KOBELCO
KOBE STEEL GROUP

Integrating Technologies, Removing Barriers

ANNUAL REPORT 2009

Year ended March 31, 2009

PROFILE

The Kobe Steel Group, a global enterprise built around Kobe Steel, Ltd., is engaged in a wide range of fields. Its major businesses are materials and machinery. The former consists of iron and steel, welding, and aluminum and copper products. The latter covers industrial machinery, construction machinery, engineering, and environmental solutions. Other important businesses include wholesale power supply, real estate, and electronic materials.

Our distinctive "Only One" products—original products that defy competitor imitation—are recognized and widely accepted around the world under the KOBELCO brand. Under its Corporate Philosophy, the Kobe Steel Group has set its sights on further consolidating Group strength.

Through the continual creation of new and distinctive products, technologies and outstanding services, we will raise our profitability, create enterprise value, and broadly contribute to building a better society.

THE KOBE STEEL GROUP'S CORPORATE PHILOSOPHY FOR GROUP UNITY

• Our Corporate Philosophy

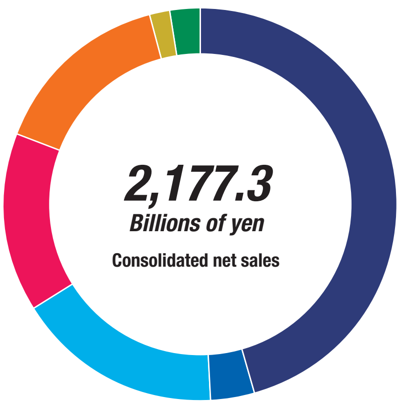
1. We provide reliable and advanced technologies, products and services that satisfy customers.
2. We support each employee in developing his or her abilities, while respecting mutual cooperation within the Kobe Steel Group.
3. Through continuous efforts for innovative change, we aim to enhance our corporate values.

KOBELCO
KOBE STEEL GROUP

STRENGTHENING GROUP CAPABILITIES

The Kobe Steel Group has established KOBELCO as the Group brand and is expanding its use. With each and every Group company working together to develop the brand value of KOBELCO, together we are building strong Group unity and gaining the trust of the communities that we serve.

The Diverse Strengths of the Kobe Steel Group



COMPOSITION OF NET SALES (Fiscal 2008)

IRON AND STEEL	45.7%
WHOLESALE POWER SUPPLY	3.6%
ALUMINUM AND COPPER	16.9%
MACHINERY	14.8%
CONSTRUCTION MACHINERY	14.9%
REAL ESTATE	1.6%
ELECTRONIC MATERIALS AND OTHER BUSINESSES	2.5%

Note: Composition of net sales includes intersegment sales.

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CONSOLIDATED FINANCIAL HIGHLIGHTS

Kobe Steel, Ltd. and Consolidated Subsidiaries Years ended March 31, 2009, 2008 and 2007

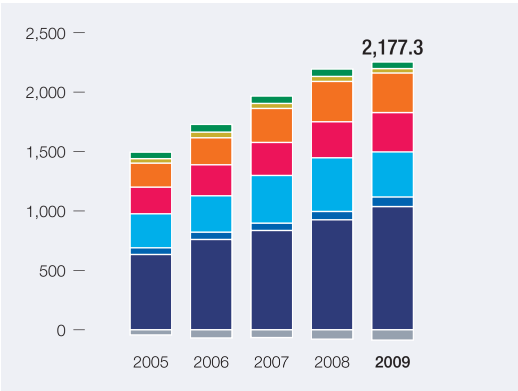
	Millions of yen			Percent change	Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009/2008	**2009**
For the year:					
Net sales	**¥2,177,290**	¥2,132,406	¥1,910,296	2.1%	**$22,165,224**
Iron and Steel	**1,022,407**	923,793	830,696	10.7	**10,408,297**
Wholesale Power Supply	**80,709**	71,890	66,858	12.3	**821,633**
Aluminum and Copper	**379,310**	450,081	397,310	(15.7)	**3,861,448**
Machinery	**331,002**	302,214	280,947	9.5	**3,369,663**
Construction Machinery	**333,026**	339,921	285,383	(2.0)	**3,390,268**
Real Estate	**37,131**	44,302	41,362	(16.2)	**378,001**
Electronic Materials and Other Businesses	**55,118**	60,702	63,579	(9.2)	**561,112**
Total sales	**2,238,703**	2,192,903	1,966,135	2.1	**22,790,422**
Intersegment sales	**(61,413)**	(60,497)	(55,839)	1.5	**(625,196)**
Operating income (loss)	**116,934**	202,399	208,624	(42.2)	**1,190,410**
Iron and Steel	**77,736**	91,916	94,589	(15.4)	**791,367**
Wholesale Power Supply	**17,295**	18,084	18,021	(4.4)	**176,066**
Aluminum and Copper	**(26,859)**	22,004	34,671	(222.1)	**(273,430)**
Machinery	**29,573**	30,520	22,132	(3.1)	**301,059**
Construction Machinery	**11,269**	22,838	14,803	(50.7)	**114,721**
Real Estate	**1,854**	4,938	5,314	(62.5)	**18,874**
Electronic Materials and Other Businesses	**3,143**	8,187	14,304	(61.6)	**31,996**
Eliminations	**2,923**	3,912	4,790	(25.3)	**29,757**
Income before income taxes	**27,802**	153,366	175,375	(81.9)	**283,029**
Net income (loss)	**(31,438)**	88,923	109,669	(135.4)	**(320,046)**
Capital investment	**118,044**	150,585	133,649	(21.6)	**1,201,709**
Depreciation and amortization	**128,701**	111,514	86,687	15.4	**1,310,201**
Research and development	**31,029**	30,139	24,893	3.0	**315,881**
At year end:					
Total assets	**2,295,489**	2,329,006	2,241,570	(1.4)	**23,368,513**
Net assets	**513,461**	647,797	636,432	(20.7)	**5,227,130**
Outside debt (Note 3)	**855,972**	713,352	621,227	20.0	**8,713,957**
Outside debt including IPP project financing	**954,791**	823,404	742,276	16.0	**9,719,953**

	Yen			Percent change	U.S. dollars (Note 1)
	2009	2008	2007	2009/2008	**2009**
Per share data:					
Net income (loss)	**¥ (10.47)**	¥ 29.63	¥ 35.37	(135.3)%	**$ (0.11)**
Net assets	**159.58**	199.81	194.46	(20.1)	**1.62**
Cash dividends	**3.50**	7.00	7.00	(50.0)	**0.04**

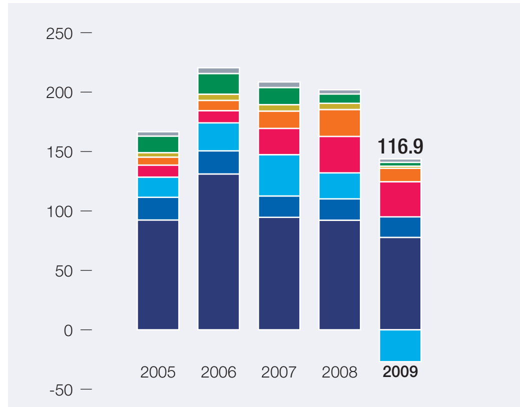
				Percentage point change
	2009	2008	2007	2009/2008
Ratios:				
ROA (%) (Note 4)	**(1.4)**	3.8	4.9	(5.2)
ROE (%)	**(5.8)**	14.9	19.6	(20.7)
Debt/equity ratio (Times) (Note 5)	**1.7**	1.3	1.2	0.4

Notes 1. For convenience only, U.S. dollar amounts in this report have been translated from Japanese yen at the rate of ¥98.23 to US$1.00, the rate of exchange prevailing on March 31, 2009.
2. Financial figures throughout this report are rounded to the nearest whole identified unit.
3. Outside debt is comprised of short-term borrowings (including bank loans and commercial paper), the current portion of long-term debt and long-term debt (including loans and bonds), and trade notes discounted.
4. ROA = Net income (loss) after taxes/total assets
5. Debt/Equity Ratio = Outside debt/stockholders' equity

NET SALES
(Billions of yen)

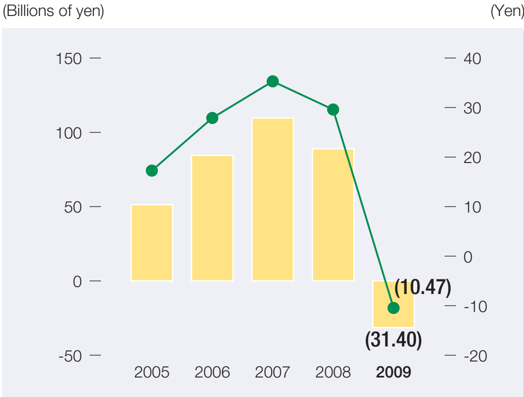


OPERATING INCOME (LOSS)
(Billions of yen)



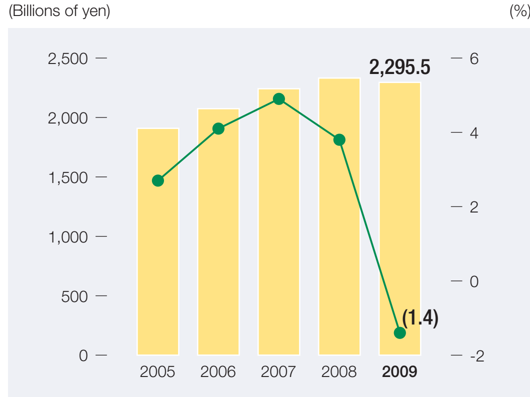
Iron and Steel
Wholesale Power Supply
Aluminum and Copper
Machinery
Construction Machinery
Real Estate
Electronic Materials and Other Businesses
Intersegment Sales/Eliminations

NET INCOME (LOSS) AND NET INCOME (LOSS) PER SHARE
(Billions of yen) (Yen)



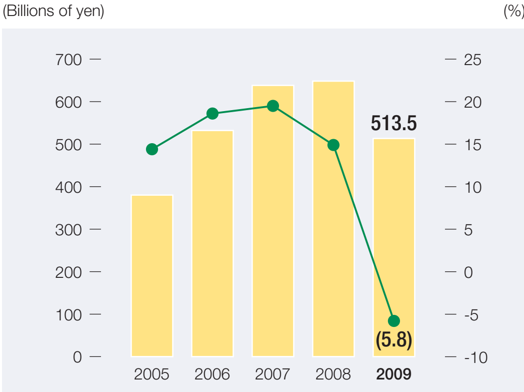
Net Income (Loss)
Net Income (Loss) per Share

TOTAL ASSETS AND ROA
(Billions of yen) (%)



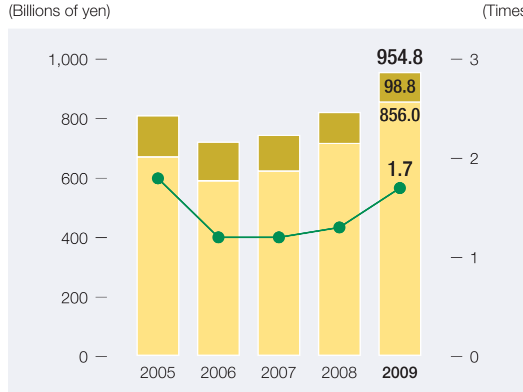
Total Assets
ROA

NET ASSETS AND ROE
(Billions of yen) (%)



Net Assets
ROE

OUTSIDE DEBT AND DEBT/EQUITY RATIO
(Billions of yen) (Times)



IPP Project Financing
Outside Debt
Debt/Equity Ratio

Hiroshi Sato
President, CEO and Representative Director

Mr. Hiroshi Sato joined Kobe Steel, Ltd. in 1970 and was assigned to work in the Central Research Laboratory (now the Kobe Corporate Research Laboratories). Over the next 25 years, he was engaged in a wide range of projects, including the development of titanium applications and such automotive materials as galvanized steel sheet, steel wire rod for suspension springs and aluminum alloy sheet. In 1995, he became General Manager of the Research & Development Planning Dept. in the Technical Development Group and was appointed General Manager of the Group in 1999, thus heading the entire R&D unit. He was involved in general management upon his appointment as Executive Vice President in 2004, a position from which he oversaw Companywide technical development.

Mr. Sato assumed his current post as President, CEO and Representative Director in April 2009.

• Awards
1983 Doctorate in Engineering
(Investigation on passivation reaction and localized corrosion of titanium)
1997 Received Science and Technology Agency Director-General's Award
Development of titanium heat exchanger tubing with high corrosion resistance for sea water services
2003 Medal of Honor with Purple Ribbon
Development of titanium heat exchanger tubing with high corrosion resistance for sea water services

• Personal Motto
"Always be calm."

To Our Shareholders

My name is Hiroshi Sato and I assumed the position of President, CEO and Representative Director on April 1, 2009.

Being keenly aware of the tremendous responsibility that I have to fulfill in this extremely adverse business environment, I will fully devote myself to the Kobe Steel Group's development and therefore ask for your continued support.

Fiscal 2008 Earnings

Kobe Steel Group earnings for the fiscal year ended March 31, 2009 were adversely affected by the impact of the global recession triggered by the financial crisis in the United States.

Owing to strong demand, each business achieved high levels of production through the first half. However, from the third quarter, we were compelled to drastically lower production to unprecedented levels in the Iron and Steel Segment, as well as in the Aluminum and Copper and other segments.

As a result, the Kobe Steel Group recorded consolidated net sales of ¥2,177.3 billion. Operating income, however, was down ¥85.5 billion to ¥116.9 billion. Income before income taxes fell ¥125.6 billion to ¥27.8 billion and net income dropped ¥120.4 billion for a net loss of ¥31.4 billion, which were attributable to a loss on write-down of investments in securities, a loss on the impairment of a portion of fixed assets, and the reversal of deferred income taxes.

Overview of the Fiscal 2006–2008 Medium-Term Business Plan

Fiscal 2008 was the final year of the Fiscal 2006–2008 Medium-Term Business Plan, which had as its basic objectives the attainment of stable earnings and sustained growth. During the first two years of the Plan, earnings were favorable, but profits in fiscal 2008 fell substantially below target due to the declining business environment. On the other hand, we recognize that our prioritized policies of (1) increasing sales and developing more "Only One" products, and (2) fortifying our comprehensive manufacturing capabilities have made some headway.

The results of each prioritized policy are summarized below.

1. Increasing Sales and Developing More "Only One" Products

The products that the Kobe Steel Group refers to as "Only One" are those that our customers rate highly for their distinctive added value. The Group has strengthened its existing Only One lineup and created promising new products for the future. Consequently, Only One products account for a rising proportion of net sales, from 35% in fiscal 2005 to more than 40% in fiscal 2008. We have expanded sales of existing product lines, including wire rod for engine valve springs, high-strength steel sheet, steel castings and forgings such as

Kobe Steel's Full-Scale Efforts: Improving Earnings and Strengthening the Business Foundation, Poising for a Leap in Performance

crankshafts for ships, titanium products as well as aluminum forgings for automobiles and compressors. As promising future products, we began construction in the United States of the first plant to make commercial use of ITmk3®, a revolutionary process that can use relatively low-grade raw materials to produce high-grade iron nuggets. We also commenced operation of a demonstration plant in Indonesia that uses upgraded brown coal (UBC) technology to turn low-grade coal, including brown coal, into high-grade coal. (Please see pages 8-9 for a special feature on UBC technology.)

2. Fortifying Our Manufacturing Capabilities

To strengthen our *monozukuri* or manufacturing capabilities, the source of our competitiveness, we have improved our R&D system that targets the creation of more advanced and higher value-added product functions; made strategic investments; established rigorous quality controls; and put in place safety and accident prevention systems. Although there is still much to be done, the benefits of our efforts are appearing in every area, and we realize that our manufacturing capabilities are steadily improving.

3. Establishing a Solid Financial Position

In addition to the aforementioned capital investments, earnings have declined on the back of rapidly falling demand. We therefore increased cash and deposits on hand to more than ¥100.0 billion, a higher than normal level, to protect ourselves against the unstable economic and financial environment. Outside debt increased by ¥266.9 billion over three years, with a balance of ¥856.0 billion at the end of fiscal 2008. Recognizing that issues still remain with respect to strengthening our financial foundation, we plan to put in place a system that can generate higher earnings and cash flow.

Results of the Fiscal 2006–2008 Medium-Term Business Plan

(Billions of yen)

	Fiscal 2008 (Forecast)	Fiscal 2008 (Result)	Fiscal 2007 (Result)	Fiscal 2006 (Result)	Fiscal 2005 (Result)
Net sales	1,900.0	2,177.3	2,132.4	1,910.3	1,667.3
Operating income	230.0 or more	116.9	202.4	208.6	220.4
Ordinary income*	180.0 or more	60.9	157.9	183.3	176.9
Net income (loss)	100.0 or more	(31.4)	88.9	109.7	84.6
Outside debt	550.0 or less	856.0	713.4	621.2	589.1
Outside debt including IPP project financing	650.0 or less	954.8	823.4	742.3	720.9
Debt/equity ratio (Times)**	0.8 or less	1.7	1.3	1.2	1.2
ROA***	5% or more	(1.4)%	3.8%	4.9%	4.1%

*Although not shown on U.S. GAAP consolidated financial statements or in International Financial Reporting Standards, ordinary income is commonly used in Japan as an indication of profits on the statements of operations.
**Debt/Equity Ratio = Outside debt/stockholders' equity
***ROA = Net income (loss) after taxes/total assets

Spreading “Barrier-Free Thinking,” We Have Our Sights Set on Building a Revenue Base That Is Rock Solid.

Outlook and Strategy

With respect to the Kobe Steel Group’s future business environment, forecasting demand and sales-price trends remains difficult due to the global recession. Under these circumstances, we have delayed instituting a new medium-term business plan and in the meantime have placed a priority on maximizing earnings and cash flow. In specific terms, we will implement thorough cost reductions under the Profit Improvement Committee, a cross-functional Group organization that was started up at the end of 2008. At the same time, we will swiftly implement measures to optimize our production system and reduce capital investments and loans as we work to obtain immediate results.

We will make concerted Group efforts with the understanding that these measures are meant not only to improve earnings, but also to prepare us for subsequent opportunities, for example, securing the necessary funds for investment in order to strengthen our business foundation over the medium- to long-term and for growth. We plan to institute and announce our next medium-term business plan once we have a clearer idea of the future business environment and when we can build up more of a picture of medium-term market and customer needs.

Medium- to Long-Term Business Strategy

As I previously mentioned, I took over the leadership of the Kobe Steel Group as president in April 2009. However, our basic policies remain unchanged: to seek to sustain growth by improving how customers and other stakeholders view us, by increasing sales and developing more Only One products, and to fortify our manufacturing capabilities.

Allow me to share my views on further strengthening our ability to create Only One products and fortifying our manufacturing capabilities.

The Kobe Steel Group’s defining characteristic is its diverse technology and know-how acquired thanks to continued business development in a wide range of fields, including steel, titanium, welding, aluminum, copper, industrial machinery, engineering, construction machinery and wholesale power supply. With the exception of the wholesale power supply business, which began in 2002, these businesses date back over 60 years and thus represent a storehouse of technology and know-how amassed over the decades. To continuously create distinctive Only One products, it is imperative that we integrate Kobe Steel’s wide-ranging and distinctive technology and know-how developed in diverse fields by breaking down organizational and conceptual barriers and promoting vigorous communication.

To fortify manufacturing capabilities that support Only One products, we need to have a positive mind-set about removing these barriers in order to produce results. This is necessary because *monozukuri* is an activity that not only creates stable products according to customer specifications, it also increases cash flow by reducing product lead times, from order to delivery. *Monozukuri* represents the ultimate in team competition that puts the collective strength of the Group to the test in everything, from R&D to manufacturing, sales, payment collection and after-sales service.

I call this “barrier-free thinking.” We will spread this thinking throughout the Group more than ever before and develop distinctive Only One products in such diverse fields as the environment, resources and energy as well as automobiles and shipbuilding. We will also develop stronger manufacturing capabilities with our sights set on building a revenue base that is rock solid.

Restructuring the Compliance System

In February 2009, it came to light that the Kobe Steel labor union had made improper contributions to the campaign groups of local council member candidates. In light of past violations by the Kobe Steel Group, we had taken steps to tighten our legal compliance. However, the problem reoccurred, so therefore the previous president and chairman of Kobe Steel resigned together on March 31, 2009 to take clear-cut responsibility.

We sincerely apologize to our many stakeholders, including shareholders, for this great inconvenience. At present, we are instituting preventive measures and doing everything within our power to address this matter. Kobe Steel has established a basic policy of creating a highly compliance-sensitive organization that identifies compliance risks and examines preventive measures, fostering a corporate culture that is strongly disciplined and keenly responsive to potential compliance problems.

Under this basic policy, and from the standpoints of "systems and mechanisms," "education and training," and "organization and structure," we have launched a raft of specific initiatives: reviewing and implementing risk management activities, improving legal education and training, learning from internal case studies, appointing staff to take on additional posts in the Compliance Planning and Administration Section, and verifying with headquarters progress made in risk management activities. (Please see pages 24 and 25 for specific initiatives taken to strengthen compliance.)

Distributing Profits to Shareholders

The Kobe Steel Group seeks to increase its corporate value over the medium to long term and considers the periodic distribution of greater profits to shareholders an important management issue. Accordingly, we determine a specific dividend amount by taking a comprehensive approach, based on our performance, the dividend payout ratio, the investment funds required for future growth as well as the improvement of our financial position. We aim for a standard dividend payout of 15% to 25% of consolidated net income.

Having taken into account the heavy net loss recorded in fiscal 2008 and the harsh business environment that is expected to continue, we sincerely regret that we were unable to pay a year-end dividend in fiscal 2008. As a result, the dividend payout in fiscal 2008 amounted to an interim dividend of ¥3.50 per share. Through the Group's collective efforts, we will work to bring about an early business recovery and therefore ask for your understanding.

Looking Ahead

After joining Kobe Steel, I was engaged for a long time in research and development work as a member of the Technical Development Group. If I were to cite what research and management have in common it would be this: Both require us to consider what factors contribute to an existing phenomenon, which contributing factor is the most critical and needs to be addressed immediately, the setting of priorities, and the taking of countermeasures. Accordingly, the Kobe Steel Group must focus on building a firm foundation by improving its cost competitiveness and optimizing its production system in order to maximize earnings and cash flow. By implementing these initiatives together as a Group, we will be able to secure stable earnings even in changing business conditions, and we will have in place a system that will enable us to gain ground more rapidly when demand recovers.

At the same time, we will implement initiatives for future growth. Determining how much effort should be devoted to dealing with our current problems and how much to growth is a constant management challenge. In the current adverse business environment, growth will receive relatively less emphasis. However, given these circumstances, we will steadily invest business resources into promising technologies and products that will lead to future growth.

My sincere hope is that you will continue to extend your valued support to our pursuit of stability and growth.

July 2009

Hiroshi Sato

Hiroshi Sato
President, CEO and Representative Director

"Tempura Method" Converts Underutilized Coal into Value-Added Product

UBC briquette (actual size)

Upgraded Brown Coal (UBC) technology takes low-quality brown coal, a virtually untapped resource, and upgrades it to the same heat value as high-grade bituminous coal. Under development by the Kobe Steel Group, UBC technology will help to effectively utilize brown coal. A demonstration plant commenced operations in Indonesia in December 2008. Commercial marketing of the process is expected to begin in 2010. Expectations are high for this technology, which reduces coal ash and sulfur oxide.

UBC Reduces Environmental Impact

Coal is an important natural resource that provides approximately 30% of the world's primary energy. However, almost half of the world's coal reserves are made up of low-grade coal. Brown coal, one type of low-grade coal, has higher moisture content than bituminous coal and thus a lower heat value. Prone to spontaneous combustion, brown coal is hardly ever used. On the other hand, because brown coal is noted for its low ash and sulfur, it has the advantage of being environment-friendly when burned.

By removing the moisture, Kobe Steel's UBC Process raises the heat value, thereby converting brown coal into a high-grade energy resource. When UBC is used in thermal power generation, ash content and sulfur oxide emissions can be reduced even more than with bituminous coal, and CO_2 emissions can be more easily curbed than with brown coal. UBC technology is attracting attention not only for its effective utilization of an untapped resource, but also for its contribution to protecting the earth's environment.

Started in a Home Kitchen—the Challenge for UBC

Kobe Steel began to take notice of brown coal's possibilities during the development of coal liquefaction technology in the 1980s. Then, in 1993 we started researching UBC technology to further develop its potential. Our primary goal was to find a way to efficiently remove the high moisture content in brown coal. Thanks to a flash of inspiration from a researcher, the problem was solved.

Said Takuo Shigehisa, Senior General Manager of the Technical Development Group: "I had taken the day off and had poured tempura oil into a pot at home to conduct an experiment involving the heating of brown coal. When the water in the brown coal was removed, the coal fried much faster than I had expected. However, the coal component hardly dissolved at all in the oil."

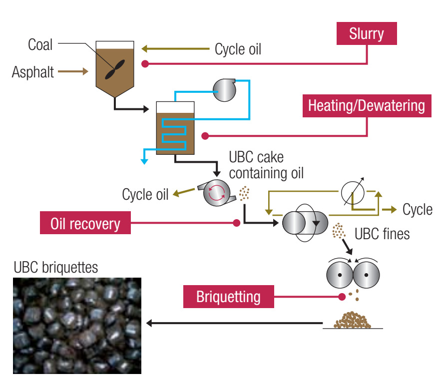
Shigehisa then took on the challenge of frying coal in a variety of oils, searching for the ideal oil to reduce the moisture content. The UBC Process took its first step toward commercialization in a researcher's kitchen.

The method created from Shigehisa's experiments was named the "Tempura Method." The project was moved to a lab and a benchscale unit. In the next phase, we continued development with the construction of a small pilot plant in Indonesia in 2001.

The Tempura Method for creating UBC is as follows: 1) Take pulverized brown coal several millimeters in size and mix it with oil containing asphalt to make a slurry. 2) Heat the slurry until the moisture in the coal evaporates. Fill the crevices of the brown coal with asphalt to prevent spontaneous combustion. 3) Separate the oil from the UBC and form the UBC into briquettes.

The UBC created out of this process possesses a heat value of 6,350kcal/kg, the same as bituminous coal, but with approximately one-third the ash content. This process transforms brown coal into a high-grade, high heat-value, clean energy resource.

●UBC Process Flow Diagram



Indonesian Minister Prof. Dr. Purnomo Yusgiantoro (right) and former Kobe Steel President Yasuo Inubushi

Demonstration Plant in Kalimantan, Indonesia

With the support of Japan's Ministry of Economy, Trade and Industry, Kobe Steel built a large UBC demonstration plant in Kalimantan, Indonesia. Kobe Steel then formed a partnership—with PT Bumi Resources Tbk, a natural resource investment company, and its coal subsidiary, PT Arutmin Indonesia—and began operating the demonstration plant at Arutmin's Satui coal mine in South Kalimantan, Indonesia.

Kalimantan has enormous brown coal deposits located near the surface. The brown coal produced by Arutmin had been sold at low prices, but was not well received in the market because of its low heat value.

However, creating high heat-value UBC turns the entire world into a potential market. Exporting UBC to bring in foreign currency would advance the domestic industry. That was the idea of the Indonesian government when the project was started.

A ceremony marking the demonstration plant's inauguration was held in December 2008. Attending the ceremony were Kobe Steel's former President Yasuo Inubushi and other officials as well as Prof. Dr. Purnomo Yusgiantoro, Indonesian Minister of Energy & Mineral Resources. The contributions made by the Indonesian government to UBC demonstrate their high expectations.

The demonstration plant will be operated on a trial basis until the end of fiscal 2009, with bulk UBC samples being supplied for trial use mainly to Japanese electric power companies. Commercial marketing is slated to begin from fiscal 2010.

Japanese Technology Unearths Underutilized Global Resource

Japan, a resource-poor nation, needs to hedge its risks by securing a supply of a wide range of natural resources. Providing UBC technology to brown coal-producing nations spanning the globe will invigorate natural-resource nations and help safeguard the supply of resources to Japan.

Kobe Steel's technology will transform brown coal, an underutilized resource found throughout the world, into a high added-value energy product. That day is now close at hand.

UBC demonstration plant in Satui, South Kalimantan

RESEARCHER'S COMMENT

"Tempura Method" Opens Way to Recycle Diverse Resources

The "Tempura Method," which removes the moisture content from brown coal, can be applied to a wide range of other resources. For instance, by removing the moisture content from coffee dregs and biomass, a fuel with a certain heat value is created. If we add these to coal and use them for thermal power generation, we can curb CO_2 emissions. The UBC Process is a technology for a new era that can effectively utilize an untapped resource and lessens our environmental impact. Eventually, we would like to see electric power plants throughout the world using our UBC technology.

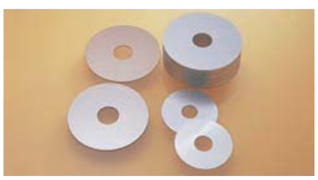
Takuo Shigehisa, Senior General Manager, Technical Development Group

BUSINESS SEGMENTS

	Composition of Net Sales	Net Sales (Billions of yen) (Years ended March 31)			Operating Income (loss) (Billions of yen) (Years ended March 31)		
		2007	2008	**2009**	2007	2008	**2009**
IRON AND STEEL	45.7%	830.7	923.8	**1,022.4**	94.6	91.9	**77.7**
WHOLESALE POWER SUPPLY	3.6%	66.9	71.9	**80.7**	18.0	18.1	**17.3**
ALUMINUM AND COPPER	16.9%	397.3	450.1	**379.3**	34.7	22.0	**(26.9)**
MACHINERY	14.8%	280.9	302.2	**331.0**	22.1	30.5	**29.6**
CONSTRUCTION MACHINERY	14.9%	285.4	339.9	**333.0**	14.8	22.8	**11.3**
REAL ESTATE	1.6%	41.4	44.3	**37.1**	5.3	4.9	**1.9**
ELECTRONIC MATERIALS AND OTHER BUSINESSES	2.5%	63.6	60.7	**55.1**	14.3	8.2	**3.1**

IRON AND STEEL


WHOLESALE POWER SUPPLY


ALUMINUM AND COPPER


MACHINERY


CONSTRUCTION MACHINERY

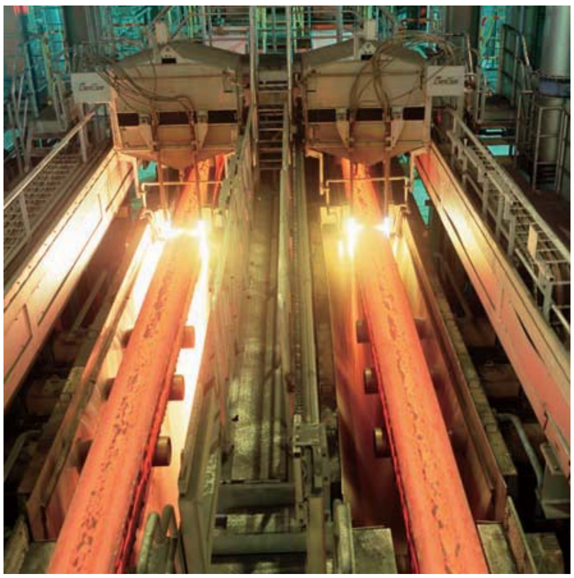

REAL ESTATE

ELECTRONIC MATERIALS AND OTHER BUSINESSES


Note: Composition of net sales and net sales figures include intersegment sales.

Main Products and Services	*Major "Only One" Products*
Wire rod, steel bar, specialty steel bar, steel plate and sheet (hot-rolled, cold-rolled, surface treated), steel castings and forgings, titanium and titanium alloys, steel powder, pig iron, slag products, stainless steel tube, building materials, specialty steel products, steel wire, covered welding electrodes, welding wire for automatic and semi-automatic welding, flux, welding robots, welding power sources, welding robot systems, testing, analysis, inspection and research	**Wire Rod and Bar:** Valve spring steel, suspension spring steel, CHQ wire rod for automotive use, steel bar for automotive use, wire rod for tire cord, bearing steel wire and steel wire **Plate:** Low temperature service steel plate for LPG ships, steel plate for large heat-input welding for giant container ships, "Hizumi-less" residual stress controlled TMCP steel plate, Ni-containing atmospheric corrosion resistant steel plate, high strength steel plate for building construction **Sheet:** High strength steel sheet for automotive (590MPa or more), special film coated electrogalvanized steel sheet, heat-releasing coated steel sheet **Castings and Forgings:** Built-up type crankshafts, solid type crankshafts, rolls for rolling mills **Titanium:** Commercially pure titanium, titanium alloys **Steel Powder:** Steel powder for magnetic applications, steel powder for soil/ground water treatment, pre-alloyed steel powder, segregation-free pre-mixed steel powder **Welding:** Flux-cored welding wire (FCW) for carbon steel and stainless steel, non-coated welding wire, welding robot systems
Wholesale electric power supply	Wholesale electric power supply
Aluminum can stock, aluminum for large heat exchangers, aluminum for automobiles, aluminum extrusions, disk blanks, aluminum foil, copper sheet and strip for semiconductors, copper sheet and strip for terminals, lead-frames, condenser pipes, copper tube for air conditioners, aluminum alloys and magnesium alloy castings and forgings, processed aluminum products	**Aluminum Sheet and Plate:** Bottle can stock, panel material for auto bodies, aluminum sheet for automotive heat exchangers, disk material for HDDs **Aluminum Extrusions:** Auto bumper material, OPC drum material **Aluminum Casting and Forgings:** Forged aluminum parts for auto suspensions, aircraft gearboxes, vacuum chambers for semiconductor fabrication equipment **Copper Sheet:** Auto connectors and terminals, leadframe materials for semiconductors
Iron and steel-making plant engineering services (direct reduction and metal rolling), engineering services (nonferrous metal, pelletizing, petrochemicals), equipment for energy and chemical fields, equipment for nuclear power plants, erosion control and disaster prevention products, civil engineering, advanced transit systems, tire and rubber machinery, plastics processing machinery, isostatic pressing systems, metalworking machinery, compressors, refrigeration compressors, heat pumps, environmental solutions, recycling, cooling towers, continuous earth-moving systems	**Industrial Machinery:** Batch-type rubber mixers, tire testing machine, plastic mixing and pelletizing systems, physical vapor deposition system, screw gas compressors, integrally geared turbo gas compressors, oil-flooded standard screw air compressors, screw-type compact steam energy generators **Engineering:** Heavy-wall pressure vessel, LNG vaporizer, brazed aluminum heat exchanger, open-grid dam, rubber tire rail system, coal-based direct reduction processes (FASTMET®, FASTMELT®), ITmk3®, natural gas-based direct reduction process (MIDREX®) **Environment:** Biomass methane fermentation system, sludge incineration/melting/recycling equipment, pure water and ultra-pure water producing equipment, gasification melting furnaces, PCB waste disposal equipment, glass lining manufacturing equipment, hydrogen and oxygen generation equipment, industrial cooling towers
Hydraulic excavators, mini excavators, wheel loaders, crawler cranes, rough terrain cranes, work vessels	Building demolition equipment, debris crushing equipment, automobile dismantling equipment, handling equipment
Total life business encompassing real estate development, construction, property sales, remodeling, leasing, building management, condominium management, insurance brokering	
Special alloys and other new materials (sputtering targets, etc.), materials analysis, high-pressured gas container manufacturing, silicon wafer reclaim, superconducting products, private nursing home management, general trading	Target material used in LCD panels, semiconductor inspection equipment

IRON AND STEEL



The Kobe Steel Group is strengthening its manufacturing capabilities aiming to create even more sophisticated and higher value-added steel products. At the same time, the Group is expanding sales of Only One products, such as wire rod for engine valve springs and high strength steel sheet for automobiles. In its welding consumables business, Kobe Steel has set its sights on becoming of one of the world's leading companies by developing welding solutions based on its proprietary technological capabilities.

Business Environment and Performance in Fiscal 2008

Demand from automobile, shipbuilding and other manufacturing industries was strong and exports increased due to growth in global demand in the first half, but a sharp decrease in manufacturing industry demand—with the exception of shipbuilding—in the second half caused fiscal 2008 steel sales to drop below those of the previous fiscal year. Nevertheless, because drastically higher raw material prices were passed on to product sales prices, sales exceeded those of fiscal 2007. Demand for steel castings and forgings remained robust, with sales and profits surpassing those of fiscal 2007. Buoyed by solid demand through the first half, sales and profits for titanium products were in line with those of fiscal 2007.

Despite brisk demand for welding consumables in the first half, demand from the automobile and construction machinery segments in particular rapidly tailed off in the second half, causing a substantial downward adjustment in production. In addition, product prices were revised upward due to skyrocketing raw material prices.

As a result, overall sales in the Iron and Steel Segment climbed 10.7% year on year to ¥1,022.4 billion, while operating income decreased ¥14.2 billion to ¥77.7 billion.

Overview of the Fiscal 2006–2008 Medium-Term Business Plan

Aggressive capital investments were made mostly in projects that will boost Kobe Steel's competitive position by expanding and improving its range of distinctive products and further raising its manufacturing capabilities. Kobe Steel renovated the blast furnaces at the Kakogawa and Kobe works, built the No. 5 continuous caster at Kobe Works, constructed a new titanium melt shop, increased the production capacity of steel cast-

Kobe Steel's Crude Steel Production Volume

(Millions of metric tons)

FY2004	FY2005	FY2006	FY2007	**FY2008**
7.71	7.56	7.83	8.07	**7.23**

Kobe Steel's Steel Shipments

(Millions of metric tons)

FY2004	FY2005	FY2006	FY2007	**FY2008**
6.67	6.50	6.58	6.86	**6.17**

Kobe Steel's Steel Sales Prices (Domestic/export average)

(Yen per metric ton)

FY2004	FY2005	FY2006	FY2007	**FY2008**
57,300	73,300	74,500	77,600	**99,500**

High strength steel sheet for automobiles

Welding consumables

ings and forgings for crankshafts for ship and focused investments in energy conservation as well as the environment.

In welding consumables, production capacity was expanded at existing production bases in response to sharply increasing sales volumes in Japan and overseas and a new production base was established in China.

Future Outlook and Initiatives

Demand for steel is expected to rebound moderately, and fiscal 2009 shipments and sales will likely remain below those of fiscal 2008. Against a backdrop of declining raw material prices and flagging demand, product sales prices are expected to fall, but we will take steps to ensure steady volumes and control sliding sales prices. At the same time, we will vigorously reduce costs, raise production efficiency and improve earnings.

Sales and profits for steel castings and forgings in fiscal 2009 are expected to remain at the same level as those of fiscal 2008. We will take a step-by-step approach in launching a new press line and build an efficient production system.

Demand for titanium products is projected to sharply decrease, and customers will therefore focus on reducing inventories, which should cause our shipments and sales to fall below those of fiscal 2008.

In anticipation of a continued adverse environment for welding consumables, we will make every possible effort to improve earnings in every segment by taking such steps as securing adequate sales volumes, controlling price slides and rigorously reducing costs.

Cold heading quality (CHQ) parts

TOPICS

Ultra High Strength Steel and Roll-Forming Technology Agreement Concluded

In September 2008, Kobe Steel and Austria's voestalpine Krems GmbH concluded an agreement covering the use of ultra high strength steel and roll-forming technology in auto parts. Under the agreement, the companies will propose the structural advantages of using ultra high strength steel roll-forming technology to Japanese automakers to encourage the technology's use in car models from 2011 and carry out ongoing activities to spread and disseminate the technology. Simultaneously, the companies will provide technical support to Japanese manufacturers of presses that perform the roll-forming process. The technical alliance between the companies will contribute substantially to the creation of lighter auto bodies.

Kobe Steel and Essar Steel Conclude Comprehensive Partnership

In November 2008, Kobe Steel concluded a comprehensive partnership agreement with a view to building a collaborative relationship with India's Essar Steel, Limited. Under the agreement, Kobe Steel will expand its procurement sourcing of raw materials and iron units from India, a market with promising growth potential, and search for business opportunities in India in the area of high-end steel. The areas of cooperation now under study are: 1) Kobe Steel providing Essar with technical assistance; 2) The supply of raw materials and iron units from Essar to Kobe Steel; and 3) Joint ventures between the two companies in India.

Signing ceremony with Essar Steel

WHOLESALE POWER SUPPLY

Business Environment and Performance in Fiscal 2008

The two power plants at the Shinko Kobe Power Station currently have a combined maximum power generation capacity of 1.4 million kilowatts. By passing on the higher cost of the coal used to fuel these plants in the form of electricity price hikes, sales in this segment showed a 12.3% year-on-year improvement to ¥80.7 billion. In contrast, operating income showed a ¥0.8 billion year-on-year decline to ¥17.3 billion. This was due to increased depreciation cost stemming from changes in the useful lives of machinery and equipment following revisions to the Corporate Tax Law.

Kobe Steel will take steps to improve equipment maintenance and accumulate operational technology in an effort to maintain stable operations and ensure steady profits.

ALUMINUM AND COPPER

Kobe Steel has positioned the automotive and IT-related fields for the development of Only One products that offer distinctive value. Moreover, to strengthen its manufacturing capabilities to support these products, Kobe Steel has expanded its production capacity and built up a skilled production workforce with the goal of becoming number one in terms of quality, delivery, cost and customer trust.

Business Environment and Performance in Fiscal 2008

With the exception of aluminum stock for canned beverages, for which demand remained firm, shipments of aluminum rolled products declined year on year due to falling demand across all segments, particularly in the automotive, LCD and semiconductor segments.

Sales of copper rolled products fell below those of the previous fiscal year owing to a sharp drop in demand for copper strip for electronic materials.

Shipments of aluminum castings and forgings also declined year on year, especially for automobiles.

Overall, sales in the Aluminum and Copper Segment were down 15.7% to ¥379.3 billion compared with the previous fiscal year on the back of declining shipments and lower product prices due to the drop in ingot prices. Operating income fell ¥48.9 billion, resulting in an operating loss of ¥26.9 billion. This was due primarily to downward pressure on earnings from the declining shipments and lower inventory valuation associated with the plummeting ingot prices.

Overview of the Fiscal 2006–2008 Medium-Term Business Plan

Kobe Steel has prioritized capital investments in the automotive and IT-related industries and taken steps to boost earnings of certain Only One products including automotive aluminum (such as aluminum panel and bumper materials and suspensions), aluminum blanks and substrates for hard disk drives, and copper strip for electronic materials.

Future Outlook and Initiatives

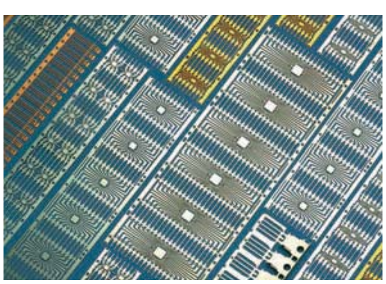
Demand for aluminum stock for canned beverages is expected to remain brisk. Despite bottoming out in the first quarter of fiscal 2009, post-recovery demand for other aluminum rolled products, copper rolled products and aluminum castings and forgings is expected to fall below the level of demand up to the second quarter of fiscal 2008.

As a result, the CCI50 (Cost & Cash Innovation 50) program was initiated throughout the Aluminum and Copper Company to improve profitability.

"Cost" indicates our objective to rigorously cut costs, lower expenditures, scale back the workforce to an appropriate level, and streamline R&D. "Cash" indicates our objective to pursue a drastic reduction of inventories and to maintain them at those levels when sales volume recovers.

Aluminum vacuum chamber for semiconductor and LCD production

Aluminum can stock for bottle cans



Leadframe for electronic applications

Aluminum forgings for automobile suspensions

Automotive bumper material

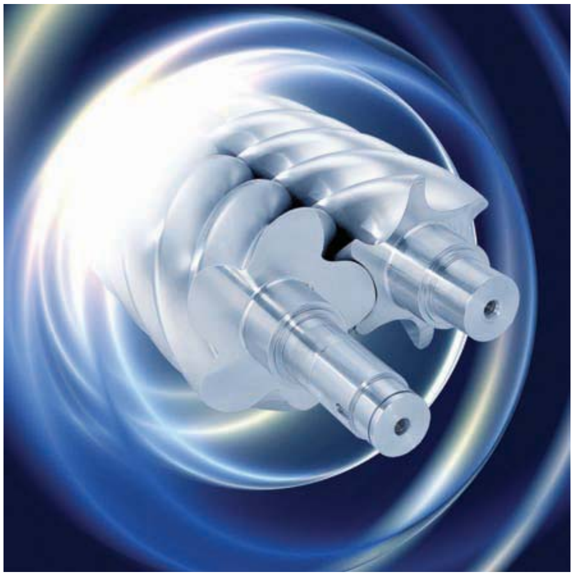
TOPIC

Kobe Steel Receives Chairman's Award by Clean Japan Center

Kobe Steel's Chofu Works was presented the Chairman's Award for Resource Recycling Technology and Systems in Fiscal 2008 by the Clean Japan Center for its effective use of metal resources. This award grants public recognition to those companies that take so-called 3R steps to reduce, reuse and recycle waste and resources. The Chofu Works has been highly commended for almost totally recycling the waste it generates.

Kobe Steel will continue to focus on the effective use of metal resources and contribute to building a recycling-based society.

MACHINERY



Against a backdrop of strong capital spending owing to expanding global demand for materials and energy, Kobe Steel's Machinery Segment experienced steady growth, especially in industrial machinery, compressors and engineering services. In order to improve its earnings capacity, Kobe Steel is creating more high-value-added Only One products, which have leading market shares in Japan and abroad, and expanding its sales channels as it develops more Only One products for the future.

Business Environment and Performance in Fiscal 2008

Decreased capital spending in the automotive and petrochemical industries from the second half onward resulted in flagging orders for tire manufacturing, plastics processing and steel production machinery. In contrast, sales climbed substantially year on year owing to a focus on sales of large plastics processing machinery.

In the compressor business, sales of standard compressors declined following the economic downturn, but strong capital investments in energy fields, including electric power and gas, resulted in continued high sales of rotating machinery.

In the engineering business, orders and sales for such energy-related equipment as heavy-wall pressure vessels for oil refining and LNG vaporizers likewise remained at high levels.

In the Iron Unit Division, demand for direct reduction (DR) plants remained strong due to tight global supplies of metallics. However, the global economic downturn from the second half led to the postponement of some projects that we had expected to generate new orders.

In the environmental field, orders decreased year on year as government public spending remained low. Private-sector capital spending dropped in the second half owing to project cancellations, postponements or downscaling. However, sales increased substantially thanks to construction work in progress on large projects from existing orders.

As a result, orders in the Machinery Segment dropped 29.8% year on year, to ¥238.6 billion. Net sales rose 9.5% to ¥331.0 billion, while operating income slipped ¥0.9 billion year on year to ¥29.6 billion, primarily due to escalating prices of equipment and materials used in machinery manufacturing.

Overview of the Fiscal 2006–2008 Medium-Term Business Plan

Buoyed by such factors as global economic growth and the weak yen through the second half of fiscal 2008—as well as internal efforts to expand the energy and automotive fields, develop overseas markets, conduct R&D and reduce costs—orders, sales and profits exceeded initial targets by a substantial margin. It was a productive three years for the Iron Unit Division, with numerous orders for DR plants that utilize the MIDREX® Direct Reduction Process coming primarily from the Middle East, an order for the FASTMET® Process in Japan and ITmk3® Process utilization in the world's first commercial plant in the United States.

*ITmk3® (pronounced "Eye-Tee Mark Three") is a process that uses a rotary hearth furnace to turn iron ore fines and pulverized steaming coal into high-purity iron nuggets (96%-97% metallic iron content), the same purity as pig iron from a blast furnace. Reduction, melting and slag removal occur in only 10 minutes in contrast to a reduction time of 8 hours using a blast furnace. No expensive coking coal is used in the production of the iron nuggets.

Iron nuggets

LCM Series plastics mixing and pelletizing system

Future Outlook and Initiatives

In industrial machinery, compressors and engineering services, an adverse environment for orders will likely continue, but orders should remain on an expansionary track over the long term, particularly in emerging countries. As a result, we will maintain our existing course and continue to create unique products and technologies that are accepted in markets globally, strengthen our overall manufacturing capabilities (technology, cost, delivery, quality, purchasing, etc.) and optimize our manufacturing and operation systems.

In the Iron Unit Division, with demand for metallics expected to grow over the medium to long term, we will continue to expand sales of the natural gas-based MIDREX® Process, the next-generation ironmaking process ITmk3® as well as the coal-based FASTMET® and FASTMELT® processes.

In the environmental field, we will expand equipment sales in such diverse fields as water treatment, waste treatment and PCB waste disposal, and capture growing after-service demand.

Water treatment plant

Batch-type BB Mixer

Heavy-wall pressure vessel for oil refining

TOPICS

SteamStar® Screw-Type Compact Steam Energy Generator Wins Prestigious Awards

The SteamStar®—developed by the Kobe Steel Group in collaboration with TLV Co., Ltd. and winner of the Prime Minister's Award at the 37th Japan Industrial Techniques Grand Prix—has also won the Chairperson's Award from the Eco-Products Awards Steering Committee and the Agency of Natural Resources and Energy Secretary Prize at the Excellent Energy-Saving Equipment Awards for fiscal 2008. The SteamStar® was commended for its highly efficient power generation performance using unused steam energy and for its significant contribution to reducing CO_2 emissions.

SteamStar®: A screw-type compact generator that makes use of the steam generated during the manufacturing process at plants and other locations to make electricity. At many plants, generated steam is utilized within the facility to heat water and for drying purposes. In addition, the SteamStar® boasts a power generation efficiency of 60%, the highest efficiency rating in the world.

Full-Scale Entry into Large-Capacity Turbo Compressor Market

The Company has been constructing a testing facility for large-capacity compressors, the mainstay product of the Machinery Segment, at its Takasago Works. The new facility, which will increase Kobe Steel's testing capacity by 50%, will be able to test large-capacity rotating machinery, mainly turbo compressors, with variable-speed motors rated up to 20,000 kW. Kobe Steel estimates that it currently holds 10% of the world market for the integral-gear variety of turbo compressors. The Company's strategy, however, is to raise its share in this field to 20% by expanding into the large-capacity turbo compressor market.

CONSTRUCTION MACHINERY

Kobelco Construction Machinery Co., Ltd., the company in charge of hydraulic excavators, and Kobelco Crane Co., Ltd., which specializes in cranes, are developing innovative products using original technologies and expanding business globally.

Business Environment and Performance in Fiscal 2008

Hydraulic excavator demand in Japan, the United States and Europe fell year on year. In contrast, demand in China exceeded that of the previous fiscal year, despite a slowdown toward the end of fiscal 2008. Demand for cranes in Japan and the Middle East declined from the third quarter onward but remained strong in North America.

As a result, sales in the Construction Machinery Segment edged down 2.0% year on year to ¥333.0 billion. Operating income dropped ¥11.6 billion year on year to ¥11.3 billion on the back of sharply rising material and equipment costs and other factors.

Hydraulic Excavator Business

• Overview

Amid a harsh business environment in Japan, we continued to improve product prices. Simultaneously, we took steps to differentiate our products by launching low-noise excavators compatible with Tier III emission regulations and enhancing our product lineup with small- and medium-sized excavators.

In China, unit sales over the three-month period beginning October 2008 were below those of the previous fiscal year. Nevertheless, unit sales for the full fiscal year exceeded those of the previous fiscal year following a strong first half and with our production and sales bases to be relocated in an area undergoing reconstruction following the earthquake in Sichuan Province.

Overseas (excluding China), through our global alliance with CNH Global N.V., we have: 1) expanded business, particularly in the Asia-Pacific region, our main business territory; and 2) further strengthened our joint ventures with CNH in Europe and the United States.

• Future Outlook and Initiatives

In fiscal 2009, the economic and financial measures that various countries have been taking in response to the adverse business environment are gradually expected to bear fruit. Although a speedy recovery would be most welcome, demand for construction machinery will likely remain low. Given this environment, we have decided to go back to the starting point of manufacturing to fortify our manufacturing capabilities.

In addition to raising quality, we will consistently work to lower costs through campaigns to improve productivity by 30%, carry out value engineering (VE) campaigns in close cooperation with partner companies, and undertake other measures. On the sales side, Kobelco Construction Machinery will attempt to derive economic benefits from the consolidation and merger of its former five sales companies into two companies. At the same time, the company will restructure its marketing system in growth markets, especially China, Asia and emerging markets, from a global perspective.

Mini excavator with short-tail swing radius

Crane Business

• Overview

The global financial crisis caused the business environment surrounding the overseas crane market to sharply deteriorate from October onward. In the domestic crane market, company reviews of capital spending plans and slumping real estate caused demand for wheel loaders to drop sharply in the second half, resulting in a sudden decline in used crane sales prices. In light of this adverse environment, we maximized sales in the second half by steadily shipping backlogged orders and taking a flexible approach to customers. We also took steps to improve profitability throughout the company by implementing a number of measures, including cost cutting and expense reductions.

As a result, unit sales of new crane models in fiscal 2008 amounted to roughly 920 units, approximately 8% higher than in the previous fiscal year. Notably, sales of large crawler cranes, begun in fiscal 2007, were largely favorable and contributed substantially to earnings.

• Future Outlook and Initiatives

The business environment in fiscal 2009 is expected to be one of extreme uncertainty owing to a number of factors, including volatile exchange rates and financial instability, which will exert a downward pressure on earnings. Under these conditions, while maintaining a defensive sales posture, the crane business has prioritized the following six issues to reinforce its business foundation: 1) creating a more stable production system and cutting costs; 2) boosting earnings by maintaining a collaborative system with alliance partners; 3) setting up domestic and overseas distribution and sales systems for emerging markets; 4) strengthening the wheel loader business based on "city-conscious cranes"; 5) promptly turning around the used construction equipment business and strengthening the stock business by expanding our service parts sales network; and 6) reinforcing the business foundation with a view to becoming a leading manufacturer and creating a stronger financial position.

Ultra-large crawler cranes

All terrain crane

TOPICS

ACERA GEOSPEC and PANTHER X250 Win Good Design Award

Kobelco Construction Machinery Co., Ltd's 7- and 13-ton class ACERA GEOSPEC hydraulic excavators, and Kobelco Crane Co., Ltd's city-conscious crane, the PANTHER X250, were presented with the fiscal 2008 Good Design Award sponsored by the Japan Industrial Design Promotion Organization (JIDPO). The ACERA GEOSPEC has been especially well received for its dramatically lower fuel consumption and reduced noise level as well as its superior environmental and safety features. The PANTHER X250, which has been improved right down to the smallest detail, has received accolades for its numerous innovative design features, including its smaller and less intimidating profile in city environments.

ACERA GEOSPEC Hydraulic Excavator

The city-conscious PANTHER X250

Groundbreaking Ceremony for Relocated Business Base in Chengdu, Sichuan Province, China

On June 6, 2008, a groundbreaking ceremony was performed in association with the relocation of the business base in Chengdu, China, of Kobelco Construction Machinery Co., Ltd's three joint venture companies: Chengdu Kobelco Construction Machinery Group Co., Ltd., Chengdu Kobelco Construction Machinery Co., Ltd., and Chengdu Kobelco Mini Excavator Co., Ltd. The relocation will contribute to Chengdu's early recovery from the devastation of the earthquake and promote city planning. The companies continue to steadily carry out the recovery plan.

Although soon after the earthquake in Sichuan Province, the companies decided to hold the ceremony as planned as a first step to recovery.

Representative Office Established in India

Kobelco Cranes has made a full-scale entry into the burgeoning Indian crane market with the establishment of the Kobelco Cranes India Representative Office in the suburbs of Delhi. While working to forge partnerships with distributors, Kobelco Cranes will continue to strengthen its operations in India through a range of initiatives, including new customer development, entry into the used crane market, implementation of marketing and service programs, and parts business expansion.

REAL ESTATE

Operating mainly in the Kinki region and Tokyo area of Japan, the Real Estate Segment is a total life business encompassing real estate development, construction, property sales, leasing, remodeling, building and condominium management, and insurance brokering. Our goal is to quickly establish a stable business foundation and achieve sustained growth.

Business Environment and Performance in Fiscal 2008

The business environment surrounding the Real Estate Segment was extremely adverse, especially on the sales side, with the economic downturn in Japan resulting in consumers displaying a reticence to buy. Notably, the substantially higher inventories of completed units forced the condominium business to cut prices. Moreover, the previously strong demand for office buildings was hit by rising vacancy rates brought about by the economic downturn, with advertised rental rates declining. Customers are increasingly asking the building management and insurance services businesses to lower prices and to review contract terms.

As a result, net sales in the Real Estate Segment in fiscal 2008 fell 16.2% to ¥37.1 billion on a consolidated basis, while operating income was down ¥3.1 billion to ¥1.9 billion.

Future Outlook and Initiatives

With regard to the future business environment, the consumer mindset is not expected to improve and downward pressure on prices will likely continue in the short term. In addition, there are concerns over the growing credit risk of business partners. Under these circumstances, we will more carefully manage business risk, while working to ensure cash flow and earnings.

ELECTRONIC MATERIALS AND OTHER BUSINESSES

Business Environment and Performance in Fiscal 2008

Sales in this segment slipped 9.2% to ¥55.1 billion due to a downswing in shipments of target material for LCDs caused by declining LCD panel demand. Operating income dropped ¥5.0 billion to ¥3.1 billion. Although the adverse business environment is expected to continue due to the global recession, Kobe Steel will ensure earnings through more efficient production and enhanced sales capabilities.

R&D AND INTELLECTUAL PROPERTY ACTIVITIES

Supporting the Kobe Steel Group, the Technical Development Group is engaged in basic and advanced research. The Kobe Corporate Research Laboratories in the Technical Development Group work closely with development departments in the business segments, applying their wealth of technological expertise to effectively meet customers' needs. Blending technologies in the fields of materials, machinery, the environment, energy and electronics, the laboratories pursue the development of truly distinctive "Only One" products and ever higher levels of manufacturing expertise.

The Kobe Corporate Research Laboratories serve as the Group's R&D base. Combining the specialized technologies of the laboratories, the Technical Development Group undertakes research aimed at enhancing the profitability of the business segments, pioneering new products and technologies for the future.

R&D Activities

• Material Research Laboratory

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

• Mechanical Engineering Research Laboratory

The Mechanical Engineering Research Laboratory (MERL) conducts research and development in machinery, materials, the environment, energy, and steel structures. Through the use of advanced simulation, testing, measurement, and analysis techniques in the fields of structural, strength, dynamics, acoustics, fluids, thermal, combustion, and chemical technologies, MERL works to enhance product performance, improve production processes and design, and focus on developing new products and technologies in an effort to gain a competitive advantage.

• Production Systems Research Laboratory

The Production Systems Research Laboratory (PSRL) is active in bolstering and innovating production technologies for each of the Group's business segments, utilizing cutting edge technologies for instrumentation and control, production planning, machine systems, information systems and signal processing. With proprietary electronics and system technologies at its core, PSRL is also engaged in the creation of new product menus in machinery-related fields.

• Electronics Research Laboratory

The core technologies of the Electronics Research Laboratory (ERL) include thin-film materials design and film deposition, microfabrication, measurement evaluation, and superconductivity. ERL strives to develop new products and processes for application in such growth fields as electronics and information, next-generation automobiles, energy and biotechnology. ERL is also promoting the application of cutting-edge technologies in production facilities.

• Coal & Energy Technology Department

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

• R&D-related subsidiaries

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

Kobe Corporate Research Laboratories

Recent R&D Achievements

High-Performance Antibacterial Coating Technology for Consumable Goods

The application fields for KENIFINE, a high-performance anti-bacterial coating developed by MRL in 2001, are growing steadily. Initially, KENIFINE was targeted primarily for use on food machinery, kitchen utensils and medical applications and in care facilities. Since fall 2007, KENIFINE has also been used for nail clippers, ear cleaners, tweezers, bathroom heater and dryer parts, and in gaming halls (pachinko slot machine parlors, game centers, etc.). With this kind of growth in applications, Kobe Steel has decided not to commercialize the product on an exclusive basis, but rather to broadly license the technology to coating-related suppliers with extensive coating know-how and knowledge of customer needs.

Developed by Kobe Steel, KENIFINE is a special nickel-alloy coating technology that works by destroying bacteria with antibacterial ions that seep into the layer of atmospheric water attached to the coating surface. KENIFINE has 10 times the antibacterial properties of existing antibacterial technologies, and 50 times the antifungal properties. In research conducted by Kobe Steel with Dr. Norio Hirano (Faculty of Agriculture, Iwate University) on the SARS-associated coronavirus, and in research with Shizuoka Prefectural Research Institute of Fishery on the parasitic water mold on rainbow trout eggs, KENIFINE was found to have an inhibitive effect.

Orders Brisk for High-Performance Aluminum Sound-Absorbing Panels

Orders have been brisk for high-performance aluminum sound-absorbing panels used for soundproof walls developed by MERL and Shinko Kenzai, Ltd. Public transportation facilities have placed orders for these panels for use along roads and railways, and manufacturing and service industries have placed orders for panels to block out noise around plants and machinery. Orders have also been received for Q-PANE, high-performance, sound-absorbing partition panels that incorporate the same technology used in the aforementioned type. Developed by Shinko Kenzai, Ltd. and Comany Inc., Q-PANE panels are for use in hospital counseling rooms and in the conference rooms of companies and other facilities.

Conventional soundproof and sound insulating walls are composed of sound absorption and insulation sections. In the case of our high-performance aluminum sound-absorbing panels, however, aluminum foil pierced with numerous micro holes replaces the sections containing the sound-absorbing fiber material.

The technology works by converting acoustic energy into thermal energy through the friction generated when vibrating air passes through the micro holes. Moreover, being made of aluminum foil makes the panels highly durable and their environment-friendly structure ensures that they are easy to recycle.

In constructing the panels, MERL uses the same proven technologies that make compressors and construction machinery run silently and that keep the noise levels inside bullet trains to a minimum, providing an optimum acoustic design tailored to the characteristics of the sound source. Shinko Kenzai is responsible for panel sales, with annual sales of more than ¥1.0 billion targeted in fiscal 2011.

Aluminum sound-absorbing panel

Intellectual Property Activities

Intellectual Property Activities: Raising Corporate Value

Strategic intellectual property activities are essential to the Kobe Steel Group’s goal of creating and expanding its range of distinctive Only One products. The importance of intellectual property has gained recognition with the recent enactment of the Basic Law on Intellectual Property. At the same time, a three-pronged strategy covering business, R&D and intellectual property has been advocated amid calls for a response to the increasing problems of imitations in Asia and higher incidence of technological leakage from companies.

The Kobe Steel Group is also taking a lead in energetically promoting intellectual property activities that raise corporate value by: (1) implementing three-pronged intellectual property programs, (2) improving cooperation in the area of intellectual property throughout the Group, and (3) establishing a platform for intellectual property activities. Most importantly, we are in the process of constructing a new intellectual property management framework with the goal of shifting to intellectual property management at the product and technology levels.

Overview of Fiscal 2008

In fiscal 2008, Kobe Steel received nearly 530 new patents in Japan, primarily to protect Only One products, which now gives the Company approximately 3,900 total patents. Moreover, as a result of the globalization of its business, Kobe Steel is strengthening its acquisition of new patents overseas, especially in Asia, which now account for almost 35% of the total number of patent applications.

Corporate Governance

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

Based on this awareness, Kobe Steel established its Corporate Philosophy and Corporate Code of Ethics as corporate ideals as it works to improve its corporate governance capability.

●Corporate Governance

Kobe Steel is deploying an internal company management system that is transforming the business structure through the improved earnings capacity of each business unit and the strategic selection and concentration of resources in areas they are most needed.

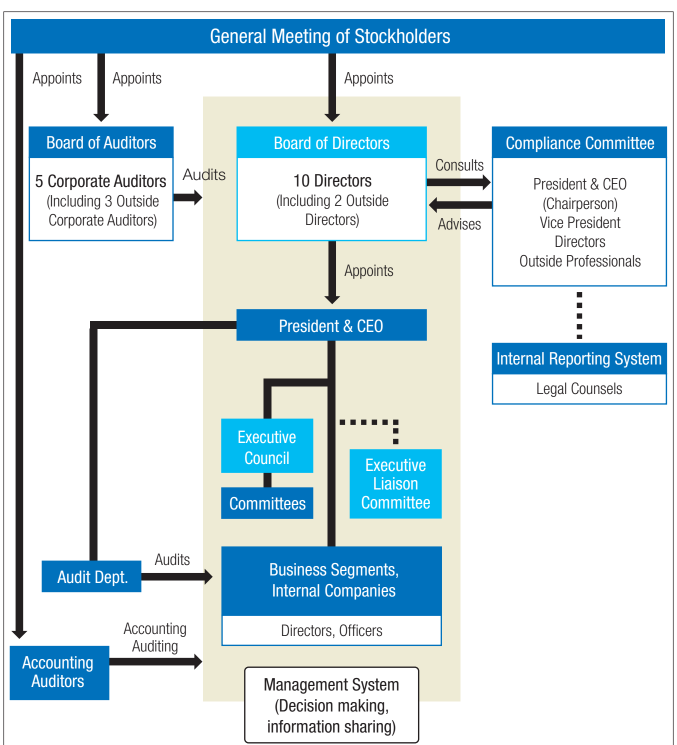
Operating with this management system, we recognized the inseparability of management decision-making from the execution of day-to-day business operations. Therefore, Company directors who are legally responsible to shareholders, business partners and other stakeholders must bear primary responsibility for the business affairs and matters of major importance to the Company.

The Board consists of 10 members made up of senior management, key executives at corporate headquarters, executives of major business divisions and internal companies. It includes two outside directors invited to ensure the transparency and fairness of management and to improve oversight over business affairs.

Corporate officers, under the leadership of the directors, are responsible for the conduct of business affairs, and therefore occupy an important position at Kobe Steel. Although not constituting a legal body, officers are elected by the Board of Directors and carry out duties that the president assigns to them. To enable the Company to quickly respond to a rapidly changing business environment, the term of office of both directors and officers has been set at one year.

The Group Executive Council (held quarterly) and the Executive Council (held semimonthly) are held to discuss the business direction, including the business strategy of the Company, as well as to confer over matters deliberated on in the Board of Directors' meetings. The Executive Liaison Committee (meeting held quarterly)—composed of directors, corporate officers, executive technical advisors, and the presidents and officers of affiliates appointed by the president—shares information on important management issues.

Other committees are set up as a forum for relevant parties to consider the president's and senior executives' advice before deliberating on issues that have a high degree of impact on the overall business of the Company.



Corporate Governance

●Internal Audits, Corporate Auditors and Accounting Audit System

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

With five corporate auditors, including three outside corporate auditors, Kobe Steel is increasing the effectiveness of corporate governance through stronger management audit capabilities. No business relationships or other interests exist between the outside corporate auditors and Kobe Steel.

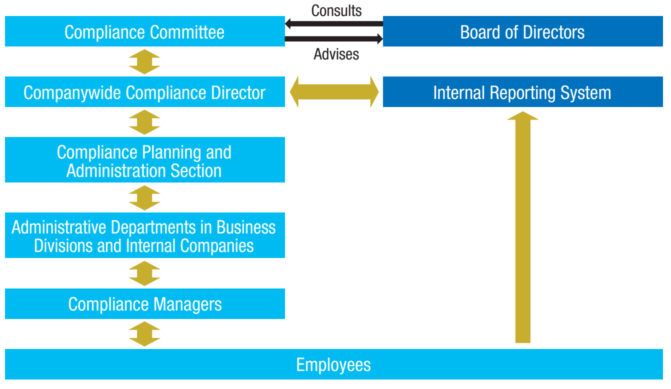
Accounting audits are conducted by three certified public accountants (CPAs) from KPMG AZSA & Co. Assisting the accounting audits are other CPAs and junior accountants from KPMG AZSA & Co.

Corporate auditors routinely meet with accounting auditors to coordinate internal audits, corporate audits and accounting audits and closely cooperate through the exchange of views about the audit system, the audit plan and audit status. Also, when necessary, corporate auditors accompany accounting auditors on their audits of business sites and receive timely reports about the progress of those audits. Furthermore, corporate auditors are routinely informed about audit policies and plans by the internal audit department. Corporate auditors also maintain close cooperation with others through reports they receive in such areas as the status of compliance, risk management and other internal control system enforcement, thereby enabling them to conduct efficient audits.

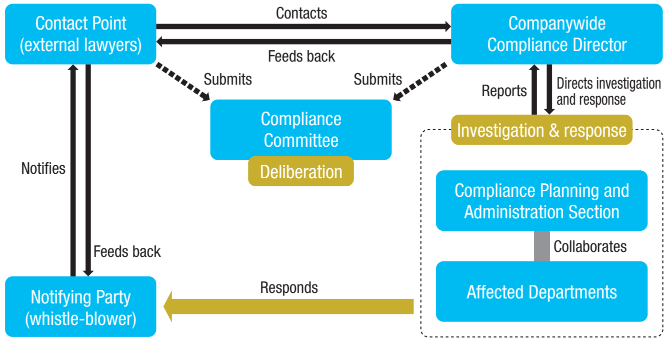
●Compliance Committee

The Compliance Committee was established as an advisory body to the Board of Directors in June 2003 and has undertaken various activities. Specifically, the Compliance Committee works to raise the effectiveness of compliance management not only through the drafting of compliance programs and confirming the progress status of them, but also by submitting measures related to reports made through the Internal Reporting System for discussion at Board of Directors' meetings.

■*Compliance System*



■*Internal Reporting System*



●Corporate Code of Ethics

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

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

From Kobe Steel's Corporate Code of Ethics

Kobe Steel will:

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

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

●Risk Management

To ensure that work is performed properly and efficiently, we established Risk Management Rules. Risk Management Rules prescribe the proper system for monitoring risk management. After each division has identified the individual risks in their business environment, preventive maintenance measures and procedures are established for responding to risk when it arises.

In addition to these systems, Kobe Steel maintains internal systems to ensure proper financial reporting, stores and manages information pertaining to the execution of duties by directors in accordance with "Rules concerning the preservation and management of information related to the execution of duties by directors."

●Strengthening the Compliance System

Improper contributions to the campaign groups of local council member candidates and steps taken to prevent recurrence

In February 2009, Kobe Steel announced that several of its offices appeared to have made improper payments of campaign group expenses under the category of donations in support of local council member candidates that were endorsed by the Kobe Steel labor union. The Political Funds Control Law had been revised and enforced in 1995 and 2000. Despite the stricter regulations governing corporate donations to campaign groups, these offices continued, even after the law's revision, to assume part of the payment for campaign expenses, such as office and labor costs incurred by the campaign group.

Along with the air emissions problem at the Kakogawa and Kobe works in 2006, we took this as an opportunity to strengthen our compliance efforts. However, unable to pay sufficient attention to the new regulations, the offices concerned failed to perform the required check of its past practices, and thus caused a problem for the Company. Kobe Steel takes this matter seriously and will strictly abide by relevant business laws and regulations. At the same time, it will take steps to prevent the recurrence of this compliance problem with the goal of fostering a compliance-sensitive organizational culture.

Approach to Preventive Measures

Kobe Steel views compliance as underpinning its business activities. Accordingly, the Company has established a basic policy of creating a highly compliance-sensitive organization that identifies compliance risks and examines preventive measures, and fostering a corporate culture that is strongly disciplined and keenly responsive to potential compliance problems.

In specific terms, Kobe Steel focuses its efforts on carrying out renewed risk management activities at each Group company.

In support of these activities, Kobe Steel implements a range of measures from the following standpoints: “systems and mechanisms,” “education and training” and “organization and structure.”

Restructuring of Risk Management Activities

Having taken steps to address companywide risk management over the years, from fiscal 2009 Kobe Steel completely overhauled its existing risk management activities and designed an entirely new set.

These activities include the organization and classification of compliance-related risk items by corporate headquarters, efforts to explain laws and regulations and provide information on their revision for each risk item, and the review of case studies of actual problems. Risk-related data derived from these activities is then compiled and sent to each business segment as “shared risks” for the entire Company. Each business segment then adds those business risks that are unique to their own business to the shared risks, prepares a risk management plan for each fiscal year, and executes the plan. Moreover, based on inspection requests from headquarters at the end of the fiscal year, all departments verify their organization’s risk management status. A verification report is then submitted after having been signed by a departmental general manager or higher level executive.

While the new risk management plan is linked to the shared risks sent by headquarters in compliance with legal and social changes, by annually establishing, implementing and inspecting the risk management plan, Kobe Steel has set as its goal the steady application of the Plan-Do-Check-Action (PDCA) cycle.

Initiatives Supporting Risk Management Activities

Kobe Steel continues to stress compliance education. It incorporates compliance-related information at every level of training and provides opportunities for employees to receive a broad range of compliance training at different points in their careers, including the “Compliance Top Seminar” aimed at Kobe Steel and Group company executives. We also introduced legal education via e-learning in fiscal 2006 and provided opportunities for their compliance comprehension to be verified at regular intervals.

In addition to these efforts, we are planning to provide legal training to executives and employees who are at the center of risk management activities, which will help each division deal with compliance risk. Moreover, as part of our training, we look at specific case studies of actual problems that Kobe Steel has faced so that past experience is not wasted.

To ensure that the PDCA cycle for companywide risk management activities has been properly applied, administration members from Headquarters visit offices and verify what progress has been made while coordinating with members who hold concurrent positions in the Compliance Planning and Administration Section. The key to risk management activities is to coordinate them with the various policies and measures, with the goal of achieving a corporate culture that is more compliance-sensitive.

●Group Company Compliance System

Each Kobe Steel Group company has set up a Compliance Committee, established a Corporate Code of Ethics and introduced an Internal Reporting System. A Compliance Officer and Compliance Promotion Manager have been appointed in each company and they pursue their efforts in coordination with Kobe Steel.

●Policy on the Large-Scale Purchasing of Company Shares (Takeover Defense Measures)

Kobe Steel, as a listed company, does not object to any Large-Scale Purchase involving a change of its corporate control if such purchase facilitates the protection and enhancement of its corporate value and ultimately, the common interests of shareholders in the course of open stock trading.

However, 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 the businesses. Therefore, if Large-Scale Purchasers, who do not have an adequate understanding of these relationships with the stakeholders and synergies among the businesses, were to control the finances and the business policies of Kobe Steel, there is a possibility that the corporate value of the Company and, ultimately, the common interests of its shareholders would be impaired. Therefore, Kobe Steel believes that for a party to have an impact on its financial and business policy decisions, that party 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 in the common interest of its shareholders. Consequently, such a party must also be able to protect and enhance the Company’s corporate value and the common interests of its shareholders. In contrast, Kobe Steel views any party involved in the aforementioned Large-Scale Purchases or proposals as an unsuitable party that will have an impact on its financial and business policy decisions.

With the above in mind, our basic principle is to ultimately leave the decision of whether to accept Large-Scale Purchases of Company shares to the shareholders. Therefore, to protect the common interests of shareholders, we introduced a Plan that establishes rules such as providing information that Large-Scale Purchasers must to the extent necessary abide by and, as necessary, information and procedures about the takeover defense measures that the Company must take. This Plan was approved at the General Meeting of Stockholders held on June 24, 2009. The following is an outline of the Plan.

1) Providing Required Information

With respect to Large-Scale Purchasers who acquire the Company’s shares with the goal of holding 15% or more of the Company’s voting rights, it is necessary for shareholders and the Board of Directors to determine whether the proposed Large-Scale Purchase safeguards and further improves corporate value as well as the common interests of shareholders. Therefore, information is required prior to the Large-Scale Purchase about the purpose of the share acquisition and the post-share acquisition management policy.

However, Kobe Steel shall not engage in operations that deviate from the aim, 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 that endlessly necessitate providing the Large-Scale Purchasers with required information.

2) Establishment of an Independent Committee

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

3) Examination and Evaluation

After ensuring an evaluation period of between 60 and 90 days from the date that the Independent Committee discloses that it has received the sufficient information required, the Independent Committee will report to the Board of Directors on whether it should initiate takeover defense measures, based on its examination and judgment of the legitimacy of the Large-Scale Purchase.

During the evaluation period, the Board of Directors will as necessary review and evaluate the required information provided, with the advice of outside experts. Then, the Board of Directors will form and disclose its opinion on the Large-Scale Purchase.

If the Independent Committee reasonably decides that an extension is necessary, the Company may extend the evaluation period for a period up to a maximum of 60 days beyond the initial period.

As a general rule, the resolutions of the Independent Committee shall be made by a majority vote with all members in attendance. However, should it be deemed unavoidable, the Independent Committee's resolution may be made by a majority vote of those members present at a meeting attended by a majority of Independent Committee members. However, should the Independent Committee recommend that the Board of Directors take defensive measures, the resolution of such recommendation will require at least one affirmative vote from a committee member who serves as an outside director of the Company and who attended the Independent Committee.

4) Initiation of Takeover Defense Measures

The Board of Directors decides whether to initiate takeover defense measures after giving serious consideration to the Independent Committee's report. The takeover defense measures involve the distribution of share purchase warrants to shareholders under certain terms and conditions, which include prohibiting the exercise of the share purchase warrants by a Large-Scale Purchaser. Therefore, exercising these share purchase warrants has the effect of reducing the ratio of the aforementioned Large-Scale Purchasers' voting rights and blocking any Large-Scale Purchase feared to be detrimental to corporate value and the common interests of shareholders.

In addition, as part of the share purchase warrants' terms and conditions, the Board of Directors shall not attach any redemption clauses to the effect that the Company will provide cash as consideration for the redemption of those warrants held by the Large-Scale Purchasers.

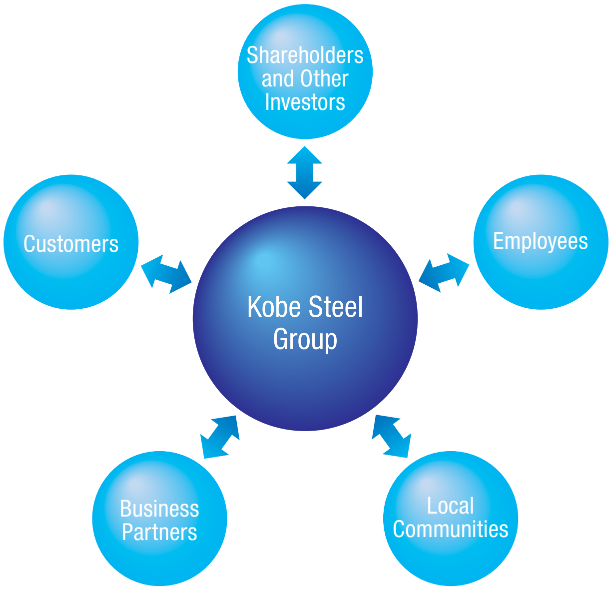
An effective term of two years, which is renewable subject to General Meeting of Stockholders' approval, has been set for the Plan.

Furthermore, it will also be possible to revoke the Plan at any time by means of a Board of Directors' resolution. The Company sets its directors' tenure at one year and neither intends to adopt a staggered-term system, nor add any requirement for the measures to be revoked by a General Meeting of Stockholders' resolution. The measures will be revoked at a time decided by the Board of Directors, even when they are still in force.

Relations with Stakeholders

The Kobe Steel Group is facilitating communication with its stakeholders—including customers, business partners, local communities, shareholders and other investors, as well as its employees—and building relationships of mutual trust. With the goal of being a corporate group that benefits society through its manufacturing capabilities, Kobe Steel will continue to forthrightly disclose Company information and progress with society.

Shareholders and Other Investors	Kobe Steel appropriately and swiftly discloses a wide range of information to shareholders and other investors. Furthermore, it promotes investor relations through its constant efforts to raise corporate value in order to gain and maintain customer trust.
Customers	Kobe Steel provides products and services that satisfy the wide-ranging needs of its customers. Every effort is made to develop high-quality products that customers trust and to disclose information in a quick and timely manner.
Business Partners	Having developed a diverse range of businesses in Japan and abroad, Kobe Steel has gained the cooperation of various business partners. Kobe Steel always conducts honest and legitimate transactions and works for mutual prosperity through business.
Local Communities	Conscious of its position as a corporate citizen, Kobe Steel goes to great lengths to maintain a harmonious co-existence in the communities in which it operates. To contribute to the safety and development of local communities, Kobe Steel actively participates in community festivals, events and other social activities as well as in disaster prevention programs.
Employees	Kobe Steel employees, the driving force behind the Company's development, derive satisfaction from their work and contribute to the maximum of their ability. At the same time, the Company takes steps to maintain a safe and secure work environment, enhances its employee benefits system, and improves its career development program.



Basic Environmental Management Policy

The Kobe Steel Group recognizes that the obligation to protect the global environment is its most urgent task, and therefore, has adopted the mission to pass on a healthy world to future generations. The Kobe Steel Group has formulated a Basic Environmental Management Policy and, accordingly, stepped up efforts to promote environmental management in every facet of its business activities. An Environmental Management Committee has been established to address environmental management issues for the entire Group.

●Basic Environmental Management Policy:

Enhancing Enterprise Value through Groupwide Environmental Management

—Improving the Group's Environmental Capabilities—

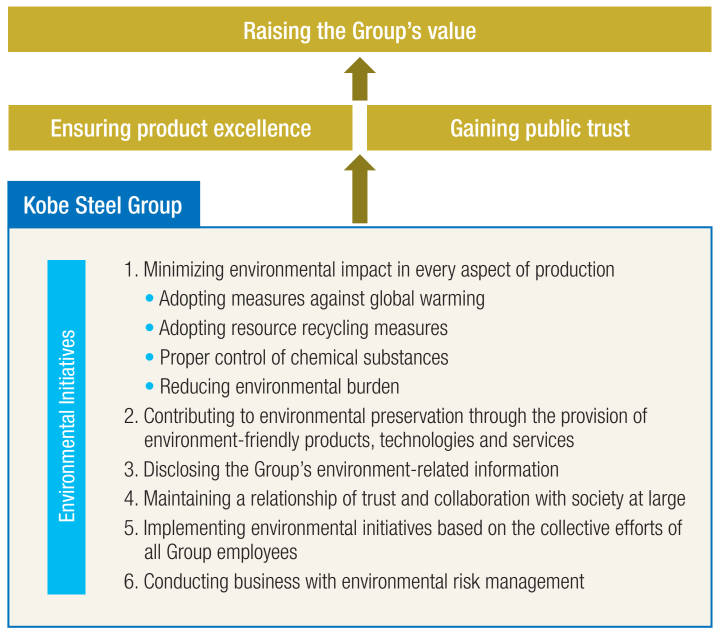
Aiming to become an advanced environmental business group, the Kobe Steel Group shall fulfill its corporate social responsibilities, improve its environmental capabilities and raise its corporate value by putting the following three principles into practice:

1) **Reducing the environmental impact from production**
2) **Contributing to the environment through environment-friendly products, technologies and services**
3) **Maintaining a relationship of trust and collaboration with society at large**

To promote Groupwide environmental management, we implement activities based on six principal initiatives.

Adhering to relevant laws and regulations, Kobe Steel is rigorously pursing environment-friendly manufacturing in every aspect of its operations, including the siting and construction of its facilities, the equipment it uses, and procurement, production, distribution and product recycling. Kobe Steel provides products, technologies and services that help reduce its environmental impact with the full participation of its employees.

■*Groupwide Environmental Management Initiatives*



Measures to Combat Global Warming

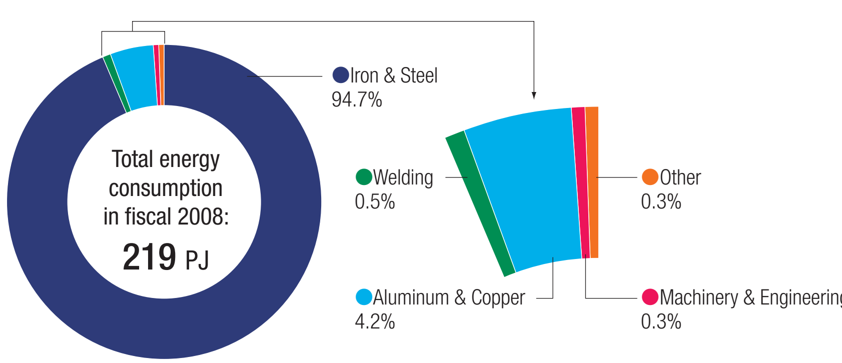
Global warming is the term used to describe the impact that is resulting from increasing emissions of greenhouse gases, such as carbon dioxide (CO_2) and chlorofluorocarbon substitutes. The Kyoto Protocol came into effect in 2005 and worldwide efforts have been under way to combat the phenomenon. In Japan, a succession of related laws and regulations, especially those intended to inhibit global warming, have been drawn up and various measures implemented. Various industries have also formulated and initiated action plans. The Kobe Steel Group is rationalizing energy use though energy conservation and other means across all of its business activities based on its voluntary action plans for each industry.

●Energy Conservation in Production Processes

In fiscal 2008, the Kobe Steel Group as a whole consumed 219PJ (petajoules) of energy. Of this amount, 94.7% was by the Iron and Steel Segment.

Previously, energy consumption had been rationalized at Kobe Steel's production facilities, including its steelworks, through the introduction of the latest energy conservation technologies, such as combustion management, continuous processes, and exhaust heat recovery. As a result, Kobe Steel achieves the world's highest levels of energy efficiency in its production processes. Moving forward, Kobe Steel will raise its energy efficiency to even higher levels, reduce its environmental impact and actively develop new production technologies.

■*Energy Consumption by Main Businesses (including Group companies)*



Resource Recycling Measures

The Kobe Steel Group is engaged in wide-ranging business development in such areas as materials and industrial machinery and imports iron ore, coal and other raw materials from abroad. In addition, Kobe Steel supplies environment-related equipment that is helping to build a recycling-based society. Amid its business expansion, Kobe Steel is taking steps to minimize the generation of waste at every one of its business facilities. As much as possible, the Group is also working to reuse and recycle the by-products that it generates and is actively promoting resource recycling measures, such as the use of iron and steel slag in materials for cement.

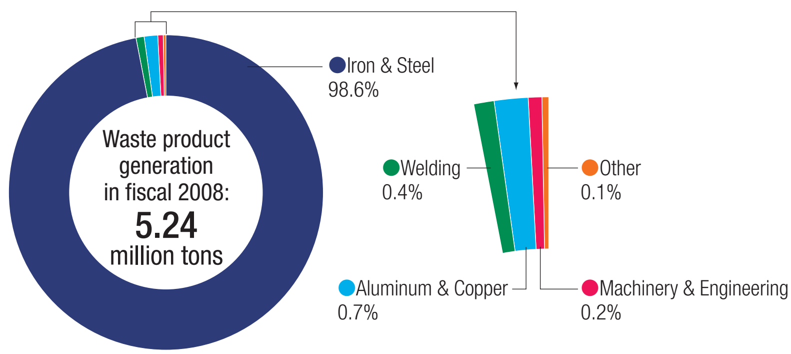
●Curbing Waste Product Generation and Promoting Recycling

In fiscal 2008, the Kobe Steel Group generated 5.24 million tons of waste by-products, 98.6% of which was by the Iron and Steel Segment. Kobe Steel promotes the recycling of slag and dust generated as a by-product of ironmaking. Beginning in fiscal 1992, Kobe Steel formulated an action program targeting waste and has been promoting waste reduction and recycling on an ongoing basis. In fiscal 2008, the recycle rate was 91.8% for all Kobe Steel plants and 91.5% for the entire Group.

Due to steps taken to strengthen the quality control of steel slag, a portion of the slag was disposed as landfill and not recycled in fiscal 2008. Because some dust that had been stored for recycling was also disposed as landfill, a total of about 410,000 tons of waste was finally disposed for the entire Group.

In the years ahead, the Kobe Steel Group will steadily carry out each industry association's voluntary action plan, further promote the development of recycling technologies, curb the generation of waste, and reduce the landfill volume.

■*Waste Generation by Main Businesses (including Group companies)*



TOPICS

Highly Rated by Development Bank of Japan

In 2009, Kobe Steel was assessed as having a "Highly Advanced Approach to Environment-Friendly Management," the highest environment rating offered by the Development Bank of Japan (DBJ). This rating is the result of Kobe Steel's efforts to strengthen its environment management system and develop environment-friendly products.

*Implemented as a part of the DBJ's environmentally rated financing system. A company's environmental management is assessed and favorable financing extended based on three rating stages.

Kobe Steel was commended for its "Highly Advanced Approach to Environment-Friendly Management" in the DBJ's environmental ratings.

New SteamStar® Model Developed

Kobe Steel and two Group companies, Shinsho Corporation and Shinko Engineering Co., Ltd., collaborated to develop a new high-powered model of the SteamStar® Screw-Type Compact Steam Energy Generator.

The SteamStar® makes use of the surplus steam generated at plants and offices and the steam decompression during the pre-manufacturing process to offer highly efficient power generation performance. Tremendous customer response to the initial 100-kilowatt SteamStar® led to demand for a higher powered model. To cope with this demand, Kobe Steel expanded its product lineup and launched a new 132-kilowatt model, delivering an almost 30% higher output. A 160-kilowatt model will soon be released.

FINANCIAL SECTION

CONTENTS

CONSOLIDATED SIX-YEAR SUMMARY

Kobe Steel, Ltd. and Consolidated Subsidiaries Years ended March 31, 2009, 2008, 2007, 2006, 2005 and 2004

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2006	2005	2004	**2009**
For the year:							
Net sales	**¥2,177,290**	¥2,132,406	¥1,910,296	¥1,667,313	¥1,443,772	¥1,219,180	**$22,165,224**
Cost of sales	**1,890,318**	1,757,342	1,543,158	1,297,291	1,140,422	993,394	**19,243,795**
Operating income	**116,934**	202,399	208,624	220,395	166,577	100,699	**1,190,410**
Net income (loss)	**(31,438)**	88,923	109,669	84,559	51,289	22,066	**(320,046)**
Cash flows from operating activities	**118,200**	124,317	172,786	198,181	225,751	104,041	**1,203,299**
Cash flows from investing activities	**(127,405)**	(187,381)	(128,557)	(94,215)	(50,543)	(86,381)	**(1,297,006)**
Cash flows from financing activities	**138,700**	31,155	(48,823)	(93,593)	(163,945)	(35,754)	**1,411,992**
Capital investment	**118,044**	150,585	133,649	92,319	66,016	104,911	**1,201,709**
Depreciation and amortization	**128,701**	111,514	86,687	79,507	80,290	79,244	**1,310,201**
Research and development	**31,029**	30,139	24,893	24,121	19,700	16,929	**315,881**
At year end:							
Total assets	**2,295,489**	2,329,006	2,241,570	2,074,242	1,901,202	1,916,338	**23,368,513**
Net assets (Note 2)	**513,461**	647,797	636,432	530,000	379,213	330,127	**5,227,130**
Outside debt	**855,972**	713,352	621,227	589,101	669,241	797,041	**8,713,957**
Outside debt including IPP project financing	**954,791**	823,404	742,276	720,909	811,572	931,891	**9,719,953**

	Yen						U.S. dollars (Note 1)
	2009	2008	2007	2006	2005	2004	**2009**
Per share data:							
Net income (loss)	**¥ (10.47)**	¥ 29.63	¥ 35.37	¥ 27.94	¥ 17.28	¥ 7.44	**$ (0.11)**
Diluted net income	**—**	—	—	27.25	16.48	7.38	**—**
Net assets	**159.58**	199.81	194.46	170.65	127.80	111.24	**1.62**
Cash dividends	**3.50**	7.00	7.00	6.00	3.00	1.50	**0.04**

	2009	2008	2007	2006	2005	2004
Ratios:						
Operating income ratio (%)	**5.4**	9.5	10.9	13.2	11.5	8.3
ROA (%)	**(1.4)**	3.8	4.9	4.1	2.7	1.2
ROE (%)	**(5.8)**	14.9	19.6	18.6	14.5	7.1
Equity ratio (%)	**20.9**	25.8	26.4	25.6	19.9	17.2
Debt/equity ratio (times)	**1.7**	1.3	1.2	1.2	1.8	2.5
Dividend payout ratio (%)	**—**	23.6	19.8	21.5	17.4	20.2
Number of shares issued (in thousands)	**3,115,061**	3,115,061	3,115,061	3,115,061	2,976,070	2,976,070
Number of employees	**33,526**	33,657	31,828	29,068	27,067	26,179

Notes 1. For convenience only, U.S. dollar amounts in this report have been translated from Japanese yen amounts at the rate of ¥98.23 to US$1.00, the rate of exchange prevailing on March 31, 2009.

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).

During the first half of the fiscal year ended March 31, 2009, the Japanese economy was stagnant owing to the effects of high resource costs, including for energy and raw materials. From the third quarter, it rapidly deteriorated as the adverse effects of the financial crisis that had originated in the United States spilled over into the real economy. Overseas, economies deteriorated in every region of the world, including China, the Middle East and Russia, which had been maintaining growth.

In this environment, despite the economic stagnation that affected some of the Kobe Steel Group's businesses up to the first half, demand was generally strong. The Kobe Steel Group responded to higher raw material prices in each of its businesses, including steel, by passing them on to product sales prices. However, with the exception of Wholesale Power Supply, demand in each business sharply declined from the third quarter onward. The Company was therefore compelled to drastically lower production to unprecedented levels for steel products in the Iron and Steel segment, as well as in Aluminum and Copper and other segments.

As a result, in the fiscal year under review, net sales were on par with those of the previous fiscal year at ¥2,177.3 billion, while operating income was ¥116.9 billion, down ¥85.5 billion year on year.

	Billions of yen		Percent change
	2009	2008	2009/2008
Net sales	**¥2,177.3**	¥2,132.4	2.1%
Operating income	**116.9**	202.4	(42.2)

Business segment information is provided as follows.

Iron and Steel

	Billions of yen		Percent change
	2009	2008	2009/2008
Net sales	**¥1,022.4**	¥923.8	10.7%
Operating income	**77.7**	91.9	(15.4)

With demand for steel products remaining steady in the first half, we maintained production at high levels. From the third quarter, however, demand in every manufacturing industry except shipbuilding sharply declined. Thus, overall steel shipments in the fiscal year under review fell below those of the previous fiscal year. Sales prices for steel products were higher than those in the previous fiscal year, because we had passed on drastically higher raw material prices.

Demand for titanium products and welding consumables, which had remained firm up to the second quarter, decreased from the third quarter.

Meanwhile, demand for steel castings and forgings remained robust, particularly from shipbuilding. As a result, sales in this segment rose 10.7% compared with the previous fiscal year, to ¥1,022.4 billion while operating income declined ¥14.2 billion to ¥77.7 billion.

Wholesale Power Supply

	Billions of yen		Percent change
	2009	2008	2009/2008
Net sales	**¥80.7**	¥71.9	12.3%
Operating income	**17.3**	18.1	(4.4)

Segment sales were up 12.3% to ¥80.7 billion, as increases in fuel-grade coal costs were passed on to unit electricity prices. Operating income showed a ¥0.8 billion year-on-year decline to ¥17.3 billion. This was due to increased depreciation costs stemming from changes in the useful lives of machinery and equipment following revisions to the Corporate Tax Law.

Aluminum and Copper

	Billions of yen		Percent change
	2009	2008	2009/2008
Net sales	**¥379.3**	¥450.1	(15.7)%
Operating income (loss)	**(26.9)**	22.0	(222.1)

With the exception of aluminum stock for canned beverages, for which demand remained firm, shipments of aluminum rolled products declined year on year due to falling demand across all segments, particularly in the automotive, LCD and semiconductor segments. Shipments of copper rolled products were below those of the previous fiscal year owing to a sharp drop in demand for copper strip for electronic materials. Sales of aluminum castings and forgings also declined year on year, especially for the automobile market.

In addition to these circumstances, sales in the Aluminum and Copper segment dropped 15.7% to ¥379.3 billion due to reduced product sales prices resulting from the passing on of low ingot prices, which have fallen drastically. Operating income fell ¥48.9 billion, resulting in an operating loss of ¥26.9 billion. This was due primarily to downward pressure on earnings from declining shipments and inventory valuation effects associated with plummeting ingot prices.

In the fourth quarter, a loss on impairment of fixed assets was recorded for the copper strip business at Kobe Steel's Chofu Works, where the equipment utilization rate has dropped substantially.

Machinery

	Billions of yen		Percent change
	2009	2008	2009/2008
Net sales	**¥331.0**	¥302.2	9.5%
Operating income	**29.6**	30.5	(3.1)

Orders for LNG-related machinery and large compressors remained firm. However, capital investment in the automotive, oil refining and petrochemical industries was sluggish from the third quarter. In addition to a decrease in related product orders, schedules for some projects, such as direct reduction plants, were postponed. Accordingly, domestic orders in the fiscal year under review fell 18.5% year on year to ¥128.4 billion, while overseas orders tumbled 39.5% to ¥110.1 billion. As a result, segment orders as a whole decreased 29.8% year on year to ¥238.6 billion, while backlogged orders as of the fiscal year-end amounted to ¥318.9 billion. Sales climbed 9.5% year on year to ¥331.0 billion, while operating income slipped ¥0.9 billion to ¥29.6 billion due to sharply rising material and equipment costs and other factors.

Construction Machinery

	Billions of yen		Percent change
	2009	2008	2009/2008
Net sales	**¥333.0**	¥339.9	(2.0)%
Operating income	**11.3**	22.8	(50.7)

Hydraulic excavator demand in Japan, the United States and Europe fell below that of the previous fiscal year. However, despite a slowdown in demand in China toward the end of fiscal 2008, demand exceeded that of the previous fiscal year. Demand for cranes in Japan and the Middle East declined from the third quarter onward but remained strong in North America.

As a result, sales in this segment remained virtually unchanged from the previous fiscal year at ¥333.0 billion. Operating income was ¥11.3 billion, down ¥11.6 billion year on year owing to sharply rising material and equipment costs and other factors.

Real Estate

	Billions of yen		Percent change
	2009	2008	2009/2008
Net sales	**¥37.1**	¥44.3	(16.2)%
Operating income	**1.9**	4.9	(62.5)

Segment sales were down 16.2% to ¥37.1 billion due to a worsening business environment for real estate sales, while operating income dropped ¥3.1 billion to ¥1.9 billion.

Electronic Materials and Other Businesses

	Billions of yen		Percent change
	2009	2008	2009/2008
Net sales	**¥55.1**	¥60.7	(9.2)%
Operating income	**3.1**	8.2	(61.6)

Sales in this segment slipped 9.2% to ¥55.1 billion due to a downswing in shipments of target materials for LCDs caused by declining LCD panel demand. Operating income dropped ¥5.0 billion to ¥3.1 billion.

Note: Sales do not include consumption and other taxes.

In addition to a loss on the write-down of investments in securities in the amount of ¥17.2 billion, a ¥15.8 billion loss on impairment of fixed assets—including the copper strip business, where the equipment utilization rate has dropped substantially—was recorded. Moreover, equity in income of unconsolidated subsidiaries and affiliates deteriorated year on year.

As a result, income before income taxes fell ¥125.6 billion year on year to ¥27.8 billion, and a net loss after taxes of ¥31.4 billion was posted due to the reversal of deferred income taxes.

Analysis of Cash Flows

Net cash provided by operating activities was ¥118.2 billion. Net cash used in investing activities amounted to ¥127.4 billion, while net cash provided by financing activities was ¥138.7 billion.

As a result, cash and cash equivalents at end of year, including the effect of exchange rate changes, amounted to ¥187.7 billion, an increase of ¥121.1 billion compared with the previous fiscal year-end.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥118.2 billion, a decrease of ¥6.1 billion compared with the previous fiscal year. This was mainly attributable to lower income before income taxes on a year-on-year basis, although decreased accounts receivable led to lower working capital.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥127.4 billion, a year-on-year decrease of ¥60.0 billion, due to the decreased purchase of plant, equipment and other assets as well as investments in securities.

Cash Flows from Financing Activities

Net cash provided by financing activities was ¥138.7 billion, due primarily to increased proceeds from long-term debt.

Analysis of Financial Position

Total assets as of the end of the fiscal year under review stood at ¥2,295.5 billion, a decrease of ¥33.5 billion. Net assets fell ¥134.3 billion to ¥513.5 billion owing to lower retained earnings and unrealized gains on securities, net of taxes. As a result, the equity ratio (total net assets less minority interests to total assets) was 20.9% as of March 31, 2009, down 4.9 percentage points from the end of the previous fiscal year.

The outside debt balance, including project financing related to the Wholesale Power Supply business, was ¥954.8 billion, an increase of ¥131.4 billion compared with the previous fiscal year-end.

BUSINESS RISKS

The Kobe Steel Group's business and financial situation include the following factors 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, 2009.

1. Economic Conditions in Key Markets

Automobiles, shipbuilding, electrical machinery, construction and civil engineering, IT, beverage containers and industrial machinery constitute the principal areas of product demand for domestic sales of Kobe Steel's four key business segments: Iron and Steel, Aluminum and Copper, Machinery, and Construction Machinery. Meanwhile, overseas sales represented 32.6% of total sales in the fiscal year ended March 31, 2009, with Asia, including China—the largest single country source of demand—accounting for over half of the 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 as well as trends 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 engage the Kobe Steel Group in intense competition, which, in some circumstances, could affect the Group's performance.

2. Fluctuating Steel Volume and Prices

The volume and prices 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. When the supply and demand balance for steel fluctuates, spot sales prices are more sensitive to fluctuating 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 20% of steel shipments, are affected by the regional balance of steel supply and demand.

These fluctuations in steel shipments and prices affect the Kobe Steel Group's performance.

3. Fluctuating Price of Raw Materials

Steel raw material prices and ocean freight charges for the iron ore, coal, ferrous alloys, nonferrous metals and scrap procured by the Kobe Steel Group are tied to global market conditions. Fluctuations in these prices and charges affect the Kobe Steel Group's performance. Because a limited number of suppliers and countries throughout 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 and Copper segment, fluctuating aluminum and copper ingot prices are passed on to customers in the form of product prices. Nevertheless, when the spot price of aluminum and copper ingots fluctuates 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 in the Iron and Steel as well as Aluminum and Copper segments, as well as materials for electrical components, hydraulic equipment and internal combustion devices in the Machinery segment. Fluctuating prices for these materials and equipment could affect the Kobe Steel Group's performance.

4. Impact of Environmental Regulations

Waste and by-products arise during the production process, especially in the Iron and Steel and the Aluminum and Copper segments. Although the Kobe Steel Group makes every effort to properly conform to domestic and foreign regulations, environmental expenditures could arise because of stricter regulations and other factors, including expenses for cleaning up contaminated soil at old factory sites that have already been sold, and these could affect Company performance.

If quantitative restraints and taxes are imposed on emissions such as carbon dioxide, this would restrict the business activities of the Kobe Steel Group, especially in the Iron and 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, such as blast furnaces and basic oxygen furnaces used for iron and steel production, includes equipment that is operated at high temperatures and pressures. The Group also has factories that handle high-temperature products and chemicals.

The Kobe Steel Group takes every possible measure to prevent accidents to people or property. Nevertheless, should a serious accident occur, production activities could be hindered and the Kobe Steel Group's performance affected.

If a massive earthquake, typhoon or other natural disaster, an infectious disease, such as a new strain of influenza, or some other unpredictable situation affecting control of the Group were to hinder operations, this could 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 observes laws, regulations and other social norms, and is guided by business practices that are sound, fair and impartial. Nevertheless, whether or not there has been a violation of laws and regulations by Kobe Steel Group companies or employees, lawsuits could be filed for problems under product liability laws and intellectual property rights, which could, as a result, 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 the balance of U.S. dollar-based transactions showing an import surplus in the fiscal year under review. As a short-term measure, 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 as of March 31, 2009 stood at ¥856.0 billion (¥954.8 billion, including project financing related to the wholesale power supply business). The majority of this debt is with no fixed interest rates. However, interest rate fluctuations of debt with no fixed interest rate, and new borrowing and debt due to changing financial conditions and other factors could affect the Group's performance.

(3) Decline in Value of Inventories

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

(4) Fluctuating Prices of Investment Securities

As of March 31, 2009, the balance sheet amount for investment securities held by the Kobe Steel Group stood at ¥165.8 billion. Fluctuating prices of investment securities associated with fluctuating 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 made up of pension funds and could affect the Kobe Steel Group's performance.

(5) Recording of Deferred Income Taxes

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

(6) Decline in Value of Fixed Assets

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

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 as of March 31, 2009.

CONSOLIDATED BALANCE SHEETS

Kobe Steel, Ltd. and Consolidated Subsidiaries March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2009**	2008	**2009**
Current assets:			
Cash and cash equivalents (Note 14)	**¥ 188,322**	¥ 68,739	**$ 1,917,154**
Notes and accounts receivable			
Trade	**233,839**	343,419	**2,380,525**
Unconsolidated subsidiaries and affiliates	**77,371**	38,133	**787,651**
Other	**21,162**	27,651	**215,433**
Allowance for doubtful accounts	**(671)**	(981)	**(6,831)**
	331,701	408,222	**3,376,778**
Inventories	**—**	409,425	**—**
Merchandise and finished goods	**161,998**	—	**1,649,171**
Work-in-process	**163,150**	—	**1,660,898**
Raw materials and supplies	**137,196**	—	**1,396,681**
Deferred income taxes (Note 12)	**10,012**	22,515	**101,924**
Other	**48,254**	48,187	**491,235**
Total current assets	**1,040,633**	957,088	**10,593,841**
Investments and other assets:			
Investments in securities (Note 4)	**116,061**	178,542	**1,181,523**
Investments in and advances to unconsolidated subsidiaries and affiliates	**53,633**	55,350	**545,994**
Long-term loans receivable	**5,772**	6,331	**58,760**
Other	**70,671**	67,351	**719,444**
Allowance for doubtful accounts	**(3,696)**	(3,819)	**(37,626)**
Total investments and other assets	**242,441**	303,755	**2,468,095**
Plant and equipment (Note 6):			
Land	**198,386**	202,094	**2,019,607**
Buildings and structures	**663,954**	663,156	**6,759,177**
Machinery and equipment	**1,995,935**	1,986,603	**20,318,996**
Construction in progress	**53,638**	49,896	**546,046**
	2,911,913	2,901,749	**29,643,826**
Less accumulated depreciation	**(1,941,375)**	(1,874,536)	**(19,763,565)**
Total plant and equipment	**970,538**	1,027,213	**9,880,261**
Intangible assets	**20,472**	18,019	**208,409**
Deferred income taxes (Note 12)	**21,405**	22,931	**217,907**
	¥ 2,295,489	¥ 2,329,006	**$ 23,368,513**

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2009	2008	Thousands of U.S. dollars (Note 1) 2009
Current liabilities:			
Short-term borrowings (Note 6)	¥ 175,305	¥ 202,780	$ 1,784,638
Current portion of long-term debt (Note 6)	86,903	139,383	884,689
Notes and accounts payable:			
Trade	385,778	461,097	3,927,293
Construction	29,755	40,258	302,911
Unconsolidated subsidiaries and affiliates	98,982	27,772	1,007,656
Other	16,592	19,801	168,910
	531,107	548,928	5,406,770
Current portion of lease obligations	3,021	—	30,754
Advances from customers	60,504	64,156	615,942
Customers' and employees' deposits	14,907	15,025	151,756
Income and enterprise taxes payable	5,158	26,763	52,510
Provision for loss on construction contracts	1,988	—	20,238
Provision for restructuring costs	3,927	5,518	39,978
Deferred income taxes (Note 12)	1,539	3,121	15,667
Other	90,275	81,398	919,017
Total current liabilities	974,634	1,087,072	9,921,959
Long-term liabilities:			
Long-term debt (Note 6)	691,379	481,241	7,038,369
Lease obligations	25,374	—	258,312
Employees' severance and retirement benefits (Note 16)	38,144	44,749	388,313
Provision for environmental measures	4,201	4,424	42,767
Deferred income taxes (Note 12)	11,760	22,166	119,719
Other	36,536	41,557	371,944
Total long-term liabilities	807,394	594,137	8,219,424
Contingent liabilities (Note 7)			
Net assets:			
Stockholders' equity:			
Common stock (Note 8)	233,313	233,313	2,375,171
Authorized — 6,000,000,000 shares			
Issued — 3,115,061,100 shares in 2009			
Capital surplus (Note 8)	83,125	83,264	846,228
Retained earnings (Note 8)	252,505	305,335	2,570,549
Treasury stock, at cost: 112,599,413 shares in 2009	(51,427)	(51,514)	(523,537)
	517,516	570,398	5,268,411
Valuation and translation adjustments:			
Unrealized gains on securities, net of taxes	448	35,628	4,561
Unrealized gains on hedging derivatives, net of taxes	(6,266)	4,029	(63,789)
Land revaluation differences, net of taxes	(4,837)	(4,899)	(49,242)
Foreign currency translation adjustments	(27,719)	(5,208)	(282,185)
	(38,374)	29,550	(390,655)
Minority interests	34,319	47,849	349,374
Total net assets	513,461	647,797	5,227,130
	¥2,295,489	¥2,329,006	$23,368,513

CONSOLIDATED STATEMENTS OF OPERATIONS

Kobe Steel, Ltd. and Consolidated Subsidiaries Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Net sales	**¥ 2,177,290**	¥ 2,132,406	**$ 22,165,224**
Cost of sales	**(1,890,318)**	(1,757,342)	**(19,243,795)**
Gross profit	**286,972**	375,064	**2,921,429**
Selling, general and administrative expenses (Note 10)	**(170,038)**	(172,665)	**(1,731,019)**
Operating income	**116,934**	202,399	**1,190,410**
Other income (expenses):			
Interest and dividend income	**5,857**	5,117	**59,625**
Interest expense	**(20,003)**	(20,933)	**(203,634)**
Seconded employees' salaries net of reimbursement	**(14,146)**	(15,059)	**(144,009)**
Foreign exchange gain (loss)	**(7,763)**	(4,630)	**(79,029)**
Equity in income of unconsolidated subsidiaries and affiliates	**7,936**	12,793	**80,790**
Gain on sale of securities	**1,293**	2,940	**13,163**
Loss on write down of securities and investments	**(17,224)**	—	**(175,344)**
Loss on impairment of fixed assets (Note 11)	**(15,849)**	(4,181)	**(161,346)**
Loss on sale or disposal of plant and equipment	**(2,881)**	(3,384)	**(29,329)**
Other, net	**(26,352)**	(21,696)	**(268,268)**
	(89,132)	(49,033)	**(907,381)**
Income before income taxes	**27,802**	153,366	**283,029**
Income taxes (Note 12):			
Current	**32,921**	58,046	**335,142**
Deferred	**26,932**	1,794	**274,173**
	59,853	59,840	**609,315**
Minority interests in income (loss) of subsidiaries	**(613)**	4,603	**(6,240)**
Net income (loss)	**¥ (31,438)**	¥ 88,923	**$ (320,046)**

	Yen		U.S. dollars (Note 1)
	2009	2008	**2009**
Per share			
Net income (loss)	**¥ (10.47)**	¥ 29.63	**$ (0.11)**
Cash dividends applicable to the year	**3.50**	7.00	**0.04**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (NOTE 13)

Kobe Steel, Ltd. and Consolidated Subsidiaries Years ended March 31, 2009 and 2008

	Thousands	Millions of yen									
	Number of shares of common stock	Common stock (Note 8)	Capital surplus (Note 8)	Retained earnings (Note 8)	Treasury stock	Unrealized gains on securities, net of taxes	Unrealized gains on hedging derivatives, net of taxes	Land revaluation differences, net of taxes	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2007	3,115,061	¥233,313	¥83,282	¥239,182	¥(31,519)	¥ 75,565	¥ 2,179	¥(4,899)	¥ (5,021)	¥ 44,350	¥ 636,432
Cash dividends				(22,732)							(22,732)
Net income				88,923							88,923
Purchase of treasury stock					(20,330)						(20,330)
Sale of treasury stock			(18)		335						317
Increase (decrease) due to changes in scope of consolidation				(44)							(44)
Adjustment to land revaluation				6							6
Net changes of items other than stockholders' equity						(39,937)	1,850	(0)	(187)	3,499	(34,775)
Net changes during the year			(18)	66,153	(19,995)	(39,937)	1,850	(0)	(187)	3,499	11,365
Balance at March 31, 2008	3,115,061	¥233,313	¥83,264	¥305,335	¥(51,514)	¥ 35,628	¥ 4,029	¥(4,899)	¥ (5,208)	¥ 47,849	¥ 647,797
Effect of changes in accounting policies applied to foreign subsidiaries				**(331)**						**303**	**(28)**
Cash dividends				**(21,053)**							**(21,053)**
Net loss				**(31,438)**							**(31,438)**
Purchase of treasury stock					**(136)**						**(136)**
Sale of treasury stock			**(139)**		**223**						**84**
Increase (decrease) due to changes in scope of consolidation				**(3)**							**(3)**
Adjustment to land revaluation				**(5)**							**(5)**
Net changes of items other than stockholders' equity						**(35,180)**	**(10,295)**	**62**	**(22,511)**	**(13,833)**	**(81,757)**
Net changes during the year			**(139)**	**(52,499)**	**87**	**(35,180)**	**(10,295)**	**62**	**(22,511)**	**(13,833)**	**(134,308)**
Balance at March 31, 2009	**3,115,061**	**¥233,313**	**¥83,125**	**¥252,505**	**¥(51,427)**	**¥ 448**	**¥ (6,266)**	**¥(4,837)**	**¥(27,719)**	**¥ 34,319**	**¥ 513,461**

	Thousands	Thousands of U.S. dollars (Note 1)									
	Number of shares of common stock	Common stock (Note 8)	Capital surplus (Note 8)	Retained earnings (Note 8)	Treasury stock	Unrealized gains on securities, net of taxes	Unrealized gains on hedging derivatives, net of taxes	Land revaluation differences, net of taxes	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2008	3,115,061	$2,375,171	$847,643	$3,108,368	$ (524,422)	$ 362,700	$ 41,016	$(49,873)	$ (53,018)	$ 487,112	$ 6,594,697
Effect of changes in accounting policies applied to foreign subsidiaries				**(3,370)**						**3,085**	**(285)**
Cash dividends				**(214,323)**							**(214,323)**
Net loss				**(320,046)**							**(320,046)**
Purchase of treasury stock					**(1,385)**						**(1,385)**
Sale of treasury stock			**(1,415)**		**2,270**						**855**
Increase (decrease) due to changes in scope of consolidation				**(30)**							**(30)**
Adjustment to land revaluation				**(50)**							**(50)**
Net changes of items other than stockholders' equity						**(358,139)**	**(104,805)**	**631**	**(229,167)**	**(140,823)**	**(832,303)**
Net changes during the year			**(1,415)**	**(534,449)**	**885**	**(358,139)**	**(104,805)**	**631**	**(229,167)**	**(140,823)**	**(1,367,282)**
Balance at March 31, 2009	**3,115,061**	**$2,375,171**	**$846,228**	**$2,570,549**	**$ (523,537)**	**$ 4,561**	**$ (63,789)**	**$(49,242)**	**$(282,185)**	**$ 349,374**	**$ 5,227,130**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Kobe Steel, Ltd. and Consolidated Subsidiaries Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Cash flows from operating activities:			
Income before income taxes	¥ 27,802	¥ 153,366	$ 283,029
Depreciation	128,701	111,514	1,310,201
Interest and dividend income	(5,857)	(5,117)	(59,625)
Interest expense	20,003	20,933	203,634
Loss (gain) on sale of securities	(1,293)	(2,940)	(13,163)
Loss on write-down of securities	17,224	—	175,344
Equity in income of unconsolidated subsidiaries and affiliates	(7,936)	(12,793)	(80,790)
Loss on impairment of fixed assets	15,849	4,181	161,346
Loss on sale or disposal of plant and equipment	2,881	3,384	29,329
Decrease (increase) in trade receivables from customers	74,333	(32,231)	756,724
Decrease (increase) in inventories	(67,521)	(40,056)	(687,377)
Increase (decrease) in trade payables to customers	16,353	(15,654)	166,477
Other	(34,684)	3,278	(353,089)
Subtotal	185,855	187,865	1,892,040
Cash received for interest and dividends	9,189	7,768	93,546
Cash paid for interest	(19,323)	(20,963)	(196,712)
Cash paid for income taxes	(57,521)	(50,353)	(585,575)
Net cash provided by operating activities	118,200	124,317	1,203,299
Cash flows from investing activities:			
Purchase of plant, equipment and other assets	(123,638)	(147,124)	(1,258,658)
Proceeds from sale of plant, equipment and other assets	2,358	7,757	24,005
Purchase of investments in securities	(11,489)	(62,016)	(116,960)
Proceeds from sale of investments in securities	4,623	15,195	47,063
Decrease (increase) in short-term loans receivable	89	1,788	906
Payments for long-term loans receivable	(307)	(1,262)	(3,125)
Proceeds from collection of long-term loans receivable	698	299	7,106
Proceeds from compensation for removal	5,313	—	54,087
Purchase of investments in subsidiaries resulting in changes in scope of consolidation	—	(926)	—
Proceeds from sale of investments in subsidiaries resulting in changes in scope of consolidation	627	—	6,383
Other	(5,679)	(1,092)	(57,813)
Net cash used in investing activities	(127,405)	(187,381)	(1,297,006)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	33,864	3,950	344,742
Increase (decrease) in commercial paper	(55,000)	110,000	(559,910)
Proceeds from long-term debt	250,912	34,540	2,554,332
Repayment of long-term debt	(69,021)	(85,107)	(702,647)
Proceeds from issuance of bonds	34,830	40,000	354,576
Repayment of bonds	(58,236)	(23,276)	(592,854)
Proceeds from sale-leaseback transactions	25,287	—	257,426
Payment of dividends	(20,961)	(22,613)	(213,387)
Payment for purchase of treasury stock	—	(20,327)	—
Other	(2,975)	(6,012)	(30,286)
Net cash provided by financing activities	138,700	31,155	1,411,992
Effect of exchange rate changes on cash and cash equivalents	(8,435)	439	(85,871)
Increase (decrease) in cash and cash equivalents	121,060	(31,470)	1,232,414
Cash and cash equivalents at beginning of year	66,685	98,163	678,866
Cash and cash equivalents of newly consolidated subsidiaries	—	(8)	—
Cash and cash equivalents at end of year (Note 14)	¥ 187,745	¥ 66,685	$ 1,911,280

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended March 31, 2009 and 2008

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 Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

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 countries of domicile. As discussed in Note 2(20), necessary adjustments are made to the accounts 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 Law. 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.

Commencing in the fiscal year ended March 31, 2008, due to the revision of the Corporate Tax Law in 2007, depreciation of tangible fixed assets acquired on and after April 1, 2007 was charged in accordance with the depreciation method prescribed in the revised Corporate Tax Law.

Under the new method, in the fiscal year ended March 31, 2008, depreciation was ¥3,107 million more than it would have been under the previous method, and operating income and income before income taxes were ¥2,624 million and ¥2,641 million less, respectively.

In addition, under the revised Corporate Tax Law, residual value (5% of acquisition cost) of tangible fixed assets acquired on or before March 31, 2007 is depreciated through the straight-line method over five years starting from the period subsequent to the year the residual value was reached. As a result, in the fiscal year ended March 31, 2008, depreciation was ¥11,545 million more than it would have been under the previous Corporate Tax Law, and operating income and income before income taxes were ¥9,468 million and ¥10,072 million less, respectively.

Effective from the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Measurement of Inventories" (Statement No. 9 issued by the Accounting Standards Board of Japan on July 5, 2006), and changed the measurement basis of inventories from cost to lower of cost or net realizable value. As a result, operating income and income before income taxes were ¥31,259 million ($318,223 thousand) less than they would have been under the previous basis.

Commencing in the fiscal year ended March 31, 2009, due to the revision of the Corporate Tax Law in 2008, useful lives of tangible fixed assets were changed in accordance with the schedules prescribed in the revised Corporate Tax Law. As a result, depreciation was ¥8,407 million ($85,585 thousand) more than it would have been under the previous schedules, and operating income and income before income taxes were ¥7,270 million ($74,010 thousand) and ¥7,316 million ($74,478 thousand) less, respectively.

Commencing in the fiscal year ended March 31, 2009, the Group changed exchange rates to translate statements of operations of consolidated overseas subsidiaries from the year-end rates to the average rate for the year. As the difference between the year-end rate and average rate expanded, this change was made to present the Group's performance more accurately by using more appropriate rates to translate revenue and expenses earned and incurred throughout the period.

As a result, sales, operating income and income before income taxes were ¥34,830 million ($354,576 thousand), ¥2,181 million ($22,203 thousand) and ¥2,063 million ($21,002 thousand) more, respectively, than they would have been under the previous method.

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, 2009, which was ¥98.23 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 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, 2009, the accounts of 162 (163 in 2008) subsidiaries have been included in the consolidated financial statements. Intercompany transactions and accounts have been eliminated.

Sixty-five (66 in 2008) consolidated subsidiaries are consolidated using a fiscal period ending December 31, which differs from that of the Company. Any material effects occurring during the January 1 to March 31 period are adjusted for in these consolidated financial statements.

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

Investments in unconsolidated subsidiaries and affiliates over which the Company has significant influence, except for insignificant companies, are accounted for by the equity method. For the year ended March 31, 2009, 50 (52 in 2008) affiliates were accounted for by the equity method.

The difference between the cost of investments in and the equity in net assets of subsidiaries at the dates of acquisition, if considered significant, is amortized over the estimated years when the amortization period can be determined or over five years when it cannot. Where the difference is small, it's 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 unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of valuation and translation adjustments 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 should be written down to net asset value with a corresponding charge in the statement of income 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 Restructuring Costs

The provision for restructuring costs is stated at an amount based on the estimated loss from restructuring discontinued operations at the end of the fiscal year.

(5) 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.

(6) Provision for Environmental Measures

The provision for environmental measures for obligatory PCB treatment and to prevent the spread of ground pollution at the site of the Moka Plant and Takasago Works is stated as an estimated cost at the end of the fiscal year.

(7) Inventories

Inventories are valued at lower of cost or net realizable value. Cost is determined principally by the average method in the Iron and Steel, Wholesale Power Supply and Aluminum and Copper segments and by the specific identification method for finished goods and work in progress in the Machinery, Construction Machinery and Real Estate segments.

(8) Depreciation

Depreciation of plant and equipment and intangible assets is provided principally by the straight-line method for buildings and structures and intangible assets and by the declining balance method for machinery and equipment.

Useful lives are based mainly on 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 is provided by the straight-line method with the lease term as the useful life.

(9) Income Taxes

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

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

(10) Employees' Severance and Retirement Benefits

The Company and its domestic consolidated subsidiaries provide two types of post-employment benefit plans: unfunded lump-sum payment plans and funded non-contributory pension plans. A domestic consolidated subsidiary provides a contribution pension plan.

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.

Actuarial gains and losses are recognized in expenses using the straight-line method over mainly 14 years for those accrued in and after 2008 and mainly over 12 years for those accrued in and before 2007, which is within the average of the estimated remaining service years commencing with the following period.

(11) Land Revaluation

Land used for operations was revaluated by certain consolidated subsidiaries in accordance with the Land Revaluation Law in the years ended March 31, 2002 and 2001. The revaluation amount, net of related taxes, is shown as a separate component of valuation and translation adjustments in net assets.

(12) Bond Issue Expenses and Share Issue Expenses

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

(13) Translation of Foreign Currencies

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

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

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

(14) Long-term Construction Contracts

Sales and related costs of certain long-term (over one year) construction contracts of the Company and certain consolidated subsidiaries are recognized by the percentage of completion method.

(15) Leases

The Company and its domestic consolidated subsidiaries account for finance leases that do not transfer ownership and that started prior to April 1, 2008 in the same manner as operating leases.

(16) Derivatives

The Company and its domestic consolidated subsidiaries state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless the derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers recognition of gains or losses resulting from changes in the fair value of the derivative financial instruments until the related losses or gains on the corresponding hedged items are recognized. Deferred gains or deferred losses on these derivative instruments are reported, net of applicable income taxes, as a separate component of valuation and translation adjustments in net assets.

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.

(17) Consolidated Tax Return

Effective March 31, 2004, the Company 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 Standard for Lease Transactions

Effective from the year ended March 31, 2009, the Group adopted the revised accounting standard, "Accounting Standard for Lease Transactions" (Statement No. 13, revised by the Accounting Standards Board of Japan on March 31, 2007) and the revised guidance, "Guidance on Accounting Standard for Lease Transactions" (Guidance No. 16, revised by the Accounting Standards Board of Japan on March 31, 2007), (collectively, "the Revised Standards"). According to the Revised Standards, the Company and its domestic consolidated subsidiaries changed the accounting method for finance leases which do not transfer ownership. Prior to the fiscal year ended March 31, 2009, the Company and its consolidated domestic subsidiaries accounted for such leases as operating leases. Commencing in the year ended March 31, 2009, the Company and its consolidated domestic subsidiaries capitalize assets used under such leases. As permitted, finance leases which commenced prior to April 1, 2008 and have been accounted for as operating leases continue to be accounted for as operating leases. The effect of this change on the consolidated statements of operations was immaterial.

(20) Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

Effective from the year ended March 31, 2009, the Group adopted the new practical solution, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (PITF No. 18 issued by the Accounting Standards Board of Japan on May 17, 2006) and made necessary adjustments in the consolidation process. The effect of these adjustments on the consolidated statements of operations was immaterial.

3. Leases

Original lease obligations as lessee under non-capitalized finance leases at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Buildings and structures	**¥ 467**	¥ 884	**$ 4,754**
Machinery and equipment	**45,466**	59,972	**462,852**
	¥45,933	¥60,856	**$467,606**

Future minimum lease payments as lessee under non-capitalized finance leases at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Due within one year	**¥ 8,491**	¥11,522	**$ 86,440**
Due after one year	**12,905**	22,196	**131,375**
	¥21,396	¥33,718	**$217,815**
Lease expense for the years ended March 31	**¥ 9,732**	¥10,037	**$ 99,074**

Future minimum lease payments as lessee under operating leases at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Due within one year	**¥ 3,267**	¥2,483	**$ 33,259**
Due after one year	**7,593**	4,608	**77,298**
	¥10,860	¥7,091	**$110,557**

Future minimum lease payments receivable as lessor under operating leases at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Due within one year	**¥ 479**	¥ 483	**$ 4,876**
Due after one year	**4,122**	4,274	**41,963**
	¥4,601	¥4,757	**$46,839**

4. Securities

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2009 and 2008:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2009			2008			2009
	Acquisition costs	Book (fair) values	Difference	Acquisition costs	Book (fair) values	Difference	Difference
Available-for-sale securities							
Securities with available book values exceeding acquisition costs:							
Equity securities	**¥ 37,703**	**¥50,349**	**¥ 12,646**	¥ 71,161	¥135,202	¥64,041	**$ 128,738**
Other	**—**	**—**	**—**	10	13	3	**—**
	37,703	**50,349**	**12,646**	71,171	135,215	64,044	**128,738**
Securities with available book values not exceeding acquisition costs:							
Other securities:							
Equity securities	**52,858**	**37,925**	**(14,933)**	33,105	24,477	(8,628)	**(152,021)**
Other	**10**	**7**	**(3)**	—	—	—	**—**
	52,868	**37,932**	**(14,936)**	33,105	24,477	(8,628)	**(152,051)**
	¥ 90,571	**¥88,281**	**¥ (2,290)**	¥104,276	¥159,692	¥55,416	**$ (23,313)**

The following table summarizes book values of securities with no available fair values as of March 31, 2009 and 2008.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Held-to-maturity debt securities:			
Non-listed domestic bond	**¥30**	¥—	**$305**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Available-for-sale securities:			
Non-listed equity securities	**¥27,706**	¥18,812	**$282,052**

Available-for-sale securities with maturities and held-to-maturity debt securities mature as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Over one year but within five years	**¥15**	¥—	**$153**
Over five years but within ten years	**15**	—	**153**

Sales of available-for-sale securities for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Sales	**¥ 43**	¥5,541	**$ 438**
Gains on sales	**16**	963	**163**
Losses on sales	**(13)**	12	**(132)**

5. Derivative Transactions

The Group enters into forward currency exchange contracts and currency swap agreements to hedge the risk of changes in foreign currency exchange rates associated with transactions denominated in foreign currencies, interest rate swap agreements and cap agreements to hedge the risk related to interest on borrowings, and commodities forward contracts to hedge the risk of movements in market values of aluminum and copper. The Group does not enter into derivative transactions for speculative purposes.

However, the Group may be exposed to losses in case of movements in foreign currency exchange rates, interest rates and commodity market values and is exposed to credit risk in the event of nonperformance by counterparties to derivative transactions. 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, limits on transaction types and amounts, and reporting to management.

Forward currency exchange contracts and swap agreements outstanding at March 31, 2009 and 2008 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2009			2008			2009
	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value	Recognized gain (loss)	Recognized gain (loss)
Foreign currency exchange contracts							
To sell foreign currencies:							
U.S. dollars	**¥ 9,711**	**¥ 9,727**	**¥ (16)**	¥17,404	¥17,085	¥ 319	**$ (163)**
Others	**14,543**	**16,563**	**(2,020)**	11,588	11,852	(264)	**(20,564)**
To buy foreign currencies:							
U.S. dollars	**5,486**	**5,484**	**(2)**	9,675	9,674	(1)	**(20)**
Others	**717**	**600**	**(117)**	2	2	0	**(1,191)**
			¥(2,155)			¥ 54	**$(21,938)**
Foreign currency options							
To sell foreign currency options:							
U.S. dollars	**¥ 1,029**	**¥ 19**	**¥ 24**	—	—	—	**$ 244**
To buy foreign currency options:							
U.S. dollars	**1,029**	**53**	**10**	—	—	—	**102**
			¥ 34			—	**$ 346**

Notes: 1. The fair values were estimated by multiplying the contracted foreign currency amount by the forward rate.
2. The above table does not include derivative transactions for which hedge accounting is applied and outstanding foreign exchange contracts which relate to foreign currency receivables and payables that are recorded in the balance sheet by the contracted foreign exchange rates at March 31, 2009 and 2008.

Interest rate swap agreements outstanding at March 31, 2009 and 2008 were as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)
	2009		2008		2009
	Contracted amount	Recognized gain (loss)	Contracted amount	Recognized gain (loss)	Recognized gain (loss)
Interest rate swap agreements					
To receive floating and pay fixed rates	**¥ —**	**¥ —**	¥ —	¥ —	**$ —**
To receive fixed and pay floating followed by fixed rates	**5,122**	**(60)**	45,300	(939)	**(611)**
Other	**45,300**	**(694)**			**(7,065)**
		¥(754)		¥(939)	**$(7,676)**

Notes: 1. The recognized gains (losses) were estimated by obtaining quotes from counterparty banks.
2. Hedge accounting was not applied to the derivative transactions in the above table at March 31, 2009 and 2008.

Commodity forward contracts outstanding at March 31, 2009 and 2008 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2009			2008			2009
	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value	Recognized gain (loss)	Recognized gain (loss)
Commodity forward contracts							
To sell commodity	**¥354**	**¥249**	**¥105**	¥ —	¥ —	¥ —	**$1,069**
To buy commodity	**886**	**790**	**(96)**	90	93	3	**(977)**
			¥ 9			¥ 3	**$ 92**

Notes: 1. The fair values were estimated by multiplying the contracted volume by the commodity future price.
2. Hedge accounting was not applied to the derivative transactions in the above table at March 31, 2009 and 2008.

6. Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Bank loans (average rate 2.14% in 2009 and 2.77% in 2008)	**¥120,305**	¥ 92,780	**$1,224,728**
Commercial paper	**55,000**	110,000	**559,910**
	¥175,305	¥202,780	**$1,784,638**

Long-term debt at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
0.7% to 3.4% yen bonds, due 2010 through 2019	**¥249,781**	¥273,187	**$2,542,818**
Loans, principally from banks and insurance companies	**528,501**	347,437	**5,380,240**
	778,282	620,624	**7,923,058**
Less current portion	**86,903**	139,383	**884,689**
	¥691,379	¥481,241	**$7,038,369**

The aggregate annual maturities of long-term debt at March 31, 2009 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2010	¥ 86,903	$ 884,689
2011	77,354	787,478
2012	125,119	1,273,735
2013	81,611	830,815
2014	168,815	1,718,569
2015 and thereafter	238,480	2,427,772
	¥778,282	$7,923,058

At March 31, 2009 and 2008, 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)
	2009	2008	2009
Assets pledged as collateral:			
Plant and equipment, net of accumulated depreciation	**¥181,548**	¥203,421	**$1,848,193**
Other assets	**36,325**	31,513	**369,795**
	¥217,873	¥234,934	**$2,217,988**
Secured short-term borrowings and long-term debt:			
Bonds (includes those due within 1 year)	**¥ 1,926**	¥ 1,096	**$ 19,607**
Short-term borrowings	**16,976**	19,045	**172,819**
Long-term borrowings	**94,130**	107,416	**958,261**
Other debt	**—**	640	**0**
	¥113,032	¥128,197	**$1,150,687**

At March 31, 2009 and 2008, included in the assets pledged as collateral are assets that are promised to be pledged as collateral for short-term borrowings, long-term borrowings and guarantees of loans were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Short-term borrowings	**¥ 4,311**	¥ 7,449	**$ 43,887**
Long-term borrowings	**11,528**	15,842	**117,357**
Guarantees of loans	**—**	167	**0**
	¥15,839	¥23,458	**$161,244**

7. Contingent Liabilities

At March 31, 2009 and 2008, the Group was contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Trade notes discounted	**¥ 1,204**	¥ —	**$ 12,257**
Trade notes endorsed	**868**	1,288	**8,836**
Guarantees of loans:			
Related parties	**10,151**	11,057	**103,339**
Others	**413**	894	**4,205**
	¥12,636	¥13,239	**$128,637**

Guarantees of loans include contingent guarantees and letters of awareness of ¥912 million ($9,284 thousand) in 2009 and ¥700 million in 2008.

8. Net Assets

As described in Note 2(18), net assets comprises three subsections, which are the owners' equity, accumulated gains (losses) from valuation and translation adjustments and minority interests.

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

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

Under the Law, in cases where 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.

9. Research and Development Expenses

Research and development expenses included in cost of sales and selling, general, and administrative expenses were ¥31,029 million ($315,881 thousand) for the year ended March 31, 2009 and ¥30,139 million for the year ended March 31, 2008.

10. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2009 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Freight	**¥ 43,476**	¥ 47,233	**$ 442,594**
Employees' compensation	**36,719**	41,770	**373,806**
Research and development	**10,697**	10,944	**108,897**
Depreciation	**3,510**	3,225	**35,732**
Others	**75,636**	69,493	**769,990**
	¥170,038	¥172,665	**$1,731,019**

11. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2009 and 2008 consisted of the following:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2009	**2009**
Assets for business		
Machinery and equipment, etc, (Shimonoseki, Yamaguchi Prefecture, etc.: 5 properties in total)	**¥ 10,620**	**$108,114**
Leasehold property		
Building and structures, etc, (Kobe, Hyogo Prefecture)	**2,827**	**28,779**
Idle assets		
Machinery and equipment, etc, (Kakogawa, Hyogo Prefecture, etc.: 12 properties in total)	**2,402**	**24,453**
	¥ 15,849	**$161,346**

The Company and its consolidated subsidiaries grouped their fixed assets based, in principle, on the unit of business establishments and recognized impairment losses for the assets for business whose fair value had diminished significantly compared to the book value due to a decline in production and for leasehold assets and idle assets whose fair value had diminished due mainly to the decline in land prices.

Book values of those fixed assets were reduced to recoverable amounts, and impairment loss of ¥15,849 million ($161,346 thousand) was recognized in the year ended March 31, 2009. The amount of impairment consisted of loss on buildings and structures in the amount of ¥4,412 million ($44,915 thousand), machinery and equipment ¥9,948 million ($101,273 thousand), land ¥1,288 million ($13,112 thousand), construction in progress ¥105 million ($1,069 thousand) and intangible assets ¥96 million ($977 thousand).

The recoverable amounts for the assets for business were determined mainly by the present value of expected cash flows from ongoing utilization and the subsequent disposition of the asset based on a discount rate of 6% and, for the leasehold assets and the idle assets, by the net realizable value based mainly on third party appraisals.

	Millions of yen
	2008
Assets for business	
Machinery and equipment, etc, (Indiana, USA)	¥2,127
Assets for business	
Machinery and equipment, etc, (Futtsu, Chiba Prefecture)	2,054
	¥4,181

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

Book values of those fixed assets were reduced to recoverable amounts and impairment loss of ¥4,181 million was recognized in the year ended March 31, 2008. The amount of impairment loss consisted of machinery and equipment in the amount of ¥2,877 million, buildings and structures ¥1,195 million, land ¥61 million, and construction in progress ¥48 million.

The recoverable amounts of the assets were the net realizable value of zero, since the assets were not expected to be resold or re-used.

12. Income Taxes

Significant components of the Group's deferred income tax assets and liabilities as of March 31, 2009 and 2008 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2009	**2009**
Deferred income tax assets		
Unrealized profit	**¥ 18,037**	**$ 183,620**
Loss on write-down of inventories	**14,115**	**143,693**
Employees' severance and retirement benefits	**12,097**	**123,150**
Loss on impairment of fixed assets	**11,946**	**121,613**
Accrued bonuses to employees	**9,332**	**95,002**
Unrealized holding losses on securities	**5,746**	**58,495**
Loss on write-down of securities	**5,257**	**53,517**
Land revaluation	**5,011**	**51,013**
Unrealized holding losses on hedging derivatives	**4,079**	**41,525**
Other	**43,502**	**442,859**
Total deferred income tax assets	**129,122**	**1,314,487**
Valuation allowance	**(75,814)**	**(771,801)**
Deferred income tax assets	**53,308**	**542,686**
Deferred income tax liabilities		
Special tax purpose reserve	**6,678**	**67,983**
Unrealized holding gains on securities	**6,321**	**64,349**
Land revaluation	**5,306**	**54,016**
Other	**16,885**	**171,893**
Total deferred income tax liabilities	**35,190**	**358,241**
Net deferred income tax assets	**¥ 18,118**	**$ 184,445**

	Millions of yen
	2008
Deferred income tax assets	
Unrealized profit	¥ 21,868
Employees' severance and retirement benefits	14,781
Accrued bonuses to employees	10,359
Loss on write-down of securities	8,605
Loss on impairment of fixed assets	5,367
Land revaluation	5,067
Unrealized holding losses on securities	3,622
Enterprise taxes	2,381
Provision for environmental measures	1,799
Other	30,240
Total deferred income tax assets	104,089
Valuation allowance	(27,444)
Deferred income tax assets	76,645
Deferred income tax liabilities	
Unrealized holding gains on securities	25,817
Special tax purpose reserve	7,759
Land revaluation	5,360
Other	17,550
Total deferred income tax liabilities	56,486
Net deferred income tax assets	¥ 20,159

The reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2009 was as follows:

	2009
Aggregate statutory income tax rate in Japan	**40.6%**
Recognition of valuation allowance	**159.1**
Nondeductible entertainment expenses	**13.3**
Other	**2.3**
Effective income tax rate	**215.3%**

Significant items in the reconciliation of the aggregate statutory income tax rate and the effective income tax rate for the year ended March 31, 2008 was not disclosed since the difference was not material (less than 5%).

13. Consolidated Statements of Changes in Net Assets

Changes in number of shares issued and outstanding during the year ended at March 31, 2009 were as follows:

	Number of shares
Common stock outstanding	
Balance at March 31, 2008	3,115,061,100
(No increase)	0
(No decrease)	0
Balance at March 31, 2009	3,115,061,100

	Number of shares
Treasury stock outstanding	
Balance at March 31, 2008	112,460,419
Increase due to purchase of odd-lot stock	612,960
Decrease due to sale of odd-lot stock	(473,966)
Balance at March 31, 2009	112,599,413

14. Consolidated Statements of Cash Flows

The reconciliation of cash and cash equivalents in the cash flow statements and balance sheets as of March 31, 2009 and 2008 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Cash and cash equivalents (balance sheets)	**¥188,322**	¥68,739	**$1,917,154**
Time deposits (due over 3 months)	**(577)**	(2,054)	**(5,874)**
Cash and cash equivalents (cash flow statements)	**¥187,745**	¥66,685	**$1,911,280**

15. Related Party Transactions

Net sales include sales to Shinsho Corporation, which is an affiliate of the Company, of ¥249,659 million ($2,541,576 thousand) and ¥237,329 million for the years ended March 31, 2009 and 2008, respectively.

16. Employees' Severance and Retirement Benefits

The liability for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Projected benefit obligation	**¥(186,295)**	¥(199,159)	**$(1,896,518)**
Fair value of pension assets	**142,983**	176,030	**1,455,594**
Unrecognized net transition obligation	**543**	655	**5,528**
Unrecognized actuarial differences	**37,068**	9,308	**377,359**
Prepaid pension cost	**(32,443)**	(31,583)	**(330,276)**
Liability for severance and retirement benefits	**¥ (38,144)**	¥ (44,749)	**$ (388,313)**

Included in the consolidated statements of operations for the years ended March 31, 2009 and 2008 were severance and retirement benefit expenses that comprised the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Service costs – benefits earned during the year	**¥ 7,268**	¥ 7,555	**$ 73,990**
Interest cost on projected benefit obligation	**3,884**	3,904	**39,540**
Expected return on plan assets	**(3,175)**	(2,712)	**(32,322)**
Amortization of net transition obligation	**114**	123	**1,160**
Amortization of actuarial differences	**1,371**	(2,009)	**13,957**
Severance and retirement benefit expenses	**¥ 9,462**	¥ 6,861	**$ 96,325**

Notes: 1. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years.

2. The discount rate was mainly 2.0% for the years ended March 31, 2009 and 2008.
The rates of expected return on plan assets were mainly 2.9% and 2.1% for the years ended March 31, 2009 and 2008, respectively.

17. Segment Information

(1) Industry Segment

The Group's operations are divided into seven principal business segments:

Iron and Steel, Wholesale Power Supply, Aluminum and Copper, Machinery, Construction Machinery, Real Estate, and Electronic Materials and Other Businesses. Business segment information was as follows:

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2009	2008	**2009**
Sales to outside customers:	Iron and Steel	**¥ 996,285**	¥ 896,914	**$10,142,370**
	Wholesale Power Supply	**80,709**	71,890	**821,633**
	Aluminum and Copper	**378,049**	448,656	**3,848,610**
	Machinery	**325,593**	297,998	**3,314,598**
	Construction Machinery	**332,818**	339,868	**3,388,150**
	Real Estate	**28,808**	35,481	**293,271**
	Electronic Materials and Other Businesses	**35,028**	41,599	**356,592**
	Consolidated net sales	**2,177,290**	2,132,406	**22,165,224**
Intersegment sales:	Iron and Steel	**26,121**	26,878	**265,917**
	Wholesale Power Supply	**—**	—	**—**
	Aluminum and Copper	**1,262**	1,426	**12,847**
	Machinery	**5,410**	4,216	**55,075**
	Construction Machinery	**207**	53	**2,107**
	Real Estate	**8,323**	8,821	**84,730**
	Electronic Materials and Other Businesses	**20,090**	19,103	**204,520**
		¥ 61,413	¥ 60,497	**$ 625,196**

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2009	2008	**2009**
Total sales:	Iron and Steel	**¥1,022,407**	¥ 923,793	**$10,408,297**
	Wholesale Power Supply	**80,709**	71,890	**821,633**
	Aluminum and Copper	**379,310**	450,081	**3,861,448**
	Machinery	**331,002**	302,214	**3,369,663**
	Construction Machinery	**333,026**	339,921	**3,390,268**
	Real Estate	**37,131**	44,302	**378,001**
	Electronic Materials and Other Businesses	**55,118**	60,702	**561,112**
		2,238,703	2,192,903	**22,790,422**
Operating costs and expenses:	Iron and Steel	**944,671**	831,876	**9,616,930**
	Wholesale Power Supply	**63,414**	53,807	**645,566**
	Aluminum and Copper	**406,169**	428,077	**4,134,877**
	Machinery	**301,429**	271,694	**3,068,604**
	Construction Machinery	**321,757**	317,082	**3,275,547**
	Real Estate	**35,277**	39,365	**359,127**
	Electronic Materials and Other Businesses	**51,974**	52,515	**529,105**
	Eliminations	**(64,335)**	(64,409)	**(654,942)**
	Consolidated operating costs and expenses	**2,060,356**	1,930,007	**20,974,814**
Operating income:	Iron and Steel	**77,736**	91,916	**791,367**
	Wholesale Power Supply	**17,295**	18,084	**176,066**
	Aluminum and Copper	**(26,859)**	22,004	**(273,430)**
	Machinery	**29,573**	30,520	**301,059**
	Construction Machinery	**11,269**	22,838	**114,721**
	Real Estate	**1,854**	4,938	**18,874**
	Electronic Materials and Other Businesses	**3,143**	8,187	**31,996**
	Eliminations	**2,923**	3,912	**29,757**
	Consolidated operating income	**116,934**	202,399	**1,190,410**
Assets:	Iron and Steel	**954,042**	933,223	**9,712,328**
	Wholesale Power Supply	**149,606**	160,501	**1,523,018**
	Aluminum and Copper	**211,899**	308,690	**2,157,172**
	Machinery	**305,555**	291,386	**3,110,608**
	Construction Machinery	**245,992**	270,963	**2,504,245**
	Real Estate	**125,523**	128,769	**1,277,848**
	Electronic Materials and Other Businesses	**97,903**	73,376	**996,671**
	Corporate and Eliminations	**204,969**	162,098	**2,086,623**
	Total	**2,295,489**	2,329,006	**23,368,513**
Depreciation:	Iron and Steel	**72,177**	63,554	**734,776**
	Wholesale Power Supply	**13,934**	12,492	**141,851**
	Aluminum and Copper	**24,319**	18,371	**247,572**
	Machinery	**7,021**	6,507	**71,475**
	Construction Machinery	**5,729**	5,421	**58,322**
	Real Estate	**1,261**	1,446	**12,837**
	Electronic Materials and Other Businesses	**3,088**	2,720	**31,437**
	Corporate and Eliminations	**1,172**	1,003	**11,931**
	Total	**128,701**	111,514	**1,310,201**
Impairment of fixed assets:	Iron and Steel	**1,331**	2,127	**13,550**
	Wholesale Power Supply	**—**	—	**—**
	Aluminum and Copper	**9,762**	—	**99,379**
	Machinery	**132**	2,054	**1,344**
	Construction Machinery	**61**	—	**621**
	Real Estate	**132**	—	**1,344**
	Electronic Materials and Other Businesses	**1,418**	—	**14,435**
	Corporate and Eliminations	**3,013**	—	**30,673**
	Total	**15,849**	4,181	**161,346**
Capital expenditures:	Iron and Steel	**74,452**	102,644	**757,935**
	Wholesale Power Supply	**554**	138	**5,640**
	Aluminum and Copper	**12,954**	18,754	**131,874**
	Machinery	**11,151**	7,793	**113,519**
	Construction Machinery	**10,724**	14,602	**109,172**
	Real Estate	**4,296**	1,017	**43,734**
	Electronic Materials and Other Businesses	**2,231**	2,523	**22,712**
	Corporate and Eliminations	**1,682**	3,114	**17,123**
	Total	**¥ 118,044**	¥ 150,585	**$ 1,201,709**

Corporate assets of ¥256,680 million ($2,613,051 thousand) and ¥229,475 million at March 31, 2009 and 2008, respectively, consisted principally of assets of administration departments of the Company.

As mentioned in "1. Basis of Presenting Consolidated Financial Statements," the valuation basis of inventories has been changed from cost basis to lower of cost or net realizable value basis. As a result, compared with the previous method, operating costs and expenses were ¥14,539 million ($148,010 thousand) more in the Iron and Steel segment, ¥10,366 million ($105,528 thousand) more in the Aluminum and Copper segment, ¥568 million ($5,782 thousand) more in the Machinery segment, ¥3,767 million ($38,349 thousand) more in the Construction Machinery segment, ¥1,997 million ($20,330 thousand) more in the Real Estate segment and ¥22 million ($224 thousand) more in the Electronic Materials and Other Businesses segment than the amounts that would have been recorded without the change. Accordingly, operating income in the above segments decreased by the same amounts respectively.

In addition, as mentioned in "1. Basis of Presenting Consolidated Financial Statements," exchange rates to translate statements of income of consolidated overseas subsidiaries have been changed from the year-end rate to the average rate for the year. As a result, compared with the previous method, total sales were ¥2,885 million ($29,370 thousand) more in the Iron and Steel segment, ¥9,797 million ($99,735 thousand) more in the Aluminum and Copper segment, ¥591 million ($6,016 thousand) more in the Machinery segment, ¥16,426 million ($167,220 thousand) more in the Construction Machinery segment and ¥5,156 million ($52,489 thousand) more in the Electronic Materials and Other Businesses segment. Operating costs and expenses were ¥2,403 million ($24,463 thousand) more in the Iron and Steel segment, ¥9,916 million ($100,947 thousand) more in the Aluminum and Copper segment, ¥608 million ($6,190 thousand) more in the Machinery segment, ¥14,657 million ($149,221 thousand) more in the Construction Machinery segment and ¥5,090 million ($51,817 thousand) more in the Electronic Materials and Other Businesses segment. Operating income were ¥482 million ($4,907 thousand) more in the Iron and Steel segment, ¥1,769 million ($18,008 thousand) more in the Construction Machinery segment, ¥66 million ($672 thousand) more in the Electronic Materials and Other Businesses segment, ¥119 million ($1,211 thousand) less in the Aluminum and Copper segment and ¥17 million ($173 thousand) less in the Machinery segment.

In addition, as mentioned in "1. Basis of Presenting Consolidated Financial Statements," due to the revision of the Corporate Tax Law in 2008, useful lives of tangible fixed assets has been changed in accordance with the schedules prescribed in the revised Corporate Tax Law. As a result, operating costs and expenses were ¥1,068 million ($10,872 thousand) more in the Iron and Steel segment, ¥1,442 million ($14,680 thousand) more in the Wholesale Power Supply segment, ¥4,783 million ($48,692 thousand) more in the Aluminum and Copper segment, ¥75 million ($764 thousand) more in the Machinery segment, ¥1 million ($10 thousand) more in the Real Estate segment and ¥101 million ($1,028 thousand) more in the Electronic Materials and Other Businesses segment than the amounts that would have been recorded without the change. Accordingly, operating income in the above segments decreased by the same amounts respectively. In addition, operating costs and expenses were ¥200 million ($2,036 thousand) less in the Construction Machinery segment. Accordingly, operating income in this segment increased by the same amount.

(2) Geographic Area

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2009	2008	**2009**
Sales to outside customers:	Japan	**¥1,910,890**	¥1,872,914	**$19,453,223**
	Other areas	**266,390**	259,492	**2,711,901**
		2,177,290	2,132,406	**22,165,224**
Intersegment sales:	Japan	**116,452**	122,676	**1,185,503**
	Other areas	**12,528**	19,011	**127,538**
		128,980	141,687	**1,313,041**
Total sales:	Japan	**2,027,352**	1,995,590	**20,638,726**
	Other areas	**278,918**	278,503	**2,839,439**
		2,306,270	2,274,093	**23,478,265**
Operating costs and expenses:	Japan	**1,930,798**	1,812,789	**19,655,889**
	Other areas	**260,073**	258,033	**2,647,592**
	Eliminations	**(130,515)**	(140,815)	**(1,328,667)**
		2,060,356	1,930,007	**20,974,814**
Operating income:	Japan	**96,553**	182,801	**982,928**
	Other areas	**18,846**	20,470	**191,856**
	Eliminations	**1,535**	(872)	**15,626**
	Consolidated operating income	**116,934**	202,399	**1,190,410**
Assets:	Japan	**1,844,194**	1,834,482	**18,774,244**
	Other areas	**244,315**	277,219	**2,487,173**
	Corporate and Eliminations	**206,980**	217,305	**2,107,096**
	Total	**¥2,295,489**	¥2,329,006	**$23,368,513**

The principal area in other areas was Asia.

Corporate assets of ¥256,680 million ($2,613,051 thousand) and ¥229,475 million at March 31, 2009 and 2008, respectively, consisted principally of assets of administration departments of the Company.

As mentioned on “1. Basis of Presenting Consolidated Financial Statements,” the valuation basis of inventories has been changed from cost basis to lower of cost or net realizable value basis. As a result, compared with the amounts that would have been recorded with the previous method, operating costs and expenses were ¥31,259 million ($318,223 thousand) more in Japan. Accordingly, operating income in the above segment decreased by the same amount.

In addition, as mentioned in “1. Basis of Presenting Consolidated Financial Statements,” exchange rates to translate statements of income of consolidated overseas subsidiaries has been changed from the year-end rate to the average rate for the year. As a result, compared with the previous method, total sales was ¥36,412 million ($370,681 thousand) more, operating cost and expenses were ¥34,232 million ($348,488 thousand) more and operating income was ¥2,181 million ($22,203 thousand) more in the other areas.

In addition, as mentioned in “1. Basis of Presenting Consolidated Financial Statements,” due to the revision of the Corporate Tax Law in 2008, useful lives of tangible fixed assets has been changed in accordance with the schedules prescribed in the revised Corporate Tax Law. As a result, compared with the amounts that would have been recorded with the previous method, operating costs and expenses were ¥7,270 million ($74,010 thousand) more in Japan. Accordingly, operating income in the above segment decreased by the same amount respectively.

(3) Overseas Sales

Overseas sales for the years ended March 31, 2009 and 2008 were as follows:

		Percentage of 2009 consolidated net sales	Millions of yen		Thousands of U.S. dollars (Note 1)
			2009	2008	**2009**
Overseas Sales:	Asia	20.3%	**¥441,532**	¥432,613	**$4,494,879**
	Other areas	12.3	**267,988**	338,932	**2,728,169**
	Totals	32.6%	**¥709,520**	¥771,545	**$7,223,048**

Overseas sales consisted of export sales of the Company and its domestic consolidated subsidiaries as well as sales of overseas consolidated subsidiaries excluding sales to Japan.

Principal countries and areas in each segment are:

Asia China, Taiwan, Korea, Thailand, Malaysia

Other areas North America, Middle East

18. Net Income per Share

The basis of calculating net income per share for the years ended March 31, 2009 and 2008 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net income	Weighted average number of shares	EPS	
For the year ended March 31, 2009				
Net income available to common shareholders	**¥(31,438)**	**3,002,473**	**¥(10.47)**	**$(0.11)**
For the year ended March 31, 2008				
Net income available to common shareholders	88,923	3,001,351	29.63	

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Kobe Steel, Ltd. and consolidated subsidiaries (the "Group") as of March 31, 2009 and 2008, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kobe Steel, Ltd. and consolidated subsidiaries as of March 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
As discussed in Note 1 to the consolidated financial statements, effective April 1, 2008, the Group has adopted "Accounting Standard for Measurement of Inventories."

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 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 & Co.

Osaka, Japan
June 24, 2009

DIRECTORS, CORPORATE AUDITORS, AND CORPORATE OFFICERS
(As of June 24, 2009)

President, Chief Executive Officer and Representative Director

Hiroshi Sato

● Head Office
Executive Vice President and Representative Director

Takashi Matsutani

Senior Managing Directors

Yutaka Kawata

Hiroaki Fujiwara

Senior Officers

Hiroji Izumi

Seiji Okita

Yuichi Seki

Officers

Akira Kaneko

Masahiro Hanaoka

Shohei Manabe

● Iron and Steel Sector
Executive Vice President and Representative Director

Tomoyuki Kaya *

Executive Officers

Koichi Onishi

Keiichi Murase

Ikuhiro Yamaguchi

Senior Officer

Yasunobu Kumon

Officers

Hiroya Kawasaki

Hiroyoshi Tsumura

Akihiko Tsukamoto

Yoshinori Onoe

Naoto Umehara

Shinya Miyawaki

● Welding Company
Managing Director

Tsuyoshi Kasuya **

Officer

Mitsuo Takamura

● Aluminum and Copper Company
Senior Managing Director

Tetsu Takahashi **

Executive Officer

Ryosuke Shimomura

Officer

Ryusuke Hamanaka

● Machinery and Engineering Company
Senior Managing Director and Representative Director

Kazuo Shigekawa **

Senior Officers

Jun Tanaka

Shuzo Mohri

Officer

Kazuhide Naraki

● Outside Directors
Atsushi Nakano

Yukio Doi

● Corporate Auditors
Toru Asaoka

Toshinori Okoshi

Takasuke Kaneko ***

Yoshikazu Ikeda ***

Shigeo Sasaki ***

* Head of the Iron and Steel Sector

** President of the internal company

*** Outside corporate auditor

DOMESTIC AND OVERSEAS OFFICES

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* The Nagoya branch office will move to the following address on October 13, 2009.
The phone and fax numbers will remain unchanged.

27-8, Meieki 2-chome, Nishi-ku, Nagoya, AICHI 451-0045, JAPAN

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

Research Laboratory
Kobe Corporate Research Laboratories
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535 Madison Avenue, 5th Floor, New York, NY 10022, U.S.A.
Phone: +1-212-751-9400 Fax: +1-212-355-5564

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19575 Victor Parkway, Suite 250 Livonia, MI 48152, U.S.A.
Phone: +1-734-462-7757 Fax: +1-734-462-7758

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72 Anson Road #11-01A Anson House, Singapore 079911,
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Phone: +65-6221-6177 to 6178 Fax: +65-6225-6631

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Room 1604, MassMutual Tower, 38 Gloucester Road, Wanchai,
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Phone: +852-2865-0040 Fax: +852-2520-6347

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Bangkok Office
10th Floor, Sathorn Thani Tower II, 92/23 North Sathorn Road,
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KINGDOM OF THAILAND
Phone: +66-2636-8971 to 8974 Fax: +66-2636-8675

Beijing
Kobe Steel, Ltd.
Beijing Office
Unit 1005, Bldg. A, The Lucky Tower,
No. 3 North Dongsanhuan Road, Chaoyang District,
Beijing 100027, PEOPLE'S REPUBLIC OF CHINA
Phone: +86-10-6461-8491 to 8493 Fax: +86-10-6461-8490

Shanghai
Kobe Steel, Ltd.
Shanghai Office
Room F2, 14F, Jiushi Fuxing Mason, No.918 Huai Hai Zhong Lu,
Shanghai 200020, PEOPLE'S REPUBLIC OF CHINA
Phone: +86-21-6415-4977 Fax: +86-21-6415-9409

INVESTOR INFORMATION

(As of March 31, 2009)

Founded .... September 1905

Incorporated .... June 1911

Employees .... 9,932 (Consolidated 33,526)

Fiscal Year .... April 1 – March 31

Ordinary General Meeting of Stockholders .... June of each year

Authorized and Issued Share Capital

Authorized: .... 6,000,000,000 shares

Issued: .... 3,115,061,100 shares

Principal Stockholders

At March 31, 2009, the ten largest stockholders of the Company Stockholdings were as follows:

	Thousands of shares	Percent
Japan Trustee Services Bank, Ltd. (Trust Account 4G)	146,985	4.72
Nippon Life Insurance Company	125,310	4.02
Japan Trustee Services Bank, Ltd. (Trust Account)	116,611	3.74
Nippon Steel Corporation	107,345	3.45
Sumitomo Metal Industries, Ltd.	107,345	3.45
The Master Trust Bank of Japan, Ltd. (Trust Account)	90,480	2.90
Mizuho Corporate Bank, Ltd.	70,369	2.26
Mitsubishi UFJ Trust and Banking Corporation	52,333	1.68
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	47,348	1.52
Sojitz Corporation	45,016	1.45

*The Company's holdings of treasury stock (107,602 thousand shares) are not included in the above figures.

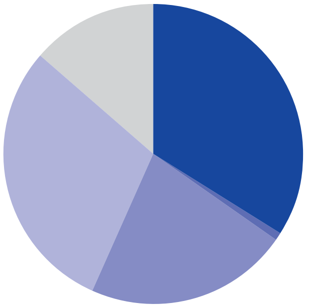
Listing and Quotations

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

Depositary for American Depositary Receipts

The Bank of New York Mellon
101 Barclay Street, New York, NY 10286, U.S.A.
Tel: +1-201-680-6825
U.S. toll free: 888-269-2377 (888-BNY-ADRS)
URL: http://www.adrbnymellon.com
SYMBOL: KBSTY
CUSIP: 499892107
EXCHANGE: OTC

Distribution of Shares



Japanese financial institutions 34.12%
Japanese financial instruments firm 0.74%
Other Japanese corporations 21.97%
Japanese individuals and others 29.62%
Foreign investors 13.55%

Directors' and Corporate Auditors' Stockholdings

The following is a list of the directors and corporate auditors and their stockholdings in the Company at March 31, 2009.

	Number of shares owned
Hiroshi Sato	180,000
Tomoyuki Kaya	109,000
Takashi Matsutani	125,000
Kazuo Shigekawa	89,000
Tetsu Takahashi	49,120
Yutaka Kawata	81,000
Hiroaki Fujiwara	57,000
Tsuyoshi Kasuya	46,000
Atsushi Nakano	10,000
Yukio Doi	20,000
Toru Asaoka	124,000
Toshinori Okoshi	49,000
Takasuke Kaneko	43,000
Yoshikazu Ikeda	7,000
Shigeo Sasaki	2,000

Public Notices

http://www.kobelco.co.jp
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

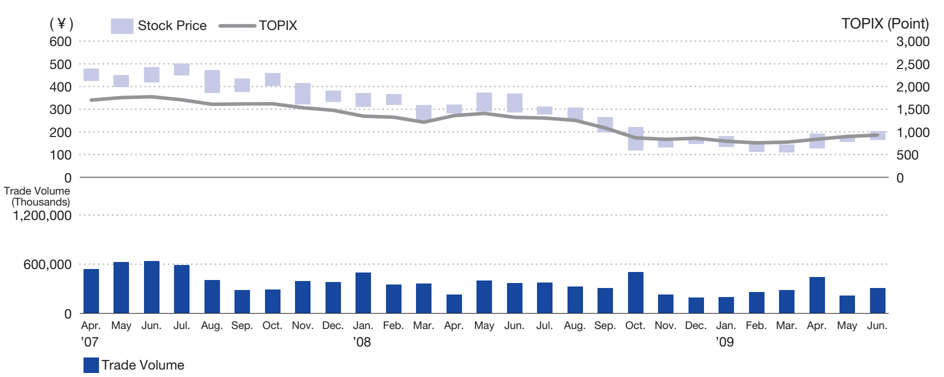
Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku, TOKYO 100-8212, JAPAN

Independent Auditors

KPMG AZSA & Co.
6-5, Kawara-machi 3-chome, Chuo-ku, OSAKA 541-0048, JAPAN

Common Stock Price Range

Tokyo Stock Exchange (High / Low)



Information

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IR Group
Corporate Planning Department
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