KOBELCO

KOBE STEEL GROUP

Annual Report 2016

Year ended March 31, 2016

Sustained Growth by Leveraging Stable Earnings Power

Strengthening Stable Earnings Power under the New Medium-Term

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Caution Regarding Forward-Looking Statements

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

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

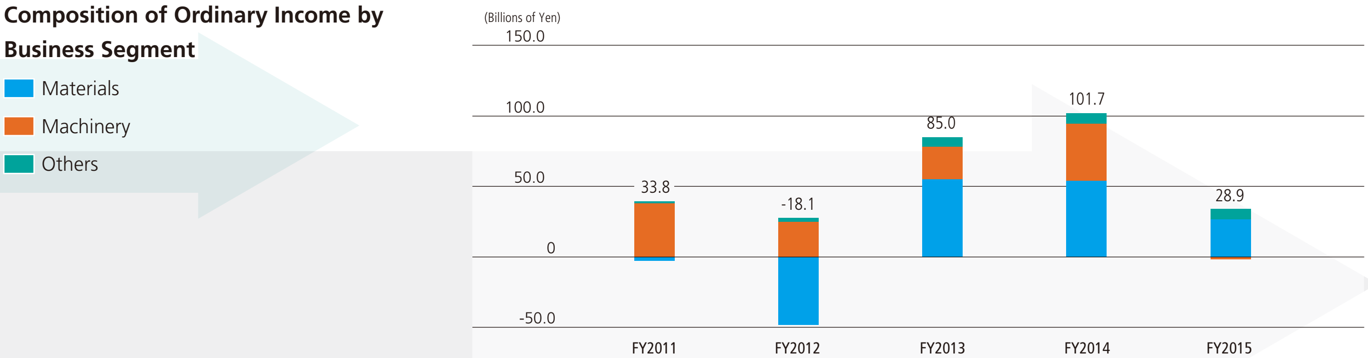
- Changes in economic outlook, demand and market conditions
- Political situation and trade and other regulations
- Changes in currency exchange rates
- Availability and market conditions of raw materials
- Products and services of competing companies, pricing policy, alliances, and business development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

Management Plan

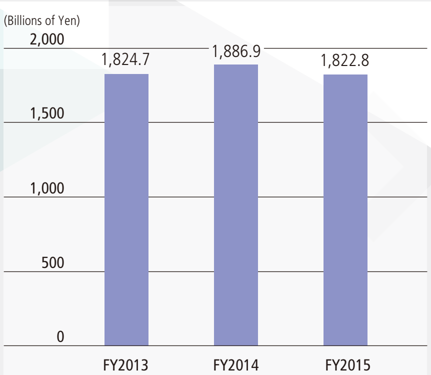
In fiscal 2010, we launched KOBELCO VISION "G," which laid out our business vision over the medium to long term and set forth "creating new value and achieving global growth" as a management goal that since then we have been working to achieve.

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.

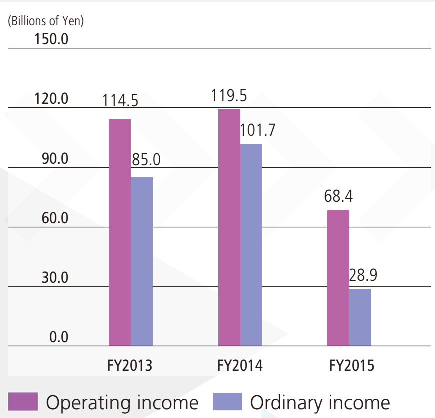
Composition of Ordinary Income by Business Segment



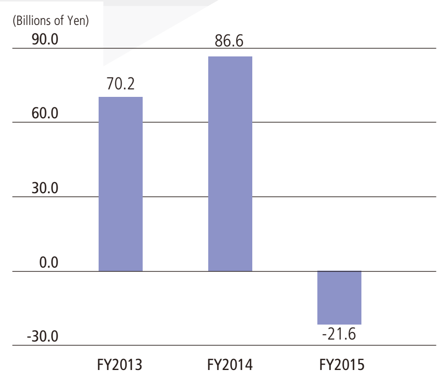
Net Sales



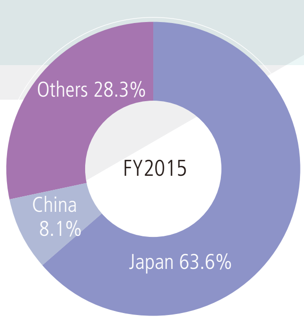
Operating Income and Ordinary Income



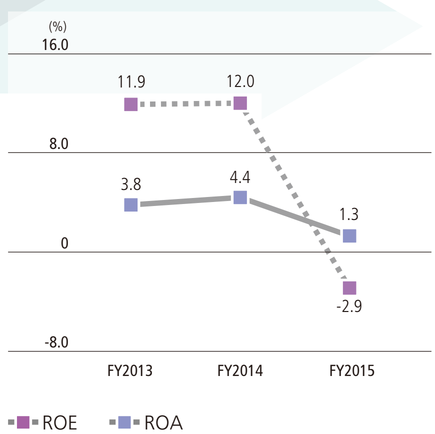
Net Income (Loss)



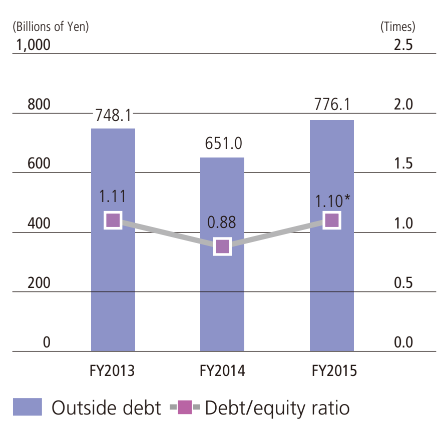
Net Sales by Region



ROE/ROA



Outside Debt and Debt/Equity Ratio

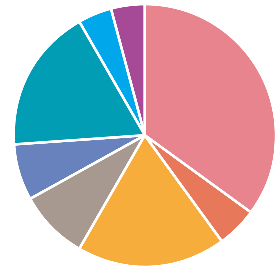


* Including early procurement of borrowings for FY2016 (90 billion yen); D/E Ratio: 0.97 times (excluding early procurement of borrowings)

Net Sales by Segment (%)*

¥1,822.8 billion

Iron & Steel	35.4
Welding	4.9
Aluminum & Copper	18.3
Machinery	8.4
Engineering	7.0
Construction Machinery	17.9
Electric Power	4.1
Other Businesses	4.0



* Percentage calculations are before elimination and adjustment for consolidation.

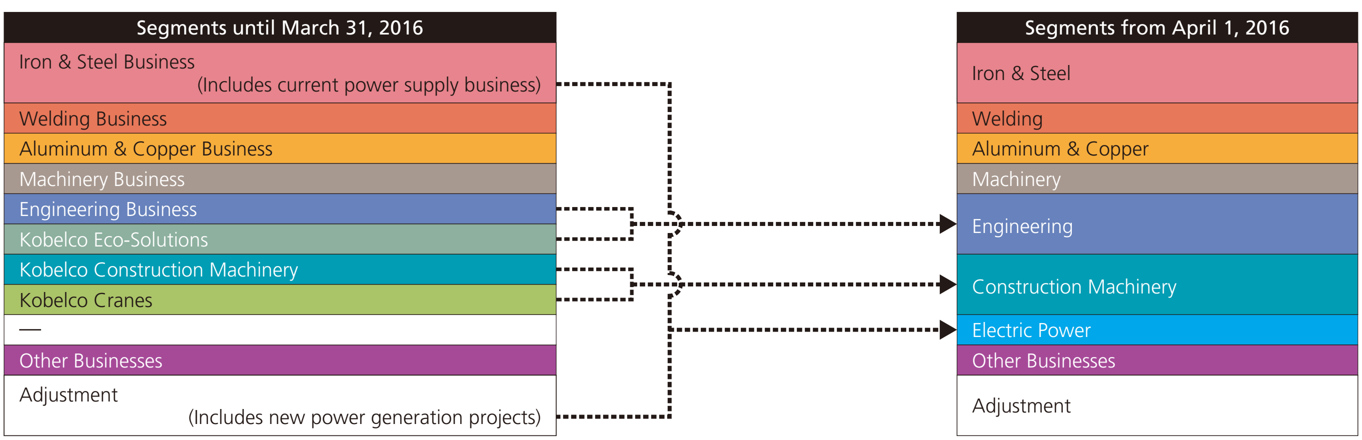
The Kobe Steel Group, a global enterprise built around Kobe Steel, Ltd., is engaged in a wide range of fields, with its major businesses concentrated on materials and machinery. The materials, machinery, and electric power businesses constitute the three pillars of the Group's growth strategy.

From fiscal 2016, Kobe Steel has changed its reporting segments for the disclosure of performance data on its businesses.

The Electric Power segment was newly created to take over the electric power supply business operated by the Iron & Steel Business at Kobe Works as well as the two new electric power generation projects at Moka, Tochigi Prefecture, and Kobe, Hyogo Prefecture, that had previously been under the jurisdiction of the head office.

Creating the Construction Machinery segment, we merged the wholly owned subsidiaries Kobelco Construction Machinery Co., Ltd. and Kobelco Cranes Co., Ltd. effective April 1, 2016, further strengthening our business base and accelerating our global expansion.

Lastly, the Engineering segment was renewed with the inclusion of Kobelco Eco-Solutions Co., Ltd. to enable greater cooperation and strengthen the Kobe Steel Group's profitability.



Iron & Steel

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Consisting of steel products, steel castings and forgings, titanium and steel powder, the Iron & Steel Business is strengthening its manufacturing capabilities to increase productivity and cost competitiveness. It is looking to provide overseas markets with its distinctive products and technologies and shifting its focus to fields where demand is growing, including the transportation sector.

Welding

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We aim to be the most trusted welding solutions company in the world and achieve the No. 1 market share in Asia. We specialize in combining welding materials, welding robot systems and construction methods to develop total welding solutions.

Ordinary Income by Segment (%)*

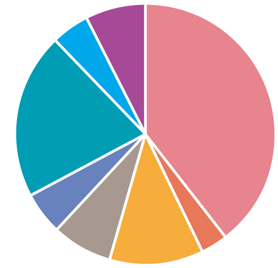
¥28.9 billion

Iron & Steel	—
Welding	13.6
Aluminum & Copper	25.4
Machinery	11.4
Engineering	7.9
Construction Machinery	—
Electric Power	29.3
Other Businesses	12.4

Total Assets by Segment (%)*

¥2,261.1 billion

Iron & Steel	39.5
Welding	3.5
Aluminum & Copper	11.6
Machinery	7.5
Engineering	5.3
Construction Machinery	20.5
Electric Power	4.8
Other Businesses	7.3



Aluminum & Copper

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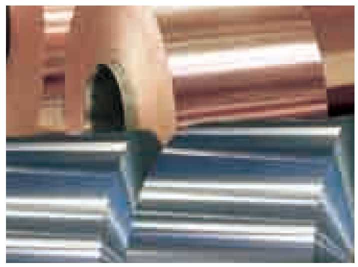

Having identified the transportation field as a major area of focus, we are working hard to enhance our products as we construct and strengthen our global supply system. As one of Japan's leading aluminum and copper producers, we are continually working to become an indispensable partner to customers around the world.

Machinery

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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.

Engineering

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The Engineering business combines unique, industry-leading processes with a wide range of skills and know-how. The business flexibly meets customers' various evolving needs and gives back to society by providing added-value solutions.

Construction Machinery

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On April 1, 2016, Kobelco Construction Machinery Co., Ltd. was reborn as a construction equipment manufacturer following its merger with Kobelco Cranes Co., Ltd. The company has been working to improve eco-friendly technologies. It is also engaged in developing products and services that combine excavator and crane technologies, including through IT solutions.

Electric Power

p. 20

Our power supply business began in fiscal 2002 with the Kobe Power Plant, which helps ensure a more stable power supply for the region. We are also currently pursuing plans to construct additional power plants.

Other Businesses: See p. 21

Expanding Business in Growth Areas and Strengthening Our Foundation to Achieve Sustainable Growth and Stable Profits

Hiroya Kawasaki
Chairman, President, CEO and Representative Director

Fiscal 2015 in Review

Japan's economy in fiscal 2015 continued to gradually recover. Although sluggish domestic and overseas demand led to a worsening in business sentiment, public investment, while trending downward, remained comparatively high and corporate capital investment remained firm. Overseas, the United States and Europe saw ongoing economic recovery, but economic growth in China and Southeast Asia continued to decelerate. Thus, the overall outlook remains uncertain.

In this economic environment, the volume of steel products sold by the Kobe Steel Group was about level with the previous year as demand remained firm in the shipbuilding sector while declining in the automotive sector. The volume of aluminum rolled products sold was up year on year thanks to strong demand for can stock for beverage cans. In addition, unit sales of hydraulic excavators decreased due to a considerable drop in demand in China and Southeast Asia, largely due to the economic deceleration.

Reflecting these trends, primary raw material prices were lower, in turn driving down steel sales prices, which contributed to a ¥64.1 billion year-on-year decrease in fiscal 2015 consolidated net sales to ¥1,822.8 billion. Due in part to the above and the posting of an allowance for doubtful accounts covering the construction machinery business in China, ordinary income was down ¥72.8 billion year on year to ¥28.9 billion. In addition, mainly because of the rapidly worsening business environment in China's construction machinery sector, Kobe Steel posted a loss on business of subsidiaries and associates and a write-down of investment securities that resulted in an extraordinary loss. As a result, the Company posted a net loss attributable to owners of the parent of ¥21.6 billion, compared with net income attributable to owners of the parent of ¥86.6 billion in the previous year. The D/E ratio, which can be used to assess financial soundness, worsened from 0.88 points at the end of the previous year to 1.10 points.

Outlook for Fiscal 2016

Although the slowing pace of growth in China and emerging countries remains a concern, public and corporate capital investment in Japan is expected to remain firm. This optimistic view is supported by the anticipation of continued gradual recovery in fiscal 2016 in Japan as well as in recovery centered on domestic demand in the United States and Europe. However, the protracted deceleration of economic growth in China and other emerging countries remains a concern.

The Kobe Steel Group expects automotive demand to recover and overall demand in shipbuilding and other sectors to stay firm. However, it will take time to resolve the problem of steel oversupply in Asia. Other concerns include economic stagnation and sluggish energy-related demand in both emerging countries and resource-rich countries against a backdrop of low crude oil prices and the slowing pace of growth in China.

In fiscal 2016, Kobe Steel forecasts net sales of about ¥1,750.0 billion, ordinary income of about ¥35.0 billion, and net income attributable to owners of the parent of about ¥20.0 billion. We will work hard to create cash flows and maintain a D/E ratio of 1.0 points or lower.

Fiscal 2016–2020 Group Medium-Term Management Plan

Since launching the medium- to long-term business vision, KOBELCO VISION "G," in April 2010, the Kobe Steel Group has been actively expanding overseas and working to create products and services that only it can offer. For example, the second phase of the vision, the Fiscal 2013-2015 Medium-Term Business Plan, kicked off the rebuilding of the Group's business base. The plan focused primarily on strengthening profitability in the steel business while improving the Group's overall financial performance and steadily laying the groundwork for stable profits and business growth in each business area.

Specifically, in the Iron & Steel business, we decided to consolidate upstream operations at Kakogawa Works. We established a production base for steel wire rod in Thailand as well as set up a production base for cold-rolled, high-strength steel sheet for automobiles in China. In the Aluminum & Copper business, we completed a plant to make automotive panel materials in China. In Construction Machinery, we opened a manufacturing facility in the United States. In the Electric Power business, plans are under way to construct an electric power plant on the site of the blast furnace at Kobe Works and another in Moka, Tochigi.

Under the Fiscal 2016-2020 Group Medium-Term Management Plan launched in fiscal 2016, the Kobe Steel Group has adopted KOBELCO VISION "G+," a new vision aimed at further strengthening the Group's growth strategy centered on the three core business areas of materials, machinery and electric power to ensure a solid business enterprise. "Plus" indicates the plan's progression beyond the previous medium- to long-term vision and the further strengthening of initiatives targeting future growth fields. We plan to enhance the original added value of the Kobe Steel Group and achieve a strong competitive edge with the aim of expanding business operations while contributing to society.

For more information on each of our initiatives in line with our growth strategy centered on the three core business areas of materials, machinery and electric power, please see the special feature on the following pages.

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 2015, we paid out an interim dividend of ¥2 per share but did not pay out a year-end dividend. In making this decision, we took into consideration the need for strategic investment geared toward growth following the recording of a large net loss attributable to owners of the parent and with the business environment expected to remain murky.

In Conclusion

To successfully carry out the new business strategies as planned, we must strengthen our business base as a corporation. The Kobe Steel Group is implementing a wide range of initiatives, including strengthening corporate governance, promoting diversity, encouraging employees to take paid vacations and work less overtime, and recruiting more diverse human resources. In addition, we are focusing efforts on activities to give back to society, including maintaining forests and fostering harmonious coexistence with the local communities surrounding our plants.

As the Group's medium- to long-term vision from fiscal 2016, KOBELCO VISION "G+" will play a crucial role in driving the Group forward as it works to secure an even more robust structure. We will continue to take on new challenges while maintaining a consistently proactive posture and developing further as a global corporation.

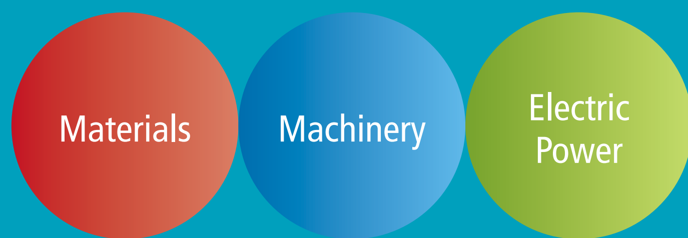
August 2016

Hiroya Kawasaki

Chairman, President, CEO and Representative Director

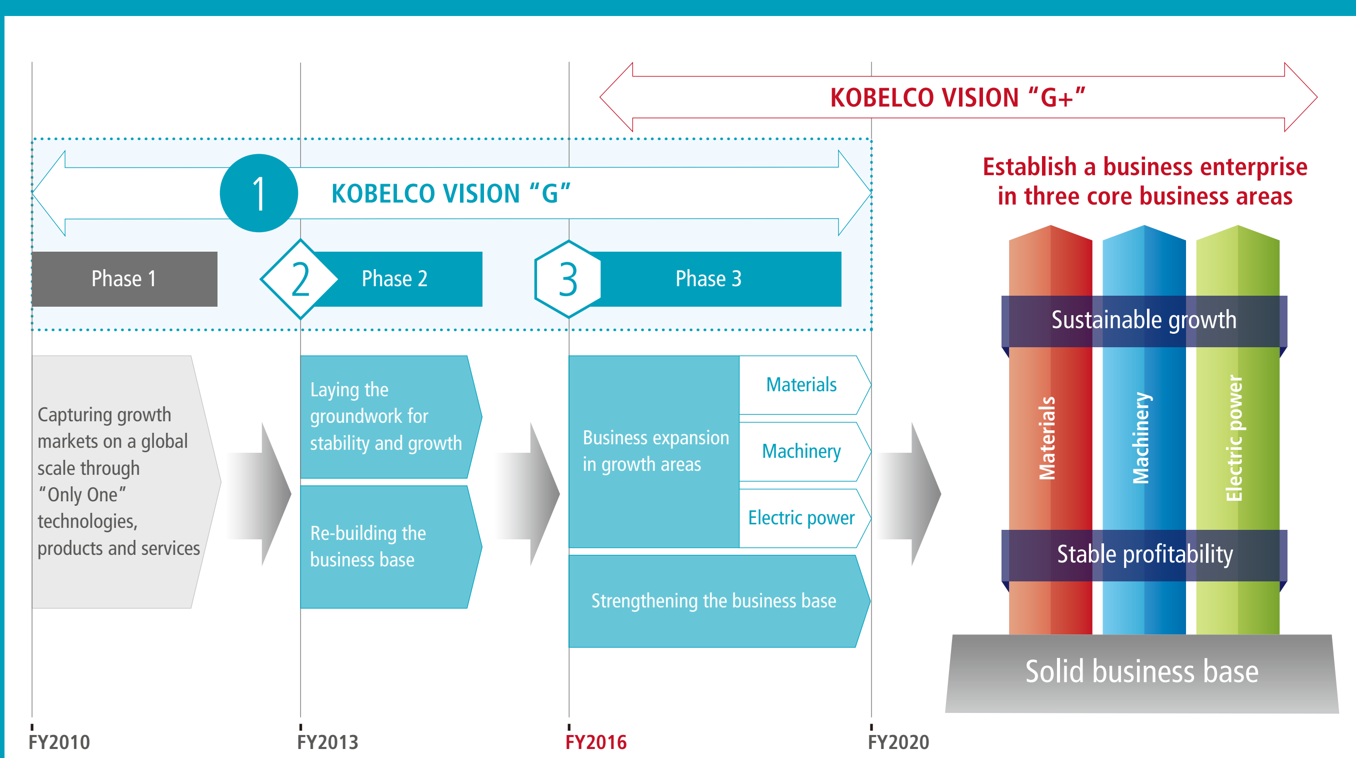
Medium- to Long-Term Business Vision of the Kobe Steel Group

Toward establishing a solid business enterprise in three core business areas:



KOBELCO VISION "G+," launching in fiscal 2016, combines the current Medium-Term Management Plan and the vision of a business enterprise established in three core business areas

The Kobe Steel Group launched its medium- to long-term business vision KOBELCO VISION "G" in April 2010. It was formulated with a focus on the Kobe Steel Group's direction for the next five to ten years, or, in other words, its medium- to long-term vision. Under KOBELCO VISION "G," we successfully implemented the Fiscal 2013–2015 Group Medium-Term Business Plan and, in fiscal 2016, launched the Fiscal 2016–2020 Group Medium-Term Management Plan. Under this management plan, we are enhancing the growth strategies underpinned by the three pillars of the materials businesses, machinery businesses and electric power business and promoting initiatives for KOBELCO VISION "G+" to establish a solid business structure.



1 KOBELCO VISION "G"

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 and services

- Unite diverse knowledge and technologies to create new, "Only One" products that only Kobe Steel can provide.
- Improve customer satisfaction by determining and meeting customers' changing needs to provide better products and technologies.
- Develop upstream and downstream areas of our current businesses to dramatically improve added value.

2. Further improve manufacturing strengths

- *Monozukuri-ryoku* is the strength that provides reliable and advanced technologies, products and services eternally. *Monozukuri-ryoku* is also an engine for growth.
- Work across the Group on improving *monozukuri-ryoku*, namely the manufacturing strengths that are the Kobe Steel Group's source of its competitiveness.

3. Further approach to growing markets (growing regions and growing business fields)

- Strengthen business development in growth regions, focusing on emerging economies.
- Accelerate business undertakings in growth fields in Japan and overseas, including those involving the environment, resources and energy.

4. Leveraging the comprehensive capabilities of the Kobe Steel Group

- Organically unite technologies, personnel, information, knowledge and other key factors across organizations and viewpoints to create new value.
- Systematically nurture employees that can strengthen the business foundation of the Group, implement change, and promote global business development.

5. Contributions to society

- Build a corporate culture for the entire Kobe Steel Group that is highly sensitive to compliance. Actively fulfill our social responsibility centered on contributing to local communities and environmental conservation.

Image of the Kobe Steel Group in the Next five to ten 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

2 Fiscal 2013–2015 Medium-Term Business Plan

Looking toward realizing its vision for the Kobe Steel Group in fiscal 2020, under KOBELCO VISION "G," Kobe Steel positioned the Fiscal 2013–2015 Medium-Term Business Plan to rebuild the Group's business foundation over a three-year period. The plan aimed to strengthen profitability primarily in the steel business and improve the financial performance of the Group.

At the same time, the three years were seen as a period for steadily laying the foundation for stable profits and business growth, in preparation for fiscal 2016 and beyond. Kobe Steel began reforming the structure of its steel business, strategically expanding the machinery businesses and growing the electric power business. Through these measures, Kobe Steel promoted the Group's diversified business operations and expanded the electric power 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.

● Financial Performance

	Fiscal 2015 Targets*1	FY2012	FY2013	FY2014	FY2015
Ordinary income (loss)	80.0 – 100.0 billion yen	(¥18.1 billion)	85.0 billion yen	101.6 billion yen	28.9 billion yen
D/E ratio*2	1.3 times (achieved 1.0 times ahead of schedule)	1.75 times	1.11 times	0.88 times	1.10 times*3

*1: Targets as of May 29, 2013
*2: Interest-bearing debt ÷ stockholders' equity
*3: Including early procurement of borrowings for FY2016 (90 billion yen)
D/E Ratio: 0.97 times (excluding early procurement of borrowings)

● Results of Initiatives

Measures to lay the groundwork for stability and growth

Structural reform of the steel business	Consolidating upstream operations • Consolidating upstream operations at Kakogawa Works in fiscal 2017 – Equipment orders, field and other work are generally progressing as planned – Gaining re-approval from customers due to changes in upstream operations Implementing more investments for further cost cuts • Further strengthening of hot metal treatment capacity (Installing second dephosphorization furnace)
New investments in the materials businesses to secure sales volume in growth areas and regions	• Established a joint venture in China to manufacture and sell cold-rolled high-strength steel sheet for automobiles • Established a joint venture in Thailand to manufacture and sell special steel wire rod • Established a company in China to manufacture and sell aluminum sheet for automotive body panels • Reinforced production capacity of aluminum forged suspension products for automobiles in the United States  Signing ceremony for Kobelco Millcon Steel
Strategic expansion of the machinery businesses	• Built a construction machinery plant for hydraulic excavators in the U.S. • Constructing a test facility for large-capacity reciprocating compressors • Built a new comprehensive testing center for hydrogen stations • Expanded sales bases for compressors overseas (Brazil, India, Thailand)
Growing the electric power business	• Promoting construction of new power plants on the site of Kobe Works' blast furnace and in Moka, Tochigi Prefecture

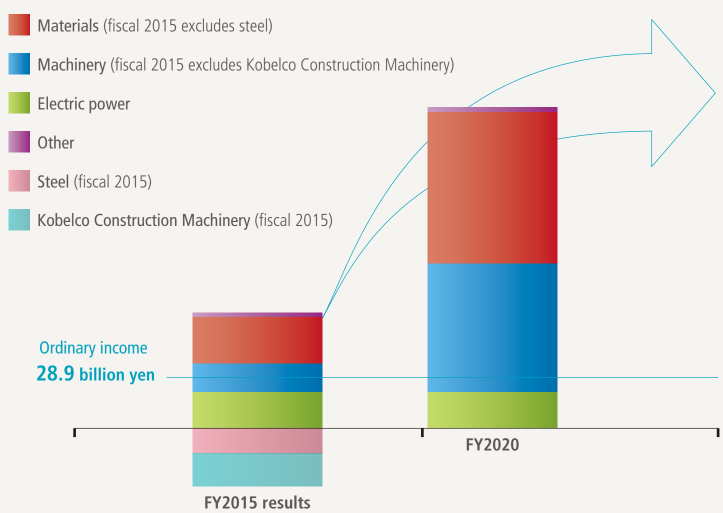
Measures implemented to rebuild the business base

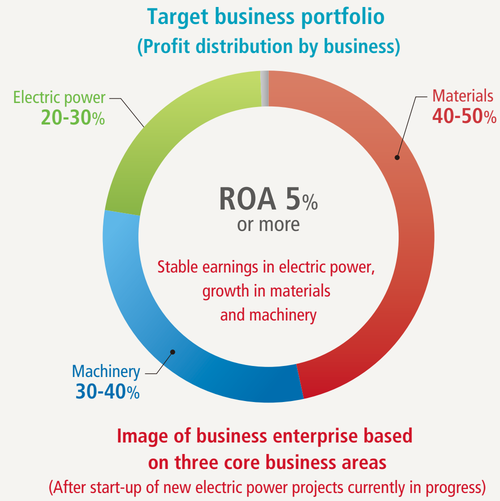
- After implementing measures to strengthen the profitability of the steel business, including capital investment and cost cuts at the production site level, profitability improved ¥42.0 billion compared with fiscal 2012.
- Kobe Steel promoted securitization and reduced inventory to improve its financial standing, generating a total of ¥180.0 billion in cash between fiscal 2013 and 2015 and surpassing its target of ¥120.0 billion.

3 Fiscal 2016–2020 Medium-Term Management Plan

Along with the Fiscal 2016–2020 Group Medium-Term Management Plan, Kobe Steel started initiatives for a new vision called **KOBELCO VISION "G+."** The new vision aims to further strengthen the Group's growth strategy centered on the three core business areas of materials, machinery and electric power to establish a solid business enterprise. Kobe Steel plans to focus its management resources in growing fields anticipated to expand over the medium to long term such as weight savings in transportation as well as energy and infrastructure. Kobe Steel plans to increase the original added value of the Kobe Steel Group. By achieving a strong competitive edge, Kobe Steel aims to expand and grow its businesses, while contributing to society. In fiscal 2020, the last year of the plan, we aim to achieve an ROA*[1] of 5% or higher and maintain a D/E ratio*[2] of 1.0 times or lower. We will achieve improved profitability (capital efficiency) while ensuring financial soundness.

● Image of Business Performance





*1 ROA: ordinary income (loss) ÷ total assets
*2 D/E ratio: interest-bearing debt ÷ stockholders' equity

● Growth Strategies for the Three Core Business Areas

Materials	Machinery	Electric Power
I. Initiatives for weight savings in transportation (automotive and aircraft fields) II. Strengthening profitability in the steel business	I. Initiatives in the fields of energy and infrastructure II. Strengthening profitability in the construction machinery business	Initiatives aimed at stable profitability in the electric power business

● Strengthening the Business Base

Common strategies	I. Strengthening corporate governance II. Securing and developing human resources III. Strengthening technology development and *monozukuri* (manufacturing) capabilities

Materials Businesses

I. Initiatives for Weight Savings in Transportation

(1) Automotive field

With fuel consumption and CO_2 regulations becoming stricter in the automotive field, the need for lighter automobiles is anticipated to grow in the future, while enhanced safety requirements are increasing. In addition to raising the competitiveness of ultra-high strength steel and aluminum, noted for their outstanding balance of weight savings and cost, Kobe Steel plans to expand its share of the global market and firmly secure growth in the automotive field, leveraged by its original solution technologies for multi-materials (the joining of dissimilar metals, etc.). Kobe Steel will consider strategic investments on the scale of ¥100 billion to strengthen mother factories in Japan, the source of its competitiveness, and growth initiatives in overseas markets (North America and China).

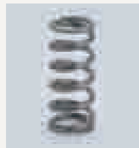
Strategy for Each Menu and the Company's Competitive Edge

Common strategies	• Strengthening business with Japanese automakers • Promoting initiatives aimed at European and U.S. automakers in growth areas (North America, China)

Special steel

Sales expansion in overseas growth markets

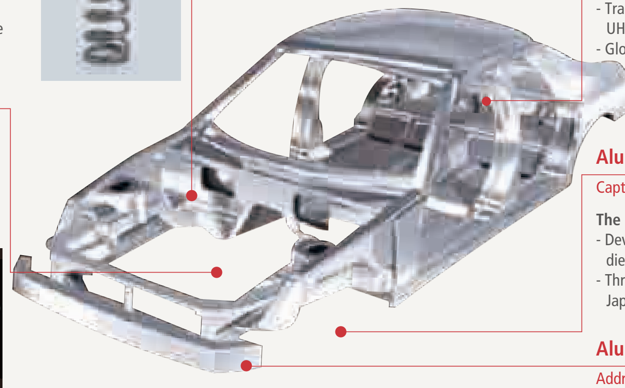
The Company's competitive edge
- Global supply structure for high-quality special steel
- Secondary processing bases both at home and abroad



Aluminum sheet

Responding to growing global demand for aluminum panels

The Company's competitive edge
- Technological edge in alloy technology, etc.
- High surface quality cultivated through can stock



Ultra-high strength steel (UHSS)

Focusing on weight-savings of car frame by using UHSS with high formability

The Company's competitive edge
- Track record, expertise as a leader in UHSS
- Global supply structure

Aluminum forgings

Capture expanding global demand

The Company's competitive edge
- Development, design, capabilities in die/mold and forging technologies
- Three-country structure covering Japan, the U.S. and China

Aluminum extrusions

Addressing bumper/frame materials on a global basis, using 7xxx series high-strength aluminum alloy

The Company's competitive edge
- High-strength alloy for large weight savings
- Bumper design technology

Kobe Steel's Multi-Material Technologies!

To meet growing demand for lighter vehicles, Kobe Steel leverages the advantages inherent to being one of the few companies worldwide involved in both the steel and aluminum industries as well as the welding business to promote the development of multi-material technologies that utilize these materials and technologies. We develop technologies that bring together different materials in unique and innovative ways and are currently proposing solutions to automobile manufacturers.

(2) Aircraft field

In the aircraft field, which is expected to grow, Kobe Steel plans to strengthen upstream operations (melting, forging and casting) for its titanium, aluminum and magnesium products. It will also promote research and development necessary for entry and expansion into downstream operations (machining, surface treatment and painting). By establishing an integrated system for upstream and downstream operations, Kobe Steel will be able to meet user needs by building a complete supply chain in Japan, aiming to become a supplier with a presence in Asia.

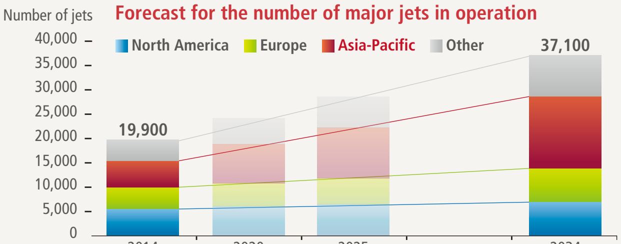
Trends in the aircraft field and Kobe Steel's product menu

Trends in demand

The number of aircraft in operation will nearly double in the next 20 years.
(19,900 in 2014 ➔ 37,100 in 2034)

- The number of large and small aircraft will increase sharply in Asia.
- The aircraft market in 2014 was around 60 trillion yen. ➔ Materials around 1.6 trillion yen

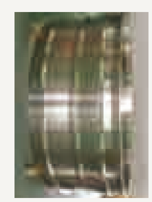
Forecast for the number of major jets in operation



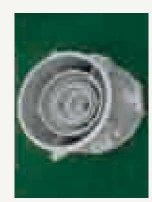
*Created internally based on data from the Japan Aircraft Development Corporation

Kobe Steel's product menu

– Titanium
Large forgings for airframes, landing gears, rotors and non-rotor parts for jet engines



– Aluminum, Magnesium
Forgings for airframes, landing gears
Castings and forgings for jet engines

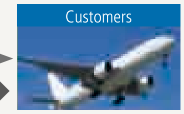


Future initiatives

In addition to the upstream processes we are continuing to reinforce (melting to casting as well as forging), we are promoting R&D aimed at introducing and expanding downstream processes.

Manufacturing process of aircraft parts

Raw materials ▶ Melting ▶ Casting, Forging ▶ Machining ▶ Surface treatment, Painting ▶ Assembly (Tier 1) ▶ Customers



Titanium	Aluminum, Magnesium
Promote research and development to introduce machining for large forgings	Promote research and development of machining and surface treatment to expand product menu for machined parts

Research and development period: until the end of fiscal 2018

II. Strengthen Profitability of the Steel Business

Fiscal 2015 ➔ Fiscal 2020 Impact from improved profitability

In addition to consolidating upstream operations to Kakogawa Works in fiscal 2017 (cost reductions of 15 billion yen per year or more), Kobe Steel plans to implement additional profit improvement and on-site cost reductions (over 30 billion yen per year). Together with growth in the transportation field (over 25 billion yen), these initiatives are expected to increase profits.

Image of Improved Profitability of the Steel Business (Unit: in billions of yen)

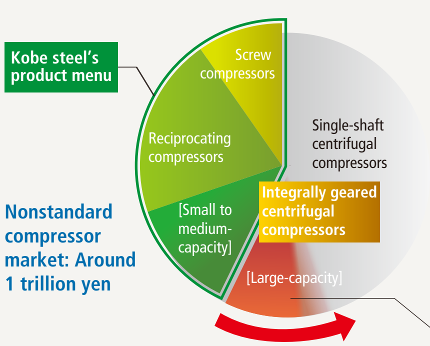
Machinery Businesses

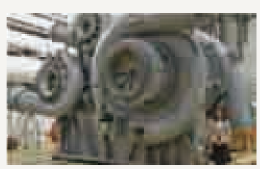
I. Initiatives in the Energy & Infrastructure Fields

- To expand the compressor business, Kobe Steel plans to enter the market for large-capacity centrifugal compressors in the nonstandard compressor business. (Kobe Steel plans to open one of the world's largest test facilities in April 2017 for this purpose.) In addition, Kobe Steel plans to expand its standard compressor business through global development, strengthened product competitiveness and strengthened manufacturing infrastructure, aiming to establish a position as the top group in Asia.
- In the hydrogen-related business, Kobe Steel aims to strengthen its competitiveness in the domestic and overseas markets and expand sales of units for hydrogen stations by constructing a comprehensive test center for hydrogen stations and carrying out demonstration tests on hydrogen stations to establish differentiated technologies.

Nonstandard compressors

Basic policy New domain: Enter the large-capacity centrifugal compressor market





Integrally geared centrifugal compressor

The market for integrally geared compressors is growing due to the great need for large-capacity, high-pressure and high-efficiency units.

The current market is dominated by two European companies.

Requirements for market entry

Performance	Top class in the world
Production capacity	Track record in large units in 400,000 Nm³/h class
Competitive edge	Cost reduction by also taking a strong yen into account
Verification of quality of final product	Verification by testing at a large-scale facility

Construction of one of the world's largest test facilities
Output: 40 MW Completion: April 2017

Focus on capturing the Asian market where Kobe Steel has an edge

Creating a track record for the coming hydrogen society

Initiatives of the Kobe Steel Group

Expand sales of units for hydrogen stations

– Compact design for compressors, refrigeration compressors, etc.
– Total engineering capability for hydrogen stations

➔ Increase share in association with the Tokyo Olympics

Strengthen competitive edge

New comprehensive test center for hydrogen stations
– Test station-related machinery based on various criteria
– Product development that addresses laws and regulations as well as market needs
– Lower costs and establish differentiated technologies

Demonstration testing of renewable energy hydrogen station
Manufacture CO_2-free hydrogen with renewable energy for use in hydrogen stations (utilize technology from Kobelco Eco-Solutions Co., Ltd.)

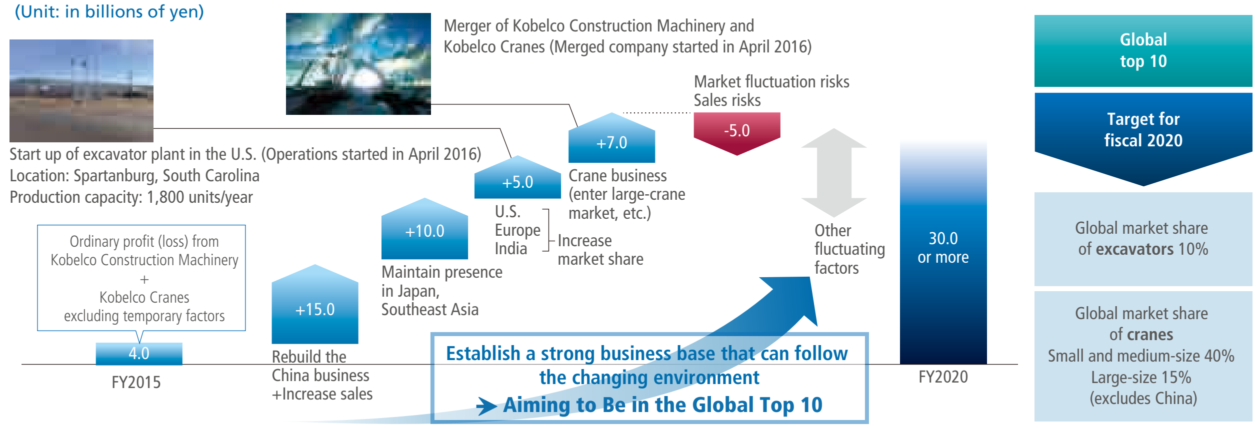
Differentiated technologies, product menu

[Utilize U.S. base] Conduct sales activities using track record in Japan

II Strengthen Profitability of the Construction Machinery Business

In the Chinese excavator business, Kobe Steel plans to take decisive action on structural change to strengthen profitability by reviewing production capacity and promoting cross sourcing by reviewing the functions of two locations (supplying machines and components to Japan, the United States and Southeast Asia and maintaining capacity utilization). In April 2016, the U.S. excavator plant started up. Sales are anticipated to expand in Europe, the United States and India. In addition, through the merger of Kobelco Construction Machinery and Kobelco Cranes on April 1, 2016, Kobe Steel aims to establish a strong business base and a company with a global presence. (Global market share for excavators: 10%. Global market share for small to medium-sized crawler cranes: 40%. Global market share for large-sized crawler cranes: 15%.)

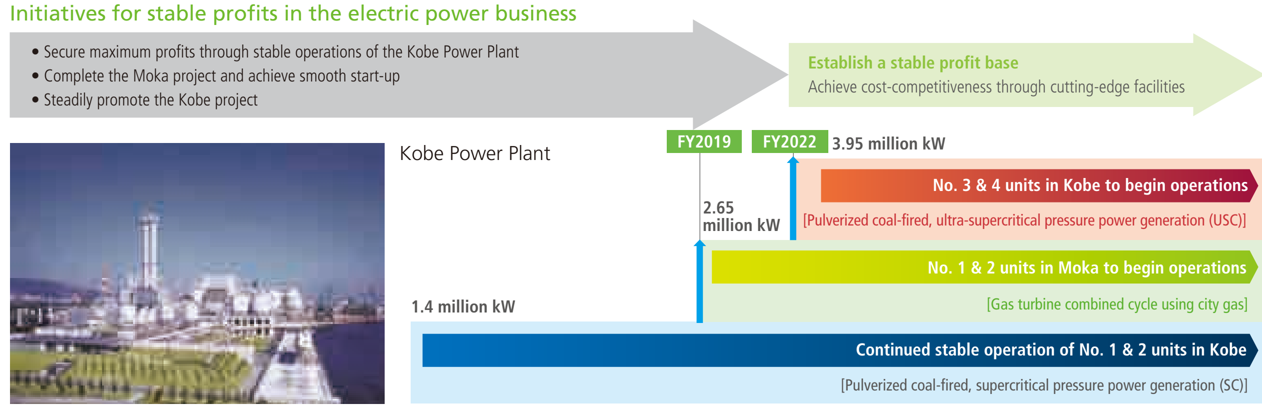
Image of Improved Profitability in the Construction Machinery Business



Electric Power Business

Kobe Steel plans to continue the stable operation of its Kobe Power Plant, and proceed with two new power generation projects in Moka and Kobe. In fiscal 2022, Kobe Steel will have a total power generation capacity of 3.95 million kW, establishing a stable profit base.

Initiatives for stable profits in the electric power business



Strengthening the Business Base

• Strengthening Corporate Governance

Kobe Steel plans to transition to a company with an audit and supervisory committee, review the members of the board of directors, establish independent outside directors meetings, and strengthen the business execution system to strengthen corporate governance.

• Secure and Cultivate Human Resources

Promoting diversity and implementing changes in working styles, Kobe Steel will focus on creating a safe, employee-friendly working environment. In addition, Kobe Steel aims to secure and cultivate employees who will drive growth in the Kobe Steel Group.

• Strengthening Technology Development and Manufacturing

Kobe Steel plans to undertake the creation of products and processes that provide customer value through differentiated technologies that strengthen the competitiveness of major products and in the automotive, aircraft and energy fields. In addition, by strengthening product quality, on-site capabilities and data utilization, Kobe Steel plans to strengthen its production infrastructure and raise the level of its *monozukuri-ryoku* (manufacturing capabilities).

Financial Strategy

In principle, the basic policy is to finance large strategic investments and regular investments that support the business base by business cash flows. However, to maintain financial discipline when the business environment worsens, while steadily carrying out growth investments, Kobe Steel will consider cash generation measures such as asset sales targeting a maximum of 100 billion yen, improvements in working capital and other measures.

Review of Operations

Iron & Steel

Strengthening Manufacturing Capabilities for High Value-Added Products

Net sales	Ordinary loss	Ordinary income (loss) ratio
FY2014: –	FY2014: –	FY2014: –
¥665.8 billion	¥15.0 billion	–

Note: FY14 results under previous segmentation (including Electric Power business): net sales, ¥797.8 billion; ordinary income, ¥28.8 billion / FY15 results under previous segmentation: net sales, ¥742.5 billion; ordinary income, ¥3.7 billion

Fiscal 2015 Overview

Thanks to firm demand in the shipbuilding sector, the steel product sales volume was on par with the previous year. Sales prices fell, compared with the previous year, due mainly to lower primary raw material prices. Sales of steel castings and forgings were up from the previous year, again due to firm demand in the domestic shipbuilding sector, while sales of titanium products increased due to an increase in shipments to the aircraft sector.

Reflecting these conditions, consolidated segment sales in fiscal 2015 amounted to 665.8 billion yen. The segment recorded an ordinary loss of 15.0 billion yen due primarily to a change in the sales mix of products from lower automotive demand.

Key Measures in Iron & Steel

- Strengthen safety and production infrastructure, and complete consolidation of upstream operations. Reinforce profitability of the steel business through accumulation of measures aimed at improving profits.
- Promote steel product strategy centered on the transportation field (automobiles) and strengthen global supply system (start production of special steel wire rod in Thailand; secure maximum sales volume by increasing sales of high-strength steel sheet in North America and China).
- Promote growth strategies for the processed materials business by leveraging the product appeal and strength of steel castings and forgings, titanium and steel powder centered on the transportation field (ships, airplanes and automobiles).

High-Strength Steel Sheet ❶

Built-Up Crankshaft ❷

Wire Rod for Automotive Engine Valve Springs ❸

❶ 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.

❷ 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.

❸ 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.

Welding

Striving to Be Asia's No. 1 Welding Solutions Company

Net sales -2.3 %
FY2014: ¥94.5 billion
¥92.3 billion

Ordinary income -21.4 %
FY2014: ¥10.3 billion
¥8.1 billion

Ordinary income ratio -2.1 points
FY2014: 10.9%
8.8%

● Fiscal 2015 Overview

Welding materials saw a decrease in sales volume compared with the previous year. Although domestic demand remained firm in the shipbuilding sector, recovery was delayed in the construction sector. Overseas, demand in China, Southeast Asia and the United States decreased due to the economic slowdown and low crude oil prices. Meanwhile, sales of welding systems increased, compared with the previous year, supported by ongoing firm demand.

As a result, consolidated segment sales in fiscal 2015 decreased 2.3 percent, compared with the previous year, to 92.3 billion yen. Ordinary income decreased 2.2 billion yen, compared with the previous year, to 8.1 billion yen.

● Key Measures in Welding

- Secure a dominant share in the domestic market by strengthening regional marketing activities and by expanding sales in the shipbuilding industry and in steel frame applications.
- Strengthen ASEAN and China businesses by launching new products that match market needs and by improving sales capabilities.
- Pursue the solutions business by promoting the development of basic elemental technologies and initiatives for automated welding in shipbuilding and steel frames.

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

❷ Flux-Cored Wire


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

❶ Our top-class, high-quality welding materials are indispensable in such diverse 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 worldwide as technical products suited to a wide array of welding conditions.

❷ 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.

❸ 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

A Leading Domestic Supplier of Materials for Lighter Vehicles and Aircraft

Net sales +4.4% — FY2014: ¥330.8 billion — ¥345.5 billion

Ordinary income -0.7% — FY2014: ¥15.2 billion — ¥15.1 billion

Ordinary income ratio -0.2 points — FY2014: 4.6% — 4.4%

Fiscal 2015 Overview

Aluminum rolled products saw an increase in sales volume compared with the previous year due to firm demand for can stock for beverage cans and efforts to expand sales, mainly exports, in the automotive sector. Sales of aluminum castings and forgings also grew from the previous year, owing to firm demand from the U.S. automotive sector. In contrast, copper rolled products saw a decrease in sales volume, compared with the previous year, due to lower demand for copper strips used in semiconductors.

As a result, consolidated segment sales in fiscal 2015 were up 4.4 percent from the previous year to 345.5 billion yen. Ordinary income, at 15.1 billion yen, was virtually on par with the previous year results.

Key Measures in Aluminum & Copper

- Pursue growth in the transportation field (automotive panels, suspensions, bumpers, castings and forgings for aircraft, automotive copper strips, etc.).
- Strengthen and maintain existing core businesses (can stock, disk materials, etc.).
- Strengthen the business base by improving technological excellence and *monozukuri-ryoku* (manufacturing capabilities).

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 percent of the aluminum beverage can stock in Japan. Moreover, we have about 70 percent of the market share for bottle can stock, which requires complex processing.

3. We supply nearly 60 percent of the aluminum disk blanks worldwide. With production centers in Japan and Malaysia, we are contributing to an advanced information society.

Machinery

Pursuing Growth Strategies Aimed at Building a Global Business

Net sales -0.1%
FY2014: ¥159.1 billion
¥159.0 billion

Ordinary income -34.6%
FY2014: ¥10.4 billion
¥6.8 billion

Ordinary income ratio -2.2 points
FY2014: 6.5%
4.3%

Fiscal 2015 Overview

At 140.4 billion yen, consolidated orders in fiscal 2015 stayed at around the same as the previous year's level. Specifically, although orders for compressors for the petroleum refining industry declined, this was countered in industrial machinery by orders for large-scale plastic processing machinery for use in the petrochemical field. The consolidated backlog of orders at the end of fiscal 2015 stood at 133.8 billion yen.

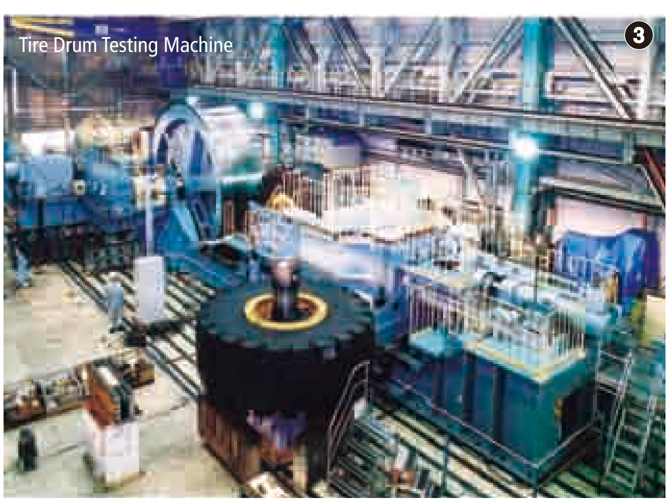
Consolidated segment sales in fiscal 2015 were virtually unchanged from the previous year at 159.0 billion yen, but lower profits attributable to intensified competition drove ordinary income down 3.6 billion yen, compared with the previous year, to 6.8 billion yen.

Key Measures in Machinery

- Expand the nonstandard compressor business through entry into new fields (large-capacity centrifugal compressors) and new applications (LNG carriers, hydrogen).
- Expand the standard compressor business through the launch of global strategic products and development in Asia.
- Pursue high profitability in the industrial machinery business by strengthening cost competitiveness and optimizing the product mix.

Nonstandard Compressor ❶

❷ Kobelion Standard Compressors



Tire Drum Testing Machine ❸

❶ 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.

❷ 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.

❸ Kobe Steel offers a wide lineup of industrial machinery, including tire and rubber machinery, plastic processing machinery, advanced technology deposition equipment and metalworking machinery. In particular, Kobe Steel specializes in products for rubber mixing, tire testing, and plastic mixing and pelletizing, offering a variety of globally competitive distinctive products in these fields.

Engineering

Expanding Business Worldwide by Leveraging Technology and Know-how

Net sales		Ordinary income		Ordinary income ratio	
–	FY2014: – ¥131.7 billion	–	FY2014: – ¥4.7 billion	–	FY2014: – 3.6%

Note: FY14 results under previous segmentation: (1) Engineering business: net sales, ¥49.1 billion; ordinary income, ¥0.8 billion; (2) Kobelco Eco-Solutions: net sales, ¥68.1 billion; ordinary income, ¥3.0 billion / FY15 results under previous segmentation: (1) Engineering Business: net sales, ¥48.8 billion; ordinary income, ¥1.1 billion; (2) Kobelco Eco-Solutions: net sales, ¥83.0 billion; ordinary income, ¥3.6 billion

Fiscal 2015 Overview

Consolidated orders in fiscal 2015 under the previous segmentation were 50.6 billion yen for the Engineering business and 78.5 billion yen for Kobelco Eco-Solutions, owing to an order for a large direct reduction plant in Algeria and several large orders received in the waste treatment business. The consolidated backlog of orders at the end of fiscal 2015 under the previous segmentation stood at 76.8 billion yen for the Engineering business and 44.5 billion yen for Kobelco Eco-Solutions.

Consolidated segment sales totaled 131.7 billion yen as construction work progressed on previously ordered large projects in the waste treatment business. Ordinary income amounted to 4.7 billion yen.

Key Measures in Engineering

- Strengthen initiatives in the waste treatment business associated with the decommissioning of nuclear reactors.
- Increase orders in the water treatment- and waste treatment-related businesses and strengthen profitability.
- Reinforce initiatives directed at the creation of new businesses.
- Pursue the further coordination of the Group's engineering businesses.

MIDREX® Direct Reduction Plant

Grid-Type Sabo Dam

Wood-Fueled Biomass Power Station in Ono City

❶ 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 System, which produces iron ore pellets; and the Upgraded Brown Coal (UBC®) Process.

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

❸ Fukui Green Power Co., Ltd., with an equity stake from Kobelco Eco-Solutions, completed construction of the Ono Power Station in Ono, Fukui Prefecture. This wood-fueled biomass power station, which uses regular lumber and forest residue from local thinning operations, began transmitting power in March 2016.

Review of Operations

Construction Machinery

Delivering New Solutions by Creatively Linking Excavators and Cranes

Net sales –	FY2014: – ¥336.2 billion	Ordinary loss –	FY2014: – ¥11.9 billion	Ordinary income (loss) ratio –	FY2014: – –

Note: FY14 results under previous segmentation: (1) Kobelco Construction Machinery: net sales, ¥311.0 billion; ordinary income, ¥21.0 billion; (2) Kobelco Cranes: net sales, ¥71.1 billion; ordinary income, ¥5.2 billion / FY15 results under previous segmentation: (1) Kobelco Construction Machinery: net sales, ¥271.8 billion; ordinary loss, ¥14.5 billion; (2) Kobelco Cranes: net sales, ¥72.8 billion; ordinary income, ¥2.4 billion

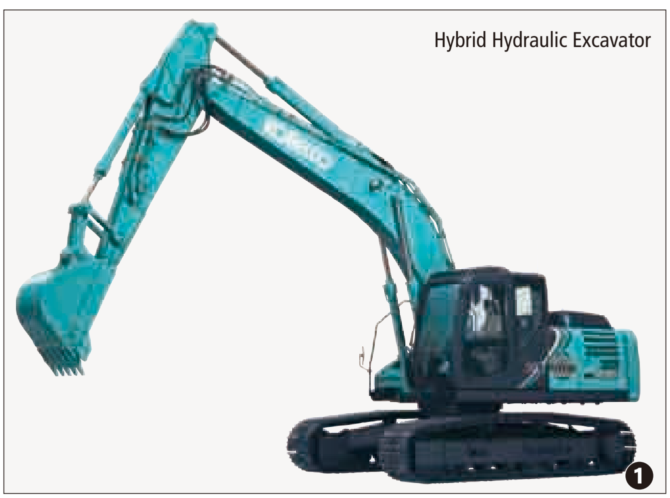
Fiscal 2015 Overview

Unit sales of hydraulic excavators in fiscal 2015 decreased compared with the previous year. Not only did domestic demand suffer on account of restrained purchasing due to the end of the replacement demand cycle, demand in China and Southeast Asia declined significantly. As for crawler cranes, overall unit sales also fell compared with the previous year due to lower demand in Southeast Asia.

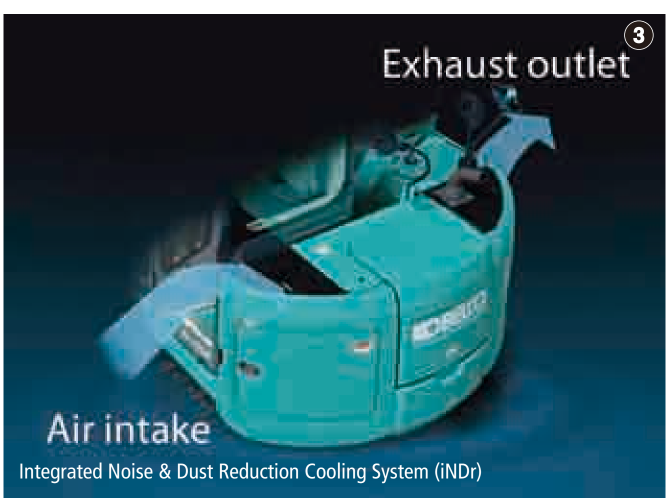
As a result, consolidated segment sales in fiscal 2015 stood at 336.2 billion yen. In addition to a decrease in unit sales due to reduced demand, Kobelco Construction Machinery posted a large allowance for doubtful accounts for accounts receivable in China. Furthermore, expenses for maintaining and improving product quality increased. Consequently, the segment recorded an ordinary loss of 11.9 billion yen.

Key Measures in Construction Machinery

- Implement structural reforms in the China business for excavators.
- Provide differentiated products and solutions through organic coordination in business fields that utilize ICT (information and communications technology).
- Maintain a presence in the markets for small and medium-sized crawler cranes; establish a business base in the large-sized crane market, which the Company has recently re-entered.


Hybrid Hydraulic Excavator ❶


❷ G-Series Crawler Cranes



❸ Integrated Noise & Dust Reduction Cooling System (iNDr)

❶ We completed the world's first hybrid hydraulic excavator in 2006 and began sales of 8-ton and 20-ton models. In November 2016, we will launch a cutting-edge hybrid model, a 20-ton class unit (SK200H). Another industry first, the new model's hybrid system draws on a large-capacity lithium-ion battery for all operations, cutting fuel consumption up to 19 percent and improving workload capacity up to 10 percent.

❷ The G-Series small- to mid-sized crawler cranes are designed to meet regional regulations around the world. They come equipped with the G-Mode energy saving assist system, which offers 25 percent better fuel efficiency than previous models and helps to reduce CO_2 emissions. The G-Series is not only environmentally friendly but also people friendly, with more comfortable cabs and improved safety features.

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.

Electric Power

Contributing to the Stable Supply of Electricity and a More Stable Profit Base

Net sales –
FY2014: –
¥76.7 billion

Ordinary income –
FY2014: –
¥17.4 billion

Ordinary income ratio –
FY2014: –
22.7%

Note: Under the previous segmentation system, results were incorporated in the Iron & Steel business and not reported separately.

Fiscal 2015 Overview

In the wholesale power supply business, the Kobe Power Plant, which has a generation capacity of 1.4 million kW, enjoyed continued stable operations. With Kobe Works scheduled to suspend upstream operations in 2017, we are moving forward with plans to construct a 1.3 million kW power station on the site of the works' blast furnace. We have also drawn up construction plans for a 1.248 million kW power station to be built on land adjacent to the Moka Plant in Tochigi Prefecture.

Key Measures in Electric Power

- Continue stable operations of the current IPP business and secure steady profits
- Complete the Moka project and smoothly start up operations
- Steadily implement the Kobe project

Kobe Power Plant

❶ The Kobe Power Plant was established as the cornerstone of a new business following revisions to the Electricity Business Act in April 1995. In establishing the power station, we fully capitalized on existing infrastructure at Kobe Works and our expertise in in-house power generation in the Iron & Steel Business. Wholesale power supply commenced in fiscal 2002. All generated power is supplied to The Kansai Electric Power Co., Inc. On April 1, 2016, Kobe Steel changed the name of the company Shinko Kobe Power Inc. to Kobelco Power Kobe, Inc. to incorporate the Group's Kobelco brand.

❷ **Moka Power Plant (under construction)** We have established a plan to construct a 1.248 million kW power station on land adjacent to the Moka Plant in Tochigi Prefecture. A contract for power supply was formed with Tokyo Gas Co., Ltd. in September 2014. Construction is currently under way, with plans to begin operation of the No. 1 unit in the second half of 2019. In January 2016, we established Kobelco Power Moka, Inc. as a special purpose company.

❸ **(Provisional name) Kobe Works Thermal Power Plant (in planning)** Upstream operations at Kobe Works are scheduled to end in 2017. As a result, we are pursuing plans to construct a 1.3 million kW power station on the site of the works' blast furnace. A contract for power delivery was formed with The Kansai Electric Power Co., Inc. on March 2015. Environmental assessments are currently under way, with plans to begin operation of the first of two units in fiscal 2021. The new power station will feature cutting-edge, ultra-supercritical pressure generating equipment. As an urban power station, it will also feature advanced environmental equipment suited to the location that meets the highest possible standards.

Power plant	Fuel	Capacity	Generation method	Commencement of supply
Kobe Power Plant (existing)	Coal	1.4 mil. kW (700,000 kW×2)	Coal-fired, supercritical pressure power generation	No. 1 unit: April 2002 No. 2 unit: April 2004
Moka Power Plant (under construction)	City gas	1.248 mil. kW (624,000 kW×2)	Gas turbine combined cycle (GTCC)	No. 1 unit: 2H 2019 (scheduled) No. 2 unit: 1H 2020 (scheduled)
(Provisional name) Kobe Works Thermal Power Plant (in planning)	Coal	1.3 mil. kW (650,000 kW×2)	Coal-fired, ultra-supercritical pressure power generation	No. 1 unit: fiscal 2021 (scheduled) No. 2 unit: fiscal 2022 (scheduled)

Other Businesses

Net sales -2.1%	FY2014: ¥76.1 billion ¥74.5 billion

Ordinary income +4.2%	FY2014: ¥7.1 billion ¥7.4 billion

Ordinary income ratio +0.6 points	FY2014: 9.3% 9.9%

Fiscal 2015 Overview

Shinko Real Estate Co., Ltd.'s leasing business remained firm while its residential property sales business saw a decrease in the number of handovers. Kobelco Research Institute, Inc.'s testing and research businesses recorded ongoing firm automotive-related demand.

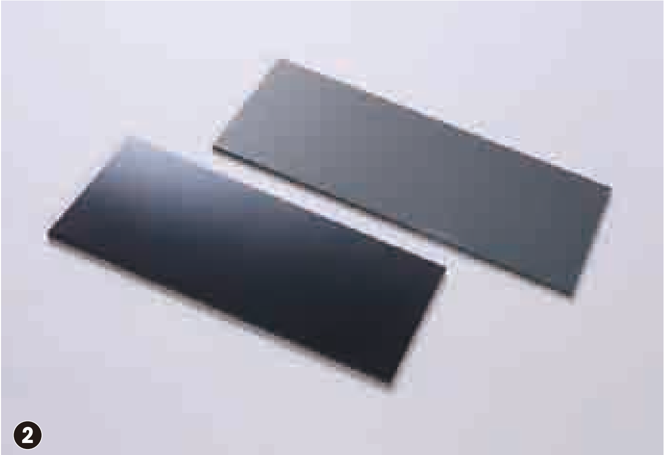
As a result, consolidated segment sales in fiscal 2015 decreased 2.1 percent year on year to 74.5 billion yen. Ordinary income increased 0.3 billion yen, compared with the previous year, to 7.4 billion yen.

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.

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 carries out testing and analyses of materials and structures. The company also makes sputtering targets and inspection equipment for a wide range of 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.



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

❷ Oxide semiconductor sputtering target material

Corporate Social Responsibility

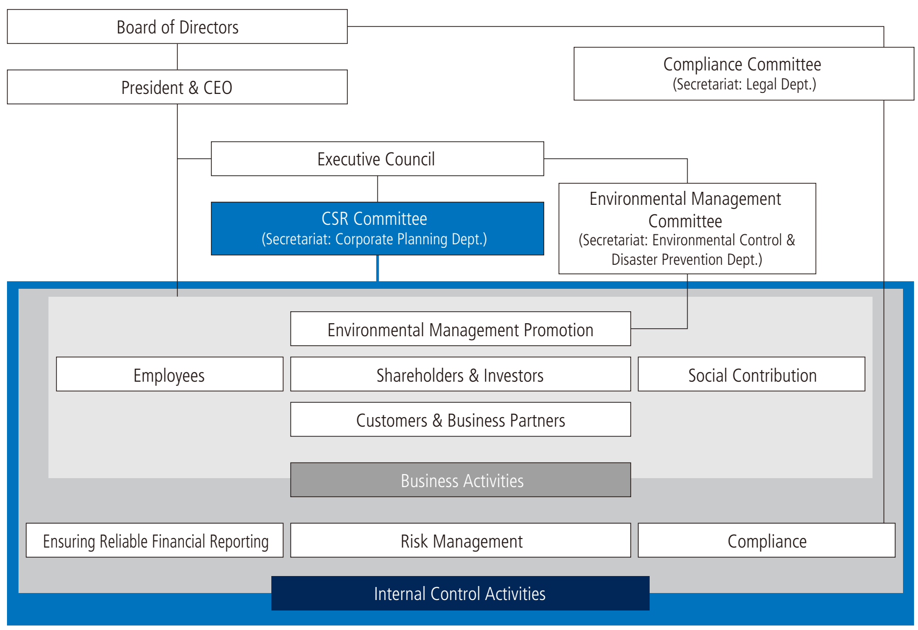
CSR Promotion System

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 (the Company) 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

The Company believes the basis of its corporate value is the promotion of its diversified businesses, composed of various segments with different demand fields, business environments, sales channels and business scales, and the leveraging of that synergy. The Company believes it is impossible to pursue technical development and innovations, which form the foundation for the Company's continued growth, without integrating discussions with the shop floor.

Furthermore, to advance its diversified businesses, the Company believes it is necessary to actively discuss and undertake appropriate decision-making with regard to the risk management of its various businesses and the distribution of management resources as well as to flexibly supervise business executions by the Board of Directors. It is desirable that members with the correct understanding regarding the business execution side attend the Board of Directors meetings, without completely separating supervision from execution.

In line with this approach and in order to ensure comprehensive audits, the Company had chosen to be a company with corporate auditors with investigation authority. Also, to further strengthen the supervisory function of the Board of Directors and to accelerate decision-making with regard to management, on June 22, 2016, Kobe Steel switched to a company with an audit and supervisory committee model, which gives those in charge of audits voting rights on the Board of Directors.

Directors (Excluding Those Who Are Audit & Supervisory Committee Members)

The number of directors (excluding those who are Audit & Supervisory Committee Members) shall be no more than 15 as stipulated under the Articles of Incorporation of the Company. The Board of Directors is constituted of an appropriate number of members in light of their diversity and to ensure that directors are able to conduct substantial discussions at the Board of Directors meetings.

The Board of Directors consists of the Chairman of the Board, the President and executive directors in charge of important posts in the head office division, business divisions or the technical development division.

Also, to enhance active discussion, appropriate decision making and supervision, it is necessary to take into consideration the perspectives of stakeholders, such as minority shareholders, as well to welcome those who can provide objective, fair and neutral perspectives. In principle, several outside directors are appointed to the Board. At present, the Company has appointed five Outside Directors, two of whom are not Audit & Supervisory Committee Members.

These Outside Directors (excluding those who are Audit & Supervisory Committee Members) attend Board of Directors meetings every month and provide appropriate advice, taking into account a fair and neutral viewpoint or the viewpoint of stakeholders, such as minority shareholders, as necessary for the Company's continued growth. Outside Directors also play roles to exercise their voting rights at Board of Directors meetings, supervise the Board of Directors meetings, and supervise conflicts of interests between the Company and its executives.

In addition, the Outside Directors serve as members of the Independent Committee established under the Company's Policy on the Large-Scale Purchasing of its Shares. The independent Committee is convened in the event that a proposal is made for the large-scale purchasing of the Company's shares. Additionally, a regular meeting of the Independent Committee is held every half fiscal year, and the members gather information on, share the recognition of and talk about the external environment, such as the business climate surrounding each business during the six-month period, overview of businesses, changes in company-related laws and the stock market in recent times. Through these activities, the Outside Directors (excluding those who are Audit & Supervisory Committee Members) who are elected as Independent Committee Members prepare to be able to offer fair, neutral and appropriate opinions to the Board of Directors in emergencies.

Directors Who Are Audit & Supervisory Committee Members and the Structure of the Audit & Supervisory Committee

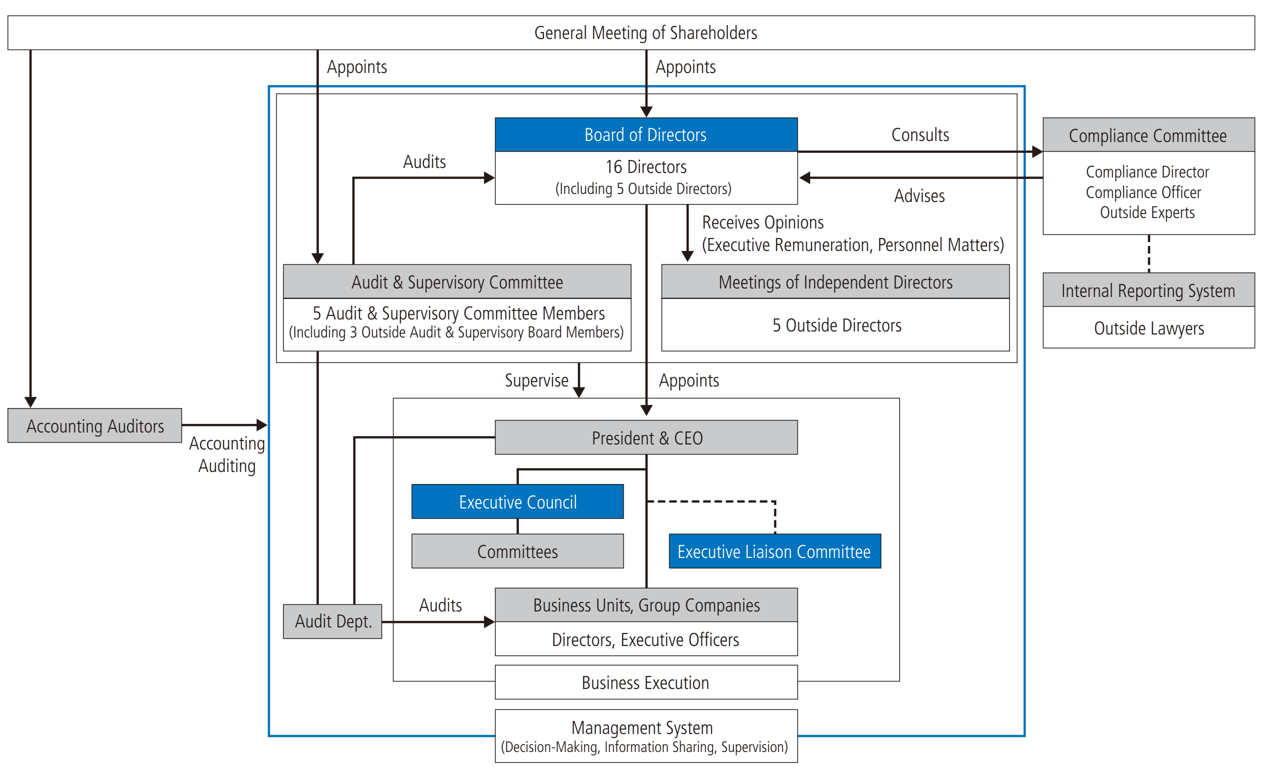
Kobe Steel, which is a company with an audit and supervisory committee, has five members on its Audit & Supervisory Committee: two inside and three outside members. This is not only in line with the rules on Audit & Supervisory Committees in Japan's Companies Act, which requires at least three non-executive directors (a majority of which must comprise outside directors), it ensures transparency and fairness and encourages satisfactory auditing for the integrated management of expansive business segments.

In addition, the Company enables thorough auditing by appointing full-time inside Audit & Supervisory Committee Members by resolution of the Audit & Supervisory Committee.

Inside Audit & Supervisory Committee Members cooperate with management and the Audit & Supervisory Committee to guide and manage the internal audit division. Outside Audit & Supervisory Committee Members provide specialized auditing knowledge and ensure fairness. To assure best outcomes, outside Audit & Supervisory Committee Members are appointed from legal, financial and industrial fields that enable the provision of specialized knowledge necessary for auditing.

In addition, some Audit & Supervisory Committee Members possess considerable knowledge of finance and accounting to improve the effectiveness of auditing.

Corporate Governance



Board of Directors and Executive Functions

The Board of Directors is in charge of carefully discussing and resolving the Company's important business executions and other statutory matters and supervising the business executions.

However, the Company determines standards for deliberation at the Board of Directors meetings so as not to obstruct quick decision-making at the board meetings. The Company delegates authority within a certain scope to persons in charge of carrying out business executions, including the President and other executives.

Additionally, the Company has established a system that can delegate management and promptly make business decisions by appointing executive officers as assistants to directors that execute businesses.

The term for directors (excluding those who are Audit & Supervisory Committee Members) and executive officers shall be one year to enable the Company to quickly respond to drastic changes in the business environment.

Establishment of Independent Outside Directors Meetings

The Company has established the "Meetings of Independent Directors" as a forum where the Company appoints its executives, gives hearings to opinions from Outside Directors and provides Outside Directors with information with respect to the management of the Company's business for the purpose of maximizing the roles of Outside Directors.

The Meetings of Independent Directors consist of Independent Directors only. A regular meeting is held every quarter and ad-hoc meetings are held, if necessary.

Executive directors of the Company attend the Meetings of Independent Directors at their discretion and furnish information to and exchange opinions with the Independent Directors thereof.

Furthermore, to encourage information sharing between the Audit & Supervisory Committee, the internal audit division and the internal control division, the Corporate Planning Department serves as the secretariat of the Meetings of Independent Directors and is supported by the Audit Department and Human Resources Department.

Policy on Selecting Director Candidates

The Company has outlined and disclosed its standards for independent directors and its policy for determining the qualities a director needs in order to fulfill the mandate from shareholders. The Company selects candidates in line with this policy.

* For more details on this corporate governance policy, please refer to the PDF entitled Basic Policy and Initiatives on the Corporate Governance of Kobe Steel, Ltd. on the Corporate Governance page of the Company's website (http://www.kobelco.co.jp/english/) under the About Kobe Steel section.

Internal Audits, Audits by the Audit & Supervisory Committee and Accounting Audit System

Internal Audits

With regard to internal audits, the Company established the Audit Department as an independent audit organization. In particular, audits on issues such as compliance, the environment and information security are implemented by the divisions respectively supervising these areas jointly with or in cooperation with the Audit Department. 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, Audits by the Audit & Supervisory Committee and Accounting Audits

The Audit & Supervisory Committee routinely meets with accounting auditors to closely collaborate through the exchange of views about the audit system, the audit plan and audit status. Also, when necessary, the Audit & Supervisory Committee accompanies accounting auditors on their audits of business sites and receives timely reports about the progress of those audits. Furthermore, the Audit & Supervisory Committee is routinely informed about audit policies and plans by the internal audit division. The Audit & Supervisory Committee also maintains 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 2016 is as follows:

	Total Remuneration (Millions of Yen)	Breakdown of Total Remuneration (Millions of Yen)	Number of Individuals
		Base Pay	
Internal Directors	522	522	11
Internal Audit & Supervisory Board Members	66	66	2
Outside Directors	66	66	5

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

Note 2. Directors' bonuses have not been paid out.

Note 3. Moreover, at the 163rd General Meeting of Shareholders held on June 22, 2016, with the approval of shareholders, the Company switched to a company with an Audit & Supervisory Committee structure. At the meeting, it was also resolved that total remuneration for directors (excluding those who are Audit & Supervisory Committee Members) be set at ¥650 million or lower per year and that their performance-linked remuneration be set at ¥350 million or lower per year (exclusive of their employee salaries). It was also resolved that remuneration for Audit & Supervisory Committee Members be set at ¥132 million or lower every fiscal year.

In addition, it was resolved that a stock-linked remuneration plan be introduced for directors (excluding those who are Audit & Supervisory Committee Members).

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

The Company strives to improve medium- to long-term corporate value and thus provides each executive officer further incentive to perform to the best of his ability in the form of stock.

1. Fundamental Policy of Remuneration of the Company's Directors

The system should:

a. Be a system able to secure talented human resources who can be responsible for the Company's continued expansion and appropriately remunerate them.

b. Be a system able to share values widely with stakeholders and promote not only short-term growth but also medium- to long-term growth.

c. Create a system that incentivizes the accomplishment of consolidated business result targets while sufficiently considering the characteristics of each business so that Directors can fully carry out their roles.

d. Regarding the composition of the remuneration system and the necessity of its reevaluation, ensure the objectivity and transparency of judgments regarding remuneration decisions by listening to and considering the opinions of Meeting of Independent Directors composed entirely of Independent Directors.

2. Remuneration Framework

a. Remuneration for the Company's Directors (excluding Directors who are Audit & Supervisory Committee Members) will consist of fixed compensation, performance-based compensation linked to the achievement of business results targets during individual fiscal years, and medium- to long-term incentive compensation based on stock compensation with the goal of sharing values with shareholders. Taking into consideration their duties, part-time Internal Directors and Outside Directors will not be eligible for performance-based compensation, and Outside Directors will not be eligible for medium- to long-term incentive compensation.

b. The standard amount of performance-based compensation for each rank will be at the level of 25 to 30% of fixed compensation, and the value of medium- to long-term incentives paid per fiscal year will be at the level of 25 to 30% of fixed compensation.

c. The Company's Directors who are Audit & Supervisory Committee Members will only be paid fixed compensation as director remuneration, taking into consideration their duties.

3. Performance-Based System

a. The amount of performance-based compensation will be determined using net income attributable to owners of the parent (hereinafter "net income") and net income of each business division as evaluation indicators. Target standards used in evaluations will be based on the net income standard of the Company as a whole, which becomes "consolidated ROA of 5% or more" as stated in the medium-term management plan. Additionally, target standards for each business division will be based on the same net income standard for each business division of "ROA of 5% or more in each business division," and according to the accomplishment of these targets for both the Company as a whole and in each business division, a coefficient of 0-200% will be multiplied to the base amount in order to determine the amount paid.

b. For medium- to long-term incentive compensation, a system known as Board Benefit Trust will be adopted in order to raise the consciousness for contribution from Directors regarding continuously improving corporate value. Payments based on this system will use a base point number established for each rank and a number of points according to a coefficient of 0-100% will be provided each fiscal year based on whole-company net income and the state of dividend payment, and on a fixed date during each trust period of three years, a number of the Company's shares and a cash equivalent to the amount converted from the market price of the Company's shares will be provided according to the number of points provided.

4. Method to Determine Remuneration Standard

a. Director remuneration survey data from an external specialized agency will be used as a base to determine remuneration standards commensurate with the Company's corporate scale and the duties expected of directors.

5. Method to Determine and Examine the Policy regarding Remuneration

a. The policy concerning remuneration for Directors (excluding Directors who are Audit & Supervisory Committee Members) is determined by the Board of Directors, and the policy concerning remuneration for Directors who are Audit & Supervisory Committee Members is determined by all Audit & Supervisory Committee Members.

b. The Company receives opinions from the Meetings of Independent Directors comprised of all Independent Directors regarding ways for and necessity to revise the remuneration system. If it is necessary to revise the remuneration system, the Company will present a revised remuneration plan at a meeting of the Board of Directors and it will be resolved.

Dividend Policy

The Company positions the return of profits to shareholders as a key issue for management and works to improve corporate value throughout the Group by operating businesses with a medium- to long-term perspective.

The Company decides on the dividend after duly considering the financial standing of the Company, business performance, future capital needs and other factors. In determining dividend amounts, the Company looks at each period's business performance and payout ratio, with a focus on making continuous, stable dividend payments.

The Company makes allocations of retained earnings for purposes that include investments necessary for future growth in order to bolster earnings and improve the balance sheet.

For the time being, to conduct profit-sharing commensurate with business performance, the Company shall set the payout ratio to between 15% and 25% of consolidated net profit.

The Company's Articles of Incorporation stipulate that dividends of surplus shall be determined via a resolution of the Board of Directors in accordance with Article 459, Paragraph 1 and Article 460, Paragraph 1 of the Companies Act.

Dividends of surplus shall be distributed by a resolution of the Board of Directors twice a fiscal year on the record dates stipulated in the Articles of Incorporation: once at interim period and once at fiscal year end. Payment of dividends on other record dates shall be conducted after establishing the record date at a separate meeting of the Board of Directors.

While following a basic policy of paying dividends on a continuous and stable basis, the Company decides on the dividend after duly considering its financial standing, business performance, future capital needs and other factors. Based on this approach, the Company paid an interim dividend of 2 yen per share, but has decided to suspend the year-end dividend in light of the significant net loss attributable to owners of the parent and the need to make strategic investments in growth amid forecasts of continuing uncertainty in the economic environment. We appreciate all shareholders for their understanding of our position.

COMPLIANCE INITIATIVES

Corporate Code of Ethics

The 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 the Corporate Ethical Principles, Standards of Corporate Conduct, and Implementation Guidelines for the Corporate Code of Ethics.

The Corporate Ethical Principles are a set of seven guidelines that the Company, 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. The Standards of Corporate Conduct set out guidelines for particularly important activities for the implementation of the Corporate Ethical Principles in day-to-day operations. The Standards of Corporate Conduct are implemented by individual employees based on operating manuals containing detailed explanations.

Seven Guidelines under the Corporate Ethical Principles

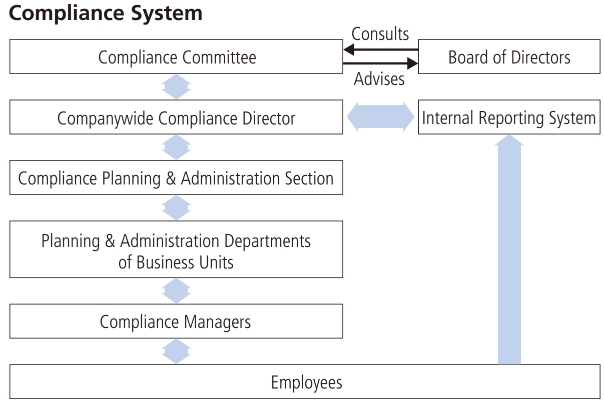
1. The Company will operate business fairly and honestly and comply with applicable laws, rules and principles of society.
2. The Company will contribute to society by offering excellent products and services, while paying attention to product safety and protection of personal information of customers and partners.
3. The Company will create a safe, comfortable and productive workplace and respect the individuality, differences and diversity of employees.
4. The Company will respect the interests of stakeholders in the Company.
5. The Company will be a good corporate citizen that contributes to local communities.
6. The Company will devote itself to protecting the environment and creating a comfortable society.
7. The Company will respect the culture and customs of other nations and contribute to the growth and development of their communities.

Compliance Committee

The Company 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.

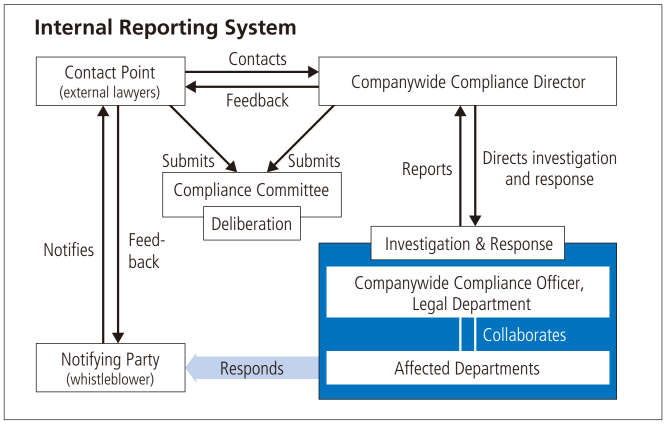
We appoint a companywide compliance director and a companywide compliance officer. We have also set up a dedicated Compliance Planning & Administration Section in the Legal Department to work in partnership with planning and administrative departments and with compliance managers stationed in our business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

Compliance System



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 the Company and promote activities within their respective companies. Risk management activities in line with those at the Company are carried out at all Group companies.

Basic Policies for Parties Affecting Policy Decisions of The Company's Financial and Business Affairs
(hereinafter, "Basic Policies on Corporate Control")

BASIC POLICY DETAILS

The Company, as a listed company, considers that any Large-Scale Purchase involving a change to its corporate control should be approved as a matter of course in cases where such purchase facilitates the protection and enhancement of its corporate value, and ultimately, the common interests of its shareholders in the course of open stock trading.

However, Japanese capital markets have recently witnessed a number of instances in which corporate shares have been rapidly purchased on a massive scale without adequate information being disclosed to public shareholders or investors. This type of large-scale purchase or proposals may cause irreparable harm to the Company or may not provide its shareholders with necessary information or time for the shareholders to determine whether to accept these large-scale purchases. These purchases may harm the Company's corporate value and ultimately, the common interests of its shareholders.

Particularly, the Company is engaged in various businesses, such as those in the materials sector and the machinery sector, and as these businesses have broad fields, there are various stakeholders and synergies to be borne by various businesses, and the Company considers that all of the above are sources of the Company's unique corporate value. It is the Company's understanding that the following actions will result in the Company fulfilling its corporate social responsibility in relationships with various stakeholders: promote efforts to lay "the Foundation for Stable Profits and Business Growth," which are described in the "Medium-Term Business Plan" prepared in May 2013 and consist of "structural reform of the steel business," "strategic expansion of the machinery business," and "expansion of the power supply business;" realize the Company's vision of "unique diversified management, where the power supply business is positioned as a stable profit base in addition to the two core businesses, which are the materials business and the machinery business;" and thereby enhance the Company's corporate value over the medium and long term.

For this reason, the Company believes that a party which will have an impact on 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 the corporate value and ultimately, the common interests of its shareholders. Such a party must also be able to protect and enhance the Company's corporate value and ultimately, the common interests of its shareholders as a result. In contrast, the Company views any party involved in the aforementioned large-scale purchases or proposals to be unsuitable as a party that will have an impact on its financial and business policy decisions.

Considering the business environment surrounding the Company, with the intensification of international competition, corporate acquisitions still actively occur, and the possibility of large-scale purchases of the Company's shares, which may influence the Company's management policy in the future, cannot be ignored.

On the other hand, regarding the tender offer system to be used upon such large-scale purchases, at least based on the current system, there may be cases where information and examination period to determine whether or not to accept the large scale purchases by the shareholders may not be sufficient.

In other words, by looking at large-scale M&A cases conducted in and outside Japan, even in cases of friendly transactions, there have been more than a few cases in which negotiations lasted for a considerable time before an agreement was reached. In order to facilitate the protection and enhancement of its corporate value, and ultimately, the common interests of its shareholders, it is necessary to ensure that the standard for information disclosure and evaluation period in large-scale purchases to be conducted without prior agreement with the management is equivalent to that of friendly transactions. Thus, the Company considers that it is necessary to establish a procedure to ensure that the above is achieved upon the shareholders' selection of parties affecting policy decisions of the Company's financial and business affairs.

With the above in mind, the Company believes it is necessary to establish rules where the Large-Scale Purchasers are required to provide to the Board of Directors necessary and sufficient information in connection with the Large-Scale Purchases in advance, and to commence the Large-Scale Purchases only after the expiry of a certain evaluation period by the shareholders and the Board of Directors.

INITIATIVES TO PREVENT UNSUITABLE PARTIES FROM HAVING AN IMPACT ON THE COMPANY'S FINANCIAL AND BUSINESS POLICY DECISIONS IN LIGHT OF ITS BASIC POLICY ON CORPORATE CONTROL

The Company adopted the following plan that prescribes certain rules (hereinafter referred to as this "Plan") as an initiative to prevent unsuitable parties from having an impact on the Company's financial and business policy decisions. This Plan was approved by shareholders in the Ordinary General Meeting of Shareholders held on June 24, 2015.

The Summary of this Plan

This Plan settles the following procedure in case someone engages in or aims to engage in Large-Scale Purchases.

1. The Purpose and Intent of this Plan

Upon the conduct of the (i) purchase and other acquisition of the Shares that result in a Shareholding Ratio of 20% or more, and (ii) tender offer of the Shares that results in a Shareholding Ratio of 20% or more (the "Large-Scale Purchase"), this Plan ensures that persons who are engaging in or aim to engage in Large-Scale Purchases (the "Large-Scale Purchaser") provide necessary and adequate information to the Company prior to the Large-Scale Purchase so that the shareholders may examine whether or not to accept such purchase. This Plan also prescribes an evaluation period during which the Board of Directors will review and evaluate such Large-Scale Purchase based on the information provided by the Large-Scale Purchaser, and ensures that such Large-Scale Purchase will not begin (a) until such evaluation period has elapsed, or (b) even after such period has elapsed, if a General Meeting to Confirm Shareholders' Intention (to be defined below) is convened, until a resolution regarding (among other matters) implementation of defensive measures is made at a general meeting of shareholders to confirm the shareholders' intentions as to (among other matters) whether or not to implement defensive measures (the "General Meeting to Confirm Shareholders' Intention").

2. Establishment of an Independent Committee

To prevent its Board of Directors from making arbitrary judgments and ensure that the procedures under this Plan remain objective, fair, and reasonable, the Company established an Independent Committee, which is a body independent of the Board of Directors. Members of the Independent Committee will be equal to or more than three (3) and elected from outside lawyers, certified public accountants, certified tax accountants, persons with relevant knowledge and expertise and outside executives as well as one (1) or more outside directors of the Company.

3. Provision of Required Information

The Large-Scale Purchaser are required to disclose the purpose of such acquisition, the basis for the calculation of the purchase price, the information substantiating that the Large-Scale Purchaser has sufficient funds to pay for the intended acquisition, their management policies after the acquisition and other information before the share purchasing so that shareholders, the Board of Directors and the Independent Committee are able to evaluate whether the proposals of the Large-Scale Purchasers enhances the corporate value and the common interests of shareholders.

However, the information to be provided to the Company by the Large-Scale Purchaser shall be limited to the extent necessary and sufficient to appropriately determine the question of the Large-Scale Purchases by the shareholders and the Board of Directors and the Independent Committee and the Independent Committee shall not engage in operations which deviate from the aim of the provision of required information, such as demanding of the Large-Scale Purchasers information disclosure exceeding the standards necessary to appropriately decide the question of the Large-Scale Purchases, or requiring provision of the required information to the Large-Scale Purchasers endlessly.

4. Evaluation

The Company has determined an evaluation period by the Board of Directors and the Independent Committee of the Large-Scale Purchase (hereinafter referred to as the "Evaluation Period") to be as follows, from the date that the Company discloses the fact that the Independent Committee determined that it has received the Required Information necessary and adequate for the decision on the question of the Large-Scale Purchase as set forth in hereinabove: (i) sixty (60) days, in the case of a tender offer with the consideration being only in cash in Japanese yen for all of the Shares, or (ii) ninety (90) days in the case of Large-Scale Purchase other than (i) above.

During this period, the Independent Committee will consider and judge the propriety of the Large-Scale Purchase, the exertion of defensive measures or convocation of a General Meeting to Confirm Shareholders' Intention, and based upon its evaluation, it will make a recommendation to the Board of Directors on whether or not defensive measures will be executed or a General Meeting to Confirm Shareholders' Intention will be held.

In the event of a recommendation by the Independent Committee to take defensive measures to the Board of Directors, the resolution of such recommendation requires at least one (1) affirmative vote from the committee member(s) who serve(s) as the outside director of the Company who attended the Independent Committee.

(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 thirty (30) days in addition to the initial period.)

5. Implementation of Defensive Measures

The Board of Directors places the highest value on the Independent Committee's recommendations upon the decision of the implementation of the defensive measures in accordance with following standard:

a. If the Large-Scale Purchaser does not comply with the procedures prescribed in this Plan, the Board of Directors, as a general rule, will implement defensive measures.

b. If the Large-Scale Purchaser complies with the procedures prescribed in this Plan, the Board of Directors, even when it opposes the Large-Scale Purchase, may only express its dissenting opinion for the Large-Scale Purchases or offer alternatives, etc. The Board of Directors will not implement defensive measures against the Large-Scale Purchase as a general rule. However, the Board of Directors may implement defensive measures, if it believes the Large-Scale Purchase will irreparably harm the Company or materially damage the Company's corporate value.

However, if the Independent Committee decides that it is reasonable to confirm the intentions of the shareholders by holding a General Meeting to Confirm Shareholders' Intention as a condition for implementation of the defensive measures, the Independent Committee will recommend the convocation of a General Meeting to Confirm Shareholders' Intention to the Board of Directors. If the Independent Committee recommends that a General Meeting to Confirm Shareholders' Intention be convened, the Board of Directors of the Company shall place the highest value on such recommendation and, when considered reasonable, take steps to convene the General Meeting to Confirm Shareholders' Intention in order to confirm (among other matters) whether or not to implement the defensive measures, as soon as practically possible. The Company will comply with the decisions of the General Meeting to Confirm Shareholders' Intention.

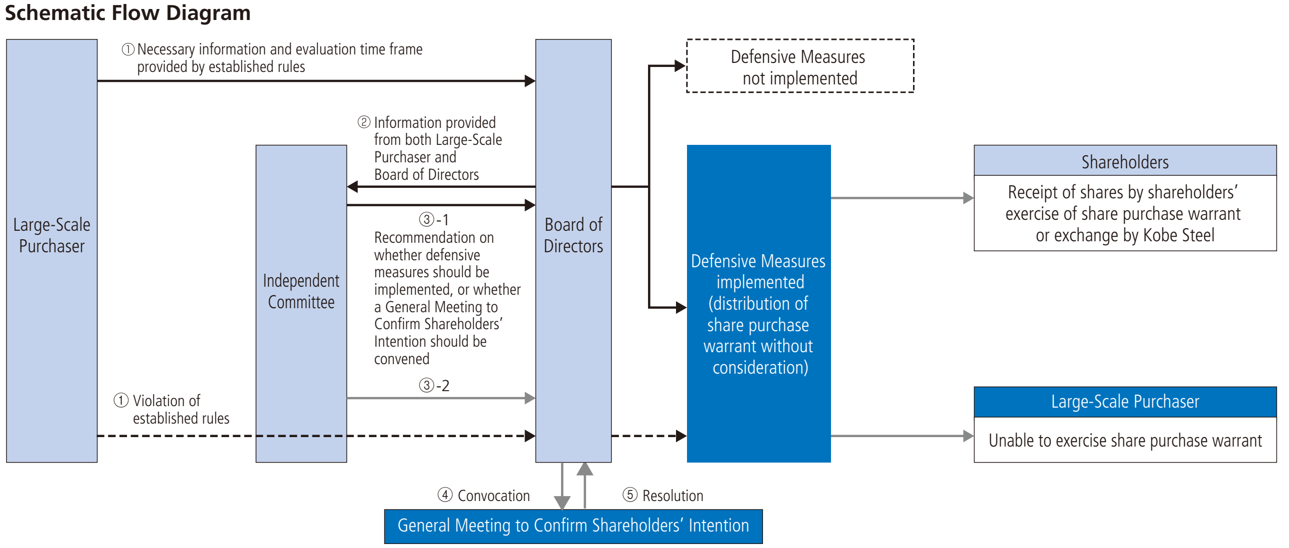
6. Details of Defensive Measures

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. However, the Board of Directors shall not, as a condition of the Share Purchase Warrants, require that the Company deliver cash as consideration for the redemption of the Share Purchase Warrants held by the Large-Scale Purchasers.

7. Effective Date and the Expiration Period of this Plan

With respect to the effectuation of this Plan and the implementation of the defensive measures based thereon, they will have certain effects on the shareholders. Therefore, the intentions of the shareholders with regard to this Plan should be confirmed, and this Plan was approved by the shareholders at the 162nd Ordinary General Meeting. This Plan has come into force upon the close of the first meeting of the Board of Directors to be held after such approval at the 162nd Ordinary General Meeting. The effective period of this Plan shall be up to the close of the first Board of Directors meeting to be held after the close of the Company's Ordinary General Meeting of Shareholders to be held in June 2017. However, as of the date of the first Board of Directors' meeting to be held after the close of the Company's Ordinary General Meeting of Shareholders to be held in June 2017, if the Large-Scale Purchases are already conducted or the procedures of this Plan are already commenced, to the extent necessary for the response to such Large-Scale Purchasing or the operation of this Plan, such effective period shall be extended. This Plan shall be abolished upon a resolution to abolish it by the Board of Directors, even during its effective period.

Schematic Flow Diagram



Consolidated 10-Year Summary

Kobe Steel, Ltd. and Consolidated Subsidiaries

Years ended March 31	Millions of yen 2007	2008	2009	2010
For the year:				
Net sales	¥1,910,296	¥2,132,406	¥2,177,290	¥1,671,022
Cost of sales	1,543,158	1,757,342	1,890,318	1,475,461
Operating income	208,624	202,399	116,934	46,016
Ordinary income (loss)	183,279	157,919	60,876	10,259
Net income (loss) attributable to owners of the parent	109,669	88,923	(31,438)	6,305
Cash flows from operating activities	172,786	124,317	118,200	172,893
Cash flows from investing activities	(128,557)	(187,381)	(127,405)	(120,324)
Cash flows from financing activities	(48,823)	31,155	138,700	(29,641)
Capital expenditures	133,649	150,585	118,044	128,739
Depreciation	86,687	111,514	128,701	118,835
Research and development expenses	24,893	30,139	31,029	28,255
At year-end:				
Total assets	2,241,570	2,329,006	2,295,489	2,249,346
Net assets (Note 2)	636,432	647,797	513,461	557,002
Outside debt	621,227	713,352	855,972	837,770
Outside debt including IPP project financing	742,276	823,404	954,791	925,120
Per share data:				
Net income (loss) (yen/U.S. dollars (Note 1))	¥ 35.37	¥ 29.63	¥ (10.47)	¥ 2.10
Diluted net income (yen/U.S. dollars (Note 1))	—	—	—	—
Net assets (yen/U.S. dollars (Note 1))	194.46	199.81	159.58	172.09
Cash dividends (yen/U.S. dollars (Note 1))	7.00	7.00	3.50	1.50
Ratios:				
Operating income ratio (%)	10.9	9.5	5.4	2.8
Ordinary income ratio (%)	9.6	7.4	2.8	0.6
ROA (%)	8.5	6.9	2.6	0.5
ROE (%)	19.5	14.9	(5.8)	1.3
Equity ratio (%)	26.4	25.8	20.9	23.0
Debt/equity ratio (times)	1.2	1.3	1.7	1.6
Dividend payout ratio (%)	19.8	23.6	—	71.4
Number of shares issued (in thousands)	3,115,061	3,115,061	3,115,061	3,115,061
Number of employees	31,828	33,657	33,526	33,629

Notes: 1. For convenience only, U.S. dollar amounts in this report have been translated from Japanese yen amounts at the rate of ¥112.68 to US$1.00, the rate of exchange prevailing on March 31, 2016.

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).

							Thousands of U.S. dollars (Note 1)
Millions of yen							
2011	2012	2013	2014	2015	2016	Change 2016/2015	2016
¥1,858,574	¥1,864,691	¥1,685,529	¥1,824,699	¥1,886,895	¥1,822,806	(3.4)%	$16,176,836
1,570,779	1,635,862	1,510,512	1,537,250	1,581,528	1,548,384	(2.1)	13,741,429
124,551	60,555	11,235	114,548	119,460	68,446	(42.7)	607,433
89,083	33,780	(18,146)	85,044	101,688	28,928	(71.6)	256,725
52,940	(14,248)	(26,976)	70,192	86,550	(21,556)	—	(191,305)
177,795	39,486	45,402	194,294	153,078	97,933	(36.0)	869,125
(96,687)	(85,267)	(123,513)	(62,105)	(73,674)	(104,619)	42.0	(928,459)
(98,196)	(40,233)	127,644	(138,502)	(156,027)	93,883	—	833,184
91,378	96,085	114,936	101,403	103,522	109,941	6.2	975,696
114,820	118,038	106,725	82,936	89,882	94,812	5.5	841,428
29,833	31,437	30,763	28,494	29,920	29,843	(0.3)	264,850
2,231,533	2,159,512	2,226,997	2,288,637	2,300,242	2,261,135	(1.7)	20,066,867
597,368	571,258	569,923	734,679	851,785	745,493	(12.5)	6,616,017
769,840	746,471	907,657	748,138	650,992	776,073	19.2	6,887,411
845,484	810,172	959,180	787,246	677,448	789,494	16.5	7,006,511
¥ 17.63	¥ (4.75)	¥ (8.99)	¥ 22.63	¥ 23.81	¥ (5.93)	—	$ (0.05)
—	—	—	—	—	—	—	—
182.81	171.84	170.63	184.11	213.70	190.38	(10.9)	1.69
3.00	1.00	—	4.00	4.00	2.00	(50.0)	0.02
						Points	
6.7	3.2	0.7	6.3	6.3	3.8	(2.6)	
4.8	1.8	(1.1)	4.7	5.4	1.6	(3.8)	
4.0	1.5	(0.8)	3.8	4.4	1.3	(3.2)	
9.9	(2.7)	(5.3)	11.9	12.0	(2.9)	(14.9)	
24.6	23.9	23.0	29.2	33.8	30.6	(3.2)	
1.4	1.4	1.8	1.1	0.9	1.1	0.2	
17.0	—	—	17.7	16.8	—	—	
3,115,061	3,115,061	3,115,061	3,643,642	3,643,642	3,643,642	—	
34,772	35,496	36,018	36,019	36,420	36,338	(82)	

Analysis of Results

Net sales

FY2015 **¥1,822.8** billion
FY2014 ¥1,886.9 billion
-3.4%

Operating income

FY2015 **¥68.4** billion
FY2014 ¥119.5 billion
-42.7%

Ordinary income

FY2015 **¥28.9** billion
FY2014 ¥101.7 billion
-71.6%

Net income (loss) attributable to owners of the parent

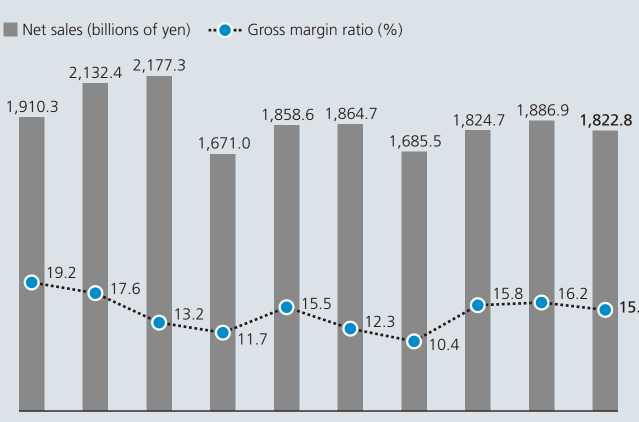
FY2015 **-¥21.6** billion
FY2014 ¥86.6 billion
—

Japan's economy in fiscal 2015 (April 1, 2015–March 31, 2016) has continued to gradually recover. Although sluggish domestic and overseas demand let to a worsening in business sentiment, public investments remained at a high level while on a decreasing trend, and corporate capital investments remained firm. Overseas, the United States and Europe continued on a gradual recovery trend, but the economies of China and Southeast Asia continued to decelerate. The overall economic aspect has continued to face uncertain conditions.

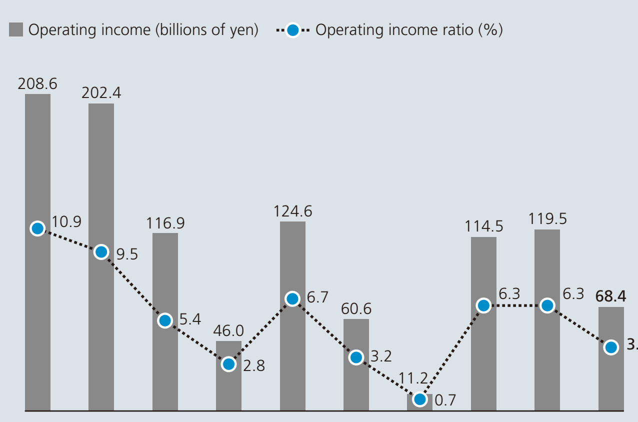
In this economic environment, at the Kobe Steel Group the sales volume of steel products (in terms of tons sold) was at a similar level to the previous year, with demand remaining firm in the shipbuilding sector and demand declining in the automotive sector. The sales volume of aluminum rolled products increased, compared with the previous year, as demand for can stock for beverage cans was firm. The sales volume of copper rolled products decreased, compared with the previous year, due to lower demand for copper strips used in semiconductors. Unit sales of hydraulic excavators decreased, compared with the previous year, due to the considerable drop in demand in China and Southeast Asia, both largely affected by economic deceleration.

As a result, consolidated sales in fiscal 2015 decreased 64.1 billion yen, compared with the previous year, to 1,822.8 billion yen, owing to a decline in steel sales price due to lower prices of primary raw materials. Operating income fell 51.1 billion yen, compared with the previous year, to 68.4 billion yen. Due to the above and the posting of allowance for doubtful accounts in the construction machinery business in China and other factors, ordinary income (also known as "pretax recurring profit" or simply "pretax profit") went down 72.8 billion yen, compared with the previous year, to 28.9 billion yen. In addition, mainly due to the rapid worsening of the business environment in the construction machinery sector in China, Kobe Steel posted extraordinary losses of 39.5 billion yen in business losses from affiliate companies with regard to loss on the valuation of investment securities of affiliate companies and on provision for loss on guarantees. As a result, net income attributable to owners of the parent decreased 108.2 billion yen, compared with the previous year, to net loss attributable to owners of the parent of 21.6 billion yen.

Net sales / Gross margin ratio



Operating income / Operating income ratio



Analysis of Cash Flows

Cash flows from operating activities

FY2015 **¥97.9** billion
FY2014 ¥153.1 billion
-¥55.2 billion

Cash flows from investing activities

FY2015 **-¥104.6** billion
FY2014 -¥73.7 billion
-¥30.9 billion

Free cash flows

FY2015 **-¥6.7** billion
FY2014 ¥79.4 billion
-¥86.1 billion

Cash flows from financing activities

FY2015 **¥93.9** billion
FY2014 -¥156.0 billion
+¥249.9 billion

Analysis of Financial Condition

Total assets

FY2015 **¥2,261.1** billion
FY2014 ¥2,300.2 billion
-1.7%

Net assets

FY2015 **¥745.5** billion
FY2014 ¥851.8 billion
-12.5%

Equity ratio

FY2015 **30.6**%
FY2014 33.8%
-3.2 points

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to 97.9 billion yen after posting loss before income taxes and non-controlling interests of 10.6 billion yen and depreciation of 94.8 billion yen.

Cash Flows from Investing Activities

Net cash used in investing activities came to 104.6 billion yen due to the purchase of fixed assets and other items.

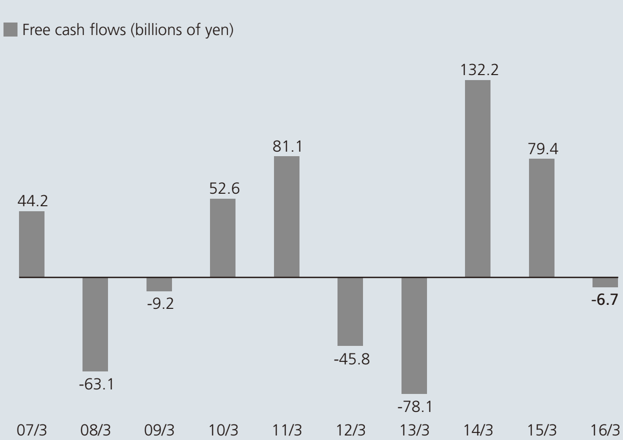
Cash Flows from Financing Activities

Net cash provided by financing activities totaled 93.9 billion yen due to the increase of borrowings and other items.

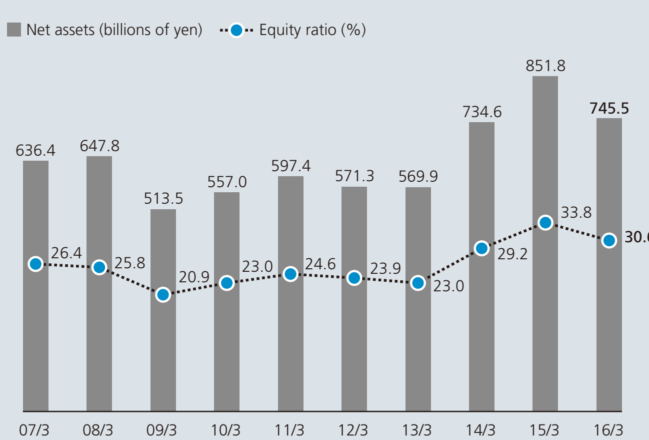
Total assets at the end of fiscal year 2015 decreased 39.1 billion yen, compared with the end of fiscal year 2014, to 2,261.1 billion yen due to the decrease in securities and the increase in allowance for doubtful accounts, although cash and deposits increased. Due to the posting of net loss attributable to owners of the parent and other factors, net assets at the end of fiscal year 2015 decreased 106.3 billion yen, compared with the end of fiscal year 2014, to 745.5 billion yen. As a result, the net worth ratio at the end of fiscal year 2015 was 30.6 percent, a decrease of 3.2 points compared with the end of fiscal year 2014.

At the end of fiscal 2015, outside debt, that includes IPP project financing, increased 112.0 billion yen, compared with the end of fiscal 2014, to 789.5 billion yen.

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, 2016.

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, 2016, overseas sales represented 36.4% of total sales, with Asia, including China—the largest single source of demand in the region—accounting for over half of overseas sales.

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

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

2. Fluctuations in Steel Volume and Prices

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

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

3. Fluctuating Prices of Raw Materials

Steel raw material prices and ocean freight charges for iron ore, coal, ferroalloys, nonferrous metals and scrap procured by the Kobe Steel Group are affected by global market conditions, exchange rates, statutory regulations, natural disasters, political trends and other factors. Fluctuations in these prices and charges could affect the Kobe Steel Group's performance.

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

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

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

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

4. Impact of Environmental Regulations

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

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

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

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

If a natural disaster such as a massive earthquake or typhoon were to strike, an infectious disease such as a new strain of influenza were to spread or some other unpredictable situation were to occur, these events could hinder operations and affect the Kobe Steel Group's performance.

6. Litigation Risks

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

7. Financial Risk

(1) Exchange Rate Fluctuations

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

(2) Interest Rate Fluctuations

Total outside debt for the Kobe Steel Group at March 31, 2016 stood at ¥776.1 billion (¥789.5 billion, including project financing related to the Electric Power 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, 2016, the consolidated balance sheet amount for investment securities held by the Kobe Steel Group stood at ¥155.9 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 Management Plan

The Kobe Steel Group unveiled its Medium-Term Management Plan in April 2016. 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 growing business in the fields of lighter vehicles and energy and infrastructure, strengthening the profitability of the steel and construction machinery businesses, and stabilizing earnings in the electric power 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, 2016.

Consolidated Balance Sheets

Kobe Steel, Ltd. and Consolidated Subsidiaries
At March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2016	2015	2016
Current assets:			
Cash and deposits (Notes 7 and 21)	¥ 155,021	¥ 103,182	$ 1,375,765
Notes and accounts receivable:			
Trade and finance	317,502	353,589	2,817,728
Unconsolidated subsidiaries and affiliates	56,253	48,468	499,233
Other	24,448	64,212	216,973
Allowance for doubtful accounts	(3,899)	(8,648)	(34,606)
	394,304	457,621	3,499,328
Securities (Note 5)	31,000	—	275,115
Merchandise and finished goods	168,383	185,077	1,494,351
Work-in-process (Note 8)	125,045	119,436	1,109,735
Raw materials and supplies	133,596	138,161	1,185,626
Deferred income taxes (Note 18)	20,574	30,388	182,587
Other	18,956	19,142	168,220
Total current assets	1,046,879	1,053,007	9,290,727
Property, plant and equipment (Note 7):			
Land	194,591	195,838	1,726,939
Buildings and structures	757,501	757,101	6,722,587
Machinery and equipment	2,339,554	2,311,779	20,762,810
Construction in progress	46,213	27,636	410,122
	3,337,859	3,292,354	29,622,458
Less accumulated depreciation	(2,411,028)	(2,365,360)	(21,397,125)
Total property, plant and equipment	926,831	926,994	8,225,333
Intangible assets	19,470	20,039	172,792
Investments and other assets:			
Investments in securities (Note 5)	108,998	144,527	967,325
Investments in and advances to unconsolidated subsidiaries and affiliates	75,227	92,602	667,618
Long-term loans receivable	5,122	5,168	45,454
Deferred income taxes (Note 18)	28,194	18,327	250,212
Net defined benefit asset (Note 23)	16,125	20,037	143,100
Other	70,391	21,771	624,699
Allowance for doubtful accounts	(36,102)	(2,230)	(320,393)
Total investments and other assets	267,955	300,202	2,378,015
	¥2,261,135	¥2,300,242	$20,066,867

LIABILITIES AND NET ASSETS	Millions of yen 2016	2015	Thousands of U.S. dollars (Note 1) 2016
Current liabilities:			
Short-term borrowings (Note 7)	¥ 118,914	¥ 141,821	$ 1,055,321
Current portion of long-term debt (Note 7)	138,024	99,551	1,224,918
Notes and accounts payable:			
Trade	313,436	359,771	2,781,644
Construction	26,712	19,706	237,058
Unconsolidated subsidiaries and affiliates	50,598	68,552	449,044
Other	14,247	13,998	126,442
	404,993	462,027	3,594,188
Current portion of lease obligations	7,039	5,433	62,466
Advances from customers	31,657	37,208	280,945
Customers' and employees' deposits	19,976	19,723	177,284
Income and enterprise taxes payable	5,347	14,011	47,452
Provision for loss on construction contracts (Note 8)	7,218	6,468	64,057
Deferred income taxes (Note 18)	326	610	2,886
Other	80,172	76,603	711,515
Total current liabilities	813,666	863,455	7,221,032
Long-term liabilities:			
Long-term debt (Note 7)	532,493	435,975	4,725,707
Lease obligations	24,066	27,078	213,583
Net defined benefit liability (Note 23)	77,166	59,573	684,823
Provision for environmental measures	1,062	1,196	9,423
Provision for structural reform-related expenses	5,322	4,945	47,231
Provision for dismantlement-related expenses	11,028	9,556	97,866
Deferred income taxes (Note 18)	9,816	17,659	87,118
Other	41,023	29,020	364,067
Total long-term liabilities	701,976	585,002	6,229,818
Contingent liabilities (Note 11)			
Net assets:			
Stockholders' equity:			
Common stock (Notes 12 and 20)	250,930	250,930	2,226,926
Authorized — 6,000,000,000 shares			
Issued — 3,643,642,100 shares			
Capital surplus (Note 12)	103,558	100,783	919,044
Retained earnings (Note 12)	354,720	392,652	3,148,029
Treasury stock, at cost (Note 20):	(1,556)	(2,996)	(13,813)
8,779,337 shares in 2016 and 10,082,049 shares in 2015			
	707,652	741,369	6,280,186
Accumulated other comprehensive income:			
Unrealized gains on securities, net of taxes	8,256	27,098	73,268
Unrealized losses on hedging derivatives, net of taxes	(7,930)	(2,415)	(70,373)
Land revaluation differences, net of taxes (Note 9)	(3,406)	(3,561)	(30,230)
Foreign currency translation adjustments	13,901	22,892	123,364
Remeasurements of defined benefit plans, net of taxes	(26,466)	(8,891)	(234,877)
	(15,645)	35,123	(138,848)
Non-controlling interests	53,486	75,293	474,679
Total net assets	745,493	851,785	6,616,017
	¥2,261,135	¥2,300,242	$20,066,867

See accompanying notes.

Consolidated Statements of Operations

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net sales	¥1,822,806	¥1,886,895	$16,176,836
Cost of sales (Note 13)	(1,548,384)	(1,581,528)	(13,741,429)
Gross profit	274,422	305,367	2,435,407
Selling, general and administrative expenses (Note 15)	(205,976)	(185,907)	(1,827,974)
Operating income	68,446	119,460	607,433
Non-operating income (expenses):			
Interest and dividend income	8,025	6,908	71,223
Interest expense	(15,177)	(15,845)	(134,691)
Seconded employees' salaries, net of reimbursement	(6,696)	(7,467)	(59,424)
Foreign exchange gain (loss)	(4,134)	3,814	(36,690)
Equity in income (loss) of equity method companies	(7,770)	70	(68,959)
Other, net	(13,766)	(5,252)	(122,167)
	(39,518)	(17,772)	(350,708)
Ordinary income	28,928	101,688	256,725
Extraordinary income (loss):			
Gain on return of assets from retirement benefit trust	—	15,684	—
Loss on business of subsidiaries and associates (Note 16)	(37,363)	—	(331,589)
Loss on write-down of investment securities	(2,184)	(2,589)	(19,382)
Dismantlement-related expenses (Note 17)	—	(10,457)	—
	(39,547)	2,638	(350,971)
Income (loss) before income taxes and non-controlling interests	(10,619)	104,326	(94,246)
Income taxes (Note 18):			
Current	14,677	24,135	130,255
Deferred	8,386	(11,788)	74,419
	23,063	12,347	204,674
Income (loss) before non-controlling interests	(33,682)	91,979	(298,920)
Net income (loss) attributable to non-controlling interests	(12,126)	5,429	(107,615)
Net income (loss) attributable to owners of the parent	¥ (21,556)	¥ 86,550	$ (191,305)

	Yen		U.S. dollars (Note 1)
Per share	2016	2015	2016
Net income (loss)	¥ (5.93)	¥ 23.82	$ (0.05)
Cash dividends applicable to the year	2.00	4.00	0.02

See accompanying notes.

Consolidated Statements of Comprehensive Income

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Income (loss) before non-controlling interests	¥(33,682)	¥ 91,979	$(298,920)
Other comprehensive income (loss):			
Unrealized gains (losses) on securities, net of taxes	(18,096)	12,875	(160,594)
Unrealized losses on hedging derivatives, net of taxes	(5,859)	(302)	(51,993)
Land revaluation differences, net of taxes	176	356	1,558
Foreign currency translation adjustments	(12,108)	23,313	(107,455)
Remeasurements of defined benefit plans, net of taxes	(17,560)	4,348	(155,842)
Share of other comprehensive income related to equity method companies	(1,424)	2,818	(12,634)
Total other comprehensive income (Note 19)	(54,871)	43,408	(486,960)
Total comprehensive income	¥(88,553)	¥135,387	$(785,880)
Total comprehensive income (loss) attributed to:			
Stockholders of the parent interests	¥(72,306)	¥124,251	$(641,694)
Non-controlling interests	(16,247)	11,136	(144,186)

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

	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	Non-controlling interests	Total
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 attributable to owners of the parent				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 non-controlling 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 April 1, 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
Dividends of surplus				(14,536)								(14,536)
Net loss attributable to owners of the parent				(21,556)								(21,556)
Share exchanges				(1,856)	3,408							1,552
Purchase of treasury stock					(1,970)							(1,970)
Disposal of treasury stock				(1)	2							1
Changes in stockholders interest due to transaction with non-controlling interests			2,775									2,775
Decrease due to changes in scope of consolidation				(2)								(2)
Adjustment to land revaluation				19								19
Net changes in items other than stockholders' equity						(18,842)	(5,515)	155	(8,991)	(17,575)	(21,807)	(72,575)
Net changes during the year			2,775	(37,932)	1,440	(18,842)	(5,515)	155	(8,991)	(17,575)	(21,807)	(106,292)
Balance at March 31, 2016	3,643,642	¥250,930	¥103,558	¥354,720	¥(1,556)	¥ 8,256	¥(7,930)	¥(3,406)	¥13,901	¥(26,466)	¥53,486	¥745,493

	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	Non-controlling interests	Total
Balance at April 1, 2015	3,643,642	$2,226,926	$894,415	$3,484,669	$(26,592)	$240,482	$(21,433)	$(31,599)	$203,161	$ (78,906)	$668,206	$7,559,329
Dividends of surplus				(129,005)								(129,005)
Net loss attributable to owners of the parent				(191,305)								(191,305)
Share exchanges				(16,469)	30,243							13,774
Purchase of treasury stock					(17,486)							(17,486)
Disposal of treasury stock				(11)	22							11
Changes in stockholders interest due to transaction with non-controlling interests			24,629									24,629
Decrease due to changes in scope of consolidation				(15)								(15)
Adjustment to land revaluation				165								165
Net changes in items other than stockholders' equity						(167,214)	(48,940)	1,369	(79,797)	(155,971)	(193,527)	(644,080)
Net changes during the year			24,629	(336,640)	12,779	(167,214)	(48,940)	1,369	(79,797)	(155,971)	(193,527)	(943,312)
Balance at March 31, 2016	3,643,642	$2,226,926	$919,044	$3,148,029	$(13,813)	$ 73,268	$(70,373)	$(30,230)	$123,364	$(234,877)	$474,679	$6,616,017

See accompanying notes.

Consolidated Statements of Cash Flows

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Cash flows from operating activities:			
Income (loss) before income taxes and non-controlling interests	¥ (10,619)	¥ 104,326	$ (94,246)
Depreciation	94,812	89,882	841,428
Increase in allowance for doubtful accounts	16,858	2,296	149,608
Interest and dividend income	(8,025)	(6,908)	(71,223)
Interest expense	15,177	15,845	134,691
Loss (income) on sale of securities	(1,686)	291	(14,962)
Loss on write-down of investments in securities	2,184	2,589	19,382
Equity in loss (income) of equity method companies	7,770	(70)	68,959
Gain on return of assets from retirement benefit trust	—	(15,684)	—
Dismantlement-related expenses	—	10,457	—
Gain on sale of property, plant and equipment	(64)	(1,881)	(565)
Loss on disposal of property, plant and equipment	1,801	2,060	15,983
Loss on business of subsidiaries and associates	37,363	—	331,589
Decrease in trade receivables from customers	10,536	27,340	93,508
Decrease (increase) in lease receivables and investment assets	7,076	(1,779)	62,799
Decrease (increase) in inventories	11,349	(29,813)	100,716
Decrease in trade payables to customers	(56,431)	(6,254)	(500,812)
Other	2,048	(15,696)	18,176
Subtotal	130,149	177,001	1,155,031
Cash received for interest and dividends	9,667	8,347	85,794
Cash paid for interest	(15,853)	(16,181)	(140,686)
Cash paid for income taxes	(26,030)	(16,089)	(231,014)
Net cash provided by operating activities	97,933	153,078	869,125
Cash flows from investing activities:			
Purchase of property, plant and equipment and other assets	(99,172)	(95,353)	(880,118)
Proceeds from sale of property, plant and equipment and other assets	3,043	5,013	27,004
Purchase of investments in securities	(7,125)	(391)	(63,229)
Proceeds from sale of investments in securities	6,582	23,634	58,412
Payment for investments in capital	(957)	(6,285)	(8,493)
Increase in short-term loans receivable	(10,467)	(346)	(92,892)
Payments for long-term loans receivable	(278)	(402)	(2,465)
Proceeds from collection of long-term loans receivable	674	468	5,983
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	—	790	—
Other	3,081	(802)	27,339
Net cash used in investing activities	(104,619)	(73,674)	(928,459)
Cash flows from financing activities:			
Decrease in short-term borrowings	(18,712)	(50,995)	(166,063)
Proceeds from long-term debt	163,192	17,138	1,448,278
Repayment of long-term debt	(86,180)	(59,860)	(764,816)
Proceeds from issuance of bonds	80,000	—	709,975
Repayment of bonds	(20,000)	(26,000)	(177,494)
Repayments of finance lease obligations	(6,729)	(14,334)	(59,715)
Payment of dividends	(14,492)	(21,710)	(128,616)
Payment from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(67)	—
Other	(3,196)	(199)	(28,365)
Net cash used in financing activities	93,883	(156,027)	833,184
Effect of exchange rate changes on cash and cash equivalents	(4,583)	7,097	(40,679)
Increase (decrease) in cash and cash equivalents	82,614	(69,526)	733,171
Cash and cash equivalents at beginning of year	101,654	170,926	902,148
Increase in cash and cash equivalents resulting from change in scope of consolidation	19	254	170
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	50	—	444
Cash and cash equivalents at end of year (Note 21)	¥184,337	¥ 101,654	$1,635,933

See accompanying notes.

Notes to Consolidated Financial Statements

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

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, 2016, which was ¥112.68 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, 2016, the accounts of 170 (166 in 2015) subsidiaries have been included in the consolidated financial statements. Intercompany transactions and accounts have been eliminated.

Seventy-three (76 in 2015) 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 non-controlling 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, 2016, 43 (44 in 2015) 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 a 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 Business, Welding Business and Aluminum & Copper Business segments and by the specific identification method for finished goods and work in progress in the Machinery Business, Engineering Business, Kobelco Eco-Solutions, Kobelco Construction Machinery and Kobelco Cranes 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 19 years for those accrued in 2016, 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) Bond Issuance Costs

Bond issuance costs are recognized as expense when incurred.

(13) 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 non-controlling interests.

(14) 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.

(15) 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).

(16) 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.

(17) Consolidated Tax Return

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

(18) 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.

(19) Accounting Standards Issued but Not Yet Adopted

Revised Implementation Guidance on Recoverability of Deferred Tax Assets (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, March 28, 2016)

(1) Overview

When responsibility for providing practical guidelines on the accounting and auditing treatment of recoverability of deferred tax assets (limited to the portion related to accounting treatment) was transferred from the Japanese Institute of Certified Public Accountants (JICPA) to the ASBJ, the ASBJ partially revised the requirement criteria for entity categorization and the treatment of net deferred tax assets regarding guidance for the recoverability of deferred tax assets mainly prescribed in JICPA Audit Committee Report No. 66 (Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets). The ASBJ has mainly adhered to the basic framework for categorization of entities and for estimating the recoverability of deferred tax assets by category. In addition, implementation guidance is described in this guidance for entities adopting Accounting Standard for Tax Effects (Business Accounting Council (Japan)) and assessing deferred tax assets.

The following treatments were changed as necessary:

1. Treatment for an entity that does not meet any of the criteria in types 1 to 5;
2. Criteria for types 2 and 3;
3. Treatment for deductible temporary differences which an entity classified as type 2 is unable to schedule;
4. Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year
5. Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3.

(2) Planned implementation date

We plan to imply the guidance from the beginning of the fiscal year ending March 31, 2017.

(3) Impact of the implementation of the Guidance

It is considered that there will be no impact on consolidated financial statement by implying this Guidance.

(20) Reclassifications

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

3. Leases

Operating leases

Future minimum lease payments as lessee under operating leases at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Due within one year	¥ 4,358	¥ 4,163	$ 38,677
Due after one year	9,862	9,411	87,524
	¥14,220	¥13,574	$126,201

Future minimum lease fees receivable as lessor under operating leases at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Due within one year	¥ 370	¥ 367	$ 3,280
Due after one year	2,076	2,192	18,429
	¥ 2,446	¥2,559	$21,709

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, currency swaps, 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, 2016 and 2015 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2016			2015			2016
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference	Difference
Cash and deposits	¥155,021	¥155,021	¥ —	¥103,182	¥103,182	¥ —	$ —
Notes and accounts receivable—trade	291,223	291,223	—	318,800	318,800	—	—
Securities:							
Available-for-sale securities (Negotiable certificates of deposit)	31,000	31,000	—	—	—	—	—
Investments in securities:							
Held-to-maturity debt securities	8	8	—	11	11	—	—
Securities of subsidiaries and affiliates	16,071	18,886	2,815	18,617	28,969	10,352	24,982
Available-for-sale securities	95,674	95,674	—	124,352	124,352	—	—
Notes and accounts payable—trade	(313,436)	(313,436)	—	(359,771)	(359,771)	—	—
Short-term borrowings and current portion of long-term debt	(221,937)	(222,765)	(828)	(221,372)	(222,137)	(765)	(7,345)
Bonds included in current portion of long-term debt	(35,000)	(35,429)	(429)	(20,000)	(20,074)	(74)	(3,812)
Bonds included in long-term debt	(176,000)	(178,536)	(2,536)	(131,000)	(135,979)	(4,979)	(22,502)
Long-term borrowings included in long-term debt	(356,493)	(358,239)	(1,746)	(304,975)	(312,571)	(7,596)	(15,500)
Lease obligations	(24,066)	(25,571)	(1,505)	(27,078)	(28,757)	(1,679)	(13,353)
Derivative transactions:							
Hedge accounting not applied	165	165	—	(112)	(112)	—	—
Hedge accounting applied	(10,404)	(10,404)	—	(2,966)	(2,966)	—	—

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, notes and accounts receivable—trade and securities

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 debt

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, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Non-listed equity securities	¥44,161	¥64,951	$391,912

The aggregate annual maturities of financial assets at March 31, 2016 and 2015 were as follows:

Cash and deposits

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Due within 1 year	¥155,021	¥103,182	$1,375,765
Due after 1 year through 5 years	—	—	—
Due after 5 years through 10 years	—	—	—
Due after 10 years	—	—	—
	¥155,021	¥103,182	$1,375,765

Notes and accounts receivable—trade

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Due within 1 year	¥287,806	¥310,358	$2,554,193
Due after 1 year through 5 years	2,696	7,541	23,927
Due after 5 years through 10 years	721	901	6,397
Due after 10 years	—	—	—
	¥291,223	¥318,800	$2,584,517

Available-for-sale securities

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Due within 1 year	¥31,000	¥—	$275,115
Due after 1 year through 5 years	—	—	—
Due after 5 years through 10 years	—	—	—
Due after 10 years	—	—	—
	¥31,000	¥—	$275,115

Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Due within 1 year	¥4	¥ 4	$33
Due after 1 year through 5 years	4	7	33
Due after 5 years through 10 years	—	—	—
Due after 10 years	—	—	—
	¥8	¥11	$66

The aggregate annual maturities of bonds at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Due within 1 year	¥ 35,000	¥ 20,000	$ 310,614
Due after 1 year through 2 years	30,000	35,000	266,241
Due after 2 years through 3 years	14,000	30,000	124,246
Due after 3 years through 4 years	22,000	14,000	195,243
Due after 4 years through 5 years	30,000	22,000	266,240
Due after 5 years	80,000	30,000	709,975
	¥211,000	¥151,000	$1,872,559

The aggregate annual maturities of long-term borrowings at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Due within 1 year	¥103,024	¥ 79,551	$ 914,304
Due after 1 year through 2 years	103,127	109,784	915,221
Due after 2 years through 3 years	64,134	93,473	569,167
Due after 3 years through 4 years	42,392	49,040	376,212
Due after 4 years through 5 years	38,730	31,474	343,715
Due after 5 years	108,110	21,204	959,447
	¥459,517	¥384,526	$4,078,066

The aggregate annual maturities of lease obligations at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Due within 1 year	¥ 7,039	¥ 5,433	$ 62,466
Due after 1 year through 2 years	6,134	6,247	54,439
Due after 2 years through 3 years	5,249	5,783	46,581
Due after 3 years through 4 years	9,622	4,910	85,399
Due after 4 years through 5 years	2,084	8,998	18,493
Due after 5 years	977	1,140	8,671
	¥31,105	¥32,511	$276,049

The aggregate annual maturities of other interest bearing debt at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Due within 1 year	¥20,728	¥23,301	$183,959
Due after 1 year through 2 years	637	673	5,656
Due after 2 years through 3 years	654	573	5,807
Due after 3 years through 4 years	554	209	4,912
Due after 4 years through 5 years	453	100	4,019
Due after 5 years	872	69	7,736
	¥23,898	¥24,925	$212,089

5. Securities

The following table summarizes held-to-maturity debt securities at March 31, 2016 and 2015.

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2016			2015			2016
	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	¥8	¥8	¥—	¥11	¥11	¥—	$—

The following tables summarize available-for-sale securities at March 31, 2016 and 2015.

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2016			2015			2016
	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	¥ 54,142	¥ 29,380	¥24,762	¥ 98,516	¥61,499	¥37,017	$219,758
Other	—	—	—	—	—	—	—
	54,142	29,380	24,762	98,516	61,499	37,017	219,758
Securities with available carrying amount not exceeding acquisition cost:							
Other securities:							
Equity securities	41,532	57,489	(15,957)	25,836	27,532	(1,696)	(141,614)
Other	31,000	31,000	—	—	—	—	—
	72,532	88,489	(15,957)	25,836	27,532	(1,696)	(141,614)
	¥126,674	¥117,869	¥ 8,805	¥124,352	¥89,031	¥35,321	$ 78,144

Sales of available-for-sale securities for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Sales	¥2,658	¥20,164	$23,591
Gains on sales	1,685	199	14,956
Losses on sales	(1)	(1,216)	(7)

6. Derivative Transactions

Derivative transactions for which hedge accounting is not applied

Forward currency exchange contracts outstanding at March 31, 2016 and 2015 were as follows:

	Millions of yen								Thousands of U.S. dollars (Note 1)
	2016				2015				2016
	Contracted amount				Contracted amount				
		Over one year	Fair value	Recognized gain (loss)		Over one year	Fair value	Recognized gain (loss)	Fair value
Foreign currency exchange contracts									
To sell foreign currencies:									
U.S. dollars	¥3,650	¥ —	¥ 51	¥ 51	¥6,976	¥ —	¥ 32	¥ 32	$ 457
Others	7,944	7,780	195	195	221	—	(5)	(5)	1,731
To buy foreign currencies:									
U.S. dollars	815	—	(4)	(4)	8,353	3	133	133	(37)
Others	3,612	366	(145)	(145)	3,407	725	(257)	(257)	(1,282)
Foreign currency options									
To sell foreign currency options:									
Call									
U.S. dollars	¥ 659	¥ —	¥ 9	¥ 9	¥ 768	¥ —	¥ 1	¥ 1	$ 77
	[14]				[15]				
To buy foreign currency options:									
Put									
U.S. dollars	659	—	8	8	768	—	(6)	(6)	66
	[14]				[15]				
Currency swaps									
Receiving Chinese yuan									
Paying Japanese yen	¥ 661	¥ —	¥ 57	¥ 57	¥ —	¥ —	¥ —	¥ —	$505
				¥171				¥(102)	

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 and currency swaps
   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, 2016 and 2015 were as follows:

	Millions of yen								Thousands of U.S. dollars (Note 1)
	2016				2015				2016
	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 sell commodity	¥ 325	¥—	¥ 2	¥ 2	¥ —	¥—	¥ —	¥ —	$ 17
To buy commodities	517	—	(8)	(8)	250	—	(10)	(10)	(73)
				¥(6)				¥(10)	$ (56)

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, 2016 and 2015 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2016			2015			2016
	Contracted amount	Over one year	Fair value	Contracted amount	Over one year	Fair value	Fair value
Hedges for which the "deferred hedge" method is applied							
Foreign currency exchange contracts							
To sell foreign currencies:							
U.S. dollars	¥24,900	¥5,326	¥1,056	¥33,734	¥ 7,914	¥(3,573)	$ 9,375
Others	5,253	2,176	123	3,359	574	(79)	1,087
To buy foreign currencies:							
U.S. dollars	3,153	616	17	4,046	747	553	150
Others	3,482	464	(112)	3,740	68	(149)	(993)
Foreign currency options							
To sell foreign currency options:							
Put							
U.S. dollars	¥ 7,117 [125]	¥ —	¥ (121)	¥ 8,707 [171]	¥ —	¥ 21	$(1,075)
Call							
U.S. dollars	260 [5]	—	0	295 [6]	—	(0)	1
To buy foreign currency options:							
Put							
U.S. dollars	260 [5]	—	(0)	295 [6]	—	(0)	(3)
Call							
U.S. dollars	7,117 [125]	—	(28)	8,707 [171]	—	11	(249)
Hedges for which the "assigning" method is applied							
Foreign currency exchange contracts							
To sell foreign currencies:							
U.S. dollars	¥37,840	¥ 350	¥ —	¥80,581	¥ 749	¥ —	$ —
Others	12,039	576	—	12,321	256	—	—
To buy foreign currencies:							
U.S. dollars	9,914	3,339	—	2,191	—	—	—
Others	13,240	2,888	—	27,174	11,968	—	—

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, 2016 and 2015 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2016			2015			2016
	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	¥223,190	¥223,190	¥(11,079)	¥ 58,300	¥58,300	¥(416)	$(98,324)
Hedges for which the "exceptional" method is applied							
Interest rate swap agreements							
To receive floating and pay fixed rates	¥127,551	¥ 97,192	¥ —	¥101,086	¥81,059	¥ —	$ —

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, 2016 and 2015 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2016			2015			2016
	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	¥ 2,285	¥—	¥ 69	¥ 4,016	¥—	¥ 66	$ 609
To buy commodities	36,541	—	(328)	17,406	—	601	(2,911)

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, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Bank loans (average rate: 3.15% in 2016 and 3.81% in 2015)	¥118,914	¥141,821	$1,055,321

Long-term debt at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
0.30% to 2.50% yen bonds, due 2017 through 2025	¥211,000	¥151,000	$1,872,559
Loans, principally from banks and insurance companies, due 2016 through 2031	459,517	384,526	4,078,066
	670,517	535,526	5,950,625
Less current portion	138,024	99,551	1,224,918
	¥532,493	¥435,975	$4,725,707

The aggregate annual maturities of long-term debt at March 31, 2016 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2016	2016
Due within 1 year	¥138,024	$1,224,918
Due after 1 year through 2 years	133,127	1,181,462
Due after 2 years through 3 years	78,134	693,413
Due after 3 years through 4 years	64,392	571,455
Due after 4 years through 5 years	68,730	609,955
Due after 5 years	188,110	1,669,422
	¥670,517	$5,950,625

At March 31, 2016 and 2015, 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)
	2016	2015	2016
Assets pledged as collateral:			
Cash and deposits	¥ 16,644	¥ 17,695	$147,708
Property, plant and equipment, net of accumulated depreciation	67,067	71,794	595,197
Other assets	16,886	18,219	149,864
	¥100,597	¥107,708	$892,769
Secured short-term borrowings and long-term debt:			
Long-term borrowings	15,789	29,130	140,123
	¥ 15,789	¥ 29,130	$140,123

Notes:
1. For the year ended March 31, 2016, of the assets pledged as collateral, ¥2,184 million ($19,384 thousand) have been provided as revolving mortgages (capped at ¥76,280 million) related to bank transactions. At March 31, 2016, on a consolidated basis, there were no corresponding obligations.
2. In addition to the above, for the year ended March 31, 2016, ¥1,080 million ($9,587 thousand) in borrowings of other subsidiaries and affiliates were collateralized by assets pledged as collateral.

8. Provision for Loss on Construction Contracts

Inventories for construction contracts with anticipated losses and provision for loss on construction contracts were not offset. The inventories for the construction contracts for which the provision for loss on construction contracts was provided were ¥3,608 million ($32,022 thousand) for the year ended March 31, 2016 and ¥2,527 million for the year ended March 31, 2015. 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, 2016 and 2015 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
Revaluation date	2016	2015	2016
March 31, 2001	¥ 541	¥ (40)	$ 4,802
March 31, 2002	(4,631)	(4,952)	(41,098)
	¥(4,090)	¥(4,992)	$(36,296)

10. Commitment Line

The unexercised portion of facilities based on commitment line contracts at March 31, 2016 and 2015 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Total commitment available	¥132,026	¥132,674	$1,171,688
Less amount utilized	7,344	7,740	65,176
	¥124,682	¥124,934	$1,106,512

11. Contingent Liabilities

At March 31, 2016 and 2015, the Group was contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Trade notes discounted	¥ 64	¥ 101	$ 565
Trade notes endorsed	603	3,132	5,352
Guarantees of loans:			
Related parties	21,230	38,593	188,411
Others	4,238	10,374	37,613
	¥26,135	¥52,200	$231,941

Guarantees of loans include contingent guarantees and letters of awareness of ¥17 million ($146 thousand) in 2016 (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 ¥46,830 million ($415,601 thousand) for the year ended March 31, 2016 and ¥79,043 million for the year ended March 31, 2015.

12. Net Assets

Net assets comprise stockholders' equity, accumulated other comprehensive income and non-controlling 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 was ¥3,877 million ($34,406 thousand) for the year ended March 31, 2016 and ¥3,605 million for the year ended March 31, 2015.

Provision for loss on construction contracts included in the cost of sales was ¥5,286 million ($46,910 thousand) for the year ended March 31, 2016 and ¥3,570 million for the year ended March 31, 2015.

14. Research and Development Expenses

Research and development expenses included in cost of sales and selling, general and administrative expenses were ¥29,843 million ($264,850 thousand) for the year ended March 31, 2016 and ¥29,920 million for the year ended March 31, 2015.

15. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2016 and 2015 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Freight	¥ 46,516	¥ 48,869	$ 412,817
Employees' compensation	40,957	38,878	363,484
Research and development expenses	13,636	13,068	121,013
Welfare and legal welfare expenses	10,603	10,108	94,103
Travel expenses	8,594	9,339	76,266
Rent expenses	7,552	7,164	67,020
Commission fees	6,794	5,124	60,293
Provision for bonuses	4,859	5,085	43,125
Depreciation	4,507	4,667	39,995
Directors' salaries	4,141	4,062	36,748
Others	57,817	39,543	513,110
	¥205,976	¥185,907	$1,827,974

16. Loss on Business of Subsidiaries and Associates

The loss on business of subsidiaries and associates of ¥37,363 million ($331,589 thousand) was booked mainly as loss on the write-down of investment securities, provision of loans, and provision of guarantee obligations with regard to the Company's affiliate, operating the business of wheel loaders Sichuan Chengdu Chenggong Construction Machinery Co., Ltd., which has been affected by the rapid worsening of the business environment in the construction machinery sector in China. This loss comprises ¥14,121 million for provision of allowance for doubtful accounts, ¥10,349 million provision for loss on guarantees, ¥9,752 million for write-down of investment securities, ¥2,009 million for impairment loss of fixed assets and ¥1,132 million for other items.

Impairment loss of fixed assets related to the loss mentioned above is as follows.

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2016	2016
Assets to be disposed:		
Buildings and structures, etc. (Sichuan Province, China: 1 property in total)	¥2,009	$17,833

The Company and its consolidated subsidiaries group their fixed assets based, in principle, on the unit of business establishments and recognized impairment loss for the assets whose fair value had diminished significantly compared to the book value.

With regard to the above, an impairment loss of ¥2,009 million has been recorded on a book value reduction to the recoverable amount, at a consolidated subsidiary in the crane business which has suspended production activities amid a worsening business environment and plans to dispose or sell the fixed assets that it holds. These comprise buildings and structures of ¥1,360 million, machinery and equipment of ¥521 million and ¥128 million in intangible assets.

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

17. Dismantlement-Related Expenses

Dismantlement related expenses were ¥10,457 million for the year ended March 31, 2015.

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

18. Income Taxes

Significant components of the Group's deferred income tax assets and liabilities at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Deferred income tax assets:			
Net defined benefit liability	¥ 22,789	¥ 17,185	$ 202,249
Unrealized profit	17,262	18,268	153,196
Tax loss carryforwards	14,876	21,686	132,022
Impairment loss	10,626	11,946	94,303
Allowance for doubtful accounts	10,040	2,680	89,104
Accrued bonuses to employees	6,497	7,409	57,661
Unrealized losses on securities	5,026	695	44,604
Loss on write-down of inventories	4,439	3,737	39,390
Other	43,176	40,395	383,171
Total deferred income tax assets	134,731	124,001	1,195,700
Valuation allowance	(55,655)	(46,904)	(493,922)
Deferred income tax assets	79,076	77,097	701,778
Deferred income tax liabilities:			
Gain on return of assets from retirement benefit trust	8,030	8,468	71,261
Unrealized gains on securities	6,818	11,054	60,505
Land revaluation	3,251	3,436	28,855
Special tax purpose reserve	2,137	2,282	18,968
Other	20,214	21,411	179,394
Total deferred income tax liabilities	40,450	46,651	358,983
Net deferred income tax assets	¥ 38,626	¥ 30,446	$ 342,795

The reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2015 was as follows:

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

A reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2016 was not disclosed because a loss before income taxes was recorded for the year.

On March 29, 2016, amendments to the Japanese tax regulations came into force. Based on the amendments, corporate taxes were reduced effective for the fiscal year starting on April 1, 2016 and after. As a result, the statutory income tax rates used for the measurement of deferred income tax assets and liabilities were changed from 32.2% to 30.8% pertaining to temporary differences that are expected to be eliminated in the fiscal year starting from April 1, 2016 and April 1, 2017 and to 30.6% pertaining to temporary differences that are expected to be eliminated in the fiscal year starting from April 1, 2018.

Due to these changes in statutory income tax rates, deferred income tax assets (net of deferred income tax liabilities), unrealized gains on securities, unrealized losses on hedging derivatives, land revaluation differences and remeasurements of defined benefit plans increased by ¥1,187 million ($10,536 thousand), ¥72 million ($640 thousand), ¥104 million ($919 thousand), ¥144 million ($1,282 thousand) and ¥212 million ($1,884 thousand), respectively, while income taxes—deferred decreased by ¥655 million ($5,811 thousand).

19. Consolidated Statements of Comprehensive Income

Other comprehensive income for the years ended March 31, 2016 and 2015 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Unrealized gains (losses) on securities:			
Unrealized gains (losses) arising during the period	¥(26,048)	¥16,848	$(231,170)
Less: reclassification adjustment included in net income (loss)	(559)	1,104	(4,956)
	(26,607)	17,952	(236,126)
Tax benefit (expense)	8,511	(5,077)	75,532
	(18,096)	12,875	(160,594)
Unrealized losses on hedging derivatives:			
Unrealized losses arising during the period	(11,767)	(1,808)	(104,426)
Less: reclassification adjustment included in net income (loss)	4,011	2,010	35,598
Acquisition adjustment	628	(445)	5,571
	(7,128)	(243)	(63,257)
Tax benefit (expense)	1,269	(59)	11,264
	(5,859)	(302)	(51,993)
Land revaluation differences:			
Less: reclassification adjustment included in net income (loss)	—	—	—
Tax benefit (expense)	176	356	1,558
	176	356	1,558
Foreign currency translation adjustments:			
Translation adjustments arising during the period	(12,245)	23,313	(108,669)
Less: reclassification adjustment included in net income (loss)	137	—	1,214
	(12,108)	23,313	(107,455)
Tax benefit (expense)	—	—	—
	(12,108)	23,313	(107,455)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Remeasurements of defined benefit plans:			
Unrealized gains (losses) arising during the period	¥(23,324)	¥ 18,122	$(206,994)
Less: reclassification adjustment included in net income (loss)	(486)	(14,971)	(4,310)
	(23,810)	3,151	(211,304)
Tax benefit (expense)	6,250	1,197	55,462
	(17,560)	4,348	(155,842)
Share of other comprehensive income related to equity method companies:			
Unrealized gains (losses) arising during the period	(1,452)	2,816	(12,883)
Less: reclassification adjustment included in net income (loss)	28	2	249
	(1,424)	2,818	(12,634)
Other comprehensive income	¥(54,871)	¥ 43,408	$(486,960)

20. Consolidated Statements of Changes in Net Assets

Changes in the number of shares issued and outstanding during the years ended March 31, 2016 and 2015 were as follows:

	Number of shares
Common stock outstanding	
Balance at March 31, 2014	3,643,642,100
(No increase)	—
(No decrease)	—
Balance at March 31, 2015	3,643,642,100
(No increase)	—
(No decrease)	—
Balance at March 31, 2016	3,643,642,100

Changes in the number of treasury stock outstanding during the years ended at March 31, 2016 and 2015 were as follows:

	Number of shares
Treasury stock outstanding	
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
Increase due to purchase of odd-lot stock	122,015
Increase due to stock exchange	9,000,000
Decrease due to sale of odd-lot stock	(8,573)
Decrease due to stock exchange	(10,416,154)
Balance at March 31, 2016	8,779,337

Amount of dividend payments during the year ended March 31, 2016 was 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 $64,583	¥2.0 $0.02	March 31, 2015	June 4, 2015
At the Board of Directors' meeting held on October 30, 2015	Common stock	¥7,259 $64,422	¥2.0 $0.02	September 30, 2015	December 1, 2015

There were no dividends for which the record date belongs to the year ended March 31, 2016, and the operative date is in the year ending March 31, 2017.

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, 2016 and 2015 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Cash and deposits in the consolidated balance sheets	¥155,021	¥103,182	$1,375,765
Time deposits due over three months	(1,684)	(1,528)	(14,947)
Certificate of deposits included in the securities account	31,000	—	275,115
Cash and cash equivalents in the consolidated statements of cash flows	¥184,337	¥101,654	$1,635,933

22. Related Party Transactions

Transactions of the Company with related parties for the year ended March 31, 2016 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	¥194,593 $1,726,952	Accounts receivable	¥13,817 $122,617
					Purchases of raw materials and materials for equipment	¥269,449 $2,391,274	Accounts payable	¥17,369 $154,141
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	¥52,132 $462,654	Accounts receivable	¥6,496 $57,648
					Purchases of coke	¥59,979 $532,293	Accounts payable	¥12,349 $109,593

Transactions of the Company with related parties for the year ended March 31, 2015 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 yen	Trades iron and steel, nonferrous metals, machinery	13.33% directly and 0.19% indirectly (21.55%)	Sales of our products	¥202,486	Accounts receivable	¥12,319
					Purchases of raw materials and materials for equipment	¥328,935	Accounts payable	¥23,536
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	Accounts receivable	¥7,402
					Purchases of coke	¥68,121	Accounts payable	¥12,383

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 the 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, 2016 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	¥11,913 $105,727	—	—
					Loans	¥10,496 $93,150	Investments and other assets: Other	¥13,510 $119,897

Notes:
1. The amount of ¥9,901 million was accounted for as provision for loss on guarantees (included in current liabilities, other) to bank loans of Sichuan Chengdu Chenggong Construction Machinery Co., Ltd., and the amount of provision for loss on guarantees for the year ended March 31, 2016 was ¥10,349 million.
2. The amount of ¥13,510 million was accounted for as allowance for doubtful accounts arising from the collection of loans from Sichuan Chengdu Chenggong Construction Machinery Co., Ltd., and the amount of provision of allowance for doubtful accounts for the year ended March 31, 2016 was ¥14,121 million.

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

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, 2016 and 2015 consisted of the following:

Defined benefit retirement plans

(1) Changes in projected benefit obligation

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Balance at beginning of year	¥150,604	¥159,518	$1,336,564
Effect of revising of the calculation method	—	(5,823)	—
Service costs / benefits earned during the year	8,765	8,467	77,789
Interest cost on projected benefit obligation	1,744	1,857	15,478
Actuarial differences arising during the period	17,051	2,063	151,323
Unrecognized prior service cost arising during the period	177	461	1,570
Amount of payment of retirement benefits	(16,722)	(16,363)	(148,401)
Other	(240)	424	(2,127)
Balance at end of year	¥161,379	¥150,604	$1,432,196

(2) Changes in plan assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Balance at beginning of year	¥111,068	¥129,393	$985,690
Expected return on plan assets	620	966	5,506
Actuarial differences arising during the period	(6,379)	19,957	(56,616)
Amount of donation from employer	1,694	1,900	15,035
Amount of payment of retirement benefits	(6,665)	(8,001)	(59,147)
Gain on return of assets from retirement benefit trust	—	(33,605)	—
Other	0	458	5
Balance at end of year	¥100,338	¥111,068	$890,473

(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)
	2016	2015	2016
Funded projected benefit obligation	¥131,572	¥123,685	$1,167,665
Plan assets	(100,338)	(111,068)	(890,473)
	31,234	12,617	277,192
Unfunded projected benefit obligation	29,807	26,919	264,531
Net of defined benefit liability and asset	61,041	39,536	541,723
Net defined benefit liability	77,166	59,573	684,823
Net defined benefit asset	(16,125)	(20,037)	(143,100)
Net of defined benefit liability and asset	¥ 61,041	¥ 39,536	$ 541,723

(4) Breakdown of severance and retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Service costs / benefits earned during the year	¥8,765	¥ 8,467	$77,789
Interest cost on projected benefit obligation	1,744	1,857	15,478
Expected return on plan assets	(620)	(966)	(5,506)
Amortization of actuarial differences	(1,315)	(102)	(11,671)
Amortization of prior service cost	999	787	8,867
Gain on return of assets from retirement benefits trust	—	(15,684)	—
Other	68	91	605
Severance and retirement benefit expenses on defined benefit retirement plans	¥9,641	¥ (5,550)	$85,562

(5) Breakdown of remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Prior service cost	¥ 825	¥ 328	$ 7,320
Actuarial differences	(24,634)	2,792	(218,621)
Other	—	31	—
Total	¥(23,809)	¥3,151	$(211,301)

(6) Accumulated breakdown of remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Unrecognized prior service cost	¥ 8,743	¥ 9,568	$ 77,589
Unrecognized actuarial differences	26,547	1,913	235,601
Total	¥35,290	¥11,481	$313,190

(7) Plan assets

(a) Breakdown of plan assets

	2016	2015
Stock	32%	36%
General account of insurance company	41	39
Bonds	24	22
Other	3	3
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, 2016 and 2015 were as follows:

	2016	2015
Discount rates	mainly 0.0%	mainly 1.3%
Long-term expected rate of return	mainly 0.8%	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 Business, Welding Business, Aluminum & Copper Business, Machinery Business and Engineering Business) and three business units of subsidiaries (Kobelco Eco-Solutions, Kobelco Construction Machinery and Kobelco Cranes).

The main products and services of the reportable segments are as follows:

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

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

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

Machinery Business: 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 Business: ironmaking processes, iron-ore pelletizing system, nuclear power products, chemical weapons destruction services, steel structures and sabo 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)
		2016	2015	2016
Sales to outside customers:	Iron & Steel Business	¥ 713,543	¥ 761,883	$ 6,332,476
	Welding Business	91,436	93,588	811,465
	Aluminum & Copper Business	344,624	329,804	3,058,426
	Machinery Business	148,252	150,219	1,315,692
	Engineering Business	47,391	48,162	420,580
	Kobelco Eco-Solutions	81,175	67,031	720,409
	Kobelco Construction Machinery	271,062	310,108	2,405,595
	Kobelco Cranes	65,101	64,734	577,746
	Other Businesses	57,679	59,074	511,882
	Total sales to outside customers	¥1,820,263	¥1,884,603	$16,154,271
Intersegment sales:	Iron & Steel Business	¥ 29,006	¥ 35,931	$ 257,419
	Welding Business	817	896	7,251
	Aluminum & Copper Business	839	1,034	7,454
	Machinery Business	10,751	8,917	95,408
	Engineering Business	1,360	901	12,068
	Kobelco Eco-Solutions	1,830	1,103	16,237
	Kobelco Construction Machinery	713	901	6,324
	Kobelco Cranes	7,699	6,387	68,330
	Other Businesses	16,850	16,989	149,538
	Total intersegment sales	¥ 69,865	¥ 73,059	$ 620,029
Total sales:	Iron & Steel Business	¥ 742,549	¥ 797,814	$ 6,589,895
	Welding Business	92,253	94,484	818,716
	Aluminum & Copper Business	345,463	330,838	3,065,880
	Machinery Business	159,003	159,136	1,411,100
	Engineering Business	48,751	49,063	432,648
	Kobelco Eco-Solutions	83,005	68,134	736,646
	Kobelco Construction Machinery	271,775	311,009	2,411,919
	Kobelco Cranes	72,800	71,121	646,076
	Other Businesses	74,529	76,063	661,420
	Total segment sales	1,890,128	1,957,662	16,774,300
	Adjustment	2,543	2,292	22,565
	Elimination	(69,865)	(73,059)	(620,029)
	Consolidated net sales	¥1,822,806	¥1,886,895	$16,176,836
Segment income (loss):	Iron & Steel Business	¥ 3,684	¥ 28,797	$ 32,694
	Welding Business	8,129	10,267	72,140
	Aluminum & Copper Business	15,121	15,183	134,201
	Machinery Business	6,764	10,400	60,025
	Engineering Business	1,073	785	9,526
	Kobelco Eco-Solutions	3,624	3,005	32,164
	Kobelco Construction Machinery	(14,495)	21,013	(128,639)
	Kobelco Cranes	2,447	5,169	21,712
	Other Businesses	7,357	7,076	65,287
	Total segment income (loss)	33,704	101,695	299,110
	Adjustment	(4,776)	(7)	(42,385)
	Consolidated ordinary income	¥ 28,928	¥ 101,688	$ 256,725
Assets:	Iron & Steel Business	¥ 936,074	¥ 964,878	$ 8,307,360
	Welding Business	73,765	73,257	654,643
	Aluminum & Copper Business	246,009	241,704	2,183,257
	Machinery Business	158,854	165,786	1,409,781
	Engineering Business	39,424	43,732	349,875
	Kobelco Eco-Solutions	73,980	57,879	656,547
	Kobelco Construction Machinery	372,131	455,401	3,302,543
	Kobelco Cranes	67,109	66,459	595,572
	Other Businesses	155,554	160,510	1,380,497
	Total segment assets	2,122,900	2,229,606	18,840,075
	Adjustment	138,235	70,636	1,226,792
	Total	¥2,261,135	¥2,300,242	$20,066,867

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2016	2015	2016
Depreciation:	Iron & Steel Business	¥ 55,295	¥ 52,430	$ 490,725
	Welding Business	2,317	2,255	20,562
	Aluminum & Copper Business	11,564	10,796	102,630
	Machinery Business	4,355	4,316	38,646
	Engineering Business	546	615	4,844
	Kobelco Eco-Solutions	1,805	1,595	16,021
	Kobelco Construction Machinery	12,645	11,775	112,219
	Kobelco Cranes	1,442	1,049	12,793
	Other Businesses	3,501	3,290	31,074
	Total segment depreciation	93,470	88,121	829,514
	Adjustment	1,342	1,761	11,914
	Total	¥ 94,812	¥ 89,882	$ 841,428
Amortization of goodwill:	Iron & Steel Business	¥ —	¥ —	$ —
	Welding Business	—	—	—
	Aluminum & Copper Business	—	—	—
	Machinery Business	—	—	—
	Engineering Business	—	—	—
	Kobelco Eco-Solutions	—	—	—
	Kobelco Construction Machinery	—	—	—
	Kobelco Cranes	46	23	406
	Other Businesses	—	—	—
	Total segment amortization of goodwill	46	23	406
	Adjustment	(46)	(23)	(406)
	Total	¥ —	¥ —	$ —
Interest income:	Iron & Steel Business	¥ 86	¥ 96	$ 759
	Welding Business	227	205	2,011
	Aluminum & Copper Business	183	173	1,624
	Machinery Business	167	106	1,486
	Engineering Business	327	332	2,906
	Kobelco Eco-Solutions	12	14	103
	Kobelco Construction Machinery	3,978	3,515	35,310
	Kobelco Cranes	38	20	334
	Other Businesses	29	1,432	259
	Total segment interest income	5,047	5,893	44,792
	Adjustment	(409)	(1,712)	(3,629)
	Total	¥ 4,638	¥ 4,181	$ 41,163
Interest expense:	Iron & Steel Business	¥ 6,160	¥ 6,907	$ 54,668
	Welding Business	6	26	54
	Aluminum & Copper Business	1,456	1,353	12,922
	Machinery Business	63	91	563
	Engineering Business	31	32	275
	Kobelco Eco-Solutions	46	42	410
	Kobelco Construction Machinery	6,569	6,436	58,292
	Kobelco Cranes	529	463	4,693
	Other Businesses	412	1,892	3,658
	Total segment interest expense	15,272	17,242	135,535
	Adjustment	(95)	(1,397)	(844)
	Total	¥ 15,177	¥ 15,845	$ 134,691

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2016	2015	2016
Equity in income (loss) of equity method companies:	Iron & Steel Business	¥ (6,999)	¥ 1,840	$ (62,110)
	Welding Business	57	63	504
	Aluminum & Copper Business	10	25	91
	Machinery Business	(551)	(190)	(4,890)
	Engineering Business	179	(447)	1,589
	Kobelco Eco-Solutions	—	—	—
	Kobelco Construction Machinery	(1,705)	(3,042)	(15,128)
	Kobelco Cranes	48	26	424
	Other Businesses	1,157	1,200	10,265
	Total segment equity in income (loss) of equity method companies	(7,804)	(525)	(69,255)
	Adjustment	34	595	296
	Total	¥ (7,770)	¥ 70	$ (68,959)
Investments in equity method companies:	Iron & Steel Business	¥ 56,363	¥ 59,709	$ 500,206
	Welding Business	1,232	1,187	10,934
	Aluminum & Copper Business	485	611	4,303
	Machinery Business	2,223	5,169	19,733
	Engineering Business	1,018	241	9,031
	Kobelco Eco-Solutions	—	—	—
	Kobelco Construction Machinery	165	10,928	1,462
	Kobelco Cranes	242	299	2,151
	Other Businesses	10,039	9,513	89,093
	Total segment investments in equity method companies	71,767	87,657	636,913
	Adjustment	(1,085)	(664)	(9,635)
	Total	¥ 70,682	¥ 86,993	$ 627,278
Capital expenditures:	Iron & Steel Business	¥ 50,336	¥ 54,816	$ 446,714
	Welding Business	2,660	1,914	23,610
	Aluminum & Copper Business	21,221	18,433	188,325
	Machinery Business	4,145	3,611	36,789
	Engineering Business	723	223	6,417
	Kobelco Eco-Solutions	3,983	2,794	35,352
	Kobelco Construction Machinery	15,636	14,564	138,760
	Kobelco Cranes	1,759	1,241	15,612
	Other Businesses	3,586	4,774	31,828
	Total segment capital expenditures	104,049	102,370	923,407
	Adjustment	5,892	1,152	52,289
	Total	¥ 109,941	¥ 103,522	$ 975,696

Notes:

Details about adjustments at March 31, 2016 and 2015 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)
	2016	2015	2016
Companywide profit (loss)	¥ 9,760	¥3,457	$ 86,619
Other adjustments	(14,536)	(3,464)	(129,004)
Total	¥ (4,776)	¥ (7)	$ (42,385)

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)
	2016	2015	2016
Companywide assets	¥361,779	¥285,655	$3,210,675
Other adjustments	(223,544)	(215,019)	(1,983,883)
Total	¥138,235	¥ 70,636	$1,226,792

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)
	2016	2015	2016
Japan	¥1,160,154	¥1,171,420	$10,296,007
China	146,663	193,163	1,301,586
Others	515,989	522,312	4,579,243
Total	¥1,822,806	¥1,886,895	$16,176,836

(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

		Millions of yen		Thousands of U.S. dollars (Note 1)
	Related segment	2016	2015	2016
Shinsho Corporation	Iron & Steel Business, etc.	¥245,471	¥254,761	$2,178,482

Impairment loss by reportable segments

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2016	2015	2016
Impairment loss	Iron & Steel Business	¥ —	¥—	$ —
	Welding Business	—	—	—
	Aluminum & Copper Business	—	—	—
	Machinery Business	—	—	—
	Engineering Business	—	—	—
	Kobelco Eco-Solutions	—	—	—
	Kobelco Construction Machinery	—	—	—
	Kobelco Cranes	2,009	—	17,833
	Other Businesses	—	—	—
	Total segment impairment loss	2,009	—	17,833
	Adjustment	—	—	—
	Total	¥2,009	¥—	$17,833

Amortization and balance of goodwill by reportable segments

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2016	2015	2016
Amortization of goodwill	Iron & Steel Business	¥ —	¥ —	$ —
	Welding Business	—	—	—
	Aluminum & Copper Business	—	—	—
	Machinery Business	—	—	—
	Engineering Business	—	—	—
	Kobelco Eco-Solutions	—	—	—
	Kobelco Construction Machinery	—	—	—
	Kobelco Cranes	46	23	406
	Other Businesses	—	—	—
	Total segment amortization of goodwill	46	23	406
	Adjustment	(46)	(23)	(406)
	Total	¥ —	¥ —	$ —
Balance at the end of the period	Iron & Steel Business	¥ —	¥ —	$ —
	Welding Business	—	—	—
	Aluminum & Copper Business	—	—	—
	Machinery Business	—	—	—
	Engineering Business	—	—	—
	Kobelco Eco-Solutions	—	—	—
	Kobelco Construction Machinery	—	—	—
	Kobelco Cranes	160	206	1,423
	Other Businesses	—	—	—
	Total segment balance of goodwill	160	206	1,423
	Adjustment	(160)	(206)	(1,423)
	Total	¥ —	¥ —	$ —

25. Net Income (Loss) Per Share

The basis of calculating net income (loss) per share for the years ended March 31, 2016 and 2015 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net income (loss) attributable to owners of the parent	Weighted average number of shares	Net income (loss) per share	Net income (loss) per share
For the year ended March 31, 2016				
Net loss attributable to common stockholders	¥(21,556)	3,632,219	¥ (5.93)	$(0.05)
For the year ended March 31, 2015				
Net income attributable to common stockholders	¥ 86,550	3,633,633	¥23.82	$ 0.20

26. Subsequent Events

Consolidation of Shares and Change in the Number of Shares per Share Unit

The Company resolved at its board of directors meeting held on May 16, 2016 to submit the proposal for the consolidation of shares to the 163rd ordinary general meeting of shareholders to be held on June 22, 2016. The Company also resolved to change the number of shares per share unit on condition that the proposal for the share consolidation would be approved at the same ordinary general meeting of shareholders. The proposal which was approved at the ordinary general meeting of shareholders, is described below.

(a) Purpose of consolidation of shares and change in the number of shares per share unit

All Japanese securities exchanges announced and are promoting the "Action Plan for Consolidating Trading Units" under which the trading units of common shares for domestically listed companies are uniformly set at 100 shares. In light of the intent of this action plan, the Company, whose shares are listed on the Tokyo Stock Exchange and the Nagoya Stock Exchange, will change the share unit number from the current 1,000 shares to 100 shares.

Along with the change in the share unit, the Company will also carry out a consolidation of the Company's shares under which every ten (10) shares will be consolidated into one (1) share in order to maintain the price level per trading unit, considered preferable for its shares by the Stock Exchange (from 50,000 yen less than 500,000 yen per unit).

(b) Details of consolidation of shares

(1) Class of shares to be consolidated

Common stock

(2) Consolidation method and ratio

The Company will consolidate every 10 shares into one share on October 1, 2016 based on the number of shares held by shareholders listed in the final shareholders' register as of September 30, 2016.

(3) Decrease in number of shares due to consolidation

Number of outstanding shares before consolidation (as of March 31, 2016)	3,643,642,100 shares
Decrease in number of shares due to consolidation	3,279,277,890 shares
Number of outstanding shares after consolidation	364,364,210 shares

Note: The "Decrease in number of shares due to consolidation" is a theoretical value calculated by multiplying the number of outstanding shares before consolidation by the consolidation ratio.

(c) Handling of fractional shares of less than one share

If any fractional shares arise as a result of the consolidation of shares, pursuant to the provisions of Article 235 of the Companies Act, the Company will sell all such fractional shares and distribute the proceeds to shareholders having fractional shares in proportion to their respective fractions.

(d) Total number of authorized shares as of the effective date

600,000,000 shares

The number of authorized shares will be decreased from 6 billion shares to 600 million shares according to the ratio of the consolidated shares.

Pursuant to Article 182, paragraph 2 of the Companies Act, the total number of authorized shares as stipulated in Article 6 (Total Number of Shares That Can Be Issued) of the Articles of Incorporation shall be deemed to be changed from the current 6 billion shares to 600 million shares on October 1, 2016, the effective date for the consolidation of shares.

(e) Details of changes in number of shares per share unit

Concurrently with the effectiveness of the consolidation of shares, the Company will change the number of shares per share unit for common stock from 1,000 to 100.

(f) Dates for consolidation of shares and change in number of shares per share unit

Resolution at the board of directors meeting	May 16, 2016
Resolution at the general meeting of shareholders	June 22, 2016
Effective date of consolidation of shares and change in number of shares per share unit	October 1, 2016

(g) Effect on per share information

Per share information for the years ended March 31, 2016 and 2015 on the assumption that the consolidation of shares had been implemented as of April 1, 2014 is as follows:

	Yen		U.S. dollars (Note 1)
	2016	2015	2016
Net assets per share	¥1,903.80	¥2,137.00	$16.90
Net income (loss) per share	(59.34)	238.19	(0.53)

Note: Diluted net income per share was not disclosed because there were no dilutive shares.

27. Additional Information

Change in reportable segments

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 Business, Welding Business, Aluminum & Copper Business, Machinery Business and Engineering Business) and three business units of subsidiaries (Kobelco Eco-Solutions, Kobelco Construction Machinery and Kobelco Cranes).

From the fiscal year ending March 31, 2017, the Company changed its reportable segments. The "Engineering Business" and "Kobelco Eco-Solutions" segments were integrated into a single "Engineering" segment, and the "Kobelco Construction Machinery" and "Kobelco Cranes" segments were integrated into a single "Construction Machinery" segment.

Also, the Company newly established a business segment called "Electric Power." The Company has merged the electric power supply business that the "Iron & Steel Business" segment currently operates at Kobe Works and the two new electric power generation projects at Moka, Tochigi Prefecture and Kobe, Hyogo Prefecture currently under the head office into the "Electric Power" segment.

Lastly, the Company changed the name of the business segments of "Iron & Steel Business," "Welding Business," "Aluminum & Copper business" and "Machinery business" to "Iron & Steel," "Welding," "Aluminum & Copper" and "Machinery."

Due to these changes, in fiscal year ending March 31, 2017, the reportable segments will become "Iron & Steel," "Welding," "Aluminum & Copper," "Machinery," "Engineering," "Construction Machinery" and "Electric Power."

The information about sales, income (loss), assets and other items of reportable segments of the Company and its consolidated subsidiaries for the fiscal year ended March 31, 2016 under the new segment classification are summarized as follows:

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

		Millions of yen	Thousands of U.S. dollars (Note 1)
		2016	2016
Sales to outside customers:	Iron & Steel	¥ 636,797	$ 5,651,381
	Welding	91,436	811,465
	Aluminum & Copper	344,624	3,058,426
	Machinery	148,252	1,315,692
	Engineering	128,566	1,140,989
	Construction Machinery	336,163	2,983,341
	Electric Power	76,746	681,095
	Other Businesses	57,679	511,882
	Total sales to outside customers	¥1,820,263	$16,154,271
Intersegment sales:	Iron & Steel	¥ 29,006	$ 257,419
	Welding	817	7,251
	Aluminum & Copper	839	7,454
	Machinery	10,751	95,408
	Engineering	3,146	27,919
	Construction Machinery	63	558
	Electric Power	—	—
	Other Businesses	16,850	149,538
	Total intersegment sales	¥ 61,472	$ 545,547
Total sales:	Iron & Steel	¥ 665,803	$ 5,908,800
	Welding	92,253	818,716
	Aluminum & Copper	345,463	3,065,880
	Machinery	159,003	1,411,100
	Engineering	131,712	1,168,908
	Construction Machinery	336,226	2,983,899
	Electric Power	76,746	681,095
	Other Businesses	74,529	661,420
	Total segment sales	1,881,735	16,699,818
	Adjustment	2,543	22,565
	Elimination	(61,472)	(545,547)
	Consolidated net sales	¥1,822,806	$16,176,836
Segment income (loss):	Iron & Steel	¥ (14,985)	$ (132,986)
	Welding	8,129	72,140
	Aluminum & Copper	15,121	134,201
	Machinery	6,764	60,025
	Engineering	4,697	41,690
	Construction Machinery	(11,930)	(105,879)
	Electric Power	17,415	154,551
	Other Businesses	7,357	65,287
	Total segment income (loss)	32,568	289,029
	Adjustment	(3,640)	(32,304)
	Consolidated ordinary income	¥ 28,928	$ 256,725
Assets:	Iron & Steel	¥ 840,812	$ 7,461,945
	Welding	73,765	654,643
	Aluminum & Copper	246,009	2,183,257
	Machinery	158,854	1,409,781
	Engineering	113,408	1,006,463
	Construction Machinery	436,011	3,869,459
	Electric Power	102,405	908,808
	Other Businesses	155,554	1,380,497
	Total segment assets	2,126,818	18,874,853
	Adjustment	134,317	1,192,014
	Total	¥2,261,135	$20,066,867

		Millions of yen	Thousands of U.S. dollars (Note 1)
		2016	2016
Depreciation:	Iron & Steel	¥ 47,458	$ 421,178
	Welding	2,317	20,562
	Aluminum & Copper	11,564	102,630
	Machinery	4,355	38,646
	Engineering	2,351	20,865
	Construction Machinery	14,087	125,012
	Electric Power	7,837	69,550
	Other Businesses	3,501	31,074
	Total segment depreciation	93,470	829,517
	Adjustment	1,342	11,911
	Total	¥ 94,812	$ 841,428
Interest income:	Iron & Steel	¥ 82	$ 725
	Welding	227	2,011
	Aluminum & Copper	183	1,624
	Machinery	167	1,486
	Engineering	339	3,009
	Construction Machinery	4,016	35,644
	Electric Power	293	2,592
	Other Businesses	29	259
	Total segment interest income	5,336	47,350
	Adjustment	(698)	(6,187)
	Total	¥ 4,638	$ 41,163
Interest expense:	Iron & Steel	¥ 5,217	$ 46,297
	Welding	6	54
	Aluminum & Copper	1,456	12,922
	Machinery	63	563
	Engineering	77	685
	Construction Machinery	7,098	62,985
	Electric Power	655	5,812
	Other Businesses	412	3,658
	Total segment interest expense	14,984	132,976
	Adjustment	193	1,715
	Total	¥ 15,177	$ 134,691
Equity in income (loss) of equity method companies:	Iron & Steel	¥ (6,999)	$ (62,110)
	Welding	57	504
	Aluminum & Copper	10	91
	Machinery	(551)	(4,890)
	Engineering	179	1,589
	Construction Machinery	(1,588)	(14,093)
	Electric Power	—	—
	Other Businesses	1,157	10,265
	Total segment equity in income (loss) of equity method companies	(7,735)	(68,644)
	Adjustment	(35)	(315)
	Total	¥ (7,770)	$ (68,959)
Investments in equity method companies:	Iron & Steel	¥ 56,363	$ 500,206
	Welding	1,232	10,934
	Aluminum & Copper	485	4,303
	Machinery	2,223	19,733
	Engineering	1,018	9,031
	Construction Machinery	299	2,651
	Electric Power	—	—
	Other Businesses	10,039	89,093
	Total segment investments in equity method companies	71,659	635,951
	Adjustment	(977)	(8,673)
	Total	¥ 70,682	$ 627,278

		Millions of yen	Thousands of U.S. dollars (Note 1)
		2016	2016
Capital expenditures:	Iron & Steel	¥ 48,553	$ 430,890
	Welding	2,660	23,610
	Aluminum & Copper	21,221	188,325
	Machinery	4,145	36,789
	Engineering	4,706	41,769
	Construction Machinery	17,395	154,372
	Electric Power	7,140	63,360
	Other Businesses	3,586	31,828
	Total segment capital expenditures	109,406	970,943
	Adjustment	535	4,753
	Total	¥ 109,941	$ 975,696

Notes:

Details about adjustments at March 31, 2016 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)
	2016	2016
Companywide profit (loss)	¥ 8,116	$ 72,024
Other adjustments	(11,756)	(104,328)
Total	¥ (3,640)	$ (32,304)

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)
	2016	2016
Companywide assets	¥354,607	$3,147,025
Other adjustments	(220,290)	(1,955,011)
Total	¥134,317	$1,192,014

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.

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.

28. Business Combinations

Common control transactions

The Company passed a resolution to effect a share exchange in order for the Company as the wholly-owing parent company to turn its consolidated subsidiary, Kobelco Construction Machinery Co., Ltd., into a wholly-owned subsidiary. The effective date of the share exchange was October 1, 2015.

(a) Outline of transaction

(1) Name and business of combined entity

Name: Kobelco Construction Machinery Co., Ltd.

Business: Manufacture & sale of construction machinery

(2) Date of transaction

October 1, 2015

(3) Legal form of transaction

Share exchange

(4) Name of combined entity subsequent to business combination

No change

(5) Other matters with regard to the transaction

By turning Kobelco Construction Machinery Co., Ltd. into a wholly-owned subsidiary through a share exchange, the Group, which is expanding throughout the world, will be able to accelerate decision-making in its construction machinery business and further strengthen efficiency in business management for the purpose of prompting more flexible and more efficient group management.

(b) Outline of accounting treatment

The transaction was treated as a transaction under common control in accordance with the "Revised Accounting Standard of Business Combinations" (ASBJ Statement No. 21 of September 13, 2013) and the "Revised Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 of September 13, 2013).

(c) Additional purchase of the subsidiary's shares

(1) Acquisition cost and breakdown

Consideration for acquisition (treasury stock): ¥1,552 million ($13,775 thousand)

(2) Exchange ratio and calculation method, and the number of shares delivered by class of shares

a) Exchange ratio by class of shares

0.94 shares of the Company common stock for each share of Kobelco Construction Machinery Co., Ltd. common stock

b) Calculation method for the exchange ratio

To ensure fairness and validity in the assessment of the share exchange ratio of this share exchange, the Company and Kobelco Construction Machinery Co., Ltd. requested PricewaterhouseCoopers, an independent third-party organization, to assess their stock value. As for the stock of the Company, a listed company, the third-party organization applied the market share price method. To determine the stock value of Kobelco Construction Machinery Co., Ltd., an unlisted company, the comparative company analysis method and the discounted cash flow method ware each used in the assessment. Using the results of the assessment of both companies as a reference and upon comprehensive consideration, the Company and Kobelco Construction Machinery Co., Ltd., after consultation with each other, decided on the share exchange ratio.

c) Number of shares delivered

12,032,000 shares

(d) Details about the change of shareholders' equity by the transaction with non-controlling shareholders

(1) Main reason of the change in capital surplus

Acquisition of additional shares in the subsidiary

(2) The amount of the capital surplus increased due to the transaction with non-controlling shareholders

¥2,773 million ($24,613 thousands)

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

Telephone +81 (6) 7731 1000
Fax +81 (6) 7731 1011
Internet www.azsa.or.jp

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, 2016 and 2015, 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 misstatement, 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, 2016 and 2015, 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, 2016 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 22, 2016
Osaka, Japan

Investor Information

(At March 31, 2016)

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, 2016, the 10 largest shareholders of the Company's stockholdings were as follows:

	Shares	Percent
Japan Trustee Services Bank, Ltd. (Trust Account)	127,110,000	3.49%
The Master Trust Bank of Japan, Ltd. (Trust Account)	118,677,000	3.26%
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	52,329,000	1.44%
Japan Trustee Services Bank, Ltd. (Trust Account 7)	46,477,000	1.28%
STATE STREET BANK WEST CLIENT-TREATY 505234	45,532,737	1.25%
Sojitz Corporation	45,016,000	1.24%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	43,147,500	1.18%

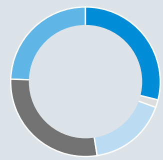
Listing and Quotations

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: +1-888-269-2377 (888-BNY-ADRS)
E-mail: shrrelations@bnymellon.com
URL: http://www.adrbnymellon.com
SYMBOL: KBSTY CUSIP: 499892107 DR EXCHANGE: OTC

Distribution of Shares



- Japanese financial institutions: **29.11%**
- Japanese financial instruments business operators: **1.68%**
- Other Japanese corporations: **16.91%**
- Japanese individuals and others: **27.90%**
- Foreign investors: **24.40%**

Directors' Shareholdings

The following is a list of the Directors (including Directors who are Audit & Supervisory Committee Members) and their stockholdings in the Company at March 31, 2016

			Number of shares owned
Hiroya Kawasaki	251,000	Kazuhide Naraki	224,000
Yoshinori Onoe	146,000	Takao Kitabata	36,000
Akira Kaneko	110,000	Hiroshi Ochi	11,000
Naoto Umehara	122,000	Hiroaki Fujiwara	142,000
Shohei Manabe	117,000	Yoshimasa Yamamoto	45,109
Fusaki Koshiishi	71,000	Takashi Okimoto	50,000
Mitsugu Yamaguchi	73,000	Yoshiiku Miyata	0
Toshiya Miyake	58,000	Hidero Chimori	0

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*.

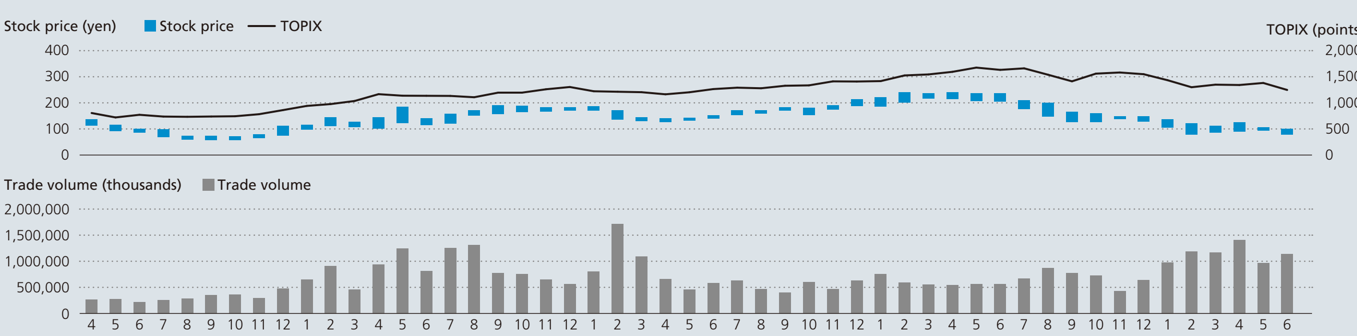
Transfer Agent & Office

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) (At June 30, 2016)



Company Outline (At March 31, 2016)

Directors (Including Directors Who Are Audit & Supervisory Committee Members) (At June 22, 2016)

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

Chairman, President & CEO: Hiroya Kawasaki

Employees: 10,833 (Consolidated 36,338)

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: +81-3-5739-6043 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 (Including Directors who are Audit & Supervisory Committee Members)

Chairman, President, CEO and Representative Director
Hiroya Kawasaki

Executive Vice Presidents and Representative Directors
Yoshinori Onoe*
Akira Kaneko*
Naoto Umehara

Directors, Senior Managing Executive Officers
Shohei Manabe*
Fusaki Koshiishi*
Mitsugu Yamaguchi*

Director, Managing Executive Officer
Toshiya Miyake

Director (part time)
Kazuhide Naraki

Outside Directors
Takao Kitabata
Hiroshi Ochi

Directors, Audit & Supervisory Committee Members
Hiroaki Fujiwara
Yoshimasa Yamamoto

Outside Directors, Audit & Supervisory Committee Members
Takashi Okimoto
Yoshiiku Miyata
Hidero Chimori

* Head of a business unit

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