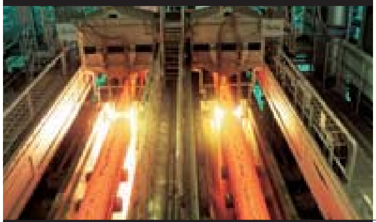
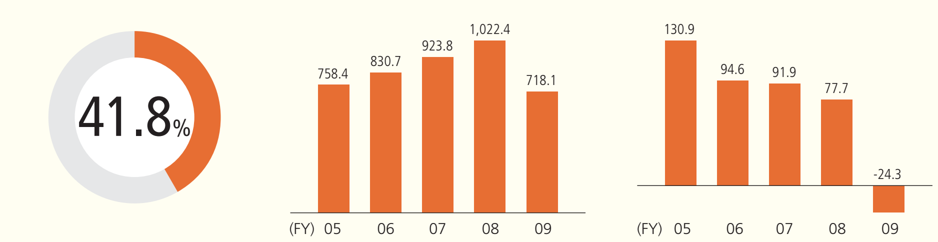
Review of Operations

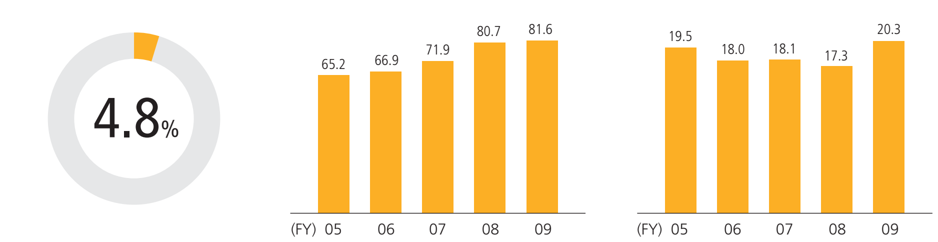
	Composition of Net Sales	Net Sales (Billions of yen)	Operating Income (Loss) (Billions of yen)

IRON AND STEEL

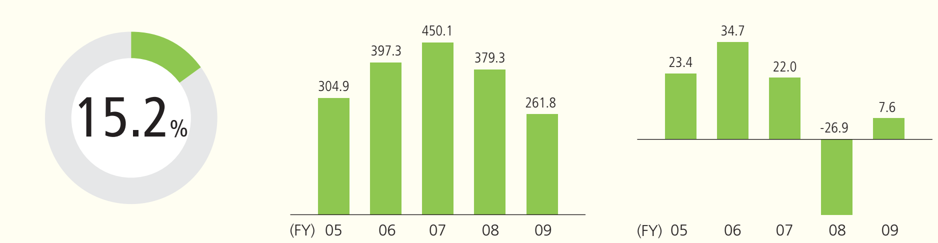




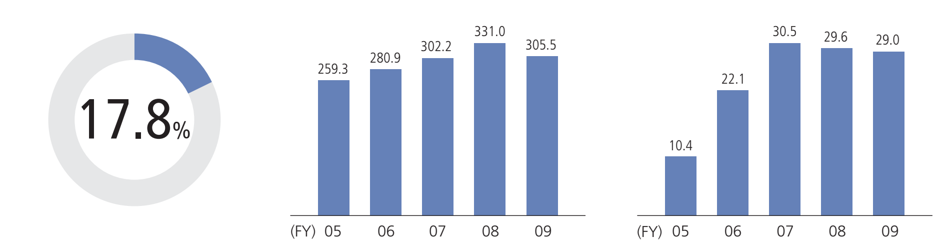
WHOLESALE POWER SUPPLY



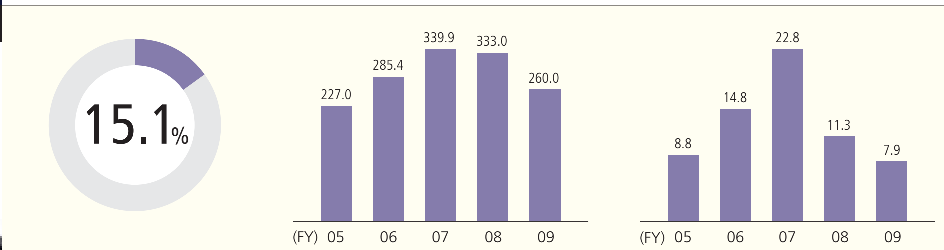
ALUMINUM AND COPPER



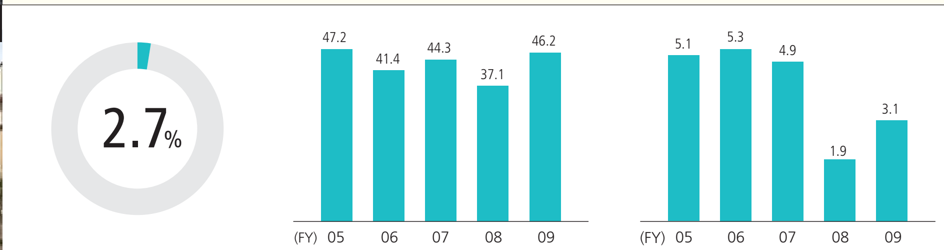
MACHINERY



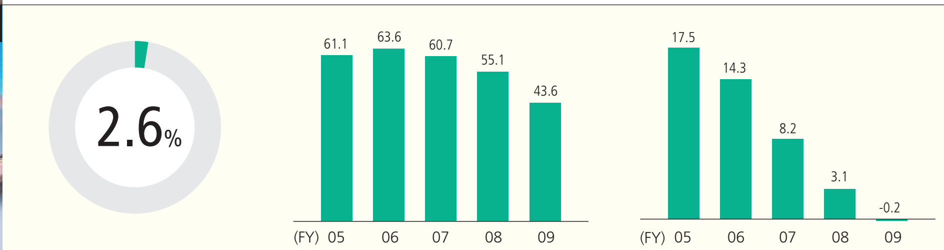
CONSTRUCTION MACHINERY



REAL ESTATE



ELECTRONIC MATERIALS AND OTHER BUSINESSES



Notes: 1. The composition of segment sales and net sales include intersegment sales.

Business Environment and Performance in Fiscal 2009

Demand for steel products began picking up from the second half of fiscal 2009 owing to recovery in the automobile and electronics industries, while demand increased from overseas, particularly China. Nonetheless, compared with fiscal 2008, demand was mired at a persistently low level with steel shipment volume falling below that of the previous fiscal year, when it had reached a high level, particularly in the first half. Product sales prices declined compared with the previous fiscal year due to the impact of falling raw material prices.

Net sales for steel castings and forgings fell below those of fiscal 2008 as demand from the shipbuilding industry trailed off after the third quarter. Net sales for welding consumables and titanium products also slipped below those of the previous fiscal year as demand slumped.

As a result, overall sales in the Iron and Steel segment declined 29.8% year on year to ¥718.1 billion, while operating income fell ¥102.1 billion for a loss of ¥24.3 billion.

The two power plants at the Shinko Kobe Power Station currently have a combined maximum power generation capacity of 1.4 million kilowatts. Fiscal 2009 net sales in this segment were ¥81.6 billion, on par with the previous fiscal year. As a result of such factors as declining depreciation costs, operating income rose ¥3.0 billion year on year, to ¥20.3 billion.

In aluminum rolled products, shipments of aluminum stock for beverage cans declined from the third quarter onward as a result of such factors as the impact of cool summer temperatures. Demand did bounce back, however, in the automotive, LCD and semiconductor segments. These developments notwithstanding, overall shipments of aluminum rolled products fell below those of the previous fiscal year, when it had reached a high level, especially in the first half. Net sales for aluminum castings and forgings declined year on year, despite visible signs of recovery in demand.

With regard to copper rolled products, shipments of copper sheet and strip increased compared with fiscal 2008, while shipments of copper tube decreased.

In addition to declining sales volumes, lower sales prices brought about by a decline in ingot prices caused segment sales to decrease by 31.0% compared with fiscal 2008, to ¥261.8 billion. However, owing to lower depreciation costs and cost cutting, operating income improved ¥34.4 billion from the loss of the previous year, to ¥7.6 billion.

Due to sluggish capital investments in the automotive, oil refining and petrochemical fields, orders for related products declined. In contrast, such areas as metalworking machinery and direct reduction plants began to show signs of recovery.

Under these conditions, domestic orders in fiscal 2009 increased 1.6% compared with fiscal 2008, to ¥130.4 billion, while year-on-year overseas orders fell 42.1%, to ¥63.8 billion. As a result, overall orders decreased 18.6% year on year, to ¥194.2 billion. As of March 31, 2010, the backlog of orders stood at ¥240.8 billion.

Segment sales were ¥305.5 billion, a decrease of 7.7% compared with fiscal 2008 when an order for a large-scale pellet plant caused a spike in revenue. Operating income decreased ¥0.5 billion compared with fiscal 2008, to ¥29.0 billion.

Unit sales of hydraulic excavators in China increased considerably year on year, particularly from February in inland areas. However, unit sales fell further in the persistently sluggish markets of Japan, the United States and Europe.

Unit sales of cranes in North America decreased compared with fiscal 2008 due to customer inventory adjustments; Japan and the Middle East also witnessed considerably lower unit sales compared with the previous fiscal year.

As a result, segment sales decreased 21.9% year on year, to ¥260.0 billion. Operating income decreased ¥3.3 billion compared with fiscal 2008, to ¥7.9 billion.

Segment sales increased 24.5% compared with fiscal 2008, to ¥46.2 billion, owing to the steady closing of condominium sales. Operating income increased ¥1.3 billion compared with fiscal 2008, to ¥3.1 billion.

Demand continued to be sluggish in the testing and analysis business, particularly from the transportation industry. In addition, prices and sales volume declined for target material used in LCD panels. As a result, segment sales decreased 20.9% compared with fiscal 2008, to ¥43.6 billion. Operating income declined ¥3.4 billion for an operating loss of ¥0.2 billion.

2. From fiscal 2010, the Kobe Steel Group has changed its business segment classifications. The above Review of Operations states business performance for business segments up to and including fiscal 2009.