Innovative Products for a Borderless World

KOBE STEEL GROUP
Annual Report 2012
Year ended March 31, 2012

Profile

Contents

Caution Regarding Forward-Looking Statements

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

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

Thorough pursuit of high-end “Only One” products
Further improvement of manufacturing strengths

Accelerating global business development
that more fully utilizes the Group’s comprehensive capabilities

Founded
1905

Consolidated subsidiaries and equity-method affiliates
207

Common stock
¥233.3 billion

Employees
35,496
(Consolidated)

Consolidated net sales
¥1,864.7 billion

Total assets
¥2,159.5 billion

The Kobe Steel Group, a global enterprise built around Kobe Steel, Ltd., is engaged in business 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.

To Our Shareholders

Hiroshi Sato, *President, CEO and Representative Director*

Fiscal 2011 Overview

Throughout fiscal 2011, the Japanese economy was gradually recovering from the Great East Japan Earthquake, which caused major production level decreases. However, the overseas economic slowdown, due in part to the impact of floods in Thailand, and the protracted appreciation of the yen, served as roadblocks to recovery. As a result, Japan's economy remained largely unchanged from that of fiscal 2010. Despite moderate overseas growth, mainly in emerging countries, the growth rate slowed due to financial uncertainty in Europe and fiscal austerity measures in China.

Under these economic conditions, the Kobe Steel Group's sales volumes of steel and aluminum rolled products fell below those of the previous fiscal year due mainly to the impact of the earthquake disaster in Japan and floods in Thailand. Unit sales of hydraulic excavators in China also declined year on year.

Consolidated net sales in fiscal 2011 climbed ¥6.1 billion year on year to ¥1,864.7 billion on higher sales prices of steel. In contrast, ordinary income decreased ¥55.3 billion to ¥33.8 billion, resulting largely from lower sales volumes of steel and other products and rising raw material prices. Net income dropped ¥67.2 billion on the reversal of deferred tax assets, resulting in a net loss of ¥14.2 billion.

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

In fiscal 2010, the Kobe Steel Group established KOBELCO VISION "G," its medium- to long-term business vision, which is now being implemented.

Aiming to establish a global market presence, one of the Group's basic strategies is the pursuit of growth and business expansion. The following describes some of the major business initiatives that the Group has taken.

Iron & Steel Business

▶ Considering a joint venture with Anshan Iron and Steel Group Corporation in China for the manufacture and sale of cold-rolled high-strength steel sheet for use in automobiles. Expanding globally to address local automaker production in other regions.

▶ Concluded an MOU for comprehensive collaboration with Steel Authority of India Limited (SAIL), India's public-sector steel company, and have been studying ways to cooperate.

▶ Acquired an interest in a new iron ore project in Australia that will produce pellet feed.

Welding Business

▶ Established sales companies in India and South Korea.

▶ Expanded production capacity at our Chinese manufacturing company.

▶ Assigned regional responsibility to our manufacturing and sales company in Singapore to provide integrated business management across Southeast Asia.

Aluminum & Copper Business

▶ Constructed a plant for mass production of aluminum forgings for automobile suspensions in China.

▶ Began a feasibility study for local production of aluminum sheet in China.

▶ Concluded a technical transfer agreement with Sweden's Sapa AB to provide Sapa with production technology for aluminum extrusions. This enables us to meet the global procurement needs of our customers throughout the world.

Machinery Business

- ▶ Expanded production capacity at compressor manufacturing companies in China and the United States. Invested in a Chinese compressor manufacturer.
- ▶ Commenced operation of a tire and rubber machinery manufacturing company in India.

Natural Resources & Engineering Business

- ▶ Agreed to conduct a detailed feasibility study with India's SAIL for a joint venture that would utilize ITmk3®, a new ironmaking process developed by Kobe Steel. The study is now underway.

Kobelco Eco-Solutions

- ▶ Received the first order for wastewater treatment facility at Vietnam subsidiary. Conducting a study for a water and infrastructure project on Phu Quoc Island in Vietnam.
- ▶ Conducting a demonstration project in a joint undertaking with Kobe City to utilize biogas, a renewable energy.

Kobelco Construction Machinery

- ▶ Constructed the Global Engineering Center, which is responsible for optimizing global production and development, and the Itsukaichi Factory in Hiroshima to achieve world-class productivity and competitiveness. These new facilities will enhance our technical development capabilities and *monozukuri-ryoku,* or manufacturing strengths.

Kobelco Cranes

- ▶ Commenced operation of crawler crane manufacturing companies in India and China. The new locations will enable us to address future demand.

Under our medium- to long-term business vision, growth markets mean both "growth regions" and "growth fields." By globally developing growth regions, with a focus on emerging countries such as China and India, and breaking into growth fields, especially the environmental, resource, and energy fields, we will continue to meet new demand in growth markets.

Initiatives in Fiscal 2012

Because of the extremely uncertain environment, the improvement of the Kobe Steel Group's earning capacity is a key issue. The Group recognizes that with the Iron & Steel Business having posted an ordinary loss in fiscal 2011, recovery of the earning power in this business segment is an important issue, and the Group has begun taking various corrective actions.

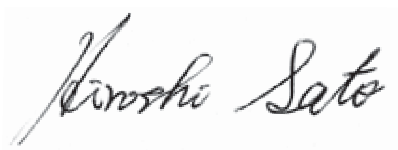
Specifically, investments are being made to reduce costs such as expanding our hot-metal treatment capacity at both Kakogawa and Kobe Works and our steel plate heat treatment capacity at Kakogawa Works and installing our own power generation equipment. Additionally, we have revised product prices, reviewed costs and improved production efficiency.

In Conclusion

The Kobe Steel Group views the returning of profits to shareholders as one of its most important management issues. The Group aims to pay dividends on a stable and continuous basis. The actual amount of 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 dividend payout ratio we are targeting for now is 15% to 25% of consolidated net income. In fiscal 2011, we paid an interim dividend of ¥1 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 2012

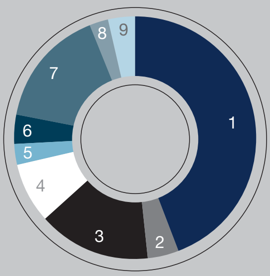


Hiroshi Sato
President, CEO and Representative Director

KOBELCO at a Glance – Fiscal 2011

Net sales	+0.3%	¥1,864.7 billion
Operating income	–51.4%	¥60.6 billion
Ordinary income	–62.1%	¥33.8 billion
Net loss	–	–¥14.2 billion
ROE	–12.6 points	–2.7%
ROA	–3.1 points	–0.7%
Debt/equity ratio	–	1.4 times
Dividend per share	–¥2.00	¥1.00

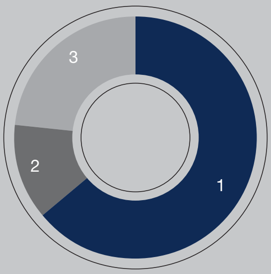
Composition of net sales by business segment (%)



1 Iron & Steel Business 44.2
2 Welding Business 4.4
3 Aluminum & Copper Business 15.0
4 Machinery Business 7.9
5 Natural Resources & Engineering Business 2.9
6 Kobelco Eco-Solutions 3.7
7 Kobelco Construction Machinery 15.9
8 Kobelco Cranes 2.5
9 Other Businesses 3.5

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

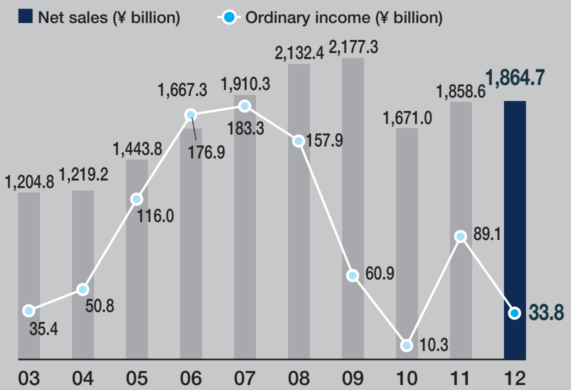
Composition of net sales by geographic area (%)



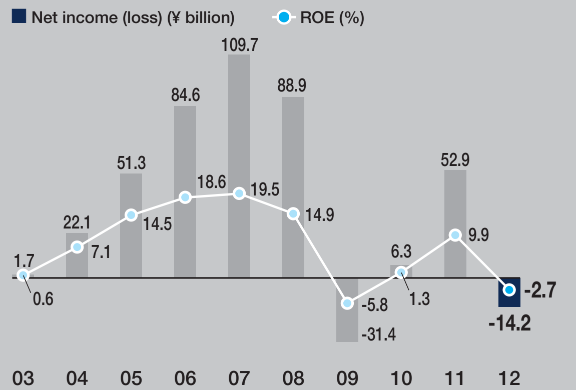
1 Japan 64.1
2 China 12.5
3 Other areas 23.4

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

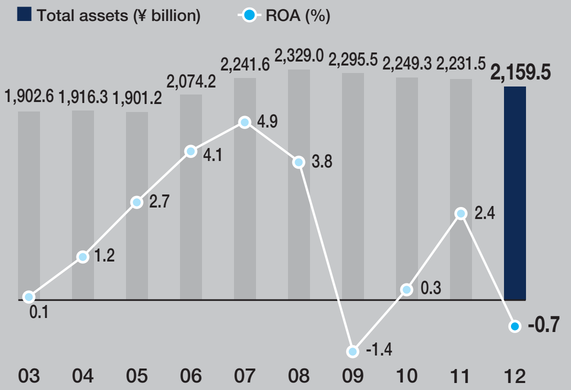
Net sales and ordinary income



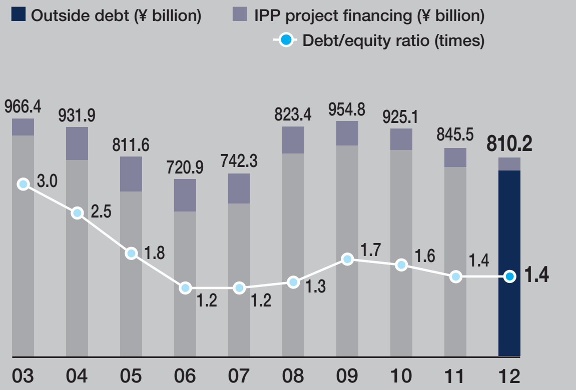
Net income (loss) and ROE



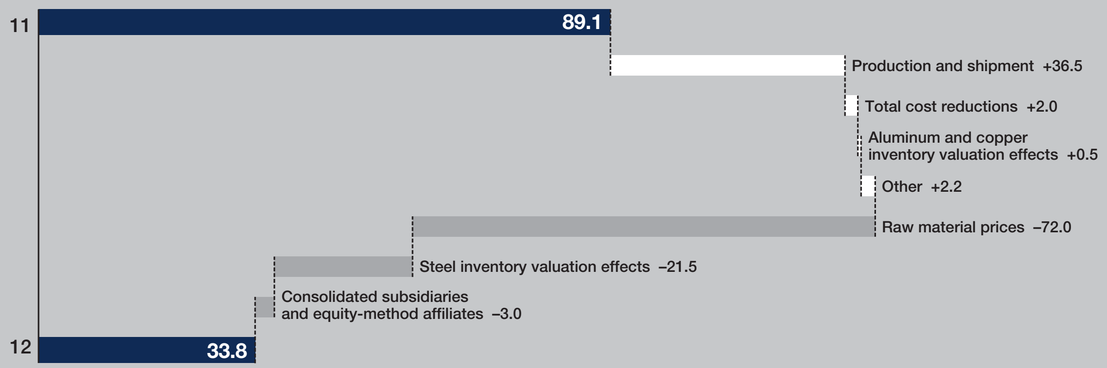
Total assets and ROA



Outside debt and debt/equity ratio



Breakdown of factors affecting ordinary income (¥ billion)



Iron & Steel Business

Consisting of steel products, steel castings and forgings, titanium, steel powder and wholesale power supply business divisions, the Iron & Steel Business makes every effort to strengthen *monozukuri-ryoku*, or its manufacturing capabilities, focusing on improvements in productivity and cost competitiveness. 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
- 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

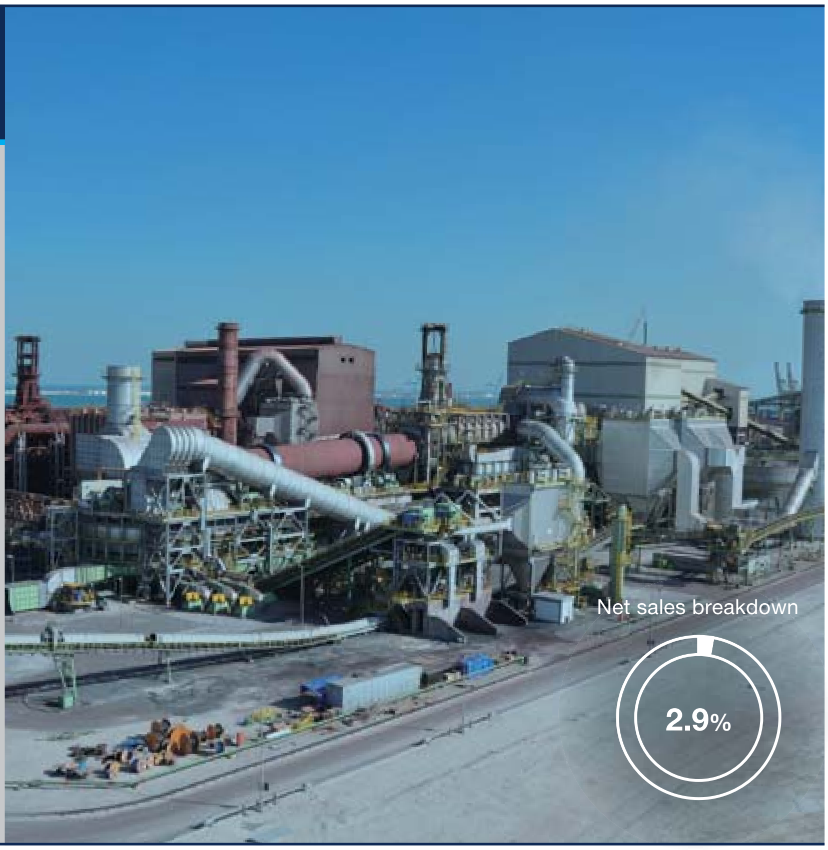
Creating “Only One” Products and Technologies in Diverse Fields

Natural Resources & Engineering Business

Backed by a wealth of experience, the Natural Resources & 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 eliminates 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

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 wires 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

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
- Glass-lined equipment
- Polymerization equipment and reactors
- Separation and refining equipment
- Powder machinery
- High-purity hydrogen oxygen generator
- Environmental analysis

Aluminum & Copper Business

The Aluminum & 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 automotive terminals
- Leadframes
- Condenser tubes
- Copper tube for air conditioners
- Aluminum-alloy and magnesium-alloy castings and forgings
- Fabricated aluminum products

Kobelco Construction Machinery

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

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 energy and chemical fields
- Equipment for nuclear power plants
- Tire and rubber machinery
- Plastic 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

Kobelco Cranes

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

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"**

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

- **Maintains a global market presence**
- **Has a stable profit structure and a strong financial foundation**
- **Prospers together with shareholders, business partners, employees and society**

With these three points representing our image for the Kobe Steel Group, we seek to create new value and global growth.

Leveraging its unique diversity, the Kobe Steel Group is aggressively expanding its business across the world.

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 helps us navigate a course over the next five to ten years. Indeed, it is 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 vision that we want to achieve. To realize this Group vision under five basic policies, the Group has set numerical business targets for net sales of approximately ¥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, increase in hybrid and electric vehicles, etc.)

Five Basic Policies of KOBELCO VISION "G"

1 Thorough pursuit of high-end "Only One" products

· 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

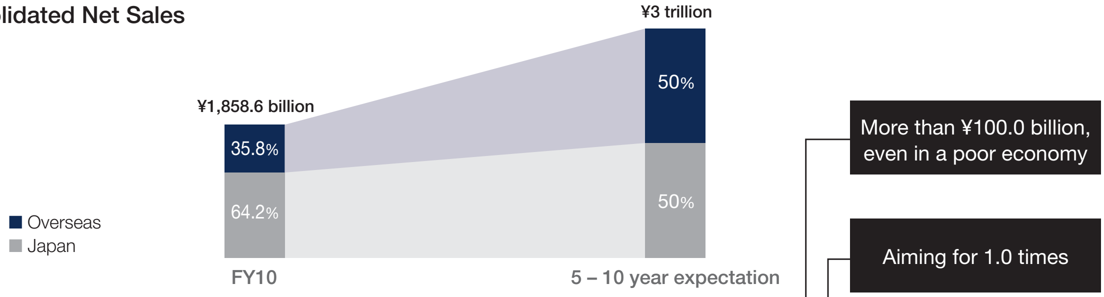
4 Demonstrating the comprehensive capabilities of the Group

· 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 foundations 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 solutions to environmental problems

Consolidated Net Sales



Ordinary income	¥89.1 billion	¥200.0 billion
Debt/equity ratio	1.4 times	1.0 times

Special Feature: 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. This section describes the Kobe Steel Group's business expansion in growth fields, particularly in newly emerging countries, from 2010 through 2012.

KOBELCO's Global Expansion

China

2010 – 2012

Feb. 2010

1 KOBE WELDING OF SHANGHAI CO., LTD.

Commenced Operation of Sales Company

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

Apr. 2010

2 KOBE WELDING OF QINGDAO CO., LTD.

Expanded Capacity of Flux-cored Welding Wires for Mild Steel

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

Jan. 2011

3 KOBELCO (CHINA) HOLDING CO., LTD.

Established Headquarters 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.

Jul. 2011

4 KOBELCO COMPRESSORS MANUFACTURING (SHANGHAI) CORPORATION

Expanded Compressor Plant Commences Operation

Production capacity expansion was completed and full-scale operations were commenced. The expanded plant will help us develop a strong compressor business foundation with the goal of becoming a world-class integrated compressor manufacturer.

Sep.

Study Commenced on Cold-Rolled Steel Sheet for Automotive Use

Kobe Steel agreed to begin a joint feasibility study with Anshan Iron and Steel Group Corporation in China concerning the establishment of a joint-venture company for the manufacture and sale of cold-rolled advanced high-strength steel sheet (AHSS) for automotive use.

Aluminum Sheet Business Looks to Expand with ALCHA Joint Venture

Baotou, Inner Mongolia, the planned site for the joint-venture company, is blessed with abundant energy resources and a plentiful labor force. Baotou aspires to become a production base that offers competitive advantages to companies in terms of facilities and location.

5 WUXI COMPRESSOR CO., LTD.

Starts Under New Structure

Taking an equity stake in Wuxi Compressor, we have established production bases for standard and nonstandard compressors in Japan, the United States and China. Through aggressive global business expansion, we aim for net sales of ¥110.0 billion in 2015.

Oct. Nov. Dec. Jan. Mar.

2012

8 CHENGDU KOBELCO CRANES CO., LTD.

New Crawler Crane Plant Commences Operations

This facility is the first joint-venture plant between Japan and China that manufactures crawler cranes. The plant will launch new products tailored to market needs with an annual production goal of 80 units in 2015.

6 KOBE SPECIAL STEEL WIRE PRODUCTS (PINGHU) CO., LTD.

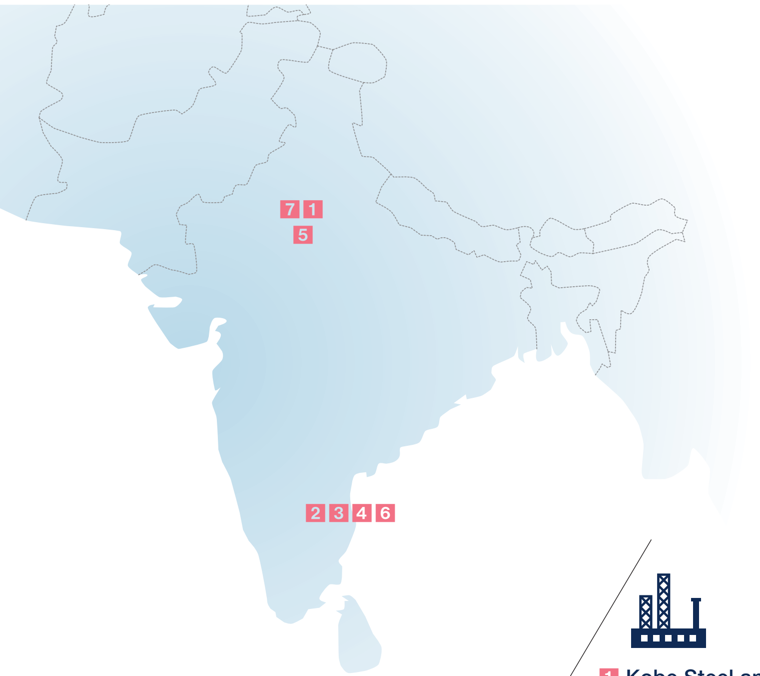
Wire Rod Secondary Processing Plant Expanded

By expanding its production capacity of CH wire and making capital investments to meet bearing steel wire demand, the company is building a supply system that meets the wide ranging needs of its customers.

7 KOBELCO SPRING WIRE (FOSHAN) CO., LTD.

Manufacturing and Sales Company for Steel Wire for Use in High-End Springs

This company was established to capture demand for steel wire for use in high-end springs. The company will build a local supply network for steel wire that combines quality, competitiveness and a flexible market approach.



KOBELCO's Global Expansion

India

2010 – 2012

Nov. 2010

1 Kobe Steel and India's SAIL Sign MOU

Kobe Steel and India's public-sector company, Steel Authority of India Limited (SAIL), agreed to jointly study potential collaboration on technologies, projects and other areas for the purpose of building a mutually beneficial relationship in the steel business.

Nov. 2010

2 L&T KOBELCO MACHINERY PRIVATE LIMITED

Joint-Venture Company Established in Tire and Rubber Machinery Business

Kobe Steel and Larsen & Toubro Limited, a major construction and engineering company in India, established L&T Kobelco Machinery Private Limited to manufacture and sell rubber mixers and rubber twin screw rollerhead extruders used in tire and rubber manufacturing. With this new company, Kobe Steel has established four bases covering Japan, the United States, India and China.

Mar. 2011

3 KOBELCO CRANES INDIA PVT. LTD.

Crane Company Established in India

A groundbreaking ceremony was held for a new crawler crane plant in the state of Andhra Pradesh. Production commenced in November 2011.

Apr.

4 KOBELCO CONSTRUCTION EQUIPMENT INDIA PVT. LTD.

New Hydraulic Excavator Production Base Starts Up

A new hydraulic excavator plant was constructed in the southeast Indian state of Andhra Pradesh. Annual production of 1,200 units is planned.

Jun.

5 KOBELCO WELDING INDIA PVT. LTD.

Welding Company Established

A new company was established to support welding material sales, welding robot systems and maintenance service.

Nov.

6 KOBELCO CRANES INDIA PVT. LTD.

Sales of Locally Made CKL1000i Model Commences in India

Taking advantage of local production, we will conduct sales activities that meet market needs, especially for 100-ton-class and over crawler cranes, a specialty of Kobelco Cranes, in the Indian market, where growth in demand is promising.

Dec.

7 SAIL and Kobe Steel Form Joint Venture for ITmk3® Project Feasibility Study

As prospects for the commercialization of the joint project with SAIL have advanced, an agreement was reached to establish a joint-venture company to conduct a detailed business feasibility study. The companies aim to contribute to the development of India and the Indian steel market through this project.

2012

KOBELCO's Global Expansion

Asia
2010 – 2012

Nov. 2010

1 KOBELCO ECO-SOLUTIONS VIETNAM CO., LTD.

Local Vietnam Company Established

In response to vigorous demand for water treatment facilities, Kobelco Eco-Solutions Co., Ltd. incorporated its Vietnam office into a company. The company plans to expand orders through meticulous sales efforts that include after-sales service.

Apr. 2011

2 KOBELCO WELDING MARKETING OF KOREA CO., LTD.

Welding Materials Sales Company Established in South Korea

Seeking to increase our sales volume by developing welding solutions that combine welding materials, construction methods, and equipment, we are aggressively expanding overseas business to win orders for energy construction projects in emerging countries.

Apr. 2012

3 KOBELCO WELDING ASIA PACIFIC PTE. LTD.

Assigned Overall Control for ASEAN to Singapore Sales Base

With additional growth expected in ASEAN, to ensure optimal business management for the region, overall control for ASEAN was assigned to our sales base in Singapore.

May 2012

4 Glass-Lining Manufacturing Plant to be Constructed in Vietnam

With robust demand in Vietnam, the industry's potential is expected to grow. We will respond to increasing demand for glass-lined equipment through local production.

Management Discussion & Analysis

Contents

Consolidated Ten-Year Summary

Kobe Steel, Ltd. and Consolidated Subsidiaries

	Millions of yen			
Years ended March 31	2003	2004	2005	2006
For the year:				
Net sales	¥1,204,750	¥1,219,180	¥1,443,772	¥1,667,313
Cost of sales	1,001,418	993,394	1,140,422	1,297,291
Operating income	81,054	100,699	166,577	220,395
Ordinary income	35,442	50,789	116,028	176,933
Net income (loss)	1,723	22,066	51,289	84,559
Cash flows from operating activities	115,692	104,041	225,751	198,181
Cash flows from investing activities	27,021	(86,381)	(50,543)	(94,215)
Cash flows from financing activities	(174,997)	(35,754)	(163,945)	(93,593)
Capital investment	43,971	104,911	66,016	92,319
Depreciation	85,090	79,245	80,290	79,507
Research and development expenses	17,797	16,929	19,700	24,121
At year end:				
Total assets	1,902,642	1,916,338	1,901,202	2,074,242
Net assets (Note 2)	293,138	330,127	379,213	530,000
Outside debt	895,883	797,041	669,241	589,101
Outside debt including IPP project financing	966,383	931,891	811,572	720,909
Per share data:				
Net income (loss) (yen/U.S. dollars (Note 1))	¥ 0.59	¥ 7.44	¥ 17.28	¥ 27.94
Diluted net income (yen/U.S. dollars (Note 1))	—	7.38	16.48	27.25
Net assets (yen/U.S. dollars (Note 1))	98.96	111.24	127.80	170.65
Cash dividends (yen/U.S. dollars (Note 1))	—	1.50	3.00	6.00
Ratios:				
Operating income ratio (%)	6.7	8.3	11.5	13.2
Ordinary income ratio (%)	2.9	4.2	8.0	10.6
ROA (%)	0.1	1.2	2.7	4.1
ROE (%)	0.6	7.1	14.5	18.6
Equity ratio (%)	15.4	17.2	19.9	25.6
Debt/equity ratio (times)	3.0	2.5	1.8	1.2
Dividend payout ratio (%)	—	20.2	17.4	21.5
Number of shares issued (in thousands)	2,974,550	2,976,070	2,976,070	3,115,061
Number of employees	26,765	26,179	27,067	29,068

Notes: 1. For convenience only, U.S. dollar amounts in this report have been translated from Japanese yen amounts at the rate of 82.19 to US$1.00, the rate of exchange prevailing on March 31, 2012.

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)
2007	2008	2009	2010	2011	2012	Change 2012/2011	2012
¥1,910,296	¥2,132,406	¥2,177,290	¥1,671,022	¥1,858,574	¥1,864,691	0.3%	$22,687,565
1,543,158	1,757,342	1,890,318	1,475,461	1,570,779	1,635,862	4.1	19,903,419
208,624	202,399	116,934	46,016	124,551	60,555	(51.4)	736,768
183,279	157,919	60,876	10,259	89,083	33,780	(62.1)	410,999
109,669	88,923	(31,438)	6,305	52,940	(14,248)	—	(173,354)
172,786	124,317	118,200	172,893	177,795	39,486	—	480,423
(128,557)	(187,381)	(127,405)	(120,324)	(96,687)	(85,267)	—	(1,037,438)
(48,823)	31,155	138,700	(29,641)	(98,196)	(40,233)	—	(489,512)
133,649	150,585	118,044	128,739	91,378	96,085	5.2	1,169,059
86,687	111,514	128,701	118,835	114,820	118,038	2.8	1,436,160
24,893	30,139	31,029	28,255	29,833	31,437	5.4	382,492
2,241,570	2,329,006	2,295,489	2,249,346	2,231,533	2,159,512	(3.2)	26,274,632
636,432	647,797	513,461	557,002	597,368	571,258	(4.4)	6,950,456
621,227	713,352	855,972	837,770	769,840	746,471	(3.0)	9,082,261
742,276	823,404	954,791	925,120	845,484	810,172	(4.2)	9,857,318
¥ 35.37	¥ 29.63	¥ (10.47)	¥ 2.10	¥ 17.63	¥ (4.75)	—	$ (0.06)
—	—	—	—	—	—	—	—
194.46	199.81	159.58	172.09	182.81	171.84	(6.0)	2.09
7.00	7.00	3.50	1.50	3.00	1.00	(66.7)	0.01
						Points	
10.9	9.5	5.4	2.8	6.7	3.2	(3.5)	
9.6	7.4	2.8	0.6	4.8	1.8	(3.0)	
4.9	3.8	(1.4)	0.3	2.4	(0.7)	(3.1)	
19.5	14.9	(5.8)	1.3	9.9	(2.7)	(12.6)	
26.4	25.8	20.9	23.0	24.6	23.9	(0.7)	
1.2	1.3	1.7	1.6	1.4	1.4	—	
19.8	23.6	—	71.4	17.0	—	—	
3,115,061	3,115,061	3,115,061	3,115,061	3,115,061	3,115,061	—	
31,828	33,657	33,526	33,629	34,772	35,496	724	

Management's Discussion and Analysis

- The sales volumes of steel, aluminum rolled products and copper sheet and strip declined year on year due to the effects of the Great East Japan Earthquake and floods in Thailand
- Net sales increased ¥6.1 billion year on year due to rising steel prices
- Earnings decreased on lower sales of steel and aluminum rolled products and rising steel raw material prices

Analysis of Operating Results

Net sales

+0.3%

FY2011 **¥1,864.7** billion

FY2010 ¥1,858.6 billion

Operating income

–51.4%

FY2011 **¥60.6** billion

FY2010 ¥124.6 billion

Ordinary income

–62.1%

FY2011 **¥33.8** billion

FY2010 ¥89.1 billion

Net income (loss)

–

FY2011 **–¥14.2** billion

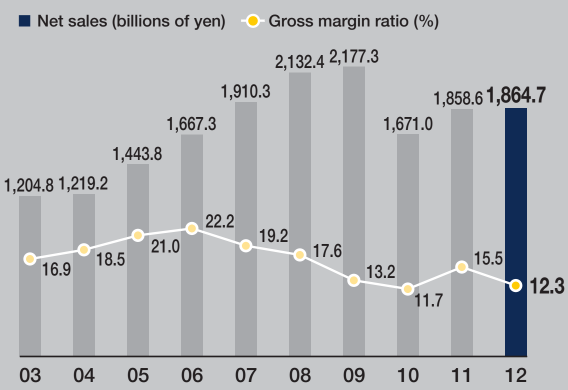
FY2010 ¥52.9 billion

In the fiscal year ended March 31, 2011, the impact that the Great East Japan Earthquake, which caused a substantial decline in production levels, had on the first quarter receded in the second quarter as Japan's economy headed toward recovery. However, from the third quarter, the overseas economic slowdown and protracted appreciation of the yen weighed heavily, causing the economy to remain largely unchanged from the previous fiscal year. Despite moderate overseas growth, mainly in emerging countries, the overall growth rate slowed due to financial uncertainty in Europe and fiscal austerity measures in China.

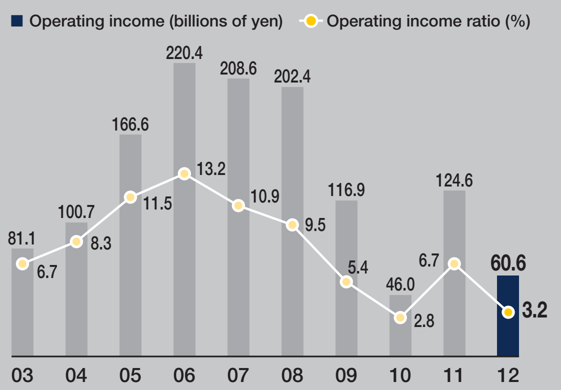
Under these economic conditions, the Kobe Steel Group's sales volumes of steel, aluminum rolled products and copper sheet and strip fell below those of the previous fiscal year due mainly to the impact of the earthquake disaster and floods in Thailand. Despite vigorous demand at the beginning of spring, unit sales of hydraulic excavators in China also declined year on year as a result of the government's fiscal austerity measures begun in April.

Consolidated net sales in fiscal 2011 climbed ¥6.1 billion to ¥1,864.7 billion on higher sales prices of steel. Meanwhile, operating income decreased ¥63.9 billion year on year to ¥60.6 billion, while ordinary income fell ¥55.3 billion to ¥33.8 billion. This was largely attributable to lower sales of steel and aluminum rolled products, declining unit sales of hydraulic excavators in China, rising steel raw material prices and other factors. Net income dropped ¥67.2 billion, resulting in a net loss of ¥14.2 billion, on the reversal of deferred tax assets, despite the reversal of a write-down of investment securities (recorded as an extraordinary loss in the third quarter), excluding those securities whose prices recovered.

Net sales / Gross margin ratio



Operating income / Operating income ratio



Analysis of Cash Flows

Cash flows from operating activities
–¥138.3 billion
FY2011 **¥39.5 billion**
FY2010 ¥177.8 billion

Cash flows from investing activities
+¥11.4 billion
FY2011 **–¥85.3 billion**
FY2010 –¥96.7 billion

Free cash flows
–¥126.9 billion
FY2011 **–¥45.8 billion**
FY2010 ¥81.1 billion

Cash flows from financing activities
+¥58.0 billion
FY2011 **–¥40.2 billion**
FY2010 –¥98.2 billion

Analysis of Financial Condition

Total assets
–3.2%
FY2011 **¥2,159.5 billion**
FY2010 ¥2,231.5 billion

Net assets
–4.4%
FY2011 **¥571.3 billion**
FY2010 ¥597.4 billion

Equity ratio
–0.7 point
FY2011 **23.9%**
FY2010 24.6%

Cash Flows from Operating Activities

A decrease in income before income taxes, and a decline in trade payables to customers increased the strain on working capital, resulting in net cash provided by operating activities of ¥39.5 billion, a decrease of ¥138.3 billion.

Cash Flows from Investing Activities

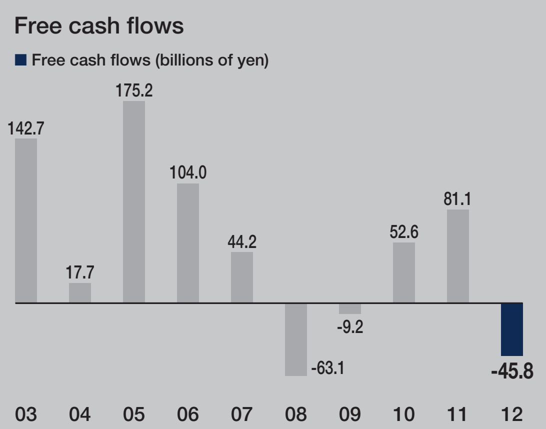
Net cash used in investing activities came to -¥85.3 billion, a year-on-year decrease of ¥11.4 billion, due to such factors as reduced spending on intangible assets and plant and equipment.

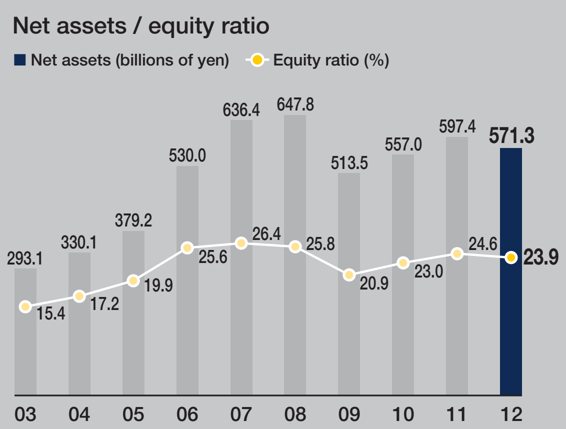
Cash Flows from Financing Activities

Net cash used in financing activities increased ¥58.0 billion to -¥40.2 billion due to inflows such as increased short-term borrowings, despite higher outflows from the repayment of long-term debt.

While inventories increased, cash and cash equivalents, and plant and equipment decreased. As a result, total assets at the end of the fiscal year under review decreased ¥72.0 billion from the previous fiscal year-end to ¥2,159.5 billion. Net assets declined ¥26.1 billion to ¥571.3 billion, due to lower retained earnings. As a result, the equity ratio was 23.9%, a 0.7 percentage point decrease from the end of the previous fiscal year.

As of March 31, 2012, the outside debt balance, which include IPP project financing, decreased ¥35.3 billion to ¥810.2 billion.





Review of Operations

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.

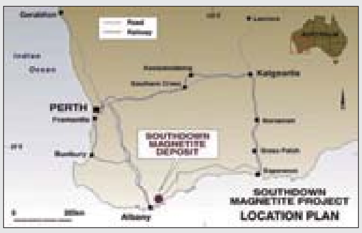
As a result, segment sales in fiscal 2011 remained largely unchanged from the previous fiscal year at ¥854.2 billion. However, despite efforts to revise sales prices, ordinary income declined ¥38.4 billion for an ordinary loss of ¥14.7 billion, due mainly to rising raw material prices.

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)

Welding Business

- Sales increased 8.5% year on year to ¥84.4 billion
- Earnings fell due to the high yen and lower demand in China

Fiscal 2011 Overview

In fiscal 2011, sales of welding consumables surpassed those of fiscal 2010, especially in overseas markets, thanks to stronger demand in South Korea, Europe, the United States, Russia and other countries. Both sales and orders for welding systems exceeded those of fiscal 2010 owing to vigorous demand for construction machinery in China.

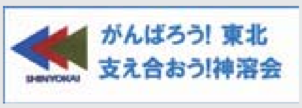
As a result, fiscal 2011 sales climbed 8.5% year on year to ¥84.4 billion, while ordinary income decreased to ¥3.1 billion as a result of the appreciation of the yen and other factors.

Topics

60th Anniversary of Shinyokai — Contributing to a Stronger Sales Organization and to Reconstruction

Shinyokai, our sales organization for welding consumables, celebrated its 60th anniversary in 2011. Shinyokai's efforts for over 60 years has guided and supported Japan's industrial development and *monozukuri-ryoku*. As this year marks the first year since the Great East Japan Earthquake, we ran a commemorative sales campaign under the slogan of "Fight! Tohoku." A total of ¥25 million, a portion of the proceeds from this campaign, has been donated as relief funds to the Center for Vocational Training of Elderly and Disabled Job Seekers.

Shinyokai's 60th Anniversary



Shinyokai's "Fight! Tohoku" Recovery Support Campaign

ASEAN Shinyokai, a marketing organization in Southeast Asia, celebrated its 20th anniversary in 2011. One of our companies in Thailand was Kobe Steel's first base to be established overseas. The ASEAN Shinyokai has helped us over many years to attain the number one market share in Southeast Asia, particularly in Thailand.

We are working hard with the goal of becoming the world's most trusted comprehensive welding company.

Greater Presence in China, ASEAN to Bolster Overseas Business

To further increase our presence in the ASEAN region, we assigned overall control for ASEAN to our company in Singapore. We also changed the company's name from Kobe Welding (Singapore) Pte. Ltd. to Kobelco Welding Asia Pacific Pte. Ltd. in April 2012.

In China, we expanded production capacity at Kobe Welding of Qingdao Co., Ltd., which makes mild steel flux-cored wires. We are also working on greater cooperation between companies including Kobe Welding of Shanghai Co., Ltd. and Kobe Welding of Tangshan Co., Ltd.

As of fiscal 2011, we now have bases in a total of 14 locations.

Developing Solutions for Welding Processes

Our ARCMAN™ series of welding robots are widely used by customers to weld steel plate for construction machinery and construction steel frames. In September 2011, we launched the ARCMAN™-GS cable-in-arm welding robot. With the advancement of integrated torch and cable-in-arm welding robots, robots are being more frequently used for welding in confined spaces. Also, by adopting overhead-suspension robots, a wide operating radius can be achieved.

ARCMAN™-GS

Kobe Steel has jointly developed a welding process for galvanized steel sheet with DAIHEN Corporation and has begun to sell welding material and equipment for this process. By optimally combining shield gas composition with Kobe Steel's welding material design technology and Daihen's waveform control technology, we were able to minimize pits and blowhole defects while inhibiting sputter.

This new welding process increases user competitiveness by improving customer quality and productivity while reducing costs and will be marketed in Japan and around the world.

Aluminum & Copper Business

- Slack demand resulting from the earthquake in Japan and floods in Thailand caused sales volumes to decline and negatively impacted earnings
- Although the effects of the Thai floods will no longer be felt in fiscal 2012, concerns remain about whether LCD and semiconductor demand will recover

Fiscal 2011 Overview

The sales volume of aluminum rolled products and sales of aluminum castings and forgings fell below those of the previous fiscal year due mainly to sluggish demand for their use in air conditioners and for LCDs and semiconductor manufacturing equipment caused by the Great East Japan Earthquake and floods in Thailand.

Despite brisk demand for copper tube, the sales volume for copper rolled products was below that of fiscal 2010, reflecting lower demand for copper sheet and strips from semiconductor manufacturers. As a result, sales in fiscal 2011 slipped 4.6% year on year to ¥289.9 billion, while ordinary income declined ¥8.7 billion to ¥6.1 billion.

TOPICS

■ Mass Production of Aluminum Forgings Begins in China

Kobe Aluminum Automotive Products (China) Co., Ltd. was established in June 2010 in Suzhou, Jiangsu Province in China. Mass production of aluminum forgings for automobile suspensions commenced in August 2012. Trial operations began in January 2012. With Japanese, European and U.S. automakers raising production in China, we decided to expand production capacity to meet higher than expected demand for our aluminum forgings. (Amount of additional investment: ¥4.5 billion; production capacity from March 2013: 250,000 units [current capacity: 120,000 units.]) We now have production companies in three locations: Japan, China and the United States.

■ Kobe Steel Licenses Auminum Extrusions to Sweden's Sapa

In March 2012, Kobe Steel concluded a technology transfer agreement with Sapa AB, the world's largest aluminum extrusion producer. Under the agreement, all of Sapa's plants (50 plants in 30 countries) throughout the world can make our aluminum extrusions to meet user's global procurement needs.

■ Kobe Steel Mulls Aluminum Sheet Production in China

To meet the local procurement needs of Japanese, European and U.S. customers for automotive panel material, we are studying the feasibility of producing aluminum sheet in China.

■ Bumper System Wins Award from Toyota Motor Corporation

Kobe Steel won the Technical Development Award from Toyota Motor Corporation for its bumper system produced with an electromagnetic forming method. It was honored at the Toyota Global Suppliers Convention held in February 2012. This award is presented to companies that contribute to Toyota Motors' product appeal with distinctive world-leading new technology and new product development. We were the first in the world to develop and mass produce pierced aluminum stays and an aluminum bumper assembled into a unified bumper system using the electromagnetic forming process. The new method substantially reduces the number of parts, weight and cost compared with the traditional method.

■ Exhibition at Aluminium China 2011

In July 2011, Kobe Steel exhibited at Aluminium China 2011 held in Shanghai. This year marked the seventh year of Asia's largest aluminum industry exhibition. Our exhibit consisted of "Only One" products and technologies in the automotive and IT fields, attracting significant interest from many visitors.

Machinery Business

- Meeting vigorous demand in emerging countries and accelerating global expansion
- Maintaining steady earnings through cost reduction efforts

Fiscal 2011 Overview

Strong demand primarily for compressors from the oil refining and petrochemical industries pushed machinery orders up 3.0% year on year to ¥145.1 billion, while the backlog of orders was ¥160.5 billion at the end of the fiscal year.

In addition, although segment sales were largely unchanged compared with fiscal 2010 at ¥152.8 billion, ordinary income declined ¥4.6 billion year on year, to ¥9.9 billion.

TOPICS

Production Capacity at U.S. Compressor Plant Expanded

Kobelco EDTI Compressors, Inc., a U.S. manufacturer of nonstandard compressor systems, increased its production capacity with the completion of a new plant. The head office was subsequently moved to the new US$20 million plant in April 2011 and full operations have commenced.

With the relocation, the company name was changed to Kobelco Compressors America, Inc. The company will play a key role in the development of the North and South American nonstandard compressor business. Nonstandard compressors are a mainstay product of the Kobe Steel Group's Machinery Business.

Invested in Chinese Compressor Manufacturer

To meet the growing demand for process gas compressors (nonstandard compressors) in China, Kobe Steel concluded an agreement to acquire a 44.3% equity share in Wuxi Compressor Co., Ltd., a Chinese compressor manufacturer, and acquired the relevant shares.

Wuxi Compressor is a well-established integrated compressor manufacturer in China founded in 1955. Its reciprocating compressors for oil refining and petrochemical use and air compressors (screw-type) are especially well-received in the market. Our equity stake in this business will enable our Chinese production base to engage in the nonstandard compressor field and for the Kobe Steel Group's compressor business to aggressively expand globally and increase sales.

Expansion of Shanghai Compressor Facility Completed

The expansion of production capacity at Kobelco Compressors Manufacturing (Shanghai) Corporation, our base in China for standard compressors, was completed in July 2011 and full-scale operations has commenced. The total investment for the expansion came to 47 million yuan.

As a supply base for China and Southeast Asia, Kobelco Compressors Manufacturing (Shanghai) expanded its production capacity in 2008 and has continued full production thanks to vigorous demand. With the new expansion, annual production capacity has increased from 2,200 units to 3,500 units. For the Chinese and Southeast Asian markets, it plays a key role in Kobe Steel's standard compressor business.

Tire and Rubber Machinery Base Opens in India

L&T Kobelco Machinery Private Limited, established as a joint venture with Larsen & Toubro Limited, completed construction of its tire and rubber machinery plant in January 2012 and has commenced operations.

Taking full advantage of its manufacturing base and Larsen & Toubro's strong sales network, the company will expand sales in India and markets to the west and solidify its position as one of the world's leading manufacturers.

Natural Resources & Engineering Business

- Began commercial operation of a steel mill dust recycling plant
- Conducting feasibility study with SAIL for a joint venture in India to utilize the ITmk3® ironmaking process

Fiscal 2011 Overview

Orders in fiscal 2011 came to ¥29.3 billion, a 61.1% decrease compared with the previous fiscal year when an order for a large direct reduction plant was received. At the end of fiscal 2011, the backlog of orders stood at ¥70.0 billion.

In addition, fiscal 2011 sales were down 13.1%, from fiscal 2010 to ¥55.8 billion, and ordinary income decreased ¥2.7 billion year on year, to ¥0.3 billion.

Topics

■ SAIL and Kobe Steel Conducting Study for ITmk3® Project

In March 2010, Kobe Steel and Steel Authority of India Limited (SAIL) began working together on a preliminary study for a joint venture to utilize the ITmk3® ironmaking process. Because of its promising potential, the two companies subsequently agreed to establish SAIL-KOBE Iron India Private Limited, a joint venture company created to carry out a detailed feasibility study for ITmk3® commercialization.

The project consists of one ITmk3® ironmaking plant with a capacity to produce approximately 500,000 metric tons of iron nuggets per year. Kobe Steel and SAIL would have the right to utilize the iron nuggets produced at the plant in proportion to their equity share in the joint venture (Kobe Steel 50%, SAIL 50%) for their own use, or the joint venture may sell the nuggets directly on the market. The project would use iron ore from SAIL's mines. Non-coking coal, sourced within India, would be used as the reductant in the ITmk3® Process.

India's steel industry is expected to show continued strong growth. Through the ITmk3® project, Kobe Steel and SAIL can contribute to the development of India's steel market, and, consequently the country's development. The detailed feasibility study and environmental permit process are moving steadily ahead, with plans calling for the plant to commence operations in 2015.

■ Steel Mill Dust Recycling Joint Venture Begins Operation

Kobe Steel is using steel mill dust and iron ore fines from steel mills as raw materials to produce direct reduced iron (DRI). This enables iron to be recycled and put to effective use and zinc to be recovered. For this purpose, a joint-venture company called Nittetsu Shinko Metal Refine Co., Ltd. was established with Nippon Steel Corporation in October 2008. Construction of the steel mill dust recycling plant began in May 2010, and plant operations commenced in October 2011.

Nittetsu Shinko Metal Refine (equity share: Nippon Steel 70%, Kobe Steel 30%) operates a recycling plant that utilizes Kobe Steel's FASTMET® Process. In this process, steel mill dust is heated to a high temperature in a Rotary Hearth Furnace (RHF) and is quickly reduced to make DRI. At the same time, zinc in the steel mill dust is recovered. The recycling of steel mill dust, a by-product of the steel manufacturing process, is an extremely effective method for dealing with rising steel demand, especially in emerging countries, as well as escalating raw material prices. The DRI can be effectively used as an alternative raw material to purchased scrap or iron ore, and the recycled zinc can reduce the use of zinc ore. Recycling also promotes zero emissions.

Nittetsu Shinko Metal Refine's steel mill dust recycling plant

Kobelco Eco-Solutions

- Built a stronger business foundation in Japan
- Entered overseas markets and expanded sales
- Created new product offerings and new businesses

Fiscal 2011 Overview

Orders in fiscal 2011 increased 21.5% compared with the previous fiscal year to ¥78.8 billion, thanks to an order for a large project in the waste treatment business, while the backlog of orders stood at ¥42.7 billion at the end of the fiscal year.

Segment sales in fiscal 2011 climbed 2.3% from fiscal 2010 to ¥71.2 billion, and ordinary income rose ¥1.1 billion year on year to ¥4.2 billion.

TOPICS

■ Survey Conducted on Water and Infrastructure Project on Phu Quoc Island in Kien Giang Province, Vietnam

Kobelco Eco-Solutions Co., Ltd. is conducting a joint survey with Kobe City, Kobe Urban Development Corporation, and Nihon Suido Consultants Co., Ltd. on a water and infrastructure project on Phu Quoc Island in Kien Giang Province, Vietnam.

The project was implemented after a decision was made to adopt the Vietnam Renewable Water, Resource and Energy Model Project Support Services announced by Japan's Ministry of Land, Infrastructure, Transport and Tourism and a preparatory survey conducted in public-private partnership announced by the Japan International Cooperation Agency (JICA).

The survey results will be studied with the aim of not only constructing and operating a water and sewage facility, but also recycling treated waste water (reclaimed water) and using sludge for energy. A business proposal for a water and infrastructure project will then be made in a public-private partnership.

Aerial view of Phu Quoc Island

■ Innovative Sewage Technology Demonstration Project Initiated

Kobelco Eco-Solutions, in collaboration with Osaka Gas Co., Ltd., proposed the adoption of the Higashi Nada Treatment Plant Renewable Energy Production and Breakthrough by Dynamic Approach in Sewage High Technology Project, also known as the Kobe Green Sweets Project to the Breakthrough by Dynamic Approach in Sewage High Technology Project, sponsored by Kobe City and a joint research body and announced by the Ministry of Land, Infrastructure, Transport and Tourism. Based on the proposal, the project was adopted.

The demonstration project involves the intake of processed foods (sweets) and wood-based (green) regional biomass suitable for sewage into a sewage treatment plant, the fermentation of methane and the mixing of sludge, then verification of the increase in the amount of biomass generated. The goal is to turn the sewage at treatment plants into renewable energy supply bases that produce energy locally for local consumption.

Demonstration facility for Kobe Green Sweets Project (Photo courtesy of Kobe City Construction Bureau)

■ Order for Waste Treatment Plant in Haga District, Japan

Kobelco Eco-Solutions together with Kobelco Eco-Maintenance Co., Ltd. received an order for a project to develop and operate a wide-area waste treatment plant for the Wide-area Administrative Union of Haga District in Tochigi, Japan.

The project has adopted the method of ordering construction and operation as a single contract, which includes a 20-year period of operations. As a result of a comprehensive evaluation that highly rated safety, stability, resource and energy recoverability, final waste volume reduction effects, CO_2 emissions reduction effects and economic efficiency, Kobelco's fluidized-bed gasification and melting furnace was selected and ordered.

Ever since it constructed the first such commercial plant in Japan in 2000, Kobelco Eco-Solutions has accumulated a impressive record in Japan and abroad and is now one of the leading manufacturers of this type of plant. Kobelco Eco-Solutions seeks to win even more orders in the years ahead.

Illustration of completed facility in Haga

Kobelco Construction Machinery

- Sluggish Chinese market was major contributor earnings decrease in fiscal 2011
- Outlook for fiscal 2012 is for continued strong demand in Southeast Asia and for reconstruction in Japan, despite continued weakness in China

Fiscal 2011 Overview

Unit sales in Japan exceeded those of fiscal 2010 on the back of brisk demand in Southeast Asia and reconstruction demand after the earthquake disaster. Nevertheless, unit sales in China, a major market, fell below those of fiscal 2010 due to monetary restraints beginning from April, despite vigorous demand at the start of the Chinese New Year.

In addition, although segment sales came to ¥307.2 billion, largely unchanged from those of fiscal 2010, ordinary income declined ¥3.4 billion year on year, to ¥22.9 billion.

Topics

20-ton Hybrid Excavator to Go on Sale

In addition to the SK80H, an 8-ton-class hybrid hydraulic excavator launched in 2010, Kobelco Construction Machinery recently developed the SK200H, a 20-ton-class hybrid hydraulic excavator to be launched on October 1, 2012.

The new SK200H reduces fuel consumption by 16% compared with our standard SK200-8 model. Kobelco Construction Machinery's SK80H won the Minister of the Environment's 2010 Commendation for Global Warming Prevention Activities (Technical Development and Commercialization category).

20-ton-class hybrid hydraulic excavator SK200H

Operation of Hiroshima Global Engineering Center and Itsukaichi Factory Commence

In the Itsukaichi area of Hiroshima City, we established the Global Engineering Center to optimize Group production and developmen and also built the Itsukaichi Factory to achieve world-class productivity for hydraulic excavators. Both facilities commenced operations in May.

Kobelco Construction Machinery achieved a 30% productivity improvement at its former Gion Factory thanks to step-by-step production improvements carried out since the Lehman Brothers collapse. It also achieved a 30% productivity improvement at its new Itsukaichi Factory and is targeting a 50% improvement over the production system it operated prior to the Lehman Brothers collapse. Kobelco Construction Machinery plans to upgrade its worldwide production facilities and has finally completed a globally competitive production base in Japan.

We will continue to reinforce our technological development capabilities and *monozukuri-ryoku* and further globalize the Group's entire supply chain and management system.

Aerial view of the Global Engineering Center and Itsukaichi Factory

Kobelco Cranes

- Commencing full production in India and China in fiscal 2012
  New series developed in Japan for the global market
- Demand from disaster reconstruction gaining momentum

Fiscal 2011 Overview

In fiscal 2011, unit sales of crawler cranes increased overseas, especially in North America and Southeast Asia, and in Japan due to reconstruction after the earthquake disaster. This led to higher year-on-year sales and a return to the black for ordinary income.

As a result, segment sales in fiscal 2011 climbed 17.2% year on year to ¥48.0 billion, while ordinary income returned to the black with the reporting of ¥0.16 billion.

Topics

New Models Launched Overseas and in Japan

An entirely new crane series that complies with the latest air emission regulations has been released in North America as the CK-G Series, in Europe as the CKE-G Series, in other regions as the CKS Series, and in Japan as the Mastertech-G series.

Durning the year, the BM-G Series of crawler cranes for civil engineering and foundation work was also launched. The new models have been upgraded to meet customer needs for eco-friendliness, safety, more efficient operation, energy conservation, and other factors, and are highly rated by customers.

New Crawler Crane Plant in India Begins Operation

Kobelco Cranes India Pvt. Ltd., a subsidiary of Kobelco Cranes Co., Ltd., commenced operations in December 2011, with the opening ceremony being held in February 2012. The new plant produces 100- to 260-ton class cranes, with targeted annual production of 100 units.

With vigorous demand expected, Kobelco Cranes is supplying customers through local production in India, a market where demand rivals that of China.

Production Commences at Crawler Crane Plant in China

Production commenced at Chengdu Kobelco Cranes Co., Ltd., a joint venture between Kobelco Cranes Co., Ltd. and our Chinese partner. The completion ceremony for the new plant was held in March 2012. Kobelco Cranes aims to meet demand in China, the world's largest crawler crane market with products tailored to local needs. With 260-ton class crawler cranes now under production, the new plant is targeting annual production of 80 units.

Other Businesses

Fiscal 2011 Overview

At Kobelco Research Institute, Inc., demand in the target materials business was sluggish. In contrast, real estate sales and the leasing businesses at Shinko Real Estate Co., Ltd. were steady. As a result, segment sales were up 5.5% year on year, to ¥69.2 billion, and ordinary income increased ¥0.7 billion to ¥7.2 billion.

Topics

Shinko Real Estate Co., Ltd.

In July 2012, sales of condominium units began at Proud City Kobe Myodani, one of Kobe City's largest condominium projects jointly developed by Shinko Real Estate Co., Ltd., Nomura Real Estate Development Co., Ltd., Ryohkoh, Ltd., and MID Urban Development Co., Ltd.

- Total site area: 17,500m^2; Number of units: 434 (redevelopment project on old Kobe City land)
- Environment-friendly smart homes that offer a next-generation "green lifestyle" based on the conservation, generation, and storage of energy.

In July 2011, Kobe Steel began the building management (facility management, security and cleaning) of Kobe City Medical Center General Hospital. This is a PFI project that is primarily managed by Kobe Steel.

Kobelco Research Institute, Inc.

■ Secondary Battery Evaluation, Analysis and Testing Business

In recent years, we have seen a shift in the automobile industry — a source of environmental and energy problems — to electric and hybrid vehicles. The commercialization of solar batteries and wind-power generation as renewable energy sources is rapidly moving forward. The development of higher-capacity, higher-energy output and safe, low-cost secondary batteries as storage batteries is actively growing.

With the market for in-car and stationary batteries expanding, there are virtually no testing agencies that can evaluate the properties of large secondary batteries, investigate the cause of battery deterioration, or evaluate their safety. As a result, there is market demand for this service.

Kobelco Research Institute, a Kobe Steel Group company that specializes in contracted research, testing, and analysis services, launched a groupwide project in 2008 for secondary battery evaluation, analysis, and testing. Kobelco Research Institute has developed physical and surface analysis using airtight equipment that enables consistent handling from trial battery production to evaluation, as well as safety evaluation and testing technology that uses reaction and thermal analysis simulation technology and cubic and domed chambers. Kobelco Research Institute has grown to become the industry leader in this business.

With even greater growth expected in the years ahead, we will pursue renewable energy use through our business and contribute to next-generation battery development and commercialization.

Cubic chamber (left) and domed chamber (right)

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) bases its research in four technical fields: refining and solidification, materials design, mechanical working and surface control. In materials business, MRL is working to develop new high-performance products based on material and surface design and control, as well as 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

At the core of the Mechanical Engineering Research Laboratory are the fields of structure, strength, dynamics, acoustics, fluid and heat transfer, combustion, advanced simulation technology in the chemical field and testing, measurement and analysis technologies. This laboratory focuses on enhancing product performance and production processes, streamlining designs, and developing new products and technologies to improve product development capabilities in machinery, materials, the environment, energy, and steel structures.

Production Systems Research Laboratory

The Production Systems Research Laboratory (PSRL) introduces innovation to production technologies to bolster the Group's manufacturing capabilities, utilizing cutting-edge technologies for measurement and inspection, control, production planning, information systems and signal processing. It also seeks to develop new lineups of products that have at their core the strong technologies it has cultivated.

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, it capitalizes on its electromagnetic design and electronic control technologies in its efforts to develop novel products in power electronics and to make inroads into new businesses.

Coal & Energy Technology Department

The Coal & Energy Technology Department (CETD) is developing energy conversion technologies such as upgrading low-grade coal through dewatering and deashing, coal liquefaction and hydrocracking of heavy oil. CETD is striving 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

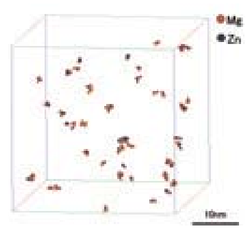
Structural Analysis of Materials at Atomic Level Helps Create New Products and Technologies

Kobe Steel has developed the technology for a three-dimensional atom probe for atomic-level analysis of the microstructures that determine the performance of metals such as copper. With this new technology, the surface quality of aluminum alloys used in automobiles can be improved.

Aluminum-magnesium alloys (5000 series) feature superior formability and show promise in enabling greater flexibility in component design and in forming difficult to mold parts to help make vehicles lighter. However, inhibiting the surface distortion pattern known as the "stretcher-strain mark" (SS mark), which is caused by the atomic level structure, has been a longstanding problem. To solve this problem, we used the most advanced three-dimensional atom probe capable of evaluating the cubic distribution of atoms and developed a method of sample preparation, measurement, and analysis. With this method, we determined the three-dimensional distribution of elements in the metal sample. By forming a minute cluster (an aggregate of atoms), we were able to inhibit the SS mark's formation.

We will leverage this new analysis method to propose the use of new materials to automakers and to increase the performance of steel and other materials.

Three-dimensional atom probe



Cluster mapping of magnesium and zinc

Technology for Harnessing Untapped Energy

In response to the electric power supply situation in Japan, we offer technology that harnesses previously untapped energy.

Japan, a volcanic country, has renewable energy sources such as geothermal power. To harness this energy source, Kobe Steel has developed a small binary power generation system called Microbinary that generates power from hot springs and steam. A binary generator is a power generation system that heats and vaporizes a working medium with a low boiling point using hot water between the temperatures of 70°C to 95°C and then uses the steam thus generated to rotate a turbine.

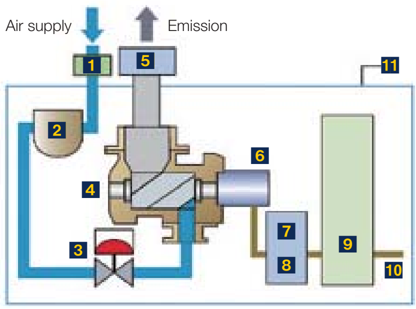
Power can be generated not only by geothermal heat, but also by hot-water biomass boilers, warm drainage water and steam from factories. Kobe Steel employed the world's first semi-hermetic screw turbine in the binary power generation system. The new system is capable of generating a maximum of 60kW on a stable basis without leakage of the working medium. This amount of electric power is equivalent to the amount consumed by about 150 average households.

Plans call for Microbinary to be installed in the Yufuin Shoya no Yakata inn in Oita Prefecture this autumn. The Shoya no Yakata has a source of hot water from which hot spring steam spews into the air from nearly 700 meters underground. The inn plans to generate electricity by effectively harnessing this abundant hot spring energy source.

Kobe Steel is working to further reduce the size and raise the power generation capacity of Microbinary and plans to spread its use to hot springs and factories throughout Japan. Another expected use is as a power generation system for disaster centers in local municipalities and other locations to generate electric power during disasters.

The SteamStar®, our compact steam-powered generator, is another technology developed for harnessing untapped energy sources and effectively using steam. Small boilers used in small- to medium-sized manufacturing facilities have been unable to completely use the low-pressure energy from steam generated during the manufacturing process. By harnessing this untapped steam energy, SteamStar® makes highly efficient power generation possible. In Japan, there are nearly 250,000 small boilers. If SteamStar® was installed at only 10% of those boiler sites, Japan could conserve electricity and reduce annual CO_2 emissions by five million tons.

Illustration of Microbinary power generation system to be installed at Yufuin Shoya no Yakata Hot Spring



1 Steam gate valve
2 Drain separator
3 Capacity control valve (doubling as emergency shut-off valve)
4 Helical screw expander
5 Exhaust steam gate valve
6 Power generator
7 Converter
8 Inverter
9 Control panel
10 Power cable
11 Unit cover (can be installed outdoors)

SteamStar® configuration

Intellectual Property Activities

Overseas Intellectual Property Acquisition and Risk Hedging

Through the application and use of intellectual property (IP), the Kobe Steel Group ensures that its research and development and business activities can operate without restrictions. The Group also engages in IP activities to raise its corporate value. To ensure that no restrictions are placed on its overseas business development activities, under KOBELCO VISION "G," the Kobe Steel Group's long-term business vision, the Group not only acquires patents in the countries in which it does business, and when it comes as a condition for forming a business partnership, it also places a priority on technology agreements to hedge against businesses risks such as patent infringement by competitors and technology leakage, as well as to raise business profitability.

Overview of Fiscal 2011

In fiscal 2011, Kobe Steel was awarded nearly 660 new patents in Japan, primarily to protect "Only One" products, giving the Company approximately 5,200 total patents as of the fiscal 2011 year-end. As a result of the globalization of its business, Kobe Steel is strengthening its application of new patents overseas, especially in Asia, which now accounts for almost 30% of its total number of patent applications. Moreover, Kobe steel is fortifying its IP activities in Asia including China, and is taking steps to increase the number of patents applied for and to protect the KOBELCO brand against counterfeit goods and patent infringement.

Corporate Social Responsibility

Contents

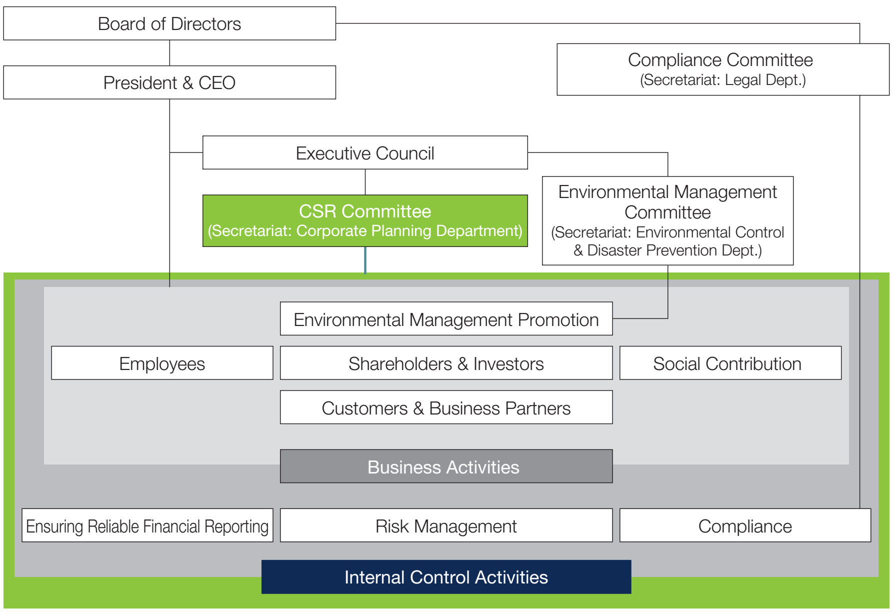
CSR Promotion System

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

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

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

CSR Promotion Structure



Corporate Governance

With its operating environment undergoing major changes, Kobe Steel 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.

▪ 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. To encourage active and wide discussion, Kobe Steel's Board is comprised of the president, key directors at corporate headquarters and directors of the five major business divisions. In addition, there are two outside directors who have no conflicting interests with the Company, for a total of 10 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. These meetings are in addition to 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 prepare 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 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 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 conducting 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.

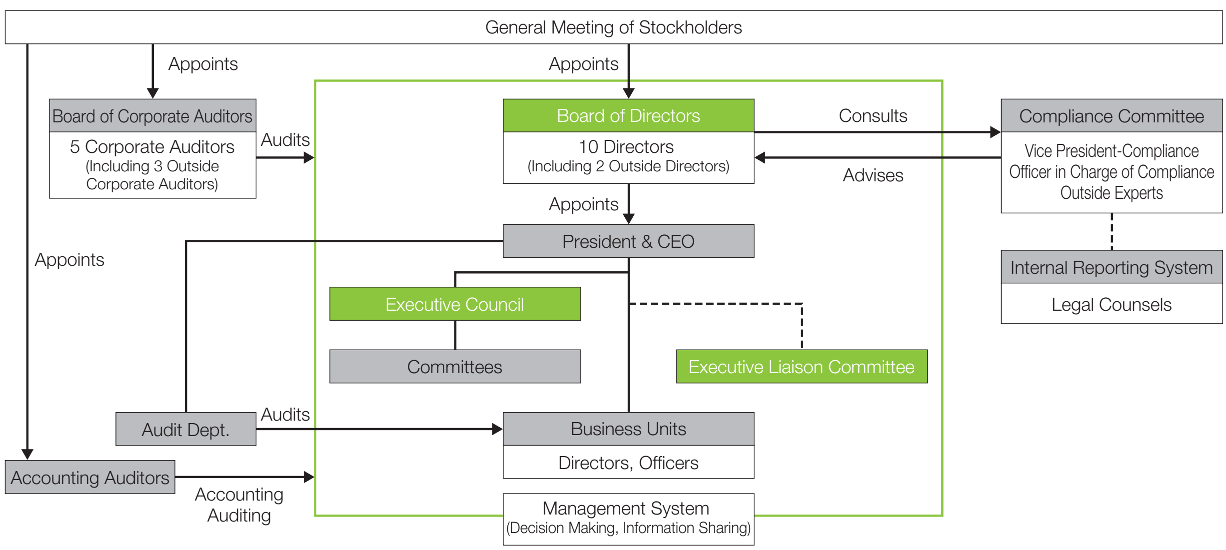
Management System

Business unit, 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) is composed of directors responsible for business execution, corporate officers, executive technical advisors, and the presidents and directors of affiliates appointed by the president and 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.

Corporate Governance



▪ 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

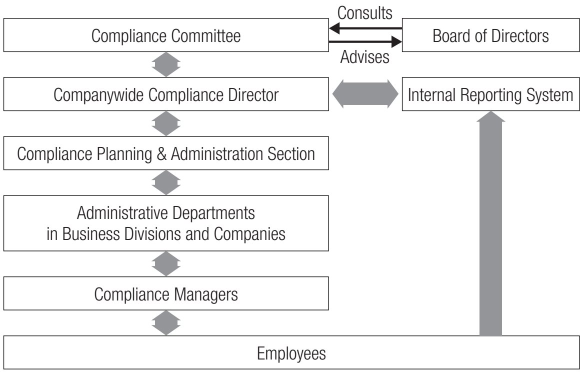
Corporate auditors routinely meet with accounting auditors to closely collaborate through the exchange of views about the audit system, the audit plan and audit status. Also, when necessary, corporate auditors accompany accounting auditors on their audits of business sites and receive timely reports 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

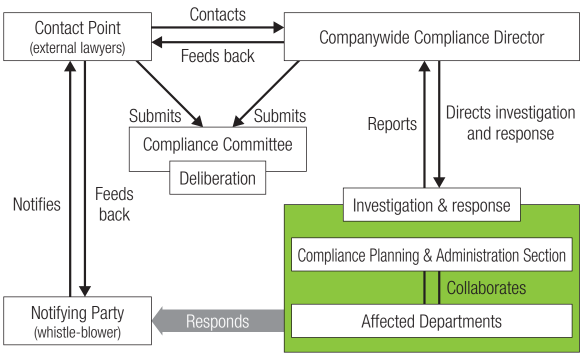
▪ Compliance Committee

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 their progress status, 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 set 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. Every year, each division implements 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 implemented. 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 and a Corporate Code of Ethics and has introduced an Internal Reporting System. A Compliance Officer and Compliance Promotion Manager have been appointed in each company and pursue their efforts in coordination with Kobe Steel. Group companies also engage in risk management activities.

Basic Policies for Parties Affecting Policy Decisions of Kobe Steel's Financial and Business Affairs (hereinafter, "Basic Policies 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 changes in 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 in 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 Purchase in order to make a decision.

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 procedures 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 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

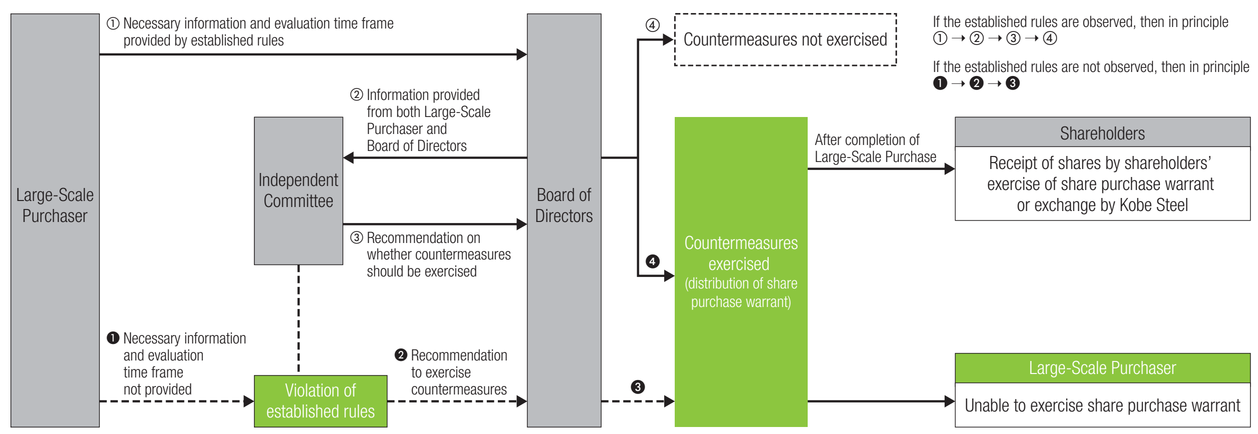
The Board of Directors decides whether to initiate takeover defense measures after giving serious consideration to the Independent Committee's report. The takeover defense measures involve the distribution of share purchase warrants to shareholders under certain terms and conditions, which include prohibiting 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, 2012.

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 35.9% of total sales in the fiscal year ended March 31, 2012, 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 & 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 & Steel and Aluminum & 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 & 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, 2012 stood at ¥746.5 billion (¥810.2 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 were to decline due to decreased profitability, this could affect the Kobe Steel Group's performance.

(4) Fluctuating Prices of Investment Securities

As of March 31, 2012, the consolidated balance sheet amount for investment securities held by the Kobe Steel Group stood at ¥179.7 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 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

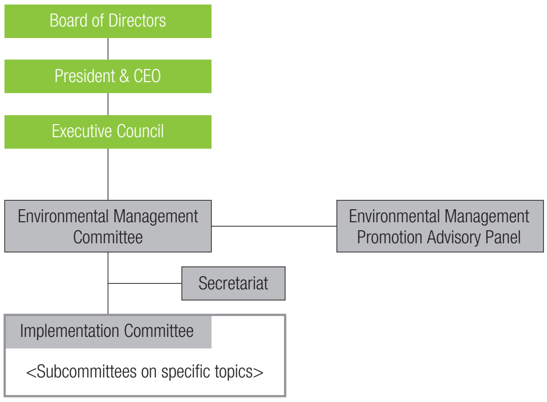
If the value of fixed assets held by the Group declines due to decreased market value or decreased profitability, this could affect the Kobe Steel Group's performance.

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, 2012.

Environmental Management Promotion

Recognizing that its mission is to pass on future generations a healthy world in which all living organisms are nurtured, the Kobe Steel Group has formulated a Basic Environmental Management Policy and six principal initiatives. The Group is promoting environmental management in every facet of its business. The Environmental Management Committee was established as a body for studying and recommending these initiatives with the goal of creating an environmentally advanced business enterprise in which all Group employees participate in environmental management.

Group Environmental Management Promotion Structure



Basic Environmental Management Policy

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**

Further Enhancing Enterprise Value through Groupwide Environmental Management

—Improving the Group's Environmental Capabilities—

Six Principal Initiatives

1. Manufacturing that takes every aspect of the environment into consideration
   - Measures to prevent global warming
   - Promoting recycling
   - Proper control of chemical substances
   - Reducing the environmental impact
2. Contributing to the environmental through products, technologies and services
3. Disclosure of environment information
4. Cooperation with local communities
5. Full employee participation
6. Thorough risk management

Kobe Steel Group will continue to steadily promote environmental management.

Hiroya Kawasaki

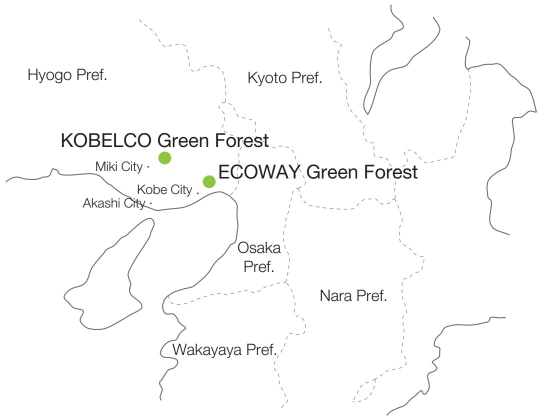
Chairman of the Environmental Management Committee (Senior Managing Director)

Under its basic environmental policy of further raising corporate value through the practice of environmental management, the Kobe Steel Group has carried out environmentally friendly production activities, contributed to the environment through its products, technologies, and services, and maintained harmonious relations with society.

As a member of society, Kobe Steel will continue to raise its corporate value while promoting environmental management and actively participating in local environmental activities.

Kobelco Environment Creation Fund

Recognizing that its mission is to pass on to future generations a healthy world in which all living organisms are nurtured, the Kobe Steel Group has formulated a Basic Environmental Management Policy and six principal initiatives. The Group is promoting environmental management in every facet of its business. The Environmental Management Committee was established as a body for studying and recommending these initiatives with the goal of creating an environmentally advanced business enterprise in which all Group employees participate in environmental management.



Forest Conservation Activities

KOBELCO Green Forest

We started our forest conservation activities with KOBELCO Green Forest, a managed woodlands of approximately two hectares within Greenpia Miki (a resort hotel area). The rain that showers down on the forest is caressed by the trees and then flows to the river. We must maintain a deep appreciation for the trees that nurture the precious water that is essential to steelmaking. We are turning these thoughts into reality.

The Federation of Kobe Steel Workers Unions working hand-in-hand with the Kobe Steel Group is primarily engaged in these environmental activities. To revitalize forests, we began the slow but steady task of undergrowth trimming, periodic thinning and cutting. Embracing and caring for nature is good for the mind and spirit. This is what we believe and we will work hard to achieve it.

* This is being implemented based on Hyogo's New Forest Project promoted by Hyogo Prefecture.

ECOWAY Green Forest

The area around Rokkosan Aburakobushi (elevation: 625.5 meters), which watches over Kobe City, where the Kobe Steel Group was founded, is named ECOWAY Green Forest and is the area where the Group started its forest conservation activities. At one time, Rokkosan was a bald mountain and its future was in jeopardy, but now its diverse vegetation has been restored.

We will continue to watch over and stay involved with activities related to this mountain and forest as we want the precious natural environment of Rokkosan to remain healthy. With that in mind, we will continue activities to maintain biodiversity.

* This is being implemented as a part of the Rokko Mountains Green Belt Development Project of the Ministry of Land, Infrastructure, Transport and Tourism's Rokko Sabo Office.
* ECOWAY is a symbol of the Kobe Steel Group.


Forest conservation activities kickoff (November 2011)


Forest opening (November 2011)


Forest conservation work kickoff (April 2012)


Forest opening (April 2012)

Directors, Corporate Auditors and Corporate Officers (As of June 23, 2012)

President, Chief Executive Officer and Representative Director
Hiroshi Sato

Head Office

Executive Vice President and Representative Director
Hiroaki Fujiwara

Senior Managing Director
Hiroya Kawasaki

Executive Officer
Seiji Okita

Senior Officers
Akira Kaneko
Masahiro Hanaoka
Koji Fujii

Officers
Yasuaki Sugizaki
Mitsugu Yamaguchi
Takafumi Morichi

Iron & Steel Business

Executive Vice President and Representative Director
Ikuhiro Yamaguchi*

Executive Officer
Yoshinori Onoe

Senior Officers
Naoto Umehara
Shinya Miyawaki
Yukimasa Miyashita
Michihide Iwasa
Masahiro Kawase

Officers
Takashi Goto
Makoto Mizuguchi
Koichiro Shibata

Welding Business

Senior Managing Director
Tsuyoshi Kasuya*

Senior Officer
Mitsuo Takamura

Officer
Fusaki Koshiishi

Aluminum & Copper Business

Executive Vice President and Representative Director
Tetsu Takahashi*

Senior Officer
Takahiko Sato

Officers
Yoriyuki Shibata
Takumi Fujii

Machinery Business

Senior Managing Director
Kazuhide Naraki*

Senior Officer
Takao Ohama

Officer
Akio Matsuda

Natural Resources & Engineering Business

Executive Vice President and Representative Director
Jun Tanaka

Senior Officer
Shohei Manabe

Officer
Kazuto Morisaki

Outside Directors

Takao Kitabata
Takuo Yamauchi

Corporate Auditors

Toshinori Okoshi
Jun Miyazaki
Shigeo Sasaki**
Takashi Okimoto**
Shinya Sakai**

* Head of the business unit
** Outside corporate auditor

Financial Section

Contents

Kobe Steel, Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets

As of March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2012	2011	2012
Current assets:			
Cash and time deposits (Note 15)	¥ 95,379	¥ 145,875	$ 1,160,470
Notes and accounts receivable			
Trade and finance	313,108	287,703	3,809,563
Unconsolidated subsidiaries and affiliates	58,818	56,456	715,635
Other	38,541	73,109	468,925
Allowance for doubtful accounts	(431)	(571)	(5,244)
	410,036	416,697	4,988,879
Merchandise and finished goods	160,973	131,139	1,958,547
Work-in-process	127,018	127,512	1,545,419
Raw materials and supplies	120,555	122,695	1,466,784
Deferred income taxes (Note 12)	12,234	21,584	148,850
Other	17,200	31,255	209,272
Total current assets	943,395	996,757	11,478,221
Investments and other assets:			
Investments in securities (Note 5)	122,639	141,317	1,492,140
Investments in and advances to unconsolidated subsidiaries and affiliates	77,138	67,470	938,533
Long-term loans receivable	6,076	5,790	73,926
Other	71,352	50,265	868,135
Allowance for doubtful accounts	(2,678)	(3,129)	(32,583)
Total investments and other assets	274,527	261,713	3,340,151
Plant and equipment (Note 7):			
Land	205,299	204,949	2,497,859
Buildings and structures	710,114	689,613	8,639,908
Machinery and equipment	2,143,232	2,063,261	26,076,554
Construction in progress	29,181	75,102	355,043
	3,087,826	3,032,925	37,569,364
Less accumulated depreciation	(2,182,988)	(2,099,585)	(26,560,263)
Total plant and equipment	904,838	933,340	11,009,101
Intangible assets	20,494	22,232	249,349
Deferred income taxes (Note 12)	16,258	17,491	197,810
	¥2,159,512	¥2,231,533	$26,274,632

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars (Note 1) 2012
Current liabilities:			
Short-term borrowings (Note 7)	¥ 137,112	¥ 80,443	$ 1,668,232
Current portion of long-term debt (Note 7)	102,784	126,051	1,250,566
Notes and accounts payable:			
Trade	361,104	391,678	4,393,527
Construction	22,739	16,981	276,664
Unconsolidated subsidiaries and affiliates	94,290	94,898	1,147,220
Other	12,542	20,724	152,598
	490,675	524,281	5,970,009
Current portion of lease obligations	9,615	6,397	116,985
Advances from customers	31,902	38,597	388,149
Customers' and employees' deposits	18,027	19,849	219,333
Income and enterprise taxes payable	7,204	9,060	87,651
Provision for loss on construction contracts	12,090	8,884	147,098
Provision for restructuring costs	—	18	—
Deferred income taxes (Note 12)	1,401	2,281	17,046
Other	70,761	72,519	860,944
Total current liabilities	881,571	888,380	10,726,013
Long-term liabilities:			
Long-term debt (Note 7)	566,753	618,448	6,895,644
Lease obligations	32,523	36,453	395,705
Employees' severance and retirement benefits (Note 17)	52,587	29,346	639,822
Provision for environmental measures	2,216	2,497	26,962
Deferred income taxes (Note 12)	16,565	20,959	201,545
Other	36,039	38,082	438,485
Total long-term liabilities	706,683	745,785	8,598,163
Contingent liabilities (Note 8)			
Net assets:			
Stockholders' equity:			
Common stock (Note 9)	233,313	233,313	2,838,703
Authorized — 6,000,000,000 shares			
Issued — 3,115,061,100 shares in 2012			
Capital surplus (Note 9)	83,125	83,125	1,011,376
Retained earnings (Note 9)	280,583	302,377	3,413,834
Treasury stock, at cost:			
114,135,266 shares in 2012 and 114,026,072 shares in 2011	(51,628)	(51,629)	(628,154)
	545,393	567,186	6,635,759
Accumulated other comprehensive income:			
Unrealized gains on securities, net of taxes	13,020	19,743	158,413
Unrealized gains or losses on hedging derivatives, net of taxes	(1,013)	585	(12,325)
Land revaluation differences, net of taxes	(4,141)	(4,757)	(50,383)
Foreign currency translation adjustments	(37,579)	(34,126)	(457,221)
	(29,713)	(18,555)	(361,516)
Minority interests	55,578	48,737	676,213
Total net assets	571,258	597,368	6,950,456
	¥2,159,512	¥2,231,533	$26,274,632

Kobe Steel, Ltd. and Consolidated Subsidiaries

Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income

Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Net sales	¥1,864,691	¥1,858,574	$22,687,565
Cost of sales	(1,635,862)	(1,570,779)	(19,903,419)
Gross profit	228,829	287,795	2,784,146
Selling, general and administrative expenses (Note 11)	(168,274)	(163,244)	(2,047,378)
Operating income	60,555	124,551	736,768
Non-operating income (expenses):			
Interest and dividend income	7,346	5,505	89,378
Interest expense	(19,777)	(20,685)	(240,625)
Seconded employees' salaries, net of reimbursement	(10,068)	(10,474)	(122,497)
Foreign exchange loss	(2,488)	(4,233)	(30,271)
Equity in income of unconsolidated subsidiaries and affiliates	7,878	3,078	95,851
Other, net	(9,666)	(8,659)	(117,605)
	(26,775)	(35,468)	(325,769)
Ordinary income	33,780	89,083	410,999
Extraordinary income (losses):			
Gain on sale of securities	—	2,166	—
Loss from write-down of investments in securities	(6,022)	—	(73,269)
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	(2,381)	—
	(6,022)	(215)	(73,269)
Income before income taxes and minority interests	27,758	88,868	337,730
Income taxes (Note 12):			
Current	16,671	16,311	202,835
Deferred	11,372	3,069	138,362
	28,043	19,380	341,197
Income (loss) before minority interests	(285)	69,488	(3,467)
Minority interests in income of subsidiaries	13,963	16,548	169,887
Net income (loss)	¥ (14,248)	¥ 52,940	$ (173,354)

	Yen		U.S. dollars (Note 1)
Per share	2012	2011	2012
Net income	¥ (4.75)	¥ 17.63	$ (0.06)
Cash dividends applicable to the year	1.00	3.00	0.01

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Income (loss) before minority interests	¥ (285)	¥69,488	$ (3,468)
Other comprehensive income:			
Unrealized gains or losses on securities, net of taxes	(6,867)	(2,578)	(83,550)
Unrealized gains or losses on hedging derivatives, net of taxes	(1,706)	(520)	(20,757)
Land revaluation differences, net of taxes	661	50	8,042
Foreign currency translation adjustments	(4,792)	(10,911)	(58,304)
Share of other comprehensive income related to affiliates	781	45	9,503
Total other comprehensive income (Note 13)	(11,923)	(13,914)	(145,066)
Total comprehensive income	(12,208)	¥55,574	(148,534)
Total comprehensive income attributable to:			
Equity holders of the parent	¥(25,406)	¥41,636	$(309,113)
Minority interests	13,198	13,938	160,579

See accompanying notes.

Kobe Steel, Ltd. and Consolidated Subsidiaries

Consolidated Statements of Changes in Net Assets (Note 14)

Years ended March 31, 2012 and 2011

	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 April 1, 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 April 1, 2011	3,115,061	¥233,313	¥83,125	¥302,377	¥(51,629)	¥19,743	¥ 585	¥(4,757)	¥(34,126)	¥48,737	¥597,368
Cash dividends				(7,515)							(7,515)
Net loss				(14,248)							(14,248)
Purchase of treasury stock					(29)						(29)
Sale of treasury stock				(20)	30						10
Decrease due to changes in scope of consolidation				(31)							(31)
Adjustment to land revaluation				20							20
Net changes in items other than stockholders' equity						(6,723)	(1,598)	616	(3,453)	6,841	(4,317)
Net changes during the year				(21,794)	1	(6,723)	(1,598)	616	(3,453)	6,841	(26,110)
Balance at March 31, 2012	3,115,061	¥233,313	¥83,125	¥280,583	¥(51,628)	¥13,020	¥(1,013)	¥(4,141)	¥(37,579)	¥55,578	¥571,258

	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 April 1, 2011	3,115,061	$2,838,703	$1,011,376	$3,678,999	$(628,166)	$240,212	$ 7,118	$(57,878)	$(415,209)	$592,980	$7,268,135
Cash dividends				(91,434)							(91,434)
Net income				(173,354)							(173,354)
Purchase of treasury stock					(353)						(353)
Sale of treasury stock				(243)	365						122
Decrease due to changes in scope of consolidation				(377)							(377)
Adjustment to land revaluation				243							243
Net changes in items other than stockholders' equity						(81,799)	(19,443)	7,495	(42,012)	83,233	(52,526)
Net changes during the year				(265,165)	12	(81,799)	(19,443)	7,495	(42,012)	83,233	(317,679)
Balance at March 31, 2012	3,115,061	$2,838,703	$1,011,376	$3,413,834	$(628,154)	$158,413	$(12,325)	$(50,383)	$(457,221)	$676,213	$6,950,456

See accompanying notes.

Kobe Steel, Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows

Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Cash flows from operating activities:			
Income before income taxes	¥ 27,758	¥ 88,868	$ 337,730
Depreciation	118,038	114,820	1,436,160
Interest and dividend income	(7,346)	(5,505)	(89,378)
Interest expense	19,777	20,685	240,625
Loss (gain) on sale of securities	(389)	(2,826)	(4,733)
Loss on write-down of securities	6,022	1,977	73,269
Equity in income of unconsolidated subsidiaries and affiliates	(7,878)	(3,078)	(95,851)
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	2,381	—
Loss on sale and disposal of plant and equipment	2,927	2,524	35,613
Decrease (increase) in trade receivables from customers	(18,734)	(39,295)	(227,935)
Decrease (increase) in lease receivables and investment assets	(14,645)	(15,492)	(178,185)
Decrease (increase) in inventories	(29,383)	(17,666)	(357,501)
Increase (decrease) in trade payables to customers	(24,761)	54,560	(301,265)
Other	(1,628)	(2,983)	(19,808)
Subtotal	69,758	198,970	848,741
Cash received for interest and dividends	8,692	6,532	105,755
Cash paid for interest	(19,952)	(20,694)	(242,755)
Cash paid for income taxes	(19,012)	(7,013)	(231,318)
Net cash provided by operating activities	39,486	177,795	480,423
Cash flows from investing activities:			
Purchase of plant, equipment and other assets	(83,283)	(96,609)	(1,013,298)
Proceeds from sale of plant, equipment and other assets	1,025	1,763	12,471
Purchase of investments in securities	(5,791)	(3,634)	(70,459)
Proceeds from sale of investments in securities	3,333	3,827	40,552
Decrease (increase) in short-term loans receivable	209	(51)	2,543
Payments for long-term loans receivable	(1,348)	(977)	(16,401)
Proceeds from collection of long-term loans receivable	163	3,267	1,983
Purchase of investments in subsidiaries resulting in change in scope of consolidation	—	1,481	—
Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation	157	(14)	1,910
Other	268	(5,740)	3,261
Net cash used in investing activities	(85,267)	(96,687)	(1,037,438)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	57,634	(25,616)	701,229
Proceeds from long-term debt	22,523	9,805	274,035
Repayment of long-term debt	(91,613)	(61,665)	(1,114,649)
Proceeds from issuance of bonds	30,000	—	365,008
Repayment of bonds	(35,836)	(236)	(436,014)
Repayments of finance lease obligations	(6,580)	(6,321)	(80,058)
Payment of dividends	(7,484)	(8,966)	(91,057)
Other	(8,877)	(5,197)	(108,006)
Net cash used in financing activities	(40,233)	(98,196)	(489,512)
Effect of exchange rate changes on cash and cash equivalents	(1,912)	(4,903)	(23,263)
Increase (decrease) in cash and cash equivalents	(87,926)	(21,991)	(1,069,790)
Cash and cash equivalents at beginning of year	189,708	211,699	2,308,164
Increase in cash and cash equivalents resulting from change in scope of consolidation	119	—	1,448
Cash and cash equivalents at end of year (Note 15)	¥101,901	¥189,708	$1,239,822

See accompanying notes.

Notes to Consolidated Financial Statements

Years ended March 31, 2012 and 2011

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.

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, 2012, which was ¥82.19 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, 2012, the accounts of 165 (164 in 2011) subsidiaries have been included in the consolidated financial statements. Intercompany transactions and accounts have been eliminated.

Seventy-two (69 in 2011) 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, 2012, 47 (43 in 2011) affiliates were accounted for by the equity method.

The difference between the cost of an investment in a subsidiary and the equity in the net assets of the subsidiary at the date of acquisition, if considered significant, is amortized over the estimated number of years when the amortization period can be determined or over five years when it cannot. Where the difference is small, it'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 are 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 Loss on Construction Contracts
Provision for loss on construction contracts is stated at an amount based on the estimated loss from construction contracts at the end of the fiscal year.

(5) Provision for Environmental Measures
The provision for environmental measures for obligatory PCB treatment is stated as an estimated cost at the end of the fiscal year.

(6) Inventories
Inventories are valued at lower of cost or net realizable value. Cost is determined principally by the average method in the Iron & Steel, Welding and Aluminum & 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.

(7) 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.

(8) 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.

(9) 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.

Prior service cost is recognized in expenses using the straight-line method over mainly 16 years, which is within the average of the estimated remaining service years of employees.

Actuarial gains and losses are recognized in expenses using the straight-line method over mainly 16 years for those accrued after 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.

(10) 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.

(11) 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.

(12) Translation of Foreign Currencies

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

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

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

(13) 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.

(14) Leases

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

(15) Derivatives

The Company and its domestic consolidated subsidiaries state derivative financial instruments at fair value and recognize changes in the fair value as gain or loss unless the derivative financial instrument was used for hedging purposes.

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

(16) Consolidated Tax Return

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

(17) 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.

(18) 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, ¥295 million and ¥2,676 million less, respectively, than the amounts that would have been recorded without the change.

(19) 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); and

“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).

(20) Change in Presentation Method

Consolidated Balance Sheets

The account for "lease receivables and investment assets" had been included in current assets and other. From the year ended March 31, 2011, the importance of "lease receivables and investment assets" has increased. Therefore, the account is included in trade and finance for the years ended March 31, 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 for the years ended March 31, 2011 and 2010.

(21) 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.

The Company and its consolidated domestic subsidiaries adopted "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan ("ASBJ") Statement No. 24, issued on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, issued on December 4, 2009) for accounting changes and corrections of prior period errors made from the fiscal year beginning on April 1, 2011.

3. Leases

Future minimum lease payments as lessee under operating leases at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Due within one year	¥ 5,693	¥ 5,689	$ 69,266
Due after one year	11,528	13,199	140,260
	¥17,221	¥18,888	$209,526

Future minimum lease payments receivable as lessor under operating leases at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Due within one year	¥ 422	¥ 457	$ 5,134
Due after one year	2,925	3,110	35,588
	¥3,347	¥3,567	$40,722

4. Financial Instruments

Policies for using financial instruments

The Group raises long-term funds mainly through bank loans and bonds based on its capital budget. For short-term capital needs, the Group raises funds mainly through 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 below in Note 6, “Derivative Transactions” 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, 2012 and 2011 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note1)
	2012			2011			2012
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference	Difference
Cash and time deposits	¥ 95,379	¥ 95,379	¥ —	¥145,875	¥145,875	¥ —	$ —
Notes and accounts receivable "Trade and finance"	313,108	313,087	(21)	287,703	287,698	(5)	(256)
Investments in securities:							
Held-to-maturity debt securities	23	23	—	26	26	—	—
Securities of subsidiaries and affiliates	17,396	33,187	15,791	16,536	56,042	39,506	192,128
Available-for-sale securities	102,468	102,468	—	115,414	115,414	—	—
Notes and accounts payable "Trade"	(361,104)	(361,104)	—	(391,678)	(391,678)	—	—
Short-term borrowings and current portion of long-term borrowings	(204,720)	(205,410)	(690)	(170,658)	(171,546)	(888)	(8,395)
Bonds included in current portion of long-term debt	(35,176)	(35,551)	(375)	(35,836)	(36,646)	(810)	(4,563)
Bonds included in long-term debt	(172,173)	(179,714)	(7,541)	(177,349)	(184,956)	(7,607)	(91,751)
Long-term borrowings included in long-term debt	(394,580)	(409,625)	(15,045)	(441,099)	(456,956)	(15,857)	(183,051)
Lease obligations	(32,523)	(33,468)	(945)	(36,453)	(38,327)	(1,874)	(11,498)
Derivative transactions:							
Hedge accounting is not applied	(421)	(421)	—	(705)	(705)	—	—
Hedge accounting is applied	(126)	(126)	—	1,482	1,482	—	—

Notes:

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

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

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

Investments in securities

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

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

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

The fair value of the current portion of long-term borrowings 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 similar borrowings of comparable maturity.

Derivative transactions

See Note 6 below.

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Non-listed equity securities	¥59,785	¥58,279	$727,400

The aggregate annual maturities of financial assets at March 31, 2012 and 2011 were as follows:

Cash and time deposits

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Due within 1 year	¥95,379	¥145,875	$1,160,470
Due after 1 year through 5 years	—	—	—
Due after 5 years through 10 years	—	—	—
Due after 10 years	—	—	—
	¥95,379	¥145,875	$1,160,470

Notes and accounts receivable "Trade and finance"

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Due within 1 year	¥286,423	¥266,369	$3,484,889
Due after 1 year through 5 years	25,166	19,514	306,193
Due after 5 years through 10 years	943	1,063	11,473
Due after 10 years	576	757	7,008
	¥313,108	¥287,703	$3,809,563

Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Due within 1 year	¥ 4	¥ 4	$ 49
Due after 1 year through 5 years	15	15	182
Due after 5 years through 10 years	4	7	49
Due after 10 years	—	—	—
	¥23	¥26	$280

5. Securities

The following table summarizes carrying amounts of securities with no available fair values as of March 31, 2012 and 2011:

	Millions of yen						Thousands of U.S. dollars (Note1)
	2012			2011			2012
	Carrying amounts	Fair values	Difference	Carrying amounts	Fair values	Difference	Difference
Held-to-maturity debt securities							
Securities with available carrying amounts not exceeding fair values:							
Non-listed domestic bonds	¥23	¥23	¥—	¥26	¥26	¥—	$—

The following tables summarize acquisition costs, carrying amounts and fair values of securities with available fair values as of March 31, 2012 and 2011:

	Millions of yen						Thousands of U.S. dollars (Note1)
	2012			2011			2012
	Carrying amounts	Acquisition costs	Difference	Carrying amounts	Acquisition costs	Difference	Difference
Available-for-sale securities							
Securities with available carrying amounts exceeding acquisition costs:							
Equity securities	¥ 54,589	¥22,204	¥32,385	¥ 67,099	¥28,534	¥38,565	$394,026
Other	—	—	—	—	—	—	—
	54,589	22,204	32,385	67,099	28,534	38,565	394,026
Securities with available carrying amounts not exceeding acquisition costs:							
Other securities:							
Equity securities	47,879	65,050	(17,171)	48,306	59,764	(11,458)	(208,918)
Other	—	—	—	9	10	(1)	—
	47,879	65,050	(17,171)	48,315	59,774	(11,459)	(208,918)
	¥102,468	¥87,254	¥15,214	¥115,414	¥88,308	¥27,106	$185,108

Sales of available-for-sale securities for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Sales	¥2,182	¥191	$26,548
Gains on sales	1,572	48	19,126
Losses on sales	(217)	(3)	(2,640)

6. Derivative Transactions

Derivative transactions for which hedge accounting is not applied

Forward currency exchange contracts outstanding at March 31, 2012 and 2011 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note1)
	2012			2011			2012
	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	¥16,170	¥16,324	¥(154)	¥15,265	¥15,450	¥(185)	$(1,874)
Others	52	53	(1)	260	267	(7)	(12)
To buy foreign currencies:							
U.S. dollars	10,011	10,016	5	15,467	15,252	(215)	61
Others	8,487	8,262	(225)	2,461	2,423	(38)	(2,738)
Foreign currency options							
To sell foreign currency options							
Call							
U.S. dollars	¥ 953 [17]	¥ 36	¥ (19)	¥ 1,655 [36]	¥ 36	¥ 0	$ (231)
To buy foreign currency options							
Put							
U.S. dollars	953 [17]	9	(7)	1,655 [36]	24	(12)	(85)
			¥(401)			¥(457)	$(4,879)

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 means that option premiums were not payed or received.

Interest rate swap agreements outstanding at March 31, 2012 and 2011 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note1)
	2012			2011			2012
	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)	$—

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

Commodity forward contracts outstanding at March 31, 2012 and 2011 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note1)
	2012			2011			2012
	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)	$ —
To buy commodity	368	348	(20)	577	562	(15)	(243)
			¥(20)			¥(18)	$(243)

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, 2012 and 2011 were as follows:

	Millions of yen				Thousands of U.S. dollars (Note1)
	2012		2011		2012
	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	¥34,229	¥35,339	¥43,574	¥42,074	$429,967
Others	7,235	6,754	4,710	4,762	82,175
To buy foreign currencies:					
U.S. dollars	7,112	7,034	20,200	19,156	85,582
Others	5,474	5,523	5,271	5,436	67,198
Foreign currency options					
To sell foreign currency options					
Put					
U.S. dollars	¥10,518 [233]	¥ 160	¥21,987 [829]	¥ 714	$ 1,947
Call					
U.S. dollars	275 [5]	6	291 [7]	7	73
To buy foreign currency options					
Put					
U.S. dollars	275 [5]	5	291 [7]	7	61
Call					
U.S. dollars	10,518 [233]	383	21,987 [829]	835	4,660
Hedges for which the "Assigning" method was applied					
Foreign currency exchange contracts					
To sell foreign currencies:					
U.S. dollars	¥32,367	¥ —	¥27,937	¥ —	$ —
Others	5,221	—	2,528	—	—
To buy foreign currencies:					
U.S. dollars	8,833	—	1,285	—	—
Others	35,239	—	23,788	—	—

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 means that option premiums were not payed or received.

Interest rate swap agreements outstanding at March 31, 2012 and 2011 were as follows:

	Millions of yen				Thousands of U.S. dollars (Note1)
	2012		2011		2012
	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	¥176,125	¥—	¥223,337	¥—	$—

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 against the risk of interest rate fluctuation on variable interest rate debt, the fair values were included in the fair values of the long-term debt.

Commodity forward contracts outstanding at March 31, 2012 and 2011 were as follows:

	Millions of yen				Thousands of U.S. dollars (Note1)
	2012		2011		2012
	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	¥ 1,794	¥ 1,798	¥ 3,345	¥ 3,609	$ 21,876
To buy commodity	12,695	13,008	16,901	17,957	158,267

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, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Bank loans (average rate 4.30% in 2012 and 2.19% in 2011)	¥137,112	¥80,443	$1,668,232

Long-term debt at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
0.528% to 2.5% yen bonds, due 2012 through 2022	¥207,349	¥213,186	$2,522,801
Loans, principally from banks and insurance companies, due 2012 through 2026	462,188	531,313	5,623,409
	669,537	744,499	8,146,210
Less current portion	102,784	126,051	1,250,566
	¥566,753	¥618,448	$6,895,644

The aggregate annual maturities of long-term debt at March 31, 2012 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2012	2012
Due within 1 year	¥102,784	$1,250,566
Due after 1 year through 2 years	195,616	2,380,046
Due after 2 years through 3 years	76,969	936,476
Due after 3 years through 4 years	72,103	877,272
Due after 4 years through 5 years	85,538	1,040,735
Due after 5 years	136,527	1,661,115
	¥669,537	$8,146,210

At March 31, 2012 and 2011, 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)
	2012	2011	2012
Assets pledged as collateral:			
Cash and time deposits	¥ 20,860	¥ 14,726	$ 253,802
Plant and equipment, net of accumulated depreciation	107,009	131,639	1,301,971
Other assets	28,497	20,290	346,721
	¥156,366	¥166,655	$1,902,494
Secured short-term borrowings and long-term debt:			
Bonds (includes those due within 1 year)	¥ 349	¥ 886	$ 4,246
Short-term borrowings	33,292	13,072	405,061
Long-term borrowings	55,071	68,283	670,045
	¥ 88,712	¥ 82,241	$1,079,352

At March 31, 2012 and 2011, 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)
	2012	2011	2012
Short-term borrowings	¥1,651	¥2,621	$20,088
Long-term borrowings	3,855	5,506	46,903
	¥5,506	¥8,127	$66,991

8. Contingent Liabilities

At March 31, 2012 and 2011, the Group was contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Trade notes discounted	¥ 3,524	¥20,541	$ 42,876
Trade notes endorsed	1,138	3,636	13,846
Guarantees of loans:			
Related parties	7,685	5,852	93,503
Others	93	126	1,132
	¥12,440	¥30,155	$151,357

Guarantees of loans include contingent guarantees and letters of awareness of ¥350 million ($4,258 thousand) in 2012 and ¥429 million in 2011.

9. Net Assets

Net assets comprise 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.

10. Research and Development Expenses

Research and development expenses included in cost of sales and selling, general, and administrative expenses were ¥31,437 million ($382,492 thousand) for the year ended March 31, 2012 and ¥29,833 million for the year ended March 31, 2011.

11. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2012 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Freight	¥ 42,762	¥ 40,977	$ 520,282
Employees' compensation	34,887	33,183	424,468
Research and development	11,328	10,661	137,827
Depreciation	4,125	4,393	50,189
Others	75,172	74,030	914,612
	¥168,274	¥163,244	$2,047,378

12. Income Taxes

Significant components of the Group's deferred income tax assets and liabilities as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Deferred income tax assets:			
Tax loss carryforwards	¥ 22,283	¥ 20,432	$ 271,115
Unrealized profit	17,083	17,159	207,848
Employees' severance and retirement benefits	9,919	10,947	120,684
Loss on write-down of inventories	8,399	3,861	102,190
Loss on write-down of securities	8,397	5,099	102,166
Accrued bonuses to employees	7,147	8,689	86,957
Loss on impairment of fixed assets	6,582	9,950	80,083
Land revaluation	4,310	4,922	52,439
Other	38,878	43,403	473,026
Total deferred income tax assets	122,998	124,462	1,496,508
Valuation allowance	(80,024)	(66,024)	(973,646)
Deferred income tax assets	42,974	58,438	522,862
Deferred income tax liabilities:			
Unrealized holding gains on securities	8,431	12,136	102,579
Land revaluation	4,586	5,233	55,798
Special tax purpose reserve	3,070	3,793	37,352
Other	16,360	21,441	199,051
Total deferred income tax liabilities	32,447	42,603	394,780
Net deferred income tax assets	¥ 10,527	¥ 15,835	$ 128,082

The reconciliation of the statutory tax rate and the effective tax rate for the years ended March 31, 2012 and 2011 was as follows:

	2012	2011
Aggregate statutory income tax rate in Japan	40.6%	40.6%
Decrease in valuation allowance	49.3	(10.4)
Nondeductible entertainment expenses	8.2	2.8
Other	2.9	(11.2)
Effective income tax rate	101.0%	21.8%

13. Consolidated Statements of Comprehensive Income

Other comprehensive income for the fiscal years ended March 31, 2012 was as follows.

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2012	2012
Unrealized holding gains (losses) on securities, net—		
Unrealized holding gains (losses) arising during the period	¥(11,978)	$(145,736)
Less reclassification adjustment included in net income	(553)	(6,728)
	(12,531)	(152,464)
Tax benefit/(expense)	5,664	68,914
	(6,867)	(83,550)
Unrealized holding gains (losses) on derivative instruments, net—		
Unrealized holding gains (losses) arising during the period	(2,735)	(33,276)
Less reclassification adjustment included in net income	398	4,842
	(2,337)	(28,434)
Tax benefit/(expense)	631	7,677
	(1,706)	(20,757)
Revaluation reserve for land—		
Tax benefit/(expense)	661	8,042
	661	8,042
Foreign currency transaction adjustments—		
Transaction adjustments arising during the period	(4,792)	(58,304)
Less reclassification adjustment included in net income	—	—
	(4,792)	(58,304)
Tax benefit/(expense)	—	—
	(4,792)	(58,304)
Share of other comprehensive income of investments accounted for using the equity method		
Unrealized holding gains (losses) arising during the period	(44)	(535)
Less reclassification adjustment included in net income	825	10,038
	781	9,503
Other comprehensive income	¥(11,923)	$(145,066)

14. Consolidated Statements of Changes in Net Assets

Changes in number of shares issued and outstanding during the year ended March 31, 2012 were as follows:

	Number of shares
Common stock outstanding	
Balance at March 31, 2011	3,115,061,100
(No increase)	—
(No decrease)	—
Balance at March 31, 2012	3,115,061,100

	Number of shares
Treasury stock outstanding	
Balance at March 31, 2011	114,026,072
Increase due to purchase of odd-lot stock	173,333
Decrease due to sale of odd-lot stock	(64,139)
Increase (decrease) due to other reasons, net	—
Balance at March 31, 2012	114,135,266

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, 2012 and 2011 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Cash and time deposits in the balance sheets	¥ 95,379	¥145,875	$1,160,470
Time deposits due over 3 months	(77)	(130)	(937)
Short-term investments with maturities within 3 months included in current assets and other	6,599	43,963	80,289
Cash and cash equivalents in cash flow statements	¥101,901	¥189,708	$1,239,822

16. Related Party Transactions

Net sales include sales to Shinsho Corporation, which is an affiliate of the Company, of ¥214,927 million ($2,615,002 thousand) and ¥216,325 million for the years ended March 31, 2012 and 2011, 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, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Projected benefit obligation	¥(165,617)	¥(163,592)	$(2,015,050)
Fair value of pension assets	136,000	142,799	1,654,703
Unrecognized net transition obligation	208	278	2,531
Unrecognized actuarial differences	12,811	16,921	155,870
Unrecognized prior service cost	11,468	—	139,530
Prepaid pension cost	(47,457)	(25,752)	(577,406)
Liability for severance and retirements benefits	¥ (52,587)	¥ (29,346)	$ (639,822)

Included in the consolidated statements of operations for the years ended March 31, 2012 and 2011 were severance and retirement benefit expenses that comprised the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Service costs – benefits earned during the year	¥ 7,295	¥ 6,387	$ 88,758
Interest cost on projected benefit obligation	3,215	3,357	39,116
Expected return on plan assets	(216)	(260)	(2,628)
Amortization of net transition obligation	70	174	852
Amortization of actuarial differences	1,807	2,220	21,985
Amortization of prior service cost	549	—	6,680
Severance and retirement benefit expenses	¥12,720	¥11,878	$154,763

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, 2012 and 2011.
   The rate of expected return on plan assets was mainly 0.1% for the years ended March 31, 2012 and 2011, respectively.

18. Segment Information

Segment information

1. Overview of reportable segments

The reportable segments of the Group are defined as components of the 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 portion of the products and services are made by subsidiaries) and every business department and subsidiary 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 & Steel, Welding, Aluminum & Copper, Machinery, Natural Resources & Engineering) and three business groups of its 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 ones 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)
	2012	2011	2012
Sales to outside customers:			
Iron & Steel	¥ 816,785	¥ 802,924	$ 9,937,766
Welding	83,155	76,353	1,011,741
Aluminum & Copper	288,641	301,144	3,511,875
Machinery	145,855	149,198	1,774,607
Natural Resources & Engineering	55,441	62,546	674,547
Kobelco Eco-Solutions	70,351	67,377	855,956
Kobelco Construction Machinery	306,108	311,946	3,724,395
Kobelco Cranes	42,504	35,295	517,143
Other Businesses	53,151	50,239	646,685
Elimination	2,700	1,552	32,850
Consolidated total	1,864,691	1,858,574	22,687,565
Intersegment sales:			
Iron & Steel	37,452	37,458	455,676
Welding	1,261	1,438	15,342
Aluminum & Copper	1,286	2,873	15,647
Machinery	6,958	5,324	84,658
Natural Resources & Engineering	431	1,719	5,244
Kobelco Eco-Solutions	846	2,228	10,293
Kobelco Construction Machinery	1,052	1,197	12,800
Kobelco Cranes	5,501	5,673	66,930
Other Businesses	16,034	15,341	195,084
Elimination	(70,821)	(73,251)	(861,674)
Consolidated total	—	—	—
Total sales:			
Iron & Steel	854,237	840,382	10,393,442
Welding	84,417	77,792	1,027,096
Aluminum & Copper	289,928	304,017	3,527,534
Machinery	152,813	154,521	1,859,265
Natural Resources & Engineering	55,872	64,264	679,791
Kobelco Eco-Solutions	71,196	69,605	866,237
Kobelco Construction Machinery	307,160	313,144	3,737,194
Kobelco Cranes	48,005	40,968	584,073
Other Businesses	69,185	65,580	841,769
Elimination	(68,122)	(71,699)	(828,836)
Consolidated total	1,864,691	1,858,574	22,687,565
Segment income (loss):			
Iron & Steel	(14,686)	23,734	(178,684)
Welding	3,119	4,621	37,949
Aluminum & Copper	6,081	14,790	73,987
Machinery	9,900	14,513	120,453
Natural Resources & Engineering	342	3,052	4,161
Kobelco Eco-Solutions	4,235	3,136	51,527
Kobelco Construction Machinery	22,866	26,303	278,209
Kobelco Cranes	162	(1,364)	1,971
Other Businesses	7,200	6,494	87,602
Elimination	(5,439)	(6,196)	(66,176)
Consolidated total	¥ 33,780	¥ 89,083	$ 410,999

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Assets:			
Iron & Steel	¥ 954,391	¥ 969,394	$11,612,009
Welding	62,858	62,327	764,789
Aluminum & Copper	193,610	213,798	2,355,639
Machinery	156,032	149,748	1,898,430
Natural Resources & Engineering	58,634	74,839	713,396
Kobelco Eco-Solutions	55,123	52,316	670,678
Kobelco Construction Machinery	370,544	285,066	4,508,383
Kobelco Cranes	49,273	44,251	599,501
Other Businesses	159,251	161,164	1,937,596
Elimination	99,796	218,630	1,214,211
Consolidated total	2,159,512	2,231,533	26,274,632
Depreciation:			
Iron & Steel	81,037	75,732	985,972
Welding	2,587	2,800	31,476
Aluminum & Copper	14,456	15,737	175,885
Machinery	5,613	5,749	68,293
Natural Resources & Engineering	547	553	6,655
Kobelco Eco-Solutions	1,162	1,203	14,138
Kobelco Construction Machinery	6,489	6,452	78,951
Kobelco Cranes	621	910	7,556
Other Businesses	3,321	3,446	40,406
Elimination	2,205	2,238	26,828
Consolidated total	118,038	114,820	1,436,160
Amortization of goodwill:			
Iron & Steel	—	—	—
Welding	196	486	2,385
Aluminum & Copper	—	21	—
Machinery	—	—	—
Natural Resources & Engineering	—	1	—
Kobelco Eco-Solutions	—	—	—
Kobelco Construction Machinery	—	10	—
Kobelco Cranes	—	—	—
Other Businesses	—	—	—
Elimination	0	—	0
Consolidated total	196	518	2,385
Interest income:			
Iron & Steel	86	77	1,046
Welding	120	46	1,460
Aluminum & Copper	188	130	2,287
Machinery	58	26	706
Natural Resources & Engineering	396	635	4,818
Kobelco Eco-Solutions	20	18	243
Kobelco Construction Machinery	3,391	2,516	41,258
Kobelco Cranes	34	18	414
Other Businesses	45	47	548
Elimination	(251)	(383)	(3,054)
Consolidated total	¥ 4,087	¥ 3,130	$ 49,726

	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars (Note 1) 2012
Interest expense:			
Iron & Steel	¥ 8,121	¥ 8,272	$ 98,808
Welding	24	23	292
Aluminum & Copper	1,702	2,060	20,708
Machinery	61	191	742
Natural Resources & Engineering	19	83	231
Kobelco Eco-Solutions	64	70	779
Kobelco Construction Machinery	4,350	3,938	52,926
Kobelco Cranes	114	88	1,387
Other Businesses	508	547	6,181
Elimination	4,814	5,413	58,571
Consolidated total	19,777	20,685	240,625
Equity in income (loss) of unconsolidated subsidiaries and affiliates:			
Iron & Steel	3,968	2,498	48,278
Welding	167	365	2,032
Aluminum & Copper	(88)	(446)	(1,071)
Machinery	(97)	22	(1,180)
Natural Resources & Engineering	(1,151)	(1,084)	(14,004)
Kobelco Eco-Solutions	—	—	—
Kobelco Construction Machinery	3,940	492	47,938
Kobelco Cranes	74	(61)	900
Other Businesses	967	1,153	11,766
Elimination	98	139	1,192
Consolidated total	7,878	3,078	95,851
Investments in unconsolidated subsidiaries and affiliates:			
Iron & Steel	38,890	36,850	473,172
Welding	1,431	1,293	17,411
Aluminum & Copper	481	634	5,852
Machinery	4,670	312	56,820
Natural Resources & Engineering	5,352	7,710	65,117
Kobelco Eco-Solutions	—	—	—
Kobelco Construction Machinery	11,203	7,309	136,306
Kobelco Cranes	297	336	3,614
Other Businesses	10,246	9,840	124,662
Elimination	(2,782)	(3,171)	(33,848)
Consolidated total	69,788	61,113	849,106
Capital expenditures:			
Iron & Steel	47,254	54,544	574,936
Welding	2,569	971	31,257
Aluminum & Copper	8,731	9,551	106,230
Machinery	4,955	3,686	60,287
Natural Resources & Engineering	1,031	324	12,544
Kobelco Eco-Solutions	1,103	1,809	13,420
Kobelco Construction Machinery	22,700	12,372	276,189
Kobelco Cranes	2,122	2,411	25,818
Other Businesses	4,001	4,646	48,680
Elimination	1,619	1,064	19,698
Consolidated total	¥ 96,085	¥ 91,378	$ 1,169,059

Notes:
1. Other Businesses include Shinko Real Estate, Kobelco Research Institute and other businesses.
2. Details about elimination at March 31, 2012 and 2011 are as follows:

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

Assets
Elimination is mainly investments in securities which isn't attributed to reportable segments and other businesses.

Depreciation
Elimination is related mainly to the assets of administrative departments which isn't attributed to reportable segments and other businesses.

Interest income
Elimination is related mainly to intersegment transactions.

Interest expense
Elimination is related mainly to financial liabilities which aren't attributed to reportable segments and other businesses.

Equity in income (loss) of unconsolidated subsidiaries and affiliates
Elimination is related mainly to the income (loss) of affiliates which isn't attributed to reportable segments and other businesses.

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

Capital expenditures
Elimination is related mainly to the assets of administrative departments which isn't attributed to reportable segments and other businesses.

Related information

1. Information by products and services

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

2. Information by geographic segments

(1) Net sales

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2012	2012
Japan	¥1,195,772	$14,548,875
China	232,858	2,833,167
Others	436,061	5,305,523
Consolidated total	¥1,864,691	$22,687,565

(2) Plant and equipment

This information is omitted because the carrying amount 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)
	2012	2012
Shinsho Corporation	¥268,721	$3,269,510
Metal One Corporation	208,508	2,536,902

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)
	2012	2012
Amortization		
Iron & Steel	¥ —	$ —
Welding	196	2,385
Aluminum & Copper	—	—
Machinery	—	—
Natural Resources & Engineering	—	—
Kobelco Eco-Solutions	—	—
Kobelco Construction Machinery	—	—
Kobelco Cranes	—	—
Other Businesses	—	—
Elimination	0	0
Consolidated total	196	2,385
Balance		
Iron & Steel	—	—
Welding	—	—
Aluminum & Copper	—	—
Machinery	—	—
Natural Resources & Engineering	—	—
Kobelco Eco-Solutions	—	—
Kobelco Construction Machinery	—	—
Kobelco Cranes	—	—
Other Businesses	—	—
Elimination	—	—
Consolidated total	¥ —	$ —

Amortization of negative goodwill by reportable segments

Nothing to report

19. Net Income Per Share

The basis of calculating net income per share for the years ended March 31, 2012 and 2011 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, 2012				
Net income available to common shareholders	¥(14,248)	3,000,951	¥ (4.75)	$(0.06)
For the year ended March 31, 2011				
Net income available to common shareholders	52,940	3,002,113	17.63	

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Kobe Steel, Ltd. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheets as at March 31, 2012 and 2011, and the consolidated statements of operations, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kobe Steel, Ltd. and its consolidated subsidiaries as at March 31, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 27, 2012
Osaka, Japan

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Tel: (078) 261-5111 Fax: (078) 261-4123

Tokyo Head Office
9-12, Kita-Shinagawa 5-chome, Shinagawa-ku,
Tokyo 141-8688, Japan
Tel: (03) 5739-6000 Fax: (03) 5739-6903

Branch Offices

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Midosuji Mitsui Building, 1-3, Bingomachi 4-chome, Chuo-ku, Osaka,
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Tel: (06) 6206-6111 Fax: (06) 6206-6101

Nagoya
Nagoya Prime Central Tower, 27-8, Meieki 2-chome, Nishi-ku, Nagoya,
Aichi 451-0045, Japan
Tel: (052) 584-6111 Fax: (052) 584-6105

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

Research Laboratory
Kobe Corporate Research Laboratories
5-5, Takatsukadai 1-chome, Nishi-ku, Kobe,
Hyogo 651-2271, Japan
Tel: (078) 992-5600 Fax: (078) 992-5532

Overseas Offices

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New York, NY 10022, U.S.A.
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Bangkok Office
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Khwaeng Silom, Khet Bangrak, Bangkok 10500,
Kingdom of Thailand
Tel: +66-2636-8971 to 8974 Fax: +66-2636-8675

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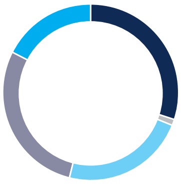
Beijing Office
Unit 1005, Bldg. A, The Lucky Tower,
No. 3 North Dongsanhuan Road, Chaoyang District,
Beijing 100027, People's Republic of China
Tel: +86-10-6461-8491 Fax: +86-10-6461-8490

Shanghai
Kobelco (China) Holding Co., Ltd.
Room 3701, Hong Kong New World Tower,
300 Huai Hai Zhong Road, Luwan District, Shanghai 200021,
People's Republic of China
Tel: +86-21-6415-4977 Fax: +86-21-6415-9409

Investor Information (As of March 31, 2012)

Founded	September 1905
Incorporated	June 1911
Employees	10,370 (Consolidated 35,496)
Fiscal Year	April 1 – March 31
Ordinary General Meeting of Stockholders	June of each year
Authorized and Issued Shares Capital	Authorized: 6,000,000,000 shares Issued: 3,115,061,100 shares

Distribution of Shares



Principal Stockholders

At March 31, 2012, the ten largest stockholders of the Company's stockholdings were as follows:

	Thousands of shares	Percent
Nippon Life Insurance Company	119,045	3.82
Nippon Steel Corporation	107,345	3.45
Sumitomo Metal Industries, Ltd.	107,345	3.45
Japan Trustee Services Bank, Ltd. (Trust Account)	104,199	3.35
The Master Trust Bank of Japan, Ltd. (Trust Account)	84,995	2.71
Mizuho Corporate Bank, Ltd.	64,669	2.08
SSBT OD05 OMNIBUS ACCOUNT — TREATY CLIENTS	58,213	1.87
Mitsubishi UFJ Trust and Banking Corporation	52,333	1.68
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	47,348	1.52
Sojitz Corporation	45,016	1.45

Note: The Company's holdings of treasury stock (109,142 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, 2012

Number of shares owned

Hiroshi Sato	265,000	Takao Kitabata	23,000
Ikuhiro Yamaguchi	126,000	Takuo Yamauchi	10,000
Hiroaki Fujiwara	117,000	Toshinori Okoshi	57,000
Tetsu Takahashi	120,120	Jun Miyazaki	81,000
Jun Tanaka	124,000	Shigeo Sasaki	22,000
Tsuyoshi Kasuya	121,000	Takashi Okimoto	7,000
Hiroya Kawasaki	106,000	Shinya Sakai	0
Kazuhide Naraki	93,000		

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*.

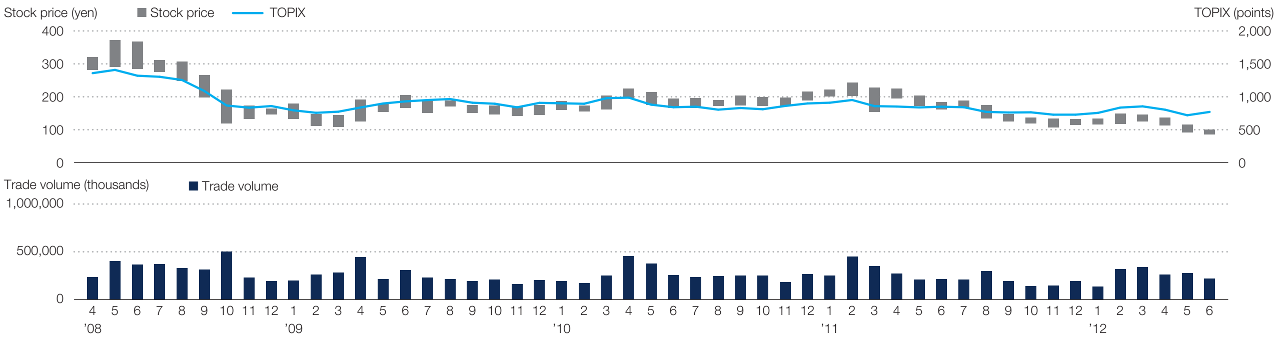
Transfer Agent & Office

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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URL: http://www.kobelco.com

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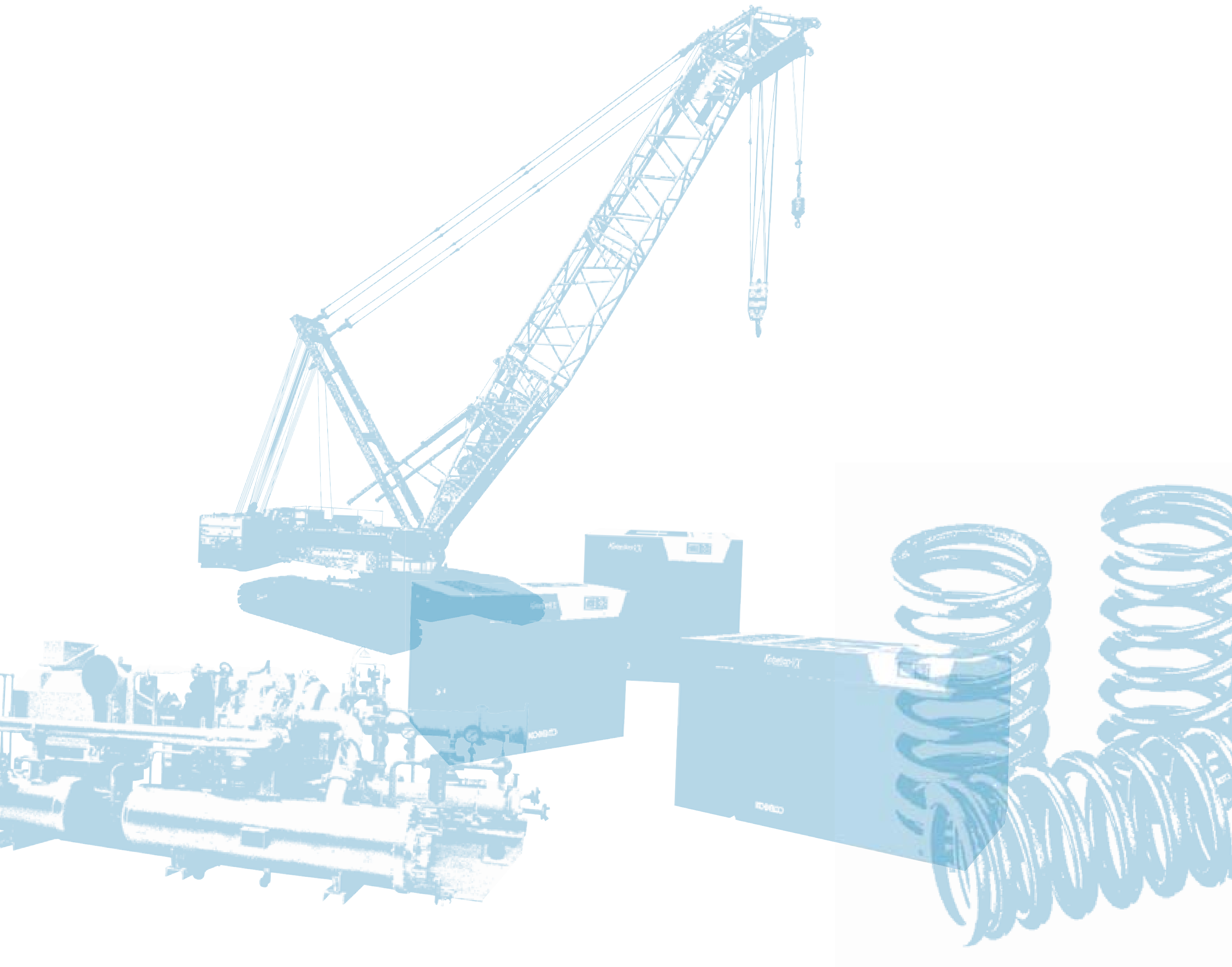

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