KOBELCO

KOBE STEEL GROUP

Annual Report 2015

Year ended March 31, 2015

Driving Growth, Enhancing Performance

Taking the

Contents

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

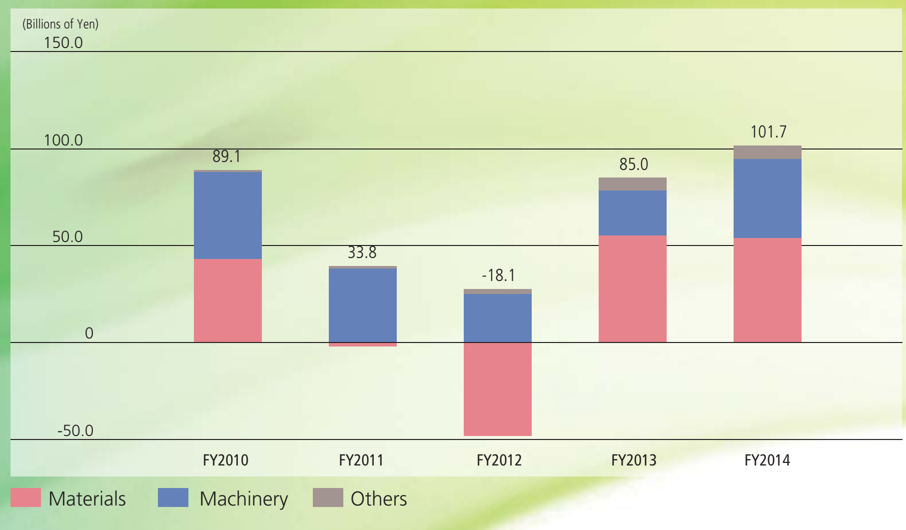
Strategic Steps Necessary to Ensure Stable Profits and Sales Growth

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.

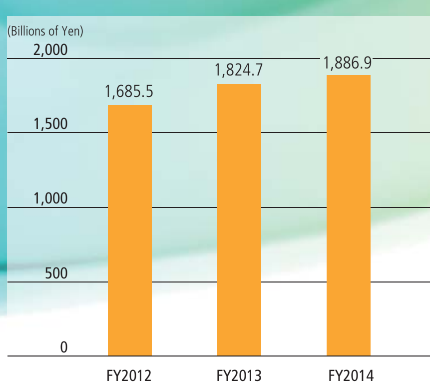
Kobe Steel's competitive edge lies in its unique expertise and technologies accumulated in Groupwide operations encompassing a wide variety of materials and machinery.

By integrating these strengths, Kobe Steel will further enhance the corporate value of the entire Group as it aims to secure sustainable growth.

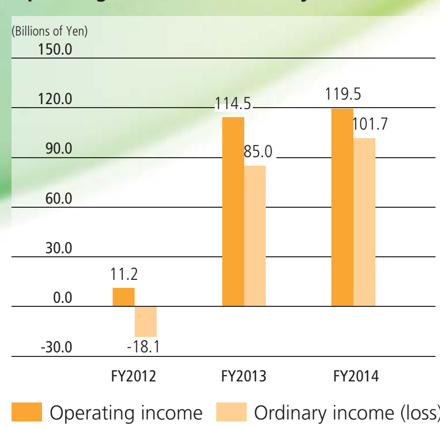
Composition of Ordinary Income by Business Segment



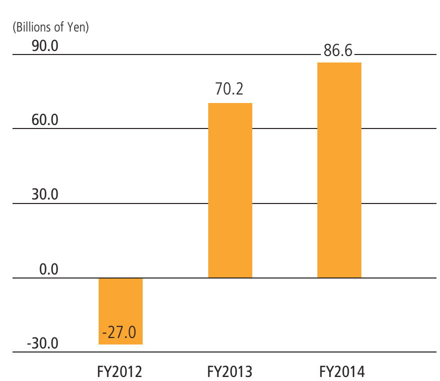
Net Sales



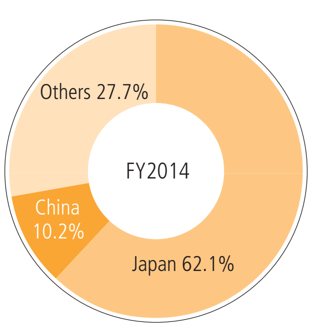
Operating Income and Ordinary Income (Loss)



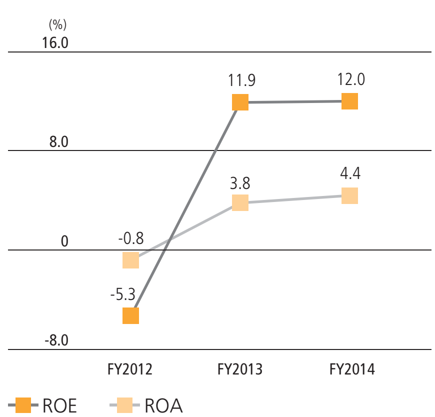
Net Income (Loss)



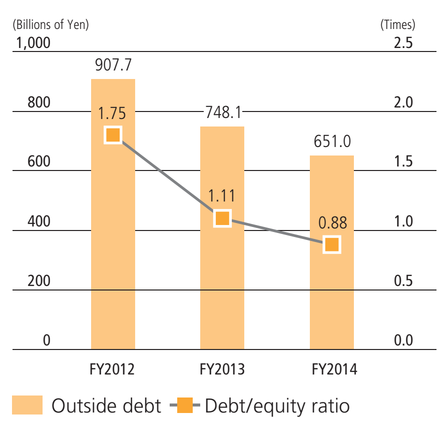
Net Sales by Region



ROE/ROA



Outside Debt and Debt/Equity Ratio



At a Glance

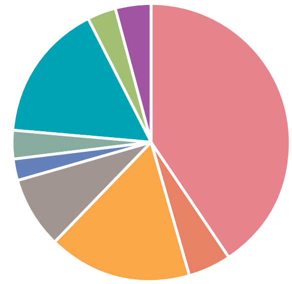
The Kobe Steel Group, a global enterprise built around Kobe Steel, Ltd., is engaged in a wide range of fields, with its major businesses concentrated on materials and machinery. The materials businesses comprise iron and steel, welding, and aluminum and copper products, while machinery includes industrial 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 (%)*

¥1,886.9 billion

Iron & Steel Business	40.8
Welding Business	4.8
Aluminum & Copper Business	16.9
Machinery Business	8.1
Engineering Business	2.5
Kobelco Eco-Solutions	3.5
Kobelco Construction Machinery	15.9
Kobelco Cranes	3.6
Other Businesses	3.9



Iron & Steel Business

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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

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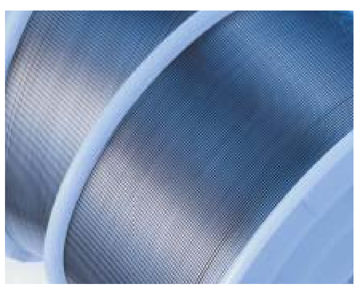

By combining welding materials, welding systems, power sources, equipment and construction methods, we contribute to industries around the world through our welding technologies. We aim to be a top manufacturer globally by maintaining our No. 1 position in Japan and the ASEAN region as we strive to spur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

Aluminum & Copper Business

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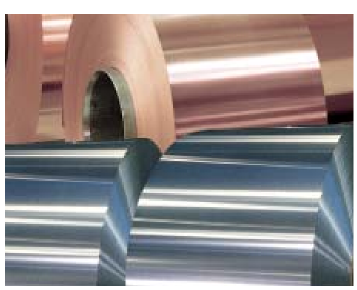

Defining applications for automotive and IT industries as priority areas, we aspire to enhance and enrich our products with distinctive value. As one of Japan's leading aluminum and copper producers, we are stepping up our overseas operations, backed by long-nurtured technologies and trust built up over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

Machinery Business

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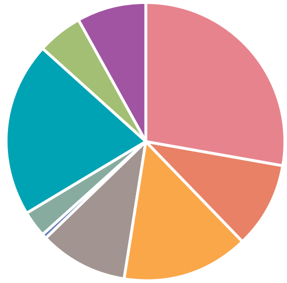
The Machinery Business offers an extensive array of products, including industrial machinery, compressors and equipment for the nuclear and other energy industries. To meet global demand in growing markets, we strive to create original products and technologies, bolster our capabilities in production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

Ordinary Income by Segment (%)*

¥101.7 billion

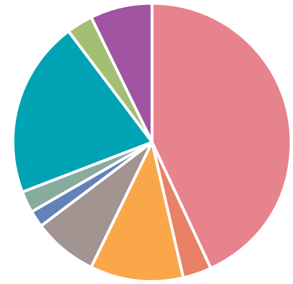
Iron & Steel Business	28.3
Welding Business	10.1
Aluminum & Copper Business	14.9
Machinery Business	10.2
Engineering Business	0.7
Kobelco Eco-Solutions	3.0
Kobelco Construction Machinery	20.7
Kobelco Cranes	5.1
Other Businesses	7.0



Total Assets by Segment (%)*

¥2,300.2 billion

Iron & Steel Business	43.3
Welding Business	3.3
Aluminum & Copper Business	10.8
Machinery Business	7.4
Engineering Business	2.0
Kobelco Eco-Solutions	2.6
Kobelco Construction Machinery	20.4
Kobelco Cranes	3.0
Other Businesses	7.2



Engineering Business

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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

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As an environmental solutions 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

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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

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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. 18

We're Pursuing Greater Growth by Bolstering Our Foundation while Striving to Increase Our Corporate Value

Hiroya Kawasaki
President, CEO and Representative Director

Fiscal 2014 in Review

The Japanese economy continued its steady rebound on the back of monetary, fiscal and other government economic measures despite a softening in demand in the wake of the last-minute surge in demand in fiscal 2013 prior to the consumption tax increase on April 1, 2014. Overseas, while the U.S. economy continued to record gradual recovery, economic stagnation persisted in Europe, China and Southeast Asia.

Against this economic backdrop, in fiscal 2014 the Kobe Steel Group saw a year-on-year decline in the volume of steel products sold due to a softening in demand from the automotive sector in the wake of the last-minute surge in demand prior to the consumption tax increase. At the same time, the volume of aluminum rolled products sold increased year on year thanks in part to efforts to expand exports, especially aluminum stock for canned beverages and automotive materials. However, hydraulic excavators experienced a year-on-year decline due to lower demand in Japan, China and Southeast Asia despite continuing steady sales expansion in North America and Europe.

As a result, fiscal 2014 consolidated net sales were up ¥62.2 billion year on year to ¥1,886.9 billion, and consolidated ordinary income rose ¥16.7 billion to ¥101.7 billion. In addition, the debt/equity ratio, which indicates financial soundness, improved from 1.11 times at the end of the previous year to 0.88 times.

Outlook for Fiscal 2015

While the Japanese economy is expected to sustain its steady rebound, the outlook for economies overseas is getting murkier due to concerns that the economic slowdowns in China and other emerging economies will drag on due to geopolitical factors. For the Kobe Steel Group, demand from the automotive and shipbuilding industries is expected to remain firm overall. Nevertheless, economies around the world are projected to stagnate, with Asian countries seeing an ongoing oversupply of steel products and energy-related demand stalling in emerging economies, North America and Europe, including Russia, due to the fall in oil prices.

Under these conditions, Kobe Steel anticipates that consolidated sales will reach approximately ¥1,990.0 billion in fiscal 2015 and ordinary income is forecast to reach approximately ¥95.0 billion. We will continue to work to generate cash flows and keep the debt/equity ratio at or below 1.0 times.

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.

Specifically, we have addressed the following issues:

Rebuilding the Business Foundation	Steps for Stable Profits and Business Growth
• Strengthening the Profitability of the Steel Business • Securing Sales Volume in Growth Sectors and Regions • Improving the Competitiveness of the Company • Improving Financial Performance	• Reforming the Structure of the Steel Business • Strategically Expanding the Machinery Business • Expanding the Power Supply Business

An overview of the important issues we are now addressing is presented in the special feature section on the following pages. We are making steady progress overall.

Through these efforts, the Group will strengthen its unique diversified business structure with a stable earnings foundation comprising its two main pillars of operations—the materials and the machinery businesses—and the power supply business.

Improving Safety and Compliance

Looking at operating results for fiscal 2014, we were able to secure reasonable profits and improve financial performance. However, we did see a number of major accidents and equipment failures and, from the perspective of *monozukuri*, or production—our fundamental basis as a manufacturer—fiscal 2014 was a year when many issues came to the forefront. We would like to take this occasion to affirm our recognition that improving compliance and safety, which entails stable production, is a major prerequisite to achieving the goals set out in our medium-term plan.

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 each dividend payout 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.

Based on the above, in fiscal 2014, we paid out a dividend of ¥4 per share—the same as that paid in the previous year.

In Conclusion

We cannot take lightly the business environment the Group faces in fiscal 2015, and as it is the final year of the medium-term plan, we're working to bring it to a successful conclusion. We intend to remain a winner and aim to take a further leap forward as we move ahead.

The Group is working together to achieve its goals while striving to improve safety and compliance. I would like to thank all of our shareholders, investors and other stakeholders and ask for their continued understanding and support.

August 2015

Hiroya Kawasaki

President, CEO and Representative Director

KOBELCO VISION "G"

Medium- to Long-Term Business Vision of the Kobe Steel Group

Projecting the global economy and business environment over the medium- to long-term future, the Kobe Steel Group in April 2010 launched its business vision, KOBELCO VISION "G," which defines the Group image over the next 5 to 10 years.

We are bolstering our various businesses under the five basic policies outlined below as we work toward achieving our Group image.

Day by day, the Group is steadily making progress toward achieving KOBELCO VISION "G," its medium- to long-term business vision for sustained growth.

Performance Outlook

	Ordinary income	D/E ratio	Overseas sales ratio
FY2010	¥89 billion	1.4 times	35.8%
Around FY2020	¥200 billion	1.0 times	50%

* Even if economic conditions deteriorate, we expect annual ordinary income of ¥100.0 billion at least.

Medium- to Long-Term Outlook for Business Conditions	• Against the backdrop of Japan's aging population and production shift overseas, it is expected that domestic demand will generally decrease.
	• Overseas demand, mainly from emerging economies, will increase.
	• The demand structure is rapidly changing toward a low-carbon society. (operational constraints on domestic manufacturers, hybrid and electric vehicles, etc.)

1. Thorough pursuit of high-end "Only One" products, technologies & services
2. Further improve manufacturing strengths
3. Further approach to growing markets (growing regions & growing business fields)
4. Leveraging the comprehensive capabilities of the Kobe Steel Group
5. Contributions to society

Image of the Kobe Steel Group in the Next 5 to 10 Years	• Has a presence in the global market
	• Maintains a stable profit structure and a strong financial foundation
	• Prospers together with its shareholders, business partners, employees and society

Fiscal 2013–2015 Medium-Term Business Plan

— Rebuilding the Business Foundation for Stability and Growth —

To achieve the future vision of the Kobe Steel Group under KOBELCO VISION "G," Kobe Steel has positioned the Fiscal 2013-2015 Medium-Term Business Plan to rebuild the Group's business foundation over a three-year period. The plan aims to strengthen profitability primarily in the steel business and improve the financial performance of the Group.

At the same time, the three years are seen as the time to steadily lay the foundation for stable profits and business growth, looking ahead to fiscal 2016 and beyond. Kobe Steel is reforming the structure of its steel business, strategically expanding the machinery businesses and growing the power supply business. Through these measures, Kobe Steel intends to strengthen the Group's diversified business operations and expand the power supply business, in addition to continuing its current two pillars of the materials businesses and the machinery businesses, in order to build a stable profit base.

Performance Outlook

	Ordinary income	D/E ratio
FY2013 plan	¥45 billion	1.5 times
FY2015 plan	¥80—100 billion	1.3 times
Around FY2020	¥200 billion	1.0 times

FY2013 results: Ordinary income of ¥85.0 billion and D/E ratio of 1.11 times.
FY2014 results: Ordinary income of ¥101.7 billion and D/E ratio of 0.88 times. This surpassed targets.

Fiscal 2013-2015 Medium-Term

Rebuilding the Business Foundation

*Items indicated with a right-pointing arrow (→) are as of March 31, 2015

1. Strengthening the Profitability of the Steel Business

- Kobe Steel plans to return to profit in fiscal 2013 by carrying out numerous cost reduction measures for variable and fixed costs. The company aims to steadily benefit from cost-saving investments underway (a new hot-metal treatment plant, high-efficiency in-house power generation plant, etc.). At the same time, Kobe Steel will build stable profitability by improving its product mix and increasing sales.

→ In fiscal 2013, profitability improved ¥30.0 billion year on year thanks mainly to capital investment and reduced costs at the shop floor level.

2. Securing Sales Volume in Growth Sectors and Regions

- Kobe Steel will make the most use of its overseas locations that it expanded under the previous medium-term business plan, such as:
  1) Construction of a new line in the United States to produce high-strength steel sheet for automobiles
  2) Establishment of a steel wire manufacturing company for automotive engine valve springs in China
  3) Establishment of companies in China and the United States for the manufacture and sale of aluminum forgings for automotive suspension systems
  4) Equity participation in a process gas compressor manufacturer in China and other initiatives. In growth sectors, such as automotive, energy, natural resources and the environment, and in growth regions, mainly emerging countries, Kobe Steel intends to maximize sales volume of high-end "Only One" products, technology and services.

→

Iron & Steel Business

Established a joint venture in China with Anshan Iron & Steel Group Complex to produce and sell cold-rolled, high-strength steel sheet for automobiles.

Aluminum & Copper Business

Began construction of a new automotive aluminum sheet production and sales company in China. Completed capacity expansion of U.S. production and sales base for aluminum forged products for automotive suspension systems.

3. Improving the Competitiveness of the Company

- Activities of the Committee for Cost Reduction and Cash Generation, launched in 2012, are anticipated to reduce fixed costs, procurement costs, quality failure costs, and other costs.

→ Achieved a more than ¥10.0 billion improvement in fiscal 2014 compared with fiscal 2012 through lower procurement costs and strengthened manufacturing capabilities.

4. Improving Financial Performance

- Create cash flows of 120 billion yen in three years by reducing inventory and selling accounts receivable and assets.
- Achieve a debt/equity ratio of approximately 1.3 times by the end of the medium-term business plan (ending March 2016).

→ Generated cash flows of ¥170.0 billion and achieved a D/E ratio of 0.88, both better than planned, for the consolidated 2014 fiscal year, primarily by reducing inventories, promoting the securitization of receivables and selling assets.

5. Continued Efforts

- Strengthen *monozukuri-ryoku* (manufacturing capabilities), technology development and human resource development.
- Thoroughly carry out compliance and contribute to society.

Business Plan

Steps for Stabilization and Growth

*Items indicated with a right-pointing arrow (→) are as of March 31, 2015

1. Reforming the Structure of the Steel Business

Based on steel demand over the medium- to long-term future, Kobe Steel plans to further strengthen its cost competitiveness in the production of steel products.

- Aiming at fiscal 2017, Kobe Steel plans to shut down the blast furnace and other upstream equipment at its Kobe Works. Transferring upstream operations to Kakogawa Works, its flagship steelworks, will improve the operating rate and decrease fixed costs, resulting in a considerable reduction in costs.
- Kakogawa Works plans to install a state-of-the-art continuous bloom caster and new secondary refining equipment as well as increase the capacity of the blooming mill to strengthen the competitiveness of special steel wire rod and bar, two major products.

→ Equipment orders and local construction work proceeded according to plan. Due to the upcoming change in upstream operations, Kobe Steel is working on securing the necessary reapprovals from customers.

2. Strategically Expanding the Machinery Businesses

- Strategically expand the machinery businesses by strengthening the global expansion of the compressor business and reentering Europe and North America in the construction equipment business.
- Strengthen business development by looking into forming alliances with other companies and M&As in order to capture expanding demand in growth fields and growth markets.
- Expand new products and new businesses through collaboration within the Kobe Steel Group and the fusion of technologies. (Developing products for hydrogen stations, binary power generation, etc.)

→ **Machinery Business**
Established a base in Sao Paulo, Brazil for the purpose of handling the marketing, sale and after-sales servicing of nonstandard compressors.

Kobelco Construction Machinery
Decided to establish a new production base in the United States.

Initiated a feasibility study for a possible business merger between Kobelco Construction Machinery and Kobelco Cranes to accelerate global expansion.

3. Expanding the Power Supply Business

Utilizing the know-how acquired from constructing and operating a coal-fired power station at its Kobe Works, Kobe Steel plans to expand the power supply business as a stable profit base, in addition to maintaining its two major pillars of materials and machinery.

- Kobe Steel aims to build a 1.2 million kilowatt-class gas-fired power station in Moka, Tochigi Prefecture. The company aims to secure a power supply order that would put the station in operation between 2019 and 2021.
- Kobe Steel will study the possibility of using the land made available after shutting down the blast furnace at Kobe Works for the power supply business.

→ Concluded a power supply agreement with Tokyo Gas Co., Ltd. in September 2014. We are currently conducting an environmental impact assessment for a 1.2 million kW power station consisting of two power plants. The first unit is to go online in fiscal 2019.

→ Concluded a power delivery agreement with The Kansai Electric Power Co., Inc. in March 2015. We are currently conducting an environmental impact assessment for a 1.3 million kW power station consisting of two power plants. The first unit is to start up in fiscal 2021 and the second in 2022.

4. Business Platform

Examine the optimum business platform of the Kobe Steel Group, meeting changes in its business portfolio and equity configuration of its businesses.

Iron & Steel Business

Strengthening Manufacturing Capabilities for Advanced, High Value-Added Products

Net sales
−1.3%
¥797.8 billion

Ordinary income
−14.3%
¥28.8 billion

Ordinary income ratio
−0.5 points
3.6%

Fiscal 2014 Overview

The sales volume of steel products decreased compared with the previous year. Automotive demand in Japan went down as a reaction to the last-minute surge in demand prior to the rise in the consumption tax on April 1, 2014. In overseas markets, demand was sluggish in emerging countries. On the other hand, sales prices increased, compared with the previous year, as export prices improved, owing to the weak yen.

Sales of steel castings and forgings increased, compared with the previous year, as demand from the shipbuilding industry was on a recovery track. Sales of titanium products also increased, compared with the previous year, owing to recovery in demand. The independent power producer (IPP) business, which supplies electricity from its power station with a capacity of 1.4 million kilowatts station, continued to operate stably.

As a result, consolidated segment sales in fiscal year 2014 were similar to the previous year at 797.8 billion yen. Ordinary income decreased 4.8 billion yen, compared with the previous year, to 28.8 billion yen due to a decrease in the impact of inventory valuation, which had previously pushed up profits.

	Billions of yen		
	2013	2014	Change
Net sales	¥808.5	¥797.8	-1.3%
Ordinary income	33.6	28.8	-14.3%

High-Strength Steel Sheet
1

Built-Up Crankshaft
2

Wire Rod for Automotive Engine Valve Springs
3

1 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.

2 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.

3 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.

Review of Operations

Welding Business

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

Net sales +7.0% ¥94.5 billion

Ordinary income +43.1% ¥10.3 billion

Ordinary income ratio +2.7 points 10.9%

Fiscal 2014 Overview

The sales volume of welding materials was similar to the previous year. Domestic demand from the shipbuilding industry was on a recovery track and demand from the construction sector was strong. However, in overseas markets, demand in Southeast Asia was affected by the economic slowdown. Sales of welding systems increased, compared with the same period last year, as demand from the construction sector was strong.

As a result, consolidated segment sales in fiscal year 2014 increased 7.0 percent, compared with the previous year, to 94.5 billion yen. Ordinary income increased 3.1 billion yen, compared with the previous year, to 10.3 billion yen.

	Billions of yen		
	2013	2014	Change
Net sales	¥88.3	¥94.5	+7.0%
Ordinary income	7.2	10.3	+43.1%

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

1

2 Flux-Cored Wire

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

1. Kobe Steel's top-class, high-quality welding materials are indispensable in such diverse business sectors as construction, shipbuilding, oil storage facilities, and pipeline maintenance. These materials span around 800 brands, from covered welding electrodes to welding wires and fluxes for automatic and semi-automatic welding. They have earned the trust of industry around the world as technical products suited to a wide array of welding conditions.
2. 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.
3. We developed a revolutionary new welding process, the REGARC™ method, and core column welding systems that use the method. The method enables great reductions in the sputter and fumes that occur during CO_2 gas-shielded welding, which is the primary method used for welding medium and heavy plates in construction and other fields. This will enable customers to greatly improve both construction productivity and welding quality.

Aluminum & Copper Business

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

Net sales +11.9% ¥330.8 billion

Ordinary income ±0% ¥15.2 billion

Ordinary income ratio −0.5 points 4.6%

Fiscal 2014 Overview

The sales volume of aluminum rolled products increased compared with the previous year, owing to efforts to expand export sales of mainly aluminum can stock for beverage containers and automotive materials. Sales of aluminum castings and forgings also increased, compared with the previous year, due to strong demand from the overseas automotive market.

The sales volume of copper rolled products increased compared with the previous year. Demand was strong both in Japan and overseas for copper strips for automotive terminals. Although the sales volume of copper tubes for air conditioners was affected by lower domestic sales of air conditioners since last summer, demand has continued to be strong in overseas markets.

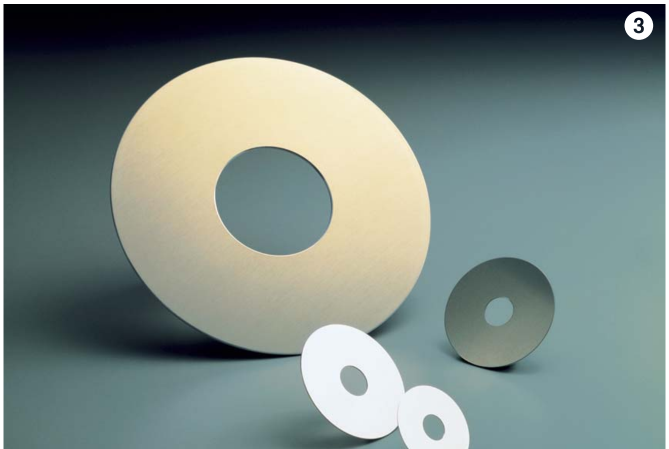
As a result, consolidated segment sales in fiscal year 2014 increased 11.9 percent, compared with the previous year, to 330.8 billion yen. Ordinary income was unchanged from the previous year at 15.2 billion yen due to higher energy costs.

	Billions of yen		
	2013	2014	Change
Net sales	¥295.7	¥330.8	+11.9%
Ordinary income	15.2	15.2	±0

Aluminum Automotive Panels

1

2 Aluminum Bottle and Can Stock



3 Aluminum Disk Blanks

1 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.

2 Kobe Steel supplies around 30% of the aluminum beverage can stock in Japan. Moreover, we have about 70% of the market share for bottle can stock, which requires complicated processing.

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

Machinery Business

Pursuing Growth Strategies Aimed at Building a Global Business

Net sales	+6.2% ¥159.1 billion
Ordinary income	+60.0% ¥10.4 billion
Ordinary income ratio	+2.2 points 6.5%

Fiscal 2014 Overview

Kobe Steel received large orders for compressors used in the petrochemical industry and for plastic processing machinery mainly in overseas markets, but as demand decreased primarily in the oil refining industry due to lower oil prices, consolidated orders decreased 7.5 percent, compared with the previous year, to 141.3 billion yen. The backlog of orders at the end of the fiscal year (March 31, 2015), stood at 133.3 billion yen.

Consolidated segment sales in fiscal year 2014 increased 6.2 percent, compared with the previous year, to 159.1 billion yen owing to the posting of sales concentrated on large orders of tire and rubber machinery and plastic processing machinery. Ordinary income increased 3.9 billion yen, compared with the same period in the previous year, to 10.4 billion yen.

	Billions of yen		
	2013	2014	Change
Net sales	¥149.8	¥159.1	+6.2%
Ordinary income	6.5	10.4	+60.0%


Nonstandard Compressor

Kobelion Standard Compressors


Heavy-Wall Pressure Vessel for Oil Refining

1. 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.

2. 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.

3. 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.

Review of Operations

Engineering Business

Adding Value through the Integration of Advanced Technologies

Net sales	Ordinary income	Ordinary income ratio
+25.6% ¥49.1 billion	+120.5% ¥0.8 billion	(–) 1.6%

Fiscal 2014 Overview

Consolidated orders in fiscal year 2014 declined 49.2 percent, compared with the previous year, to 25.2 billion yen. Although domestic orders accumulated mainly on waste treatment work and maintenance work related to recovery from the Great East Japan Earthquake, overseas orders decreased compared with the previous year, which saw orders for large direct reduction plants in North America and Russia. The backlog of orders at the end of fiscal year 2014 (March 31, 2015) stood at 68.2 billion yen.

Consolidated segment sales increased 25.6 percent, compared with the same period last year, to 49.1 billion yen owing to progress in construction work on the above-mentioned direct reduction plants. Ordinary income increased 4.7 billion yen, compared with the previous year, to 0.8 billion yen.

	Billions of yen		
	2013	2014	Change
Net sales	¥39.1	¥49.1	+25.6%
Ordinary income	(3.9)	0.8	+120.5%

Steel Structures and Sabo Dams
1

2
MIDREX® Direct Reduction Plant

3
Urban Transit System

1 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.

2 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.

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

Kobelco Eco-Solutions

An Environmental Solution Company that Meets the Requirements of the Times

Net sales -0.1% ¥68.1 billion

Ordinary income +15.4% ¥3.0 billion

Ordinary income ratio +0.6 points 4.4%

Fiscal 2014 Overview

Consolidated orders decreased 2.7 percent, compared with the previous year, to 69.9 billion yen. Although orders increased in the water treatment-related business and in the chemical and food equipment-related business, orders decreased in the waste treatment-related business. The backlog of orders at the end of fiscal year 2014 (March 31, 2015) was 49.0 billion yen.

Consolidated segment sales were 68.1 billion yen, down slightly from the previous year. Similar to the situation for orders, sales increased in the water treatment-related business and in the chemical and food equipment-related business, but decreased in the waste treatment-related business. Ordinary income increased 0.4 billion yen, compared with the previous year, to 3.0 billion yen due to improved project costs and reduced expenses.

	Billions of yen		
	2013	2014	Change
Net sales	¥68.2	¥68.1	-0.1%
Ordinary income	2.6	3.0	+15.4%

Sewage Biogas Facility 1

2 Water Treatment Facility

3 Fluidized-Bed Gasification and Melting Furnaces in Waste Treatment Plant

1. 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.

2. 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.

3. 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 CO_2 and other emissions.

Kobelco Construction Machinery

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

Net sales –2.3% ¥311.0 billion

Ordinary income +39.1% ¥21.0 billion

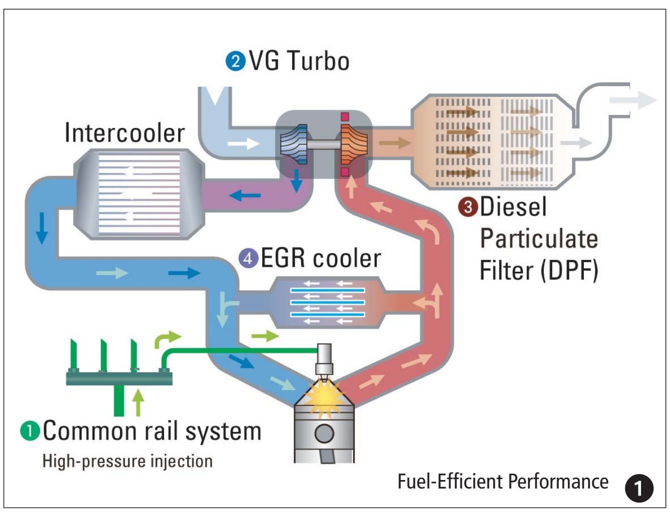
Ordinary income ratio +2.0 points 6.8%

Fiscal 2014 Overview

Unit sales of hydraulic excavators on the whole decreased compared with the previous year. Although unit sales increased in Europe and North America owing to steady progress in expanding sales, unit sales in Japan decreased due to stricter exhaust emission regulations and the reaction to the last-minute surge in demand prior to the rise in the consumption tax on April 1, 2014. Unit sales in China and Southeast Asia were also affected by continued economic deceleration in China and Southeast Asia.

As a result, consolidated segment sales decreased 2.3 percent, compared with the previous year, to 311.0 billion yen. Ordinary income increased 5.9 billion yen, compared with the previous year, to 21.0 billion yen, owing to changes in sales regions and the sales mix of machines.

	Billions of yen		
	2013	2014	Change
Net sales	¥318.2	¥311.0	-2.3%
Ordinary income	15.1	21.0	+39.1%



Fuel-Efficient Performance ❶


❷ Environmental Recycling Machine

❸ Integrated Noise & Dust Reduction Cooling System (iNDr)

❶ 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 CO_2 emission have been reduced across all product lines by using technology that reduces power loss without diminishing workload.

❷ The company offers unique environmental products for construction, metal, resources and forestry recycling. The SK3500D demolition machine, 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.

❸ 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.

Kobelco Cranes

The Top Manufacturer of Lattice Boom Crawler Cranes in the World

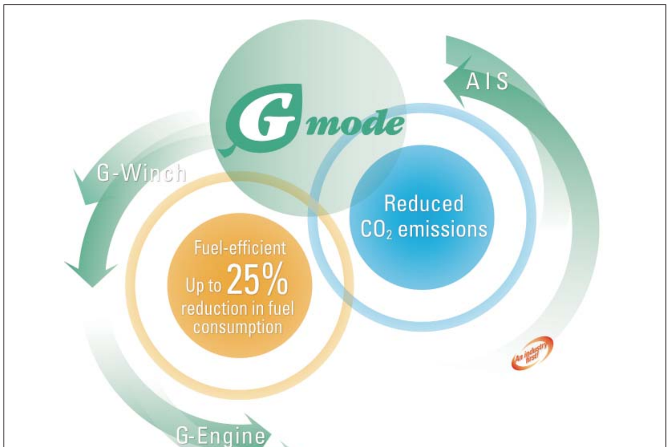
Net sales	Ordinary income	Ordinary income ratio
+25.6% ¥71.1 billion	+62.5% ¥5.2 billion	+1.7 points 7.3%

Fiscal 2014 Overview

Unit sales of crawler cranes increased, compared with the previous year. Unit sales in Japan increased, owing to continued strong demand on the backdrop of higher public investments and other factors. In overseas markets, unit sales increased in North America, Asia and other regions owing to strong demand.

As a result, consolidated segment sales increased 25.6 percent, compared with the previous year, to 71.1 billion yen. Ordinary income increased 2 billion yen, compared with the previous year, to 5.2 billion yen.

	Billions of yen		
	2013	2014	Change
Net sales	¥56.6	¥71.1	+25.6%
Ordinary income	3.2	5.2	+62.5%



Energy-Saving Assist System 1

2 Large-Sized Crawler Crane

Multi-Purpose Crawler Cranes 3

1 Kobelco Cranes offers a wide variety of mobile crawler cranes, including large models for building long bridges, wind, thermal, and nuclear power plants and other large-scale structures as well as highly versatile small and midsize models and wheel cranes. The latest models are eco-friendly, featuring reductions of up to 25% in fuel consumption and CO_2 emissions compared with conventional models.

Kobelco Cranes seeks to develop competitive products to meet the needs of users around the world and estimates its share of the crawler crane market in Japan is 40% and overseas 30%.

2 Our large crawler crane models are used in extensive infrastructure projects and the construction of large-scale structures, including wind and thermal power plants.

3 Our small and midsize crawler crane models are enjoying a globally expanding market thanks to a lineup that flexibly accommodates differing regulations around the world.

Other Businesses

Net sales +6.9% ¥76.1 billion

Ordinary income +4.4% ¥7.1 billion

Ordinary income ratio –0.2 points 9.3%

Fiscal 2014 Overview

At Shinko Real Estate Co., Ltd., both the property sales and leasing businesses were strong. In Kobelco Research Institute, Inc.'s testing and research businesses, demand remained strong mainly in the automotive sector.

Due to these conditions, consolidated segment sales increased 6.9 percent, compared with the previous year, to 76.1 billion yen. Ordinary income increased 0.3 billion yen, compared with the previous year, to 7.1 billion yen.

	Billions of yen		
	2013	2014	Change
Net sales	¥71.2	¥76.1	+6.9%
Ordinary income	6.8	7.1	+4.4%

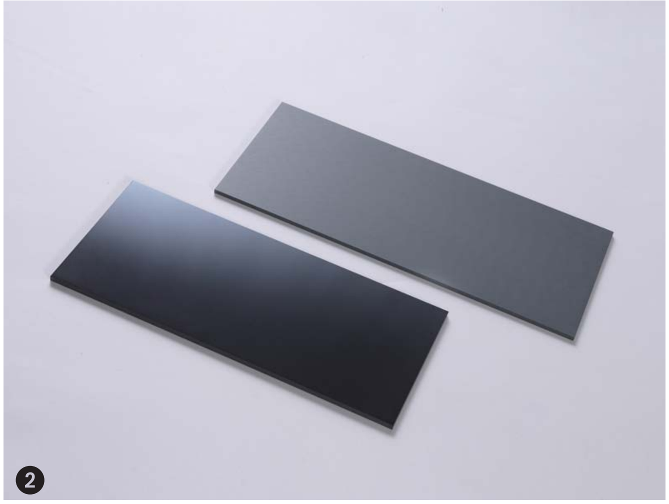
Shinko Real Estate Co., Ltd.

Shinko Real Estate Co., Ltd. is a core unit in the comprehensive lifestyle business of the Kobe Steel Group. This company is engaged in real estate development, sales, brokering, remodeling, the operation and management of public facilities, and insurance services. Its main operations focus on developing its G-clef series of condominiums. By providing reliable and stable products and services, Shinko Real Estate contributes to the development of its customers' homes and their peace of mind.

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

Kobelco Research Institute, Inc.

Kobelco Research Institute, Inc. possesses advanced technologies in diverse fields, including materials, chemistry, machinery and electronics. As a comprehensive testing and research company as well as a solutions provider, it capitalizes on these technologies to carry out testing and analyses of materials and structures. The institute also manufactures and sells sputtering targets and inspection equipment for a wide range of business fields, including semiconductors, flat panel displays and photovoltaic power generation systems. It is expanding its manufacturing capabilities to maximize Companywide synergies, including by developing specialized material products.



2 Oxide semiconductor sputtering target material

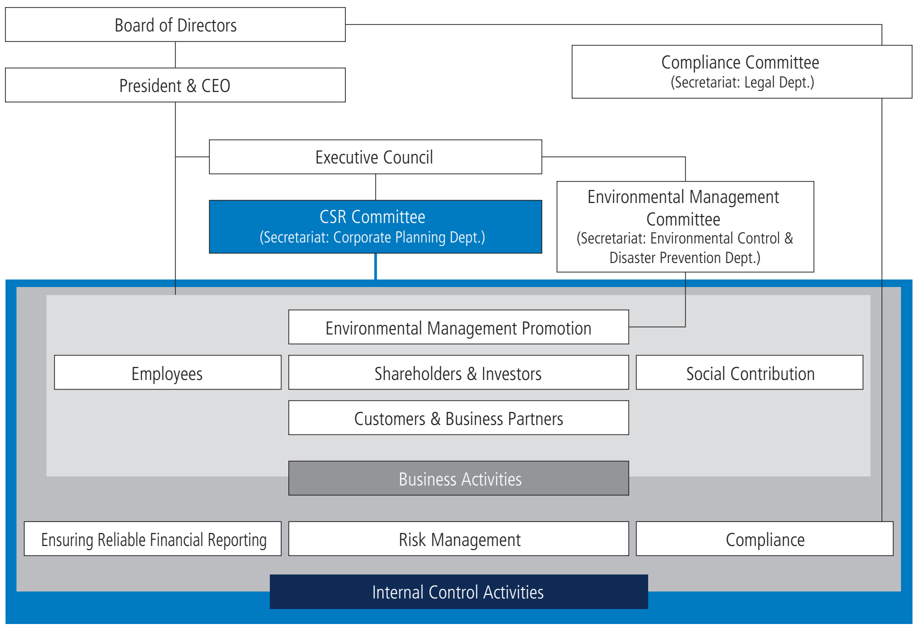
CSR Promotion System

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.

CSR Promotion Structure



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 company with three committees (nomination, audit and remuneration), 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 business divisions. In addition, there are two outside directors who have no conflicting interests with the Company, for a total of 11 board members.

At the meeting of the Board of Directors, the two outside directors receive reports of the results of accounting audits and internal control audits and, as necessary, provide advice to ensure the fairness and appropriateness of the Board of Directors' resolutions. In addition, the outside directors hold regular meetings with Audit & Supervisory Board Members to foster partnership.

In addition to their duty of monitoring the deliberations of the Board of Directors and the business execution of the directors, the outside directors 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.

While no standards have been set for the independence of outside directors or outside Audit & Supervisory Board Members, when considering a candidate, the Company seeks—in addition to the degree of independence advised by the Companies Act—an individual who offers a wealth of experience and exceptional insight in their field and who can be expected to provide an objective, fair and neutral judgement based on their experience.

The two outside directors and three Audit & Supervisory Board Members currently employed at the Company possess a wealth of experience and deep insight and have been determined to be qualified. (The two outside directors and three outside Audit & Supervisory Board Members have been registered with the financial instruments exchange as independent directors.)

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 constituting a legal body, officers of the Company are elected by the Board of Directors and carry out duties that the president assigns to them. By transferring a certain level of authority from directors to officers, the Company ensures the agility of its management.

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.

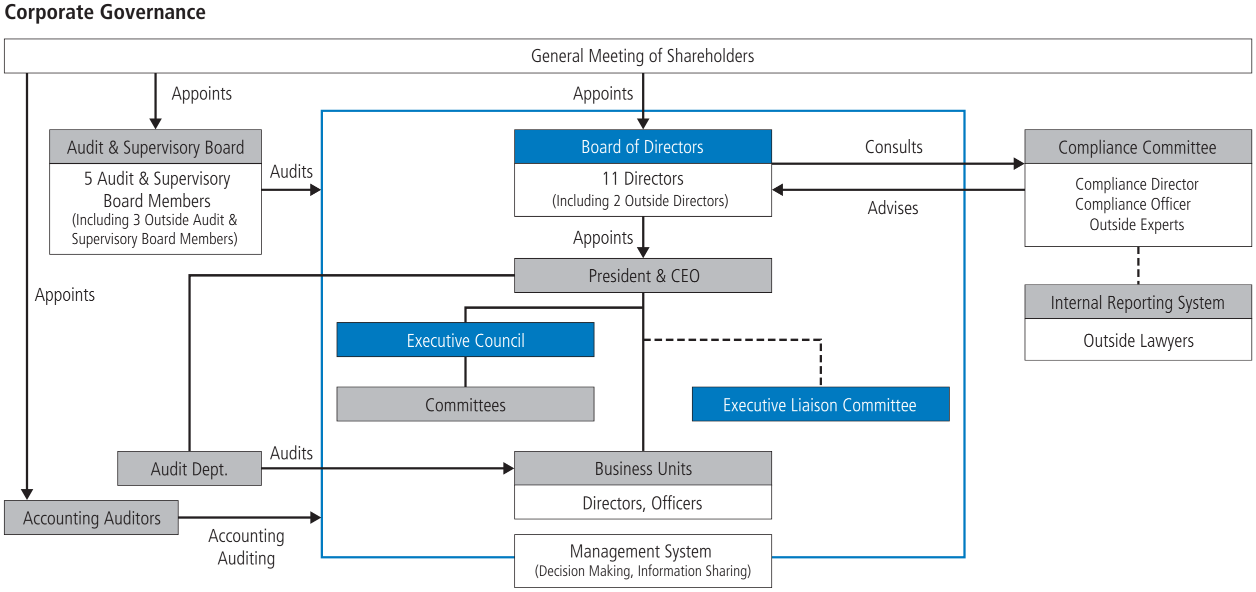
Management System

Under this 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.

Corporate Governance



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. The Audit Department collaborates with the internal control division to audit and confirm the level of control exercised by the internal control division and provide feedback based on the results of their work.

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 2015 is as follows:

	Total Remuneration (Millions of Yen)	Breakdown of Total Remuneration (Millions of Yen)	Number of Individuals
		Base Pay	
Internal Directors	491	491	12
Internal Audit & Supervisory Board Members	66	66	4
Outside Directors	66	66	6

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. Directors' bonuses have not been paid out.

Note 3. Figures for the number of individuals include three internal directors, two internal Audit & Supervisory Board Members and one outside director who retired during fiscal 2014, and figures for total remuneration include the remuneration paid to these individuals.

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 its 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 ¥2 per share. With the preceding interim dividend, the annual pay-out amounted to ¥4 per share.

COMPLIANCE INITIATIVES

Corporate Code of Ethics

Our Corporate Code of Ethics sets out principles and guidelines to ensure that we act as a good corporate citizen in accordance with all applicable laws, regulations and social norms. It consists of our Corporate Ethical Principles, Standards of Corporate Conduct, and Implementation Guidelines for the Corporate Code of Ethics.

Our Corporate Ethical Principles are a set of seven guidelines that Kobe Steel, including its directors, officers and employees, are required to follow when engaging in business activities. Based on our commitment to enforcing and strengthening compliance, these principles represent the foundations on which we fulfill our corporate social responsibilities, by contributing to the environment and interacting effectively with our customers, business partners, employees, members of the local community, and other stakeholders. Our Standards of Corporate Conduct set out guidelines for particularly important activities for the implementation of the Corporate Ethical Principles in day-to-day operations. Standards are implemented by individual employees based on operating manuals containing detailed explanations.

From Kobe Steel's Corporate Ethical Principles:

Kobe Steel will:

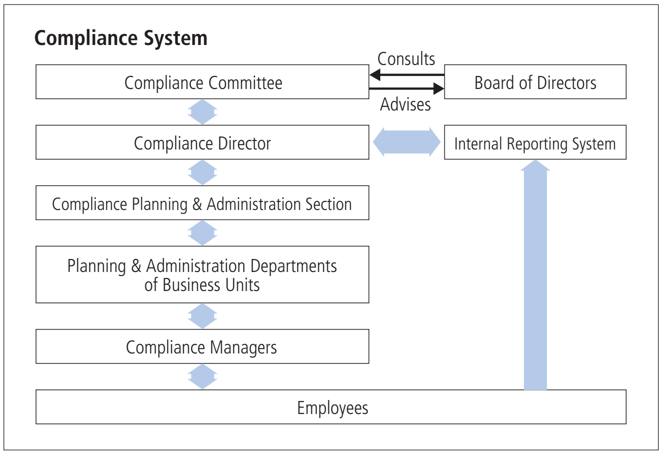
1. Operate business fairly and honestly and comply with applicable laws, rules and principles of society.
2. Contribute to society by offering excellent products and services. In particular, pay special attention to product safety and the protection of personal and customer information.
3. Create a safe, comfortable and productive workplace and respect the individuality and differences of employees.
4. Respect the interests of stakeholders in the company.
5. Be a good corporate citizen that contributes to local communities.
6. Devote itself to protecting the environment and creating a comfotable 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.

Compliance Committee

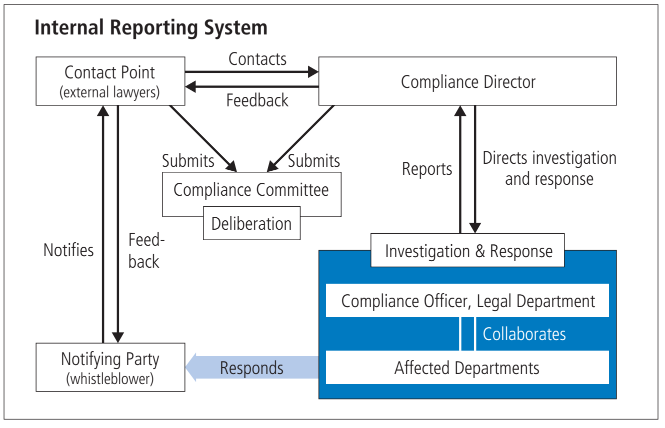
Kobe Steel has a Compliance Committee that advises the Board of Directors. Two of its members are company directors, while five come from outside the company in order to maintain fairness and neutrality. The Committee proposes recommended plans, checks on progress, and deliberates cases reported through the internal reporting (whistleblowing) system.

We appoint a companywide compliance director and a companywide compliance officer. We have also set up a dedicated Compliance Planning & Administration Section in the Legal Department to work in partnership with planning and administrative departments and with compliance managers stationed in our business units.



Internal Reporting System

Our internal reporting (whistleblowing) system is one of the methods we use to prevent risks associated with legal, ethical and other compliance-related issues from materializing and spreading, by quickly identifying problems and implementing appropriate measures. If employees come across any form of illegal conduct within the company, the system enables them to report the matter directly to a designated outside lawyer who operates from a neutral standpoint. The contents of such reports are then investigated by the Compliance Committee and appropriate action is taken. Similar systems have also been rolled out for Group companies.



Risk Management Activities

The aim of risk management at the Kobe Steel Group is to enable departments to identify risks independently and take remedial action.

Every department formulates and implements their own Risk Management Plan, based on "operating risks" applicable to their own operations, and "shared risks" specified by the relevant staff department at corporate headquarters according to regulatory revisions and social changes. At the end of the fiscal year, the heads of each business unit and department, including top management, review the results of risk management activities over the course of the year and provide feedback for the following year.

Essentially, each business unit implements compliance and risk management activities based on the PDCA (Plan, Do, Check, Act) cycle. The aim of ongoing activities such as these is to establish an organizational culture that is highly sensitive to compliance, within the context of individual operations.

Group Company Compliance System

In addition to establishing compliance committees or equivalent bodies at all Group companies and drawing up a Kobe Steel Group Corporate Code of Ethics, we have also introduced an internal reporting system.

Group companies also appoint compliance directors and compliance promotion managers, whose roles are to coordinate with Kobe Steel and promote activities within their respective companies. Risk management activities in line with those at Kobe Steel are carried out at all Group companies.

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 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. 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, the Group is implementing the three initiatives outlined in the plan: reforming the structure of the steel business, strategically expanding the machinery businesses and expanding the power supply business. The Group also aims to achieve a unique composite business structure with a stable earnings foundation comprising the power supply business as well as its two main pillars of operations—the materials and the machinery businesses—thereby improving corporate value over the medium to long term. The Company recognizes that carrying out the aforementioned activities is integral to fulfilling the corporate social responsibility the Company has to its various stakeholders.

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 HAVING AN IMPACT ON 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 24, 2015, 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 20% 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. Even after the period has elapsed, however, in the event a general meeting is convened to discuss such matters as the implementation of defense measures and confirm the intent of shareholders (hereinafter, "confirmation meeting"), the Large Scale Purchase may not be initiated until after resolutions have been made regarding the implementation of defense measures or other matters discussed at the confirmation meeting.

2. Establishment of an Independent Committee and Utilization of Confirmation Meetings

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 at least one outside directors of the Company.

In the event the Independent Committee recommends convening a confirmation meeting, the Board of Directors must respectfully consider the recommendation and, if the Board determines that said recommendation is appropriate, undertake as swiftly as possible the procedures needed to convene the meeting to discuss such matters as the implementation of defense measures.

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 by the Board of Directors and the Independent Committee

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 30 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 or convene a confirmation meeting 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.

Note: If the Independent Committee reasonably decides that it is necessary to extend the Evaluation Period, the Company may extend the Evaluation Period for a period up to a maximum of 30 days in addition to the initial period.

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.

Should the Independent Committee determine it appropriate to convene a confirmation meeting to confirm the intent of shareholders, the Committee will recommend the Board of Directors convene a confirmation meeting as a prerequisite to the initiation of takeover defense measures. In the event the Independent Committee recommends convening a confirmation meeting, the Board of Directors must respectfully consider the recommendation and, if the Board determines said recommendation is appropriate, undertake as swiftly as possible the procedures needed to convene the meeting to discuss such matters as the implementation of defense measures.

6. Summary of Takeover Defense Measures

Defensive measures are distributing the share purchase warrants (hereinafter referred to as the "Share Purchase Warrants") with the terms and conditions set forth below, including the non-exercise of the share purchase warrants by the Large-Scale Purchaser.

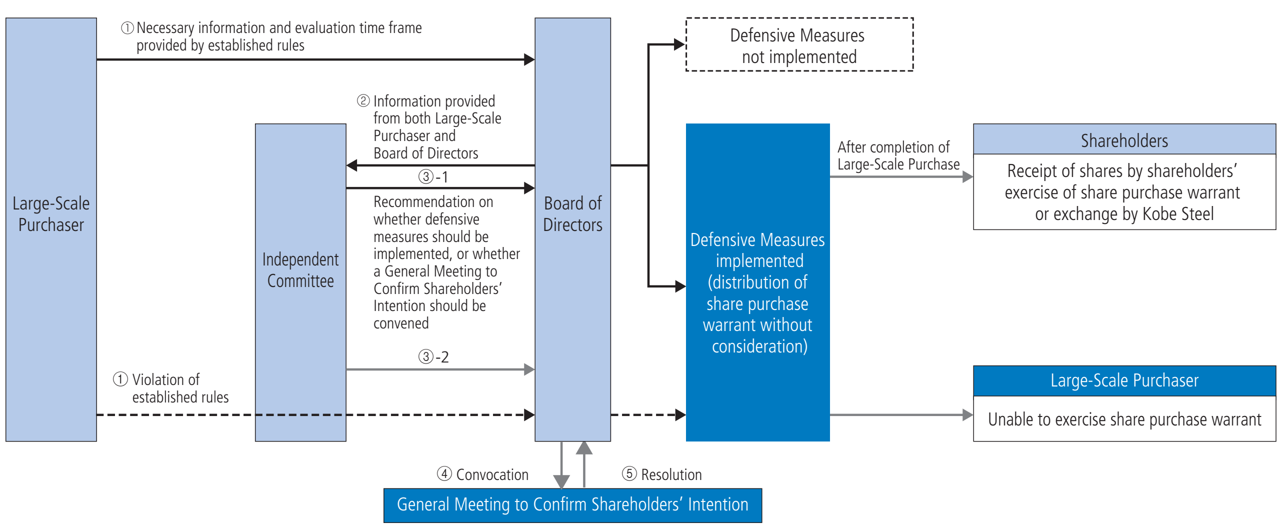
7. Effective Term

The beginning of the effective term of the Plan and the initiation of takeover defense measures based on the Plan have an impact on all shareholders to some degree. Therefore, at the 162nd Ordinary General Meeting of Shareholders, the Company confirmed the opinions of shareholders and received approval for the Plan.

Accordingly, the Plan took effect with the closing of the first Board of Directors meeting held after the 162nd Ordinary General Meeting of Shareholders. The effective term will terminate with the closing of the first Board of Directors meeting to be held after the Ordinary General Meeting of Shareholders scheduled for June 2017. However, if on the day of the first Board of Directors meeting to be held after the Ordinary General Meeting of Shareholders, a Large-Scale Purchase is made or the procedures laid out in the Plan have been initiated, the effective term shall be extended as necessary to respond to such actions and/or to execute the Plan.

In addition, in the event the Board of Directors resolves to abolish the Plan, the Plan shall be abolished at that point in time even if it is during the effective term.

Schematic Flow Diagram



Consolidated 10-Year Summary

Kobe Steel, Ltd. and Consolidated Subsidiaries

	Millions of yen			
Years ended March 31	2006	2007	2008	2009
For the year:				
Net sales	¥1,667,313	¥1,910,296	¥2,132,406	¥2,177,290
Cost of sales	1,297,291	1,543,158	1,757,342	1,890,318
Operating income	220,395	208,624	202,399	116,934
Ordinary income (loss)	176,933	183,279	157,919	60,876
Net income (loss)	84,559	109,669	88,923	(31,438)
Cash flows from operating activities	198,181	172,786	124,317	118,200
Cash flows from investing activities	(94,215)	(128,557)	(187,381)	(127,405)
Cash flows from financing activities	(93,593)	(48,823)	31,155	138,700
Capital expenditures	92,319	133,649	150,585	118,044
Depreciation	79,507	86,687	111,514	128,701
Research and development expenses	24,121	24,893	30,139	31,029
At year-end:				
Total assets	2,074,242	2,241,570	2,329,006	2,295,489
Net assets (Note 2)	530,000	636,432	647,797	513,461
Outside debt	589,101	621,227	713,352	855,972
Outside debt including IPP project financing	720,909	742,276	823,404	954,791
Per share data:				
Net income (loss) (yen/U.S. dollars (Note 1))	¥ 27.94	¥ 35.37	¥ 29.63	¥ (10.47)
Diluted net income (yen/U.S. dollars (Note 1))	27.25	—	—	—
Net assets (yen/U.S. dollars (Note 1))	170.65	194.46	199.81	159.58
Cash dividends (yen/U.S. dollars (Note 1))	6.00	7.00	7.00	3.50
Ratios:				
Operating income ratio (%)	13.2	10.9	9.5	5.4
Ordinary income ratio (%)	10.6	9.6	7.4	2.8
ROA (%)	8.9	8.5	6.9	2.6
ROE (%)	18.6	19.5	14.9	(5.8)
Equity ratio (%)	25.6	26.4	25.8	20.9
Debt/equity ratio (times)	1.2	1.2	1.3	1.7
Dividend payout ratio (%)	21.5	19.8	23.6	—
Number of shares issued (in thousands)	3,115,061	3,115,061	3,115,061	3,115,061
Number of employees	29,068	31,828	33,657	33,526

Notes: 1. For convenience only, U.S. dollar amounts in this report have been translated from Japanese yen amounts at the rate of ¥120.17 to US$1.00, the rate of exchange prevailing on March 31, 2015.

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)
2010	2011	2012	2013	2014	2015	Change 2015/2014	2015
¥1,671,022	¥1,858,574	¥1,864,691	¥1,685,529	¥1,824,699	¥1,886,895	3.4%	$15,701,879
1,475,461	1,570,779	1,635,862	1,510,512	1,537,250	1,581,528	2.9	13,160,755
46,016	124,551	60,555	11,235	114,548	119,460	4.3	994,093
10,259	89,083	33,780	(18,146)	85,044	101,688	19.6	846,202
6,305	52,940	(14,248)	(26,976)	70,192	86,550	23.3	720,229
172,893	177,795	39,486	45,402	194,294	153,078	(21.2)	1,273,849
(120,324)	(96,687)	(85,267)	(123,513)	(62,105)	(73,674)	18.6	(613,085)
(29,641)	(98,196)	(40,233)	127,644	(138,502)	(156,027)	12.7	(1,298,387)
128,739	91,378	96,085	114,936	101,403	103,522	2.1	861,463
118,835	114,820	118,038	106,725	82,936	89,882	8.4	747,957
28,255	29,833	31,437	30,763	28,494	29,920	5.0	248,981
2,249,346	2,231,533	2,159,512	2,226,997	2,288,637	2,300,242	0.5	19,141,563
557,002	597,368	571,258	569,923	734,679	851,785	15.9	7,088,168
837,770	769,840	746,471	907,657	748,138	650,992	(13.0)	5,417,256
925,120	845,484	810,172	959,180	787,246	677,448	(13.9)	5,637,412
¥ 2.10	¥ 17.63	¥ (4.75)	¥ (8.99)	¥ 22.63	¥ 23.81	5.0	$ 0.20
—	—	—	—	—	—	—	—
172.09	182.81	171.84	170.63	184.11	213.70	16.1	1.78
1.50	3.00	1.00	—	4.00	4.00	—	0.03
						Points	
2.8	6.7	3.2	0.7	6.3	6.3	0.0	
0.6	4.8	1.8	(1.1)	4.7	5.4	0.7	
0.5	4.0	1.5	(0.8)	3.8	4.4	0.7	
1.3	9.9	(2.7)	(5.3)	11.9	12.0	0.1	
23.0	24.6	23.9	23.0	29.2	33.8	4.6	
1.6	1.4	1.4	1.8	1.1	0.9	(0.2)	
71.4	17.0	—	—	17.7	16.8	(0.9)	
3,115,061	3,115,061	3,115,061	3,115,061	3,643,642	3,643,642	—	
33,629	34,772	35,496	36,018	36,019	36,420	401	

Analysis of Results

Net sales		
FY2014	¥1,886.9 billion	
FY2013	¥1,824.7 billion	
		+3.4%

Operating income		
FY2014	¥119.5 billion	
FY2013	¥114.5 billion	
		+4.4%

Ordinary income (loss)		
FY2014	¥101.7 billion	
FY2013	¥85.0 billion	
		+19.6%

Net income (loss)		
FY2014	¥86.6 billion	
FY2013	¥70.2 billion	
		+23.4%

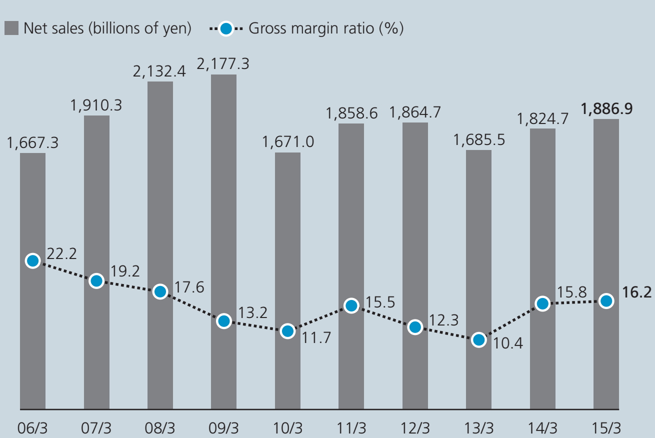
Japan's economy in fiscal 2014 (April 1, 2014 – March 31, 2015) was affected by the last-minute surge in demand prior to the rise in the consumption tax on April 1, 2014. However, on the back of various economic measures by the government, and the Bank of Japan's monetary easing measures, corporate earnings improved, capital expenditures went up and public investments continued at high levels. These factors enabled the economy on the whole to continue on a recovery track. In overseas markets, the U.S. economy gradually continued to improve, but Europe's economy remained weak, and the economies of China and Southeast Asia continued to decelerate.

In this economic environment, the Kobe Steel Group saw a decrease in the sales volume of steel products, in terms of tons sold, compared with the previous year. Steel demand in the automotive sector decreased in Japan due to a reaction to the last-minute surge in demand prior to the rise in the consumption tax on April 1, 2014. In overseas markets, demand was sluggish in emerging countries.

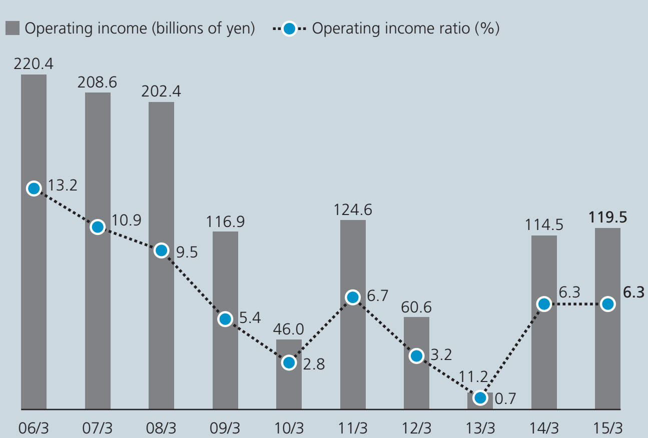
The sales volume of aluminum rolled products increased in fiscal year 2014, compared with the previous year, owing to efforts to expand export sales of mainly aluminum can stock for beverage containers and automotive materials. The sales volume of copper rolled products also increased, compared with the same period last year, owing to strong demand for copper strips used in automotive terminals and for copper tubes. Unit sales of hydraulic excavators decreased, compared with the previous year. Although unit sales increased in Europe and North America owing to steady sales expansion, unit sales in Japan, China and Southeast Asia went down.

As a result, consolidated sales in fiscal 2014 increased ¥62.2 billion, compared with the previous year, to ¥1,886.9 billion. Operating income increased ¥5.0 billion, compared with the previous year, to ¥119.5 billion. Ordinary income* (also known as "pretax recurring profit" or simply "pretax profit") increased ¥16.7 billion, compared with the previous year, to ¥101.7 billion. Net income increased ¥16.4 billion, compared with the previous year, to ¥86.6 billion.

Net sales / Gross margin ratio



Operating income / Operating income ratio



Analysis of Cash Flows

Cash flows from operating activities

FY2014 ¥153.1 billion
FY2013 ¥194.3 billion
–¥41.2 billion

Cash flows from investing activities

FY2014 –¥73.7 billion
FY2013 –¥62.1 billion
–¥11.6 billion

Free cash flows

FY2014 ¥79.4 billion
FY2013 ¥132.2 billion
–¥52.8 billion

Cash flows from financing activities

FY2014 –¥156.0 billion
FY2013 –¥138.5 billion
–¥17.5 billion

Cash Flows from Operating Activities

Net cash provided by operating activities came to ¥153.1 billion thanks in large part to posting income before income taxes and minority interests of ¥104.3 billion and depreciation of ¥89.9 billion.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥73.7 billion due mainly to the purchase of property, plant and equipment and other assets.

Cash Flows from Financing Activities

Net cash used in financing activities amounted to ¥156.0 billion due mainly to the repayment of borrowings.

Analysis of Financial Condition

Total assets

FY2014 ¥2,300.2 billion
FY2013 ¥2,288.6 billion
+0.5%

Net assets

FY2014 ¥851.8 billion
FY2013 ¥734.6 billion
+16.0%

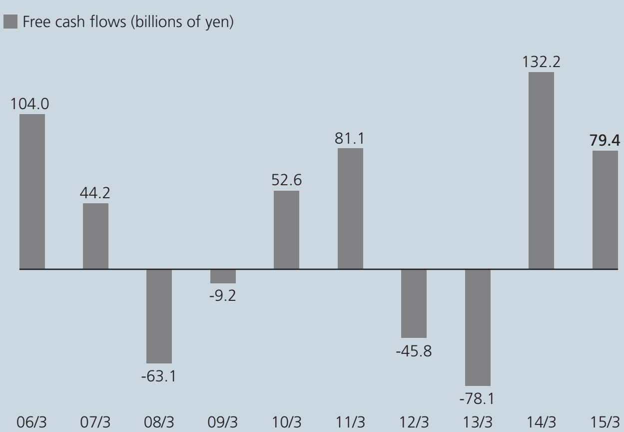
Equity ratio

FY2014 33.8%
FY2013 29.2%
+4.6 points

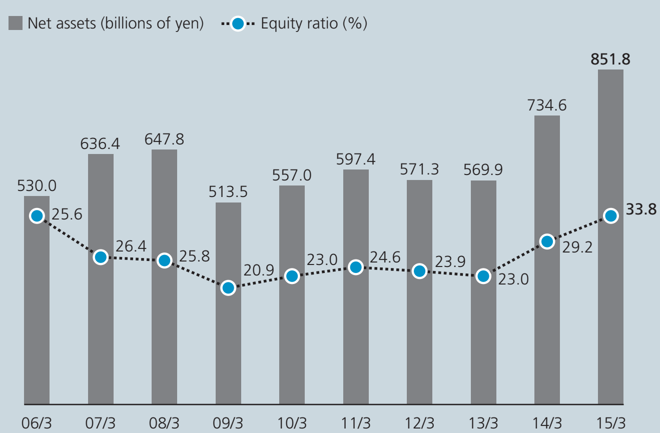
Although cash and deposits decreased, inventories and fixed assets were up compared with the end of the previous fiscal year. As a result, total assets in fiscal 2014 rose ¥11.6 billion year on year to ¥2,300.2 billion. Net assets increased ¥117.2 billion to ¥851.8 billion reflecting a rise in net income. As a result, the equity ratio at the end of fiscal 2014 was 33.8%, an increase of 4.6 points compared with the previous year.

At the end of fiscal 2014, outside debt, which includes IPP project financing, was down ¥109.7 billion year on year to ¥677.4 billion.

Free cash flows



Net assets / 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, 2015.

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, 2015, overseas sales represented 37.9% 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, 2015 stood at ¥650.9 billion (¥677.4 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) Financing and Debt Guarantees

The Kobe Steel Group provides financing and other assistance primarily to affiliates and also stands as guarantor for a portion of loans from financial institutions for affiliates. Delays in the recovery of loans or requests to fulfill the guarantor obligations for debt could affect the Kobe Steel Group's performance.

(4) 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.

(5) Fluctuating Prices of Investment Securities

At March 31, 2015, the consolidated balance sheet amount for investment securities held by the Kobe Steel Group stood at ¥207.9 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.

(6) 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.

(7) 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, 2015.

Consolidated Balance Sheets

Kobe Steel, Ltd. and Consolidated Subsidiaries
At March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2015	2014	2015
Current assets:			
Cash and deposits (Notes 7 and 21)	¥ 103,182	¥ 151,930	$ 858,631
Notes and accounts receivable:			
Trade and finance	353,589	353,661	2,942,409
Unconsolidated subsidiaries and affiliates	48,468	50,338	403,326
Other	64,212	73,081	534,346
Allowance for doubtful accounts	(8,648)	(4,995)	(71,968)
	457,621	472,085	3,808,113
Merchandise and finished goods	185,077	149,831	1,540,129
Work-in-process (Note 8)	119,436	112,697	993,894
Raw materials and supplies	138,161	138,210	1,149,717
Deferred income taxes (Note 18)	30,388	26,727	252,876
Other	19,142	16,118	159,282
Total current assets	1,053,007	1,067,598	8,762,642
Property, plant and equipment (Note 7):			
Land	195,838	198,713	1,629,671
Buildings and structures	757,101	741,226	6,300,248
Machinery and equipment	2,311,779	2,237,816	19,237,574
Construction in progress	27,636	39,572	229,977
	3,292,354	3,217,327	27,397,470
Less accumulated depreciation	(2,365,360)	(2,304,311)	(19,683,446)
Total property, plant and equipment	926,994	913,016	7,714,024
Intangible assets	20,039	19,952	166,753
Investments and other assets:			
Investments in securities (Note 5)	144,527	115,038	1,202,688
Investments in and advances to unconsolidated subsidiaries and affiliates	92,602	84,978	770,591
Long-term loans receivable	5,168	5,762	43,006
Deferred income taxes (Note 18)	18,327	18,994	152,512
Net defined benefit asset (Note 23)	20,037	42,528	166,738
Other	21,771	23,471	181,167
Allowance for doubtful accounts	(2,230)	(2,700)	(18,558)
Total investments and other assets	300,202	288,071	2,498,144
	¥ 2,300,242	¥ 2,288,637	$ 19,141,563

LIABILITIES AND NET ASSETS	Millions of yen 2015	2014	Thousands of U.S. dollars (Note 1) 2015
Current liabilities:			
Short-term borrowings (Note 7)	¥ 141,821	¥ 188,133	$ 1,180,168
Current portion of long-term debt (Note 7)	99,551	87,702	828,419
Notes and accounts payable:			
Trade	359,771	341,754	2,993,847
Construction	19,706	22,694	163,985
Unconsolidated subsidiaries and affiliates	68,552	73,769	570,462
Other	13,998	13,449	116,484
	462,027	451,666	3,844,778
Current portion of lease obligations	5,433	13,342	45,215
Advances from customers	37,208	32,388	309,628
Customers' and employees' deposits	19,723	19,759	164,126
Income and enterprise taxes payable	14,011	10,684	116,590
Provision for loss on construction contracts (Note 8)	6,468	8,344	53,823
Deferred income taxes (Note 18)	610	1,091	5,076
Other	76,603	78,148	637,458
Total current liabilities	863,455	891,257	7,185,281
Long-term liabilities:			
Long-term debt (Note 7)	435,975	511,411	3,627,981
Lease obligations	27,078	18,948	225,328
Net defined benefit liability (Note 23)	59,573	72,653	495,742
Provision for environmental measures	1,196	1,454	9,953
Provision for structural reform-related expenses	4,945	5,632	41,146
Provision for dismantlement-related expenses	9,556	—	79,524
Deferred income taxes (Note 18)	17,659	22,958	146,946
Other	29,020	29,645	241,494
Total long-term liabilities	585,002	662,701	4,868,114
Contingent liabilities (Note 11)			
Net assets:			
Stockholders' equity:			
Common stock (Notes 12 and 20)	250,930	250,930	2,088,125
Authorized — 6,000,000,000 shares			
Issued — 3,643,642,100 shares			
Capital surplus (Note 12)	100,783	100,742	838,668
Retained earnings (Note 12)	392,652	322,347	3,267,476
Treasury stock, at cost (Note 20):	(2,996)	(2,983)	(24,934)
10,082,049 shares in 2015 and 9,975,426 shares in 2014			
	741,369	671,036	6,169,335
Accumulated other comprehensive income:			
Unrealized gains on securities, net of taxes	27,098	13,266	225,493
Unrealized losses on hedging derivatives, net of taxes	(2,415)	(1,814)	(20,097)
Land revaluation differences, net of taxes (Note 9)	(3,561)	(3,369)	(29,630)
Foreign currency translation adjustments	22,892	3,062	190,498
Remeasurements of defined benefit plans, net of taxes	(8,891)	(13,183)	(73,988)
	35,123	(2,038)	292,276
Minority interests	75,293	65,681	626,557
Total net assets	851,785	734,679	7,088,168
	¥2,300,242	¥2,288,637	$19,141,563

See accompanying notes.

Consolidated Statements of Income

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Net sales	¥ 1,886,895	¥ 1,824,699	$ 15,701,879
Cost of sales (Note 13)	(1,581,528)	(1,537,250)	(13,160,756)
Gross profit	305,367	287,449	2,541,123
Selling, general and administrative expenses (Note 15)	(185,907)	(172,901)	(1,547,030)
Operating income	119,460	114,548	994,093
Non-operating income (expenses):			
Interest and dividend income	6,908	6,120	57,487
Interest expense	(15,845)	(18,573)	(131,858)
Seconded employees' salaries, net of reimbursement	(7,467)	(6,875)	(62,136)
Foreign exchange gain	3,814	2,852	31,735
Equity in income (loss) of equity method companies	70	(2,794)	582
Subsidy income	4,666	3,156	38,824
Other, net	(9,918)	(13,390)	(82,525)
	(17,772)	(29,504)	(147,891)
Ordinary income (loss)	101,688	85,044	846,202
Extraordinary income (loss):			
Gain on return of assets from retirement benefit trust	15,684	—	130,518
Gain on sale of securities	—	25,186	—
Gain on negative goodwill	—	3,839	—
Gain on transfer of distribution rights	—	3,219	—
Transfer-related subsidy income	—	2,029	—
Dismantlement-related expenses (Note 16)	(10,457)	—	(87,025)
Loss on write-down of investment securities	(2,589)	—	(21,542)
Impairment loss	—	(21,931)	—
Structural reform-related expenses (Note 17)	—	(5,726)	—
Loss on write-down of investments in capital	—	(3,451)	—
	2,638	3,165	21,951
Income before income taxes and minority interests	104,326	88,209	868,153
Income taxes (Note 18):			
Current	24,135	14,784	200,844
Deferred	(11,788)	(245)	(98,095)
	12,347	14,539	102,749
Income before minority interests	91,979	73,670	765,404
Minority interests in income of subsidiaries	5,429	3,478	45,175
Net income	¥ 86,550	¥ 70,192	$ 720,229

	Yen		U.S. dollars (Note 1)
Per share	2015	2014	2015
Net income	¥ 23.82	¥ 22.63	$ 0.20
Cash dividends applicable to the year	4.00	4.00	0.03

See accompanying notes.

Consolidated Statements of Comprehensive Income

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Income before minority interests	¥ 91,979	¥73,670	$ 765,404
Other comprehensive income (loss):			
Unrealized gains (losses) on securities, net of taxes	12,875	(8,362)	107,142
Unrealized losses on hedging derivatives, net of taxes	(302)	(281)	(2,509)
Land revaluation differences, net of taxes	356	(7)	2,964
Foreign currency translation adjustments	23,313	31,921	193,997
Remeasurements of defined benefit plans, net of taxes	4,348	—	36,186
Share of other comprehensive income related to equity method companies	2,818	2,348	23,446
Total other comprehensive income (Note 19)	43,408	25,619	361,226
Total comprehensive income	¥135,387	¥99,289	$1,126,630
Total comprehensive income attributable to:			
Stockholders of the parent	¥124,251	¥87,324	$1,033,963
Minority interests	11,136	11,965	92,667

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Kobe Steel, Ltd. and Consolidated Subsidiaries

Years ended March 31, 2015 and 2014

	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, 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 April 1, 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
Cumulative effect amount of changing accounting policies				5,067							366	5,433
Balance at April 1, 2014 (Restated Balance)	3,643,642	250,930	100,742	327,414	(2,983)	13,266	(1,814)	(3,369)	3,062	(13,183)	66,047	740,112
Dividends of surplus				(21,832)								(21,832)
Net income				86,550								86,550
Purchase of treasury stock					(27)							(27)
Disposal of treasury stock				(9)	14							5
Changes in stockholders interest due to transaction with minority interests			41									41
Decrease due to changes in scope of consolidation				(12)								(12)
Adjustment to land revaluation				541								541
Net changes in items other than stockholders' equity						13,832	(601)	(192)	19,830	4,292	9,246	46,407
Net changes during the year			41	65,238	(13)	13,832	(601)	(192)	19,830	4,292	9,246	111,673
Balance at March 31, 2015	3,643,642	¥250,930	¥100,783	¥392,652	¥ (2,996)	¥27,098	¥(2,415)	¥(3,561)	¥ 22,892	¥ (8,891)	¥75,293	¥851,785

	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, 2014	3,643,642	$2,088,125	$838,331	$2,682,426	$(24,829)	$110,394	$(15,096)	$(28,034)	$ 25,484	$(109,706)	$546,570	$6,113,665
Cumulative effect amount of changing accounting policies				42,164							3,051	45,215
Balance at April 1, 2014 (Restated Balance)	3,643,642	2,088,125	838,331	2,724,590	(24,829)	110,394	(15,096)	(28,034)	25,484	(109,706)	549,621	6,158,880
Dividends of surplus				(181,679)								(181,679)
Net income				720,229								720,229
Purchase of treasury stock					(223)							(223)
Disposal of treasury stock				(72)	118							46
Changes in stockholders interest due to transaction with minority interests			337									337
Decrease due to changes in scope of consolidation				(92)								(92)
Adjustment to land revaluation				4,500								4,500
Net changes in items other than stockholders' equity						115,099	(5,001)	(1,596)	165,014	35,718	76,936	386,170
Net changes during the year			337	542,886	(105)	115,099	(5,001)	(1,596)	165,014	35,718	76,936	929,288
Balance at March 31, 2015	3,643,642	$2,088,125	$838,668	$3,267,476	$(24,934)	$225,493	$(20,097)	$(29,630)	$190,498	$ (73,988)	$626,557	$7,088,168

See accompanying notes.

Consolidated Statements of Cash Flows

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 104,326	¥ 88,209	$ 868,152
Depreciation	89,882	82,936	747,957
Interest and dividend income	(6,908)	(6,120)	(57,487)
Interest expense	15,845	18,573	131,858
Gain on sale of securities	291	(25,261)	2,421
Loss on write-down of investments in securities	2,589	327	21,542
Equity in income (loss) of equity method companies	(70)	2,794	(582)
Gain on return of assets from retirement benefit trust	(15,684)	—	(130,518)
Dismantlement-related expenses	10,457	—	87,025
Impairment loss	—	21,931	—
Gain on negative goodwill	—	(3,839)	—
Gain on transfer of distribution rights	—	(3,219)	—
Transfer-related subsidy income	—	(2,029)	—
Loss on write-down of investments in capital	—	3,451	—
Structural reform-related expenses	—	5,726	—
Gain on sale of property, plant and equipment	(1,881)	(1,239)	(15,657)
Loss on disposal of property, plant and equipment	2,060	1,905	17,144
Decrease (increase) in trade receivables from customers	27,340	(5,329)	227,514
Decrease (increase) in lease receivables and investment assets	(1,779)	1,954	(14,803)
Decrease (increase) in inventories	(29,813)	19,068	(248,086)
Increase (decrease) in trade payables to customers	(6,254)	898	(52,042)
Other	(13,400)	15,098	(111,515)
Subtotal	177,001	215,834	1,472,923
Cash received for interest and dividends	8,347	7,086	69,463
Cash paid for interest	(16,181)	(19,156)	(134,650)
Cash paid for income taxes	(16,089)	(9,470)	(133,887)
Net cash provided by operating activities	153,078	194,294	1,273,849
Cash flows from investing activities:			
Purchase of property, plant and equipment and other assets	(95,353)	(95,425)	(793,485)
Proceeds from sale of property, plant and equipment and other assets	5,013	3,208	41,718
Purchase of investments in securities	(391)	(398)	(3,256)
Proceeds from sale of investments in securities	23,634	32,056	196,673
Payment for investments in capital	(6,285)	(2,063)	(52,305)
Decrease (increase) in short-term loans receivable	(346)	86	(2,880)
Payments for long-term loans receivable	(402)	(125)	(3,341)
Proceeds from collection of long-term loans receivable	468	458	3,896
Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation	790	—	6,574
Other	(802)	98	(6,679)
Net cash used in investing activities	(73,674)	(62,105)	(613,085)
Cash flows from financing activities:			
Decrease in short-term borrowings	(50,995)	(39,127)	(424,356)
Proceeds from long-term debt	17,138	33,858	142,617
Repayment of long-term debt	(59,860)	(176,353)	(498,131)
Repayment of bonds	(26,000)	(20,000)	(216,360)
Proceeds from issuance of common stock	—	69,921	—
Proceeds from disposal of treasury stock	—	13,747	—
Repayments of finance lease obligations	(14,334)	(18,965)	(119,278)
Payment of dividends	(21,710)	(8)	(180,657)
Payment from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(67)	—	(559)
Other	(199)	(1,575)	(1,663)
Net cash used in financing activities	(156,027)	(138,502)	(1,298,387)
Effect of exchange rate changes on cash and cash equivalents	7,097	15,113	59,059
Increase (decrease) in cash and cash equivalents	(69,526)	8,800	(578,564)
Cash and cash equivalents at beginning of year	170,926	162,037	1,422,372
Increase in cash and cash equivalents resulting from change in scope of consolidation	254	89	2,110
Cash and cash equivalents at end of year (Note 21)	¥ 101,654	¥ 170,926	$ 845,918

See accompanying notes.

Notes to Consolidated Financial Statements

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

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, 2015, which was ¥120.17 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, 2015, the accounts of 166 (164 in 2014) subsidiaries have been included in the consolidated financial statements. Intercompany transactions and accounts have been eliminated.

Seventy-six (76 in 2014) 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, 2015, 44 (45 in 2014) 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 for structural reform of the steel business at the end of the fiscal year.

(7) Provision for Dismantlement-Related Expenses

Provision for dismantlement related expenses is stated at an amount based on the estimated cost for dismantling and disposal of the blast furnace facilities due to construction of power station at Kobe Works at the end of the fiscal year.

(8) 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.

(9) 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.

(10) 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.

(11) 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 benefit formula 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 18 years for those accrued in 2015 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.

(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 Accounting Standard for Retirement Benefits

In 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, March 26, 2015, hereinafter the "Guidance on Retirement Benefits"), the Group adopted the provisions set forth in Article 35 of the Accounting Standard for Retirement Benefits and in Article 67 of the Guidance on Retirement Benefits since the year ended March 31, 2015. The Group revised its calculation method of the retirement benefit obligation and service costs. In addition, the Group changed its attribution method for the projected retirement benefit from the straight-line basis to the benefit formula basis and changed the calculation method for the discount rate. Following Article 37 in the Accounting Standard for Retirement Benefits, which stipulates transitional treatment of the new standard, at the beginning of the year ended March 31, 2015, the effect of the changed calculation method for the retirement benefit obligation and service costs is adjusted in retained earnings.

As a result, at the beginning of the year ended March 31, 2015, retained earnings increased by ¥5,066 million. The application of the new accounting standard does not have material effect on profit or loss in the year ended March 31, 2015.

Application of the Accounting Standard for Business Combinations

The "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, revised on September 13, 2013), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, revised on September 13, 2013), and "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, revised on September 13, 2013) could be applied from the beginning of the consolidated accounting period of the year ended March 31, 2015. Accordingly, the Company applied these accounting standards (excluding Article 39 of ASBJ Statement No. 22, revised on September 13, 2013) from the first quarter of the consolidated accounting period of the year ended March 31, 2015.

Under these accounting standards, the Company recorded the differences caused by changes in the Company's equity shares in subsidiaries in which the Company continues to control as capital surplus. In addition, the Company recorded acquisition-related costs as expenses in the fiscal periods in which the costs are incurred.

Regarding business combinations, from the beginning of the year ended March 31, 2015, the Company changed the method to reflect changes in the allocation of the acquisition costs arising from confirmation of the provisional accounting treatment on the consolidated financial statements of the quarter that includes the acquisition date.

The Company has adopted these accounting standards from the beginning of the year ended March 31, 2015, following transitional treatment based on Article 58-2 (4) of "Accounting Standard for Business Combinations," Article 44-5 (4) of "Accounting Standard for Consolidated Financial Statements" and Article 57-4 (4) of "Accounting Standard for Business Divestitures".

In the consolidated statement of cash flows of the current fiscal year, cash flows from acquisition of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from financing activities".

Adoption of these accounting standards has not had a material effect on profit or loss in the year ended March 31, 2015 and capital surplus at March 31, 2015.

(19) 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, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Due within one year	¥ 4,163	¥ 4,731	$ 34,644
Due after one year	9,411	8,468	78,316
	¥13,574	¥13,199	$112,960

Future minimum lease fees receivable as lesser under operating leases at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Due within one year	¥ 367	¥ 344	$ 3,053
Due after one year	2,192	2,389	18,243
	¥2,559	¥2,733	$21,296

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, 2015 and 2014 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2015			2014			2015
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference	Difference
Cash and deposits	¥103,182	¥103,182	¥ —	¥151,930	¥151,930	¥ —	$ —
Notes and accounts receivable—trade	318,800	318,800	—	324,034	324,034	—	—
Investments in securities:							
Held-to-maturity debt securities	11	11	—	15	15	—	—
Securities of subsidiaries and affiliates	18,617	28,969	10,352	17,604	21,667	4,063	86,147
Available-for-sale securities	124,352	124,352	—	94,920	94,920	—	—
Notes and accounts payable—trade	(359,771)	(359,771)	—	(341,754)	(341,754)	—	—
Short-term borrowings and current portion of long-term debt	(221,372)	(222,137)	(765)	(249,835)	(250,432)	(597)	(6,363)
Bonds included in current portion of long-term debt	(20,000)	(20,074)	(74)	(26,000)	(26,290)	(290)	(616)
Bonds included in long-term debt	(131,000)	(135,979)	(4,979)	(151,000)	(155,711)	(4,711)	(41,430)
Long-term borrowings included in long-term debt	(304,975)	(312,571)	(7,596)	(360,411)	(367,571)	(7,160)	(63,217)
Lease obligations	(27,078)	(28,757)	(1,679)	(18,948)	(19,993)	(1,045)	(13,973)
Derivative transactions:							
Hedge accounting not applied	(112)	(112)	—	(210)	(210)	—	—
Hedge accounting applied	(2,966)	(2,966)	—	(3,030)	(3,030)	—	—

Notes:

1. Liabilities are presented with parentheses ( ).
2. Assets and liabilities arising from derivative transactions are presented after offsetting and with parentheses ( ) if the offset results in a liability.
3. 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 based mainly 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 and lease obligations

The fair values of long-term borrowings and lease obligations 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, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Non-listed equity securities	¥64,951	¥67,082	$540,488

The aggregate annual maturities of financial assets at March 31, 2015 and 2014 were as follows:

Cash and deposits

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Due within 1 year	¥103,182	¥151,930	$858,631
Due after 1 year through 5 years	—	—	—
Due after 5 years through 10 years	—	—	—
Due after 10 years	—	—	—
	¥103,182	¥151,930	$858,631

Notes and accounts receivable—trade

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Due within 1 year	¥310,358	¥319,376	$2,582,661
Due after 1 year through 5 years	7,541	3,523	62,751
Due after 5 years through 10 years	901	945	7,496
Due after 10 years	—	190	—
	¥318,800	¥324,034	$2,652,908

Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Due within 1 year	¥ 4	¥ 4	$31
Due after 1 year through 5 years	7	11	63
Due after 5 years through 10 years	—	—	—
Due after 10 years	—	—	—
	¥11	¥15	$94

The aggregate annual maturities of bonds at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Due within 1 year	¥ 20,000	¥ 26,000	$ 166,431
Due after 1 year through 2 years	35,000	20,000	291,254
Due after 2 years through 3 years	30,000	35,000	249,646
Due after 3 years through 4 years	14,000	30,000	116,502
Due after 4 years through 5 years	22,000	14,000	183,074
Due after 5 years	30,000	52,000	249,646
	¥151,000	¥177,000	$1,256,553

The aggregate annual maturities of long-term borrowings at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Due within 1 year	¥ 79,551	¥ 61,702	$ 661,988
Due after 1 year through 2 years	109,784	80,429	913,569
Due after 2 years through 3 years	93,473	95,508	777,838
Due after 3 years through 4 years	49,040	82,751	408,084
Due after 4 years through 5 years	31,474	49,024	261,914
Due after 5 years	21,204	52,699	176,454
	¥384,526	¥422,113	$3,199,847

The aggregate annual maturities of lease obligations at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Due within 1 year	¥ 5,433	¥13,342	$ 45,215
Due after 1 year through 2 years	6,247	3,227	51,987
Due after 2 years through 3 years	5,783	5,304	48,122
Due after 3 years through 4 years	4,910	4,831	40,861
Due after 4 years through 5 years	8,998	3,894	74,874
Due after 5 years	1,140	1,692	9,484
	¥32,511	¥32,290	$270,543

The aggregate annual maturities of other interest bearing debt at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Due within 1 year	¥23,301	¥27,590	$193,902
Due after 1 year through 2 years	673	560	5,607
Due after 2 years through 3 years	573	507	4,771
Due after 3 years through 4 years	209	402	1,735
Due after 4 years through 5 years	100	92	829
Due after 5 years	69	11	574
	¥24,925	¥29,162	$207,418

5. Securities

The following table summarizes held-to-maturity debt securities at March 31, 2015 and 2014.

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2015			2014			2015
	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	¥11	¥11	¥—	¥15	¥15	¥—	$—

The following tables summarize available-for-sale securities at March 31, 2015 and 2014.

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2015			2014			2015
	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	¥ 98,516	¥61,499	¥37,017	¥49,838	¥26,938	¥22,900	$308,033
Other	—	—	—	—	—	—	—
	98,516	61,499	37,017	49,838	26,938	22,900	308,033
Securities with available carrying amount not exceeding acquisition cost:							
Other securities:							
Equity securities	25,836	27,532	(1,696)	45,082	50,515	(5,433)	(14,110)
Other	—	—	—	—	—	—	—
	25,836	27,532	(1,696)	45,082	50,515	(5,433)	(14,110)
	¥124,352	¥89,031	¥35,321	¥94,920	¥77,453	¥17,467	$293,923

Sales of available-for-sale securities for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Sales	¥20,164	¥31,939	$167,799
Gains on sales	199	25,278	1,656
Losses on sales	(1,216)	(93)	(10,121)

6. Derivative Transactions

Derivative transactions for which hedge accounting is not applied

Forward currency exchange contracts outstanding at March 31, 2015 and 2014 were as follows:

	Millions of yen								Thousands of U.S. dollars (Note 1)
	2015				2014				2015
	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	¥6,976	¥ —	¥ 32	¥ 32	¥3,148	¥ 0	¥(85)	¥ (85)	$ 265
Others	221	—	(5)	(5)	2,236	—	(21)	(21)	(40)
To buy foreign currencies:									
U.S. dollars	8,353	3	133	133	333	—	(0)	(0)	1,109
Others	3,407	725	(257)	(257)	3,695	—	(98)	(98)	(2,137)
Foreign currency options									
To sell foreign currency options:									
Call									
U.S. dollars	¥ 768 [15]	¥ —	¥ 1	¥ 1	¥ 707 [14]	¥—	¥ 3	¥ 3	$ 5
To buy foreign currency options:									
Put									
U.S. dollars	768 [15]	—	(6)	(6)	707 [14]	—	(5)	(5)	(52)
				¥(102)				¥(206)	

Notes:
1. Foreign currency exchange contracts
   The fair values are estimated by multiplying the contracted foreign currency amount by the forward rate.
2. Foreign currency options
   The fair values are estimated by obtaining quotes from counterparty banks.
3. 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, 2015 and 2014 were as follows:

	Millions of yen								Thousands of U.S. dollars (Note 1)
	2015				2014				2015
	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	¥250	¥—	¥(10)	¥(10)	¥186	¥—	¥(4)	¥(4)	$(83)
				(10)				¥(4)	$(83)

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, 2015 and 2014 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2015			2014			2015
	Contracted amount			Contracted amount			
		Over one year	Fair value		Over one year	Fair value	Fair value
Hedges for which the "deferred hedge" method is applied							
Foreign currency exchange contracts							
To sell foreign currencies:							
U.S. dollars	¥33,734	¥ 7,914	¥(3,573)	¥27,828	¥3,173	¥(2,014)	$(29,731)
Others	3,359	574	(79)	5,552	1,083	(894)	(661)
To buy foreign currencies:							
U.S. dollars	4,046	747	553	3,551	126	187	4,601
Others	3,740	68	(149)	14,224	979	(75)	(1,242)
Foreign currency options							
To sell foreign currency options:							
Put							
U.S. dollars	¥ 8,707	¥ —	¥ 21	¥ 9,222	¥ —	¥ 41	$ 175
	[171]			[205]			
Call							
U.S. dollars	295	—	(0)	264	—	(0)	(1)
	[6]			[4]			
To buy foreign currency options:							
Put							
U.S. dollars	295	—	(0)	264	—	0	(1)
	[6]			[4]			
Call							
U.S. dollars	8,707	—	11	9,222	—	(31)	91
	[171]			[205]			
Hedges for which the "assigning" method is applied							
Foreign currency exchange contracts							
To sell foreign currencies:							
U.S. dollars	¥80,581	¥ 749	¥ —	¥21,489	¥1,462	¥ —	$ —
Others	12,321	256	—	5,162	105	—	—
To buy foreign currencies:							
U.S. dollars	2,191	—	—	1,216	—	—	—
Others	27,174	11,968	—	16,048	1,968	—	—

Notes:
1. Foreign currency exchange contracts
   The fair values are estimated by multiplying the contracted foreign currency amount by the forward rate.
2. Foreign currency options
   The fair values are estimated by obtaining quotes from counterparty banks.
3. 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.
4. 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, 2015 and 2014 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2015			2014			2015
	Contracted amount			Contracted amount			
		Over one year	Fair value		Over one year	Fair value	Fair value
Hedges for which the "deferred hedge" method is applied							
Interest rate swap agreements							
To receive floating and pay fixed rates	¥ 58,300	¥58,300	¥(416)	¥ —	¥ —	¥—	$(3,460)
Hedges for which the "exceptional" method is applied							
Interest rate swap agreements							
To receive floating and pay fixed rates	¥101,086	¥81,059	¥ —	¥116,604	¥106,666	¥—	$ —

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, 2015 and 2014 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2015			2014			2015
	Contracted amount			Contracted amount			
		Over one year	Fair value		Over one year	Fair value	Fair value
Hedges for which the "deferred hedge" method is applied							
Commodity forward contracts							
To sell commodities	¥ 4,016	¥—	¥ 66	¥ 1,840	¥—	¥ (16)	$ 551
To buy commodities	17,406	—	601	17,601	—	(227)	5,000

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, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Bank loans (average rate: 3.81% in 2015 and 3.89% in 2014)	¥141,821	¥188,133	$1,180,168

Long-term debt at March 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
0.53% to 2.50% yen bonds, due 2015 through 2022	¥151,000	¥177,000	$1,256,553
Loans, principally from banks and insurance companies, due 2015 through 2027	384,526	422,113	3,199,847
	535,526	599,113	4,456,400
Less current portion	99,551	87,702	828,419
	¥435,975	¥511,411	$3,627,981

The aggregate annual maturities of long-term debt at March 31, 2015 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2015	2015
Due within 1 year	¥ 99,551	$ 828,419
Due after 1 year through 2 years	144,784	1,204,823
Due after 2 years through 3 years	123,473	1,027,484
Due after 3 years through 4 years	63,040	524,586
Due after 4 years through 5 years	53,474	444,988
Due after 5 years	51,204	426,100
	¥535,526	$4,456,400

At March 31, 2015 and 2014, 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)
	2015	2014	2015
Assets pledged as collateral:			
Cash and deposits	¥ 17,695	¥ 22,105	$147,247
Property, plant and equipment, net of accumulated depreciation	71,794	80,976	597,435
Other assets	18,219	17,061	151,617
	¥107,708	¥120,142	$896,299
Secured short-term borrowings and long-term debt:			
Short-term borrowings	¥ —	¥ 5,689	$ 0
Long-term borrowings	29,130	42,320	242,410
	¥ 29,130	¥ 48,009	$242,410

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 was provided were ¥2,527 million ($21,029 thousand) for the year ended March 31, 2015 and ¥2,416 million for the year for the year ended March 31, 2014. 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 revaluated 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, 2015 and 2014 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
Revaluation date	2015	2014	2015
March 31, 2001	¥ (40)	¥(1,049)	$ (330)
March 31, 2002	(4,952)	(5,113)	(41,209)
	¥(4,992)	¥(6,162)	$(41,539)

10. Commitment Line

The unexercised portion of facilities based on commitment line contracts at March 31, 2015 and 2014 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Total commitment available	¥132,674	¥133,714	$1,104,055
Less amount utilized	7,740	3,472	64,409
	¥124,934	¥130,242	$1,039,646

11. Contingent Liabilities

At March 31, 2015 and 2014, the Group was contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Trade notes discounted	¥ 101	¥ —	$ 844
Trade notes endorsed	3,132	3,140	26,066
Guarantees of loans:			
Related parties	38,593	21,400	321,156
Others	10,374	8,331	86,315
	¥52,200	¥32,871	$434,381

Guarantees of loans include contingent guarantees and letters of awareness of ¥470 million in 2014 (no contingent guarantees and letters of awareness in 2015).

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 reassurance for this guarantee. The balances of the reassurance were ¥79,043 million ($657,757 thousand) for the year ended March 31, 2015 and ¥95,029 million for the year ended March 31, 2014.

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

Loss on the write-down of inventories included in the cost of sales for the year ended March 31, 2015 was ¥3,605 million ($30,000 thousand). 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.

Provision for loss on construction contracts included in the cost of sales was ¥3,570 million ($29,709 thousand) for the year ended March 31, 2015 and ¥6,149 million for the year ended March 31, 2014.

14. Research and Development Expenses

Research and development expenses included in cost of sales and selling, general and administrative expenses were ¥29,920 million ($248,981 thousand) for the year ended March 31 2015 and ¥28,494 million for the year ended March 31, 2014.

15. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2015 and 2014 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Freight	¥ 48,869	¥ 44,870	$ 406,666
Employees' compensation	38,878	35,777	323,527
Research and development expenses	13,068	11,179	108,745
Welfare and legal welfare expenses	10,108	9,068	84,113
Travel expenses	9,339	8,379	77,717
Rent expenses	7,164	6,768	59,616
Commission fees	5,124	5,060	42,637
Provision for bonuses	5,085	4,481	42,318
Depreciation	4,667	4,445	38,836
Directors' salaries	4,062	3,752	33,798
Others	39,543	39,122	329,057
	¥185,907	¥172,901	$1,547,030

16. Dismantlement-Related Expenses

Dismantlement related expenses were ¥10,457 million ($87,025 thousand) for the year ended March 31, 2015.

Those comprise mainly the estimated cost for dismantling and disposal of the blast furnace facilities due to construction of a power station at Kobe Works.

17. Structural Reform-Related Expenses

Structural reform related expenses were ¥5,726 million for the year ended March 31, 2014.

Those comprise mainly the estimated dismantling cost for structural reform of the steel business.

18. Income Taxes

Significant components of the Group's deferred income tax assets and liabilities at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Deferred income tax assets:			
Tax loss carryforwards	¥ 21,686	¥ 30,923	$ 180,463
Unrealized profit	18,268	17,454	152,017
Net defined benefit liability	17,185	12,450	143,003
Impairment loss	11,946	13,256	99,411
Accrued bonuses to employees	7,409	7,266	61,656
Land revaluation	3,776	3,785	31,422
Loss on write-down of securities	3,740	3,370	31,121
Loss on write-down of inventories	3,737	2,665	31,098
Other	36,254	34,653	301,692
Total deferred income tax assets	124,001	125,822	1,031,883
Valuation allowance	(46,904)	(70,640)	(390,308)
Deferred income tax assets	77,097	55,182	641,575
Deferred income tax liabilities:			
Unrealized gains on securities	11,054	7,336	91,983
Gain on return of assets from retirement benefit trust	8,468	—	70,469
Land revaluation	3,436	4,100	28,592
Special tax purpose reserve	2,282	4,110	18,986
Other	21,411	17,964	178,179
Total deferred income tax liabilities	46,651	33,510	388,209
Net deferred income tax assets	¥ 30,446	¥ 21,672	$ 253,366

The reconciliation of the statutory tax rate and the effective tax rate for the years ended March 31, 2015 and 2014 are as follows:

	2015	2014
Aggregate statutory income tax rate in Japan	35.6%	38.0%
Nondeductible entertainment expenses	1.9	2.2
Decrease in valuation allowance	(16.0)	(16.6)
Differences in normal tax rates of subsidiaries	(3.0)	(4.2)
Other	(6.7)	(2.9)
Effective income tax rate	11.8%	16.5%

On March 31, 2015, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the statutory income tax rates used for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2015 to March 31, 2016 and on or after April 1, 2016 are changed from 35.6% for the fiscal year ended March 31, 2015 to 33.0% and 32.3%, respectively, as of March 31, 2015.

Due to these changes in statutory income tax rates, deferred income tax assets (net of deferred income tax liabilities), unrealized losses on hedging derivatives and remeasurements of defined benefit plans decreased by ¥369 million ($2,123 thousand), ¥121 million ($1,004 thousand) and ¥115 million ($953 thousand), and income taxes—deferred, unrealized gains on securities and land revaluation differences increased by ¥1,631 million ($13,575 thousand), ¥1,063 million ($8,842 thousand) and ¥434 million ($3,615 thousand), respectively, for the year ended March 31, 2015.

19. Consolidated Statements of Comprehensive Income

Other comprehensive income for the years ended March 31, 2015 and 2014 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Unrealized gains (losses) on securities:			
Unrealized gains arising during the period	¥ 16,848	¥ 13,839	$140,204
Less: reclassification adjustment included in net income (loss)	1,104	(24,352)	9,185
	17,952	(10,513)	149,389
Tax benefit (expense)	(5,077)	2,151	(42,247)
	12,875	(8,362)	107,142
Unrealized losses on hedging derivatives:			
Unrealized losses arising during the period	(1,808)	(1,311)	(15,044)
Less: reclassification adjustment included in net income (loss)	2,010	(1,975)	16,730
Acquisition adjustment	(445)	3,031	(3,707)
	(243)	(255)	(2,021)
Tax benefit (expense)	(59)	(26)	(488)
	(302)	(281)	(2,509)
Land revaluation differences:			
Less: reclassification adjustment included in net income (loss)	—	—	—
Tax benefit (expense)	356	(7)	2,964
	356	(7)	2,964
Foreign currency translation adjustments:			
Translation adjustments arising during the period	23,313	31,921	193,997
Less: reclassification adjustment included in net income (loss)	—	—	—
	23,313	31,921	193,997
Tax benefit (expense)	—	—	—
	23,313	31,921	193,997
Remeasurements of defined benefit plans:			
Unrealized gains arising during the period	18,122	—	150,806
Less: reclassification adjustment included in net income (loss)	(14,971)	—	(124,583)
	3,151	—	26,223
Tax benefit (expense)	1,197	—	9,963
	4,348	—	36,186
Share of other comprehensive income related to equity method companies:			
Unrealized gains arising during the period	2,816	2,328	23,430
Less: reclassification adjustment included in net income (loss)	2	20	16
	2,818	2,348	23,446
Other comprehensive income	¥ 43,408	¥ 25,619	$361,226

20. Consolidated Statements of Changes in Net Assets

Changes in the number of shares issued and outstanding during the years ended March 31, 2015 and 2014 were as follows:

	Number of shares
Common stock outstanding	
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
(No increase)	—
(No decrease)	—
Balance at March 31, 2015	3,643,642,100

Changes in the number of treasury stock outstanding during the years ended at March 31, 2015 and 2014 were as follows:

	Number of shares
Treasury stock outstanding	
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
Increase due to purchase of odd-lot stock	146,648
Decrease due to sale of odd-lot stock	(9,950)
Decrease due to other reasons, net	(30,075)
Balance at March 31, 2015	10,082,049

Amount of dividend payments during the year ended March 31, 2015 was as follows: (no dividend payments during the year ended at March 31, 2014)

		Millions of yen / Thousands of U.S. dollars (Note 1)	Yen / U.S. dollars (Note 1)		
Decision	Kind of stock	Total payments	Cash dividends per share	Record date	Operative date
At the Board of Directors' meeting held on May 16, 2014	Common stock	¥14,555 $121,120	¥4.0 $0.03	March 31, 2014	June 5, 2014
At the Board of Directors' meeting held on October 31, 2014	Common stock	¥7,277 $60,559	¥2.0 $0.02	September 30, 2014	December 1, 2014

Dividends for which the record date belongs to the year ended March 31, 2015, and the operative date is the year ending March 31, 2016 are as follows:

		Millions of yen / Thousands of U.S. dollars (Note 1)	Yen / U.S. dollars (Note 1)		
Decision	Kind of stock	Total payments	Cash dividends per share	Record date	Operative date
At the Board of Directors' meeting held on May 15, 2015	Common stock	¥7,277 $60,559	¥2.0 $0.02	March 31, 2015	June 4, 2014

21. 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, 2015 and 2014 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Cash and deposits in the consolidated balance sheets	¥103,182	¥151,930	$858,631
Time deposits due over three months	(1,528)	(998)	(12,713)
Short-term investments with original maturities within three months included in "other" in current assets	—	19,994	—
Cash and cash equivalents in the consolidated statements of cash flows	¥101,654	¥170,926	$845,918

22. Related Party Transactions

Transactions of the Company with related parties for the year ended March 31, 2015 consisted of the following:

					Millions of yen / Thousands of U.S. dollars (Note 1)			
					Transactions		Resulting accounting balance	
Category	Name	Paid-in capital	Content of business	Percentage of ownership	Description of transactions	Amount	Account	Amount
Affiliate	Shinsho Corporation	5,650 million yen	Trades iron and steel, nonferrous metals, machinery	13.33% directly and 0.19% indirectly (21.55%)	Sales of our products	¥202,486 $1,685,000	Accounts receivable	¥12,319 $102,510
					Purchases of raw materials and materials for equipment	¥328,935 $2,737,251	Accounts payable	¥23,536 $195,858
Affiliate	Kansai Coke and Chemicals Co., Ltd.	6,000 million yen	Produces and sells industrial chemical products such as coke	24.00% directly	Sales of coal	¥60,032 $499,556	Accounts receivable	¥7,402 $61,597
					Purchases of coke	¥68,121 $566,874	Accounts payable	¥12,383 $103,046

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

					Millions of yen			
					Transactions		Resulting accounting balance	
Category	Name	Paid-in capital	Content of business	Percentage of ownership	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	Accounts receivable	¥13,218
					Purchases of raw materials and materials for equipment	¥345,420	Accounts payable	¥21,579
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	Accounts receivable	¥7,969
					Purchases of coke	¥71,861	Accounts payable	¥13,915

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 the Company retains related to securities held in employees' retirement benefit trusts.

Transactions of the Company's consolidated subsidiaries with related parties for the year ended March 31, 2015 consisted of the following:

					Millions of yen / Thousands of U.S. dollars (Note 1)			
					Transactions		Resulting accounting balance	
Category	Name	Paid-in capital	Content of business	Percentage of ownership	Description of transactions	Amount	Account	Amount
Affiliate	Sichuan Chengdu Chenggong Construction Machinery Co., Ltd.	140 million Chinese yuan	Produces and sells construction machinery	48.35% indirectly	Guarantees of bank loans	¥26,582 $221,200	—	—

Note: The amount of transactions is the balances of guarantees at end of year.

23. 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 years ended March 31, 2015 and 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)
	2015	2014	2015
Balance at beginning of year	¥159,518	¥166,075	$1,327,435
Effect of revising of the calculation method	(5,823)	—	(48,457)
Service costs / benefits earned during the year	8,467	7,962	70,462
Interest cost on projected benefit obligation	1,857	2,258	15,452
Actuarial differences arising during the period	2,063	1,394	17,169
Unrecognized prior service cost arising during the period	461	(46)	3,839
Amount of payment of retirement benefits	(16,363)	(17,479)	(136,164)
Other	424	(646)	3,522
Balance at end of year	¥150,604	¥159,518	$1,253,258

(2) Changes in plan assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Balance at beginning of year	¥129,393	¥136,326	$1,076,750
Expected return on plan assets	966	1,023	8,035
Actuarial differences arising during the period	19,957	8,722	166,071
Amount of donation from employer	1,900	1,688	15,812
Amount of payment of retirement benefits	(8,001)	(17,996)	(66,579)
Gain on return of assets from retirement benefit trust	(33,605)	—	(279,648)
Other	458	(370)	3,812
Balance at end of year	¥111,068	¥129,393	$ 924,253

(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)
	2015	2014	2015
Funded projected benefit obligation	¥ 123,685	¥ 135,466	$1,029,253
Plan assets	(111,068)	(129,393)	(924,254)
	12,617	6,073	104,999
Unfunded projected benefit obligation	26,919	24,052	224,006
Net of defined benefit liability and asset	39,536	30,125	329,005
Net defined benefit liability	59,573	72,653	495,742
Net defined benefit asset	(20,037)	(42,528)	(166,738)
Net of defined benefit liability and asset	¥ 39,536	¥ 30,125	$ 329,004

(4) Breakdown of severance and retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Service costs / benefits earned during the year	¥ 8,467	¥ 7,961	$ 70,462
Interest cost on projected benefit obligation	1,857	2,258	15,452
Expected return on plan assets	(966)	(1,023)	(8,035)
Amortization of actuarial differences	(102)	575	(850)
Amortization of prior service cost	787	741	6,546
Gain on return of assets from retirement benefits trust	(15,684)	—	(130,518)
Other	91	80	758
Severance and retirement benefit expenses on defined benefit retirement plans	¥ (5,550)	¥10,592	$ (46,185)

(5) Breakdown of remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Prior service cost	¥ 328	¥—	$ 2,726
Actuarial differences	2,792	—	23,236
Other	31	—	261
Total	¥3,151	¥—	$26,223

(6) Accumulated breakdown of remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Unrecognized prior service cost	¥ 9,568	¥ 9,895	$79,617
Unrecognized actuarial differences	1,913	4,706	15,921
Other	—	31	—
Total	¥11,481	¥14,632	$95,538

(7) Plan assets

(a) Breakdown of plan assets

	2015	2014
Stock	36%	42%
General account of insurance company	39	36
Bonds	22	20
Other	3	2
Total	100%	100%

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

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

(8) Actuarial assumptions

The principal actuarial assumptions at March 31, 2015 and 2014 were as follows:

	2015	2014
Discount rates	mainly 1.3%	mainly 1.3%
Long-term expected rate of return	mainly 1.3%	mainly 1.3%

24. Segment Information

(1) Overview of reportable segments

The reportable segments of the Group are defined as components for 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 their 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).

The 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 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 erosion control dams, 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.

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

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2015	2014	2015
Sales to outside customers:	Iron & Steel	¥ 761,883	¥ 775,233	$ 6,340,050
	Welding	93,588	87,389	778,799
	Aluminum & Copper	329,804	294,280	2,744,477
	Machinery	150,219	140,122	1,250,053
	Engineering	48,162	38,161	400,781
	Kobelco Eco-Solutions	67,031	65,769	557,803
	Kobelco Construction Machinery	310,108	317,474	2,580,573
	Kobelco Cranes	64,734	47,415	538,686
	Other Businesses	59,074	56,395	491,583
	Total sales to outside customers	¥1,884,603	¥1,822,238	$15,682,805
Intersegment sales:	Iron & Steel	¥ 35,931	¥ 33,312	$ 298,995
	Welding	896	957	7,451
	Aluminum & Copper	1,034	1,405	8,609
	Machinery	8,917	9,684	74,205
	Engineering	901	953	7,502
	Kobelco Eco-Solutions	1,103	2,391	9,174
	Kobelco Construction Machinery	901	743	7,501
	Kobelco Cranes	6,387	9,224	53,148
	Other Businesses	16,989	14,826	141,378
	Total intersegment sales	¥ 73,059	¥ 73,495	$ 607,963
Total sales:	Iron & Steel	¥ 797,814	¥ 808,545	$ 6,639,045
	Welding	94,484	88,346	786,250
	Aluminum & Copper	330,838	295,685	2,753,086
	Machinery	159,136	149,806	1,324,258
	Engineering	49,063	39,114	408,283
	Kobelco Eco-Solutions	68,134	68,160	566,977
	Kobelco Construction Machinery	311,009	318,217	2,588,074
	Kobelco Cranes	71,121	56,639	591,834
	Other Businesses	76,063	71,221	632,961
	Total segment sales	1,957,662	1,895,733	16,290,768
	Adjustment	2,292	2,461	19,074
	Elimination	(73,059)	(73,495)	(607,963)
	Consolidated net sales	¥1,886,895	¥1,824,699	$15,701,879
Segment income (loss):	Iron & Steel	¥ 28,797	¥ 33,593	$ 239,640
	Welding	10,267	7,201	85,435
	Aluminum & Copper	15,183	15,164	126,350
	Machinery	10,400	6,486	86,546
	Engineering	785	(3,936)	6,535
	Kobelco Eco-Solutions	3,005	2,608	25,002
	Kobelco Construction Machinery	21,013	15,120	174,858
	Kobelco Cranes	5,169	3,200	43,012
	Other Businesses	7,076	6,845	58,883
	Total segment income (loss)	101,695	86,281	846,261
	Adjustment	(7)	(1,237)	(59)
	Consolidated ordinary income	¥ 101,688	¥ 85,044	$ 846,202
Assets:	Iron & Steel	¥ 964,878	¥ 954,276	$ 8,029,276
	Welding	73,257	68,795	609,609
	Aluminum & Copper	241,704	214,033	2,011,349
	Machinery	165,786	156,353	1,379,595
	Engineering	43,732	48,661	363,918
	Kobelco Eco-Solutions	57,879	58,639	481,644
	Kobelco Construction Machinery	455,401	443,123	3,789,641
	Kobelco Cranes	66,459	58,681	553,044
	Other Businesses	160,510	152,078	1,335,690
	Total segment assets	2,229,606	2,154,639	18,553,766
	Adjustment	70,636	133,998	587,797
	Total	¥2,300,242	¥2,288,637	$19,141,563

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2015	2014	2015
Depreciation:	Iron & Steel	¥ 52,430	¥ 48,282	$ 436,293
	Welding	2,255	2,213	18,762
	Aluminum & Copper	10,796	9,683	89,841
	Machinery	4,316	4,060	35,917
	Engineering	615	572	5,117
	Kobelco Eco-Solutions	1,595	1,442	13,269
	Kobelco Construction Machinery	11,775	10,642	97,987
	Kobelco Cranes	1,049	979	8,731
	Other Businesses	3,290	3,282	27,382
	Total segment depreciation	88,121	81,155	733,299
	Adjustment	1,761	1,781	14,658
	Total	¥ 89,882	¥ 82,936	$ 747,957
Amortization of goodwill:	Iron & Steel	¥ —	¥ —	$ —
	Welding	—	—	—
	Aluminum & Copper	—	—	—
	Machinery	—	—	—
	Engineering	—	—	—
	Kobelco Eco-Solutions	—	—	—
	Kobelco Construction Machinery	—	—	—
	Kobelco Cranes	23	—	191
	Other Businesses	—	—	—
	Total Segment Amortization of goodwill	23	—	191
	Adjustment	(23)	—	(191)
	Total	¥ —	¥ —	$ —
Interest income:	Iron & Steel	¥ 96	¥ 97	$ 796
	Welding	205	130	1,709
	Aluminum & Copper	173	135	1,440
	Machinery	106	50	881
	Engineering	332	330	2,760
	Kobelco Eco-Solutions	14	12	119
	Kobelco Construction Machinery	3,515	3,026	29,251
	Kobelco Cranes	20	21	168
	Other Businesses	1,432	30	11,916
	Total segment interest income	5,893	3,831	49,040
	Adjustment	(1,712)	(207)	(14,245)
	Total	¥ 4,181	¥ 3,624	$ 34,795
Interest expense:	Iron & Steel	¥ 6,907	¥ 7,706	$ 57,477
	Welding	26	18	216
	Aluminum & Copper	1,353	1,356	11,259
	Machinery	91	91	761
	Engineering	32	18	263
	Kobelco Eco-Solutions	42	70	350
	Kobelco Construction Machinery	6,436	6,081	53,554
	Kobelco Cranes	463	403	3,856
	Other Businesses	1,892	481	15,743
	Total segment interest expense	17,242	16,224	143,479
	Adjustment	(1,397)	2,349	(11,621)
	Total	¥ 15,845	¥ 18,573	$ 131,858

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2015	2014	2015
Equity in income (loss) of equity method companies:	Iron & Steel	¥ 1,840	¥ (386)	$ 15,311
	Welding	63	48	525
	Aluminum & Copper	25	26	209
	Machinery	(190)	(490)	(1,578)
	Engineering	(447)	(2,688)	(3,722)
	Kobelco Eco-Solutions	—	—	—
	Kobelco Construction Machinery	(3,042)	(1,346)	(25,315)
	Kobelco Cranes	26	47	213
	Other Businesses	1,200	1,318	9,989
	Total segment equity in income (loss) of equity method companies	(525)	(3,471)	(4,368)
	Adjustment	595	677	4,950
	Total	¥ 70	¥ (2,794)	$ 582
Investments in equity method companies:	Iron & Steel	¥ 59,709	¥ 50,285	$ 496,875
	Welding	1,187	1,141	9,878
	Aluminum & Copper	611	798	5,085
	Machinery	5,169	5,047	43,010
	Engineering	241	624	2,006
	Kobelco Eco-Solutions	—	—	—
	Kobelco Construction Machinery	10,928	12,885	90,943
	Kobelco Cranes	299	273	2,485
	Other Businesses	9,513	11,752	79,161
	Total segment investments in equity method companies	87,657	82,805	729,443
	Adjustment	(664)	(1,801)	(5,524)
	Total	¥ 86,993	¥ 81,004	$ 723,919
Capital expenditures:	Iron & Steel	¥ 54,816	¥ 62,502	$ 456,149
	Welding	1,914	1,408	15,930
	Aluminum & Copper	18,433	12,802	153,394
	Machinery	3,611	4,419	30,053
	Engineering	223	314	1,854
	Kobelco Eco-Solutions	2,794	556	23,248
	Kobelco Construction Machinery	14,564	14,590	121,193
	Kobelco Cranes	1,241	1,220	10,326
	Other Businesses	4,774	2,568	39,729
	Total segment capital expenditures	102,370	100,379	851,876
	Adjustment	1,152	1,024	9,587
	Total	¥ 103,522	¥ 101,403	$ 861,463

Notes:

Details about adjustments at March 31, 2015 and 2014 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)
	2015	2014	2015
Companywide profit (loss)	¥ 3,457	¥ 7,823	$ 28,767
Other adjustments	(3,464)	(9,060)	(28,826)
Total	¥ (7)	¥(1,237)	$ (59)

Companywide profit (loss) is mainly financial profit or loss which is not allocated to reportable segments and other businesses.
Other adjustments is mainly intersegment transactions.

Assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Companywide assets	¥ 285,655	¥ 350,820	$ 2,377,088
Other adjustments	(215,019)	(216,822)	(1,789,291)
Total	¥ 70,636	¥ 133,998	$ 587,797

Companywide assets are mainly investments in securities which are not allocated to reportable segments or other businesses.
Other adjustments 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.

Amortization of goodwill

Adjustment is related mainly to intersegment transactions.

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)
	2015	2014	2015
Japan	¥1,171,420	¥1,179,140	$ 9,748,026
China	193,163	187,983	1,607,415
Others	522,312	457,576	4,346,438
Total	¥1,886,895	¥1,824,699	$15,701,879

(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)
		2015	2014	2015
Shinsho Corporation	Iron & Steel, etc.	¥254,761	¥248,619	$2,120,004

Impairment loss by reportable segments

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2015	2014	2015
Impairment loss	Iron & Steel	¥ —	¥19,202	$ —
	Welding	—	—	—
	Aluminum & Copper	—	—	—
	Machinery	—	—	—
	Engineering	—	962	—
	Kobelco Eco-Solutions	—	—	—
	Kobelco Construction Machinery	—	10	—
	Kobelco Cranes	—	—	—
	Other Businesses	—	1,757	—
	Total Segment impairment loss	—	21,931	—
	Adjustment	—	—	—
	Total	¥ —	¥21,931	$ —

Amortization and balance of goodwill by reportable segments

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2015	2014	2015
Amortization of goodwill	Iron & Steel	¥ —	¥ —	$ —
	Welding	—	—	—
	Aluminum & Copper	—	—	—
	Machinery	—	—	—
	Engineering	—	—	—
	Kobelco Eco-Solutions	—	—	—
	Kobelco Construction Machinery	—	—	—
	Kobelco Cranes	23	—	191
	Other Businesses	—	—	—
	Total Segment Amortization of goodwill	23	—	191
	Adjustment	(23)	—	(191)
	Total	—	—	—
Balance at the end of the period	Iron & Steel	—	—	—
	Welding	—	—	—
	Aluminum & Copper	—	—	—
	Machinery	—	—	—
	Engineering	—	—	—
	Kobelco Eco-Solutions	—	—	—
	Kobelco Construction Machinery	—	—	—
	Kobelco Cranes	206	—	1,715
	Other Businesses	—	—	—
	Total Segment balance of goodwill	206	—	1,715
	Adjustment	(206)	—	(1,715)
	Total	¥ —	¥ —	$ —

Gain on negative goodwill by reportable segments

By making Shinko Engineering & Maintenance Co., Ltd. a wholly-owned subsidiary of the Company through a share exchange, the Company recognized ¥1,713 million of negative goodwill for the year ended March 31, 2014.

This negative goodwill was recognized as ¥1,257 million in the Iron & Steel segment and ¥456 million in the Engineering segment.

Gain on negative goodwill related to the acquisition of shares in Kobelco Construction Machinery Co.,Ltd. was recorded in the estimated value for the fiscal year ended March 31, 2013.

For the year ended March 31, 2014, the acquisition price had been determined and the Company recognized additional gain on negative goodwill of ¥2,126 million. This negative goodwill was not allocated to a particular reportable segment.

No gain on negative goodwill was recognized for the year ended March 31, 2015.

25. Net Income Per Share

The basis of calculating net income per share for the years ended March 31, 2015 and 2014 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net income	Weighted average number of shares	Net income per share	Net income per share
For the year ended March 31, 2015				
Net income attributable to common stockholders	¥86,550	3,633,633	¥23.82	$0.20
For the year ended March 31, 2014				
Net income attributable to common stockholders	¥70,192	3,101,853	¥22.63	$0.19

KPMG AZSA LLC
Osaka Office
Ginsen Bingomachi Bldg
3-6-5 Kawara-machi, Chuo-ku
Osaka 541-0048, Japan

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Fax +81 (6) 7731 1011
Internet www.kpmg.com/jp/azsa

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, 2015 and 2014, 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, 2015 and 2014, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2015 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 24, 2015
Osaka, Japan

Investor Information

(At March 31, 2015)

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, 2015, the 10 largest shareholders of the Company's stockholdings were as follows:

	Shares	Percent
The Master Trust Bank of Japan, Ltd. (Trust Account)	122,896,000	3.37%
Japan Trustee Services Bank, Ltd. (Trust Account)	108,507,000	2.98%
NIPPON STEEL & SUMITOMO METAL CORPORATION	107,345,000	2.95%
Nippon Life Insurance Company	101,189,420	2.78%
Mizuho Bank, Ltd.	64,669,300	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%
CBNY-GOVERNMENT OF NORWAY	47,222,245	1.30%
Sojitz Corporation	45,016,000	1.24%
STATE STREET BANK WEST CLIENT-TREATY 505234	44,434,737	1.22%

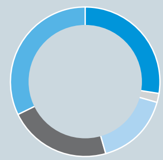
Listing and Quotations

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.

Depositary 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



- Japanese financial institutions: **27.52%**
- Japanese financial instruments business operators: **1.94%**
- Other Japanese corporations: **16.36%**
- Japanese individuals and others: **22.02%**
- Foreign investors: **32.16%**

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, 2015

Number of shares owned

Hiroshi Sato	349,000	Fusaki Koshiishi	53,000
Hiroya Kawasaki	213,000	Takao Kitabata	35,000
Kazuhide Naraki	186,000	Hiroshi Ochi	3,000
Yoshinori Onoe	131,000	Hiroaki Fujiwara	142,000
Akira Kaneko	95,000	Yoshimasa Yamamoto	41,000
Naoto Umehara	109,000	Shigeo Sasaki	50,000
Yasuaki Sugizaki	66,000	Takashi Okimoto	41,000
Shohei Manabe	113,000	Shinya Sakai	24,000

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*.

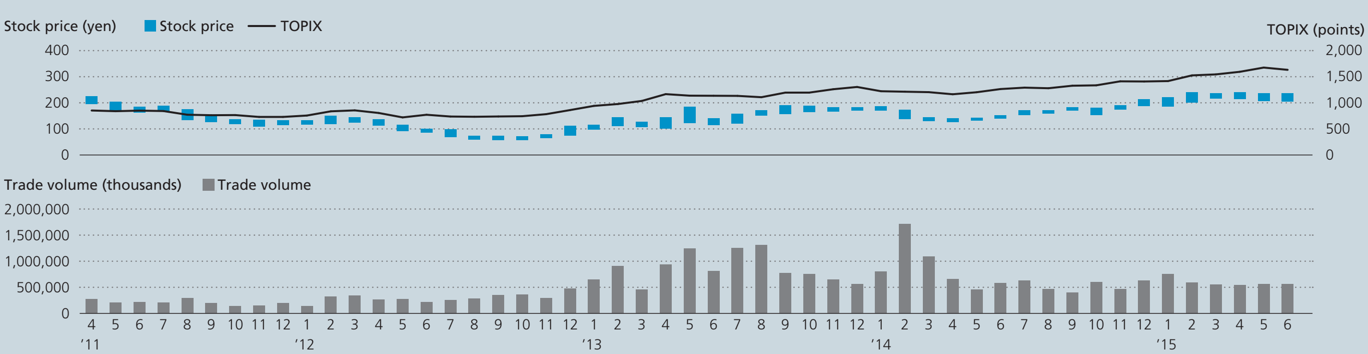
Transfer Agent & Office

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, 2015)

Directors and Audit & Supervisory Board Members (At June 24, 2015)

Company Name: Kobe Steel, Ltd.

Corporate Logo and Brand Name of the Kobe Steel Group: KOBELCO

Founded: September 1905

Incorporated: June 1911

Capital: ¥250,930,033,900

President & CEO: Hiroya Kawasaki

Employees: 10,609 (Consolidated 36,420)

Information:

Kobe Head Office: 2-4, Wakinohama-Kaigandori 2-chome, Chuo-ku, Kobe, Hyogo 651-8585, Japan
Tel: +81-78-261-5111 Fax: +81-78-261-4123

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.co.jp

Directors and Audit & Supervisory Board Members

Chairman of the Board and Representative Director

Hiroshi Sato

President, CEO and Representative Director

Hiroya Kawasaki

Executive Vice Presidents and Representative Directors

Kazuhide Naraki*
Yoshinori Onoe*
Akira Kaneko*
Naoto Umehara

Senior Managing Directors

Yasuaki Sugizaki
Shohei Manabe*

Managing Director

Fusaki Koshiishi*

* Head of a business unit

Outside Directors

Takao Kitabata
Hiroshi Ochi

Audit & Supervisory Board Members

Hiroaki Fujiwara
Yoshimasa Yamamoto

Outside Audit & Supervisory Board Members

Shigeo Sasaki
Takashi Okimoto
Shinya Sakai

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