1,954	17,235	18,987
Decrease (increase) in inventories	19,068	18,849	185,266
Increase (decrease) in trade payables to customers	898	(88,324)	8,727
Other	15,098	11,549	146,700
Subtotal	215,834	72,819	2,097,102
Cash received for interest and dividends	7,086	8,307	68,848
Cash paid for interest	(19,156)	(20,060)	(186,124)
Cash paid for income taxes	(9,470)	(15,664)	(92,010)
Net cash provided by operating activities	194,294	45,402	1,887,816
Cash flows from investing activities:			
Purchase of property, plant and equipment and other assets	(95,425)	(109,506)	(927,172)
Proceeds from sale of property, plant and equipment and other assets	3,208	1,975	31,166
Purchase of investments in securities	(398)	(14,517)	(3,872)
Proceeds from sale of investments in securities	32,056	2,090	311,465
Payment for investments in capital	(2,063)	(2,347)	(20,049)
Decrease (increase) in short-term loans receivable	86	1,034	839
Payments for long-term loans receivable	(125)	(2,793)	(1,213)
Proceeds from collection of long-term loans receivable	458	2,496	4,450
Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation	—	(113)	—
Other	98	(1,832)	955
Net cash used in investing activities	(62,105)	(123,513)	(603,431)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	(39,127)	55,216	(380,166)
Proceeds from long-term debt	33,858	167,060	328,975
Repayment of long-term debt	(176,353)	(73,936)	(1,713,497)
Proceeds from issuance of bonds	—	25,000	—
Repayment of bonds	(20,000)	(35,088)	(194,326)
Proceeds from issuance of common stock	69,921	—	679,369
Proceeds from disposal of treasury stock	13,747	4	133,574
Repayments of finance lease obligations	(18,965)	(7,960)	(184,267)
Payment of dividends	(8)	(14)	(76)
Other	(1,575)	(2,638)	(15,310)
Net cash provided by (used in) financing activities	(138,502)	127,644	(1,345,724)
Effect of exchange rate changes on cash and cash equivalents	15,113	8,850	146,841
Increase in cash and cash equivalents	8,800	58,383	85,502
Cash and cash equivalents at beginning of year	162,037	101,901	1,574,401
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	—	5	—
Increase in cash and cash equivalents resulting from change in scope of consolidation	89	1,748	867
Cash and cash equivalents at end of year (Note 20)	¥170,926	¥162,037	\$1,660,770

See accompanying notes.

Notes to Consolidated Financial Statements

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

1. Basis of Presenting Consolidated Financial Statements

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

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

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

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2014, which was ¥102.92 to U.S. \$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(1) Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries, the management of which is controlled by the Company. For the year ended March 31, 2014, the accounts of 164 (166 in 2013) subsidiaries have been included in the consolidated financial statements. Intercompany transactions and accounts have been eliminated.

Seventy-six (74 in 2013) consolidated subsidiaries are consolidated using a fiscal period ending December 31, which differs from that of the Company. Any material transactions or events occurring during the January 1 to March 31 period are adjusted for in these consolidated financial statements.

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

Investments in unconsolidated subsidiaries and affiliates over which the Company has significant influence, except for insignificant companies, are accounted for by the equity method. For the year ended

March 31, 2014, 45 (46 in 2013) affiliates were accounted for by the equity method.

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

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

(2) Securities

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

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

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

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

(3) Allowance for Doubtful Accounts

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

(4) Provision for Loss on Construction Contracts

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

(5) Provision for Environmental Measures

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

(6) Provision for Structural Reform Related Expenses

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

(7) Inventories

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

(8) Depreciation

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

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

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

(9) Income Taxes

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

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

(10) Employees' Severance and Retirement Benefits

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

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

Prior service cost is recognized in expenses using the straight-line method over mainly 16 years, which is within the average of the estimated remaining service years of employees. Actuarial gains and losses are recognized in expenses using the straight-line method over mainly 17 years for those accrued in 2014 and 2013, mainly 16 years

for those accrued in 2012 and 2011, mainly 15 years for those accrued in 2010, mainly 14 years for those accrued in 2009 and 2008, and mainly 12 years for those accrued in and before 2007, which is within the average of the estimated remaining service years of employees commencing with the following period.

(11) Bond Issue Expenses and Share Issue Expenses

Bond issue expenses and share issue expenses are charged to expenses as they are incurred by the Company and its consolidated subsidiaries.

(12) Translation of Foreign Currencies

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

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

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

(13) Construction Contracts

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

(14) Derivatives

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

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

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

(15) Consumption Tax

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

(16) Consolidated Tax Return

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

(17) Cash and Cash Equivalents

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

(18) Changes in Accounting Policies

Application of the Accounting Standard for Retirement Benefits

Effective from the year ended March 31, 2014, the Group has applied the Accounting Standard for Retirement Benefits (Accounting Standards Board of Japan 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, May 17, 2012; hereinafter the "Guidance on Retirement Benefits") (except for the article 35 of the Accounting Standard for Retirement Benefits and the article 67 of the Guidance on Retirement Benefits).

The Group has changed its accounting method to recognize the difference between retirement benefit obligations and plan assets as net defined benefit liability and to recognize actuarial gains and losses and prior service costs that are yet to be recognized as net defined benefit liability. If plan assets exceed retirement benefit obligations, the Group recognizes the difference as net defined benefit asset.

In accordance with the article 37 of Accounting Standard for Retirement Benefits, the effect of the change in accounting policies arising from initial application has been recognized in remeasurements of defined benefit plans, net of taxes in accumulated other comprehensive income. As a result of the application, accumulated other comprehensive income has decreased by ¥13,183 million in the year ended March 31, 2014.

Change in accounting policies that is difficult to distinguish from changes in accounting estimates

With regard to the depreciation method for tangible fixed assets, the Group had used principally the straight-line method for buildings and structures and the declining-balance method for the machinery and equipment. From the year ended March 31, 2014, the Group has changed the depreciation method for machinery and equipment from the declining-balance method to the straight-line method.

In response to changes in the business environment in recent years, the Group has been increasing investments to bolster its competitiveness, although starting with the steel business conventional investments to increase production capacity have been decreasing. In addition, with a new medium-term business plan starting in the year ended March 31, 2014, the Group anticipates a long and stable operation of its production equipment, a leveling of maintenance costs for equipment and a reduction in obsolescence risks arising from changes in the market environment and technology. Taking into account these conditions, the Group has changed to the straight-line method in order to match

costs more appropriately to earnings and accurately reflect current business conditions.

Due to this change, depreciation expense decreased by ¥23,363 million in comparison to the previous depreciation method. As a result, operating income increased by ¥20,880 million, and ordinary income and income before income taxes and minority interests each increased by ¥20,883 million.

(19) Unapplied Accounting Standards

"Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012)

1. Summary

Under the amended rule, actuarial gains and losses and prior service costs that are yet to be recognized in profit or loss would be recognized within the net asset section after adjusting for tax effects, and the deficit or surplus would be recognized as a liability or asset without any adjustments. For determining the method of attributing expected benefits to periods, the Standard allows the choice of benefit formula basis or straight-line basis. The method for determining the discount rate has also been amended.

2. Effective dates

The amendments relating to the determination of retirement benefit obligations and current service costs are effective from the beginning of annual periods beginning on or after April 1, 2014.

3. Effect of application of the standard

The amendments relating to the determination of retirement benefit obligations and current service costs will increase retained earnings at April 1, 2014 by approximately ¥5 billion.

In addition, the effect of the amendments to consolidated statements of operations seems to be minor.

(20) Reclassifications

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

3. Leases

Operating leases

Future minimum lease payments as lessee under operating leases at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Due within one year	¥ 4,731	¥ 5,097	\$ 45,964
Due after one year	8,468	9,039	82,281
	¥13,199	¥14,136	\$128,245

Future minimum lease fees receivable as lesser under operating leases at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Due within one year	¥ 344	¥ 378	\$ 3,347
Due after one year	2,389	2,505	23,210
	¥2,733	¥2,883	\$26,557

4. Financial Instruments

Policies for using financial instruments

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

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

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

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

Notes and accounts payable and borrowings are exposed to liquidity risk. The Group makes adequate financial plans to manage the risk. Floating rate long-term borrowings are exposed to the additional risk of

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

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

Supplemental information on fair values

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

Fair value of financial instruments

The carrying amounts of the financial instruments included in the consolidated balance sheets and their fair values at March 31, 2014 and 2013 were as follows:

	Millions of yen						Thousands of
	2014			2013			U.S. dollars (Note 1)
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference	2014
Cash and deposits	¥151,930	¥151,930	¥ —	¥114,103	¥114,103	¥ —	\$ —
Notes and accounts receivable—trade	324,034	324,034	—	278,115	278,115	—	—
Investments in securities:							
Held-to-maturity debt securities	15	15	—	19	19	—	—
Securities of subsidiaries and affiliates	17,604	21,667	4,063	17,604	21,753	4,149	39,474
Available-for-sale securities	94,920	94,920	—	114,708	114,708	—	—
Notes and accounts payable—trade	(341,754)	(341,754)	—	(311,964)	(311,964)	—	—
Short-term borrowings and current portion of long-term debt	(249,835)	(250,432)	(597)	(377,088)	(378,925)	(1,837)	(5,803)
Bonds included in current portion of long-term debt	(26,000)	(26,290)	(290)	(20,000)	(20,102)	(102)	(2,816)
Bonds included in long-term debt	(151,000)	(155,711)	(4,711)	(177,000)	(178,949)	(1,949)	(45,769)
Long-term borrowings included in long-term debt	(360,411)	(367,571)	(7,160)	(385,039)	(387,130)	(2,091)	(69,563)
Derivative transactions:							
Hedge accounting not applied	(210)	(210)	—	(1,353)	(1,353)	—	—
Hedge accounting applied	(3,030)	(3,030)	—	(3,005)	(3,005)	—	—

Notes:

- Liabilities are presented with parentheses ().
- Assets and liabilities arising from derivative transactions are presented after offsetting and with parentheses () if the offset results in a liability.
- Methods used to estimate the fair values are as follows:

Cash and deposits and notes and accounts receivable—trade

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

Investments in securities

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

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

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

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

Bonds

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

Long-term borrowings

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

Derivative transactions

See Note 6.

Financial instruments whose fair values are difficult to estimate at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of
	2014	2013	U.S. dollars (Note 1)
Non-listed equity securities	¥67,082	¥62,961	\$651,790

The aggregate annual maturities of financial assets at March 31, 2014 and 2013 were as follows:

Cash and deposits

	Millions of yen		Thousands of
	2014	2013	U.S. dollars (Note 1)
Due within 1 year	¥151,930	¥114,103	\$1,476,196
Due after 1 year through 5 years	—	—	—
Due after 5 years through 10 years	—	—	—
Due after 10 years	—	—	—
	¥151,930	¥114,103	\$1,476,196

Notes and accounts receivable—trade

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Due within 1 year	¥319,376	¥270,669	\$3,103,152
Due after 1 year through 5 years	3,523	6,123	34,232
Due after 5 years through 10 years	945	944	9,180
Due after 10 years	190	379	1,841
	¥324,034	¥278,115	\$3,148,405

Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Due within 1 year	¥ 4	¥ 4	\$ 37
Due after 1 year through 5 years	11	15	109
Due after 5 years through 10 years	—	—	—
Due after 10 years	—	—	—
	¥15	¥19	\$146

The aggregate annual maturities of bonds at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Due within 1 year	¥ 26,000	¥ 20,000	\$ 252,623
Due after 1 year through 2 years	20,000	26,000	194,326
Due after 2 years through 3 years	35,000	20,000	340,070
Due after 3 years through 4 years	30,000	35,000	291,489
Due after 4 years through 5 years	14,000	30,000	136,028
Due after 5 years	52,000	66,000	505,246
	¥177,000	¥197,000	\$1,719,782

The aggregate annual maturities of long-term borrowings at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Due within 1 year	¥ 61,702	¥173,470	\$ 599,517
Due after 1 year through 2 years	80,429	55,849	781,475
Due after 2 years through 3 years	95,508	72,576	927,983
Due after 3 years through 4 years	82,751	84,738	804,035
Due after 4 years through 5 years	49,024	79,128	476,331
Due after 5 years	52,699	92,748	512,034
	¥422,113	¥558,509	\$4,101,375

The aggregate annual maturities of lease obligations at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Due within 1 year	¥13,342	¥18,311	\$129,632
Due after 1 year through 2 years	3,227	12,110	31,354
Due after 2 years through 3 years	5,304	2,077	51,536
Due after 3 years through 4 years	4,831	4,488	46,936
Due after 4 years through 5 years	3,894	3,522	37,837
Due after 5 years	1,692	1,454	16,438
	¥32,290	¥41,962	\$313,733

The aggregate annual maturities of other interest bearing debt at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Due within 1 year	¥27,590	¥20,601	\$268,075
Due after 1 year through 2 years	560	535	5,441
Due after 2 years through 3 years	507	483	4,924
Due after 3 years through 4 years	402	429	3,902
Due after 4 years through 5 years	92	322	899
Due after 5 years	11	306	108
	¥29,162	¥22,676	\$283,349

5. Securities

The following table summarizes held-to-maturity debt securities at March 31, 2014 and 2013.

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2014			2013			2014
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference	Difference
Held-to-maturity debt securities							
Securities with available carrying amount not exceeding fair value:							
Non-listed domestic bonds	¥15	¥15	¥—	¥19	¥19	¥—	\$—

The following tables summarize available-for-sale securities at March 31, 2014 and 2013.

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2014			2013			2014
	Carrying amount	Acquisition cost	Difference	Carrying amount	Acquisition cost	Difference	Difference
Available-for-sale securities							
Securities with available carrying amount exceeding acquisition cost:							
Equity securities	¥49,838	¥26,938	¥22,900	¥ 71,227	¥29,214	¥ 42,013	\$222,506
Other	—	—	—	—	—	—	—
	49,838	26,938	22,900	71,227	29,214	42,013	222,506
Securities with available carrying amount not exceeding acquisition cost:							
Other securities:							
Equity securities	45,082	50,515	(5,433)	43,481	56,916	(13,435)	(52,788)
Other	—	—	—	—	—	—	—
	45,082	50,515	(5,433)	43,481	56,916	(13,435)	(52,788)
	¥94,920	¥77,453	¥17,467	¥114,708	¥86,130	¥ 28,578	\$169,718

Sales of available-for-sale securities for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Sales	¥31,939	¥142	\$310,332
Gains on sales	25,278	16	245,611
Losses on sales	(93)	(7)	(901)

6. Derivative Transactions

Derivative transactions for which hedge accounting is not applied

Forward currency exchange contracts outstanding at March 31, 2014 and 2013 were as follows:

	Millions of yen								Thousands of U.S. dollars (Note 1)
	2014				2013				2014
	Contracted amount	Over one year	Fair value	Recognized gain (loss)	Contracted amount	Over one year	Fair value	Recognized gain (loss)	Fair value
Foreign currency exchange contracts									
To sell foreign currencies:									
U.S. dollars	¥3,148	¥ 0	¥ (85)	¥ (85)	¥ 5,272	¥—	¥ (218)	¥ (218)	\$(828)
Others	2,236	—	(21)	(21)	6	—	(1)	(1)	(201)
To buy foreign currencies:									
U.S. dollars	333	—	(0)	(0)	350	—	(23)	(23)	(4)
Others	3,695	—	(98)	(98)	12,950	—	(1,085)	(1,085)	(956)
Foreign currency options									
To sell foreign currency options:									
Call									
U.S. dollars	¥ 707 [14]	¥—	¥ 3	¥ 3	¥ 963 [20]	¥—	¥ (12)	¥ (12)	\$ 32
To buy foreign currency options:									
Put									
U.S. dollars	707 [14]	—	(5)	(5)	963 [20]	—	(8)	(8)	(51)
				¥(207)				¥(1,347)	

Notes:

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

Commodity forward contracts outstanding at March 31, 2014 and 2013 were as follows:

	Millions of yen								Thousands of U.S. dollars (Note 1)
	2014				2013				2014
	Contracted amount	Over one year	Fair value	Recognized gain (loss)	Contracted amount	Over one year	Fair value	Recognized gain (loss)	Fair value
Commodity forward contracts									
To buy commodities	¥186	¥—	¥(4)	¥(4)	¥173	¥—	¥(6)	¥(6)	\$(35)
				¥(4)				¥(6)	\$(35)

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

Derivative transactions for which hedge accounting is applied

Forward currency exchange contracts outstanding at March 31, 2014 and 2013 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2014			2013			2014
	Contracted amount		Fair value	Contracted amount		Fair value	Fair value
	Over one year			Over one year			
Hedges for which the "deferred hedge" method is applied							
Foreign currency exchange contracts							
To sell foreign currencies:							
U.S. dollars	¥27,828	¥3,173	¥(2,014)	¥24,448	¥5,258	¥(2,670)	\$ (19,567)
Others	5,552	1,083	(894)	5,612	2,091	(742)	(8,689)
To buy foreign currencies:							
U.S. dollars	3,551	126	187	2,569	176	285	1,812
Others	14,224	979	(75)	3,500	327	429	(728)
Foreign currency options							
To sell foreign currency options:							
Put							
U.S. dollars	¥ 9,222 [205]	¥ —	¥ 41	¥ 9,372 [209]	¥ —	¥ 26	\$ 394
Call							
U.S. dollars	264 [4]	—	(0)	205 [5]	—	(0)	(4)
To buy foreign currency options:							
Put							
U.S. dollars	264 [4]	—	0	205 [5]	—	(0)	1
Call							
U.S. dollars	9,222 [205]	—	(31)	9,372 [209]	—	158	(298)
Hedges for which the "assigning" method is applied							
Foreign currency exchange contracts							
To sell foreign currencies:							
U.S. dollars	¥21,489	¥1,462	¥ —	¥18,714	¥ 425	¥ —	\$ —
Others	5,162	105	—	3,657	7	—	—
To buy foreign currencies:							
U.S. dollars	1,216	—	—	1,871	2	—	—
Others	16,048	1,968	—	25,612	2,064	—	—

Notes:

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

Interest rate swap agreements outstanding at March 31, 2014 and 2013 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2014			2013			2014
	Contracted amount	Over one year	Fair value	Contracted amount	Over one year	Fair value	Fair value
Hedges for which the "exceptional" method is applied							
Interest rate swap agreements							
To receive floating and pay fixed rates	¥116,604	¥106,666	¥—	¥213,509	¥113,489	¥—	\$—

Notes:

1. The fair values are estimated by obtaining quotes from counterparty banks.

2. Hedges for which the "exceptional" method is applied

For certain long-term debt for which interest rate swap agreements are used to hedge the variable risk to interest, the fair values are included in the fair values of the long-term debt.

Commodity forward contracts outstanding at March 31, 2014 and 2013 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2014			2013			2014
	Contracted amount	Over one year	Fair value	Contracted amount	Over one year	Fair value	Fair value
Hedges for which the "deferred hedge" method is applied							
Commodity forward contracts							
To sell commodities	¥ 1,840	¥—	¥ (16)	¥ 2,275	¥—	¥ 74	\$ (156)
To buy commodities	17,601	—	(227)	15,517	—	(565)	(2,205)

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

7. Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Bank loans (average rate 3.89% in 2014 and 3.88% in 2013)	¥188,133	¥203,618	\$1,827,951

Long-term debt at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
0.53% to 2.50% yen bonds, due 2014 through 2022	¥177,000	¥197,000	\$1,719,782
Loans, principally from banks and insurance companies, due 2014 through 2027	422,113	558,509	4,101,375
	599,113	755,509	5,821,157
Less current portion	87,702	193,470	852,141
	¥511,411	¥562,039	\$4,969,016

The aggregate annual maturities of long-term debt at March 31, 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014		2014
Due within 1 year	¥ 87,702		\$ 852,141
Due after 1 year through 2 years	100,429		975,801
Due after 2 years through 3 years	130,508		1,268,053
Due after 3 years through 4 years	112,751		1,095,523
Due after 4 years through 5 years	63,024		612,359
Due after 5 years	104,699		1,017,280
	¥599,113		\$5,821,157

At March 31, 2014 and 2013, assets pledged as collateral for short-term borrowings and long-term debt were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Assets pledged as collateral:			
Cash and deposits	¥ 22,105	¥ 21,056	\$ 214,780
Property, plant and equipment, net of accumulated depreciation	80,976	94,143	786,785
Other assets	17,061	17,285	165,767
	¥120,142	¥132,484	\$1,167,332
Secured short-term borrowings and long-term debt:			
Short-term borrowings	¥ 5,689	¥ 18,491	\$ 55,275
Long-term borrowings	42,320	55,135	411,194
	¥ 48,009	¥ 73,626	\$ 466,469

At March 31, 2014 and 2013, included in the assets pledged as collateral were assets that were promised to be pledged as collateral for short-term borrowings and long-term borrowings as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Short-term borrowings	¥—	¥ 791	\$—
Long-term borrowings	—	3,064	—
	¥—	¥3,855	\$—

8. Provision for Loss on Construction Contracts

Inventories for construction contracts with anticipated losses and provision for loss on construction contracts were not offset. The inventories for the construction contracts for which the provision for loss on construction contracts was provided were ¥2,416 million (\$23,478 thousand) for the year ended March 31, 2014 and ¥3,732 million for the year ended March 31, 2013. These amounts were included in "Work-in-process."

9. Land Revaluation

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

The excess of the carrying amounts of the revalued land over its fair value at March 31, 2014 and 2013 was as follows:

Revaluation date	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
March 31, 2001	¥(1,049)	¥(1,711)	\$(10,193)
March 31, 2002	(5,113)	(5,050)	(49,683)
	¥(6,162)	¥(6,761)	\$(59,876)

10. Commitment Line

The unexercised portion of facilities based on commitment line contracts at March 31, 2014 and 2013 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Total commitment available	¥133,714	¥125,842	\$1,299,207
Less amount utilized	3,472	—	33,735
	¥130,242	¥125,842	\$1,265,472

11. Contingent Liabilities

At March 31, 2014 and 2013, the Group was contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Trade notes discounted	¥ —	¥ 53	\$ —
Trade notes endorsed	3,140	2,274	30,507
Guarantees of loans:			
Related parties	21,400	18,882	207,928
Others	40	48	396
	¥24,580	¥21,257	\$238,831

Guarantees of loans include contingent guarantees and letters of awareness of ¥470 million (\$4,565 thousand) in 2014 and ¥400 million in 2013.

Chengdu Kobelco Construction Machinery Group Co., Ltd., which is a consolidated subsidiary of the Company, sells construction machinery to customers through sales agents or leasing companies. Sales agents pledge guarantees to buy up construction machinery, pledged as collateral at the amounts of the balance on bank loans or future minimum lease payments. Chengdu Kobelco Construction Machinery Group Co., Ltd. pledges reinsurance for this guarantee. The balances of the reinsurance were ¥95,029 million (\$923,329 thousand) for the year ended March 31, 2014 and ¥101,136 million for the year ended March 31, 2013.

12. Net Assets

Net assets comprise stockholders' equity, accumulated other comprehensive income and minority interests.

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

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

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

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and

other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

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

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

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

13. Cost of Sales

Gain on the reversal of the write-down of inventories included in the cost of sales for the year ended March 31, 2014 was ¥18,242 million (\$177,245 thousand). Loss on the write-down of inventories included in the cost of sales for the year ended March 31, 2013 was ¥5,371 million.

Provision for loss on construction contracts included in the cost of sales was ¥6,149 million (\$59,749 thousand) for the year ended March 31, 2014 and ¥5,927 million for the year ended March 31, 2013.

14. Research and Development Expenses

Research and development expenses included in cost of sales and selling, general and administrative expenses were ¥28,494 million (\$276,858 thousand) for the year ended March 31, 2014 and ¥30,763 million for the year ended March 31, 2013.

15. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Freight	¥ 44,870	¥ 41,590	\$ 435,970
Employees' compensation	35,777	34,721	347,621
Research and development expenses	11,179	10,771	108,615
Welfare and legal welfare expenses	9,068	8,778	88,106
Travel expenses	8,379	8,278	81,408
Rent expenses	6,768	7,076	65,759
Commission fees	5,060	5,229	49,161
Provision for bonuses	4,481	4,140	43,536
Depreciation	4,445	4,229	43,190
Directors' salaries	3,752	4,041	36,455
Others	39,122	34,929	380,128
	¥172,901	¥163,782	\$1,679,949

16. Impairment Loss

Impairment loss for the year ended March 31, 2014 consisted of the following:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	2014
Assets for business:		
Machinery and equipment, etc. (Kobe, Hyogo Prefecture, etc.: 7 properties in total)	¥21,931	\$213,092

The Company and its consolidated subsidiaries group their fixed assets based, in principle, on the unit of business establishments and recognized impairment loss for the assets whose fair value had diminished significantly compared to the book value. Because these assets are scheduled to be idle mainly due to the transfer of upstream production from the Kobe Works to the Kakogawa Works to reform the structure of its steel business, the book values were reduced to recoverable amounts.

Impairment loss of ¥21,931 million was recognized in the year ended March 31, 2014 as an extraordinary loss. The amount of impairment consisted of loss on buildings and structures in the amount of ¥5,860 million, machinery and equipment of ¥13,289 million, land of ¥1,466 million and other assets of ¥1,316 million.

The recoverable amounts of the assets for business were determined mainly by the present value of expected cash flows from ongoing use based on a discount rate of 6%.

Impairment loss for the year ended March 31, 2013 consisted of the following:

	Millions of yen
	2013
Assets to be disposed, etc.:	
Land, etc. (Hiroshima, Hiroshima Prefecture, etc.: 5 properties in total)	¥1,435
Idle assets:	
Machinery and equipment, etc. (Kakogawa, Hyogo Prefecture, etc.: 4 properties in total)	923
	¥2,358

The Company and its consolidated subsidiaries group their fixed assets based, in principle, on the unit of business establishments and recognized impairment loss for the assets whose fair value had diminished significantly compared to the book value. Because these assets were scheduled to be sold, the book values were reduced to recoverable amounts.

Impairment loss of ¥2,358 million was recognized in the year ended March 31, 2013 as an extraordinary loss. The amount of impairment consisted of loss on buildings and structures in the amount of ¥420 million, machinery and equipment of ¥658 million, land of ¥1,077 million and other assets of ¥203 million.

The recoverable amounts of the assets to be disposed were determined mainly by the net realizable value based on estimated appraisal price. The recoverable amounts of the idle assets were determined mainly by the net realizable value calculated by deducting the estimated cost of disposal from the estimated selling price based on the value of scrap.

17. Income Taxes

Significant components of the Group's deferred income tax assets and liabilities at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Deferred income tax assets:			
Tax loss carryforwards	¥ 30,923	¥ 43,285	\$ 300,453
Unrealized profit	17,454	16,024	169,590
Impairment loss	13,256	5,773	128,798
Employees' severance and retirement benefits	—	10,214	—
Net defined benefit liability	12,450	—	120,970
Accrued bonuses to employees	7,266	6,223	70,599
Land revaluation	3,785	3,785	36,777
Loss on write-down of securities	3,370	6,670	32,739
Loss on write-down of inventories	2,665	10,210	25,893
Other	34,653	37,786	336,701
Total deferred income tax assets	125,822	139,970	1,222,520
Valuation allowance	(70,640)	(85,376)	(686,353)
Deferred income tax assets	55,182	54,594	536,167
Deferred income tax liabilities:			
Unrealized gains on securities	7,336	12,224	71,282
Land revaluation	4,110	4,228	39,931
Special tax purpose reserve	4,100	2,668	39,837
Other	17,964	16,728	174,544
Total deferred income tax liabilities	33,510	35,848	325,594
Net deferred income tax assets	¥ 21,672	¥ 18,746	\$ 210,573

The reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2014 was as follows:

	2014
Aggregate statutory income tax rate in Japan	38.0%
Nondeductible entertainment expenses	2.2
Decrease in valuation allowance	(16.6)
Differences in normal tax rates of subsidiaries	(4.2)
Other	(2.9)
Effective income tax rate	16.5%

A reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2013 was not reported because a loss before income taxes was recorded for the year.

Following the promulgation of "Act for Partial Revision of the Income Tax Act, etc." (Act No. 10 of 2014) on March 31, 2014, the statutory tax rate used to calculate deferred tax assets and deferred tax liabilities changed from 38.0% to 35.6% for temporary differences expected to be reversed in the year ended March 31, 2015. As a result, deferred income tax assets (net of deferred income tax liabilities) decreased by ¥1,499 million (\$14,568 thousand), and unrealized losses on hedging derivatives and income taxes—deferred increased by ¥53 million (\$519 thousand) and ¥1,446 million (\$14,049 thousand), respectively, for the year ended March 31, 2014.

18. Consolidated Statements of Comprehensive Income

Other comprehensive income for the years ended March 31, 2014 and 2013 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Unrealized gains (losses) on securities:			
Unrealized gains arising during the period	¥13,839	¥ 9,656	\$134,469
Less: reclassification adjustment included in net income (loss)	(24,352)	3,003	(236,612)
	(10,513)	12,659	(102,143)
Tax benefit (expense)	2,151	(4,885)	20,898
	(8,362)	7,774	(81,245)
Unrealized losses on hedging derivatives:			
Unrealized losses arising during the period	(1,311)	(2,800)	(12,733)
Less: reclassification adjustment included in net income (loss)	1,056	1,192	10,258
	(255)	(1,608)	(2,475)
Tax benefit (expense)	(26)	888	(256)
	(281)	(720)	(2,731)
Land revaluation differences:			
Less: reclassification adjustment included in net income (loss)	—	525	—
Tax benefit (expense)	(7)	(7)	(66)
	(7)	518	(66)
Foreign currency translation adjustments:			
Translation adjustments arising during the period	31,921	18,546	310,148
Less: reclassification adjustment included in net income (loss)	—	318	—
	31,921	18,864	310,148
Tax benefit (expense)	—	—	—
	31,921	18,864	310,148
Share of other comprehensive income related to equity method companies:			
Unrealized gains arising during the period	2,328	1,388	22,624
Less: reclassification adjustment included in net income (loss)	20	2	189
	2,348	1,390	22,813
Other comprehensive income	¥25,619	¥27,826	\$248,919

19. Consolidated Statements of Changes in Net Assets

Changes in the number of shares issued and outstanding during the years ended March 31, 2014 and 2013 were as follows:

	Number of shares
Common stock outstanding	
Balance at March 31, 2012	3,115,061,100
(No increase)	—
(No decrease)	—
Balance at March 31, 2013	3,115,061,100
Increase due to issuance of common stock	528,581,000
(No decrease)	—
Balance at March 31, 2014	3,643,642,100

Changes in the number of treasury stock outstanding during the years ended at March 31, 2014 and 2013 were as follows:

	Number of shares
Treasury stock outstanding	
Balance at March 31, 2012	114,135,266
Increase due to purchase of odd-lot stock	73,041
Decrease due to sale of odd-lot stock	(44,438)
Increase due to other reasons, net	23,942
Balance at March 31, 2013	114,187,811
Increase due to purchase of odd-lot stock	127,869
Decrease due to sale of odd-lot stock	(6,501)
Decrease due to disposal by public offering	(103,919,000)
Decrease due to stock exchange	(471,033)
Increase due to other reasons, net	56,280
Balance at March 31, 2014	9,975,426

Dividends for which the record date belongs to the year ended March 31, 2014, and the operative date is the year ending March 31, 2015 are as follows:

Decision	Kind of stock	Millions of yen / Thousands of U.S. dollars (Note 1)	Yen / U.S. dollars (Note 1)	Record date	Operative date
		Total payments	Cash dividends per share		
At the Board of Directors' meeting held on May 16, 2014	Common stock	¥14,554	¥4.0	March 31, 2014	June 5, 2014
		\$141,420	\$0.04		

20. Consolidated Statements of Cash Flows

The reconciliation of cash and cash equivalents in the consolidated statements of cash flows and the consolidated balance sheets at March 31, 2014 and 2013 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Cash and deposits in the consolidated balance sheets	¥151,930	¥114,103	\$1,476,196
Time deposits due over three months	(998)	(53)	(9,696)
Short-term investments with original maturities within three months included in "other" in current assets	19,994	47,987	194,270
Cash and cash equivalents in the consolidated statements of cash flows	¥170,926	¥162,037	\$1,660,770

21. Related Party Transactions

Transactions of the Company with related parties for the year ended March 31, 2014 consisted of the following:

Category	Name	Paid-in capital	Content of business	Percentage of ownership	Millions of yen / Thousands of U.S. dollars (Note 1)			
					Transactions		Resulting accounting balance	
					Description of transactions	Amount	Account	Amount
Affiliate	Shinsho Corporation	¥5,650 million	Trades iron and steel, nonferrous metals, machinery	13.33% directly and 0.19% indirectly (21.55%)	Sales of our products	¥191,121 \$1,856,984	Accounts receivable	¥13,218 \$128,430
					Purchase of raw materials and materials for equipment	¥345,420 \$3,356,203	Accounts payable	¥21,579 \$209,665
Affiliate	Kansai Coke and Chemicals Co., Ltd.	¥6,000 million	Produces and sells industrial chemical products such as coke	24.00% directly	Sales of coal	¥66,874 \$649,766	Accounts receivable	¥7,969 \$77,427
					Purchase of coke	¥71,861 \$698,218	Accounts payable	¥13,915 \$135,206

Transactions of the Company with related parties for the year ended March 31, 2013 consisted of the following:

Category	Name	Paid-in capital	Content of business	Percentage of ownership	Millions of yen			
					Transactions		Resulting accounting balance	
					Description of transactions	Amount	Account	Amount
Affiliate	Shinsho Corporation	¥5,650 million	Trades iron and steel, nonferrous metals, machinery	13.33% directly and 0.19% indirectly (21.55%)	Sales of our products	¥180,887	Accounts receivable	¥14,023
					Purchase of raw materials and materials for equipment	¥311,146	Accounts payable	¥23,784
Affiliate	Kansai Coke and Chemicals Co., Ltd.	¥6,000 million	Produces and sells industrial chemical products such as coke	24.00% directly	Sales of coal	¥73,887	Accounts receivable	¥8,480
					Purchase of coke	¥82,931	Accounts payable	¥12,835

Notes:

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

22. Employees' Severance and Retirement Benefits

Summary of adopted retirement benefits

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

Net defined benefit asset or liability in the consolidated balance sheet for the year ended March 31, 2014 consisted of the following:

Defined benefit retirement plans

(1) Changes in projected benefit obligation

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	2014
Balance at April 1, 2013	¥166,075	\$1,613,635
Service costs - benefits earned during the year	7,962	77,359
Interest cost on projected benefit obligation	2,258	21,940
Actuarial differences arising during the period	1,394	13,541
Unrecognized prior service cost arising during the period	(46)	(449)
Amount of payment of retirement benefits	(17,479)	(169,827)
Other	(646)	(6,278)
Balance at March 31, 2014	¥159,518	\$1,549,921

(2) Changes in plan assets

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	2014
Balance at April 1, 2013	¥136,326	\$1,324,585
Expected return on plan assets	1,023	9,940
Actuarial differences arising during the period	8,722	84,746
Amount of donation from employer	1,688	16,403
Amount of payment of retirement benefits	(17,996)	(174,856)
Other	(370)	(3,599)
Balance at March 31, 2014	¥129,393	\$1,257,219

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

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	2014
Funded projected benefit obligation	¥135,466	\$1,316,223
Plan assets	(129,393)	(1,257,219)
Unfunded projected benefit obligation	6,073	59,004
Net of defined benefit liability and asset	24,052	233,698
Net defined benefit liability	30,125	292,702
Net defined benefit liability	72,653	705,920
Net defined benefit asset	(42,528)	(413,218)
Net of defined benefit liability and asset	¥ 30,125	\$ 292,702

(4) Breakdown of severance and retirement benefit expenses

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	2014
Service costs - benefits earned during the year	¥ 7,961	\$ 77,355
Interest cost on projected benefit obligation	2,258	21,940
Expected return on plan assets	(1,023)	(9,940)
Amortization of actuarial differences	575	5,583
Amortization of prior service cost	741	7,194
Other	80	780
Severance and retirement benefit expenses on defined benefit retirement plans	¥10,592	\$102,912

(5) Breakdown of remeasurements of defined benefit plans

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	2014
Unrecognized prior service cost	¥ 9,895	\$ 96,145
Unrecognized actuarial differences	4,706	45,719
Other	31	304
Total	¥14,632	\$142,168

(6) Plan assets

(a) Breakdown of plan assets

	2014
Stock	42%
General account of insurance company	36
Bonds	20
Other	2
Total	100%

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

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

(7) Actuarial assumptions

The principal actuarial assumptions at March 31, 2014 were as follows:

Discount rates: mainly 1.3%

Long-term expected rate of return: mainly 1.3%

The liability for severance and retirement benefits included in the consolidated balance sheet at March 31, 2013 consisted of the following:

	Millions of yen
	2013
Projected benefit obligation	¥(166,075)
Fair value of plan assets	136,326
Unrecognized net transition obligation	63
Unrecognized actuarial differences	12,609
Unrecognized prior service cost	10,682
Prepaid pension cost	(45,162)
Liability for severance and retirement benefits	¥ (51,557)

Included in the consolidated statements of operations for the year ended March 31, 2013 were severance and retirement benefit expenses that comprised the following:

	Millions of yen
	2013
Service costs - benefits earned during the year	¥ 7,195
Interest cost on projected benefit obligation	3,174
Expected return on plan assets	(1,129)
Amortization of net transition obligation	31
Amortization of actuarial differences	1,724
Amortization of prior service cost	1,976
Severance and retirement benefit expenses	¥12,971

Notes:

- The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years.
- The discount rate was mainly 1.3%.
The rate of expected return on plan assets was mainly 1.3%.

23. Segment Information

(1) Overview of reportable segments

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

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

The Group consists of segments of business units and subsidiaries based on products and services. The reportable segments of the Group consist of the five business units of the Company and its subsidiaries (Iron & Steel, Welding, Aluminum & Copper, Machinery and Engineering) and three business units of the subsidiaries (Kobelco Eco-Solutions, Kobelco Construction Machinery, Kobelco Cranes).

Main products and services of the reportable segments are as follows:

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

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

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

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

Engineering: ironmaking processes, iron ore-pelletizing system, nuclear power products, chemical weapons destruction services, steel structures and sabo, urban transit systems and upgrading of low-rank coal

Kobelco Eco-Solutions: water treatment products, cooling towers, waste treatment and recycling, process equipment and environmental analysis

Kobelco Construction Machinery: construction equipment, construction recycling machinery, metal recycling machinery, resource recycling machinery and forestry machinery

Kobelco Cranes: crawler cranes, wheel cranes, specialized base machines for civil engineering and foundation work, and work vessels

Other Businesses: including Shinko Real Estate (real estate development, construction, sales and other), Kobelco Research Institute (material analysis and testing, structural assessment, manufacture and sale of sputtering targets and other), and other businesses

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

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

With regard to the depreciation method for tangible fixed assets, the Group had used principally the straight-line method for buildings and structures and the declining-balance method for the machinery and equipment. From the year ended March 31, 2014 the Group has changed the depreciation method for machinery and equipment from the declining-balance method to the straight-line method.

In response to changes in the business environment in recent years, the Group has been increasing investments to bolster its competitiveness, although starting with the steel business conventional investments to increase production capacity have been decreasing. In addition, with a new medium-term business plan starting in the year ended March 31, 2014, the Group anticipates a long and stable operation of its production equipment, a leveling of maintenance costs for equipment, and a reduction in obsolescence risks arising from changes in the market environment and technology. Taking into account these conditions, the Group has changed to the straight-line method in order to match more appropriately to costs and earnings and accurately reflect current business conditions.

Due to this change, in comparison to the previous depreciation method, income has increased for the Iron & Steel segment by ¥17,929 million, the Welding segment by ¥213 million, the Aluminum & Copper segment by ¥1,953 million, the Machinery segment by ¥589 million, the Kobelco Eco-Solutions segment by ¥9 million, and Other Businesses by ¥157 million, respectively. Loss for the Engineering segment has decreased by ¥33 million.

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

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2014	2013	2014
Sales to outside customers:	Iron & Steel	¥ 775,233	¥ 710,421	\$ 7,532,383
	Welding	87,389	81,509	849,091
	Aluminum & Copper	294,280	260,809	2,859,311
	Machinery	140,122	149,940	1,361,467
	Engineering	38,161	45,658	370,783
	Kobelco Eco-Solutions	65,769	70,313	639,033
	Kobelco Construction Machinery	317,474	267,183	3,084,666
	Kobelco Cranes	47,415	39,778	460,700
	Other Businesses	56,395	57,549	547,948
	Total sales to outside customers	¥1,822,238	¥1,683,160	\$17,705,382
Intersegment sales:	Iron & Steel	¥ 33,312	¥ 32,420	\$ 323,670
	Welding	957	708	9,303
	Aluminum & Copper	1,405	1,392	13,649
	Machinery	9,684	17,177	94,092
	Engineering	953	835	9,256
	Kobelco Eco-Solutions	2,391	2,343	23,234
	Kobelco Construction Machinery	743	639	7,224
	Kobelco Cranes	9,224	5,723	89,622
	Other Businesses	14,826	15,688	144,052
	Total intersegment sales	¥ 73,495	¥ 76,925	\$ 714,102
Total sales:	Iron & Steel	¥ 808,545	¥ 742,841	\$ 7,856,053
	Welding	88,346	82,217	858,394
	Aluminum & Copper	295,685	262,201	2,872,960
	Machinery	149,806	167,117	1,455,559
	Engineering	39,114	46,493	380,039
	Kobelco Eco-Solutions	68,160	72,656	662,267
	Kobelco Construction Machinery	318,217	267,822	3,091,890
	Kobelco Cranes	56,639	45,501	550,322
	Other Businesses	71,221	73,237	692,000
	Total segment sales	1,895,733	1,760,085	18,419,484
	Adjustment	2,461	2,369	23,908
	Elimination	(73,495)	(76,925)	(714,102)
	Consolidated net sales	¥1,824,699	¥1,685,529	\$17,729,290
Segment income (loss):	Iron & Steel	¥ 33,593	¥ (50,212)	\$ 326,401
	Welding	7,201	2,155	69,970
	Aluminum & Copper	15,164	3,912	147,340
	Machinery	6,486	12,040	63,021
	Engineering	(3,936)	(1,336)	(38,242)
	Kobelco Eco-Solutions	2,608	3,919	25,335
	Kobelco Construction Machinery	15,120	6,853	146,909
	Kobelco Cranes	3,200	(2,250)	31,093
	Other Businesses	6,845	7,554	66,499
	Total segment income (loss)	86,281	(17,365)	838,326
	Adjustment	(1,237)	(781)	(12,010)
	Consolidated ordinary income (loss)	¥ 85,044	¥ (18,146)	\$ 826,316
Assets:	Iron & Steel	¥ 954,276	¥ 949,361	\$ 9,272,015
	Welding	68,795	64,114	668,429
	Aluminum & Copper	214,033	191,124	2,079,606
	Machinery	156,353	151,461	1,519,177
	Engineering	48,661	53,005	472,804
	Kobelco Eco-Solutions	58,639	56,586	569,752
	Kobelco Construction Machinery	443,123	403,469	4,305,509
	Kobelco Cranes	58,681	48,312	570,161
	Other Businesses	152,078	159,637	1,477,635
	Total segment assets	2,154,639	2,077,069	20,935,088
	Adjustment	133,998	149,928	1,301,959
	Total	¥2,288,637	¥2,226,997	\$22,237,047

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2014	2013	2014
Depreciation:	Iron & Steel	¥ 48,282	¥ 70,213	\$ 469,125
	Welding	2,213	2,426	21,502
	Aluminum & Copper	9,683	12,038	94,084
	Machinery	4,060	5,179	39,449
	Engineering	572	483	5,558
	Kobelco Eco-Solutions	1,442	1,464	14,009
	Kobelco Construction Machinery	10,642	8,767	103,402
	Kobelco Cranes	979	736	9,512
	Other Businesses	3,282	3,236	31,883
	Total segment depreciation	81,155	104,542	788,524
Adjustment	1,781	2,183	17,308	
Total	¥ 82,936	¥ 106,725	\$ 805,832	
Amortization of goodwill:	Iron & Steel	¥ —	¥ —	\$ —
	Welding	—	—	—
	Aluminum & Copper	—	—	—
	Machinery	—	—	—
	Engineering	—	—	—
	Kobelco Eco-Solutions	—	—	—
	Kobelco Construction Machinery	—	—	—
	Kobelco Cranes	—	—	—
	Other Businesses	—	—	—
	Total segment amortization of goodwill	—	—	—
Adjustment	—	0	—	
Total	¥ —	¥ 0	\$ —	
Interest income:	Iron & Steel	¥ 97	¥ 97	\$ 939
	Welding	130	128	1,262
	Aluminum & Copper	135	186	1,309
	Machinery	50	66	484
	Engineering	330	350	3,207
	Kobelco Eco-Solutions	12	24	113
	Kobelco Construction Machinery	3,026	3,693	29,407
	Kobelco Cranes	21	22	206
	Other Businesses	30	50	300
	Total segment interest income	3,831	4,616	37,227
Adjustment	(207)	(344)	(2,014)	
Total	¥ 3,624	¥ 4,272	\$ 35,213	
Interest expense:	Iron & Steel	¥ 7,706	¥ 8,383	\$ 74,872
	Welding	18	18	175
	Aluminum & Copper	1,356	1,468	13,176
	Machinery	91	69	888
	Engineering	18	19	173
	Kobelco Eco-Solutions	70	59	676
	Kobelco Construction Machinery	6,081	6,524	59,087
	Kobelco Cranes	403	155	3,919
	Other Businesses	481	478	4,673
	Total segment interest expense	16,224	17,173	157,639
Adjustment	2,349	2,946	22,818	
Total	¥ 18,573	¥ 20,119	\$ 180,457	
Equity in income (loss) of equity method companies:	Iron & Steel	¥ (386)	¥ 3,086	\$ (3,752)
	Welding	48	57	461
	Aluminum & Copper	26	(36)	251
	Machinery	(490)	(505)	(4,761)
	Engineering	(2,688)	(1,315)	(26,110)
	Kobelco Eco-Solutions	—	—	—
	Kobelco Construction Machinery	(1,346)	(876)	(13,080)
	Kobelco Cranes	47	(26)	452
	Other Businesses	1,318	1,016	12,809
	Total segment equity in income (loss) of equity method companies	(3,471)	1,401	(33,730)
Adjustment	677	37	6,584	
Total	¥ (2,794)	¥ 1,438	\$ (27,146)	

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2014	2013	2014
Investments in equity method companies:	Iron & Steel	¥ 50,285	¥ 48,040	\$ 488,583
	Welding	1,141	1,104	11,082
	Aluminum & Copper	798	682	7,750
	Machinery	5,047	4,558	49,034
	Engineering	624	2,514	6,065
	Kobelco Eco-Solutions	—	—	—
	Kobelco Construction Machinery	12,885	12,092	125,201
	Kobelco Cranes	273	239	2,653
	Other Businesses	11,752	10,807	114,192
	Total segment investments in equity method companies	82,805	80,036	804,560
Adjustment	(1,801)	(2,536)	(17,504)	
Total	¥ 81,004	¥ 77,500	\$ 787,056	
Capital expenditures:	Iron & Steel	¥ 62,502	¥ 63,671	\$ 607,287
	Welding	1,408	1,635	13,678
	Aluminum & Copper	12,802	12,441	124,384
	Machinery	4,419	3,447	42,934
	Engineering	314	689	3,052
	Kobelco Eco-Solutions	556	1,419	5,405
	Kobelco Construction Machinery	14,590	20,882	141,757
	Kobelco Cranes	1,220	1,988	11,857
	Other Businesses	2,568	7,119	24,958
	Total segment capital expenditures	100,379	113,291	975,312
Adjustment	1,024	1,645	9,944	
Total	¥ 101,403	¥ 114,936	\$ 985,256	
Impairment loss:	Iron & Steel	¥ 19,202	¥ 1,231	\$ 186,575
	Welding	—	—	—
	Aluminum & Copper	—	12	—
	Machinery	—	—	—
	Engineering	962	—	9,348
	Kobelco Eco-Solutions	—	—	—
	Kobelco Construction Machinery	10	1,098	96
	Kobelco Cranes	—	17	—
	Other Businesses	1,757	—	17,073
	Total segment impairment loss	21,931	2,358	213,092
Adjustment	—	—	—	
Total	¥ 21,931	¥ 2,358	\$ 213,092	

Notes:

Details about adjustments at March 31, 2014 and 2013 were as follows:

Segment sales

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

Segment income (loss)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Company-wide profit (loss)	¥ 7,823	¥22,463	\$ 76,018
Other adjustment	(9,060)	(23,244)	(88,028)
Total	¥(1,237)	¥ (781)	\$(12,010)

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

Other adjustment is mainly intersegment transactions.

Assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Company-wide assets	¥350,820	¥357,774	\$3,408,667
Other adjustment	(216,822)	(207,846)	(2,106,708)
Total	¥133,998	¥149,928	\$1,301,959

Company-wide assets are mainly investments in securities which are not allocated to reportable segments or other businesses.

Other adjustment is mainly intersegment transactions.

Depreciation

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

Interest income

Adjustment is related mainly to intersegment transactions.

Interest expense

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

Equity in income (loss) of equity method companies

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

Investments in equity method companies

Adjustment is related mainly to intersegment transactions.

Capital expenditures

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

Related information

(1) Information by geographic area

(a) Net sales

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Japan	¥1,179,140	¥1,113,068	\$11,456,857
China	187,983	145,763	1,826,493
Others	457,576	426,698	4,445,940
Total	¥1,824,699	¥1,685,529	\$17,729,290

(b) Property, plant and equipment by geographic location

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

(2) Information by major customer

Net sales

	Related segment	Millions of yen		Thousands of U.S. dollars (Note 1)
		2014	2013	2014
Shinsho Corporation	Iron & Steel, etc.	¥248,619	¥229,016	\$2,415,653
Metal One Corporation	Iron & Steel, etc.	¥184,333	¥173,368	\$1,791,035

24. Net Income (Loss) Per Share

The basis of calculating net income (loss) per share for the years ended March 31, 2014 and 2013 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net income (loss)	Weighted average number of shares	Net income (loss) per share	Net income (loss) per share
For the year ended March 31, 2014				
Net income attributable to common stockholders	¥70,192	3,101,853	¥22.63	\$0.22
For the year ended March 31, 2013				
Net loss attributable to common stockholders	(26,976)	3,000,911	(8.99)	(0.10)

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Kobe Steel, Ltd. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of operations, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kobe Steel, Ltd. and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements, from the year ended March 31, 2014, the Group has changed the depreciation method for machinery and equipment from the declining-balance method to the straight-line method.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 25, 2014
Osaka, Japan

Investor Information

(At March 31, 2014)

Fiscal Year: April 1 – March 31

Ordinary General Meeting of Shareholders:

June of each year

Authorized and Issued Shares Authorized: 6,000,000,000 shares

Issued: 3,643,642,100 shares

Principal Shareholders

At March 31, 2014, the 10 largest shareholders of the Company's stockholdings were as follows:

	Shares	Percent
NIPPON STEEL & SUMITOMO METAL CORPORATION	214,690,000	5.89%
Nippon Life Insurance Company	110,117,420	3.02%
The Master Trust Bank of Japan, Ltd. (Trust Account)	97,438,000	2.67%
Japan Trustee Services Bank, Ltd. (Trust Account)	97,023,000	2.66%
Mizuho Bank, Ltd.	64,669,000	1.77%
Mitsubishi UFJ Trust and Banking Corporation	52,332,620	1.44%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	47,347,500	1.30%
Sojitz Corporation	45,016,000	1.24%
Aioi Nissay Dowa Insurance Co., Ltd.	35,223,094	0.97%
Japan Trustee Services Bank, Ltd. (Trust Account 6)	34,820,000	0.96%

Listing and Quotations

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

Depository for American Depositary Receipts

The Bank of New York Mellon

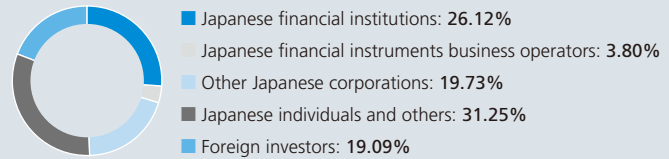
101 Barclay Street, New York, NY 10286, U.S.A.

Tel: +1-201-680-6825 U.S. toll free: 888-269-2377 (888-BNY-ADRS)

URL: <http://www.adrbnymellon.com>

SYMBOL: KBSTY CUSIP: 499892107 EXCHANGE: OTC

Distribution of Shares



Directors' and Audit & Supervisory Board Members' Shareholdings

The following is a list of the directors and audit & supervisory board members and their stockholdings in the Company at March 31, 2014

Number of shares owned			
Hiroshi Sato	338,000	Yasuaki Sugizaki	55,000
Hiroya Kawasaki	163,000	Takao Kitabata	34,000
Jun Tanaka	146,000	Hiroshi Ochi	0
Kazuhide Naraki	157,000	Hiroaki Fujiwara	138,000
Yoshinori Onoe	118,000	Yoshimasa Yamamoto	40,000
Tsuyoshi Kasuya	195,000	Shigeo Sasaki	43,000
Akira Kaneko	85,000	Takashi Okimoto	32,000
Naoto Umehara	102,000	Shinya Sakai	17,000

Public Notices

<http://www.kobelco.co.jp>

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

Transfer Agent & Office

Mitsubishi UFJ Trust and Banking Corporation

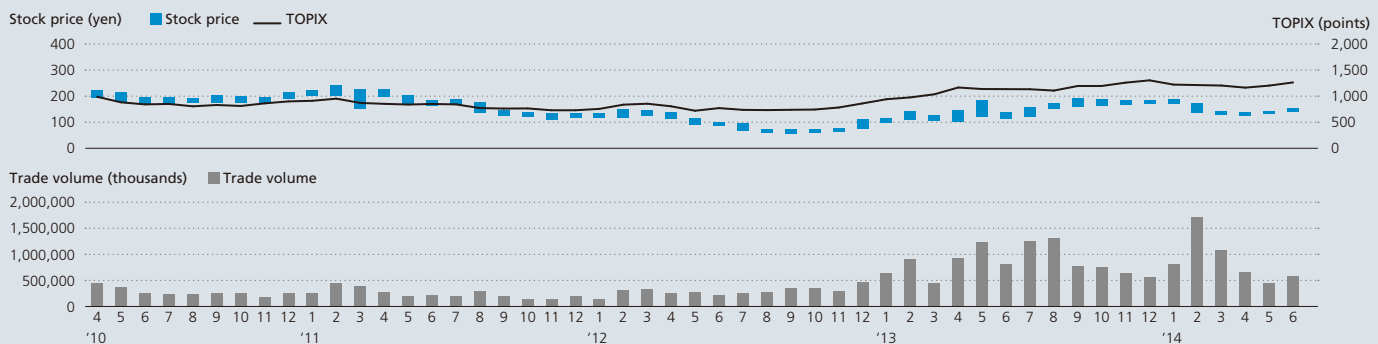
4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan

Independent Auditors

KPMG AZSA LLC

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

Common Stock Price Range Tokyo Stock Exchange (High/Low)



Company Outline

(At March 31, 2014)

Company Name: Kobe Steel, Ltd.

Corporate Logo and Brand Name of the Kobe Steel Group:



Founded: September 1905

Incorporated: June 1911

Capital: ¥250,930,033,900

President & CEO: Hiroya Kawasaki

Employees: 10,586 (Consolidated 36,019)

Information:

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

Tokyo Head Office: IR Group, Corporate Planning Department, Kobe Steel, Ltd.
9-12, Kita-Shinagawa 5-chome, Shinagawa-ku, Tokyo 141-8688, Japan
Tel: +81-3-5739-6045 Fax: +81-3-5739-5973

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

URL: <http://www.kobelco.com>

