Iron & Steel Business

- Steel demand declined year on year due to the Great East Japan Earthquake and floods in Thailand

Fiscal 2011 Overview

The sales volume of steel was below that of fiscal 2010 owing to various factors including the Great East Japan Earthquake, floods in Thailand, sluggish overseas market conditions and the ongoing appreciation of the yen. Further, sales prices exceeded those of fiscal 2010 as a result of negotiations with customers to pass on rising raw material prices as higher product prices. Sales of steel castings and forgings fell below those of fiscal 2010 due to declining demand from the shipbuilding industry. In contrast, sales of titanium products surpassed those of fiscal 2010 on the back of increased demand for infrastructure upgrades from emerging countries.

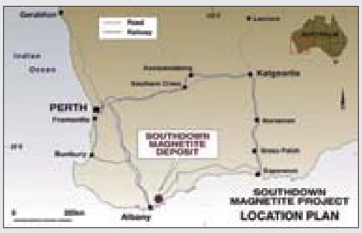
As a result, segment sales in fiscal 2011 remained largely unchanged from the previous fiscal year at ¥854.2 billion. However, despite efforts to revise sales prices, ordinary income declined ¥38.4 billion for an ordinary loss of ¥14.7 billion, due mainly to rising raw material prices.

Topics

Kobe Steel Acquires Equity Interest in Australia's Southdown Project

In March 2012, Kobe Steel acquired a 33% equity stake in Sojitz Resources & Technology Pty Ltd, which was a wholly owned subsidiary of Sojitz Corporation (After Kobe Steel's participation, the company changed its name to SRT Australia Pty Ltd).

SRT and Grange Resources Limited, a listed company on the Australian Securities Exchange, are now conducting a Definitive Feasibility Study for Australia's Southdown Project. SRT has taken a 30% stake in the project. By acquiring shares in SRT, Kobe Steel will indirectly hold a 9.9% interest in Southdown. Southdown is a new iron ore project that will produce high-grade magnetite pellet feed. With production of 10 million metric tons per year expected, shipments are slated to begin in 2015. Kobe Steel agreed with Sojitz to offtake 1.5 million metric tons per year of the magnetite pellet feed produced from the Southdown magnetite deposit. This will contribute to stable operations and lower costs at the Pellet Plant at Kobe Steel's Kakogawa Works.



Mine location

In the future, high-grade iron ore resources are expected to decline while iron ore prices remain high. Through its participation in the project, Kobe Steel will be able to increase its iron ore interests. This will ensure the long-term stable supply of needed resources and increase the competitiveness of its steel business.


Proposed mine development site


Shipping port: Port of Albany

Capital Investments to Raise Steelworks Competitiveness

In December 2012, Kobe Steel will expand its hot-metal treatment capacity at both Kakogawa Works and Kobe Works and its steel plate heat treatment capacity at Kakogawa Works. With this added capacity, it seeks to increase the percentage of "Only One" products sold to 50% by 2015.

Because leading "Only One" products such as high-strength steel sheet for automobiles, steel cord, and ball-bearing steel require a higher level of cleanliness than ordinary steel, treatment of the molten pig iron must be conducted to reduce the amount of sulfur and phosphorous. In addition, most steel for energy-related applications (tanks, pressure vessels, line pipe, etc.), an area in which we will focus on expanding heavy plate sales, also require the removal of sulfur and phosphorous as well as heat treatment after rolling.

These investments will substantially raise our hot-metal treatment and heavy plate heat treatment capacities and enable us to fortify our production system at our steel plants so that we can further expand sales of "Only One" products. At the same time, we anticipate cost reductions from the expansion of molten pig iron treatment capacity.

* Commencement of operations:

Kakogawa Works' new hot-metal treatment plant:	Jun. 30, 2014 (planned)
Kobe Works' new hot-metal treatment equipment:	Oct. 31, 2012 (planned)
Kakogawa Works' new steel plate heat treatment furnace:	Dec. 31, 2012 (planned)