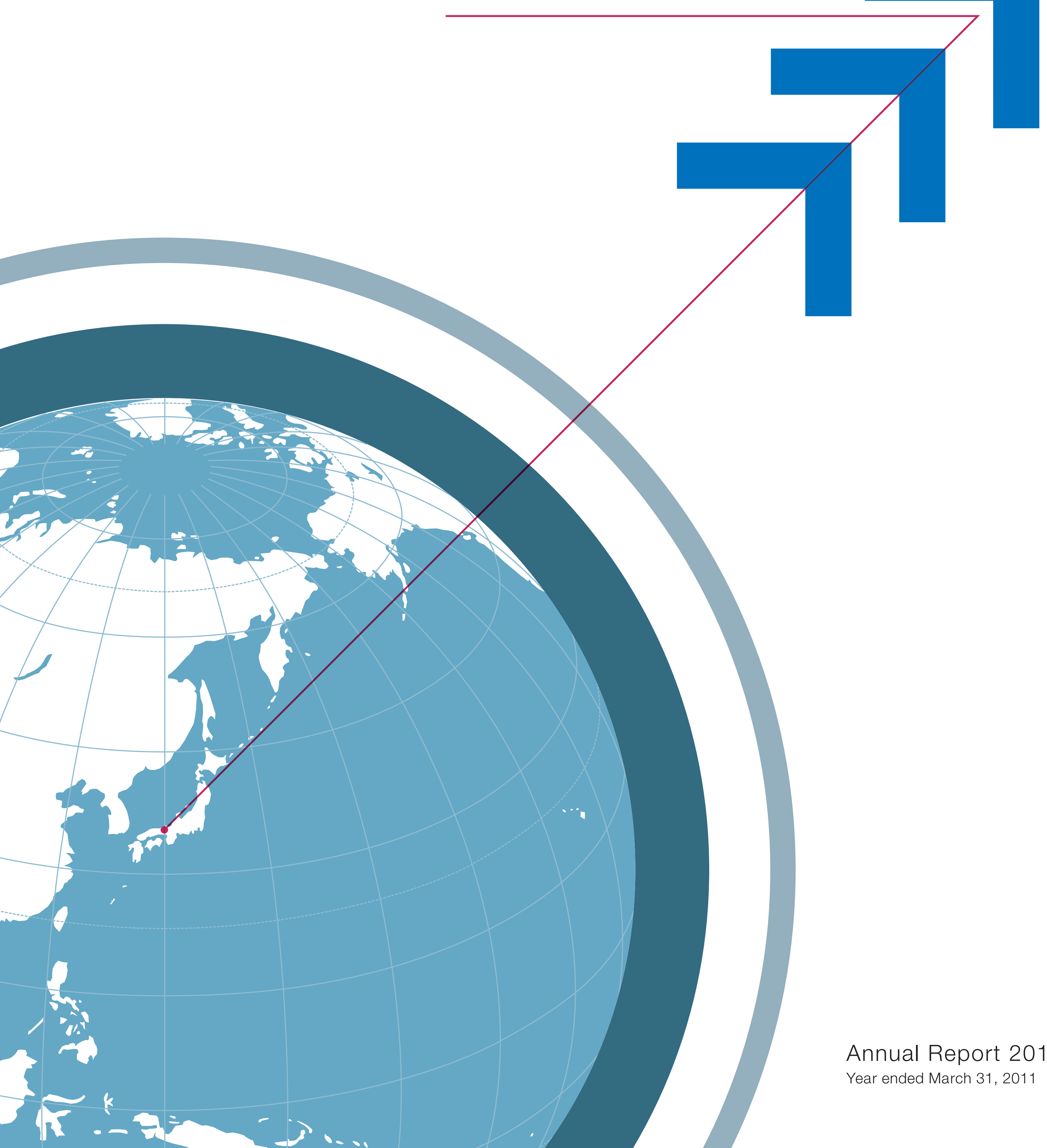
KOBE STEEL GROUP

# Pursuing Growth and Business Expansion



Annual Report 2011

Year ended March 31, 2011

# Profile

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

Under its medium- to long-term business vision, KOBELCO VISION “G,” begun in April 2010, Kobe Steel creates and markets “Only One” products—original products defying imitation and born of unique technical development prowess. At the same time, the Kobe Steel Group is committed to strengthening *monozukuri-ryoku*, its manufacturing capabilities. Furthermore, Kobe Steel is accelerating global business development utilizing the Group’s collective strengths that arise from the fusion of its diverse knowledge and skill.

Unified under the KOBELCO brand, the Kobe Steel Group has set its sights on sustained growth in partnership with society.

Founded
1905

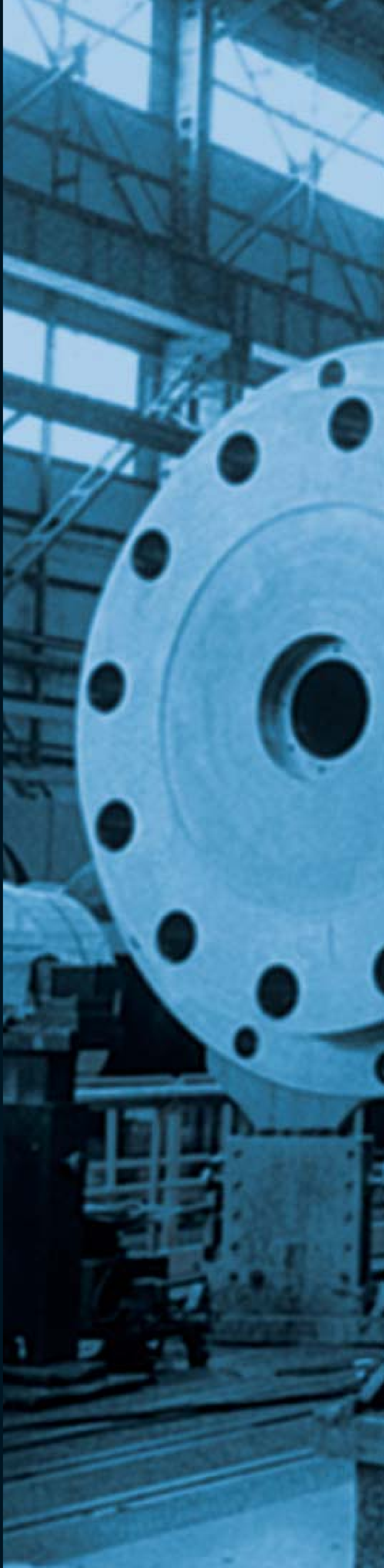
Consolidated subsidiaries and equity-method affiliates
207

Common stock
¥233.3 billion


Employees
34,772
(Consolidated)

Consolidated net sales
¥1,858.6 billion

Total assets
¥2,231.5 billion



## Caution Regarding Forward-Looking Statements

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

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

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

# Thorough pursuit of high-end "Only One" products, technologies and services and further improvement of manufacturing strengths

Accelerating global business development
that more fully realizes the Group's comprehensive strengths

## Contents

# To Our Shareholders

In fiscal 2010, the first year of the Kobe Steel Group's medium- to long-term business vision entitled KOBELCO VISION "G," both revenues and earnings increased compared with the previous fiscal year.

The Group is steadily bolstering its operating platform and overseas business while taking significant strides toward realizing its medium- to long-term business vision.

Hiroshi Sato, *President, CEO and Representative Director*

I would like to start off by expressing my deepest condolences to the victims and my sympathies to everyone who was affected by the Great East Japan Earthquake of March 11, 2011. The Kobe Steel Group has a number of facilities in eastern Japan including the Moka Plant in Tochigi Prefecture, which manufactures aluminum flat products. Fortunately, however, none of these facilities suffered any fatalities or significant damage. Nevertheless, many of our business partners received direct damage from the earthquake, which has, as a result, affected production. Although the Kobe Steel Group was devastated by the Great Hanshin-Awaji Earthquake that struck in 1995, we were able to recover thanks to the support of many people. As a company that has experienced past devastation, Kobe Steel has been providing assistance to disaster areas. Supplying our products and technologies, we are hoping to meet social needs and contribute in a small way to the recovery effort.

### Fiscal 2010 Overview

Thanks to the economic stimulus measures of various countries and the growth of emerging economies including China, the developed economies of Japan, the United States and Europe continued on a slow path to recovery. Against this backdrop, the sales volumes of the Group's steel, aluminum and copper rolled products surpassed those of the previous fiscal year, buoyed by firm demand from manufacturing industries in and outside Japan. Unit sales of hydraulic excavators greatly exceeded those of fiscal 2009 primarily behind growing demand in China. As a result, consolidated net sales increased ¥187.6 billion, to ¥1,858.6 billion. Meanwhile, despite the impact of rising prices of steel raw materials, ordinary income surged ¥78.8 billion, to ¥89.1 billion on the back of higher sales volumes, cost reductions and other factors. The financial impact that the Great East Japan Earthquake had on Company earnings, including the opportunity loss of decreased production levels, was –¥3.0 billion on an ordinary income basis.

### Progress of Medium- to Long-Term Business Vision and Issues to be Addressed

The Group is steadily implementing measures for achieving its corporate vision outlined in its medium- to long-term business vision entitled KOBELCO VISION "G," which was announced in fiscal 2010. With the pursuit of growth and business expansion as one of the pillars of KOBELCO VISION "G," the status of key initiatives in each segment thus far is as follows.

### Iron and Steel Business

- ▶ The Company decided to build a new production line for high-strength cold-rolled steel sheet for use in automobiles at its joint venture with U.S.-based United States Steel Corporation. It aims to expand into other world regions with similar projects.
- ▶ Having recently established the Global Business Planning Department within the Company's head office, Kobe Steel will examine projects that can utilize the direct reduced iron technology of the Natural Resources and Engineering Business.
- ▶ A new company was established in the titanium field in Japan. Plans call for the installation of Japan's first advanced 50,000-metric-ton forging press. The company will produce large forgings for aircraft, a field with global growth prospects.

### Welding Business

- ▶ Sales companies were established in India and South Korea.
- ▶ Production capacity was increased at existing manufacturing bases in China and further increases in capacity will be considered. We will also look into expanding into other world regions.

### Aluminum and Copper Business

- ▶ A manufacturing and sales company for aluminum forgings for automobile suspensions was established in China.
- ▶ Kobe Steel will expand overseas, especially into Asia, in these and other product areas.

### Machinery Business

- ▶ Production capacity was increased at compressor manufacturing bases in China and North America. An equity stake was taken in a Chinese compressor manufacturer.
- ▶ A manufacturing and sales company for tire and rubber machinery was established in India.
- ▶ We will examine the possibility of entering the South American market.

### Natural Resources and Engineering Business

- ▶ The first commercial plant using the ITmk3® Process, a new ironmaking technology developed by Kobe Steel, commenced operation in Minnesota, USA last year. A second and third such project for Vietnam and India are now under study.

### Kobelco Eco-Solutions

- ▶ A subsidiary in Vietnam and joint-venture company in India were established. Our focus will be on developing the water treatment business primarily from these two bases.
- ▶ Market highly efficient waste power generation plants in Europe.

### Kobelco Construction Machinery

- ▶ A newly established manufacturing base in India commenced production.
- ▶ Production capacity will be increased at manufacturing bases to accommodate demand growth in each region.
- ▶ A Global Engineering Center (GEC) will be set up in Hiroshima as a base to manage global production and development and drive our global strategy forward.

### Kobelco Cranes

- ▶ A decision was made to set up new manufacturing bases in India and China, which are now under construction. We seek to increase our competitive edge through greater local procurement.

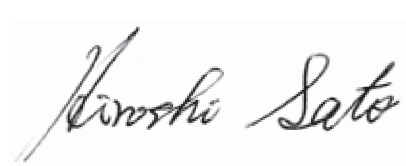
The ability to supply distinctive technologies, products and services by applying the original technologies and know-how developed by each business and merging them together is a strength of the Kobe Steel Group. We will leverage this strength to capture demand in growth regions and fields with the goal of establishing the Group's presence in global markets.

## In Conclusion

The Kobe Steel Group views the returning of profits to shareholders and the periodic distribution of those profits as one of its most important management issues. The Group pays dividends on a stable and continuous basis. The actual amount of the dividend is decided after taking into full account the Company's performance, dividend payout ratio, investment capital needs for future growth, relative improvement in financial position, and other factors. The standard dividend payout ratio that we are targeting for now is 15% to 25% of consolidated net income. Based on these policies, in fiscal 2010, we paid an interim and year-end dividend of ¥1.5 per share.

We will continue to contribute to society by providing original technologies, products and services. To this end, I would like to ask for your continued understanding and support.

August 2011



Hiroshi Sato
*President, CEO and Representative Director*

# KOBELCO at a Glance – Fiscal 2010

**Net sales**
+11.2%
**¥1,858.6 billion**

**ROE**
+8.6 points
**9.9%**

**Operating income**
+170.7%
**¥124.6 billion**

**ROA**
+2.1 points
**2.4%**

**Ordinary income**
+768.4%
**¥89.1 billion**

**Debt/Equity ratio**
-0.2 point
**1.4 times**

**Net income**
+739.7%
**¥52.9 billion**

**Dividend per share**
+¥1.50
**¥3.00**

### Composition of net sales by business segment (%)

- Iron and Steel Business 43.5
- Welding Business 4.0
- Aluminum and Copper Business 15.7
- Machinery Business 8.0
- Natural Resources and Engineering Business 3.3
- Kobelco Eco-Solutions 3.6
- Kobelco Construction Machinery 16.2
- Kobelco Cranes 2.1
- Other Businesses 3.4

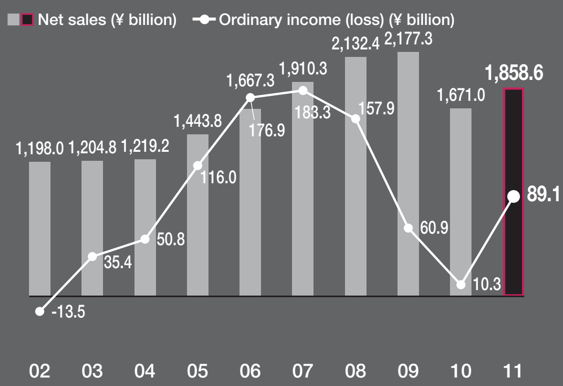
Composition of net sales by business segment includes intersegment transactions and adjustments.

### Composition of net sales by geographic area (%)

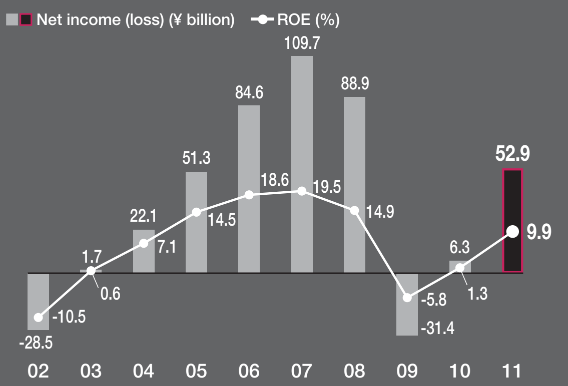
- Japan 64.2
- China 14.2
- Other areas 21.6

Composition of net sales by geographic area is classified by country based on customer location.

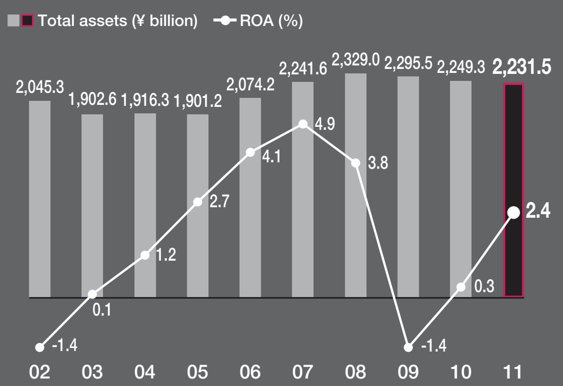
Net sales and Ordinary income (loss)



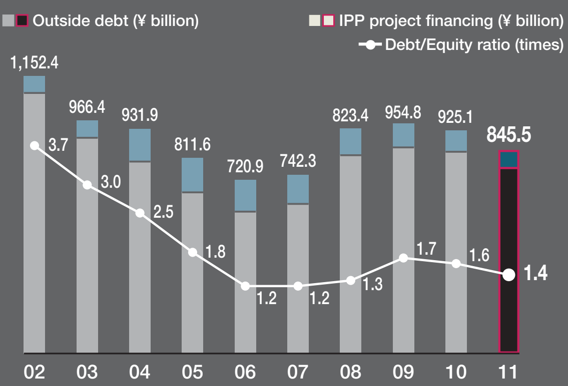

Net income (loss) and ROE



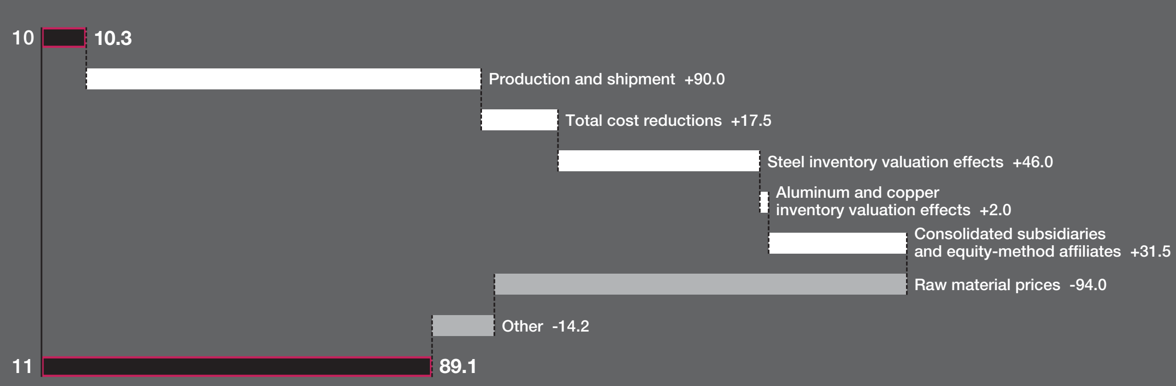

Total assets and ROA




Outside debt and Debt/Equity ratio




Breakdown of factors affecting ordinary income (loss) (¥ billion)



## Iron and Steel Business

Net sales breakdown 43.5%

Ordinary income breakdown 24.9%


Consisting of steel products, steel castings and forgings, titanium, steel powder and wholesale power supply business divisions, the Iron and Steel Business makes every effort to strengthen *monozukuri-ryoku*, or its manufacturing capabilities, focusing on improvements in productivity and cost competitiveness. In tandem, the business promotes the global development of “Only One” products and technologies as well as a shift to areas of growing demand. In addition, Shinko Kobe Power Inc. works to maintain a stable wholesale power supply structure with a maximum power generation capacity of 1.4 million kilowatts.

### Main products and services

- Ordinary wire rod
- Specialty steel wire rod
- Specialty steel wire
- Ordinary steel bar
- Specialty steel bar
- Heavy plate, medium plate and sheet (hot-rolled, cold-rolled, surface treated)
- Steel billets
- Steel castings and forgings
- Titanium and titanium alloys
- Steel powder
- Foundry pig iron
- Pig iron for steelmaking
- Slag products
- Stainless steel tube
- Building materials
- Specialty steel products
- Steel wire
- Wholesale electric power supply

# Creating “Only One” Products and Technologies in Diverse Fields

## Natural Resources and Engineering Business

Net sales breakdown 3.3%

Ordinary income breakdown 3.2%


Backed by a wealth of experience, the Natural Resources and Engineering Business offers equipment manufacturing and plant engineering services in the ironmaking and energy fields. Kobe Steel leads the world in both direct reduction (DR) processes and the development of new ironmaking technology that eliminate the need for blast furnaces. While aggressively pursuing business development globally, Kobe Steel aims to expand earnings.

### Main products and services

- Ironmaking plants (direct reduction)
- Other plants and equipment (Pelletizing, petrochemical, etc.)
- Nuclear power-related plants
- Erosion control and disaster prevention structures
- Civil engineering
- Advanced urban transit systems

## Welding Business

Net sales breakdown 4.0%

Ordinary income breakdown 4.8%


The Welding Business offers a diverse range of welding products and services, providing comprehensive welding solutions that encompass welding consumables, power sources and welding systems. While firmly maintaining its No. 1 position in the Asian market, Kobe Steel seeks to expand even further overseas, on its way to becoming a top global manufacturer in the welding industry.

### Main products and services

- Covered welding electrodes
- Welding wire for automatic and semi-automatic welding
- Flux
- Welding robots
- Welding power sources
- Welding robot systems
- Welding-related testing, analysis and consulting

# — The Nine Business Domains of the Kobe Steel Group

## Kobelco Eco-Solutions

Net sales breakdown 3.6%

Ordinary income breakdown 3.3%


As an environmental solutions company that meets the needs of the times, Kobelco Eco-Solutions Co., Ltd. contributes to society by providing products, technologies and services that protect nature and improve the living environment.

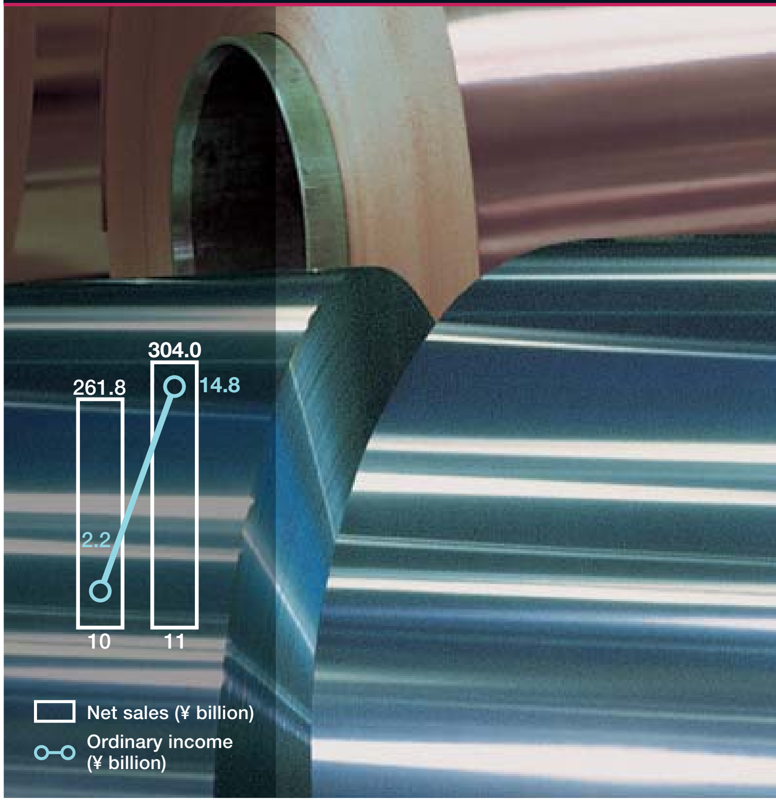
### Main products and services

- Industrial water, water and sewage plants and equipment
- Ultrapure and pure water, industrial water and waste water treatment equipment
- Recycling plants for processing organic waste materials such as sewage sludge and foodstuffs
- Industrial cooling towers and cooling towers for district heating and cooling
- Municipal waste incineration and melting plants
- Recycling facilities for bulky waste
- PCB waste treatment facilities
- Final disposal of waste material
- Equipment for the chemical industry
- Powder processing equipment
- Brewing equipment
- Hydrogen oxygen generator
- Environmental analysis

## Aluminum and Copper Business

Net sales breakdown 15.7%

Ordinary income breakdown 15.5%




The Aluminum and Copper Business is working to strengthen and expand its distinctive “Only One” products by positioning the automotive and IT industries as key fields. As Japan’s top-class maker of aluminum and copper products, Kobe Steel is reinforcing its overseas development based on its technologies and reliability developed over many years’ time.

### Main products and services

- Aluminum can stock
- Aluminum sheet for heat exchangers
- Automotive aluminum sheet
- Aluminum extrusions
- Aluminum disk material for HDDs
- Aluminum foil
- Copper sheet and strip for semiconductors
- Copper sheet and strip for terminals
- Leadframes
- Condenser tubes
- Copper tube for air conditioners
- Aluminum-alloy and magnesium-alloy castings and forgings
- Fabricated aluminum products

## Kobelco Construction Machinery

Net sales breakdown 16.2%

Ordinary income breakdown 27.6%


As a manufacturer of hydraulic excavators, Kobelco Construction Machinery Co., Ltd. develops innovative products with a focus on low-noise, fuel-efficient equipment and responds to a diverse range of customer needs. Through its global alliance with CNH Global N.V., Kobelco Construction Machinery is concentrating its management resources on the growing markets of China, Southeast Asia and India while raising its global presence.

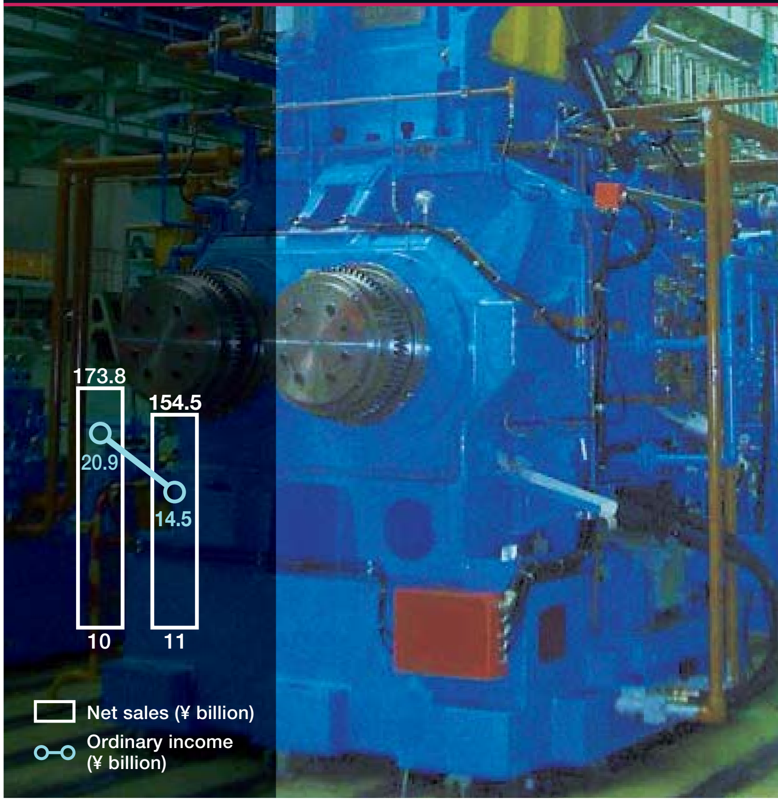
### Main products and services

- Hydraulic excavators
- Mini excavators
- Wheel loaders
- Road-building equipment

## Machinery Business

Net sales breakdown 8.0%

Ordinary income breakdown 15.2%




The Machinery Business offers a broad product range, including industrial machinery, compressors, and equipment for the energy and nuclear power fields. Kobe Steel is creating original products and technologies to meet global demand in environmental, energy, automobile and other growth markets. At the same time, the Company has taken steps to boost its manufacturing capabilities and to build an optimal production structure.

### Main products and services

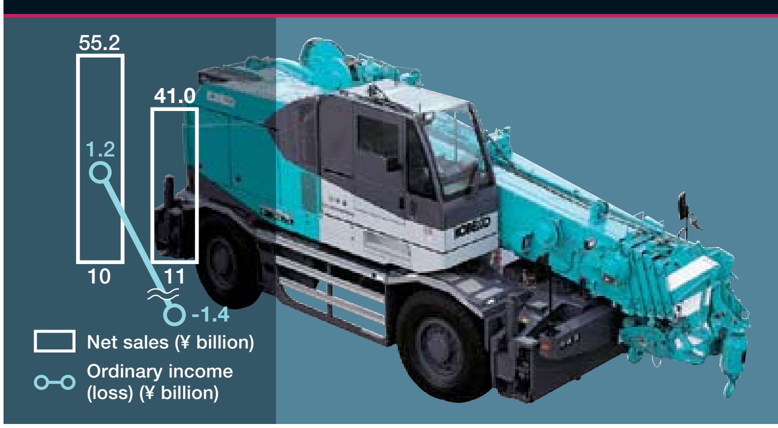
- Equipment for nuclear power plants
- Equipment for energy and chemical fields
- Tire and rubber machinery
- Plastics processing machinery
- Ultrahigh pressure equipment
- Physical vapor deposition systems
- Roll to roll deposition system
- Metalworking machinery
- Compressors
- Refrigeration compressors
- Heat pumps
- Plants (steel rolling, non-ferrous, etc.)
- Internal combustion engines

Note: Segment sales and Ordinary income include intersegment sales.

## Kobelco Cranes

Net sales breakdown 2.1%

Ordinary income breakdown —




As a construction machinery manufacturer that specializes in the crane business, Kobelco Cranes Co., Ltd. is developing appealing new products and strengthening its business foundation to support globalization. Based on its technologies developed over the years and the strength of its brand, Kobelco Cranes is undertaking activities aimed at making the Company more globally prominent.

### Main products and services

- Crawler cranes
- Rough terrain cranes
- Work vessels

## Other Businesses

Net sales breakdown 3.4%

Ordinary income breakdown 6.8%


The Kobe Steel Group has developed a variety of businesses, including real estate and electronics materials, as part of its Other Businesses segment.

# Our Growth Strategy

## The Kobe Steel Group's Medium- to Long-Term Business Vision:

# KOBELCO VISION **"G"**

### Group image for the next 5 to 10 years

A corporate group that:

Maintains a global market presence

Has a stable profit structure and a strong financial foundation

Prospers together with shareholders, business partners, employees and society

Integrating its diverse knowledge and technologies that cover materials such as iron and steel, welding and aluminum and copper, as well as machinery such as industrial machinery, natural resources and engineering, and construction machinery

## Our business targets are consolidated net sales of about ¥3 trillion and ordinary income of more than ¥200 billion

In April 2010, the Kobe Steel Group began its medium- to long-term business vision, KOBELCO VISION "G" in which the "G" represents "Global," "Group" and "Growth." Differing from conventional medium-term business plans that focus on numerical targets, the new vision will help us navigate a course over the next five to ten years. Indeed, it will be the main map for the medium to long term.

After forecasting the medium- to long-term global economy and business environment, we defined the Group image that we want to achieve. To realize this Group image under five basic policies, the Group has set numerical business targets for net sales of about ¥3 trillion, ordinary income of more than ¥200 billion, and a debt/equity ratio of 1.0 times. The Group also expects to raise its percentage of overseas sales to 50% through aggressive global expansion.

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

**Medium- to Long-Term Business Environment**

- Overall decline of demand in Japan against a backdrop of declining birthrates and an aging population
- Overseas demand growth, mainly in emerging countries
- Demand structure rapidly changing toward a low-carbon society (operational constraints on domestic manufacturers, hybrid and electric vehicles, etc.)

### Five Basic Policies of KOBELCO VISION "G"

**1 Thorough pursuit of high-end "Only One" products, technologies and services**

- Integrate the Group's diverse knowledge and technologies to create new "Only One" products that only the Kobe Steel Group can offer
- Improve customer satisfaction by providing better after-sales services, identifying and meeting customers' changing needs, and providing better products and technologies
- Dramatically raise the level of added value by developing existing businesses in both downstream and upstream domains

**2 Further improvement of manufacturing strengths**

- Kobe Steel's growth engine is *monozukuri-ryoku*, the ability to consistently provide reliable technologies, products and services
- Strengthen Groupwide *monozukuri-ryoku* efforts, the source of the Group's competitive strength

**3 Growth and business expansion**

- Further expand business into growth regions, especially emerging countries
- Accelerate initiatives in growth fields, including the environment, resources and energy, in Japan and abroad

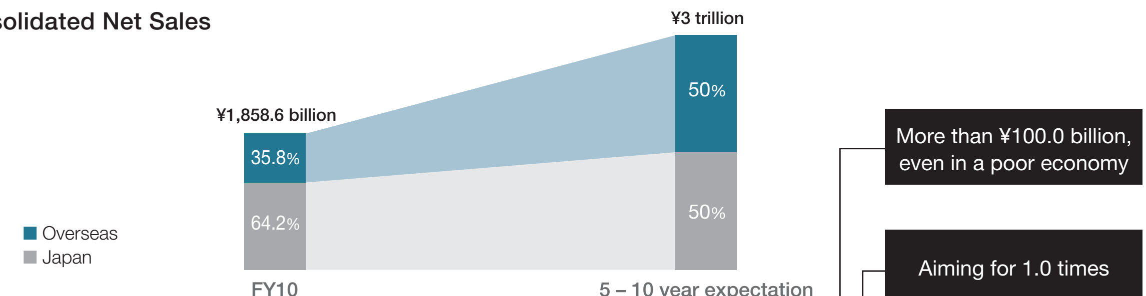
**4 Demonstrating the comprehensive capabilities of the Group**

- Create new value by transcending existing values and organization framework and organically integrating technologies, human resources, information, ideas and knowledge
- Systematically develop employees' skills so that they can strengthen and transform the Group's business foundation and respond to global business development needs

**5 Contributions to society**

- Together with creating a corporate culture that is highly sensitive to compliance issues, Kobe Steel will fulfill its corporate social responsibility, primarily by contributing to local communities and environmental problems

**Consolidated Net Sales**




| | FY10 | 5 – 10 year expectation |
|---|---|---|
| Ordinary income | ¥89.1 billion | ¥200.0 billion |
| Debt/Equity ratio | 1.4 times | 1.0 times |

## Measures for Achieving KOBELCO VISION “G” and Initiatives in Fiscal 2010

### Iron and Steel Business

- **Make steady efforts to meet rising demand from growing markets centered on emerging countries including China and India**
- **Expand the global market for high-end “Only One” steel products such as high-strength steel and specialty steel**
- **Consider application of direct reduced iron in steel operations**

In fiscal 2010, Kobe Steel and United States Steel Corporation formed an agreement for their joint venture, PRO-TEC Coating Company, to install a Continuous Annealing Line to produce high-strength steel for automobiles. Automakers have been seeking stronger vehicle structures, while at the same time, cars need to be lighter to improve mileage.

To meet these needs, a new line will be set up at PRO-TEC with a targeted date of operation in early 2013.

In the titanium field, Hitachi Metals, Ltd., Kobe Steel, IHI Corporation and Kawasaki Heavy Industries, Ltd. (or KHI) have established a joint venture called Japan Aeroforge, Ltd. The joint venture will install Japan’s first 50,000-metric-ton, state-of-the-art forging press. The new press will enable the production of large forgings that had been previously impossible to produce in Japan. The joint venture is expected to help Kobe Steel meet the growing world demand for aircraft titanium forgings.

In addition, collaboration with the recently established Global Planning Department will speed up the review of an assortment of projects, including the utilization of direct reduced iron in the steel business.

### Welding Business

- **Pursue sustained growth and profits based on solution development that combines welding consumables, welding technologies and welding robot systems**
- **Strengthen overseas business by expanding operations at current overseas locations and developing businesses in emerging countries**

In fiscal 2010, Kobe Steel opened Kobe Welding of Shanghai Co., Ltd. to market welding consumables and welding systems in response to rising demand for these products in China. Also, Kobe Welding of Tangshan Co., Ltd., a manufacturer of solid welding wires for construction equipment and other industries, and Kobe Welding of Qingdao Co., Ltd., which makes mild steel flux-cored welding wires (FCW), used mainly in the shipbuilding industry, both raised their production capacity.

Kobe Steel also established a company in India to sell welding consumables and further develop the market. The new company will primarily target the energy field. It will also seek new potential suppliers of raw materials.

### Aluminum and Copper Business

- **Expand overseas business by establishing new locations and utilizing alliances**
- **Strengthen and upgrade high-end “Only One” products for the automotive, IT and energy fields**

In fiscal 2010, Kobe Steel established a company in China to produce and sell aluminum forgings for automotive suspension systems. Demand for aluminum suspension forgings is expected to increase worldwide owing to the heightened need to reduce the weight of automobiles. Kobe Steel already produces these forgings in Japan and the United States. The plant in China, scheduled to start up in fiscal 2012, will enable Kobe Steel to form a network in three countries to meet local procurement needs.

### Machinery Business

- **Strengthen the production technology capabilities at domestic “mother factories” and increase production at overseas locations**
- **Create and expand sales of high-end “Only One” products for the environmental and energy fields (e.g., SteamStar compact screw-type steam-powered generator, next-generation heat pump)**

To meet the growing demand for standard compressors used at a wide range of production sites, Kobe Steel decided to increase production capacity at Kobelco Compressors Manufacturing (Shanghai) Corporation by 60%, from 2,200 units per year to 3,500 units per year.

Demand for tire and rubber machinery is growing owing to the rising production of automobiles, mainly in emerging countries. To meet this demand, Kobe Steel established a joint venture in India with Larsen & Toubro Limited, which has a strong sales network in India, Europe and the Middle East.

Kobe Steel currently manufactures tire and rubber machinery in Japan, the United States and China. The new joint venture enables Kobe Steel to create a supply network in four countries for its tire and rubber machinery.

## Natural Resources and Engineering Business

- **Actively expand the direct reduced iron business, centered on the ITmk3® Process**
- **Promote the commercialization of the UBC® (Upgraded Brown Coal) Process and build a business model for the Process**

Steel demand is expanding mainly in emerging countries, and raw material prices remain high. To effectively utilize low-grade iron ore, in fiscal 2010, Kobe Steel aggressively promoted the ITmk3® Process, a new ironmaking technology that it developed. Kobe Steel is conducting a feasibility study in Vietnam to manufacture and market iron nuggets. It is also conducting a feasibility study with Steel Authority of India Limited, a state-owned steelmaker.

## Kobelco Eco-Solutions

- **Strengthen proposal-based business in Japan and create a stronger business foundation by increasing orders in the after-sales service area**
- **Advance into and expand sales in overseas markets including Vietnam, India and Europe**

Kobelco Eco-Solutions incorporated its Vietnam office, which it established the previous year, into a company. Through the new company, Kobelco aims to meet the tremendous demand for water treatment in Vietnam, where many new construction projects are planned.

In addition, Kobelco and Kobe City entered into an agreement to mutually cooperate in the overseas development of water and infrastructure businesses. In collaboration with Kobe City, Kobelco will not only develop water treatment facilities for industrial use, but also the water and sewage treatment business in Vietnam.

## Kobelco Construction Machinery

- **Expand business in emerging countries, including China, Thailand and India**
- **Develop products that meet local needs, incorporating advanced technologies that lower fuel consumption and reduce noise**

In fiscal 2010, Kobelco Construction Machinery raised the production capacity and expanded the types of models manufactured at the Chengdu plant and Hangzhou plant. Owing to these measures, Kobelco sold 90% more units of hydraulic excavators in calendar year 2010, compared with the previous year.

In addition, Kobelco completed a new plant in India, which is expected to be the next large market after China. Kobelco will increase production to meet growing demand in that country.

## Kobelco Cranes

- **Raise KOBELCO brand value through stronger *monozukuri-ryoku* and service capabilities**
- **Establish strategic overseas locations**

In fiscal 2010, Kobelco Cranes decided to establish a manufacturing base for crawler cranes in India, a market where growth is expected, and China, which has more than a 40% share of world crawler crane demand. At both locations, Kobelco intends to strengthen its competitiveness by increasing the local procurement of parts and quickly meeting the needs of local customers.

# KOBELCO VISION “G”
## KOBELCO’s Global Expansion

In KOBELCO VISION “G,” the “G” represents “Global,” “Group,” and “Growth.” By coming together as a unified Group, we seek to create new value and achieve global growth.

• **Number of Overseas Bases and Employees (As of May 2011)**


• **Approximate Number of Employees**

| | |
|---|---|
| Group employees | 35,000 |
| Locally hired employees (in China) | 9,000 (3,400) |
| Group’s expatriate employees (in China) | 400 (100) |

• **Major Overseas Bases (82 in Total)**

| | China | Asia | North America | Europe |
|---|---|---|---|---|
| Materials (Iron and Steel, Welding, Aluminum and Copper) | 10 | 14 | 5 | 1 |
| Natural Resources and Engineering | 1 | — | 1 | — |
| Machinery, Construction Machinery, Cranes | 21 | 11 | 6 | 2 |
| Other | 3 | 2 | 5 | — |
| Total | 35 | 27 | 17 | 3 |

Welding Business

1 KOBELCO WELDING INDIA PVT. LTD.

**Established sales company for welding business**

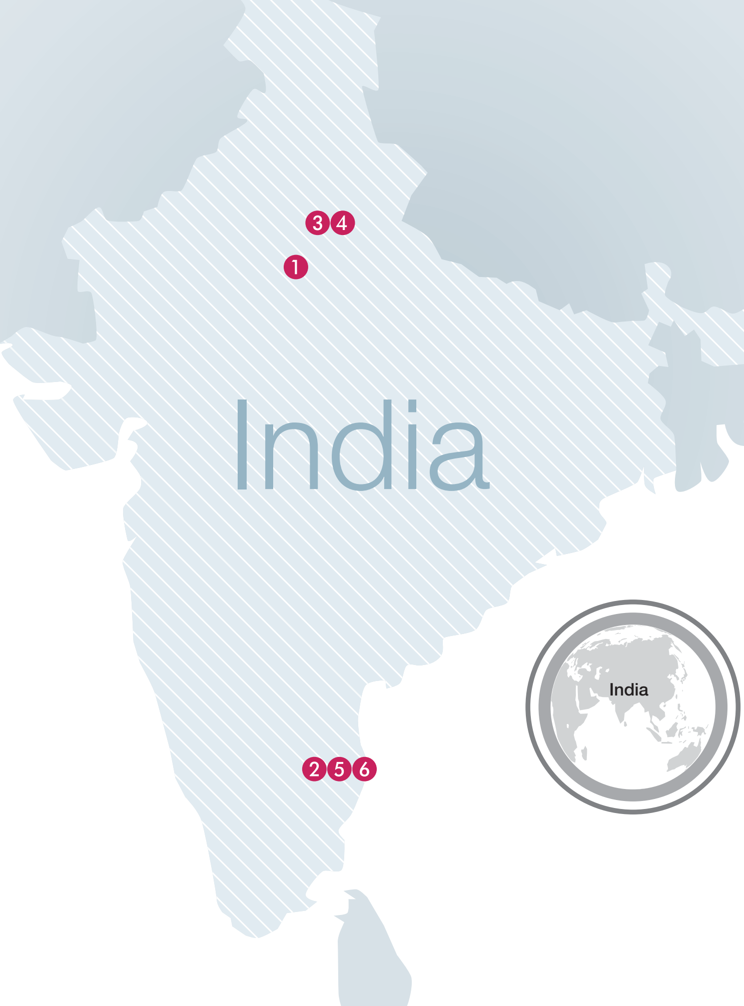
Kobe Steel established a new company that sells welding consumables and provides sales support and maintenance services for welding robot systems.

Machinery Business

### 2 L&T KOBELCO MACHINERY PRIVATE LIMITED

**Established base for tire and rubber machinery**

In a joint venture with Larsen & Toubro Limited, a major Indian company involved in industrial machinery, we established a manufacturing and sales company for rubber mixers and rubber twin screw rollerhead extruders used in tire and rubber manufacturing. With the addition of the new company, Kobe Steel will have production bases in four countries: Japan, the United States, India and China.




Natural Resources and Engineering Business

### 3 Kobe Steel, SAIL sign comprehensive MOU

Seeking to put low-grade iron ore to effective use, Steel Authority of India Limited (SAIL), a state-run company, and Kobe Steel are carrying out a feasibility study for a commercial ITmk3® project. The ITmk3® Process is a new ironmaking technology developed by Kobe Steel.

Kobelco Eco-Solutions

### 4 JINDAL ITF KOBELCO ECO LIMITED

**Established joint venture in water treatment business**

Kobelco Eco-Solutions will develop its water treatment business in India by leveraging its technological and engineering capabilities and operation and maintenance management know-how in the water treatment field with Jindal's information network in India and its project implementation know-how.

Kobelco Construction Machinery

### 5 KOBELCO CONSTRUCTION EQUIPMENT INDIA PVT. LTD.

**New excavator plant starts operation**

A new plant for 20-ton-class hydraulic excavators commenced full operation with an annual production capacity of 1,200 units.


Kobelco Cranes

### 6 KOBELCO CRANES INDIA PVT. LTD.

**Established new company in crawler crane business**

A groundbreaking ceremony was held for the new crawler crane plant in the state of Andhra Pradesh, India. Production is scheduled to begin from November 2011.

## ❶ KOBELCO (CHINA) HOLDING CO., LTD.

**Established HQ to oversee Chinese market**

With the goal of increasing the Group's collective strength and profitability in China, Kobe Steel established a holding company to oversee the Chinese market and handle investments in that country. Other activities include centralized financing and cash management, strengthening group governance, supporting Group companies in China, and promoting Groupwide communication in the expanding Chinese market.


Welding Business

## ❷ KOBE WELDING OF SHANGHAI CO., LTD.

**Commenced operation of sales company**

Kobe Steel commenced operation of Kobe Welding of Shanghai Co., Ltd., which sells high value-added welding consumables and welding robot systems as well as provides maintenance and services.


Welding Business

## ❸ KOBE WELDING OF TANGSHAN CO., LTD.

**Expanded capacity for solid welding wire**

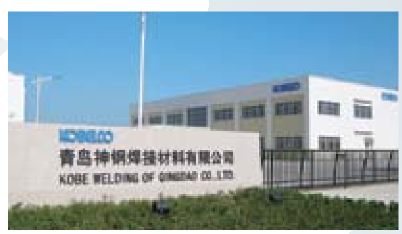
Kobe Welding of Tangshan Co., Ltd., which manufactures and markets solid welding wire for use in construction machinery and other applications, invested in expanding its production capacity.

Welding Business

## ❹ KOBE WELDING OF QINGDAO CO., LTD.

**Expanded capacity for flux-cored welding wire**

Kobe Steel expanded production capacity at Kobe Welding of Qingdao Co., Ltd., which manufactures and markets flux-cored welding wire for mild steel, primarily for use in the shipbuilding industry.



Aluminum and Copper Business

## ❺ KOBE ALUMINUM AUTOMOTIVE PRODUCTS (CHINA) CO., LTD.

**Established base for aluminum forged parts**

Kobe Steel established a manufacturing and sales company for aluminum forgings for automobile suspensions, which is scheduled to begin operation in August 2012. With the new company, Kobe Steel will have production bases in three countries: Japan, the United States and China.


Machinery Business

❼ KOBELCO COMPRESSORS MANUFACTURING (SHANGHAI) CORPORATION

**Expanded capacity for compressors**

Kobelco raised annual production capacity for standard compressors by approximately 60%, from 2,200 units to 3,500 units.

Kobelco Construction Machinery

❽ CHENGDU KOBELCO CONSTRUCTION MACHINERY CO., LTD.

❾ HANGZHOU KOBELCO CONSTRUCTION MACHINERY CO., LTD.

**Raising hydraulic excavator production capacity**

In response to growing demand in China, production capacity at the Chengdu and Hangzhou plants is scheduled to be increased to 25,000 units per year (total production of both facilities) in 2012.

Machinery Business

❻ WUXI COMPRESSOR CO., LTD.

**Invested in Chinese compressor manufacturer**

To meet the growing demand for process gas compressors (non-standard compressors) in China, Kobe Steel acquired a 44.3% equity share of Wuxi Compressor Co., Ltd., a Chinese compressor manufacturer. Kobe Steel will provide new technology to Wuxi Compressor and work to expand sales in China.

Kobelco Cranes

❿ CHENGDU KOBELCO CRANES CO., LTD.

**Established base for crawler crane business**

To reinforce its business efforts in China, the world's largest crawler crane market, Kobelco Cranes decided to begin local production. Production will commence from August 2012 with a focus on 250-ton ultra-large crawler cranes, a class in which it excels.

Iron and Steel Business

## ❶ PRO-TEC COATING COMPANY

**New project in automotive steel sheet business**

Kobe Steel and United States Steel Corporation reached an agreement to install a Continuous Annealing Line to produce cold-rolled high-strength steel for use in automobiles at their joint venture company, PRO-TEC. With an increasing need for both collision safety performance and greater fuel efficiency from lighter car bodies, demand for cold-rolled high-strength steel for use in automobiles is expected to increase in North America. Start-up of the new line is targeted for early 2013.


Machinery Business

## ❷ KOBELCO COMPRESSORS AMERICA, INC.

**Expanded capacity of non-standard compressors**

Kobe Steel increased production capacity at Kobelco EDTI Compressors, Inc., a U.S. manufacturer of non-standard compressor systems, with the addition of a new plant. The head office was subsequently moved to the new plant and full operations have commenced at the facility. Production capacity has been increased from an output of \$50 million per year to \$100 million per year. With the relocation, the company name was changed to Kobelco Compressors America, Inc.

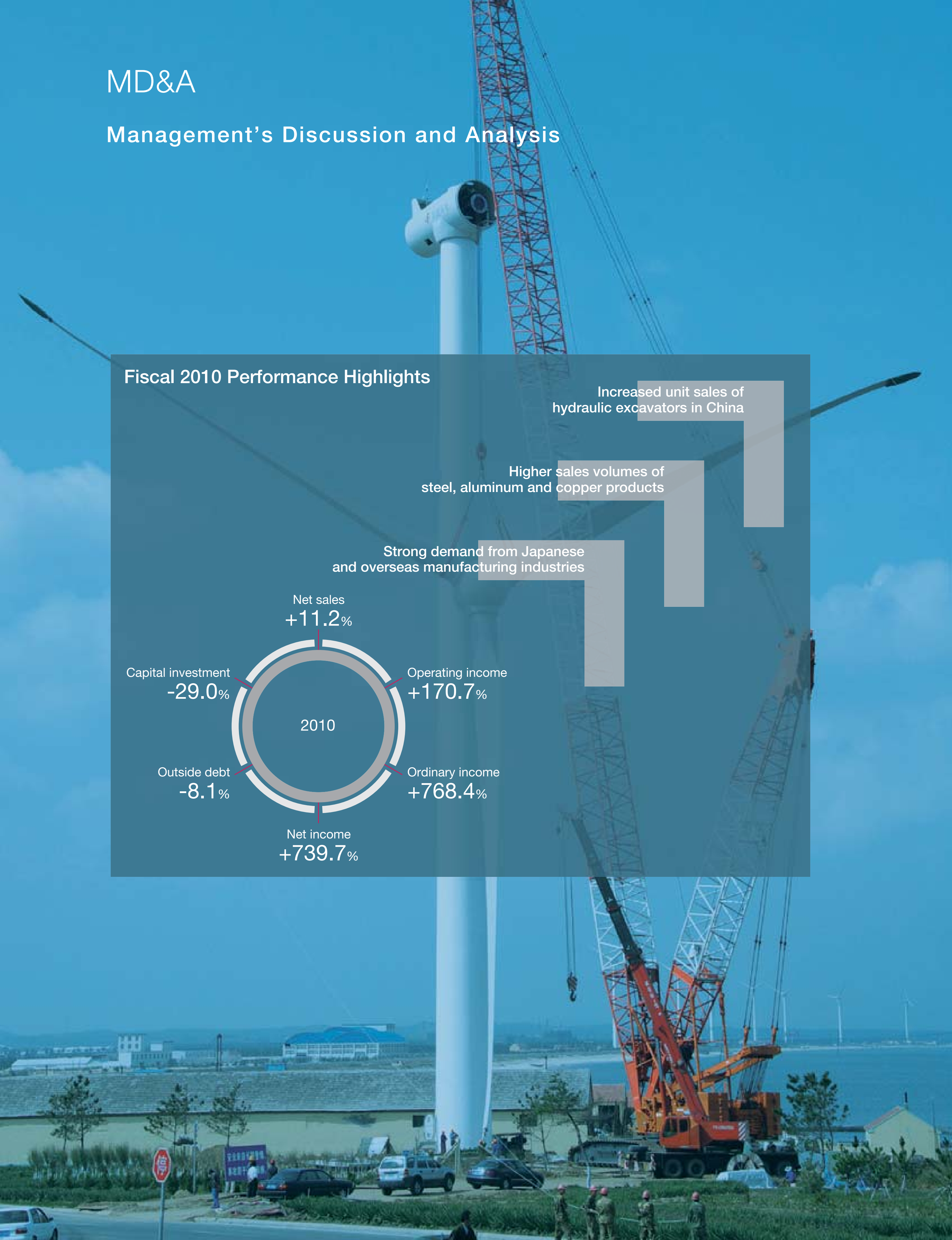
Natural Resources and Engineering Business

## ❸ Developed new ironmaking technology business

A joint venture between Kobe Steel and Steel Dynamics, Inc., a U.S. EAF steelmaker, is operating the world's first commercial plant to use the ITmk3® Process. The plant in Hoyt Lakes, Minnesota, USA began production last year. Based on the plant's operating performance to date and the improvements underway, we are confident of successfully achieving the results we expect from the project. We are also confident that the ITmk3® Process will contribute to the global steel industry through the supply of high-grade iron units.

# MD&A

## Management's Discussion and Analysis



# Consolidated Ten-Year Summary

| | Millions of yen | | | |
|---|---|---|---|---|
| Years ended March 31 | 2002 | 2003 | 2004 | 2005 |
| **For the year:** | | | | |
| Net sales | ¥1,198,014 | ¥1,204,750 | ¥1,219,180 | ¥1,443,772 |
| Cost of sales | 1,022,195 | 1,001,418 | 993,394 | 1,140,422 |
| Operating income | 35,499 | 81,054 | 100,699 | 166,577 |
| Ordinary income (loss) | (13,549) | 35,442 | 50,789 | 116,028 |
| Net income (loss) | (28,519) | 1,723 | 22,066 | 51,289 |
| Cash flows from operating activities | 59,110 | 115,692 | 104,041 | 225,751 |
| Cash flows from investing activities | (36,482) | 27,021 | (86,381) | (50,543) |
| Cash flows from financing activities | (36,815) | (174,997) | (35,754) | (163,945) |
| Capital investment | 132,420 | 43,971 | 104,911 | 66,016 |
| Depreciation and amortization | 86,915 | 85,090 | 79,245 | 80,290 |
| Research and development expenses | 22,054 | 17,797 | 16,929 | 19,700 |
| **At year end:** | | | | |
| Total assets | 2,045,303 | 1,902,642 | 1,916,338 | 1,901,202 |
| Net assets (Note 2) | 280,685 | 293,138 | 330,127 | 379,213 |
| Outside debt | 1,081,897 | 895,883 | 797,041 | 669,241 |
| Outside debt including IPP project financing | 1,152,397 | 966,383 | 931,891 | 811,572 |
| **Per share data:** | | | | |
| Net income (loss) (yen/U.S. dollars (Note 1)) | ¥ (10.07) | ¥ 0.59 | ¥ 7.44 | ¥ 17.28 |
| Diluted net income (yen/U.S. dollars (Note 1)) | — | — | 7.38 | 16.48 |
| Net assets (yen/U.S. dollars (Note 1)) | 97.97 | 98.96 | 111.24 | 127.80 |
| Cash dividends (yen/U.S. dollars (Note 1)) | — | — | 1.50 | 3.00 |
| **Ratios:** | | | | |
| Operating income ratio (%) | 3.0 | 6.7 | 8.3 | 11.5 |
| Ordinary income (loss) ratio (%) | (1.1) | 2.9 | 4.2 | 8.0 |
| ROA (%) | (1.4) | 0.1 | 1.2 | 2.7 |
| ROE (%) | (10.5) | 0.6 | 7.1 | 14.5 |
| Equity ratio (%) | 13.7 | 15.4 | 17.2 | 19.9 |
| Debt/equity ratio (times) | 3.7 | 3.0 | 2.5 | 1.8 |
| Dividend payout ratio (%) | — | — | 20.2 | 17.4 |
| Number of shares issued (in thousands) | 2,867,550 | 2,974,550 | 2,976,070 | 2,976,070 |
| Number of employees | 26,978 | 26,765 | 26,179 | 27,067 |

Notes: 1. For convenience only, U.S. dollar amounts in this report have been translated from Japanese yen amounts at the rate of 83.15 to US$1.00, the rate of exchange prevailing on March 31, 2011.

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

| | | Millions of yen | | | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|---|---|---|
| 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | Change 2011/2010 | 2011 |
| ¥1,667,313 | ¥1,910,296 | ¥2,132,406 | ¥2,177,290 | ¥1,671,022 | ¥1,858,574 | 11.2% | $22,352,063 |
| 1,297,291 | 1,543,158 | 1,757,342 | 1,890,318 | 1,475,461 | 1,570,779 | 6.5 | 18,890,908 |
| 220,395 | 208,624 | 202,399 | 116,934 | 46,016 | 124,551 | 170.7 | 1,497,907 |
| 176,933 | 183,279 | 157,919 | 60,876 | 10,259 | 89,083 | 768.4 | 1,071,353 |
| 84,559 | 109,669 | 88,923 | (31,438) | 6,305 | 52,940 | 739.7 | 636,681 |
| 198,181 | 172,786 | 124,317 | 118,200 | 172,893 | 177,795 | — | 2,138,244 |
| (94,215) | (128,557) | (187,381) | (127,405) | (120,324) | (96,687) | — | (1,162,802) |
| (93,593) | (48,823) | 31,155 | 138,700 | (29,641) | (98,196) | — | (1,180,951) |
| 92,319 | 133,649 | 150,585 | 118,044 | 128,739 | 91,378 | (29.0) | 1,098,954 |
| 79,507 | 86,687 | 111,514 | 128,701 | 118,835 | 114,820 | (3.4) | 1,380,878 |
| 24,121 | 24,893 | 30,139 | 31,029 | 28,255 | 29,833 | 5.6 | 358,785 |
| | | | | | | | |
| 2,074,242 | 2,241,570 | 2,329,006 | 2,295,489 | 2,249,346 | 2,231,533 | (0.8) | 26,837,438 |
| 530,000 | 636,432 | 647,797 | 513,461 | 557,002 | 597,368 | 7.2 | 7,184,221 |
| 589,101 | 621,227 | 713,352 | 855,972 | 837,770 | 769,840 | (8.1) | 9,258,449 |
| 720,909 | 742,276 | 823,404 | 954,791 | 925,120 | 845,484 | (8.6) | 10,168,178 |
| | | | | | | | |
| ¥ 27.94 | ¥ 35.37 | ¥ 29.63 | ¥ (10.47) | ¥ 2.10 | ¥ 17.63 | 739.8 | $ 0.21 |
| 27.25 | — | — | — | — | — | — | — |
| 170.65 | 194.46 | 199.81 | 159.58 | 172.09 | 182.81 | 6.2 | 2.20 |
| 6.00 | 7.00 | 7.00 | 3.50 | 1.50 | 3.00 | 100.0 | 0.04 |
| | | | | | | Points | |
| 13.2 | 10.9 | 9.5 | 5.4 | 2.8 | 6.7 | 3.9 | |
| 10.6 | 9.6 | 7.4 | 2.8 | 0.6 | 4.8 | 4.2 | |
| 4.1 | 4.9 | 3.8 | (1.4) | 0.3 | 2.4 | 2.1 | |
| 18.6 | 19.5 | 14.9 | (5.8) | 1.3 | 9.9 | 8.6 | |
| 25.6 | 26.4 | 25.8 | 20.9 | 23.0 | 24.6 | 1.6 | |
| 1.2 | 1.2 | 1.3 | 1.7 | 1.6 | 1.4 | (0.2) | |
| 21.5 | 19.8 | 23.6 | — | 71.4 | 17.0 | (54.4) | |
| 3,115,061 | 3,115,061 | 3,115,061 | 3,115,061 | 3,115,061 | 3,115,061 | — | |
| 29,068 | 31,828 | 33,657 | 33,526 | 33,629 | 34,772 | 1,143 | |

# Management's Discussion and Analysis

## Analysis of Operating Results

**Net sales**
¥1,858.6 billion
+11.2%

**Operating income**
¥124.6 billion
+170.7%

**Ordinary income**
¥89.1 billion
+768.4%

**Net income**
¥52.9 billion
+739.7%

| | Billions of yen | | |
|---|---|---|---|
| | 2010 | 2011 | Change |
| Net sales | 1,671.0 | 1,858.6 | +11.2% |
| Operating income | 46.0 | 124.6 | +170.7% |
| Ordinary income | 10.3 | 89.1 | +768.4% |
| Net income | 6.3 | 52.9 | +739.7% |

In fiscal 2010, Japan's economy, on the whole, continued to gradually recover as overseas economies improved, although the third quarter saw a slowdown in the pace of recovery due to a retrenchment in economic measures and the effect of the strong yen. In overseas markets, too, the Chinese economy expanded and the United States and Europe continued to gradually recover.

In this economic environment, the Kobe Steel Group achieved higher sales volume of steel products and aluminum and copper rolled products compared with the previous fiscal year, owing to strong demand from domestic and overseas manufacturing industries. In addition, unit sales of hydraulic excavators increased considerably over the previous fiscal year due to growing demand in China.

As a result, consolidated net sales in the fiscal 2010 climbed ¥187.6 billion, year on year, to ¥1,858.6 billion, operating income rose ¥78.5 billion, to ¥124.6 billion, and ordinary income jumped ¥78.8 billion, to ¥89.1 billion. Net income increased ¥46.6 billion, to ¥52.9 billion.

## Analysis of Cash Flows

**Cash flows from operating activities**
¥177.8 billion
+4.9 billion

**Cash flows from investing activities**
-¥96.7 billion
+23.6 billion

**Free cash flows**
¥81.1 billion
+28.5 billion

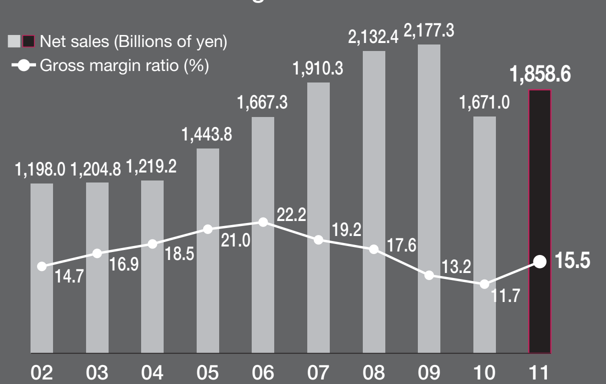
**Cash flows from financing activities**
-¥98.2 billion
-68.6 billion

Net cash provided by operating activities was ¥177.8 billion. Net cash used in investing activities amounted to ¥96.7 billion, while net cash used in financing activities was ¥98.2 billion.

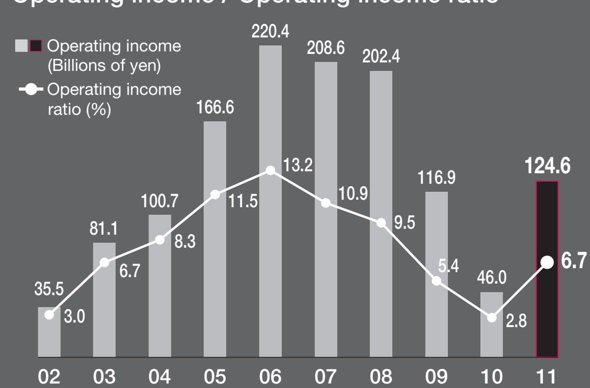
Consequently, cash and cash equivalents at the end of the fiscal year under review, including the effect of exchange rate changes, amounted to ¥189.7 billion, a decease of ¥22.0 billion from the previous fiscal year-end.

Cash flows in consolidated fiscal 2010 were as follows.

**Net sales / Gross margin ratio**




**Operating income / Operating income ratio**



### Cash Flows from Operating Activities

Although income before income taxes increased, higher inventories increased the strain on working capital, which resulted in net cash provided by operating activities of ¥177.8 billion, largely unchanged from that of the previous fiscal year.

### Cash Flows from Investing Activities

Net cash used in investing activities decreased ¥23.6 billion, to ¥96.7 billion due to such factors as reduced spending on intangible assets and plant and equipment.

### Cash Flows from Financing Activities

Net cash used in financing activities was ¥98.2 billion due to such factors as a decrease in proceeds of ¥68.6 billion from long-term debt and the issuance of bonds.

| | Billions of yen | | |
|---|---|---|---|
| | 2010 | 2011 | Difference |
| Cash and cash equivalents at end of year | 211.7 | 189.7 | -22.0 |
| Cash flows from operating activities | 172.9 | 177.8 | +4.9 |
| Cash flows from investing activities | (120.3) | (96.7) | +23.6 |
| Cash flows from financing activities | (29.6) | (98.2) | -68.6 |

## Analysis of Financial Condition

**Total assets**

¥2,231.5 billion

-0.8%

**Net assets**

¥597.4 billion

+7.2%

**Equity ratio**

24.6%

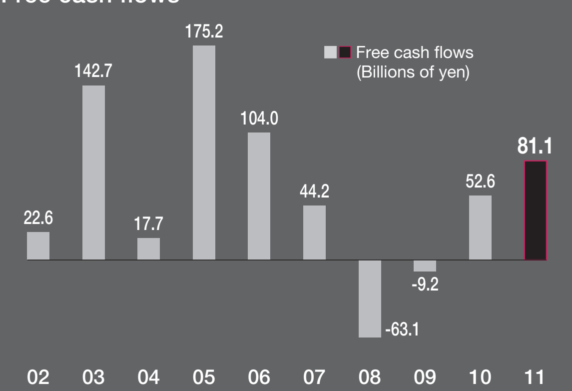
+1.6 points

While cash and cash equivalents and inventories increased, plant and equipment and investments in securities decreased. As a result, total assets at the end of fiscal 2010 declined ¥17.8 billion compared with the end of fiscal 2009, to ¥2,231.5 billion. Net assets increased ¥40.4 billion, to ¥597.4 billion, as retained earnings increased. As a result, the equity ratio at the end of fiscal 2010 was 24.6%, increasing 1.6 percentage points from the end of fiscal 2009.

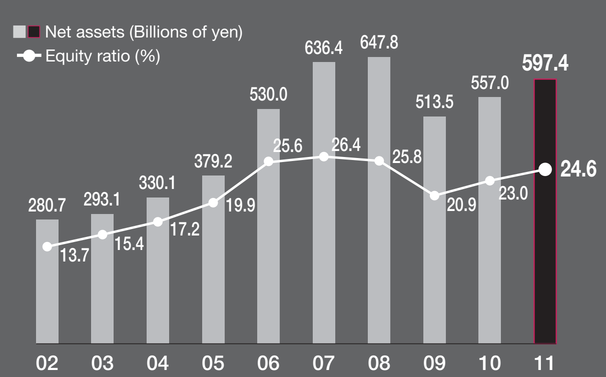
At the end of fiscal 2010, outside debt, which includes IPP project financing, decreased ¥79.6 billion, to ¥845.5 billion.

| | Billions of yen | | |
|---|---|---|---|
| | 2010 | 2011 | Change |
| Total assets | 2,249.3 | 2,231.5 | -0.8% |
| Net assets | 557.0 | 597.4 | +7.2% |
| Equity ratio (%) | 23.0 | 24.6 | +1.6 points |
| Outside debt including IPP project financing | 925.1 | 845.5 | -8.6% |

### Free cash flows




### Net assets / Equity ratio



# Iron and Steel Business

| Net sales | +13.2% | Ordinary income | +48.4 billion | Ordinary income ratio | (—) |
|---|---|---|---|---|---|
| | ¥840.4 billion | | ¥23.7 billion | | 2.8% |

## Fiscal 2010 Overview

With steel demand from manufacturing industries in Japan and abroad remaining strong overall, the sales volume for steel products increased year on year in fiscal 2010. Product sales prices exceeded those of fiscal 2009 due to higher raw material prices.

Sales of steel castings and forgings fell below those of fiscal 2009, as demand from the shipbuilding industry declined. In contrast, sales of titanium products surpassed those of fiscal 2009 thanks to customer inventory reductions.

As a result, segment sales climbed 13.2% year on year, to ¥840.4 billion. Due partly to higher inventory valuation, ordinary income rose ¥48.4 billion, to ¥23.7 billion.

| | Billions of yen | | |
|---|---|---|---|
| | 2010 | 2011 | Change |
| Net sales | 742.1 | 840.4 | +13.2% |
| Ordinary income (loss) | -24.7 | 23.7 | — |

## TOPICS

### Kobe Steel Establishes Joint Venture to Produce Aircraft Parts Using State-of-the-Art Forging Press

Kobe Steel, Hitachi Metals, Ltd., IHI Corporation, and Kawasaki Heavy Industries, Ltd., jointly established Japan Aeroforge, Ltd. in January 2011 to manufacture large forgings for use in aircraft and power plants. The installation of Japan's first 50,000-metric-ton forging press will enable the manufacture of large forgings that in the past could not be done in Japan. The joint venture will enable the stable domestic production of large titanium forgings, for which global demand is expected to rise. In the future, Japan Aeroforge also plans to supply forgings to overseas aircraft manufacturers to meet the growing global demand. When Japan Aeroforge goes into production, Kobe Steel will throw its full support behind the new business and contribute to the development of Japan's aircraft industry.

### Kobe Steel and U.S. Steel to Build New Production Line for Automotive Steel

In December 2010, Kobe Steel and United States Steel Corporation (U.S. Steel) reached an agreement to build a continuous annealing line (CAL) to produce high-strength steel for use in automobiles at their joint venture, PRO-TEC Coating Company, to meet growing demand in North America. Through PRO-TEC, Kobe Steel and U.S. Steel have been supplying hot-dipped galvanized high-strength steel sheet to automakers in North America. This material contributes to reducing the weight of the car body, particularly the underbody. To meet the needs of Japanese transplants for cold-rolled advanced high-strength steel (AHSS) sheet in the upper car body to further strengthen the overall vehicle structure, Kobe Steel will provide its advanced engineering know-how developed in Japan over the years to PRO-TEC, thereby enabling the local production of steel sheet of the same quality and grade available in Japan.

### Kobe Steel Completes 10,000-metric-ton Forging Press

In July 2010, Kobe Steel completed construction begun in 2008 of a 10,000-metric-ton forging press line at its Takasago Works in Hyogo Prefecture to strengthen the competitiveness of the Steel Casting and Forging Division. The new press is designed to produce large and long steel forgings at some of the world's highest speeds and with high precision. As one of the world's top-class forging presses, the new press is capable of manufacturing nearly all varieties of large forged products for ships.

With the completion of the new press, Kobe Steel currently has a total of three free-forging presses. Forged products for ships will be manufactured mainly by the new press and the existing 4,000-metric-ton press. Ultra-large forgings that require higher forging capacity will be made by the 13,000-metric-ton-press. The three presses enable Kobe Steel to achieve an optimum production system capable of making forged products of numerous sizes.

Completed new press line

# Welding Business

| Net sales | +2.1% |
|---|---|
| | ¥77.8 billion |

| Ordinary income | +165.6% |
|---|---|
| | ¥4.6 billion |

| Ordinary income ratio | +3.7 points |
|---|---|
| | 5.9% |

## Fiscal 2010 Overview

The sales volume of welding consumables increased year on year, especially in overseas markets, thanks to strong demand in Asia, including China, Southeast Asia and South Korea. Demand for welding robot systems in China's construction machinery market was solid.

As a result, fiscal 2010 sales in this segment climbed 2.1% year on year, to ¥77.8 billion, while ordinary income rose ¥2.9 billion, to ¥4.6 billion.

| | Billions of yen | | |
|---|---|---|---|
| | 2010 | 2011 | Change |
| Net sales | 76.2 | 77.8 | +2.1% |
| Ordinary income | 1.7 | 4.6 | +165.6% |

## TOPICS

### Strengthening Business in China — Providing Welding Solutions

Kobe Welding of Shanghai Co., Ltd., which sells welding consumables and welding systems in Shanghai and opened in April 2010, has set up a space within its facility to demonstrate welding robot systems to customers. To meet growing demand in China, Kobe Steel has expanded production capacity at Kobe Welding of Tangshan Co., Ltd., which makes solid welding wires, and Kobe Welding of Qingdao Co., Ltd., a flux-cored welding wire manufacturer. Kobe Steel is taking a number of steps in China to strengthen its competitive edge and develop its welding solutions business. These include increasing customer orders, improving business efficiency, increasing its market hold, and training staff to support its local business activities.

Welding robot system demonstration space at Kobe Welding of Shanghai Co., Ltd. The new space provides welding solutions to the Chinese market.

### Breaking into Emerging Market — New Welding Firm in India

In June 2011, Kobelco Welding India Pvt., Ltd. (KWI) was established in Gurgaon, in the state of Haryana. To meet rising demand, especially from new infrastructure projects, Kobe Steel formed KWI to gain orders for high value-added welding consumables in the energy field and to provide total welding support. KWI will also coordinate with operations in Southeast Asia.

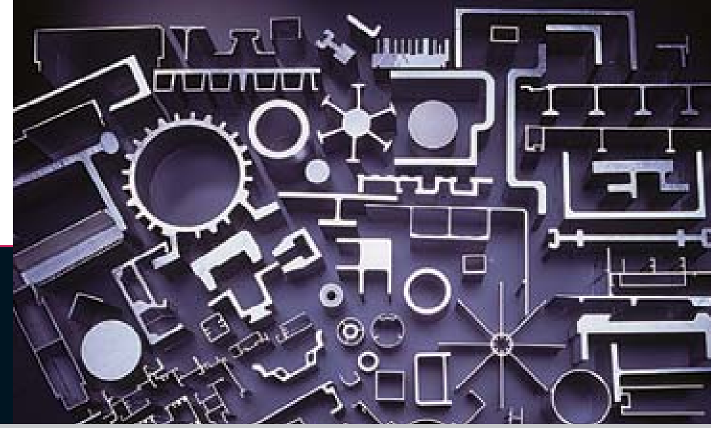
### Thai Supreme Court Upholds Kobe Steel's Trademark Protection

During the Welding Business's more than 40-year presence in the ASEAN region, the company name of "KOBE STEEL," and its trademark of "RB-26" have become widely recognized. Kobe Steel filed a lawsuit with the Central Intellectual Property and International Trade Court of Thailand against a local distributor of counterfeit goods, charging that the counterfeit Kobe Steel welding consumables were causing confusion in the market. In 2007, the court reached a verdict charging the defendant with infringement of Kobe Steel's trademark. Under final appeal, the Supreme Court of Thailand upheld the lower court's decision. Kobe Steel's firm stance is a stern warning to all potential infringers that illegal acts will not be tolerated.


### Developing Solutions for Welding Processes

The REGARC™ space-saving welding system for core columns and connections, which Kobe Steel began marketing in 2010, reduces spatter in carbon dioxide welding by one-tenth over existing welding systems. Greatly inhibiting spatter by optimizing droplet transfer, REGARC™ makes it possible to weld at high speeds, even when the welding power source is reduced.

Kobe Steel will continue to work to include REGARC™ in welding systems including those for large assemblies and construction machinery, and will pursue product development that leads to customer solutions.



# Aluminum and Copper Business

**Net sales** +16.1%
**¥304.0 billion**

**Ordinary income** +563.8%
**¥14.8 billion**

**Ordinary income ratio** +4.0 points
**4.9%**

## Fiscal 2010 Overview

The sales volume of aluminum rolled products and sales of aluminum castings and forgings exceeded those of the previous fiscal year, thanks mainly to strong demand for their use in automobiles, air conditioners, LCDs and semiconductor manufacturing equipment.

Demand for copper sheet and strip fell off from the third quarter due to inventory adjustments, mainly in the semiconductor industry. However, demand continued to be firm throughout fiscal 2010. Also, demand for copper tube for use in air conditioners was higher owing to the summer heat wave. As a result, the sales volume for copper rolled products exceeded those of the previous fiscal year.

As a result of the foregoing, as well as higher ingot prices, which were passed on as higher product prices, sales in this segment surged 16.1% year on year, to ¥304.0 billion, while ordinary income jumped ¥12.6 billion, to ¥14.8 billion.

| | Billions of yen | | |
|---|---|---|---|
| | 2010 | 2011 | Change |
| Net sales | 261.8 | 304.0 | +16.1% |
| Ordinary income | 2.2 | 14.8 | +563.8% |

### TOPICS

**Kobe Steel Exhibits at Aluminum China 2010 — Asia's largest aluminum industry exhibition**

In June 2010, Kobe Steel exhibited at Aluminum China 2010 (Shanghai Aluminum Industry Exhibition), held in Shanghai. Last year marked the sixth year of Aluminum China, Asia's largest aluminum industry exhibition. Approximately 320 companies from 30 countries exhibited and nearly 10,000 visitors attended the three-day exhibition. Our exhibit consisted mainly of "Only One" products and technologies in the fields of automobile, IT and aircraft, attracting significant interest from many visitors.

# Machinery Business

**Net sales** -11.1%
**¥154.5 billion**

**Ordinary income** -30.4%
**¥14.5 billion**

**Ordinary income ratio** -2.6 points
**9.4%**

## Fiscal 2010 Overview

Capital investments in the automotive, oil refining, and petrochemical industries recovered modestly, causing machinery orders to increase compared with the previous fiscal year.

Due to the above factors, orders in this segment climbed 41.4% year on year, to ¥140.8 billion, while the backlog of orders was ¥152.2 billion at the end of the fiscal year.

However, segment sales slipped 11.1%, to ¥154.5 billion, compared with fiscal 2009, in which there were a large number of sales of heavy-wall pressure vessels used in the oil refining industry. Ordinary income decreased ¥6.3 billion, to ¥14.5 billion.

Billions of yen

| | 2010 | 2011 | Change |
|---|---|---|---|
| Net sales | 173.8 | 154.5 | -11.1% |
| Ordinary income | 20.9 | 14.5 | -30.4% |

### TOPICS

#### Kobe Steel Establishes Base in India for Tire and Rubber Machinery Business

In November 2010, Kobe Steel established L&T Kobelco Machinery Private Limited as a joint venture with Larsen & Toubro Limited (hereafter, “L&T”), a major engineering and construction company in India. With automobile production in India rapidly increasing, more tire plants are being constructed and demand is expected to rise. L&T is India’s leading maker of tire curing presses and possesses a strong sales network in India, as well as Europe and the Middle East. The new joint venture will fully leverage this network to expand sales in India, Europe, the Middle East and other regions.

#### Expansion of Standard Compressor Factory in Shanghai

Kobe Steel has increased the production capacity of standard compressors at Kobelco Compressors Manufacturing (Shanghai) Corporation (KCMS) from 2,200 units to 3,500 units. Demand for standard compressors is growing in China and exports are gaining momentum in Asian countries including Thailand, Malaysia and Vietnam. Kobe Steel plans to steadily meet this demand. In July 2011, we completed an additional factory assembly line. The expansion will beef-up our capacity to supply China and Southeast Asia and expand our business while reducing production costs.

Expanded production capacity at KCMS

# Natural Resources and Engineering Business

| Net sales | -2.0% | ¥64.3 billion |
|---|---|---|
| **Ordinary income** | -35.6% | ¥3.1 billion |
| **Ordinary income ratio** | -2.5 points | 4.7% |

## Fiscal 2010 Overview

Orders in fiscal 2010 exceeded those of the previous fiscal year, thanks primarily to an order for a large direct reduction plant.

As a result, orders in fiscal 2010 increased 87.0% year on year, to ¥75.3 billion. At the end of the fiscal year, the backlog of orders stood at ¥95.7 billion.

Segment sales in fiscal 2010 remained almost unchanged from the previous fiscal year at ¥64.3 billion. However, ordinary income decreased ¥1.7 billion, to ¥3.1 billion owing to the difference in the type of orders received.

| | Billions of yen | | |
|---|---|---|---|
| | 2010 | 2011 | Change |
| Net sales | 65.6 | 64.3 | -2.0% |
| Ordinary income | 4.7 | 3.1 | -35.6% |

## TOPICS

### Kobe Steel and India's SAIL Sign MOU for Comprehensive Strategic Collaboration

In November 2010, Kobe Steel and India's public-sector company, Steel Authority of India Limited (SAIL), signed a memorandum of understanding (MOU) for comprehensive collaboration covering technologies, projects and other areas for the purpose of building a mutually beneficial relationship in the iron and steel business in the booming India market, where growth potential is high, and in other regions.

Kobe Steel and SAIL had previously begun a feasibility study for a joint venture that would utilize Kobe Steel's ITmk3® ironmaking process. With both companies sharing a desire to further develop the relationship, a comprehensive MOU was signed and products, technologies and projects that could promote cooperation between them are being examined.

SAIL is India's largest steelmaker and has numerous iron ore and coal mines. Kobe Steel possesses world-class technologies for producing high value-added steel products, as well as for raw material processing and iron unit production including pellets, direct reduced iron and the ITmk3® ironmaking process. Both companies intend to build a cooperative relationship covering a wide range of fields, from upstream to downstream processes, which will enable them to mutually explore collaborative efforts and ventures in India and the global market.

### Kobe Steel Receives Plant Order from Bahrain Steel Company

Kobe Steel was awarded a contract to supply a MIDREX® Direct Reduction Plant with an annual capacity of 1.5 million metric tons to Bahrain's United Steel Company (SULB). Under the full turnkey project, Kobe Steel is responsible for all phases of the project from the design to the equipment supply, construction, and start up of the direct reduction plant.

### South Korea's First AGT System Commences Operation

Busan Metro Line 4, South Korea's first automated guideway transit (K-AGT)* system, which Kobe Steel helped develop, commenced operation in March 2011.

The new transit system is a fully automated rubber-tired guideway transit system that has attracted much attention in South Korea as the first project to develop and commercialize a light rail system in that country.

In charge of the train line's system engineering, Kobe Steel played a role in coordinating the development of the entire system, from the delivery of signal equipment to system operation training, key components in the new transit system. Through its work on the project, Kobe Steel has contributed to controlling traffic congestion in the city of Busan and making life more convenient for local residents.

* (K-AGT: KOREA AUTOMATED GUIDEWAY TRANSIT)

Light rail national development project of a new unmanned transit system in South Korea

# Kobelco Eco-Solutions

| Net sales | -16.0% | ¥69.6 billion |
|---|---|---|
| Ordinary income | +90.0% | ¥3.1 billion |
| Ordinary income ratio | +2.5 points | 4.5% |

## Fiscal 2010 Overview

Consolidated results in fiscal 2010 were mixed. Orders increased 11.0% compared with the previous fiscal year to ¥64.9 billion due largely to an order for the upgrading and operation of the Nishiakigawa Sanitation Association's waste treatment facility. Sales, on the other hand, declined 16.0% year on year to ¥69.6 billion. From a profit perspective, ordinary income surged 90.0% to ¥3.1 billion owing mainly to firm trends in the after-sales service field. Net income increased 89.0% compared with the previous fiscal year to ¥1.8 billion.

Billions of yen

| | 2010 | 2011 | Change |
|---|---|---|---|
| Net sales | 82.9 | 69.6 | -16.0% |
| Ordinary income | 1.7 | 3.1 | +90.0% |

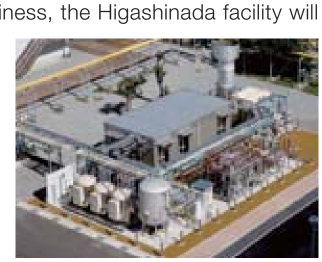
## TOPICS

### Japan Injects Sewage Biogas into City Gas Pipes

Kobelco Eco-Solutions Co., Ltd. has completed construction of a gasification facility for refining biogas derived from sewage sludge at Kobe City's Higashinada Sewage Treatment Plant to the same quality as city gas used in homes. Working with Kobe City and Osaka Gas Co., Ltd., the company began injecting sewage biogas in city gas pipes in October 2010. Initially, it expects to supply 800,000 cubic meters of biogas annually, or the equivalent of 2,000 households.

Biogas is a combustible gas that is generated when biomass, such as sewage sludge and food residue, undergoes methane fermentation. As it is a carbon neutral energy, it shows great promise for use in reducing the consumption of fossil fuels.

With the start up of this business, the Higashinada facility will be able to make 100% effective use of biogas.



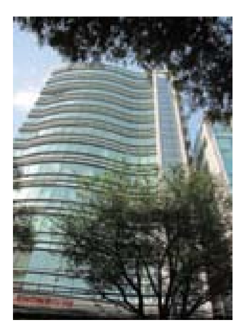
### Order Received for Nishiakigawa Waste Treatment Facility

In March 2011, Kobelco Eco-Solutions, together with Kobelco Eco-Maintenance Co., Ltd., ANDO Corporation, and Takahashi Ueda Associates Co., Ltd., received an order to upgrade and operate the Nishiakigawa Sanitation Association's waste treatment facility. This Design-Build-Operate project entails the full gamut of contracting services from designing and building to operating the facility over a 20-year period. The company's fluidized-bed gasification and melting furnace was selected because of its safety, stability and economic efficiency, as well as its superior ability to recycle waste to reduce final disposal, a major issue, and its high rate of heat recovery. Looking ahead, Kobelco Eco-Solutions will target more orders by harnessing the strength of its technological capabilities nurtured as the leading Japanese manufacturer of this type of facility.

### Vietnam Subsidiary Established

In November 2010, Kobelco Eco-Solutions established Kobelco Eco-Solutions Vietnam Co., Ltd., a subsidiary in Ho Chi Minh City. With overseas expansion positioned as one of its basic policies in its medium-term vision for fiscal 2015, Kobelco Eco-Solutions is expanding its water treatment business in Asia, mainly in Vietnam. Numerous new facilities have been planned for Vietnam including steel plants, electric power stations, food processing factories, and water supply and sewage systems. Kobelco Eco-Solutions converted its Vietnam office into a subsidiary to meet the vigorous demand for water treatment.

The Vietnam subsidiary intends to expand orders through carefully planned sales activities that include after-sales service. The subsidiary will also put in place a structure that will enable it to carry out projects to further increase earnings and expand business.




# Kobelco Construction Machinery

| Net sales | +45.9% | ¥313.1 billion |
|---|---|---|
| Ordinary income | +375.2% | ¥26.3 billion |
| Ordinary income ratio | +5.8 points | 8.4% |

## Fiscal 2010 Overview

In fiscal 2010, unit sales of hydraulic excavators in China, a major market, were substantially higher than in fiscal 2009. Unit sales also increased in Southeast Asia, where demand continued to recover, and in Japan, where demand began to pick up. Furthermore, to strengthen its cost competitiveness, Kobelco Construction Machinery Co., Ltd. took steps to improve production efficiency and further reduce costs (value engineering) in Japan.

As a result, segment sales surged 45.9% year on year, to ¥313.1 billion, while ordinary income jumped ¥20.8 billion, to ¥26.3 billion.

| | Billions of yen | | |
|---|---|---|---|
| | 2010 | 2011 | Change |
| Net sales | 214.6 | 313.1 | +45.9% |
| Ordinary income | 5.5 | 26.3 | +375.2% |

## TOPICS

### Excavators with Auto Idle Stop (AIS) Function and Low-Noise Excavators with iNDr (Cooling System) are Registered in New Technology Information System (NETIS)

All of Kobelco Construction Machinery's excavators* with Auto Idle Stop (AIS) functions and eight of its low-noise excavators with iNDr (cooling system) have been registered in the Ministry of Land, Infrastructure, Transport and Tourism's New Technology Information System (NETIS).

* Excludes certain mini excavators, BOMAG products and special machines with magnet attachment.


### Hydraulic Excavator Plant in India Begins Full Operation

Subsidiary Kobelco Construction Equipment India Pvt. Ltd. held an opening ceremony at its newly constructed hydraulic excavator plant in the southeast Indian state of Andhra Pradesh on April 14, marking the start of full operation at the new facility. With a population nearly equal to that of China and a vast land area, India's economic growth has continued steadily, even after the Lehman Brothers collapse. Amid vigorous infrastructure development, hydraulic excavator demand has been increasing year by year. In fiscal 2010, hydraulic excavator demand stood at 11,000 units, approaching that of Japan. In fiscal 2015, demand is expected to reach 25,000 units. The new plant produces 20-ton-class hydraulic excavators and has a production capacity of 1,200 units per year.

### SK80 hybrid hydraulic excavator (SK80H-2) receives "Minister of the Environment Award for the Promotion of Measures to Cope with Global Warming" (Technology Development and Product Development Categories) for Fiscal 2010

Kobelco Construction Machinery's hybrid hydraulic excavator has achieved a 40% reduction in $CO_2$ through lower fuel consumption compared with existing models. Excavators are developed under the Group's comprehensive technology framework, which includes the cooperation of the Kobe Corporate Research Laboratories. Not only is Kobelco Construction Machinery's fuel consumption reduction technology being used in hybrid hydraulic excavators, it is also being fully used in standard hydraulic excavators. For example, our 20-ton-class excavators have 20% lower fuel consumption than conventional excavators. We are constantly working to achieve comprehensive $CO_2$ reductions in order to realize a low-carbon society.

# Kobelco Cranes

Net sales
¥41.0 billion
-25.8%

Ordinary income
-¥1.4 billion
-¥2.6 billion

## Fiscal 2010 Overview

Except for a few Asian countries, demand was slow, resulting in lower unit sales than in fiscal 2009.

As a result, segment sales declined 25.8% year on year, to ¥41.0 billion. Ordinary income dropped ¥2.6 billion, year on year, resulting in an ordinary loss of ¥1.4 billion.

| | Billions of yen | | |
|---|---|---|---|
| | 2010 | 2011 | Change |
| Net sales | 55.2 | 41.0 | -25.8% |
| Ordinary income (loss) | 1.2 | -1.4 | — |

## TOPICS

### Kobelco Cranes Enters Crawler Crane Business in China

In March 2010, Group subsidiary Kobelco Cranes Co., Ltd. decided to begin local production in China to strengthen its business in the world's largest crawler crane market. Kobelco Cranes will thereby become the first Japanese crawler crane manufacturer to begin production in China. It has set an annual production target of 80 cranes, or nearly 7% of crawler crane demand in China, by 2015. With this production facility, the Kobelco Group becomes the world's first manufacturer to produce hydraulic excavators and crawler cranes in China and India, both massive markets.


### Groundbreaking Ceremony for New Crawler Crane Plant in India

In March 2011, Kobelco Cranes held a groundbreaking ceremony for a new crawler crane factory in the state of Andhra Pradesh, India. The new plant is Kobelco Crane's first overseas production base. Kobelco is also the first foreign mobile crane manufacturer in India — among the world's major crane makers of Japan, the United States and Europe — to have a fully owned crawler crane plant in that country. Production is slated to begin from November 2011. By maximizing the advantages of local production in India, a market where further growth in demand is expected, Kobelco Cranes seeks to capture a greater share of market demand and firmly establish a local presence.

### Kobelco Cranes Exhibits at CONEXPO 2011 — One of the World's Three Largest Construction Machinery Exhibitions

In March 2011, CONEXPO 2011, the largest construction machinery exhibition in the United States, and one of the three largest in the world, was held in Las Vegas. The event attracted exhibitors from more than 2,400 companies from 150 countries and 120,000 visitors. Kobelco Cranes unveiled its new CK-G Series for North America, featuring an engine that meets with new environmental regulation standards. Kobelco also exhibited its new CK1100G and CK2750G models, both of which attracted a great deal of visitor interest.

# Other Businesses

| Net sales | -15.7% | ¥65.6 billion |
|---|---|---|
| Ordinary income | +110.1% | ¥6.5 billion |
| Ordinary income ratio | +5.9 points | 9.9% |

### Fiscal 2010 Overview

At Shinko Real Estate Co., Ltd., segment sales dropped 15.7% year on year, to ¥65.6 billion, due to fewer handovers of condominiums in the real estate business. However, ordinary income increased ¥3.4 billion year on year, to ¥6.5 billion, mainly from a rebound in demand from the transport and electronics industries in the testing and analysis business of Kobelco Research Institute, Inc.

| | Billions of yen | | |
|---|---|---|---|
| | 2010 | 2011 | Change |
| Net sales | 77.8 | 65.6 | -15.7% |
| Ordinary income | 3.1 | 6.5 | +110.1% |

### TOPICS

Shinko Real Estate Co., Ltd.

In May 2011, Shinko Real Estate Co., Ltd. completed construction of G-Clef Mikage-Shiro-no-Mae, the first eco-project property from the G-Clef housing brand to incorporate eco-friendly equipment, specifications and design under the slogan "Home, People, ECO." Shinko Real Estate will continue to promote and provide eco-friendly properties.

G-Clef Mikage-Shiro-no-Mae

Kobe Harbor Tower (Kaigandori, Chuo-ku, Kobe), a tower condominium that Shinko Real Estate, Kanden-Fudosan Co., Ltd. and Orix Real Estate Corporation are involved in, commenced sales in May 2011.

- The building utilizes a dual frame system, a new technology that provides superior vibration control compared with conventional earthquake-proof structures.
- The condominium has 35 floors above ground, a total of 300 units, guest rooms and a common lounge. It was built under the supervision of the Italian fashion brand DIESEL.

Kobe Steel has been commissioned with the building management (facility management, security and cleaning) of the Kobe City Medical Center General Hospital, scheduled to open in July 2011. This is a PFI project that is primarily managed by Kobe Steel.

Shinko Industrial Co., Ltd.

**High-purity ammonia containers with mirror-like interior surface finishing maintain ammonia gas purity**

High-purity ammonia is vital to the manufacturing of LEDs, which are being increasingly used in LCD backlight units in PCs, TVs and other products. In recent years, with semiconductor manufacturing plants being moved to China, there is an emerging need for large containers to safely replenish, transport and supply high-purity ammonia gas to China in a stable manner.

Shinko Industrial Co., Ltd. has created high-purity ammonia containers using barrel finishing. A polishing agent is placed within the steel container and as the container is rotated, the agent grinds the interior, thereby removing imperfections from the surface of the container's inner surface. Shinko Industrial has recently begun shipping these containers for high-purity ammonia to China.

High-purity ammonia containers are vital to LED manufacturing.

# R&D and Intellectual Property Activities

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

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

## R&D Activities

### Materials Research Laboratory

The Materials Research Laboratory (MRL) 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 to optimize manufacturing processes. For machinery-related businesses, MRL focuses on creating differentiated products utilizing its expertise in materials. MRL also strives to develop new businesses based on high value-added products.

### Mechanical Engineering Research Laboratory

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.

### Production Systems Research Laboratory

The Production Systems Research Laboratory (PSRL) actively innovates production technologies to strengthen the Group's manufacturing capabilities by utilizing cutting-edge technologies for instrumentation and inspection, control, production planning, information system and signal processing.

### Electronics Research Laboratory

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

### 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 de-ashing, 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.

## Recent R&D Achievements

### Structural Analysis of Materials at Atomic Level Helps Create New Products and Technologies

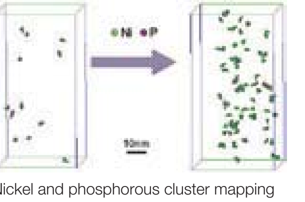
Kobe Steel has developed a method of atomic-level analysis of microstructures that determine the performance of metals. If the element distribution of a metal is clearly known, the cost of high-functional materials can be lowered and additional high-functional materials can be developed.

We have introduced a three-dimensional atom probe that can evaluate the cubic distribution of atoms. When metal to be examined is formed into a needle-like shape and high voltage is applied at an extremely low temperature, atoms on the surface of the sample become ionized and isolated. Using the varying time-of-flight that it takes for different elements to reach the detector, we can determine the three-dimensional distribution of elements in the metal sample.

So far, copper alloy used in terminals in cars has been examined using this technique. With demand for terminals growing due to more automobile electrical components, these alloys are being more frequently used in high-temperature environments such as engine rooms. Thus, more demanding levels of heat resistance are required to ensure terminal reliability. Through three-dimensional atom probe analysis, it was discovered that heat resistance varies substantially depending on the difference in the number of nickel and phosphorous clusters (atom aggregates) in the copper alloy.

Kobe Steel will continue to pursue R&D on developing high-strength steel, speciality steel, high-strength aluminum alloys and other products that contribute to creating lighter cars.


Three-dimensional atom probe



Nickel and phosphorous cluster mapping

### Excavator Development Accelerates Energy-Savings

In recent years, with environmental problems emerging and calls for energy conservation, there has been a growing demand for fuel-efficient construction machinery.

The Mechanical Engineering Research Laboratory developed an analysis method based on SINDYS, a nonlinear dynamic analysis program developed by Kobe Steel, which can evaluate prior to test production the dynamic behavior and fuel consumption performance that occurs during the actual operation of a hydraulic excavator, a machine that intricately combines a hydraulically controlled system, a mechanical linkage system, and other systems. The lab also developed the HILS* evaluation technology, which combines the actual machine and analysis to evaluate performance. Through the application of these technologies, it was able to design and develop an efficient and effective low fuel consumption hydraulic excavator by selecting, effectively verifying, and improving measures proposed based on loss power contribution analysis during actual excavator operation.

Kobelco Construction Machinery's ACERA GEOSPEC, an excavator that complies with Tier III emission regulations, consumes 20% less fuel than existing excavators due to its complete reduction of hydraulic loss and optimized control of the hydraulic system and power source. We will develop additional energy-saving technologies with the goal of producing the next generation of energy-saving construction machinery.

* Hardware In the Loop Simulation: A technology that simulates with a high degree of accuracy the actual operating conditions of construction machinery on a benchmark testing machine by combining the actual machinery with the computer simulation, thereby enabling performance testing on individual machinery that approaches actual operating conditions.

ACERA GEOSPEC

HILS Performance Evaluation System

### Aluminum Alloy Thin Film with Heat Resistance of 600ºC

We are developing new alloy materials including aluminum alloy thin film as wiring material for LCD display substrates. Kobe Steel had developed an aluminum-neodymium alloy thin film that is heat resistant at 400ºC and serves as an industry standard material.

In this very same market, high-resolution displays as typified by those used in smartphones have recently been attracting attention. To achieve such high resolution, our only option was to use a metal thin film with a high melting point, as the temperature of the display manufacturing process had risen and a heat resistance of 600ºC was required in the wiring material. However, there were problems in terms of the high electrical resistivity and high material cost of high-melting-point metal. To solve this problem, the Electronics Research Laboratory developed aluminum alloy thin film with a heat resistance of 600ºC and electrical resistivity of less than half that of high-melting-point metal. By effectively adding multiple elements in the aluminum, we were able to achieve a heat resistance of 600ºC and a low electrical resistivity of 5.3μΩcm, less than half that of molybdenum and one-fifth that of tantalum.

Currently, display manufacturers are already at the evaluation stage of these new alloys. With the development of this aluminum alloy thin film, we have shifted our focus beyond the field of displays and have begun expanding into wiring material for fluorescent vacuum tubes and electrode material for power semiconductors. We will continue expanding into other fields where high-melting-point metal thin film is used.

## Intellectual Property Activities

### IP Management at the Product, Technology Level

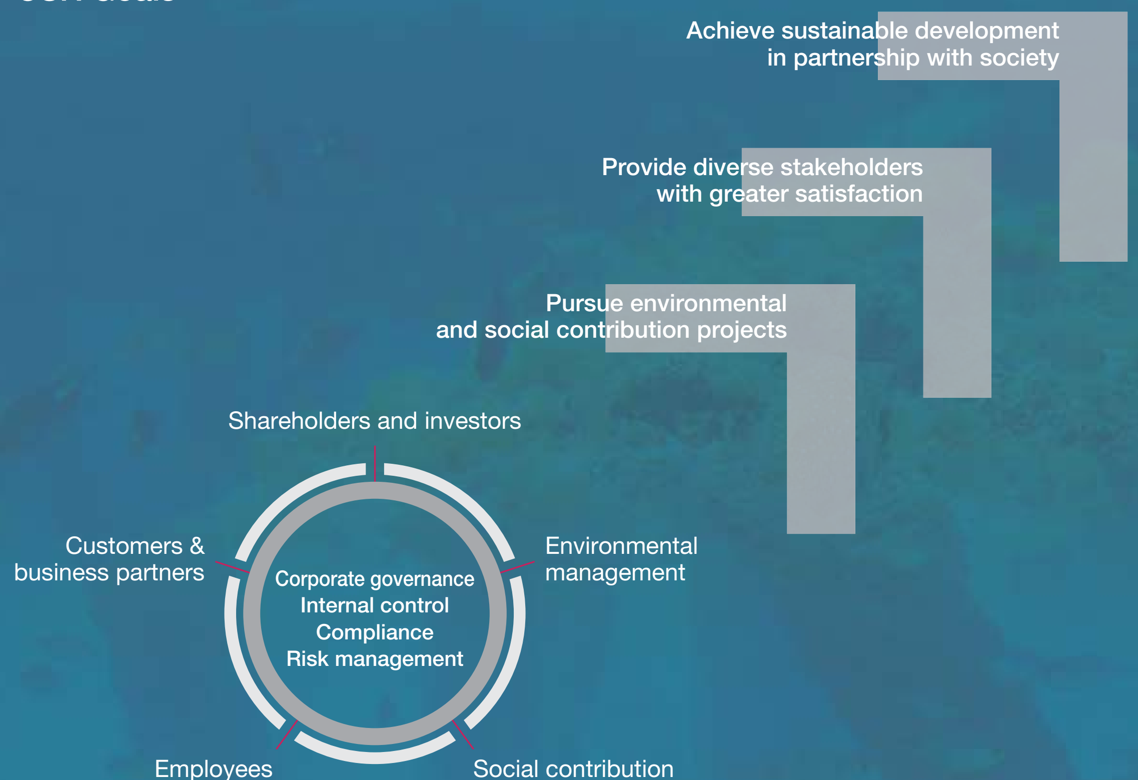
Strategic intellectual property activities are essential to the Kobe Steel Group's rigorous pursuit of high-end "Only One" products, one of the basic policies of KOBELCO VISION "G." In recent years, the importance of intellectual property has been growing and making it necessary for business divisions, R&D units and intellectual property departments to cooperate in a "barrier free" way, promoting communication throughout the Group. Further, there have been calls for a response to the increasing problems of counterfeit products in Asia and higher incidence of technological leakage from companies.

Amid this environment, the Group's IP activities have revolved around (1) promoting intellectual property management; (2) strengthening its global response; and (3) improving cooperation in the area of intellectual property throughout the Group. Most importantly, with regard to intellectual property management for individual products and technologies, we are moving forward on utilizing a new intellectual property management system and constructing a patent network in Japan and abroad.

### Overview of Fiscal 2010

In fiscal 2010, Kobe Steel received nearly 620 new patents in Japan, primarily to protect "Only One" products, which now gives the Company approximately 4,500 total patents. Moreover, as a result of the globalization of its business, Kobe Steel is strengthening its application of new patents overseas, especially in Asia, which now account for almost 30% of its total number of patent applications.

## CSR Goals


Achieve sustainable development
in partnership with society
Provide diverse stakeholders
with greater satisfaction
Pursue environmental
and social contribution projects
Shareholders and investors
Customers &
business partners
Environmental
management
Corporate governance
Internal control
Compliance
Risk management
Employees
Social contribution

# Corporate Social Responsibility

We at the Kobe Steel Group are keenly aware of our corporate social responsibility (CSR), an important element of Group management. We therefore pursue various environmental and social-contribution projects based on our Corporate Code of Ethics. Committed to strengthening our compliance measures and protecting the environment, we will continue to develop along with society by providing our diverse stakeholders with greater levels of satisfaction.

### CSR Promotion System

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

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

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

## Corporate Governance

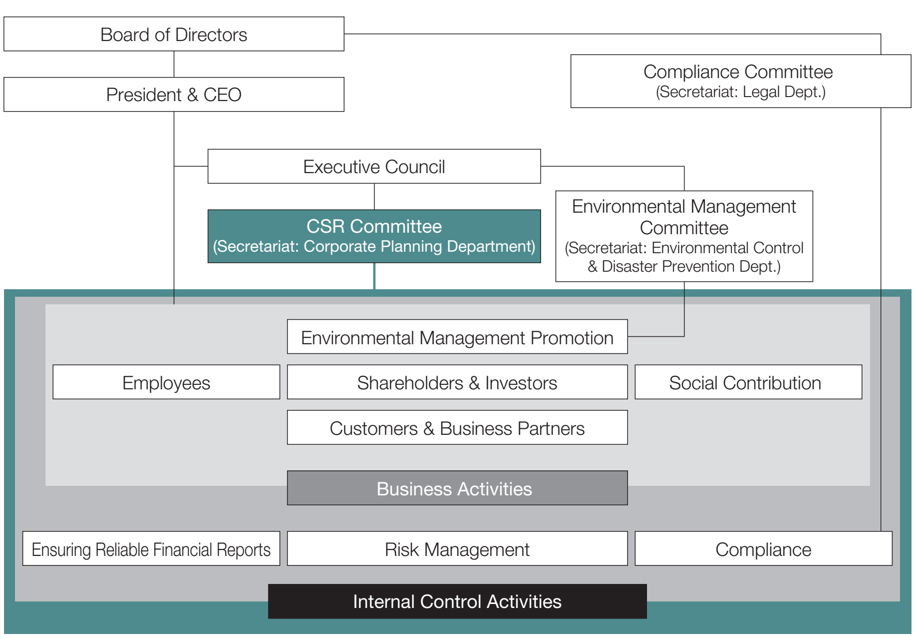
With its operating environment undergoing major changes, Kobe Steel is being strongly urged to increase its self-monitoring capability and take on even greater responsibility than before. It is therefore keenly aware that it cannot survive nor raise its corporate value without strictly adhering to rules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

### Corporate Governance

**Basic Concept of Corporate Governance**

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

**CSR Promotion Structure**



## Board of Directors and Corporate Auditors

### Structure of the Board of Directors

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

### Structure of the Board of Corporate Auditors

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

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

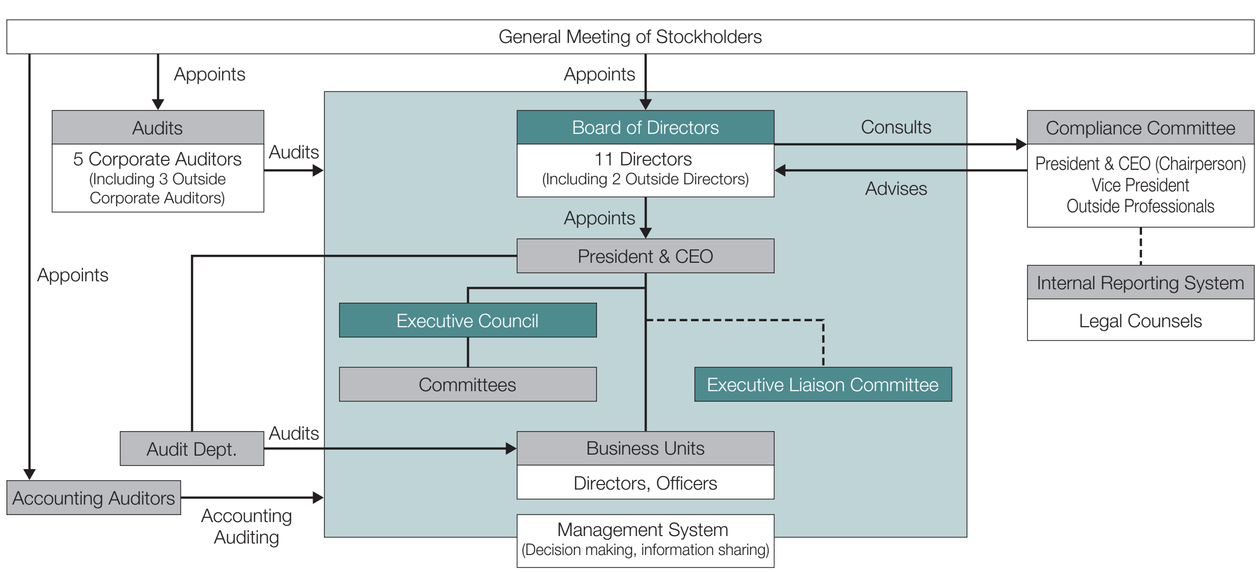
## Business Execution Structure

### Directors and Corporate Officers

Appointed by shareholders at the General Meeting of Stockholders, directors who have legal responsibilities to shareholders, business partners and other stakeholders play a central role in business execution and control the business operations of principal business divisions. Corporate officers, under the leadership of the directors, are responsible for the conduct of business affairs, and therefore occupy an important position at Kobe Steel. Although not constituting a legal body, officers of the Company are elected by the Board of Directors and carry out duties that the president assigns to them.

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.

### Corporate Governance



#### Management System

In 1999, Kobe Steel adopted an internal company management system to increase profitability in each business unit and to implement structural reforms through the selection and focus of management resources. However, in order to adapt to changing times, the Kobe Steel Group shifted to a business unit system in April 2010, recognizing the importance of transcending boundaries between business units to maximize advantages from the Group's diverse businesses and reinforce Groupwide collaboration.

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

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

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

## Internal Audits, Corporate Auditors and Accounting Audit System

### Internal Audits

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

### Accounting Audits

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

### Coordination between Internal Audits, Corporate Audits and Accounting Audits

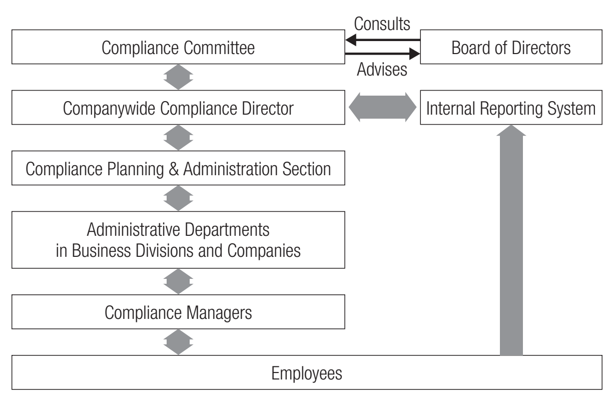
Corporate auditors routinely meet with accounting auditors to closely collaborate through the exchange of views about the audit system, the audit plan and audit status. Also, when necessary, corporate auditors accompany accounting auditors on their audits of business sites and receive timely reports 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 about the status of internal control system implementation, including compliance and risk management status, and the audit results, thereby enabling them to conduct efficient audits.

## Compliance Initiatives

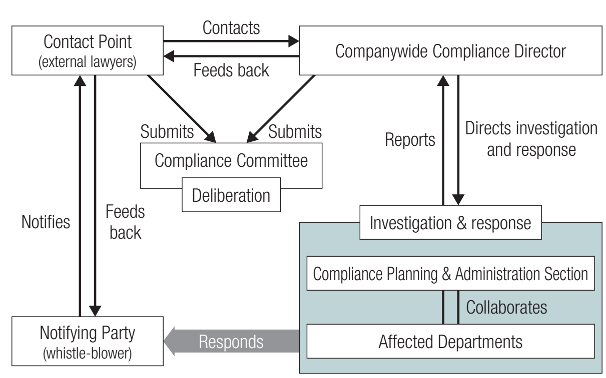
### Compliance Committee

The Compliance Committee was established as an advisory body to the Board of Directors and undertakes a wide range of initiatives. 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 Kobe Steel a better company. The Corporate Code of Ethics consists of the Corporate Ethical Principles and Standards of Corporate Conduct. Major Group companies have also formulated similar policies.

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

From Kobe Steel's Corporate Code of Ethics:

**Kobe Steel will:**

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

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


### Risk Management Activities

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

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

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

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

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

### Group Company Compliance System

Each Kobe Steel Group company has established a Compliance Committee, 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. Group companies also engage in risk management activities.

## Basic Policy for Parties Affecting Policy Decisions of Kobe Steel's Financial and Business Affairs (hereinafter, "Basic Policy on Corporate Control")

### Basic Policy

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

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

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

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

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

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

With the above in mind, Kobe Steel believes rules must be established whereby Large-Scale Purchasers are forced to provide to the Board of Directors in advance necessary and sufficient information in connection with the Large-Scale Purchase, and to initiate Large-Scale Purchases only after the expiry of a specific period of time for the examination and evaluation by the shareholders and the Board of Directors.

**Initiatives to Prevent Unsuitable Parties from Influencing Kobe Steel's Financial and Business Policy Decisions in Light of Its Basic Policy on Corporate Control**

At the General Meeting of Stockholders held on June 23, 2011, the following plan (hereinafter, "the Plan") to prevent Kobe Steel's financial and business policies from being controlled by parties deemed inappropriate was approved.

[Overview of the plan]

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

1. Providing Required Information

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

However, Kobe Steel shall not engage in operations that deviate from that aim, such as demanding that Large-Scale Purchasers provide information exceeding the standards necessary and sufficient for the shareholders, Board of Directors and Independent Committee of the Company to decide whether the Large-Scale Purchase is appropriate.

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 as well as outside directors of the Company.

3. Examination and Evaluation

After disclosing that it has received necessary and sufficient information and secured the periods of time listed below from such disclosure date, 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.

Examination and Evaluation Period

| | |
|---|---|
| In the case of a takeover bid of all of the Company's shares with Japanese yen in cash | 60 days |
| Other than that above | 90 days |

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

4. Initiation of Takeover Defense Measures

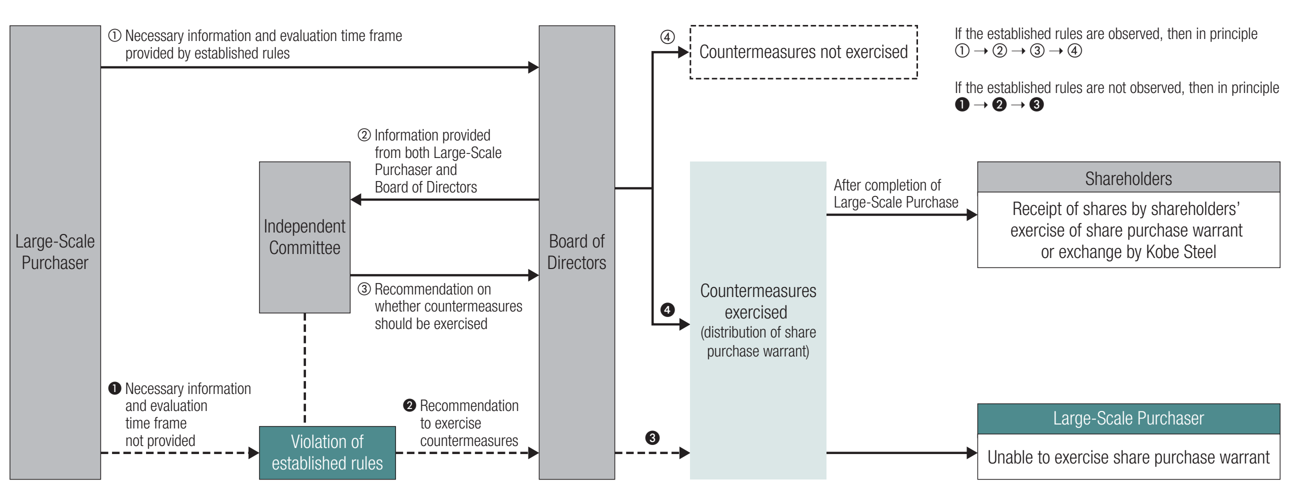
The Board of Directors decides whether to initiate takeover defense measures after giving serious consideration to the Independent Committee's report. The takeover defense measures involve the distribution of share purchase warrants to shareholders under certain terms and conditions, which include prohibiting the exercise of the share purchase warrants by Large-Scale Purchasers. 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.

5. Effective Term

The effective term lasts up to the time of the end of the first Board of Directors meeting to be held after the General Meeting of Stockholders, which is scheduled for June 2013.

Schematic Flow Diagram




Note: For details, please refer to the press release "Continuation of Kobe Steel, Ltd.'s Policy on Large-Scale Purchasing of its Shares (Anti-Takeover Measures)" released on April 27, 2011 on the Company's website (http://www.kobelco.co.jp/english).

## Business Risks

The Kobe Steel Group's business and financial situation include the factors discussed below 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, 2011.

### 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 the Kobe Steel Group. Meanwhile, overseas sales represented 35.8% of total sales in the fiscal year ended March 31, 2011, 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 changes in customs duties, import and export regulations, trade and taxes, and other statutory regulations could affect the Kobe Steel Group's performance.

Moreover, domestic and foreign companies in each of its product markets present the Kobe Steel Group with intense competition, which, in some circumstances, could affect the Group's performance.

### 2. Fluctuating Steel Volume and Prices

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

Domestic steel sales are broadly divided between contract sales, for which product volume and specifications are directly negotiated with customers before shipment, and spot sales of products that are shipped for use by unspecified customers. Nearly all of Kobe Steel's sales are of the contract variety. When the supply and demand balance for steel fluctuates, spot sales prices are more sensitive to the 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 30% 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 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 product prices. Nevertheless, when the spot prices of aluminum and copper ingots fluctuate wildly over the short term, the Kobe Steel Group's performance could be temporarily affected by inventory valuations.

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

### 4. Impact of Environmental Regulations

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

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

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

### 6. Litigation Risks

The Kobe Steel Group's business activities span a wide range of fields in Japan and abroad. In carrying out these activities, the Kobe Steel Group strives to observe the applicable laws, regulations and social norms, and is guided by business practices that are sound, fair and impartial. Nevertheless, whether or not there has been a violation of law or regulations by Kobe Steel Group companies or their employees, lawsuits could be filed in relation to 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 U.S. dollar-based transactions showing an import surplus in the fiscal year under review. As a short-term measure to protect against fluctuations in exchange rates, the Kobe Steel Group has taken out foreign exchange contracts. However, because of the difficulties in totally eliminating volatility risks, foreign exchange fluctuations could affect the Kobe Steel Group's performance.

#### (2) Interest Rate Fluctuations

Total outside debt for the Kobe Steel Group as of March 31, 2011 stood at ¥769.8 billion (¥845.5 billion, including project financing related to the wholesale power supply business). The majority of this debt is with fixed interest rates. However, interest rate fluctuations of debt with no fixed interest rates, and new borrowing, corporate bonds, etc. 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, 2011, the consolidated balance sheet amount for investment securities held by the Kobe Steel Group stood at ¥190.3 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 included in pension funds, and affect the Kobe Steel Group's performance.

#### (5) Recording of Deferred Income Taxes

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

#### (6) Decline in Value of Fixed Assets

If the value of fixed assets held by the Group 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, 2011.

## Environmental Management Promotion

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 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 is in place to address environmental management issues for the entire Group.

### Basic Environmental Management Policy

Further Enhancing Enterprise Value through Groupwide Environmental Management

—Improving the Group's Environmental Capabilities—

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

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

#### Group Environmental Management Promotion System

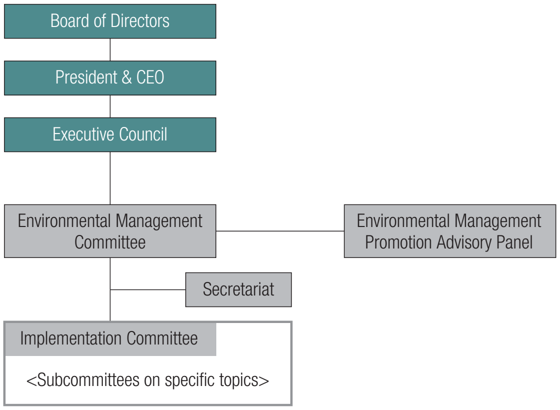
To promote Groupwide environmental management, Kobe Steel established the Environmental Management Committee as a body to review and recommend six principal initiatives based on its environmental management policies.

The Environmental Management Committee convenes once a year to confirm and evaluate the results of annual initiatives. It also defines which initiatives it will promote and then reports its recommendations to the Executive Council.

In particular, subcommittees have been set up to study specific issues that need to be implemented, and then action is taken to provide a swift and well-targeted response.

In addition, an Environmental Management Promotion Advisory Panel is convened when needed to serve as a conduit for relevant and timely advice received from outside academic experts.

**Group Environmental Management Promotion Structure**




### Measures against Global Warming

Today, companies are being urged to swiftly respond to the problem of global warming.

The Kobe Steel Group is tackling this issue by moving forward on R&D and rationalizing energy use through energy conservation, among other steps taken across its various business activities. The Group is working to achieve the goals of each industry's voluntary action plans as well as to further conserve energy and reduce $CO_2$ emissions.

#### Energy Conservation in Production Processes

In fiscal 2010, the Kobe Steel Group as a whole consumed 223PJ of energy. Of this amount, approximately 95% was used by the Iron and Steel segment, while nearly 4% was used by the Aluminum and Copper segment.

Each business segment has improved operations by installing highly efficient equipment, energy conservation measures using exhaust heat recovery, better combustion heat management and higher production efficiency.

## Contributions to Biodiversity

The Kobe Steel Group has organized its activities in the area of environmental management from a biodiversity perspective and established its own biodiversity guidelines. Key initiatives of the Kobe Steel Group are as follows.

### Kobelco's Biodiversity Guidelines

Recognizing the importance of maintaining biodiversity, the Kobe Steel Group promotes activities to preserve biodiversity under the following guidelines.

1. Realizing that our business activities impact biodiversity, we will continuously work to reduce that impact.
2. We will develop products, technologies and services that contribute to biodiversity.
3. We will publicly disclose our biodiversity initiatives and share them with society at large.
4. We will promote biodiversity-related activities in cooperation with local communities.
5. All employees will act with strong biodiversity awareness.

**Kobe Steel was recognized as one of "100 Corporate Greenspaces Helping to Preserve Biodiversity."**

### Nadahama Science Square Biotope

Kobe Steel's community exchange facility, "Nadahama Science Square," was recognized as one of "100 Corporate Greenspaces Helping to Preserve Biodiversity," which was compiled nationwide by the Urban Green Fund. The awarding of this recognition was timed to coincide with the 10th Conference of the Parties (COP10).

Nadahama Science Square, which contains a biotope, works to preserve biodiversity. It regularly offers visits to local children to view natural life forms and collaborates with non-profit organizations (NPOs) and relevant experts. Despite being located in a harsh natural environment on reclaimed land along the seacoast, the biotope, which was able to restore the ecology along with rare plant and fish species, has been highly rated for its use as a place for local environmental education. Kobe Steel plans to carefully conserve this biotope.

Observation of diverse life forms

**Iron and steel byproducts nurture seaweed and fish.**

### New reef developed using iron and steel slag

In order to use iron and steel slag—byproducts in the production of iron and steel—as restorative material for preserving the environment, Kobe Steel, in collaboration with Shinko Slag Products Co., Ltd., Shinko Kenzai, Ltd., and Kobelco Research Institute, Inc., installed a steel reef in the areas surrounding the Ieshima islands (off the coast of Himeji in Hyogo Prefecture), the seawall on the north side of Kobe Airport, and Yonabaru Town in Okinawa Prefecture. Investigative research aimed at seaweed cultivation and improvement of fishing ground environments is now underway with the cooperation of industry, government and academia.

Expected benefits from restoring the marine habitat include the flourishing of seaweed, thanks to nutrients such as iron and minerals contained in iron and steel slag.

At the moment, everything is progressing smoothly with seaweed thriving and fish migrating to the steel reef.

Steel reef

Three months after (left) and six months after (right) reef was installed off the coast of Himeji in Hyogo Prefecture

**Protecting both people's safety and the river's ecosystem.**

### Construction of grid-type sediment control dams

Kobe Steel's grid-type sediment control sabo dams have been constructed at streams nationwide that are in danger of mudslides. By effectively trapping mudslides, we can protect people's lives. In recent years, from an environmental conservation perspective, grid-type sabo dams, which are in harmony with nature, have attracted much attention.

To keep the river flow unimpeded, grid-type sabo dams enable sediments to run off downstream and prevent the receding of coastlines and the erosion of riverbeds. Grid-type sabo dams have proven effective in preserving the ecosystems of aquatic organisms so that the free movement of fish is unimpeded. Kobe Steel is developing large-scale sabo dams with the goal of spreading their use.

Sediment control dam on Ikazawa River (Niigata Prefecture)

# Directors, Corporate Auditors and Corporate Officers (As of June 23, 2011)

President, Chief Executive Officer and Representative Director
Hiroshi Sato

## Head Office

Executive Vice Presidents and Representative Directors
Tomoyuki Kaya
Hiroaki Fujiwara

Senior Managing Director
Yuichi Seki

Senior Officers
Seiji Okita
Hiroya Kawasaki
Akira Kaneko
Masahiro Hanaoka

Officers
Yasuaki Sugizaki
Mitsugu Yamaguchi
Takafumi Morichi

## Iron and Steel Business

Executive Vice President and Representative Director
Ikuhiro Yamaguchi*

Senior Officers
Yoshinori Onoe
Akihiko Tsukamoto
Naoto Umehara
Shinya Miyawaki

Officers
Yukimasa Miyashita
Michihide Iwasa
Masahiro Kawase
Koji Fujii
Takashi Goto
Makoto Mizuguchi

## Welding Business

Senior Managing Director
Tsuyoshi Kasuya*

Senior Officer
Mitsuo Takamura

## Aluminum and Copper Business

Senior Managing Director
Tetsu Takahashi*

Executive Officer
Ryosuke Shimomura

Officers
Takahiko Sato
Yoriyuki Shibata

## Machinery Business

Executive Vice President and Representative Director
Kazuo Shigekawa*

Senior Officer
Kazuhide Naraki

Officer
Takao Ohama

## Natural Resources and Engineering Business

Executive Vice President and Representative Director
Takashi Matsutani*

Executive Officer
Jun Tanaka

Senior Officer
Shohei Manabe

## Outside Directors

Takao Kitabata
Takuo Yamauchi

## Corporate Auditors

Toshinori Okoshi
Jun Miyazaki
Yoshikazu Ikeda**
Shigeo Sasaki**
Takashi Okimoto**

* Head of the business unit
** Outside corporate auditor

# Financial Section

## Contents

Kobe Steel, Ltd. and Consolidated Subsidiaries

# Consolidated Balance Sheets

As of March 31, 2011 and 2010

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| ASSETS | 2011 | 2010 | 2011 |
| Current assets: | | | |
| Cash and time deposits (Note 15) | ¥ 145,875 | ¥ 131,939 | $ 1,754,360 |
| Notes and accounts receivable | | | |
| Trade and finance | 287,703 | 253,756 | 3,460,048 |
| Unconsolidated subsidiaries and affiliates | 56,456 | 56,317 | 678,966 |
| Other | 73,109 | 93,785 | 879,242 |
| Allowance for doubtful accounts | (571) | (819) | (6,867) |
| | 416,697 | 403,039 | 5,011,389 |
| Merchandise and finished goods | 131,139 | 126,812 | 1,577,138 |
| Work-in-process | 127,512 | 138,071 | 1,533,518 |
| Raw materials and supplies | 122,695 | 102,179 | 1,475,586 |
| Deferred income taxes (Note 13) | 21,584 | 32,194 | 259,579 |
| Other | 31,255 | 38,378 | 375,887 |
| Total current assets | 996,757 | 972,612 | 11,987,457 |
| Investments and other assets: | | | |
| Investments in securities (Note 5) | 141,317 | 145,975 | 1,699,543 |
| Investments in and advances to unconsolidated subsidiaries and affiliates | 67,470 | 52,389 | 811,425 |
| Long-term loans receivable | 5,790 | 8,187 | 69,633 |
| Other | 50,265 | 68,150 | 604,510 |
| Allowance for doubtful accounts | (3,129) | (3,886) | (37,631) |
| Total investments and other assets | 261,713 | 270,815 | 3,147,480 |
| Plant and equipment (Note 7): | | | |
| Land | 204,949 | 204,299 | 2,464,811 |
| Buildings and structures | 689,613 | 683,865 | 8,293,602 |
| Machinery and equipment | 2,063,261 | 2,030,009 | 24,813,722 |
| Construction in progress | 75,102 | 68,462 | 903,211 |
| | 3,032,925 | 2,986,635 | 36,475,346 |
| Less accumulated depreciation | (2,099,585) | (2,018,565) | (25,250,571) |
| Total plant and equipment | 933,340 | 968,070 | 11,224,775 |
| Intangible assets | 22,232 | 21,386 | 267,372 |
| Deferred income taxes (Note 13) | 17,491 | 16,463 | 210,354 |
| | ¥2,231,533 | ¥2,249,346 | $26,837,438 |

See accompanying notes.

| LIABILITIES AND NET ASSETS | Millions of yen 2011 | Millions of yen 2010 | Thousands of U.S. dollars (Note 1) 2011 |
|---|---|---|---|
| Current liabilities: | | | |
| Short-term borrowings (Note 7) | ¥ 80,443 | ¥ 108,475 | $ 967,444 |
| Current portion of long-term debt (Note 7) | 126,051 | 59,637 | 1,515,947 |
| Notes and accounts payable: | | | |
| Trade | 391,678 | 357,946 | 4,710,499 |
| Construction | 16,981 | 21,463 | 204,221 |
| Unconsolidated subsidiaries and affiliates | 94,898 | 86,384 | 1,141,287 |
| Other | 20,724 | 19,004 | 249,237 |
| | 524,281 | 484,797 | 6,305,244 |
| Current portion of lease obligations | 6,397 | 6,128 | 76,933 |
| Advances from customers | 38,597 | 49,430 | 464,185 |
| Customers' and employees' deposits | 19,849 | 17,318 | 238,713 |
| Income and enterprise taxes payable | 9,060 | 6,518 | 108,960 |
| Provision for loss on construction contracts | 8,884 | 2,778 | 106,843 |
| Provision for restructuring costs | 18 | 3,038 | 217 |
| Deferred income taxes (Note 13) | 2,281 | 2,059 | 27,432 |
| Other | 72,519 | 67,995 | 872,147 |
| Total current liabilities | 888,380 | 808,173 | 10,684,065 |
| Long-term liabilities: | | | |
| Long-term debt (Note 7) | 618,448 | 738,357 | 7,437,739 |
| Lease obligations | 36,453 | 41,969 | 438,400 |
| Employees' severance and retirement benefits (Note 17) | 29,346 | 33,248 | 352,928 |
| Provision for environmental measures | 2,497 | 2,780 | 30,030 |
| Deferred income taxes (Note 13) | 20,959 | 29,425 | 252,063 |
| Other | 38,082 | 38,392 | 457,992 |
| Total long-term liabilities | 745,785 | 884,171 | 8,969,152 |
| Contingent liabilities (Note 8) | | | |
| Net assets: | | | |
| Stockholders' equity: | | | |
| Common stock (Note 9) | 233,313 | 233,313 | 2,805,929 |
| Authorized — 6,000,000,000 shares | | | |
| Issued — 3,115,061,100 shares in 2011 | | | |
| Capital surplus (Note 9) | 83,125 | 83,125 | 999,699 |
| Retained earnings (Note 9) | 302,377 | 258,854 | 3,636,524 |
| Treasury stock, at cost: | | | |
| 114,026,072 shares in 2011 | (51,629) | (51,379) | (620,913) |
| | 567,186 | 523,913 | 6,821,239 |
| Accumulated other comprehensive income: | | | |
| Unrealized gains on securities, net of taxes | 19,743 | 22,529 | 237,438 |
| Unrealized gains or losses on hedging derivatives, net of taxes | 585 | 883 | 7,035 |
| Land revaluation differences, net of taxes | (4,757) | (4,867) | (57,210) |
| Foreign currency translation adjustments | (34,126) | (25,787) | (410,415) |
| | (18,555) | (7,242) | (223,152) |
| Minority interests | 48,737 | 40,331 | 586,134 |
| Total net assets | 597,368 | 557,002 | 7,184,221 |
| | ¥2,231,533 | ¥2,249,346 | $26,837,438 |

# Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income

Years ended March 31, 2011 and 2010

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Net sales | ¥1,858,574 | ¥1,671,022 | $22,352,063 |
| Cost of sales | (1,570,779) | (1,475,461) | (18,890,908) |
| Gross profit | 287,795 | 195,561 | 3,461,155 |
| Selling, general and administrative expenses (Note 11) | (163,244) | (149,545) | (1,963,248) |
| Operating income | 124,551 | 46,016 | 1,497,907 |
| Non-operating income (expenses): | | | |
| Interest and dividend income | 5,505 | 4,319 | 66,206 |
| Interest expense | (20,685) | (21,322) | (248,767) |
| Seconded employees' salaries, net of reimbursement | (10,474) | (11,629) | (125,965) |
| Foreign exchange loss | (4,233) | (1,614) | (50,908) |
| Equity in income of unconsolidated subsidiaries and affiliates | 3,078 | 1,808 | 37,017 |
| Other, net | (8,659) | (7,319) | (104,137) |
| | (35,468) | (35,757) | (426,554) |
| Ordinary income | 89,083 | 10,259 | 1,071,353 |
| Extraordinary income (losses): | | | |
| Gain on sale of securities | 2,166 | — | 26,049 |
| Compensation for removal | — | 7,419 | — |
| Loss on adjustment for changes of accounting standard for asset retirement obligations | (2,381) | — | (28,635) |
| Loss on impairment of fixed assets (Note 12) | — | (3,577) | — |
| | (215) | 3,842 | (2,586) |
| Income before income taxes and minority interests | 88,868 | 14,101 | 1,068,767 |
| Income taxes (Note 13): | | | |
| Current | 16,311 | 9,272 | 196,163 |
| Deferred | 3,069 | (8,266) | 36,909 |
| | 19,380 | 1,006 | 233,072 |
| Income before minority interests | 69,488 | 13,095 | 835,695 |
| Minority interests in income of subsidiaries | 16,548 | 6,790 | 199,014 |
| Net income | ¥ 52,940 | ¥ 6,305 | $ 636,681 |

| | Yen | | U.S. dollars (Note 1) |
|---|---|---|---|
| Per share | 2011 | 2010 | 2011 |
| Net income | ¥ 17.63 | ¥ 2.10 | $ 0.21 |
| Cash dividends applicable to the year | 3.00 | 1.50 | 0.04 |

See accompanying notes.

Effective from the year ended March 31, 2011, the Group has adopted the revised accounting standard, "Accounting Standard for Disclosure about Segments of an Enterprise and Related information" (Statement No. 17, revised by the Accounting Standards Board of Japan on March 27, 2009) and the revised guidance, "Guidance on Accounting Standard for Disclosure about Segments of an Enterprise and Related information" (Guidance No. 20, revised by the Accounting Standards Board of Japan on March 21, 2008).
The Group shows ordinary income (expenses) because ordinary income (expenses) is an important management indicator at the Group.
Ordinary income (expenses) means the indicator added (substracted) non-operating income (expenses) to operating income (expenses).

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Income before minority interests | ¥69,488 | ¥13,095 | $835,695 |
| Other comprehensive income: | | | |
| Unrealized gains or losses on securities, net of taxes | (2,578) | 21,951 | (31,004) |
| Unrealized gains or losses on hedging derivatives, net of taxes | (520) | 10,342 | (6,254) |
| Land revaluation differences, net of taxes | 50 | 27 | 601 |
| Foreign currency translation adjustments | (10,911) | 2,162 | (131,221) |
| Share of other comprehensive income related to affiliates | 45 | 330 | 541 |
| Total other comprehensive income | (13,914) | 34,812 | (167,337) |
| Total comprehensive income | ¥55,574 | ¥47,907 | $668,358 |
| Total comprehensive income attributable to: | | | |
| Equity holders of the parent | ¥41,636 | ¥37,493 | $500,733 |
| Minority interests | 13,938 | 10,414 | 167,625 |

See accompanying notes.

Kobe Steel, Ltd. and Consolidated Subsidiaries

# Consolidated Statements of Changes in Net Assets (Note 14)

Years ended March 31, 2011 and 2010

| | Thousands | Millions of yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares of common stock | Common stock (Note 9) | Capital surplus (Note 9) | Retained earnings (Note 9) | Treasury stock | Unrealized gains on securities, net of taxes | Unrealized gains or losses on hedging derivatives, net of taxes | Land revaluation differences, net of taxes | Foreign currency translation adjustments | Minority interests | Total |
| 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 |
| Net income | | | | 6,305 | | | | | | | 6,305 |
| Purchase of treasury stock | | | | | (43) | | | | | | (43) |
| Sale of treasury stock | | | | (60) | 91 | | | | | | 31 |
| Increase due to changes in scope of consolidation | | | | 48 | | | | | | | 48 |
| Adjustment to land revaluation | | | | 56 | | | | | | | 56 |
| Net changes in items other than stockholders' equity | | | | | | 22,081 | 7,149 | (30) | 1,932 | 6,012 | 37,144 |
| Net changes during the year | | | | 6,349 | 48 | 22,081 | 7,149 | (30) | 1,932 | 6,012 | 43,541 |
| Balance at March 31, 2010 | 3,115,061 | ¥233,313 | ¥83,125 | ¥258,854 | ¥(51,379) | ¥22,529 | ¥ 883 | ¥(4,867) | ¥(25,787) | ¥40,331 | ¥557,002 |
| Cash dividends | | | | (9,022) | | | | | | | (9,022) |
| Net income | | | | 52,940 | | | | | | | 52,940 |
| Purchase of treasury stock | | | | | (321) | | | | | | (321) |
| Sale of treasury stock | | | | (35) | 71 | | | | | | 36 |
| Decrease due to changes in scope of consolidation | | | | (299) | | | | | | | (299) |
| Adjustment to land revaluation | | | | (61) | | | | | | | (61) |
| Net changes in items other than stockholders' equity | | | | | | (2,786) | (298) | 110 | (8,339) | 8,406 | (2,907) |
| Net changes during the year | | | | 43,523 | (250) | (2,786) | (298) | 110 | (8,339) | 8,406 | 40,366 |
| Balance at March 31, 2011 | 3,115,061 | ¥233,313 | ¥83,125 | ¥302,377 | ¥(51,629) | ¥19,743 | ¥ 585 | ¥(4,757) | ¥(34,126) | ¥48,737 | ¥597,368 |

| | Thousands | Thousands of U.S. dollars (Note 1) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares of common stock | Common stock (Note 9) | Capital surplus (Note 9) | Retained earnings (Note 9) | Treasury stock | Unrealized gains on securities, net of taxes | Unrealized gains or losses on hedging derivatives, net of taxes | Land revaluation differences, net of taxes | Foreign currency translation adjustments | Minority interests | Total |
| Balance at March 31, 2010 | 3,115,061 | $2,805,929 | $999,699 | $3,113,097 | $(617,907) | $270,944 | $10,619 | $(58,533) | $(310,126) | $485,039 | $6,698,761 |
| Cash dividends | | | | (108,503) | | | | | | | (108,503) |
| Net income | | | | 636,681 | | | | | | | 636,681 |
| Purchase of treasury stock | | | | | (3,860) | | | | | | (3,860) |
| Sale of treasury stock | | | | (421) | 854 | | | | | | 433 |
| Decrease due to changes in scope of consolidation | | | | (3,596) | | | | | | | (3,596) |
| Adjustment to land revaluation | | | | (734) | | | | | | | (734) |
| Net changes in items other than stockholders' equity | | | | | | (33,506) | (3,584) | 1,323 | (100,289) | 101,095 | (34,961) |
| Net changes during the year | | | | 523,427 | (3,006) | (33,506) | (3,584) | 1,323 | (100,289) | 101,095 | 485,460 |
| Balance at March 31, 2011 | 3,115,061 | $2,805,929 | $999,699 | $3,636,524 | $(620,913) | $237,438 | $ 7,035 | $(57,210) | $(410,415) | $586,134 | $7,184,221 |

See accompanying notes.

# Consolidated Statements of Cash Flows

Years ended March 31, 2011 and 2010

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| **Cash flows from operating activities:** | | | |
| Income before income taxes | ¥ 88,868 | ¥ 14,101 | $1,068,767 |
| Depreciation | 114,820 | 118,835 | 1,380,878 |
| Interest and dividend income | (5,505) | (4,319) | (66,206) |
| Interest expense | 20,685 | 21,322 | 248,767 |
| Loss (gain) on sale of securities | (2,826) | (960) | (33,987) |
| Loss on write-down of securities | 1,977 | 865 | 23,776 |
| Equity in income of unconsolidated subsidiaries and affiliates | (3,078) | (1,808) | (37,017) |
| Loss on adjustment for changes of accounting standard for asset retirement obligations | 2,381 | — | 28,635 |
| Loss on impairment of fixed assets | — | 3,577 | — |
| Loss on sale and disposal of plant and equipment | 2,524 | 2,996 | 30,355 |
| Decrease (increase) in trade receivables from customers | (39,295) | (9,083) | (472,580) |
| Decrease (increase) in lease receivables and investment assets | (15,492) | (8,336) | (186,314) |
| Decrease (increase) in inventories | (17,666) | 98,566 | (212,459) |
| Increase (decrease) in trade payables to customers | 54,560 | (40,878) | 656,164 |
| Other | (2,983) | 8,381 | (35,875) |
| Subtotal | 198,970 | 203,259 | 2,392,904 |
| Cash received for interest and dividends | 6,532 | 6,080 | 78,557 |
| Cash paid for interest | (20,694) | (21,359) | (248,875) |
| Cash paid for income taxes | (7,013) | (15,087) | (84,342) |
| Net cash provided by operating activities | 177,795 | 172,893 | 2,138,244 |
| **Cash flows from investing activities:** | | | |
| Purchase of plant, equipment and other assets | (96,609) | (128,227) | (1,161,864) |
| Proceeds from sale of plant, equipment and other assets | 1,763 | 5,138 | 21,203 |
| Purchase of investments in securities | (3,634) | (1,500) | (43,704) |
| Proceeds from sale of investments in securities | 3,827 | 1,499 | 46,025 |
| Decrease (increase) in short-term loans receivable | (51) | 78 | (613) |
| Payments for long-term loans receivable | (977) | (2,867) | (11,750) |
| Proceeds from collection of long-term loans receivable | 3,267 | 437 | 39,290 |
| Proceeds from compensation for removal | — | 5,641 | — |
| Purchase of investments in subsidiaries resulting in change in scope of consolidation | 1,481 | (95) | 17,811 |
| Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation | (14) | — | (168) |
| Other | (5,740) | (428) | (69,032) |
| Net cash used in investing activities | (96,687) | (120,324) | (1,162,802) |
| **Cash flows from financing activities:** | | | |
| Increase (decrease) in short-term borrowings | (25,616) | (9,669) | (308,070) |
| Increase (decrease) in commercial paper | — | (55,000) | — |
| Proceeds from long-term debt | 9,805 | 93,016 | 117,919 |
| Repayment of long-term debt | (61,665) | (37,078) | (741,612) |
| Proceeds from issuance of bonds | — | 33,000 | — |
| Repayment of bonds | (236) | (69,359) | (2,838) |
| Proceeds from sale-leaseback transactions | — | 23,846 | — |
| Repayments of finance lease obligations | (6,321) | (4,750) | (76,019) |
| Payment of dividends | (8,966) | (76) | (107,829) |
| Other | (5,197) | (3,571) | (62,502) |
| Net cash used in financing activities | (98,196) | (29,641) | (1,180,951) |
| Effect of exchange rate changes on cash and cash equivalents | (4,903) | 632 | (58,965) |
| Increase (decrease) in cash and cash equivalents | (21,991) | 23,560 | (264,474) |
| Cash and cash equivalents at beginning of year | 211,699 | 187,745 | 2,545,989 |
| Increase in cash and cash equivalents resulting from change in scope of consolidation | — | 394 | — |
| Cash and cash equivalents at end of year (Note 15) | ¥189,708 | ¥211,699 | $2,281,515 |

See accompanying notes.

Kobe Steel, Ltd. and Consolidated Subsidiaries

# Notes to Consolidated Financial Statements

Years ended March 31, 2011 and 2010

## 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 country of domicile, with necessary adjustments to be in accordance with Japanese GAAP.

The accompanying consolidated financial statements have been restructured and translated into English with certain expanded disclosure from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange 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.

Effective from the year ended March 31, 2010, the Company and its domestic consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Construction Contracts" (Statement No. 15 issued by the Accounting Standards Board of Japan on December 27, 2007) and the new application guidance "Guidance on Accounting Standard for Construction Contracts" (Guidance No. 18 issued by the Accounting Standards Board of Japan on December 27, 2007), (collectively, "the New Standards"). The Company and certain consolidated subsidiaries had adopted the percentage of completion method for certain long-term (over one year) construction contracts. According to the New Standards, when the outcome of individual contracts can be estimated reliably, the Company and its domestic consolidated subsidiaries apply the percentage of completion method to work commencing during the year ended March 31, 2010, otherwise the completed contract method is applied. The effect of this change on the consolidated statement of operations was immaterial.

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, 2011, which was ¥83.15 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, 2011, the accounts of 164 (163 in 2010) subsidiaries have been included in the consolidated financial statements. Intercompany transactions and accounts have been eliminated.

Sixty-nine (67 in 2010) consolidated subsidiaries are consolidated using a fiscal period ending December 31, which differs from that of the Company. Any material transactions or events occurring during the January 1 to March 31 period are adjusted for in these consolidated financial statements.

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

Investments in unconsolidated subsidiaries and affiliates over which the Company has significant influence, except for insignificant companies, are accounted for by the equity method. For the year ended March 31, 2011, 43 (50 in 2010) affiliates were accounted for by the equity method.

The difference between the cost of investment in a subsidiary and the equity in the net assets of the subsidiary at the date of acquisition, if considered significant, is amortized over the estimated 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 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, Welding and Aluminum and Copper segments and by the specific identification method for finished goods and work in progress in the Machinery, Natural Resources & Engineering, Kobelco Eco-Solutions, Construction Machinery and Kobelco Cranes 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.

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

Depreciation of leased assets under finance leases that do not transfer ownership 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 16 years for those accrued in 2011, mainly 15 years for those accrued in 2010, mainly 14 years for those accrued in 2009 and 2008, and mainly 12 years for those accrued in and before 2007, which is within the average of the estimated remaining service years of employees commencing with the following period.

### (11) Land Revaluation

In the years ended March 31, 2002 and 2001, land used for operations was revaluated by certain consolidated subsidiaries in accordance with the Land Revaluation Law. The revaluation amount, net of related taxes, is shown as 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) Construction contracts

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

### (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 gain or loss unless the derivative financial instrument was used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers recognition of gain or loss resulting from changes in the fair value of the derivative financial instruments until the related loss or gain on the corresponding hedged item is recognized (“deferred hedge” method). Deferred gains and 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.

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

### (17) Consolidated Tax Return

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

### (18) Cash and Cash Equivalents

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

### (19) Accounting Standard for Asset Retirement Obligations

Effective from the year ended March 31, 2011, the Company and its domestic consolidated subsidiaries adopted the new accounting standard, “Accounting Standard for Asset Retirement Obligations” (Statement No. 18 issued by the Accounting Standards Board of Japan on March 31, 2008) and the new application guidance, “Guidance on Accounting Standard for Asset Retirement Obligations” (Guidance No. 21 issued by the Accounting Standards Board of Japan on March 31, 2008). As a result, operating income, ordinary income and income before income taxes were ¥4 million ($48 thousand) , ¥295 million ($3,548 thousand) and ¥2,676 million ($32,183 thousand) less, respectively.

### (20) Accounting Standard for Business Combinations and related matters

Effective from the year ended March 31, 2011, the Company and its domestic consolidated subsidiaries adopted the following accounting standards.

“Accounting Standard for Business Combinations” (Statement No. 21 issued by the Accounting Standards Board of Japan on December 26, 2008)

“Accounting Standard for Consolidated Financial Statements” (Statement No. 22 issued by the Accounting Standards Board of Japan on December 26, 2008)

“Partial amendments to Accounting Standard for Research and Development Costs” (Statement No. 23 issued by the Accounting Standards Board of Japan on December 26, 2008)

“Revised Accounting Standard for Business Divestitures” (Statement No. 7 revised by the Accounting Standards Board of Japan on December 26, 2008)

“Revised Accounting Standard for Equity Method of Accounting for Investments” (Statement No. 16 revised by the Accounting Standards Board of Japan on December 26, 2008)

“Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (Statement No. 10 revised by the Accounting Standards Board of Japan on December 26, 2008)

### (21) Change in presentation method

Consolidated Balance Sheets

The account for “lease receivables and investment assets” was included in current assets and other. Effective from the year ended March 31, 2011, the importance of “lease receivables and investment assets” has increased. Therefore, it is included in trade and finance in 2011 and 2010.

Consolidated Statements of Cash Flows

The account for “Decrease (increase) in lease receivables and investment assets” was included in cash flows from operating activities and other. Effective from the year ended March 31, 2011, the importance of “Decrease (increase) in lease receivables and investment assets” has increased. Therefore, it is presented separately in 2011 and 2010.

### (22) Additional information

Effective from the year ended March 31, 2011, the Company and its domestic consolidated subsidiaries adopted the new accounting standard, “Accounting Standard for Presentation of Comprehensive Income” (Statement No. 25 issued by the Accounting Standards Board of Japan on June 30, 2010). As a result of the adoption of this standard, the Company has presented the consolidated statement of comprehensive income in the consolidated financial statements for the fiscal year ended March 31, 2011. The consolidated balance sheet and the consolidated statement of changes in net assets as of and for the fiscal year ended March 31, 2010 have been modified to conform with the new presentation rules of 2011. In addition, the Company has presented the consolidated statement of comprehensive income for the fiscal year ended March 31, 2010 as well as that for the fiscal year ended March 31, 2011.

## 3. Leases

Original lease obligations as lessee under non-capitalized finance leases at March 31, 2011 and 2010 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Buildings and structures | ¥— | ¥ 417 | $— |
| Machinery and equipment | — | 32,110 | — |
| | ¥— | ¥32,527 | $— |

Note: The importance of transactions related to non-capitalized finance leases has decreased. Therefore, the notes are omitted for the year ended March 31, 2011.

Future minimum lease payments as lessee under non-capitalized finance leases at March 31, 2011 and 2010 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Due within one year | ¥— | ¥ 5,262 | $— |
| Due after one year | — | 6,891 | — |
| | ¥— | ¥12,153 | $— |
| Lease expense for the years ended March 31 | ¥— | ¥ 7,326 | $— |

Note: The importance of transactions related to non-capitalized finance leases has decreased. Therefore, the notes are omitted for the year ended March 31, 2011.

Future minimum lease payments as lessee under operating leases at March 31, 2011 and 2010 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Due within one year | ¥ 5,689 | ¥ 4,144 | $ 68,419 |
| Due after one year | 13,199 | 10,571 | 158,737 |
| | ¥18,888 | ¥14,715 | $227,156 |

Future minimum lease payments receivable as lessor under operating leases at March 31, 2011 and 2010 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Due within one year | ¥ 457 | ¥ 473 | $ 5,496 |
| Due after one year | 3,110 | 3,664 | 37,402 |
| | ¥3,567 | ¥4,137 | $42,898 |

## 4. Financial Instruments

### Policies for using financial instruments

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

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

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

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

Notes and accounts payable and borrowings are exposed to liquidity risk. The Group makes adequate financial plans to manage the risk. Floating rate long-term borrowings are exposed to the additional risk of changes in interest rates. In order to manage the risk, the Group enters into interest rate swap agreements. Furthermore, accounts payable denominated in foreign currencies are exposed to the risk of changes in foreign currency exchange rates. The Group uses forward currency exchange contracts and currency option contracts to manage the risk of currency fluctuations.

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

### Supplemental information on fair values

Fair values of financial instruments include values estimated by using reasonable methods of valuation as well as values based on quoted market prices. Estimates resulting from these methods are subjective in nature and involve uncertainties and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The contracted amounts of the derivative transactions presented in Note 6 do not reflect exposure to market risk or credit risk for the derivative instruments themselves.

## Fair value of financial instruments

Carrying amounts of the financial instruments included in the consolidated balance sheet and their fair values at March 31, 2011 and 2010 were as follows:

| | Millions of yen | | | | | | Thousands of U.S. dollars (Note1) |
|---|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | | 2011 |
| | Carrying amount | Fair value | Difference | Carrying amount | Fair value | Difference | Difference |
| Cash and time deposits | ¥145,875 | ¥145,875 | ¥ — | ¥131,939 | ¥131,939 | ¥ — | $ — |
| Notes and accounts receivable "Trade" | 261,721 | 261,721 | — | 241,494 | 241,494 | — | — |
| Investments in securities: | | | | | | | |
| Held-to-maturity debt securities | 26 | 26 | — | 30 | 30 | — | — |
| Securities of subsidiaries and affiliates | 16,536 | 56,042 | 39,506 | 17,710 | 39,798 | 22,088 | 475,117 |
| Available-for-sale securities | 115,414 | 115,414 | — | 121,716 | 121,716 | — | — |
| Notes and accounts payable "Trade" | (391,678) | (391,678) | — | (357,946) | (357,946) | — | — |
| Short-term borrowings and current portion of long-term debt | (170,658) | (171,546) | (888) | (168,112) | (168,751) | (639) | (10,679) |
| Bonds included in current portion of long-term debt | (35,836) | (36,646) | (810) | — | — | — | (9,741) |
| Bonds included in long-term debt | (177,349) | (184,956) | (7,607) | (213,187) | (220,118) | (6,931) | (91,485) |
| Long-term borrowings included in long-term debt | (441,099) | (456,956) | (15,857) | (525,170) | (540,805) | (15,635) | (190,704) |
| Lease obligations | (36,453) | (38,327) | (1,874) | (41,969) | (44,452) | (2,483) | (22,538) |
| Derivative transactions: | | | | | | | |
| Hedge accounting is not applied | (705) | (705) | — | (916) | (916) | — | — |
| Hedge accounting is applied | 1,482 | 1,482 | — | 2,317 | 2,317 | — | — |

Notes:

1. Liabilities are presented with parentheses ( ).
2. Assets and liabilities arising from derivative transactions are presented after offsetting and with parentheses ( ) if the offsetting results in a liability.
3. Methods used to estimate the fair value were as follows:

Cash and time deposits and notes and accounts receivable "Trade"

The carrying amount approximates fair value because of the short maturities of these instruments.

Investments in securities

The fair value is estimated mainly based on quoted market prices.

Notes and accounts payable "Trade," short-term borrowings, and current portion of long-term debt

The carrying amount approximates fair value because of the short maturities of these instruments.

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

Bonds

The fair value is estimated based mainly on quoted market prices.

Long-term borrowings and lease obligations

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

Derivative transactions

See Note 6.

Financial instruments whose fair values are difficult to estimate were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Non-listed equity securities | ¥58,279 | ¥57,109 | $700,890 |

The aggregate annual maturities of financial assets at March 31, 2011 and 2010 were as follows:

Cash and time deposits

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Due within 1 year | ¥145,875 | ¥131,939 | $1,754,360 |
| Due after 1 year through 5 years | — | — | — |
| Due after 5 years through 10 years | — | — | — |
| Due after 10 years | — | — | — |
| | ¥145,875 | ¥131,939 | $1,754,360 |

Notes and accounts receivable "Trade"

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Due within 1 year | ¥256,933 | ¥236,537 | $3,089,994 |
| Due after 1 year through 5 years | 2,967 | 3,069 | 35,683 |
| Due after 5 years through 10 years | 1,064 | 942 | 12,796 |
| Due after 10 years | 757 | 946 | 9,104 |
| | ¥261,721 | ¥241,494 | $3,147,577 |

Held-to-maturity debt securities

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Due within 1 year | ¥ 4 | ¥ 4 | $ 48 |
| Due after 1 year through 5 years | 15 | 15 | 181 |
| Due after 5 years through 10 years | 7 | 11 | 84 |
| Due after 10 years | — | — | — |
| | ¥26 | ¥30 | $313 |

Effective from the fiscal year ended March 31, 2010, the Company adopted the revised Accounting Standard, "Accounting Standard for Financial Instruments" (Statement No. 10 revised by Accounting Standard Board of Japan on March 10, 2008) and the new application guidance, "Guidance on Disclosures about Fair Value of Financial Instruments" (Guidance No. 19 issued by Accounting Standard Board of Japan on March 10, 2008).

## 5. Securities

The following table summarizes book values of securities with no available fair values as of March 31, 2011 and 2010:

| | Millions of yen | | | | | | Thousands of U.S. dollars (Note1) |
|---|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | | 2011 |
| | Book values | Fair values | Difference | Book values | Fair values | Difference | Difference |
| Held-to-maturity debt securities | | | | | | | |
| Securities with available book values not exceeding fair values: | | | | | | | |
| Non-listed domestic bonds | ¥26 | ¥26 | ¥— | ¥30 | ¥30 | ¥— | $— |

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2011 and 2010:

| | Millions of yen | | | | | | Thousands of U.S. dollars (Note1) |
|---|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | | 2011 |
| | Book values | Acquisition costs | Difference | Book values | Acquisition costs | Difference | Difference |
| Available-for-sale securities | | | | | | | |
| Securities with available book values exceeding acquisition costs: | | | | | | | |
| Equity securities | ¥ 67,099 | ¥28,534 | ¥38,565 | ¥ 87,486 | ¥49,271 | ¥38,215 | $463,800 |
| Other | — | — | — | — | — | — | — |
| | 67,099 | 28,534 | 38,565 | 87,486 | 49,271 | 38,215 | 463,800 |
| Securities with available book values not exceeding acquisition costs: | | | | | | | |
| Other securities: | | | | | | | |
| Equity securities | 48,306 | 59,764 | (11,458) | 34,220 | 40,773 | (6,553) | (137,799) |
| Other | 9 | 10 | (1) | 10 | 11 | (1) | (12) |
| | 48,315 | 59,774 | (11,459) | 34,230 | 40,784 | (6,554) | (137,811) |
| | ¥115,414 | ¥88,308 | ¥27,106 | ¥121,716 | ¥90,055 | ¥31,661 | $325,989 |

Sales of available-for-sale securities for the years ended March 31, 2011 and 2010 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Sales | ¥191 | ¥923 | $2,297 |
| Gains on sales | 48 | 583 | 577 |
| Losses on sales | (3) | (1) | (36) |

## 6. Derivative Transactions

### Derivative transactions for which hedge accounting is not applied

Forward currency exchange contracts outstanding at March 31, 2011 and 2010 were as follows:

| | Millions of yen | | | | | | Thousands of U.S. dollars (Note1) |
|---|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | | 2011 |
| | 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 | ¥15,265 | ¥15,450 | ¥(185) | ¥15,801 | ¥16,285 | ¥(484) | $(2,225) |
| Others | 260 | 267 | (7) | — | — | — | (84) |
| To buy foreign currencies: | | | | | | | |
| U.S. dollars | 15,467 | 15,252 | (215) | 10,563 | 10,553 | (10) | (2,586) |
| Others | 2,461 | 2,423 | (38) | 2,636 | 2,652 | 16 | (457) |
| **Foreign currency options** | | | | | | | |
| To sell foreign currency options | | | | | | | |
| Call | | | | | | | |
| U.S. dollars | ¥ 1,655 [36] | ¥ 36 | ¥ 0 | ¥ — | ¥ — | ¥ — | $ 0 |
| To buy foreign currency options | | | | | | | |
| Put | | | | | | | |
| U.S. dollars | 1,655 [36] | 24 | (12) | — | — | — | (144) |
| | | | ¥(457) | | | ¥(478) | $(5,496) |

Notes:

1. Foreign currency exchange contracts
   The fair values were estimated by multiplying the contracted foreign currency amount by the forward rate.
2. Foreign currency options
   The fair values were estimated by obtaining quotes from counterparty banks.
3. Option premiums were presented below the contracted amount with brackets [ ] .
   Foreign currency options were zero cost options which mean that option premiums were not payed and received.

Interest rate swap agreements outstanding at March 31, 2011 and 2010 were as follows:

| | Millions of yen | | | | | | Thousands of U.S. dollars (Note1) |
|---|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | | 2011 |
| | Contracted amount | Fair value | Recognized gain (loss) | Contracted amount | Fair value | Recognized gain (loss) | Recognized gain (loss) |
| **Interest rate swap agreements** | | | | | | | |
| To receive fixed and pay floating followed by fixed rates | ¥35,300 | ¥(230) | ¥(230) | ¥35,300 | ¥(458) | ¥(458) | $(2,766) |

Note: The recognized gains (losses) were estimated by obtaining quotes from counterparty banks.

Commodity forward contracts outstanding at March 31, 2011 and 2010 were as follows:

| | Millions of yen | | | | | | Thousands of U.S. dollars (Note1) |
|---|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | | 2011 |
| | Contracted amount | Fair value | Recognized gain (loss) | Contracted amount | Fair value | Recognized gain (loss) | Recognized gain (loss) |
| **Commodity forward contracts** | | | | | | | |
| To sell commodity | ¥ 94 | ¥ 97 | ¥ (3) | ¥ — | ¥ — | ¥ — | $ (36) |
| To buy commodity | 577 | 562 | (15) | 974 | 994 | 20 | (180) |
| | | | ¥(18) | | | ¥20 | $(216) |

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

Derivative transactions for which hedge accounting was applied

Forward currency exchange contracts outstanding at March 31, 2011 and 2010 were as follows:

| | Millions of yen | | | | Thousands of U.S. dollars (Note1) |
|---|---|---|---|---|---|
| | 2011 | | 2010 | | 2011 |
| | Contracted amount | Fair value | Contracted amount | Fair value | Fair value |
| **Hedges for which the "Deferred hedge" method was applied** | | | | | |
| **Foreign currency exchange contracts** | | | | | |
| To sell foreign currencies: | | | | | |
| U.S. dollars | ¥43,574 | ¥42,074 | ¥30,200 | ¥29,974 | $506,001 |
| Others | 4,710 | 4,762 | 3,084 | 2,924 | 57,270 |
| To buy foreign currencies: | | | | | |
| U.S. dollars | 20,200 | 19,156 | 3,738 | 3,776 | 230,379 |
| Others | 5,271 | 5,436 | 4,445 | 4,179 | 65,376 |
| **Foreign currency options** | | | | | |
| To sell foreign currency options | | | | | |
| Put | | | | | |
| U.S. dollars | ¥21,987 [829] | ¥ 714 | ¥16,752 [717] | ¥ 378 | $ 8,587 |
| Call | | | | | |
| U.S. dollars | 291 [7] | 7 | — | — | 84 |
| To buy foreign currency options | | | | | |
| Put | | | | | |
| U.S. dollars | 291 [7] | 7 | — | — | 84 |
| Call | | | | | |
| U.S. dollars | 21,987 [829] | 835 | 16,752 [717] | 747 | 10,042 |
| **Hedges for which the "Assigning" method was applied** | | | | | |
| **Foreign currency exchange contracts** | | | | | |
| To sell foreign currencies: | | | | | |
| U.S. dollars | ¥27,937 | ¥ — | ¥15,855 | ¥ — | $ — |
| Others | 2,528 | — | 2,508 | — | — |
| To buy foreign currencies: | | | | | |
| U.S. dollars | 1,285 | — | 1,136 | — | — |
| Others | 23,788 | — | 14,165 | — | — |

Notes:

1. Foreign currency exchange contracts
   The fair values were estimated by multiplying the contracted foreign currency amount by the forward rate.
2. Foreign currency options
   The fair values were estimated by obtaining quotes from counterparty banks.
3. Hedges for which the "Assigning" method was applied
   For certain accounts receivable and accounts payable denominated in foreign currencies for which foreign currency exchange contracts were used to hedge the foreign currency fluctuations, the fair values were included in the fair values of the hedged accounts receivable and accounts payable.
4. Option premiums were presented below the contracted amount with brackets [ ] .
   Foreign currency options were zero cost options which mean that option premiums were not payed and received.

Interest rate swap agreements outstanding at March 31, 2011 and 2010 were as follows:

| | Millions of yen | | | | Thousands of U.S. dollars (Note1) |
|---|---|---|---|---|---|
| | 2011 | | 2010 | | 2011 |
| | Contracted amount | Fair value | Contracted amount | Fair value | Fair value |
| Hedges for which the “Exceptional” method was applied | | | | | |
| Interest rate swap agreements | | | | | |
| To receive floating and pay fixed rates | ¥223,337 | ¥— | ¥261,575 | ¥— | $— |

Notes:
1. The fair values were estimated by obtaining quotes from counterparty banks.
2. Hedges for which the “Exceptional” method was applied
For certain long-term debt for which interest rate swap agreements were used to hedge the variable risk to interest, the fair values were included in the fair values of the long-term debt.

Commodity forward contracts outstanding at March 31, 2011 and 2010 were as follows:

| | Millions of yen | | | | Thousands of U.S. dollars (Note1) |
|---|---|---|---|---|---|
| | 2011 | | 2010 | | 2011 |
| | Contracted amount | Fair value | Contracted amount | Fair value | Fair value |
| Hedges for which the “Deferred hedge” method was applied | | | | | |
| Commodity forward contracts | | | | | |
| To sell commodity | ¥ 3,345 | ¥ 3,609 | ¥ 4,415 | ¥ 4,845 | $ 43,403 |
| To buy commodity | 16,901 | 17,957 | 15,972 | 18,192 | 215,959 |

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

## 7. Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2011 and 2010 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Bank loans (average rate 2.19% in 2011 and 1.69% in 2010) | ¥80,443 | ¥108,475 | $967,444 |

Long-term debt at March 31, 2011 and 2010 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| 1.04% to 3.4% yen bonds, due 2011 through 2019 | ¥213,186 | ¥213,422 | $2,563,872 |
| Loans, principally from banks and insurance companies | 531,313 | 584,572 | 6,389,814 |
| | 744,499 | 797,994 | 8,953,686 |
| Less current portion | 126,051 | 59,637 | 1,515,947 |
| | ¥618,448 | ¥738,357 | $7,437,739 |

The aggregate annual maturities of long-term debt at March 31, 2011 were as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| | 2011 | 2011 |
| Due within 1 year | ¥126,051 | $1,515,947 |
| Due after 1 year through 2 years | 99,041 | 1,191,112 |
| Due after 2 years through 3 years | 188,412 | 2,265,929 |
| Due after 3 years through 4 years | 73,331 | 881,912 |
| Due after 4 years through 5 years | 70,453 | 847,300 |
| Due after 5 years | 187,211 | 2,251,486 |
| | ¥744,499 | $8,953,686 |

At March 31, 2011 and 2010, 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) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Assets pledged as collateral: | | | |
| Plant and equipment, net of accumulated depreciation | ¥131,639 | ¥163,629 | $1,583,151 |
| Other assets | 35,016 | 34,972 | 421,118 |
| | ¥166,655 | ¥198,601 | $2,004,269 |
| Secured short-term borrowings and long-term debt: | | | |
| Bonds (includes those due within 1 year) | ¥ 886 | ¥ 1,122 | $ 10,655 |
| Short-term borrowings | 13,072 | 13,644 | 157,210 |
| Long-term borrowings | 68,283 | 81,316 | 821,203 |
| | ¥ 82,241 | ¥ 96,082 | $ 989,068 |

At March 31, 2011 and 2010, included in the assets pledged as collateral were assets that were 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) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Short-term borrowings | ¥2,621 | ¥ 3,401 | $31,521 |
| Long-term borrowings | 5,506 | 8,127 | 66,218 |
| | ¥8,127 | ¥11,528 | $97,739 |

## 8. Contingent Liabilities

At March 31, 2011 and 2010, the Group was contingently liable as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Trade notes discounted | ¥20,541 | ¥18,651 | $247,035 |
| Trade notes endorsed | 3,636 | 793 | 43,728 |
| Guarantees of loans: | | | |
| Related parties | 5,852 | 13,265 | 70,379 |
| Others | 126 | 167 | 1,515 |
| Contingent obligations based on debt assumption agreements for bonds with financial institutions | — | 19,400 | — |
| | ¥30,155 | ¥52,276 | $362,657 |

Guarantees of loans include contingent guarantees and letters of awareness of ¥429 million ($5,159 thousand) in 2011 and ¥510 million in 2010.

## 9. Net Assets

Net assets comprises three subsections, which are the owners' equity, accumulated other comprehensive income and minority interests.

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

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

Under the Law, in cases 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 nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the Board of Directors meeting held on May 16, 2011, the Board of Directors approved cash dividends amounting to ¥4,509 million ($54,227 thousand). These appropriations had not been accrued in the consolidated financial statements as of March 31, 2011. Such appropriations are recognized in the period in which they are approved by the Board of Directors.

## 10. Research and Development Expenses

Research and development expenses included in cost of sales and selling, general, and administrative expenses were ¥29,833 million ($358,785 thousand) for the year ended March 31, 2011 and ¥28,255 million for the year ended March 31, 2010.

## 11. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2011 and 2010 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Freight | ¥ 40,977 | ¥ 35,223 | $ 492,808 |
| Employees' compensation | 33,183 | 33,502 | 399,074 |
| Research and development | 10,661 | 10,440 | 128,214 |
| Depreciation | 4,393 | 3,951 | 52,833 |
| Others | 74,030 | 66,429 | 890,319 |
| | ¥163,244 | ¥149,545 | $1,963,248 |

## 12. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the year ended March 31, 2010 consisted of the following:

| | Millions of yen |
|---|---|
| | 2010 |
| Assets related to Shinko Kakogawa hospital, etc.: | |
| Building and structures, etc. (Kakogawa, Hyogo Prefecture, etc.; 11 properties in total) | ¥3,577 |
| | ¥3,577 |

The Company and its consolidated subsidiaries grouped their fixed assets based, in principle, on the unit of business establishments and recognized impairment loss for the assets whose fair value had diminished significantly compared to the book value, due mainly to reaching a basic agreement with Kakogawa-city to transfer Shinko Kakogawa hospital to the city.

Book values of those fixed assets were reduced to recoverable amounts, and impairment loss of ¥3,577 million was recognized in the year ended March 31, 2010. The amount of impairment consisted of loss on buildings and structures in the amount of ¥2,299 million, machinery and equipment of ¥1,169 million, land of ¥89 million, intangible assets of ¥19 million and other assets of ¥1 million.

The recoverable amounts of the assets were determined mainly by the net realizable value based on estimated transfer price.

## 13. Income Taxes

Significant components of the Group's deferred income tax assets and liabilities as of March 31, 2011 and 2010 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Deferred income tax assets: | | | |
| Tax loss carryforwards | ¥ 20,432 | ¥ 30,857 | $ 245,725 |
| Unrealized profit | 17,159 | 17,136 | 206,362 |
| Employees' severance and retirement benefits | 10,947 | 11,454 | 131,654 |
| Loss on impairment of fixed assets | 9,950 | 11,765 | 119,663 |
| Accrued bonuses to employees | 8,689 | 7,153 | 104,498 |
| Loss on write-down of securities | 5,099 | 5,944 | 61,323 |
| Land revaluation | 4,922 | 4,971 | 59,194 |
| Loss on write-down of inventories | 3,861 | 5,544 | 46,434 |
| Other | 43,403 | 38,444 | 521,984 |
| Total deferred income tax assets | 124,462 | 133,268 | 1,496,837 |
| Valuation allowance | (66,024) | (75,262) | (794,035) |
| Deferred income tax assets | 58,438 | 58,006 | 702,802 |
| Deferred income tax liabilities: | | | |
| Unrealized holding gains on securities | 12,136 | 11,558 | 145,953 |
| Land revaluation | 5,233 | 5,234 | 62,935 |
| Special tax purpose reserve | 3,793 | 5,563 | 45,617 |
| Other | 21,441 | 18,478 | 257,859 |
| Total deferred income tax liabilities | 42,603 | 40,833 | 512,364 |
| Net deferred income tax assets | ¥ 15,835 | ¥ 17,173 | $ 190,438 |

The reconciliation of the statutory tax rate and the effective tax rate for the years ended March 31, 2011 and 2010 was as follows:

| | 2011 | 2010 |
|---|---|---|
| Aggregate statutory income tax rate in Japan | 40.6% | 40.6% |
| Decrease in valuation allowance | (10.4) | — |
| Differences in tax rates among consolidated subsidiaries | (9.5) | (38.4) |
| Nondeductible entertainment expenses | — | 21.7 |
| Proceeds from compensation for removal | — | (21.4) |
| Other | 1.1 | 4.6 |
| Effective income tax rate | 21.8% | 7.1% |

## 14. Consolidated Statements of Changes in Net Assets

Changes in number of shares issued and outstanding during the year ended March 31, 2011 were as follows:

| | Number of shares |
|---|---|
| Common stock outstanding | |
| Balance at March 31, 2010 | 3,115,061,100 |
| (No increase) | — |
| (No decrease) | — |
| Balance at March 31, 2011 | 3,115,061,100 |

| | Number of shares |
|---|---|
| Treasury stock outstanding | |
| Balance at March 31, 2010 | 112,684,172 |
| Increase due to purchase of odd-lot stock | 1,521,644 |
| Decrease due to sale of odd-lot stock | (132,318) |
| Increase (decrease) due to other reasons, net | (47,426) |
| Balance at March 31, 2011 | 114,026,072 |

## 15. Consolidated Statements of Cash Flows

The reconciliation of cash and cash equivalents in the cash flow statements and balance sheets as of March 31, 2011 and 2010 was as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Cash and time deposits in the balance sheets | ¥145,875 | ¥131,939 | $1,754,360 |
| Time deposits due over 3 months | (130) | (173) | (1,564) |
| Short-term investments with maturities within 3 months included in current assets and other | 43,963 | 79,933 | 528,719 |
| Cash and cash equivalents in cash flow statements | ¥189,708 | ¥211,699 | $2,281,515 |

## 16. Related Party Transactions

Net sales include sales to Shinsho Corporation, which is an affiliate of the Company, of ¥216,325 million ($2,601,624 thousand) and ¥194,331 million for the years ended March 31, 2011 and 2010, respectively.

## 17. 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, 2011 and 2010 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Projected benefit obligation | ¥(163,592) | ¥(174,536) | $(1,967,432) |
| Fair value of pension assets | 142,799 | 146,644 | 1,717,366 |
| Unrecognized net transition obligation | 278 | 452 | 3,343 |
| Unrecognized actuarial differences | 16,921 | 22,638 | 203,500 |
| Prepaid pension cost | (25,752) | (28,446) | (309,705) |
| Liability for severance and retirements benefits | ¥ (29,346) | ¥ (33,248) | $ (352,928) |

Included in the consolidated statements of operations for the years ended March 31, 2011 and 2010 were severance and retirement benefit expenses that comprised the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Service costs – benefits earned during the year | ¥ 6,387 | ¥ 6,564 | $ 76,813 |
| Interest cost on projected benefit obligation | 3,357 | 3,585 | 40,373 |
| Expected return on plan assets | (260) | (248) | (3,127) |
| Amortization of net transition obligation | 174 | 91 | 2,093 |
| Amortization of actuarial differences | 2,220 | 3,126 | 26,699 |
| Severance and retirement benefit expenses | ¥11,878 | ¥13,118 | $142,851 |

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, 2011 and 2010.
   The rates of expected return on plan assets were mainly 0.1% for the years ended March 31, 2011 and 2010, respectively.

## 18. Segment Information

Segment information

1. Overview of reportable segments

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

The Company has business departments based on products and services (a part of product and service is made by subsidiaries) and every business departments and subsidiaries plans domestic and foreign global strategy to operate business.

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

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

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

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

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Sales to outside customers: | | | |
| Iron and Steel | ¥ 802,924 | ¥ 705,993 | $ 9,656,332 |
| Welding | 76,353 | 76,081 | 918,256 |
| Aluminum and Copper | 301,144 | 260,728 | 3,621,696 |
| Machinery | 149,198 | 166,218 | 1,794,323 |
| Natural Resources & Engineering | 62,546 | 57,343 | 752,207 |
| Kobelco Eco-Solutions | 67,377 | 78,965 | 810,307 |
| Kobelco Construction Machinery | 311,946 | 213,133 | 3,751,606 |
| Kobelco Cranes | 35,295 | 46,829 | 424,474 |
| Other Businesses | 50,239 | 62,700 | 604,197 |
| Adjustment | 1,552 | 3,032 | 18,665 |
| Consolidated total | 1,858,574 | 1,671,022 | 22,352,063 |
| Intersegment sales: | | | |
| Iron and Steel | 37,458 | 36,098 | 450,487 |
| Welding | 1,438 | 121 | 17,294 |
| Aluminum and Copper | 2,873 | 1,034 | 34,552 |
| Machinery | 5,324 | 7,554 | 64,029 |
| Natural Resources & Engineering | 1,719 | 8,222 | 20,673 |
| Kobelco Eco-Solutions | 2,228 | 3,923 | 26,795 |
| Kobelco Construction Machinery | 1,197 | 1,446 | 14,396 |
| Kobelco Cranes | 5,673 | 8,384 | 68,226 |
| Other Businesses | 15,341 | 15,071 | 184,498 |
| Adjustment | (73,251) | (81,853) | (880,950) |
| Consolidated total | — | — | — |
| Total sales: | | | |
| Iron and Steel | 840,382 | 742,091 | 10,106,819 |
| Welding | 77,792 | 76,202 | 935,562 |
| Aluminum and Copper | 304,017 | 261,762 | 3,656,248 |
| Machinery | 154,521 | 173,772 | 1,858,341 |
| Natural Resources & Engineering | 64,264 | 65,565 | 772,868 |
| Kobelco Eco-Solutions | 69,605 | 82,888 | 837,102 |
| Kobelco Construction Machinery | 313,144 | 214,579 | 3,766,013 |
| Kobelco Cranes | 40,968 | 55,213 | 492,700 |
| Other Businesses | 65,580 | 77,771 | 788,695 |
| Adjustment | (71,699) | (78,821) | (862,285) |
| Consolidated total | 1,858,574 | 1,671,022 | 22,352,063 |
| Segment income (loss): | | | |
| Iron and Steel | 23,734 | (24,691) | 285,436 |
| Welding | 4,621 | 1,740 | 55,574 |
| Aluminum and Copper | 14,790 | 2,228 | 177,871 |
| Machinery | 14,513 | 20,859 | 174,540 |
| Natural Resources & Engineering | 3,052 | 4,742 | 36,705 |
| Kobelco Eco-Solutions | 3,136 | 1,651 | 37,715 |
| Kobelco Construction Machinery | 26,303 | 5,536 | 316,332 |
| Kobelco Cranes | (1,364) | 1,226 | (16,404) |
| Other Businesses | 6,494 | 3,091 | 78,100 |
| Adjustment | (6,196) | (6,123) | (74,516) |
| Consolidated total | ¥ 89,083 | ¥ 10,259 | $ 1,071,353 |

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Assets: | | | |
| Iron and Steel | ¥ 969,394 | ¥ 974,382 | $11,658,376 |
| Welding | 62,327 | 59,192 | 749,573 |
| Aluminum and Copper | 213,798 | 215,617 | 2,571,233 |
| Machinery | 149,748 | 117,390 | 1,800,938 |
| Natural Resources & Engineering | 74,839 | 99,119 | 900,048 |
| Kobelco Eco-Solutions | 52,316 | 66,465 | 629,176 |
| Kobelco Construction Machinery | 285,066 | 234,277 | 3,428,334 |
| Kobelco Cranes | 44,251 | 49,062 | 532,183 |
| Other Businesses | 161,164 | 157,180 | 1,938,232 |
| Adjustment | 218,630 | 276,662 | 2,629,345 |
| Consolidated total | 2,231,533 | 2,249,346 | 26,837,438 |
| Depreciation: | | | |
| Iron and Steel | 75,732 | 78,718 | 910,788 |
| Welding | 2,800 | 3,308 | 33,674 |
| Aluminum and Copper | 15,737 | 18,171 | 189,260 |
| Machinery | 5,749 | 5,333 | 69,140 |
| Natural Resources & Engineering | 553 | 531 | 6,651 |
| Kobelco Eco-Solutions | 1,203 | 1,175 | 14,468 |
| Kobelco Construction Machinery | 6,452 | 4,446 | 77,595 |
| Kobelco Cranes | 910 | 997 | 10,944 |
| Other Businesses | 3,446 | 3,862 | 41,443 |
| Adjustment | 2,238 | 2,294 | 26,915 |
| Consolidated total | 114,820 | 118,835 | 1,380,878 |
| Amortization of goodwill: | | | |
| Iron and Steel | — | — | — |
| Welding | 486 | — | 5,845 |
| Aluminum and Copper | 21 | — | 253 |
| Machinery | — | — | — |
| Natural Resources & Engineering | 1 | — | 12 |
| Kobelco Eco-Solutions | — | — | — |
| Kobelco Construction Machinery | 10 | 58 | 120 |
| Kobelco Cranes | — | — | — |
| Other Businesses | — | 15 | — |
| Adjustment | — | 129 | — |
| Consolidated total | 518 | 202 | 6,230 |
| Interest income: | | | |
| Iron and Steel | 77 | 81 | 926 |
| Welding | 46 | 36 | 553 |
| Aluminum and Copper | 130 | 86 | 1,563 |
| Machinery | 26 | 109 | 313 |
| Natural Resources & Engineering | 635 | 536 | 7,637 |
| Kobelco Eco-Solutions | 18 | 12 | 216 |
| Kobelco Construction Machinery | 2,516 | 1,730 | 30,259 |
| Kobelco Cranes | 18 | 30 | 216 |
| Other Businesses | 47 | 54 | 565 |
| Adjustment | (383) | (353) | (4,606) |
| Consolidated total | ¥ 3,130 | ¥ 2,321 | $ 37,642 |

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Interest expense: | | | |
| Iron and Steel | ¥ 8,272 | ¥ 10,061 | $ 99,483 |
| Welding | 23 | 70 | 277 |
| Aluminum and Copper | 2,060 | 2,465 | 24,775 |
| Machinery | 191 | 355 | 2,297 |
| Natural Resources & Engineering | 83 | 27 | 998 |
| Kobelco Eco-Solutions | 70 | 108 | 842 |
| Kobelco Construction Machinery | 3,938 | 2,670 | 47,360 |
| Kobelco Cranes | 88 | 92 | 1,058 |
| Other Businesses | 547 | 630 | 6,578 |
| Adjustment | 5,413 | 4,844 | 65,099 |
| Consolidated total | 20,685 | 21,322 | 248,767 |
| Equity in income (loss) of unconsolidated subsidiaries and affiliates: | | | |
| Iron and Steel | 2,498 | 1,628 | 30,042 |
| Welding | 365 | 310 | 4,390 |
| Aluminum and Copper | (446) | (561) | (5,364) |
| Machinery | 22 | 45 | 265 |
| Natural Resources & Engineering | (1,084) | (130) | (13,037) |
| Kobelco Eco-Solutions | — | — | — |
| Kobelco Construction Machinery | 492 | (657) | 5,917 |
| Kobelco Cranes | (61) | 16 | (734) |
| Other Businesses | 1,153 | 935 | 13,866 |
| Adjustment | 139 | 222 | 1,672 |
| Consolidated total | 3,078 | 1,808 | 37,017 |
| Investments in unconsolidated subsidiaries and affiliates: | | | |
| Iron and Steel | 36,850 | 37,343 | 443,175 |
| Welding | 1,293 | 2,274 | 15,550 |
| Aluminum and Copper | 634 | 1,841 | 7,625 |
| Machinery | 312 | 326 | 3,752 |
| Natural Resources & Engineering | 7,710 | 6,191 | 92,724 |
| Kobelco Eco-Solutions | — | — | — |
| Kobelco Construction Machinery | 7,309 | 3,939 | 87,901 |
| Kobelco Cranes | 336 | 253 | 4,041 |
| Other Businesses | 9,840 | 9,146 | 118,340 |
| Adjustment | (3,171) | 1,939 | (38,136) |
| Consolidated total | 61,113 | 63,252 | 734,972 |
| Capital expenditures: | | | |
| Iron and Steel | 54,544 | 82,286 | 655,971 |
| Welding | 971 | 1,089 | 11,678 |
| Aluminum and Copper | 9,551 | 8,679 | 114,865 |
| Machinery | 3,686 | 8,163 | 44,329 |
| Natural Resources & Engineering | 324 | 554 | 3,897 |
| Kobelco Eco-Solutions | 1,809 | 456 | 21,756 |
| Kobelco Construction Machinery | 12,372 | 20,573 | 148,791 |
| Kobelco Cranes | 2,411 | 1,301 | 28,996 |
| Other Businesses | 4,646 | 4,037 | 55,875 |
| Adjustment | 1,064 | 1,601 | 12,796 |
| Consolidated total | ¥ 91,378 | ¥ 128,739 | $ 1,098,954 |

Notes:
1. Other Businesses include Shinko Real Estate, Kobelco Research Institute and other businesses.
2. Details about adjustments at March 31, 2011 and 2010 are as follows:

Segment income (loss)
Adjustment is mainly financial profit or loss which isn't attributed to reportable segments and other businesses.

Assets
Adjustment is mainly investments in securities which are not attributed to reportable segments and other businesses.

Depreciation
Adjustment is related mainly to the assets of administrative departments which are not attributed to reportable segments and other businesses.

Amortization of goodwill
Adjustment is related mainly to investments of consolidated subsidiaries which are not attributed to reportable segments and other businesses.

Interest income
Adjustment is related mainly to intersegment transactions.

Interest expense
Adjustment is related mainly to financial liabilities which are not attributed to reportable segments and other businesses.

Equity in income (loss) of unconsolidated subsidiaries and affiliates
Adjustment is related mainly to affiliates which are not attributed to reportable segments and other businesses.

Investments in unconsolidated subsidiaries and affiliates
Adjustment is related mainly to intersegment transactions.

Capital expenditures
Adjustment is related mainly to the assets of administrative departments which are not attributed to reportable segments and other businesses.

## Related information

### 1. Information by products and services

This information is omitted because division of products and services is the same as that for reportable segments.

### 2. Information by geographic segments

(1) Net sales

| | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| | 2011 | 2011 |
| Japan | ¥1,192,613 | $14,342,911 |
| China | 263,466 | 3,168,563 |
| Others | 402,495 | 4,840,589 |
| Consolidated total | ¥1,858,574 | $22,352,063 |

(2) Plant and equipment

This information is omitted because book value of plant and equipment in Japan is over 90% of that on the balance sheet.

### 3. Information by major customer

Net sales

| | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| | 2011 | 2011 |
| Shinsho Corporation | ¥267,029 | $3,211,413 |
| Metal One Corporation | 211,897 | 2,548,371 |

## Loss on impairment of fixed assets by reportable segments

Nothing to report

### Amortization and balance of goodwill by reportable segments

| | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| | 2011 | 2011 |
| Amortization | | |
| Iron and Steel | ¥ — | $ — |
| Welding | 486 | 5,845 |
| Aluminum and Copper | 21 | 253 |
| Machinery | — | — |
| Natural Resources & Engineering | 1 | 12 |
| Kobelco Eco-Solutions | — | — |
| Kobelco Construction Machinery | 10 | 120 |
| Kobelco Cranes | — | — |
| Other Businesses | — | — |
| Adjustment | — | — |
| Consolidated total | 518 | 6,230 |
| Balance | | |
| Iron and Steel | — | — |
| Welding | — | — |
| Aluminum and Copper | — | — |
| Machinery | — | — |
| Natural Resources & Engineering | — | — |
| Kobelco Eco-Solutions | — | — |
| Kobelco Construction Machinery | — | — |
| Kobelco Cranes | — | — |
| Other Businesses | — | — |
| Adjustment | — | — |
| Consolidated total | ¥ — | $ — |

### Amortization of negative goodwill by reportable segments

Nothing to report

### Supplemental information

Effective from the year ended March 31, 2011, the Group has adopted the revised accounting standard, “Accounting Standard for Disclosures about Segments of an Enterprise and Related information” (Statement No. 17, revised by the Accounting Standards Board of Japan on March 27, 2009) and the revised guidance, “Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related information” (Guidance No. 20, revised by the Accounting Standards Board of Japan on March 21, 2008).

## 19. Net Income per Share

The basis of calculating net income per share for the years ended March 31, 2011 and 2010 was as follows:

| | Millions of yen | Thousands of shares | Yen | U.S. dollars (Note 1) |
|---|---|---|---|---|
| | Net income | Weighted average number of shares | EPS | EPS |
| For the year ended March 31, 2011 | | | | |
| Net income available to common shareholders | ¥52,940 | 3,002,113 | ¥17.63 | $0.21 |
| For the year ended March 31, 2010 | | | | |
| Net income available to common shareholders | 6,305 | 3,002,451 | 2.10 | |

# 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, 2011 and 2010, and the related consolidated statements of income, comprehensive income, 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, 2011 and 2010, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

Osaka, Japan
June 23, 2011

# Domestic and Overseas Offices

## Head Offices

### Kobe Head Office
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### Tokyo Head Office
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### Sales Offices
Hokkaido (Sapporo)
Tohoku (Sendai)
Niigata (Niigata)
Hokuriku (Toyama)
Shikoku (Takamatsu)
Chugoku (Hiroshima)
Kyushu (Fukuoka)
Okinawa (Naha)

### Research Laboratory
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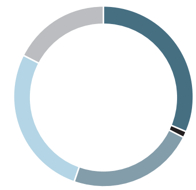
People's Republic of China
Tel: +86-21-6415-4977 Fax: +86-21-6415-9409

# Investor Information (As of March 31, 2011)

| | |
|---|---|
| Founded | September 1905 |
| Incorporated | June 1911 |
| Employees | 9,933 (Consolidated 34,772) |
| 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<br>Issued: 3,115,061,100 shares |

## Distribution of Shares



- Japanese financial institutions: 31.59%
- Japanese financial instruments Business Operators: 0.93%
- Other Japanese corporations: 22.78%
- Japanese individuals and others: 27.48%
- Foreign investors: 17.23%

## Principal Stockholders

At March 31, 2011, the ten largest stockholders of the Company Stockholdings were as follows:

| | Thousands of shares | Percent |
|---|---|---|
| Japan Trustee Services Bank, Ltd. (Trust Account) | 126,591 | 4.06 |
| Nippon Life Insurance Company | 119,045 | 3.82 |
| Nippon Steel Corporation | 107,345 | 3.45 |
| Sumitomo Metal Industries, Ltd. | 107,345 | 3.45 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 100,493 | 3.23 |
| Mizuho Corporate Bank, Ltd. | 64,669 | 2.08 |
| Mitsubishi UFJ Trust and Banking Corporation | 52,333 | 1.68 |
| SSBT OD05 OMNIBUS ACCOUNT — TREATY CLIENTS | 52,317 | 1.67 |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 47,348 | 1.52 |
| Sojitz Corporation | 45,016 | 1.45 |

Note: The Company's holdings of treasury stock (109,033 thousand shares) are not included in the above figures.

## 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, 2011

Number of shares owned

| | | | |
|---|---|---|---|
| Hiroshi Sato | 233,000 | Yuichi Seki | 98,000 |
| Tomoyuki Kaya | 137,000 | Takao Kitabata | 7,000 |
| Takashi Matsutani | 165,000 | Takuo Yamauchi | 10,000 |
| Kazuo Shigekawa | 128,000 | Toshinori Okoshi | 54,000 |
| Ikuhiro Yamaguchi | 109,000 | Jun Miyazaki | 73,000 |
| Hiroaki Fujiwara | 109,000 | Yoshikazu Ikeda | 22,000 |
| Tetsu Takahashi | 88,120 | Shigeo Sasaki | 14,000 |
| Tsuyoshi Kasuya | 92,000 | Takashi Okimoto | 0 |

## 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

## Public Notices

http://www.kobelco.co.jp

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

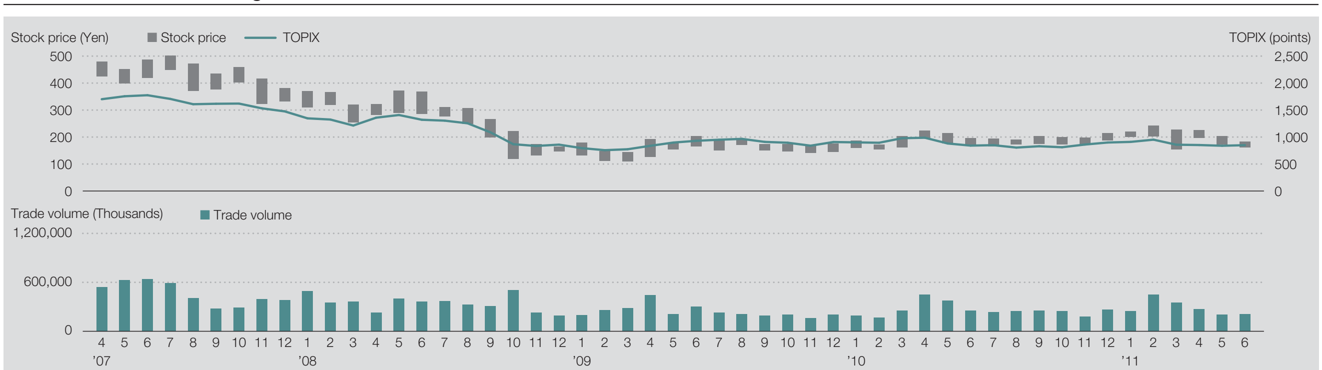
## Transfer Agent & Office

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

## Independent Auditors

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

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




## Information

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