
KOBELCO
Rebuilding
Our Tomorrow
KOBE STEEL GROUP ANNUAL REPORT 2013
Year ended March 31, 2013

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

Snap Shot

Net sales
FY2012 ¥1,685.5 billion
FY2011 ¥1,864.7 billion
FY2010 ¥1,858.6 billion

ROA
FY2012 −1.2 %
FY2011 –0.7%
FY2010 2.4%

Operating income
FY2012 ¥11.2 billion
FY2011 ¥ 60.6 billion
FY2010 ¥124.6 billion

Debt/equity ratio
FY2012 1.8 times
FY2011 1.4 times
FY2010 1.4 times

Ordinary income (loss)
FY2012 −¥18.1 billion
FY2011 ¥33.8 billion
FY2010 ¥89.1 billion

Net income (loss)
FY2012 −¥27.0 billion
FY2011 –¥14.2 billion
FY2010 ¥52.9 billion

ROE
FY2012 −5.3 %
FY2011 –2.7%
FY2010 9.9%

Composition of net sales by business segment (%)

1 Iron & Steel Business 44.2
2 Welding Business 4.7
3 Aluminum & Copper Business 15.0
4 Machinery Business 9.5
5 Engineering Business 2.6
6 Kobelco Eco-Solutions 4.1
7 Kobelco Construction Machinery 15.2
8 Kobelco Cranes 2.6
9 Other Businesses 2.1

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

Thorough pursuit of high-end

“Only One” products

Further improvement of manufacturing strengths

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 engineering and environmental solutions. Other important businesses are wholesale power supply and real estate.

To Our Shareholders

Introducing President Hiroya Kawasaki

My name is Hiroya Kawasaki and I assumed the office of President and CEO on April 1, 2013. As the Kobe Steel Group faces an adverse business environment, I strongly feel a deep sense of responsibility and will do everything I possibly can to facilitate the advancement of the Kobe Steel Group. Therefore, I ask for your continued support as we work toward rebuilding our business foundation for stability and growth.

Fiscal 2012 Overview

With demand for reconstruction after the earthquake disaster growing, the Japanese economy was on a modest path to recovery in the first half of fiscal 2012. However, despite a downward correction in the yen's high value, the economy as a whole remained weak due to various factors including the end of eco-car subsidies. Overseas, even though the U.S. economy remained on a modest upswing, financial uncertainty in Europe and the economic slowdown in China continued.

Under these economic conditions, the Kobe Steel Group's sales volumes of steel, aluminum, and copper rolled products dropped below those of the previous fiscal year due to slowing auto demand in Japan, sluggish market conditions overseas, lower exports due to an appreciating yen, slack demand in IT-related fields and other factors. Despite higher unit sales of hydraulic excavators in Japan and Southeast Asia, unit sales declined substantially in China and, as a whole, were below those of fiscal 2011.

As a result, consolidated net sales in fiscal 2012 decreased ¥179.1 billion year on year to ¥1,685.5 billion and ordinary income fell ¥51.9 billion, resulting in an ordinary loss of ¥18.1 billion.

Outlook for Fiscal 2013

While continued modest economic recovery is expected in Japan and overseas, financial instability in Europe and other

factors make for global economic uncertainty in fiscal 2013. The environment surrounding the Kobe Steel Group is not expected to improve rapidly, despite signs of a partial turnaround such as the recent downward correction in the yen's high value.

Ever since an ordinary loss was forecast in fiscal 2012, the Kobe Steel Group has been taking steps to improve profitability and has established the Committee for Cost Reduction and Cash Generation with the goal of turning a profit in fiscal 2013.

As a result, we expect the cumulative effect of reducing total costs will reverse last year's ordinary loss and lead to achieving ordinary income in fiscal 2013.

Outline of the Kobe Steel Group's 2013–2015 Medium-Term Business Plan

In May 2013, the Kobe Steel Group announced its Fiscal 2013–2015 Medium-Term Business Plan.

During the period from April 2010, when we launched our medium- to long-term business vision, KOBELCO VISION "G," to the present, the business environment became extremely adverse, worsening more than expected and resulting in our first ordinary loss in 11 years in fiscal 2012.

In light of these circumstances, we have positioned the three-year period of the Medium-Term Business Plan beginning from 2013 as a period for "rebuilding the Group's business foundation" so that we can achieve the goals of KOBELCO VISION "G." Specifically, we plan to carry out the following four measures.

Rebuilding the Business Foundation

1. Strengthening the Profitability of the Steel Business
2. Securing Sales Volume in Growth Sectors and Regions
3. Improving the Competitiveness of the Company
4. Improving Financial Performance

Through these initiatives, we will add ¥75.0 billion in profits by reducing costs in the steel business and working to become more competitive. By securing sales volumes in growth fields and regions, we aim to raise an additional ¥10.0 billion to ¥30.0 billion in profits. Even if we experience some negative effects, such as an appreciating yen, we aim to achieve ordinary income of ¥80.0 billion to ¥100.0 billion on a consolidated basis.

The Medium-Term Business Plan is seen as both a time to rebuild the business base and to lay the foundation for stable profits and business growth, looking ahead to the medium- to long-term future of fiscal 2016 and beyond. For this purpose, we will implement three initiatives.

Laying the Foundation for Stable Profits and Business Growth

1. Reforming the Structure of the Steel Business
2. Strategically Expanding the Machinery Business
3. Expanding the Power Supply Business

As stated above, our goal is to become a company that can generate ordinary income of ¥200.0 billion, or at least ¥100.0 billion during bad economic times, by around 2020. To accomplish this, we will strengthen the profitability of the steel business, improve our competitiveness, and rebuild the business foundation by bolstering our financial performance. Looking ahead to the medium- to long-term future of fiscal 2016 and beyond, we will lay the foundation for stable profits and business growth. In addition, from 2016, just as soon as we possibly can, we will improve the D/E ratio to 1.0 times or less.

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 during each period, dividend payout ratio, investment capital needs for future growth, relative improvement in financial position and other factors. The dividend payout ratio we are targeting is 15% to 25% of consolidated net income.

In fiscal 2012, even though we did everything we possibly could to improve profitability, with much regret, we could not pay a dividend because of the net loss we recorded, the second year in a row following a net loss in fiscal 2011.

We ask our shareholders to understand that once we recover profitability and forge a steady path to growth through the execution of the Medium-Term Business Plan, we in the Kobe Steel Group will work together in unity to quickly resume dividend payments.

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

August 2013

Hiroya Kawasaki

President, CEO and Representative Director

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, 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.

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.)

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.

Five Basic Policies of KOBELCO VISION "G"

1. Thorough pursuit of high-end "Only One" products
2. Further improvement of manufacturing strengths
3. Growth and business expansion
4. Demonstrating the comprehensive capabilities of the Group
5. Contributions to society

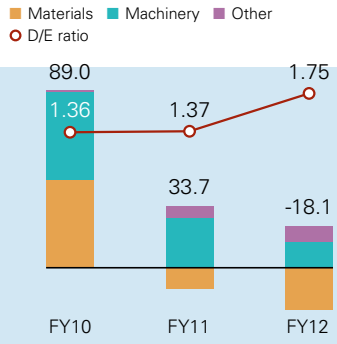
Initiatives for FY2010–2012

Measures taken to assure stable profits and strengthen business development in growth markets

Business segments	Major investments	Year of startup
Iron & Steel	Built hot-metal treatment plant and installed steel plate heat treatment furnace and high-efficiency in-house power generation equipment	FY2012
Iron & Steel	Constructed production facilities in the U.S. for high-strength steel sheet used in automobiles	FY2013
Aluminum & Copper	Built production base for aluminum castings and forgings in China (Established Japan-U.S.-China supply network)	FY2012
Machinery	Invested in nonstandard compressor manufacturer in China	FY2011
Kobelco Construction Machinery	Established the Global Engineering Center (GEC) to optimize development, production and procurement for the entire Kobelco Construction Machinery Group	FY2012

Performance from fiscal 2010 through fiscal 2012

Ordinary income (billions of yen) and D/E ratio (times)



The Kobe Steel Group's Fiscal 2013–2015 Medium-Term Business Plan

—Rebuilding the Business Foundation for Stability and Growth—

To Achieve KOBELCO VISION "G" Targets

We have positioned the three-year period of the current medium-term business plan beginning from fiscal 2013 as a period for rebuilding the Group's business foundation to achieve KOBELCO VISION "G." Specifically, we will tackle the following four issues:

❶ Strengthening the Profitability of the Steel Business
❷ Securing Sales Volume in Growth Sectors and Regions
❸ Improving the Competitiveness of the Company
❹ Improving Financial Performance

At the same time, the next three years are seen as the time to lay the foundation for stable profits and business growth, looking ahead to the medium- to long-term future of fiscal 2016 and beyond. Specifically, we will address the following three issues:

❶ Reforming the Structure of the Steel Business
❷ Strategically Expanding the Machinery Business
❸ Expanding the Power Supply Business

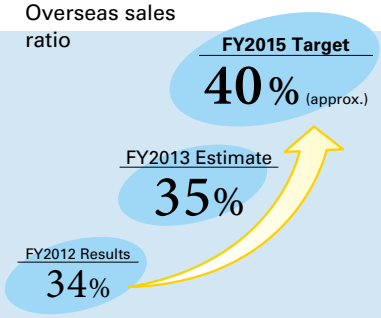
Rebuilding the Business Foundation

1. Strengthening the Profitability of the Steel Business

Measures to Strengthen the Profitability of the Steel Business* * Includes ¥15.0 billion effect from improving Company competitiveness.	FY2013 estimated figures (Compared with FY2012)	FY2015 estimated figures (Compared with FY2013)	Total (Compared with FY2012)
Capital investment effects	¥ 4.0 billion	¥19.0 billion	¥23.0 billion
Cost reduction at manufacturing level	¥12.0 billion	¥10.0 billion	¥22.0 billion
Raw material cost improvement (procurement of low-priced products)	¥ 8.0 billion	—	¥ 8.0 billion
Fixed costs reduction	¥ 6.0 billion	¥ 1.0 billion	¥ 7.0 billion
Total	¥30.0 billion	¥30.0 billion	¥60.0 billion

2. Securing Sales Volume in Growth Sectors and Regions

Overseas sales ratio



Materials Business	Iron & Steel	Maximize profitability in high-strength steel sheet for automobiles in the U.S. and secondary steel wire rod processing
	Aluminum & Copper	Increase sales by reinforcing aluminum forgings manufacturing bases
Machinery business	Machinery	Increase sales volume by utilizing the Chinese compressor manufacturer in which we have equity stake
	Kobelco Construction Machinery	Secure sales volume in China, Southeast Asia, and India and expand sales in Europe and North America, which we reentered
	Engineering	Great East Japan Earthquake disaster relief activities

3. Improving the Competitiveness of the Company

Initiatives to improve the competitiveness of the Company	FY2015 Estimate (Compared with FY2012)
Reduce labor costs and improve efficiency	¥ 1.0 billion
Reduce fixed costs	¥10.0 billion
Cut procurement costs	¥15.0 billion
Strengthen manufacturing capabilities *(monozukuri-ryoku)*	¥ 4.0 billion
Total	¥30.0 billion

Initiatives

Reduce labor costs and improve efficiency	Reduce remuneration of directors and officers Increase efficiency of staff
Reduce fixed costs	Cut maintenance costs, reduce expenses
Cut procurement costs	Procurement by tendering, centralized procurement, promote overseas procurement
Strengthen manufacturing capabilities *(monozukuri-ryoku)*	Reduce quality defect costs and promote energy savings

- The Committee for Cost Reduction and Cash Generation was established in October 2012. Its activities are intended to reduce costs in four areas: 1) personnel/labor, 2) fixed costs, 3) procurement costs, and 4) plant/*monozukuri* (manufacturing).

4. Improving Financial Performance

D/E ratio Maintain financial discipline to achieve a D/E ratio **target of 1.0 times** in fiscal 2016 and onwards

- Rigorously manage financial indices
- Allocate funds to growth fields
- Match financing method to business characteristics

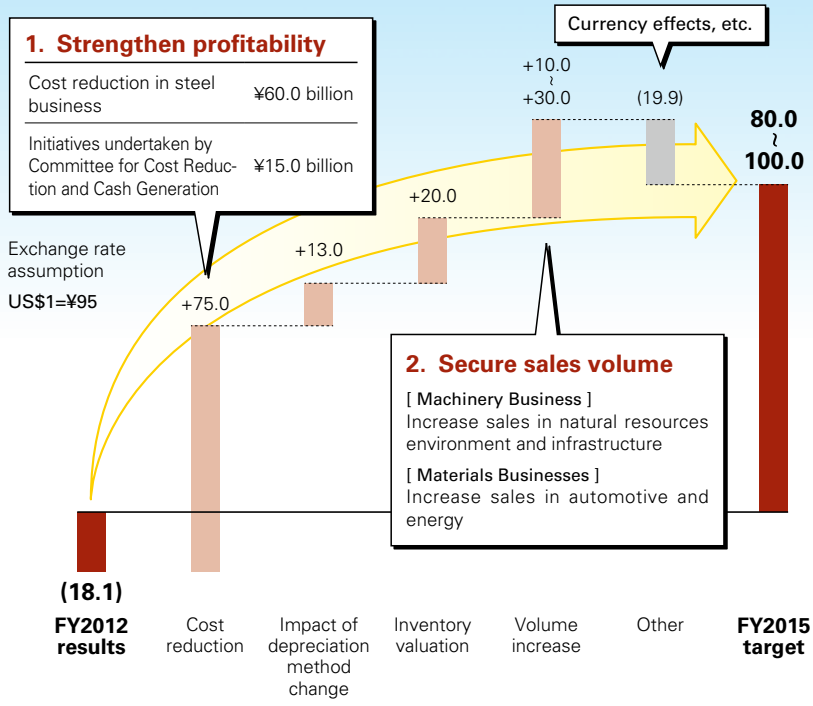
Measures to generate cash	Amount to be generated
Reduce inventory	¥ 40.0 billion
Securitization of accounts receivable	¥ 15.0 billion
Sell assets	¥ 65.0 billion
Cash to be generated through our own efforts	Total ¥120.0 billion (approx.)
Carefully select investments	

D/E ratio FY2015 target 1.3 times (approx.)

- Due to worsening profitability, the debt/equity ratio at March 31, 2013 had deteriorated to 1.75 times and must be improved as quickly as possible.
- We will create cash of ¥120 billion in three years by reducing inventory and selling accounts receivable and assets.
- Achieve a debt/equity ratio of about 1.3 times by March 31, 2016 through the generation of cash and careful selection of investments.

Toward FY2015 Targets (based on FY2012 results)

Ordinary income (loss) (Billions of yen)



- Through the aforementioned initiatives, we will add ¥75.0 billion in profits by reducing costs in the steel business and working to become more competitive, ¥33.0 billion by changing depreciation method and inventory valuation effects, and an additional ¥10.0 billion to ¥30.0 billion by securing sales volumes in growth fields and regions.
- Even if we experience some negative effects, such as an appreciating yen, through these initiatives we will achieve ordinary income of ¥80.0 billion to ¥100.0 billion on a consolidated basis.

Foundation for Stable Profits and Business Growth

1. Reforming the Structure of the Steel Business (1)

- Medium- to long-term business environment

Japan

Steel demand is expected to be on downward trend due to overseas relocation of manufacturing industries and declining population.

East Asia

Steel supply is expected to increase as new steel mills are slated to begin operation in East Asia in 2015.

Competition, will further intensify and cost competitiveness will play a significant role in the continuity of our business

Considering medium- to long-term demand trends in Japan and abroad, additional cost competitiveness is essential

Consolidate Kobe Works' upstream processes at Kakogawa Works to improve cost competitiveness in iron making and steel making by fiscal 2017

Reforming the Structure of the Steel Business (2)

Kobe Works

- Upstream production equipment → **Shut down**

  Equipment to be shut down: Blast furnace, basic oxygen furnace, continuous casting equipment, blooming mill, etc.

- Downstream equipment → Continue operation

  Wire rod and steel bar mills

Kakogawa Works

- Upstream operations → **Improve operating rate**

  Cover Kobe Works' upstream processes

- Increase production of semi-finished products for Kobe Works

  Add new, continuous casting equipment, increase capacity of blooming mill, enhance transfer capability for semi-finished products, etc.

Capital investments: ¥50.0 billion (approx.)

Benefits of consolidation and equipment investments (2017 and after):

¥15.0 billion or more per year

- Strengthen cost competitiveness by consolidating upstream operations to Kakogawa Works
- Raise cost competitiveness and strengthen delivery responsiveness by installing state-of-the-art equipment
- Expand sales and raise profits through total cost reductions
- Expand sales of "Only One" products
  Special steel wire rod, steel bar, high-strength steel sheet for automobiles, heavy plate for energy-related applications

From "surviving" to "winning"

2. Strategically Expand the Machinery Business

Compressor business

Grow to become a global business across Asia, the United States and Europe

- Capture demand in energy field with non-standard compressor production bases in Japan, the United States and China
- Proactively expand compressor business with the aim of global development leveraging M&A and partnerships

Kobelco Construction Machinery

From Asia advance into the world as a truly global company

- Globally (Japan, China, Thailand and India) optimize production system with GEC
- Reenter Europe and North America (former CNH Global N.V. sales territory) and recapture market share

DRI production process

Respond to growing opportunities triggered by the shale gas revolution

- Increase competitiveness of the MIDREX® Process and maximize orders (North America and Russia)

3. Expand the Power Supply Business

Expand the power supply business using know-how accumulated over many years

KOBELCO's power generation plant

- Experience in using various energy sources (coal, gas, etc.) and know-how throughout the entire power generation business including multiple power generation methods (steam turbines, boilers, GTCC, etc.) and power plant construction.

	Capacity	Energy sources	Facilities
Shinko Kobe Power Inc.	1,400,000kW	Coal	Steam turbines and boilers
In-house power generation plant (Kakogawa and Kobe Works)	Approx. 600,000kW	Byproduct gases produced at Works, heavy oil, LPG, LNG, etc.	Steam turbine, boiler and combined cycle gas turbine

- Over 50 years of in-house power generation plant operation experience through its Iron & Steel Business
- GTCC power generation facility that uses blast furnace gas is now operating at Kakogawa Works
- Successfully operating IPP business at Shinko Kobe Power Inc.

Plan to construct the first full-scale power station located inland in Moka (Tochigi Prefecture, Japan)

(Start-up of operations is targeted to commence between 2019 and 2021.)

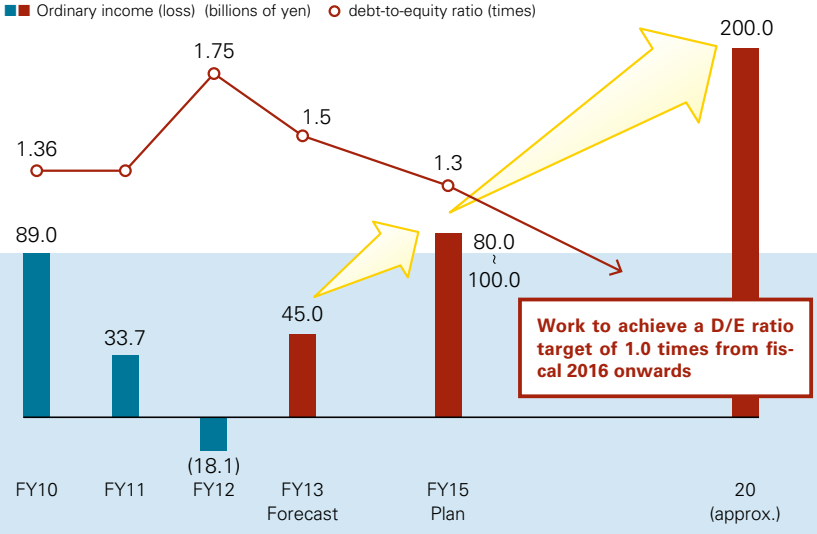
Capacity	Power generation method	Energy source
Approx. 1,400,000 kW	GTCC	City gas

- Thanks to U.S. government approval of gas exports including shale gas to Japan, power generation fuel cost is expected to decrease.
- The project is envisaged to contribute to society's need for an inland location to aid the dispersion of power generation and bolster regional economic development.
- The plant will generate as much as 40% of Tochigi Prefecture's maximum electric power demand.

Kobe Steel will also study the feasibility of using the land made available after the relocation of Kobe Works' upstream blast furnace operations for the power supply business.

10-Year Target

Ordinary income (loss) and debt-to-equity ratio



- Through these measures, Kobe Steel intends to strengthen the Group's diversified business operations in order to build a stable profit base. As envisaged in KOBELCO VISION "G," our goal is to become a company that can generate ordinary income of ¥200.0 billion.
- From 2016, we aim to improve the debt/equity ratio to 1.0 times or less as soon as we possibly can.

Consolidated 10-Year Summary

Kobe Steel, Ltd. and Consolidated Subsidiaries

	Millions of yen			
Years ended March 31	2004	2005	2006	2007
For the year:				
Net sales	¥1,219,180	¥1,443,772	¥1,667,313	¥1,910,296
Cost of sales	993,394	1,140,422	1,297,291	1,543,158
Operating income	100,699	166,577	220,395	208,624
Ordinary income (loss)	50,789	116,028	176,933	183,279
Net income (loss)	22,066	51,289	84,559	109,669
Cash flows from operating activities	104,041	225,751	198,181	172,786
Cash flows from investing activities	(86,381)	(50,543)	(94,215)	(128,557)
Cash flows from financing activities	(35,754)	(163,945)	(93,593)	(48,823)
Capital investment	104,911	66,016	92,319	133,649
Depreciation	79,245	80,290	79,507	86,687
Research and development expenses	16,929	19,700	24,121	24,893
At year end:				
Total assets	1,916,338	1,901,202	2,074,242	2,241,570
Net assets (Note 2)	330,127	379,213	530,000	636,432
Outside debt	797,041	669,241	589,101	621,227
Outside debt including IPP project financing	931,891	811,572	720,909	742,276
Per share data:				
Net income (loss) (yen/U.S. dollars (Note 1))	¥ 7.44	¥ 17.28	¥ 27.94	¥ 35.37
Diluted net income (yen/U.S. dollars (Note 1))	7.38	16.48	27.25	—
Net assets (yen/U.S. dollars (Note 1))	111.24	127.80	170.65	194.46
Cash dividends (yen/U.S. dollars (Note 1))	1.50	3.00	6.00	7.00
Ratios:				
Operating income ratio (%)	8.3	11.5	13.2	10.9
Ordinary income ratio (%)	4.2	8.0	10.6	9.6
ROA (%)	1.2	2.7	4.1	4.9
ROE (%)	7.1	14.5	18.6	19.5
Equity ratio (%)	17.2	19.9	25.6	26.4
Debt/equity ratio (times)	2.5	1.8	1.2	1.2
Dividend payout ratio (%)	20.2	17.4	21.5	19.8
Number of shares issued (in thousands)	2,976,070	2,976,070	3,115,061	3,115,061
Number of employees	26,179	27,067	29,068	31,828

Notes: 1. For convenience only, U.S. dollar amounts in this report have been translated from Japanese yen amounts at the rate of 94.05 to US$1.00, the rate of exchange prevailing on March 31, 2013.

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)
2008	2009	2010	2011	2012	2013	Change 2013/2012	2013
¥2,132,406	¥2,177,290	¥1,671,022	¥1,858,574	¥1,864,691	¥1,685,529	(9.6)%	$17,921,627
1,757,342	1,890,318	1,475,461	1,570,779	1,635,862	1,510,512	(7.7)	16,060,734
202,399	116,934	46,016	124,551	60,555	11,235	(81.4)	119,458
157,919	60,876	10,259	89,083	33,780	(18,146)	—	(192,940)
88,923	(31,438)	6,305	52,940	(14,248)	(26,976)	—	(286,826)
124,317	118,200	172,893	177,795	39,486	45,402	15.0	482,743
(187,381)	(127,405)	(120,324)	(96,687)	(85,267)	(123,513)	—	(1,313,270)
31,155	138,700	(29,641)	(98,196)	(40,233)	127,644	—	1,357,193
150,585	118,044	128,739	91,378	96,085	114,936	19.6	1,222,073
111,514	128,701	118,835	114,820	118,038	106,725	(9.6)	1,134,769
30,139	31,029	28,255	29,833	31,437	30,763	(2.1)	327,092
2,329,006	2,295,489	2,249,346	2,231,533	2,159,512	2,226,997	3.1	23,678,862
647,797	513,461	557,002	597,368	571,258	569,923	(0.2)	6,059,787
713,352	855,972	837,770	769,840	746,471	907,657	21.6	9,650,792
823,404	954,791	925,120	845,484	810,172	959,180	18.4	10,198,618
¥ 29.63	¥ (10.47)	¥ 2.10	¥ 17.63	¥ (4.75)	¥ (8.99)	—	(0.10)
—	—	—	—	—	—	—	—
199.81	159.58	172.09	182.81	171.84	170.63	(0.7)	1.81
7.00	3.50	1.50	3.00	1.00	—	—	—
						Points	
9.5	5.4	2.8	6.7	3.2	0.7	(2.5)	
7.4	2.8	0.6	4.8	1.8	(1.1)	(2.9)	
3.8	(1.4)	0.3	2.4	(0.7)	(1.2)	(0.5)	
14.9	(5.8)	1.3	9.9	(2.7)	(5.3)	(2.6)	
25.8	20.9	23.0	24.6	23.9	23.0	(0.9)	
1.3	1.7	1.6	1.4	1.4	1.8	0.4	
23.6	—	71.4	17.0	—	—	—	
3,115,061	3,115,061	3,115,061	3,115,061	3,115,061	3,115,061	—	
33,657	33,526	33,629	34,772	35,496	36,018	522	

Management's Discussion and Analysis

Analysis of Operating Results

Net sales

FY2012 ¥1,685.5 billion
FY2011 ¥1,864.7 billion
–9.6%

Operating income

FY2012 ¥11.2 billion
FY2011 ¥60.6 billion
–81.4%

Ordinary income (loss)

FY2012 –¥18.1 billion
FY2011 ¥33.8 billion
–

Net loss

FY2012 –¥27.0 billion
FY2011 –¥14.2 billion
–

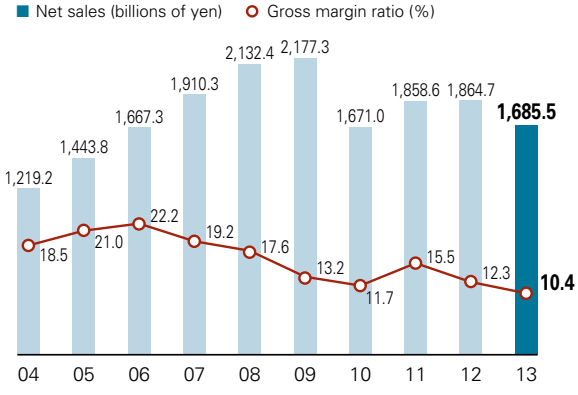
Japan's economy in the first half of fiscal 2012 (April 1, 2012 – September 30, 2012) was slowly following a recovery trend on the back of rising demand for reconstruction work from the Great East Japan Earthquake.

However, in the second half of the fiscal year, although the yen became weaker, the economy remained sluggish due to the ending of eco-friendly car subsidies and other factors. Overseas markets saw a gradually recovering economy in the United States, but a continuation of the financial turmoil in Europe and growing sluggishness in China's economic growth.

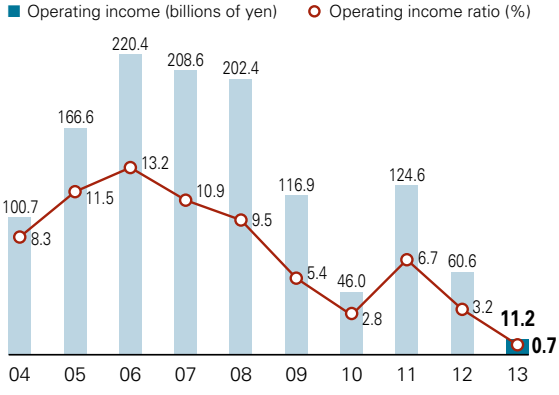
Against this economic environment, the sales volume (in terms of tons sold) of steel products and aluminum and copper rolled products in the Kobe Steel Group declined in comparison to the previous year. Although domestic demand from the automotive industry continued to be strong until the second quarter, demand decelerated from the third quarter. In addition, the sluggish overseas market for steel products and the high yen led to a worsening in the export environment. Aluminum and copper rolled products also saw continued sluggish demand from the IT-related sectors. Unit sales of hydraulic excavators fell in comparison to the previous year. Although domestic demand increased owing to reconstruction work from the Great East Japan Earthquake and demand increased in Southeast Asia, China experienced a large decrease in demand.

As a result, Kobe Steel's consolidated net sales in fiscal 2012 decreased ¥179.2 billion in comparison to the previous year to ¥1,685.5 billion, largely affected by the low sales volume of steel products, the decrease in sales prices, and low unit sales of hydraulic excavators. Operating income went down ¥49.3 billion from the previous year to ¥11.2 billion due to a loss on inventory valuation for steel, aluminum and copper rolled products. Ordinary income, also known as pretax recurring profit, decreased ¥51.9 billion from the previous year to an ordinary loss of ¥18.1 billion. Net loss went down ¥12.7 billion to a net loss of ¥27.0 billion despite an increase in deferred tax assets.

Net sales / Gross margin ratio



Operating income / Operating income ratio



Analysis of Cash Flows

Cash flows from operating activities

FY2012 ¥45.4 billion
FY2011 ¥39.5 billion
+¥5.9 billion

Cash flows from investing activities

FY2012 –¥123.5 billion
FY2011 –¥85.3 billion
–¥38.2 billion

Free cash flows

FY2012 –¥78.1 billion
FY2011 –¥45.8 billion
–¥32.4 billion

Cash flows from financing activities

FY2012 ¥127.6 billion
FY2011 –¥40.2 billion
+¥167.8 billion

Cash Flows from Operating Activities

Income before income taxes turned into a net loss, and a decline in inventories lowered the strain on working capital, resulting in net cash provided by operating activities of ¥45.4 billion, an increase of ¥5.9 billion.

Cash Flows from Investing Activities

Net cash used in investing activities came to -¥123.5 billion, a year-on-year increase of ¥38.2 billion due to such factors as higher spending on plant and equipment and increased investments in securities.

Cash Flows from Financing Activities

Net cash provided by financing activities increased ¥167.8 billion to ¥127.6 billion due to higher inflows from long-term debt.

Analysis of Financial Conditions

Total assets

FY2012 ¥2,227.0 billion
FY2011 ¥2,159.5 billion
+3.1%

Net assets

FY2012 ¥569.9 billion
FY2011 ¥571.3 billion
–0.2%

Equity ratio

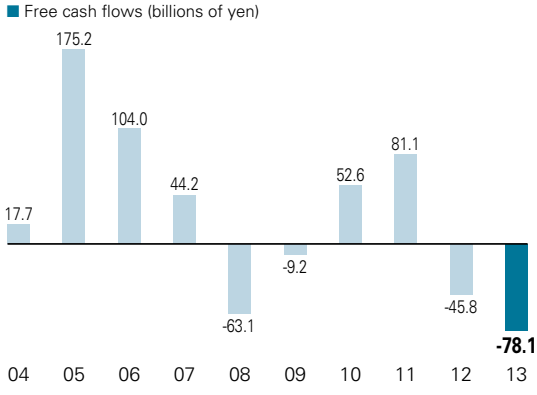
FY2012 23.0%
FY2011 23.9%
–0.9 point

While inventories decreased, cash and time deposits and investments in securities increased. As a result, total assets at the end of fiscal 2012 increased ¥67.5 billion from the end of fiscal 2011 to ¥2,227.0 billion. Net assets at the end of fiscal 2012 decreased ¥1.3 billion from the end of fiscal 2011 to ¥569.9 billion.

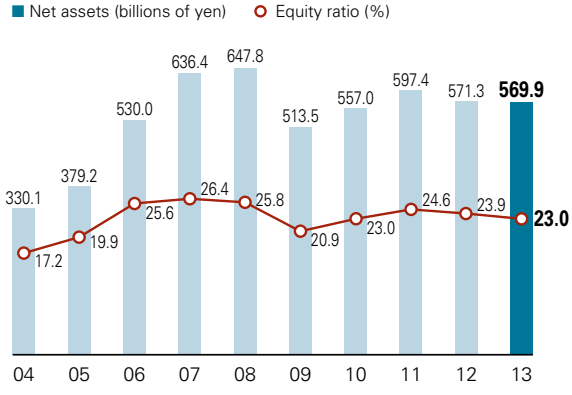
Although foreign currency translation adjustments increased, retained earnings decreased. As a result, the net worth ratio at the end of fiscal 2012 was 23.0%, a decrease of 0.9 points from the end of fiscal 2011.

At the end of fiscal 2012, outside debt, which includes IPP project financing, increased ¥149.0 billion, from the end of fiscal 2011 to ¥959.2 billion.

Free cash flows



Net assets / equity ratio



Business Outline

Iron & Steel Business

Strengthening manufacturing capabilities for advanced, high value-added products

Consisting of steel products, steel castings and forgings, titanium, steel powder and wholesale power supply, the Iron & Steel Business is strengthening its *monozukuri-ryoku*, or manufacturing capabilities, to increase productivity and cost competitiveness. It is looking to overseas markets for its "Only One" products and technologies and shifting its focus to fields of growing demand. In the wholesale power supply business, Shinko Kobe Power Inc. is equipped with a maximum output of 1.4 million kilowatts that provides a stable supply of electricity.

Main Products and Services

Steel Products

[Steel Wire Rod and Bar]
- Ordinary steel wire rod
- Special steel wire rod
- Ordinary steel bar
- Special steel bar

[Steel Plate]

[Steel Sheet]
- Hot-rolled steel sheet
- Cold-rolled steel sheet
- Electrogalvanized steel sheet
- Hot-dipped galvanized steel sheet
- Pre-painted steel sheet

[Pig Iron]

Steel Castings and Forgings

[Ship Parts]
- Crankshafts
- Engine parts
- Shafts
- Ship hull parts

[Industrial Machinery Parts]
- Mold steel
- Work rolls
- Bridge parts
- Heavy-wall pressure vessels

Titanium
- Titanium for aircraft parts
- Titanium for heat exchangers
- Titanium for construction
- Titanium for golf clubs
- Titanium for motorcycle mufflers
- Titanium for wristwatches
- Titanium for IT applications

Steel Powder
- Steel powder for powder metallurgy
- Steel powder for handwarmers
- Steel powder for deoxidizers
- Iron powder for soil remediation and groundwater purification
- Magnetic iron powder
- Fine powder for metal injection molding

Wholesale Power Supply

Parts made of cold-forged steel

Steel plate for shipbuilding

Titanium motorcycle muffler

Business Review

Kobe Steel, U.S. Steel begin commercial production at continuous annealing line of PRO-TEC joint venture in Ohio

In May 2013, Kobe Steel and United States Steel Corporation announced that the continuous annealing line at their joint venture, PRO-TEC Coating Company, had commenced commercial production of advanced high-strength steel sheet for automobiles.

More stringent CAFE (corporate average fuel economy) standards are increasing the need for automakers to make lighter cars. Advanced high-strength steel reduces vehicle weight without sacrificing collision safety. These trends are accelerating demand for high-strength steel sheet for automobiles.

The continuous annealing line is equipped with both advanced water quench equipment and a rapid gas jet cooling system, which enables the new facility to produce a wide range of cold-rolled high-strength steel currently used in the automobile industry. The new line will be able to make next-generation high-strength steel products with outstanding formability. A major product is steel sheet with a tensile strength of 590 MPa.

Continuous annealing facility at PRO-TEC now in operation

"Only 1" Products & Technologies

Wire Rod for Automotive Engine Valve Springs

With an excellent balance of integrated capabilities in manufacturing, processing and product development, Kobe Steel has a large share of the domestic and overseas markets for wire rod used in engine valve springs and suspension springs, steel for bearings and gears, and cold heading quality (CHQ) wire rod for nuts and bolts.

Crankshafts (Build-Up Type)

A rotating shaft, or a journal, and a component connected to a piston, called a throw, are produced separately and later assembled into a crankshaft. Manufactured under stringent quality control, our built-up crankshafts are unmatched in precision and delivered on time.

High-Strength Steel Sheet

Kobe Steel is the first manufacturer in the industry and in the world to successively commercialize high-strength steel sheet, which reduces car weight and provides greater protection in the event of collision. Kobe Steel has successfully prototyped steel sheet with the world's highest tensile strength.

The line will be capable of producing ultra high-strength steel of 780 MPa, 980 MPa and higher. These steel products also help decrease fuel consumption by reducing the weight of cars and help lower greenhouse gas emissions.

Kobe Steel's wire rod processing company starts up in China

Kobelco Spring Wire (Foshan) Co., Ltd. (or KSW), established by Kobe Steel, Ltd. with equity participation from Shinko Wire Company, Ltd. and Suncall Corporation, began production of steel wire for high-quality springs in February 2013.

In China, where auto production is forecasted to expand considerably over the medium to long term, the world's major spring manufacturers have been aggressively building new local production lines and expanding capacity to meet increased production of engine valve springs and other high-quality springs. This, in turn, has increased demand for high-quality steel wire, the material from which springs are made.

Kobe Steel has a roughly 50% share of the world market for steel wire rod, the base material for steel wire, used in making engine value springs. It has earned high marks from automakers in Japan, the United States and Europe for its wire rod. With the operation of its plant, KSW will steadily meet booming demand for high-quality steel wire for valve springs in China.

KSW facility

New steel plate heat-treatment furnace begins operation

Kobe Steel completed the expansion of its new heat treatment furnace as a measure to increase Kakogawa Works' steel plate heat treatment capacity. Operation of the new furnace began in January 2013. Demand for heavy plate, which is used in LNG tanks, pressure vessels and other applications, has been steadily increasing due to rising global energy demand, especially from emerging countries.

Heat treatment capacity has nearly doubled with the installation of the new heat treatment furnace. We will seek to raise our market presence and improve earnings by increasing order volume in the energy field.

New heat treatment furnace

Welding Business

Striving to Be the Most Trusted Welding Company by Providing Welding Solutions

By combining welding materials, welding systems, power sources, equipment and construction methods, we contribute to industries around the world through our welding technologies. We aim to be a top manufacturer globally by maintaining our No. 1 position in Japan and the ASEAN region as we strive to spur our overseas development.

Main Products and Services

Welding Materials
- Covered arc welding electrodes
- Flux-cored and solid welding wires for semi-automatic welding
- Solid wires and dozed fluxes for submerged arc welding
- TIG welding rods
- Backing materials

Welding Systems
- Robot systems for welding steel frames
- Welding systems for bridge construction
- Welding systems for construction machinery
- Other types of robot welding systems
- Off-line teaching systems
- Welding robots
- Welding power sources

Testing and Inspection
- Testing, analysis, inspection, commissioned research
- Educational guidance
- Consulting
- Maintenance and inspection of industrial robots, power sources and equipment

High Functional Materials
- High functional filters that deodorize, dehumidify, decompose ozone, and remove harmful gases and oil mist
- Odor neutralizers

Overseas Operations

Welding materials

Robot systems for construction machinery

Kobe Welding Tangshan training center

Business Review

Welding Solutions Development

The progress of welding robots has been remarkable from the standpoint of their versatile use and automation and labor saving capabilities, but above all, in the welding of medium to heavy plate, such as for construction machinery, in which high efficiency is strongly desired.

In October 2012, Kobe Steel began sales of the Ultra High Current MAG Welding Process, which is extremely stable at high currents, has low spatter and offers high-performance welding using the SENSARC™ AB500 digitally-controlled welding power source and FAMILIARC™ MX-A100D wire specially developed for this process. Following last year's release of J-Solution™ Zn, we will continue to bring out new welding solutions that combine welding materials, construction technology, and welding systems, as well as supply products that are high in customer satisfaction.

High deposition welding process using two parallel-connected welding power sources

"Only 1" Products & Technologies

Flux-Cored Wires

Flux-cored wires enable high-efficiency welding and are used across a wide range of sectors, including shipbuilding, bridges and industrial machinery. They significantly reduce man-hours in the welding process, increase welding efficiency and improve the external appearance of the weld bead.

Non-Copper-Coated Solid Wires (SE Wire Series)

With a new wire surface treatment technology, non-copper-coated solid wire offers a revolutionary level of wire feed ability and unrivaled arc stability. The copper coating process is eliminated from the manufacturing process to minimize the impact on the global environment.

ARCMAN™-GS robot

Used in steel frames, construction machinery and many other applications involving the welding of medium and thick plates, the ARCMAN™ series of welding robots is equipped with torches and cables designed to make the robots more appropriate in confined areas and tandem welding.

Strengthening Overseas Business — Raising our Presence in China and ASEAN

Thai-Kobe Welding was Kobe Steel Group's first overseas base, and it has retained the number one market share in Asia ever since. To further increase our presence in the ASEAN region, in 2011, we assigned overall control for ASEAN to our company in Singapore, which is now taking steps to strengthen marketing, technology, service, *monozukuri-ryoku* (manufacturing capabilities), and upgrade and expand development functions for the entire region.

We consolidated our venture into China by assigning overall control to a local unit also in 2011 and have worked mainly on sales and marketing activities. To further expand sales and orders in the world's largest and intensely competitive Chinese market, we added production capacity at Kobe Welding of Qingdao Co., Ltd. and launched a new distributor system, thus conducting ever more activities that forge a deep and broad connection with the market and customers.

KOBE WELDING OF QINGDAO CO., LTD.

Beginning in 2010, we established sales bases in Shanghai, South Korea, and India, which gives us coverage in nearly every region except for the Middle East and South America. Retaining the number one position in Japan and ASEAN, Kobe Steel seeks to speed up overseas expansion and become a top global manufacturer.

Relief funds donated for flooding in Thailand

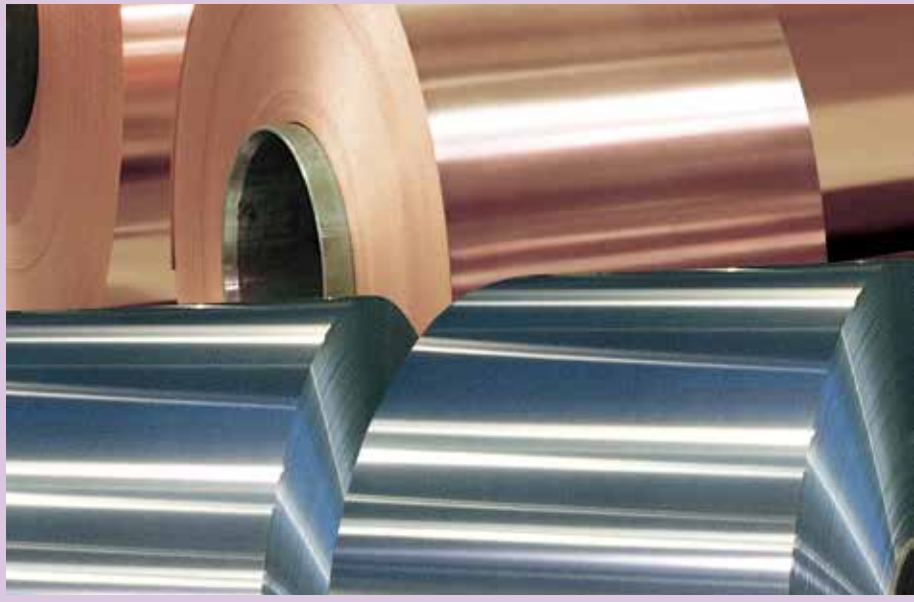
The Welding Business donated 1 million Thai baht (about ¥27 million) to the flood support project under the auspices of Princess Sirindhorn of the Royal Household of Thailand to help pay for damage caused by floods in Thailand in 2011. The Kobe Steel Group started its first overseas base in Thailand in 1968. Since this market has supported the Group's business activities for many years, we made this donation to the project to help disaster areas and victims.

Princess Sirindhorn of the Royal Household of Thailand expresses gratitude for relief fund donation

Aluminum & Copper Business

One of Japan's Leading Suppliers to the Automotive and IT Industries

Defining applications for automotive and IT industries as priority areas, we aspire to enhance and enrich our "Only One" products with distinctive value. As one of Japan's leading aluminum and copper producers, we are stepping up our overseas operations, backed by our long-nurtured technologies and trust built up over the years.



Main Products and Services

Aluminum Sheet and Plate
- Can stock
- Automotive body panel material
- Disk material
- General sheet and plate

Aluminum Extrusions and Fabricated Products
- Extrusions (shapes, tubes, bars)
- Fabricated products

Aluminum and Magnesium Castings and Forgings
- Castings
- Forgings
- Fabricated products

Copper Sheet and Strip
- Leadframe material for semiconductors
- Material for terminals and connectors

Copper Tube
- Copper tube for air conditioners
- Copper tube for construction and hot water supply

Gearbox for aircraft

Aluminum coils

Aluminum extrusions

Business Review

Expansion of capacity at U.S. and China manufacturing facilities for aluminum forgings for automotive suspensions

Kobe Aluminum Automotive Products (China) Co., Ltd. (or KAAP China), a manufacturing and sales base for aluminum forgings for automotive suspensions that began operations in China in August 2012, completed the expansion of its production capacity at a cost of ¥4.5 billion and began mass-production in April 2013.

As a result of the expansion, KAAP China has doubled its production capacity to 250,000 pieces per month. Also, with the installation of melting and casting equipment, we have established an integrated system of production from melting and casting to final product manufacturing.

Meanwhile, at Kobe Aluminum Automotive Products LLC (or KAAP), our production base in the U.S. for these components, in response to growing demand for aluminum forgings for automotive suspensions in the U.S., in January 2013 we decided to expand our integrated production system, which includes melting and casting equipment and a mechanical forging press. Capital investment will came to approximately US$66

New forging press at KAAP China

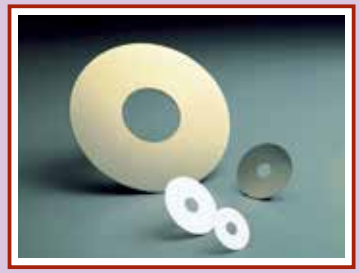
"Only 1" Products & Technologies

Aluminum Bottle Can Stock

Today, aluminum cans account for about 50% of beverage cans in Japan. Kobe Steel supplies more than 30% of the aluminum can stock. We are particularly strong in the field of bottle can stock with a market share of around 70%.

Aluminum Automotive Panels

Aluminum is being used in more and more mass-produced vehicles. Swiftly paying attention to this trend, Kobe Steel capitalizes on its comprehensive technical strength, from materials and design to assembly, to meet the needs for aluminum in automobiles.



Aluminum Disk Blanks

Kobe Steel supplies nearly 60% of the disk blanks worldwide. With production centers in Japan and Malaysia, we are contributing to an advanced information society.

million (about ¥5.2 billion). Construction has commenced with operations expected to begin in the spring of 2014.

The aluminum forging business has met expanding global demand for aluminum suspensions with a network of bases in three countries: Japan (including the Daian Plant), the United States and China.

Kobe Steel licenses high-end copper alloys CAC™5 and SuperKFC™

In November 2012, Kobe Steel concluded a licensing agreement with Wieland-Werke AG of Germany for the production and sale of Kobe Steel's CAC™5 copper alloy for terminals and connectors.

Kobe Steel developed CAC™5, a high-end product, in 2005 mainly for use as a new alloy in automotive terminals and connections due to its outstanding stress relaxation resistance and high strength. A leading European producer of copper rolled products, Wieland is the top supplier of copper alloys for automotive terminals and connectors in Europe. As a global supplier of CAC™5, Kobe Steel is working to establish CAC™5 as a next-generation world standard.

In the same month, Kobe Steel and JX Nippon Mining & Metals Corporation (or JX Metals), a major copper alloy producer in Japan, concluded a licensing agreement for the manufacture and sale of SuperKFC™, a copper alloy for use in electric and electronic components. SuperKFC™ is a high-end product developed in 2006 by Kobe Steel featuring high conductivity and high strength and it is therefore mainly used as an alloy in semiconductor lead frames for ICs.

JX Metals is a leading copper alloy producer in Japan whose alloys are used in a wide range of fields in electric and electronic component applications.

Production of new ALJADE™ aluminum alloy plates for precision machining

Kobe Steel has developed ALJADE™, an improved version of its 5052 aluminum alloy plate for precision machining. Production began in June 2013.

The new ALJADE™ is being sold in Japan and other Asian countries for use in semiconductor and LCD manufacturing equipment, robots and precision machinery.

A major enhancement of ALJADE™ is significantly improved flatness, which contributes to higher processing yield and reduces the total cost for customers.

ALJADE™ aluminum alloy plate

Machinery Business

Pursuing a Growth Strategy Aimed at Building a Global Business

The Machinery Business offers an extensive array of products, including industrial machinery, compressors and equipment for the nuclear and other energy industries. To meet global demand in growing markets, it strives to create original products and technologies, bolster its capabilities in production technology, and build a structure for optimal production.

Main Products and Services

Industrial Machinery

[Tire and Rubber Machinery]
- Batch mixers
- Twin-screw extruders
- Tire curing presses
- Tire testing machines

[Plastic Process Machinery]
- Large-capacity mixing and pelletizing systems
- Continuous mixers
- Twin-screw extruders
- Molding machines
- Optical fiber making equipment

[Advanced Technology Equipment]
- Physical vapor deposition systems (AIP, UBMS)
- Analysis systems and ion beam equipment

[Metalworking Machinery]
- Steel and nonferrous metal rolling mills
- Automatic flatness control systems
- Continuous casters
- Isostatic pressing systems (HIP, CIP)

Compressors

[Nonstandard Compressors]
- Screw compressors
- Centrifugal compressors
- Reciprocating compressors

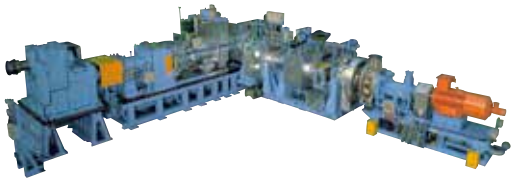
[Standard Compressors]
- Standard air compressors
- Screw refrigeration compressors
- Heat pumps
- Steam-powered generators

Equipment

[Chemical and Energy Equipment]
- Heavy-wall pressure vessels (reactors)
- ALEX (brazed aluminum heat exchangers)
- LNG vaporizers (open rack vaporizers, intermediate fluid vaporizers, air fin vaporizers, hot water vaporizers)
- Air separation plants

[Nuclear Equipment]
- Spent fuel storage and transport casks
- Fuel channels

Open-rack LNG vaporizer



LCM Series plastic mixing and pelletizing system

AIP system

"Only 1" Products & Technologies

Kobelion® Standard Compressor

The energy-saving Kobelion® compressor provides a considerable reduction in running costs. The Kobelion has won the Japan Society of Mechanical Engineers (JSME) Award and many other prizes for its outstanding technology.

Nonstandard Compressors

Kobe Steel provides users across the globe with high-performance nonstandard compressors, including high-pressure screw compressors with world-leading compression capacity and screw compressors for the recovery and reuse of natural gas, which can help combat global warming.

Heavy-Wall Pressure Vessels for Oil Refining

Using its proprietary improved steel for enhanced performance, Kobe Steel is equipped to produce the world's largest class of pressure vessels, weighing up to 2,000 metric tons per unit, to meet today's needs for larger pressure vessels.

Business Review

New companies established in Europe and the Middle East

In July 2012, Kobe Steel established Kobelco Machinery Europe GmbH (located in Munich, Germany) to strengthen marketing and sales, mainly of nonstandard compressors in Europe, and to expand local procurement.

Also in July, we established Kobelco Machinery Middle East FZE (located in Dubai, UAE) to improve after-sales services in the Middle East market for nonstandard compressors.

Kobe Steel is the world's only comprehensive manufacturer that makes screw, centrifugal and reciprocating compressors. The Company boasts a 30% share of the world market for nonstandard screw compressors. Nonstandard compressors are used in petrochemical plants, natural gas plants and other large facilities. Kobe Steel has supplied numerous compressors throughout the world and has an extensive supply record.

Kobe Steel previously had representative offices in Germany and the UAE. By incorporating these offices into companies, Kobe Steel strengthens compressor marketing, parts procurement and after-sales services, as well as increases its presence in the two regions.

Engineering Business

Adding Value Through the Integration of Advanced Technologies

This business has an impressive track record in plant engineering, mainly in the ironmaking and energy sectors. It has done pioneering work in developing direct reduced iron processes requiring no blast furnace and a new ironmaking method, playing a leading role in this field. We remain committed to expanding our business around the world.

Main Products and Services

Ironmaking Processes
- MIDREX® Direct Reduction Process
- FASTMET® Process
- FASTMELT® Process
- ITmk3® Process

Nuclear Power
- Radioactive waste disposal plants
- Nuclear equipment (spent fuel casks for transport and storage, fuel channels)

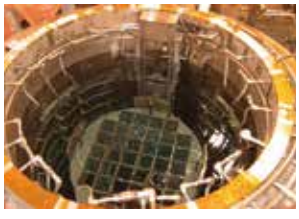
Chemical Weapons Destruction
- Demilitarization system and facilities for destroying chemical weapons
- Total services to eliminate abandoned chemical weapons with the identification, recovery, transportation, storage, and disposal

Steel Structures and Sabo
- Steel grid-type structures for erosion control (dams, woody debris trapping, etc.)
- Flared seawalls, sound insulation systems
- Sound absorbing panels for the underside of elevated roads
- Cable production and installation

Urban Transit Systems
- Advanced urban transit systems (automated guideway transit, sky rail, guideway bus)
- Platform door systems
- Construction engineering

Upgrading of Low-Rank Coal
- Upgraded Brown Coal (UBC®) Process

Nuclear power-related facility



Decontamination

Flared seawall

Business Review

Kobe Steel Group's Clean-Up Efforts at Fukushima

Kobe Steel has received orders that will assist with the clean-up of the Fukushima Daiichi Nuclear Power Station (hereafter, "FD") and surrounding areas. One of the orders received was for the construction of equipment for incinerating gear and other items used by workers at FD. Another order was for metal casks for the storage of spent fuel held in FD's spent fuel pool. Kobe Steel is collaborating with Kobelco Eco-Solutions Co., Ltd., a Kobe Steel Group Company, and Transnuclear, Ltd. (a joint-venture between Kobe Steel and TN International) on these orders.

The nuclear power technology of the Kobe Steel Group will help in the recovery from the FD accident. The Kobe Steel Group's technology can contribute to recovery in a variety of ways, and leveraging the Group's collective strength, it will continue to contribute.

Kobe Steel, in cooperation with Kobelco Eco-Solutions, will supply a solid waste incineration system that enables the incineration of workers' gear including Tyvek coveralls, underclothing, and rubber gloves, as well as construction waste material such as paper, cloth, and lumber. The incineration capacity will be approximately 14 tons per

Recently delivered metallic cask

"Only 1" Products & Technologies

ITmk3® Process

ITmk3® is drawing attention as a new iron-making process that produces high-quality iron nuggets from low-grade iron ore fines and non-coking coal in about ten minutes. The first commercial plant is in operation in Minnesota, USA.

Steel Structures and Sabo Dams

To answer the increasingly diverse needs of erosion control work, Kobe Steel offers steel grid-type sabo dams for debris control, woody debris trapping, groundsill work, avalanche control work, and other solutions compatible with the natural environment.

Urban Transit Systems

Kobe Steel provides automated guideway transit systems, short-distance transit systems and guideway bus systems that help ease traffic congestion in urban areas.

day (300kg/hour × 2 lines, with 24-hour continuous operation). After incinerating the waste to less than several one-tenths its original size, the remains will be stored in a drum.

In addition, Kobe Steel received an order from Tokyo Electric Power Co., Ltd. through Transnuclear, Ltd. for 11 metal casks for the storage of spent fuel at FD. Delivery began in March 2013. To further meet customer needs, we will continue to focus on supplying metal casks, which show promise as a method of storing spent fuel held in domestic nuclear power plants.

Field Test of DOKODEMOSAKU® Installation of Free Access Platform Gate in Train Stations

DOKODEMOSAKU® was jointly developed by Kobe Steel and Institute of Industrial science, the University of Tokyo. From around summer of 2013, in cooperation with Seibu Railway Co., Ltd., an experimental version of the DOKODEMOSAKU® free-access platform gate is to be installed and test operated on a train station platform (at the end of Platform 1 of Shin-Tokorozawa Station of the Seibu-Shinjuku Line). Commercialization of DOKODEMOSAKU® is expected in fiscal year 2013.

More than just an APG (Automated Platform Gate), DOKODEMOSAKU® can accommodate the door positions for all trains by moving the doors and their pockets.

Therefore, customers do not have to replace or alter existing train cars, as DOKODEMOSAKU® enables platform door use at all train stations. Moreover, by using DOKODEMOSAKU®, limitations of the train car stop-position are reduced, and since platform doors can be installed even without installing a train automatic position stopping device, investment costs are substantially reduced, which is a major advantage. A subsidy for research on railroad technology from the Ministry of Land, Infrastructure, Transport and Tourism has been used for the development of this technology.

DOKODEMOSAKU®

DOKODEMOSAKU® is a movable platform door guard that can adjust to the door positions of trains with differing numbers of doors and stop positions. To prevent accidents on train station platforms, the installation of platform doors has been underway. However, at train stations where trains with differing numbers of doors or car lengths enter, the existing platform doors cannot be used.

After receiving grants-in-aid for research on railroad technology from the Ministry of Land, Infrastructure, Transport and Tourism, Kobe Steel, in collaboration with the University of Tokyo, is jointly developing DOKODEMOSAKU®

DOKODEMOSAKU®

Kobelco Eco-Solutions

An Environmental Solution Company that Meets the Requirements of the Times

As an environmental solution company that meets the needs of the current age, Kobelco Eco-Solutions Co., Ltd. contributes to society by offering technologies that help protect the global environment and improve living conditions.

Main Products and Services

Water Treatment
- City water, sewage and industrial water treatment plants and equipment Ultrapure and pure water production equipment, industrial water processing and wastewater treatment systems
- Recycling systems for sewage sludge, foodstuffs, and other organic waste

Cooling Towers
- Industrial cooling towers
- Cooling towers for district heating and cooling
- Super-low-noise cooling towers

Waste Treatment and Recycling
- Municipal waste incineration and melting plants (fluidized-bed gasification and melting furnace, stoker-type incinerator, fluidized-bed incineration furnace, plasma melting furnace)
- Bulky waste and other recycling facilities
- PCB waste treatment plant

Process Equipment
- Glass-lined equipment
- Polymerizers and reactors
- Separation and refinement equipment
- Powder equipment
- High-purity hydrogen oxygen generators

Environmental Analysis
- Water and sewage quality inspection
- Water quality testing at factories and research centers
- Measurement of industrial wastes (PCB, metals, organic matter, etc.)

Business Review

Construction of Plant for Glass-lined Equipment in Vietnam

Kobelco Eco-Solutions has decided to establish a manufacturing base overseas, making it the first Japanese glass-lined equipment manufacturer to do so. It has begun construction of a plant in Long Duc Industrial Park, Vietnam, taking a partial equity stake in the venture. The site of the Long Duc Plant covers 10,000 square meters, with the plant occupying 3,000 square meters. Construction is proceeding smoothly and operation is slated to begin this autumn.

Local production will enable us to respond to the increased demand for glass-lined equipment in Southeast Asia and to supply Japan. Under the slogan "Japanese quality from Vietnam," the new plant will contribute to the development of Japan and Southeast Asia's pharmaceutical, fine chemical and electronic materials fields.

Plume abatement cooling towers

Water electrolysis high-purity hydrogen oxygen generator

Conception drawing of completed Long Duc Plant in Vietnam

"Only 1" Products & Technologies

Water Treatment Facilities

Kobelco Eco-Solutions offers a full array of water treatment facilities, including water and sewage treatment plants, industrial water and wastewater treatment plants, sludge treatment plants, and pure and ultrapure water production plants. It also operates a water supply business, selling pure and ultrapure water.

Sewage Biogas Facility

Working with local authorities and gas companies, we have developed a gasification facility that is capable of refining biogas produced by sewage sludge to the same quality as city gas. We began injecting sewage biogas into city gas pipes in October 2010.

Fluidized-Bed Gasification and Melting Furnaces

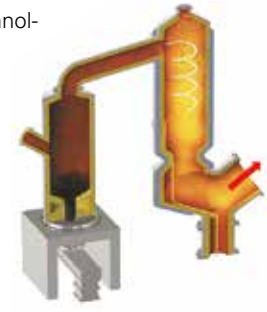
These furnaces are friendly to the environment as they make use of the energy in waste to carry out processes from incineration to ash melting for volume reduction and conversion into slag. This helps reduce the burden on final disposal sites as well as decreases CO_2 and other emissions.

Order for Waste Treatment Plant in Kofu-Kyoto Region

In June 2012, Kobelco Eco-Solutions and Kobelco Eco-Maintenance Co., Ltd., a Kobe Steel Group company, forming a business group with three business partners, won an order via open competitive bidding for a project to develop and operate a waste treatment plant from the Kofu-Kyoto Waste Treatment Plant Administrative Association *(Kofu Kyoto Chiiki Gomishorisetsubi Jigyo Kumiai)*.

The Kobe Steel Group submitted a proposal for reducing fuel consumption by means of a fluidized-bed gasification and melting furnace, delivering Japan's highest standard of high-efficiency power generation, providing major CO_2 emissions reduction and offering proprietary anti-pollution measures. On that basis, it was selected as the winning proposal.

As a leading waste treatment plant manufacturer, Kobelco Eco-Solutions has received orders for 14 projects in Japan, including this project, and two projects abroad. We will continue to use technology accumulated over the years to contribute to environmental preservation and the formation of a recycling-based society.



Gasification and melting furnace

Vietnam Subsidiary Receives Orders for Water Treatment Systems

Kobelco Eco-Solutions' Vietnam subsidiary, Kobelco Eco-Solutions Vietnam Co., Ltd. (KESV), received an order for a water treatment system (using reverse osmosis membrane) and a wastewater treatment system from YKK Vietnam Co., Ltd. for their second plant in Vietnam. KESV also received a second order from LOTTE Vietnam Co., Ltd. for the expansion of their anaerobic wastewater treatment plant.

KESV was established by Kobelco Eco-Solutions in November 2010 to build water treatment systems that will be needed as a result of Vietnam's plan to build and expand numerous steelworks and power plants and upgrade industrial parks.

KESV will play a central role in the further pursuit of industrial water treatment, water infrastructure development and public-private partnership projects in Vietnam. Kobelco Eco-Solutions will further accelerate the expansion of the water treatment business by building and operating industrial water and wastewater treatment systems for industrial parks.

Water treatment systems delivered by KESV

Kobelco Construction Machinery

Kobelco Construction Machinery Co., Ltd. specializes in hydraulic excavators. It is dedicated to developing original products with a focus on high fuel efficiency and low-noise features to meet diverse customer needs.

Main Products and Services

Construction Machinery
- Hydraulic excavators
- Mini excavators
- Wheel loaders
- Mini wheel loaders

Environmental Recycling Machinery

[Construction Recycling]
- Building demolition machines

[Metal Recycling]
- Automobile dismantling machines
- With magnet attachment
- With scrap loader attachment, etc.

[Resource Recycling]
- Resource handling machinery, etc.

[Forestry Machinery]
- Processors
- With harvester attachment
- With grapple attachment

Standard hydraulic excavator

SK200H 20-ton class hybrid hydraulic excavator

Hydraulic excavator (North American model)

Zero tail swing excavator

Business Review

Kobelco Construction Machinery dissolves alliance with CNH Global N.V., enters the United States and Europe independently

Kobelco Construction Machinery and CNH Global N.V. dissolved their global alliance, which began in January 2002, on December 31, 2012. For the first time in 10 years, Kobelco Construction Machinery has resumed business activities in the United States and Europe on its own. Kobelco can now independently expand sales of KOBELCO-brand excavators equipped with advanced technology including low fuel consumption, low noise level, and GPS. We are building a global sales network and spreading the KOBELCO brand across the world.

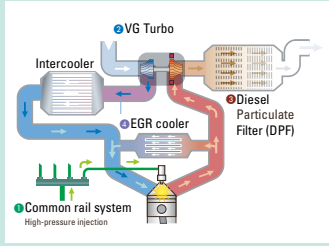
Press conference on December 26, 2012 announcing the decision to end the alliance with CNH

"Only 1" Products & Technologies

Environmental Recycling Machines

The company offers unique environmental products for construction, metal, resources and forestry recycling. The SK3500D demolition machine, developed for demolishing ultra-large buildings, has a maximum reach of 65 meters, equivalent to a 21-story building.

It is listed in the Guinness Book of World Records as the demolition machine with the world's longest reach.



Fuel-Efficient Performance

Engine power loss has been minimized through better fuel-efficient performance, a rethinking of the hydraulic system's power loss, and other improvements. Fuel consumption and CO_2 emission have been reduced across all product lines by using technology that reduces power loss without diminishing workload.

Integrated Noise & Dust Reduction Cooling System (iNDr)

iNDr is an advanced cooling system developed by Kobelco Construction Machinery that combines the features of noise and dust reduction. Minimal openings for air intake and exhaust, a redesigned layout of the cooling fan and engine, and an angled pathway for the air flowing within the engine enclosure significantly reduce the noise emitted outside.

Marketing of SK200H hybrid hydraulic excavator commences

Following the SK80H, an 8-ton-class hybrid hydraulic excavator launched in 2010, Kobelco Construction Machinery developed the SK200H, a 20-ton-class — the weight class most in demand — hybrid hydraulic excavator launched on October 1, 2012. In comparison to a standard SK200-8 machine, the SK200H has 16 percent lower fuel consumption. In April 2012, this excavator was certified under the New Technology Information System (NETIS) by the Ministry of Land, Infrastructure, Transport and Tourism. In 2010, Kobelco received the Minister of the Environment Award for the Prevention of Global Warming in the technical development and product category for the 8-ton-class hybrid excavator SK80H.

SK200H:
20-ton-class hybrid hydraulic excavator

Sales of medium- and large-sized hydraulic excavators that meet new emission control standards commences

On April 1, 2013, we began to concurrently sell medium- and large-size hydraulic excavators meeting the new emission control regulations in three weight classes: 25, 35, and 45 tons. To reduce particulate matter (PM) emissions, we added an emission gas after-treatment device (diesel particulate filter, or DPF) to the excavators and cleared gas emission regulations.

Parts inventory building completed at Ogaki Factory for mini excavators

A parts inventory building for just-in-time supply of parts to the Ogaki Factory (Ogaki, Gifu Prefecture), Kobelco's production base for mini excavators in Japan, has been completed.

To put the finishing touches on its global production system, Kobelco Construction Machinery is taking steps to raise quality at its production bases in Japan and strengthen competitiveness. After the May start-up of the Itsukaichi Factory in Hiroshima Prefecture, we are now retooling production to substantially raise productivity at the Ogaki Factory.

Kobelco Cranes

Kobelco Cranes Co., Ltd. is a construction machinery manufacturer specializing in cranes. It aspires to create attractive products and to strengthen its business foundation by globalizing its operations.

Using the technologies and brand power it has developed, Kobelco is becoming a company that plays a more active in the world.

Main Products and Services

Crawler Cranes
- Multi-purpose lattice boom crawler cranes
- Large-sized crawler cranes
- Duty cycle lattice boom crawler cranes
- Telescopic boom crawler cranes

Wheel Cranes
- City conscious rough terrain cranes
- Mini rough terrain cranes
- Lattice boom wheel cranes
- All terrain cranes

Specialized Base Machines for Civil Engineering & Foundation Work

Work Vessels

Large-sized crawler crane

City conscious rough terrain crane

Business Review

Mastertech-G Series and BM-G Series crawler cranes win Good Design Award

Mastertech-G Series and BM-G Series crawler cranes (Japanese models) win Good Design Award 2012. Highly rated for a design that provides the most critical features of a crawler crane — a crane cabin with a wide field of view and vehicle control that delivers direct maneuverability — this marks the second time that Kobelco has won this award since the PANTHER-X250 wheel crane won it in 2008.

This crane series is equipped with our proprietary energy-saving G-Mode system (to reduce fuel consumption) and features environmental performance with a smaller preassembled shipping size and lighter weight. In addition, it has improved operational safety features thanks to a cabin design equipped with a touch panel monitor. Since its launch in December 2011, it has been highly rated by customers for its environment- and user-friendly features.

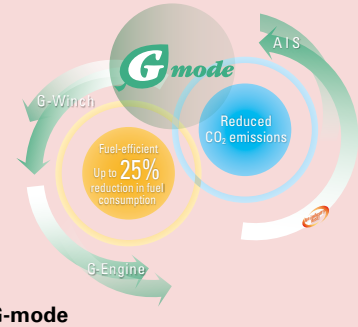
* Good Design Award
Since 1957, the Good Design Award has been Japan's only comprehensive design and commendation system.

Mastertech-G Series and BM-G Series crawler cranes

"Only 1" Products & Technologies

Crawler Cranes

Kobelco Cranes offers a wide variety of crawler cranes, including large models for building long bridges, wind, thermal, and nuclear power plants and other large-scale structures, as well as small and midsize models with robustness, advanced control and high versatility. Boasting extensive experience and an impressive track record in advanced design and production technologies, Kobelco Cranes seeks to develop competitive products to meet the needs of users globally.



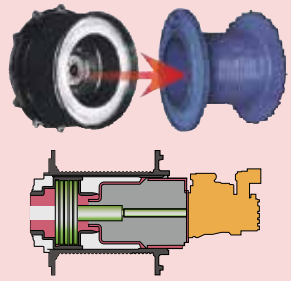
G-mode

Kobelco Cranes adopted a totally new energy-saving assist system on all new models called the "G-mode" system, which is a generic name for the assist systems such as Auto Idle Stop System, G-Winch and G-Engine.

[Auto Idling Stop (AIS)] Engine automatically stops during idling time under certain conditions. Restart is possible by controlling the accelerator grip.

[G-Winch] The hoist winch can be turned at maximum speed without engine accelerating under no-load lifting.

[G-Engine] By reducing the range of engine rpm, we achieve the best performance in normal mode.



Wet-Type Disk Brakes Offer Powerful, Stable Braking

The winches feature Kobelco's independently developed wet brakes. Forced oil cooling makes these brakes resistant to the reduction in braking ability that occurs when temperatures rise, so that they are well suited to working for long periods. The use of multi-plate disks ensures sufficient braking capacity and means that braking can be performed with a modicum of force. What's more, the brakes themselves are compact and encased in drums.

International Exhibition for Equipment and Techniques for Construction and Materials Industries "INTERMAT 2012"

INTERMAT, held once every three years, was held at the Paris Nord Villepinte Exhibition Center from April 16 to 21, 2012. A total of 1,350 companies exhibited and more than 200,000 visitors attended the show, which occupied 180,000 square meters of space.

Kobelco Cranes exhibited two cranes, the CKE800G, with 80-tons lifting capacity, and the CKE2500G, with 250-tons lifting capacity, from its next-generation G Series that meet European emission regulations. With improved environmental performance, the G Series comes equipped with G-mode, a new energy-saving system that enables a maximum 25% reduction in fuel consumption. At the Kobelco booth, a descriptive panel and video presentation explained the products to visitors.

During the exhibition, a ceremony was held to hand over the crane key to the customer, MAMMOET, the world's leading heavy lifting and multimodal transport solutions specialist. Kobelco celebrated with the breaking open of a sake barrel and provided all customers gathered with Japanese sake in original logo emblazoned wooden sake cups.

BC India 2013 held in Mumbai, India

Kobelco Construction Machinery and Kobelco Cranes exhibited together at BC India, a BAUMA CONEXPO show, held over a four-day period from February 5–8 in Mumbai, India. A total of 710 companies from 33 countries participated in the 2013 exhibition. With the number of companies participating up from the 508 in 2011, the exhibition was bustling with people.

Kobelco Cranes exhibited the first 250-ton-class model CKL2600i (260-ton lifting capacity) unit to come off the production line in India. Kobelco Cranes' 250-ton model is a best-seller, with 1,096 units sold worldwide, of which 132 were in India. A ceremony was held at the exhibition to hand over the key to the customer who bought this first production line unit.

In addition to exhibiting a real crane, a corner of the exhibit was set up to showcase the KOBELCO Crane Remote Observation Satellite System (KCROSS) via a presentation using a monitor to demonstrate how the system operates.

Global Expansion

Kobelco Cranes responds to demand by providing products tailored to local needs in China and India, where demand is strong.

Other Businesses

Shinko Real Estate Co., Ltd.

Steadily Developing the Real Estate Business and Expanding Property Management Services

Kobelco Research Institute, Inc.

Supporting R&D and Production Technologies for All Industries

Business Review

Shinko Real Estate Co., Ltd.

Construction of Kobe Harbor Tower was completed in March 2013

Owners: Shinko Real Estate Co., Kanden Fudosan Co., Ltd., ORIX Real Estate Corporation
Total residential units: 300
Number of stories: 35
Features:

- Super high-rise residence offers a close-up view of Kobe Harbor
- Employs the Dual Frame System (super high-rise vibration control structural system), creating a solid and comfortable residential environment

Other projects are:

G-clef Takarazuka Mukoyama
(84 units, Takarazuka, independent project)
G-clef Kakogawa Ishimori
(37 units, Kakogawa Ishimori, independent project)
Branz City Nishinomiya Koroen
(194 units, Nishinomiya, a joint project with Tokyu Land Corporation)

The above units have been put up for sale.

Kobelco Research Institute Inc.

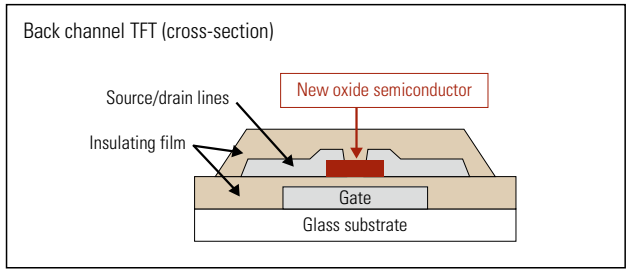
Development of oxide semiconductor material and target material for FPDs

Recently, Kobelco Research Institute and Kobe Steel have developed an oxide semiconductor material and sputtering target of proprietary composition for use in next-generation flat panel displays (FPDs).

In FPDs used in mobile devices and tablet PCs, where the trend is for higher resolution and lower power consumption, high-performance semiconductor materials are more in demand than thin-film transistors (TFTs) that use existing amorphous silicon. TFTs that use high-performance silicon, known as low-temperature poly-silicon (LTPS), are already commercially viable, but there are problems with high manufacturing costs and difficulties of scaling up the size.

In contrast, oxide semiconductors enable the manufacture of large, high-performance FPDs because they can be manufactured with the same sputtering method as existing amorphous silicon. Recently, an oxide silicon material called IGZO has been developed, and although Kobe Steel has also begun to sell IGZO, there has been demand for its application in the back channel etch (BCE) process, which enables productivity improvements in customers' PFD manufacturing process.

This recently developed oxide semiconductor of proprietary composition can be applied to the BCE process by raising its resistance to acid-based chemical solutions. Furthermore, since the oxide semiconductor does not require that major changes be made to the existing flat panel manufacturing process, it is expected to be increasingly adopted as a user-friendly material.



Pattern diagram of back channel TFT that uses new oxide

Domestic and Overseas Offices

Head Offices

Kobe Head Office

2-4, Wakinohama-Kaigandori 2-chome, Chuo-ku, Kobe,
Hyogo 651-8585, Japan
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

Osaka

Midosuji Mitsui Building, 1-3, Bingomachi 4-chome, Chuo-ku,
Osaka, Osaka 541-8536, Japan
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

New York

Kobe Steel USA Inc.
535 Madison Avenue, 5th Floor New York, NY 10022, U.S.A.
Tel: +1-212-751-9400 Fax: +1-212-355-5564

Detroit

Kobe Steel USA Inc.
19575 Victor Parkway, Suite 250 Livonia, MI 48152, U.S.A.
Tel: +1-734-462-7757 Fax: +1-734-462-7758

Singapore

Kobe Steel Asia Pte. Ltd.
72 Anson Road #11-01A Anson House,
Singapore 079911, Republic of Singapore
Tel: +65-6221-6177 Fax: +65-6225-6631

Hong Kong

Kobe Steel Asia Pte. Ltd.
Room 1604, MassMutual Tower, 38 Gloucester Road,
Wanchai, Hong Kong
Tel: +852-2865-0040 Fax: +852-2520-6347

Bangkok

Kobe Steel, Ltd.
Bangkok Office
10th Floor, Sathorn Thani Tower II, 92/23 North Sathorn Road,
Khwaeng Silom, Khet Bangrak, Bangkok 10500,
Kingdom of Thailand
Tel: +66-2636-8971 to 8974 Fax: +66-2636-8675

Beijing

Kobe Steel, Ltd.
Beijing Office
Unit 1005, Bldg. A, The Lucky Tower,
No. 3 North Dongsanhuan Road, Chaoyang District,
Beijing 100027, People's Republic of China
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

Main Operating Locations in Japan

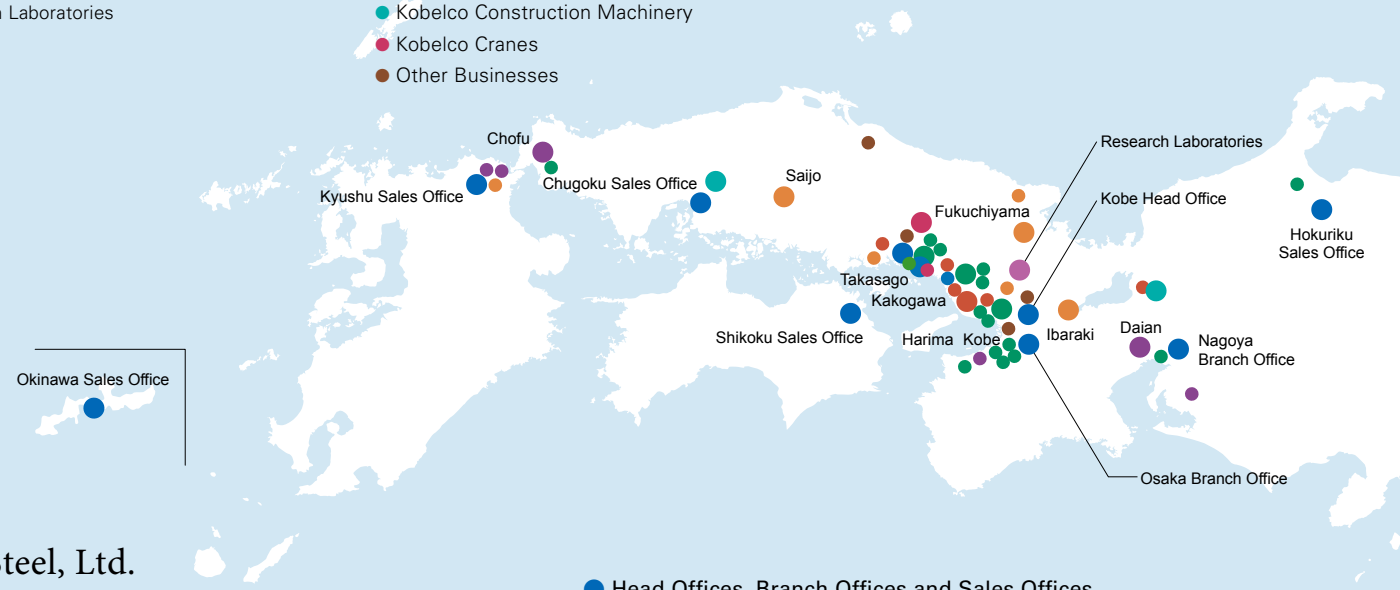
(As of June 26, 2013)

Kobe Steel, Ltd.

- Iron & Steel
- Welding
- Aluminum & Copper
- Machinery
- Engineering
- Head Offices, Branch Offices and Sales Offices
- Research Laboratories

Group Companies by Business Segment

- Iron & Steel
- Welding
- Aluminum & Copper
- Machinery
- Engineering
- Kobelco Eco-Solutions
- Kobelco Construction Machinery
- Kobelco Cranes
- Other Businesses



Kobe Steel, Ltd.

Iron & Steel

Kakogawa Works -Kakogawa, Hyogo Prefecture
Research & Development Laboratory -Kakogawa, Hyogo Prefecture
Kobe Works -Kobe, Hyogo Prefecture

Welding

Fujisawa Plant -Fujisawa, Kanagawa Prefecture
Ibaraki Plant -Ibaraki, Osaka Prefecture
Saijo Plant -Higashi-Hiroshima, Hiroshima Prefecture
Fukuchiyama Plant -Fukuchiyama, Kyoto Prefecture

Aluminum & Copper

Moka Plant -Moka, Tochigi Prefecture
Chofu Works -Shimonoseki, Yamaguchi Prefecture
Daian Plant -Inabe, Mie Prefecture

Machinery

Harima Plant -Kako-gun, Hyogo Prefecture

Head Offices, Branch Offices and Sales Offices

Kobe Head Office -Kobe, Hyogo Prefecture
Tokyo Head Office -Shinagawa-ku, Tokyo
Osaka Branch Office -Osaka, Osaka Prefecture
Nagoya Branch Office -Nagoya, Aichi Prefecture
Hokkaido Sales Office -Sapporo, Hokkaido
Tohoku Sales Office -Sendai, Miyagi Prefecture
Niigata Sales Office -Niigata, Niigata Prefecture
Hokuriku Sales Office -Toyama, Toyama Prefecture
Shikoku Sales Office -Takamatsu, Kagawa Prefecture
Chugoku Sales Office -Hiroshima, Hiroshima Prefecture
Kyushu Sales Office -Fukuoka, Fukuoka Prefecture
Okinawa Sales Office -Naha, Okinawa Prefecture
Takasago Works -Takasago, Hyogo Prefecture

Research Laboratories

Kobe Corporate Research Laboratories -Kobe, Hyogo Prefecture


Kakogawa Works

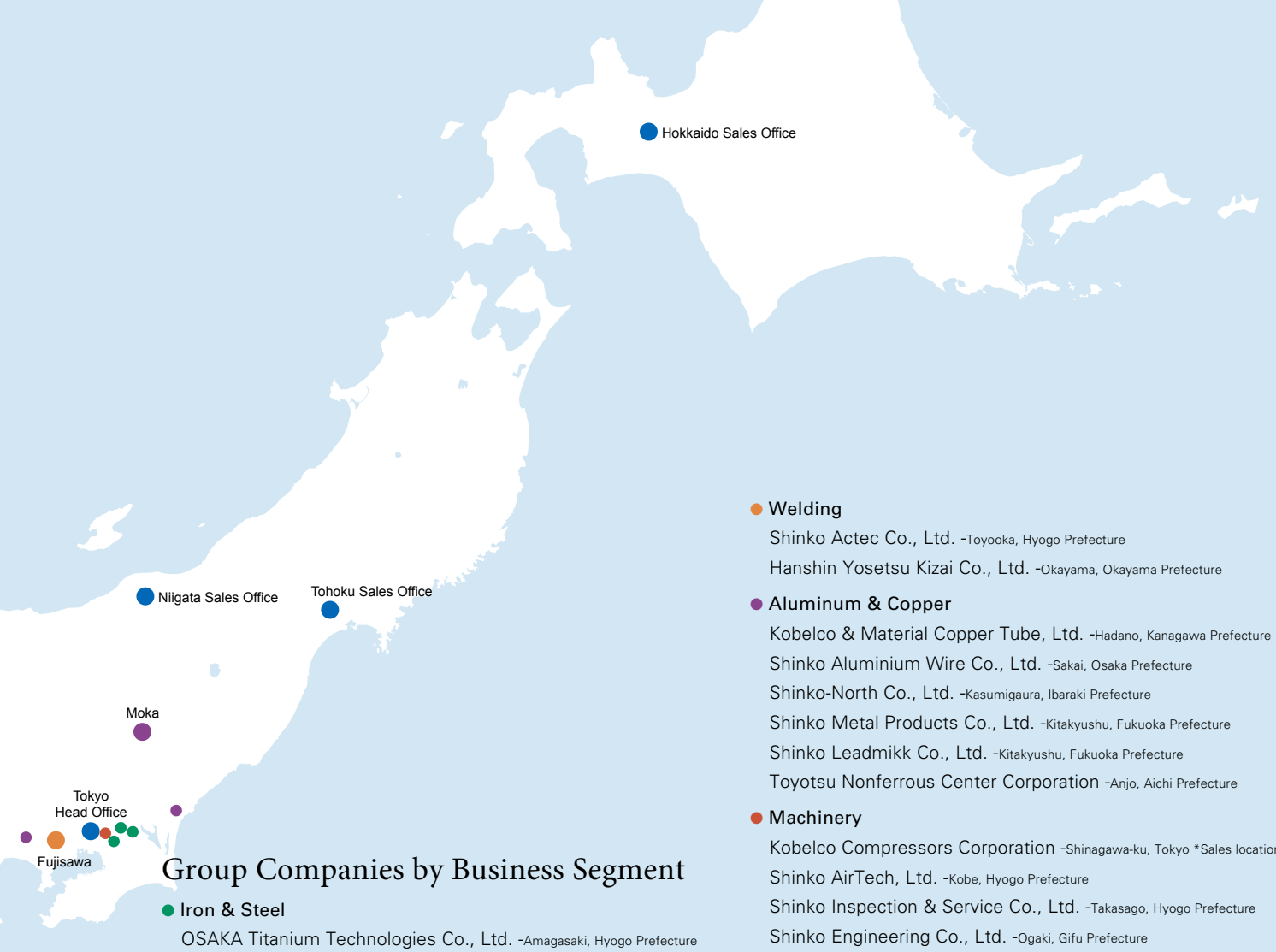

Kobe Works


Fujisawa Plant


Moka Plant


Chofu Works


Takasago Works



Group Companies by Business Segment

Iron & Steel

OSAKA Titanium Technologies Co., Ltd. -Amagasaki, Hyogo Prefecture
Kansai Coke and Chemicals Co., Ltd. -Kakogawa, Hyogo Prefecture
KS Summit Steel Co., Ltd. -Ichikawa, Chiba Prefecture
Sakai Steel Sheets Works, Ltd. -Sakai, Osaka Prefecture
Sanwa Tekko Co., Ltd. -Ama-gun, Aichi Prefecture
Shinko Engineering & Maintenance Co., Ltd. -Kobe, Hyogo Prefecture
Shinko Kenzai, Ltd. -Amagasaki, Hyogo Prefecture
Shinko Wire Company, Ltd. -Amagasaki, Hyogo Prefecture
Shinko Kohan Kako, Ltd. -Ichikawa, Chiba Prefecture
Shinko Kobe Power Inc. -Kobe, Hyogo Prefecture
Kobe Special Tube Co., Ltd. -Shimonoseki, Yamaguchi Prefecture
Shinko Bolt, Ltd. -Ichikawa, Chiba Prefecture
Ceratechno Co., Ltd. -Akashi, Hyogo Prefecture
Tesac Wirerope Co., Ltd. -Kaizuka, Osaka Prefecture
Nippon Koshuha Steel Co., Ltd. -Imizu, Toyama Prefecture
Shinko Slag Co., Ltd. -Kobe, Hyogo Prefecture
Kobelco Logistics Ltd. -Kobe, Hyogo Prefecture

Welding

Shinko Actec Co., Ltd. -Toyooka, Hyogo Prefecture
Hanshin Yosetsu Kizai Co., Ltd. -Okayama, Okayama Prefecture

Aluminum & Copper

Kobelco & Material Copper Tube, Ltd. -Hadano, Kanagawa Prefecture
Shinko Aluminium Wire Co., Ltd. -Sakai, Osaka Prefecture
Shinko-North Co., Ltd. -Kasumigaura, Ibaraki Prefecture
Shinko Metal Products Co., Ltd. -Kitakyushu, Fukuoka Prefecture
Shinko Leadmikk Co., Ltd. -Kitakyushu, Fukuoka Prefecture
Toyotsu Nonferrous Center Corporation -Anjo, Aichi Prefecture

Machinery

Kobelco Compressors Corporation -Shinagawa-ku, Tokyo *Sales location
Shinko AirTech, Ltd. -Kobe, Hyogo Prefecture
Shinko Inspection & Service Co., Ltd. -Takasago, Hyogo Prefecture
Shinko Engineering Co., Ltd. -Ogaki, Gifu Prefecture
Shinko Techno Engineering Co., Ltd. -Takasago, Hyogo Prefecture
Shinwa Wood Works, Ltd. -Kako-gun, Hyogo Prefecture

Engineering

Kobe Heating and Cooling Supply Co., Ltd. -Kobe, Hyogo Prefecture

Kobelco Eco-Solutions

Kobelco Eco-Solutions Co., Ltd. -Kako-gun, Hyogo Prefecture

Kobelco Construction Machinery

Kobelco Construction Machinery Co., Ltd.
-Hiroshima, Hiroshima Prefecture and Ogaki, Gifu Prefecture

Kobelco Cranes

Kobelco Cranes Co., Ltd. -Akashi, Hyogo Prefecture

Other Businesses

Kobelco Research Institute, Inc. -Takasago, Hyogo Prefecture
Japan Superconductor Technology, Inc. -Kobe, Hyogo Prefecture
Shinko Industrial Co., Ltd. -Kurayoshi, Tottori Prefecture


Nippon Koshuha Steel Co., Ltd.


Hanshin Yosetsu Kizai Co., Ltd.


Kobelco & Materials Copper Tube, Ltd.

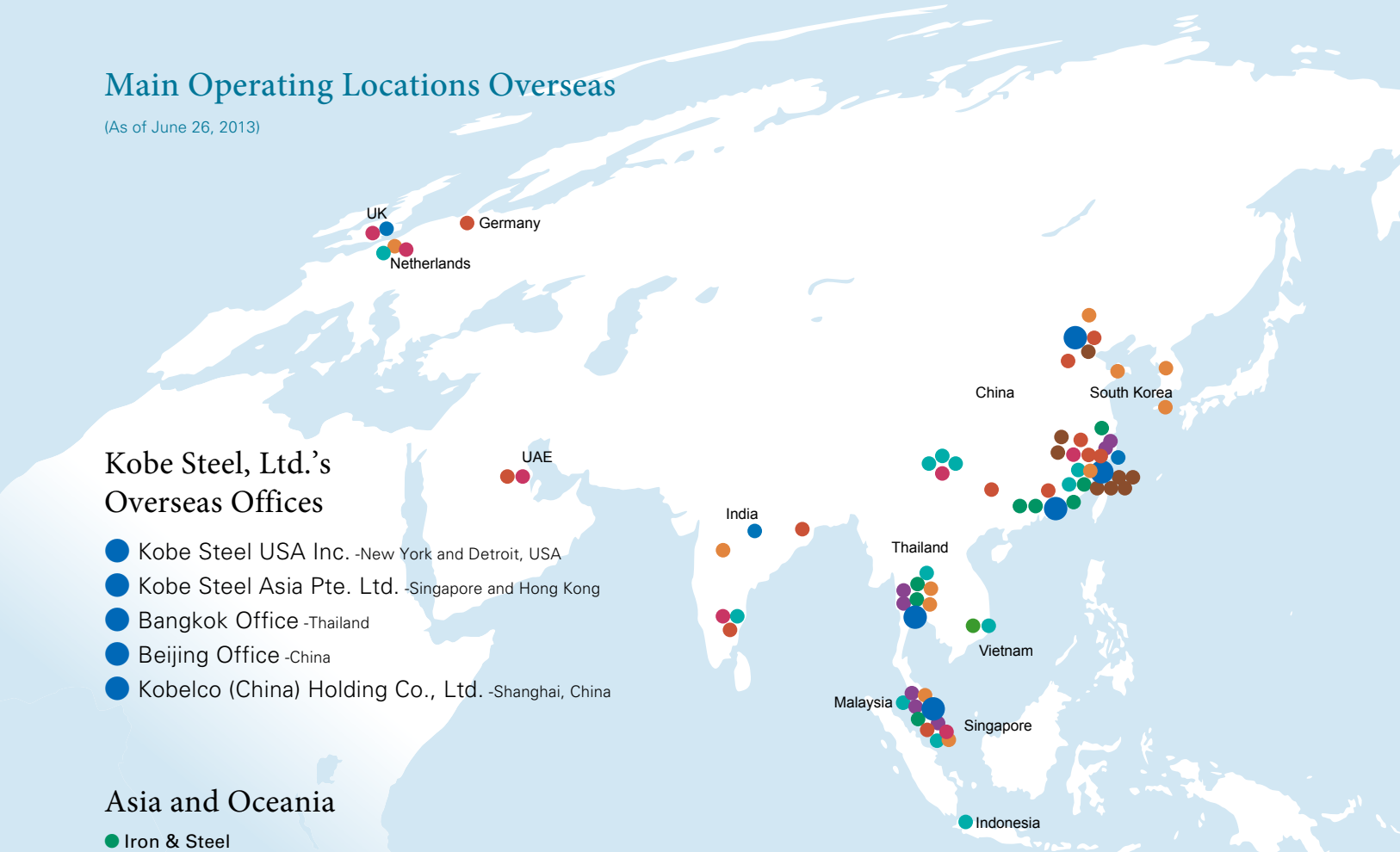

Kobelco Construction Machinery Co., Ltd.


Kobelco Cranes Co., Ltd.


Shinko Industrial Co., Ltd.

Main Operating Locations Overseas

(As of June 26, 2013)



Kobe Steel, Ltd.'s Overseas Offices

- Kobe Steel USA Inc. -New York and Detroit, USA
- Kobe Steel Asia Pte. Ltd. -Singapore and Hong Kong
- Bangkok Office -Thailand
- Beijing Office -China
- Kobelco (China) Holding Co., Ltd. -Shanghai, China

Asia and Oceania

Iron & Steel

Kobe Steel Asia Pte. Ltd. -Singapore
Kobe CH Wire (Thailand) Co., Ltd. -Thailand
Mahajak Kyodo Co., Ltd. -Thailand
Kobe Wire Products (Foshan) Co., Ltd. -Guangdong, China
Jiangyin Sugita Fasten Spring Wire Co., Ltd. -Jiangsu, China
Kobe Special Steel Wire Products (Pinghu) Co., Ltd. -Zhejiang, China
Kobelco Spring Wire (Foshan) Co., Ltd. -Guangdong, China

Welding

Kobelco Welding Asia Pacific Pte. Ltd. -Singapore
Kobe Welding (Malaysia) Sdn. Bhd. -Malaysia
Kobe MIG Wire (Thailand) Co., Ltd. -Thailand
Thai-Kobe Welding Co., Ltd. -Thailand
Kobe Welding of Korea Co., Ltd. -South Korea
Kobelco Welding Marketing of Korea Co., Ltd. -South Korea
Kobelco Welding India Pvt. Ltd. -India
Kobe Welding of Tangshan Co., Ltd. -Hebei, China
Kobe Welding of Qingdao Co., Ltd. -Shandong, China
Kobe Welding of Shanghai Co., Ltd. -Shanghai, China

Aluminum & Copper

Singapore Kobe Pte. Ltd. -Singapore
Kobelco & Materials Copper Tube (Malaysia) Sdn. Bhd. -Malaysia
Kobelco & Materials Copper Tube (Thailand) Co., Ltd. -Thailand
Kobe Precision Technology Sdn. Bhd. -Malaysia
Kobe Electronics Material (Thailand) Co., Ltd. -Thailand
Suzhou Kobe Copper Technology Co., Ltd. -Jiangsu, China
Kobe Aluminum Automotive Products (China) Co., Ltd. -Jiangsu, China

Machinery

Yiyang Yishen Rubber Machinery Co., Ltd. -Hunan, China
Kobelco Compressors Manufacturing (Shanghai) Corporation -Shanghai, China
Wuxi Compressor Co., Ltd. -Jiangsu, China
Kobelco Machinery Asia Pte. Ltd. -Singapore
Kobelco Machinery India Private Limited -India
L&T Kobelco Machinery Private Limited -India

Engineering

Midrex Metallurgy Technology Services (Shanghai) Ltd. -Shanghai, China
Midrex Technologies India Private, Ltd. -India


Kobe Welding of Tangshan Co., Ltd.


Kobelco Compressors Manufacturing (Shanghai) Corporation


Kobe Precision Technology Sdn. Bhd.


Hangzhou Kobelco Construction Machinery Co., Ltd.


Kobelco & Materials Copper Tube (Thailand) Co., Ltd.


Kobe Wire Products (Foshan) Co., Ltd.

Kobelco Eco-Solutions
Kobelco Eco-Solutions Vietnam Co., Ltd. -Vietnam

Kobelco Construction Machinery
Chengdu Kobelco Construction Machinery Group Co., Ltd. -Sichuan, China
Chengdu Kobelco Construction Machinery Co., Ltd. -Sichuan, China
Chengdu Kobelco Construction Machinery Financial Leasing Ltd. -Sichuan, China
Hangzhou Kobelco Construction Machinery Co., Ltd. -Zhejiang, China
Kobelco Precision Machinery Hangzhou Co., Ltd. -Zhejiang, China
Kobelco International (S) Co., Pte. Ltd. -Singapore
Thai Kobelco Construction Machinery Ltd. -Thailand
Kobelco Construction Equipment India Pvt. Ltd. -India
Kobelco Construction Machinery Australia Pty. Ltd. -Australia
P.T. Daya Kobelco Construction Machinery Indonesia -Indonesia
Kobelco Construction Machinery Malaysia Sdn. Bhd. -Malaysia
Kobelco Construction Machinery Vietnam Co., Ltd. -Vietnam

Kobelco Cranes
Kobelco Cranes South East Asia Pte. Ltd. -Singapore
Kobelco Cranes India Pvt. Ltd. -India
Kobelco Cranes (Shanghai) Co., Ltd. -Shanghai, China
Chengdu Kobelco Cranes Co., Ltd. -Sichuan, China

Other
Kobelco Precision Parts (Suzhou) Co., Ltd. -Jiangsu, China
Suzhou Shinko-Shoji Material Co., Ltd. -Jiangsu, China

Europe and the Middle East

Welding
Kobelco Welding of Europe B.V. -Netherlands

Machinery
Kobelco Machinery Europe GmbH. -Germany
Kobelco Machinery Middle East FZE. -UAE

Engineering
Midrex UK, Ltd. -London

Kobelco Construction Machinery
Kobelco Construction Machinery Europe B.V. -Netherlands

Kobelco Cranes
Kobelco Cranes Europe Ltd. -UK & Netherlands
Kobelco Cranes Middle East FZE. -UAE

United States

Iron & Steel
PRO-TEC Coating Company -Ohio
Grand Blanc Processing, LLC -Michigan

Welding
Kobelco Welding of America Inc. -Texas

Aluminum & Copper
Kobe Aluminum Automotive Products, LLC -Kentucky

Machinery
KOBELCO Advanced Coating (America), Inc. -Illinois
Kobelco Compressors Manufacturing Indiana, Inc. -Indiana
Kobelco Stewart Bolling, Inc. -Ohio
Kobelco Compressors America, Inc. -California

Engineering
Midrex Technologies, Inc. -North Carolina

Kobelco Construction Machinery
Kobelco Construction Machinery U.S.A. Inc. -Texas

Kobelco Cranes
Kobelco Cranes North America Inc. -Texas

Other
Kobe Steel USA Holdings Inc. -Delaware
Kobe Steel USA Inc. -New York
Kobe Steel International (USA) Inc. -New York


Kobelco Welding of Europe B.V.


PRO-TEC Coating Company


Kobe Aluminum Automotive Products, LLC

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 Kobe Steel'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 on four technical fields: refining and solidification, materials design, mechanical working and surface control. For the materials business, MRL is working to develop new high-performance products based on material and surface design and control, 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.

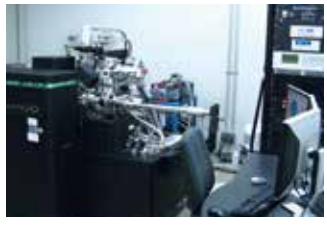
Recent R&D Achievements

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

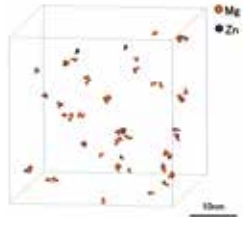
Kobe Steel has developed technology for a three-dimensional atom probe for atomic-level analysis of the microstructures that determine the performance of metals such as copper. With this new technology, the surface quality of aluminum alloys used in automobiles can be improved.

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.

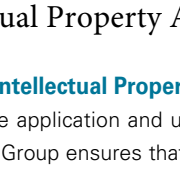
Japan, a volcanic country, has renewable energy sources such as geothermal power. To harness this energy source, Kobe Steel has developed a small binary power generation system called Microbinary that generates power from hot springs and steam. A binary generator is a power generation system that heats 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.

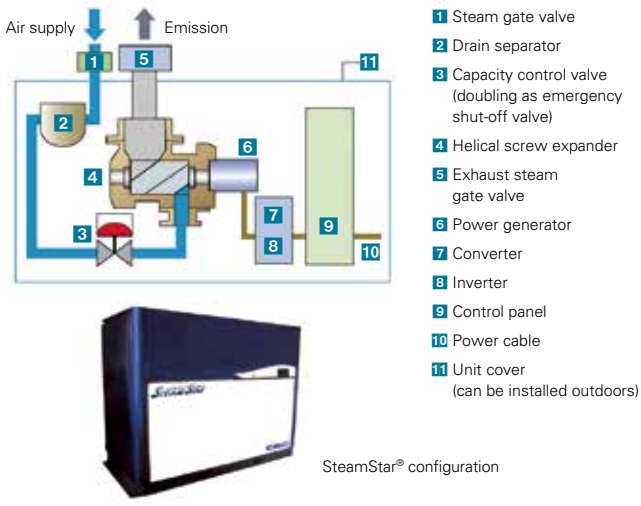
Microbinary systems have been delivered to Obama hot spring resorts in Unzen, Nagasaki Prefecture and began operation in February 2013. The delivery is part of the "Challenge 25 Community Building Project's Hot Spring Commercial Power Generation Demonstration Project based on Obama Hot Spring Thermal Discharge," a project commissioned by the Ministry of the Environment. In this experimental project, operators of Obama hot springs, with the backing of Nagasaki University, will establish associations and companies to develop the electric power generation business using untapped hot spring thermal discharge and thereby revitalize the region. As this project is unprecedented in Japan, the Obama hot spring project can serve as a model for efficient green energy utilization for many other hot springs nationwide.

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.



Installed image of MB-70H small-scale hot spring power generator



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, 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 2012

In fiscal 2012, Kobe Steel applied for nearly 900 new patents in Japan, primarily to protect "Only One" products, giving the Company approximately 5,200 patents in Japan and 4,000 patents overseas as of the end of fiscal 2012. 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 one-third of its total number of patent applications. Moreover, Kobe steel is fortifying its IP activities in Asia including China by, 1) increasing the number of patents applied for, 2) bolstering agreements with business alliance partners and 3) protecting the KOBELCO brand against counterfeit goods and patent infringement.

Corporate Social Responsibility

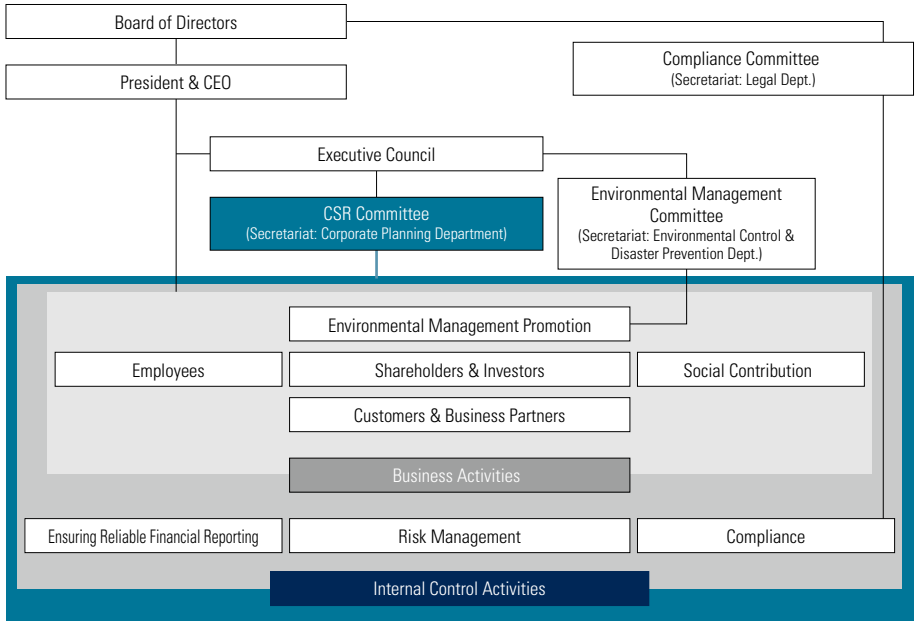
CSR Promotion System

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 an Audit & Supervisory Board 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 Audit & Supervisory Board Members

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 Audit & Supervisory Board

In accordance with Japan's Companies Act, the Audit & Supervisory Board must consist of three or more Audit & Supervisory Board Members, the half or more of whom must be outside Audit & Supervisory Board Members. The Company has appointed five Audit & Supervisory Board Members, including three outside Audit & Supervisory Board Members 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 Audit & Supervisory Board Members, 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 Shareholders, 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.

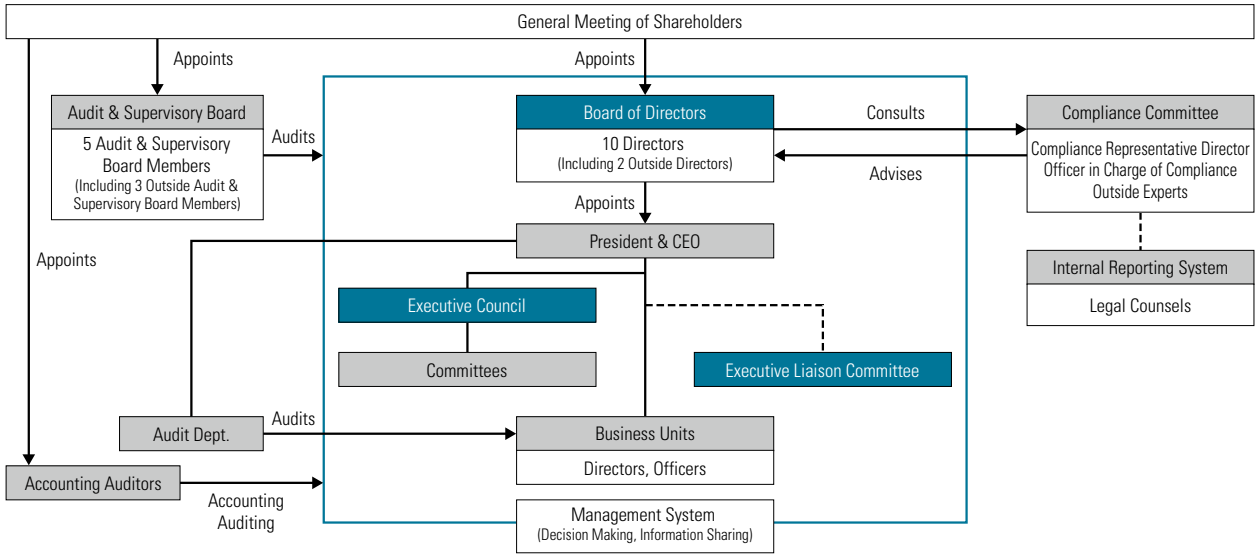
Management System

Business units, 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, Audit & Supervisory Board Members 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 for compliance, the 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.

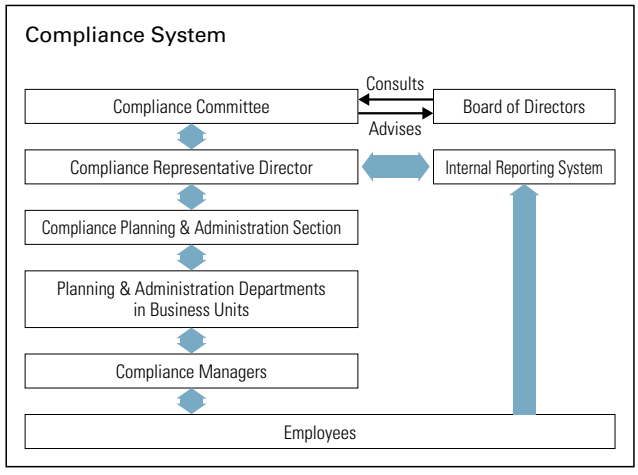
Coordination Between Internal Audits, Audit & Supervisory Board Members and Accounting Audits

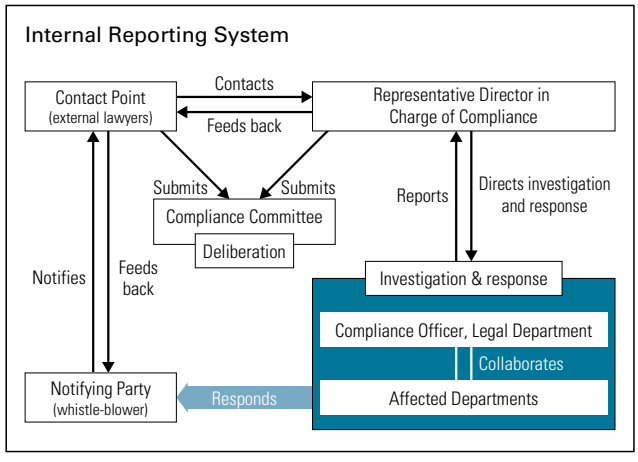
Corporate auditors routinely meet with accounting auditors to closely collaborate through the exchange of views about the audit system, the audit plan and audit status. Also, when necessary, Audit & Supervisory Board Members accompany accounting auditors on their audits of business sites and receive timely reports about the progress of those audits. Furthermore, Audit & Supervisory Board Members are routinely informed about audit policies and plans by the internal Audit Department. Audit & Supervisory Board Members 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.





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 Shareholders held on June 26, 2013, 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

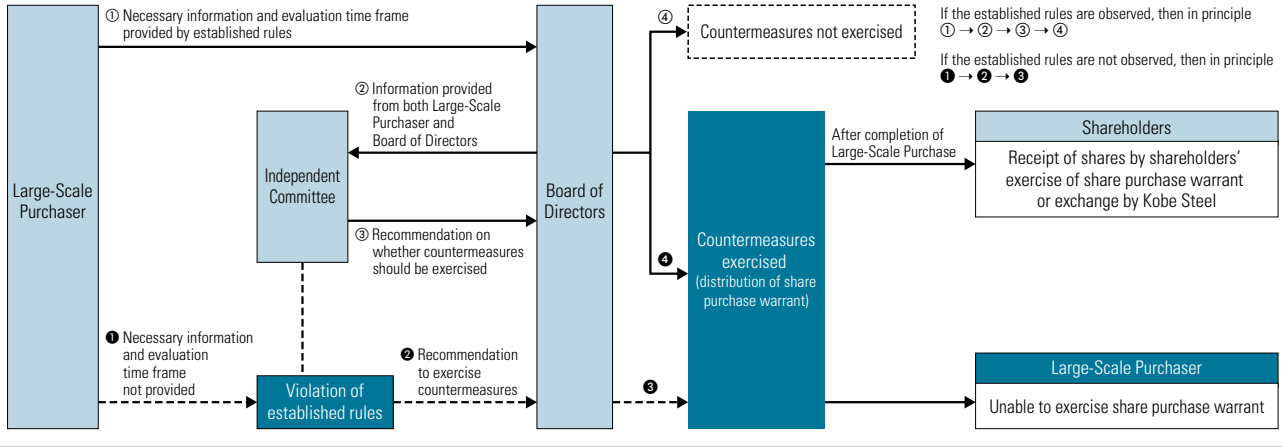
The Board of Directors decides whether to initiate takeover defense measures after giving serious consideration to the Independent Committee's report. The takeover defense measures involve the distribution of share purchase warrants to shareholders under certain terms and conditions, which include prohibiting 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 Shareholders, which is scheduled for June 2015.

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, 2013.

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 34.0% of total sales in the fiscal year ended March 31, 2013, 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 and 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, 2013 stood at ¥907.7 billion (¥959.2 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, 2013, the consolidated balance sheet amount for investment securities held by the Kobe Steel Group stood at ¥195.3 billion. Fluctuating prices of investment securities associated with fluctuating share prices of listed shares could affect the Kobe Steel Group's performance.

Furthermore, actuarial differences could arise in the calculation of liability for severance and retirement benefits due to fluctuations in the share prices of listed shares, which are included in pension funds, and affect the Kobe Steel Group's performance.

(5) Recording of Deferred Income Taxes

With respect to deferred income taxes, future taxable income is reasonably estimated and 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

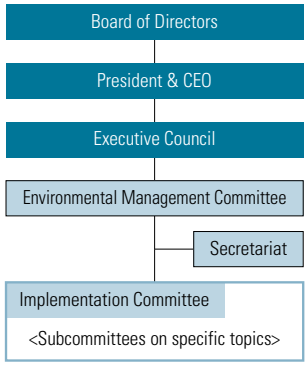
If the value of fixed assets held by the Group declines due to decreased market value or decreased profitability, this could affect the Kobe Steel Group's performance.

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, 2013.

Environmental Management Promotion

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.

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. Environmentally friendly manufacturing
2. Contributing to the environment through products technologies and technical services
3. Cooperation with local communities

Further Enhancing Corporate Value Through Groupwide Environmental Management

—Improving the Group's Environmental Capabilities—

Six Principal Initiatives

1 Environmentally friendly manufacturing
- Measures against global warming
- Promoting resource recycling
- Appropriate management of chemical substances
- Reducing the environmental impact

2 Contributing to the environmental through products, technologies and services

3 Disclosure of environmental information

4 Cooperation with local communities

5 Full employee participation in initiatives

6 Thorough risk management

Kobe Steel Group will continue the steady promotion of environmental management

Under the three pillars of 1) environmentally friendly manufacturing, 2) contributing to the environment through products technologies and technical services, and 3) cooperation with local communities, the Kobe Steel Group has been practicing environmental management.

The Fiscal 2013–2015 Medium-Term Environmental Management Plan was formulated with the goal of further raising the corporate value of the entire Group. In the years ahead, we will contribute to society in such ways as strengthening our environment-related business and promoting environmental management with the aim of becoming a corporate group that prospers with the local community.

Koichiro Shibata
Chairman of the Environmental Management Committee (Officer)

Cooperation with the Local Community

The Kobe Steel Group takes a cooperative approach on environmental issues with society. We are committed to biodiversity and are constantly working to make a difference in local communities.

Biodiversity Initiatives

At the facilities of the Kobe Steel Group, we strive to create a rich environment by establishing green spaces, biotopes and other natural greenery. The Group has planted approximately 200 cherry trees extending for about one kilometer along the national roads in front of Chofu Works, Kobe Special Tube Co., Ltd., Shinko Fab Tech, Ltd., and Shinko Kanmon Sohgo Service Ltd. Kobe Steel has planted trees over many years, and they are much loved now by local residents.

Row of cherry trees blossoming in Chofu

Forest Conservation Activities

The Kobe Steel Group started its forest volunteer activities in the autumn of 2011 at two forests located in Hyogo Prefecture.

Led by the Federation of Kobe Steel Workers Unions working hand-in-hand with the Kobe Steel Group, Kobe Steel is engaged in a forest conservation activity called KOBELCO Green Forest, a managed woodlands of approximately two hectares within Greenpia Miki (a resort hotel area).

In addition to the forest conservation activities, we are using the woodlands as a place for technical trainees (new technical personnel) to train, as well as a place to develop safety and environmental conservation awareness.

Also, a 0.6 hectare area around the summit of Rokkosan Aburakobushi (in Kobe City's Nada Ward) has been named ECOWAY Green Forest. Conservation activities are carried out here twice a year in spring and autumn. More than 600 people participate in forest conservation activities annually at these two forest locations.

ECOWAY Green Forest activities

Contributing to Local Communities

Children's Center Eco-Classroom

As part of our local environmental activities, in the local community, we are participating in the City of Kobe's Kids Eco-challenge 21. The aim is to teach children, on whose shoulders the future rests, about the importance of environmental activities, while at the same time having fun, playing and doing physical activities. Since fiscal 2011, Kobe Steel has been going to children's centers and providing environmental education with its Children's Center Eco-Classroom.

To get children to directly experience the importance of the environment and electricity, as well as the convenience that steel provides to their lives, the Eco-Classroom offers an hour and a half of activities including a magic show, a quiz contest, and an eco-card game.

In fiscal 2012, about 150 children attended this classroom at the following four locations: Iwaoka Children's Center (Nishi Ward, Kobe City), Oike Children's Center (Kita Ward, Kobe City), Otogi Children's Center (Tarumi Ward, Kobe City), and Suganodai Children's Center (Suma Ward, Kobe City).

We will continue to support environmental education through these activities.

Children playing eco-card game

Wind-up electric generator demonstration

Directors, Audit & Supervisory Board Members and Corporate Officers

(As of June 26, 2013)

Chairman of the Board and Representative Director
Hiroshi Sato

President, CEO and Representative Director
Hiroya Kawasaki

Head Office

Executive Vice President and Representative Director
Hiroaki Fujiwara

Executive Officer
Seiji Okita

Senior Officers
Masahiro Hanaoka
Yasuaki Sugizaki
Mitsugu Yamaguchi
Takafumi Morichi

Officer
Toshiya Miyake

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
Koji Fujii
Takashi Goto
Makoto Mizuguchi

Officers
Koichiro Shibata
Yasushi Tsushima

Welding Business

Senior Managing Director
Tsuyoshi Kasuya*

Officer
Fusaki Koshiishi

Aluminum & Copper Business

Executive Vice President and Representative Director
Tetsu Takahashi*

Senior Officers
Akira Kaneko
Yoriyuki Shibata
Hiroshi Kato

Officer
Takumi Fujii

Machinery Business

Senior Managing Director
Kazuhide Naraki*

Senior Officer
Takao Ohama

Officer
Akio Matsuda

Engineering Business

Executive Vice President and Representative Director
Jun Tanaka*

Senior Officer
Shohei Manabe

Officer
Kazuto Morisaki

Outside Directors

Takao Kitabata
Takuo Yamauchi

Audit & Supervisory Board Members

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

* Head of the business unit
** Outside Audit & Supervisory Board Member

Investor Information

(As of March 31, 2013)

Founded	September 1905
Incorporated	June 1911
Employees	10,398 (Consolidated 36,018)
Fiscal Year	April 1 – March 31
Ordinary General Meeting of Shareholders	June of each year
Authorized and Issued Shares Capital	Authorized: 6,000,000,000 shares Issued: 3,115,061,100 shares

Principal Shareholders

At March 31, 2013, the 10 largest shareholders of the Company's stockholdings were as follows:

	Thousands of shares	Percent
NIPPON STEEL & SUMITOMO METAL CORPORATION	214,690	6.89
Nippon Life Insurance Company	119,045	3.82
Japan Trustee Services Bank, Ltd. (Trust Account)	71,699	2.30
Mizuho Corporate Bank, Ltd.	64,669	2.08
The Master Trust Bank of Japan, Ltd. (Trust Account)	60,167	1.93
SSBT OD05 OMNIBUS ACCOUNT — TREATY CLIENTS	57,588	1.85
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
Aioi Nissay Dowa Insurance Co., Ltd.	35,223	1.13

Note: The Company's holdings of treasury stock (109,172 thousand shares) are not included in the above figures.

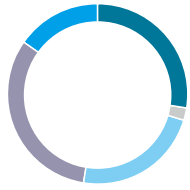
Listing and Quotations

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

Depositary for American Depositary Receipts

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

Distribution of Shares



- Japanese financial institutions: **27.58%**
- Japanese financial instruments business operators: **2.20%**
- Other Japanese corporations: **22.87%**
- Japanese individuals and others: **32.33%**
- Foreign investors: **15.02%**

Directors' and Audit & Supervisory Board Members' Shareholdings

The following is a list of the directors and audit & supervisory board members and their stockholdings in the Company at March 31, 2013

	Number of shares owned		Number of shares owned
Hiroshi Sato	319,000	Takao Kitabata	34,000
Hiroya Kawasaki	128,000	Takuo Yamauchi	10,000
Ikuhiro Yamaguchi	161,000	Toshinori Okoshi	63,000
Hiroaki Fujiwara	131,000	Jun Miyazaki	94,000
Tetsu Takahashi	157,120	Shigeo Sasaki	35,000
Jun Tanaka	138,000	Takashi Okimoto	23,000
Tsuyoshi Kasuya	168,000	Shinya Sakai	9,000
Kazuhide Naraki	133,000		

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.

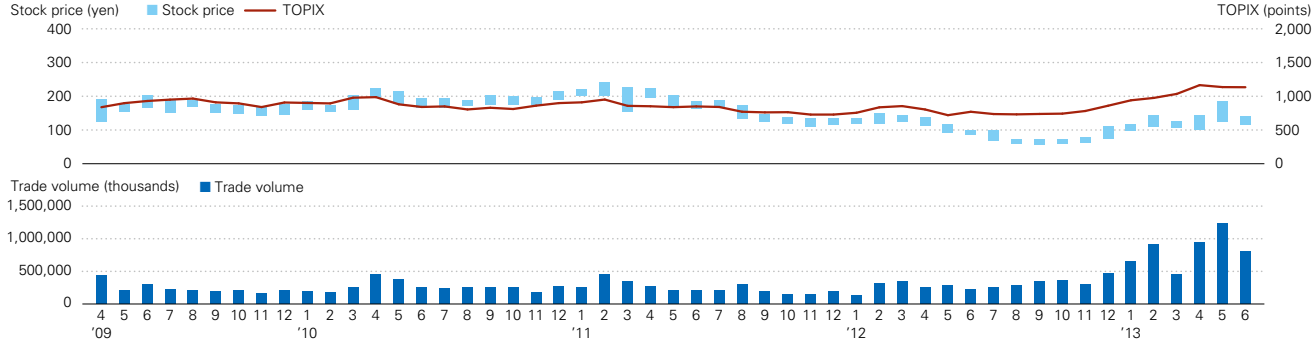
Transfer Agent & Office

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

Japan IR Group, Corporate Planning Department, Kobe Steel, Ltd.
9-12, Kita-Shinagawa 5-chome, Shinagawa-ku,
Tokyo 141-8688, Japan
Tel: +81-3-5739-6045 Fax: +81-3-5739-5973

U.S.A. Kobe Steel USA Inc.
535 Madison Avenue, 5th Floor, New York, NY 10022, U.S.A.
Tel: +1-212-751-9400 Fax: +1-212-355-5564

URL: http://www.kobelco.com

Financial Section

Consolidated Balance Sheets

Kobe Steel, Ltd. and Consolidated Subsidiaries
As of March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2013	2012	2013
Current assets:			
Cash and time deposits (Notes 7 and 16)	¥ 114,103	¥ 95,379	$ 1,213,216
Notes and accounts receivable			
Trade and finance	304,476	313,108	3,237,384
Unconsolidated subsidiaries and affiliates	54,652	58,818	581,095
Other	79,200	38,541	842,106
Allowance for doubtful accounts	(2,277)	(431)	(24,211)
	436,051	410,036	4,636,374
Merchandise and finished goods	161,432	160,973	1,716,449
Work-in-process	109,903	127,018	1,168,559
Raw materials and supplies	129,184	120,555	1,373,567
Deferred income taxes (Note 13)	26,098	12,234	277,491
Other	15,146	17,200	161,043
Total current assets	991,917	943,395	10,546,699
Investments and other assets:			
Investments in securities (Note 5)	134,500	122,639	1,430,090
Investments in and advances to unconsolidated subsidiaries and affiliates	83,427	77,138	887,049
Long-term loans receivable	5,716	6,076	60,776
Other	68,914	71,352	732,739
Allowance for doubtful accounts	(2,901)	(2,678)	(30,845)
Total investments and other assets	289,656	274,527	3,079,809
Property, plant and equipment (Note 7):			
Land	201,293	205,299	2,140,276
Buildings and structures	727,632	710,114	7,736,651
Machinery and equipment	2,191,383	2,143,232	23,300,191
Construction in progress	31,506	29,181	334,993
	3,151,814	3,087,826	33,512,111
Less accumulated depreciation	(2,243,979)	(2,182,988)	(23,859,426)
Total plant and equipment	907,835	904,838	9,652,685
Intangible assets	20,185	20,494	214,619
Deferred income taxes (Note 13)	17,404	16,258	185,050
	¥2,226,997	¥2,159,512	$23,678,862

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS	2013	2012	2013
Current liabilities:			
Short-term borrowings (Note 7)	¥ 203,618	¥ 137,112	$ 2,164,997
Current portion of long-term debt (Note 7)	193,470	102,784	2,057,097
Notes and accounts payable:			
Trade	311,964	361,104	3,317,002
Construction	21,891	22,739	232,759
Unconsolidated subsidiaries and affiliates	73,169	94,290	777,980
Other	11,032	12,542	117,299
	418,056	490,675	4,445,040
Current portion of lease obligations	18,311	9,615	194,694
Advances from customers	28,136	31,902	299,160
Customers' and employees' deposits	17,925	18,027	190,590
Income and enterprise taxes payable	4,704	7,204	50,016
Provision for loss on construction contracts	8,508	12,090	90,463
Deferred income taxes (Note 13)	846	1,401	8,995
Other	69,308	70,761	736,928
Total current liabilities	962,882	881,571	10,237,980
Long-term liabilities:			
Long-term debt (Note 7)	562,039	566,753	5,975,960
Lease obligations	23,651	32,523	251,473
Employees' severance and retirement benefits (Note 18)	51,557	52,587	548,187
Provision for environmental measures	1,809	2,216	19,234
Deferred income taxes (Note 13)	23,910	16,565	254,226
Other	31,226	36,039	332,015
Total long-term liabilities	694,192	706,683	7,381,095
Contingent liabilities (Note 8)			
Net assets:			
Stockholders' equity:			
Common stock (Note 9)	233,313	233,313	2,480,734
Authorized — 6,000,000,000 shares			
Issued — 3,115,061,100 shares in 2013			
Capital surplus (Note 9)	83,125	83,125	883,838
Retained earnings (Note 9)	253,199	280,583	2,692,175
Treasury stock, at cost:			
114,187,811 shares in 2013 and 114,135,266 shares in 2012	(51,615)	(51,628)	(548,804)
	518,022	545,393	5,507,943
Accumulated other comprehensive income:			
Unrealized gains on securities, net of taxes	21,148	13,020	224,859
Unrealized gains or losses on hedging derivatives, net of taxes	(1,686)	(1,013)	(17,927)
Land revaluation differences, net of taxes	(3,347)	(4,141)	(35,587)
Foreign currency translation adjustments	(22,086)	(37,579)	(234,833)
	(5,971)	(29,713)	(63,488)
Minority interests	57,872	55,578	615,332
Total net assets	569,923	571,258	6,059,787
	¥2,226,997	¥2,159,512	$23,678,862

Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Net sales	¥1,685,529	¥1,864,691	$17,921,627
Cost of sales	(1,510,512)	(1,635,862)	(16,060,734)
Gross profit	175,017	228,829	1,860,893
Selling, general and administrative expenses (Note 11)	(163,782)	(168,274)	(1,741,435)
Operating income	11,235	60,555	119,458
Non-operating income (expenses):			
Interest and dividend income	6,910	7,346	73,472
Interest expense	(20,119)	(19,777)	(213,918)
Seconded employees' salaries, net of reimbursement	(8,182)	(10,068)	(86,996)
Foreign exchange gain (loss)	4,094	(2,488)	43,530
Equity in income of unconsolidated subsidiaries and affiliates	1,438	7,878	15,290
Other, net	(13,522)	(9,666)	(143,776)
	(29,381)	(26,775)	(312,398)
Ordinary income (loss)	(18,146)	33,780	(192,940)
Extraordinary income (loss):			
Gain on negative goodwill	1,923	—	20,447
Loss on write-down of investments in securities	(6,650)	(6,022)	(70,707)
Impairment loss (Note 12)	(2,358)	—	(25,072)
	(7,085)	(6,022)	(75,332)
Income (loss) before income taxes and minority interests	(25,231)	27,758	(268,272)
Income taxes (Note 13):			
Current	9,899	16,671	105,253
Deferred	(11,950)	11,372	(127,060)
	(2,051)	28,043	(21,807)
Loss before minority interests	(23,180)	(285)	(246,465)
Minority interests in income of subsidiaries	3,796	13,963	40,361
Net loss	¥ (26,976)	¥ (14,248)	$ (286,826)

	Yen		U.S. dollars (Note 1)
Per share	2013	2012	2013
Net loss	¥ (8.99)	¥ (4.75)	$ (0.10)
Cash dividends applicable to the year	—	1.00	—

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Loss before minority interests	¥(23,180)	¥ (285)	$(246,465)
Other comprehensive income:			
Unrealized gains or losses on securities, net of taxes	7,774	(6,867)	82,658
Unrealized gains or losses on hedging derivatives, net of taxes	(720)	(1,706)	(7,656)
Land revaluation differences, net of taxes	518	661	5,508
Foreign currency translation adjustments	18,864	(4,792)	200,574
Share of other comprehensive income related to affiliates	1,390	781	14,780
Total other comprehensive income (Note 14)	27,826	(11,923)	295,864
Total comprehensive income	4,646	(12,208)	49,399
Total comprehensive income attributable to:			
Equity holders of the parent	¥ (3,522)	¥(25,406)	$ (37,448)
Minority interests	8,168	13,198	86,847

See accompanying notes.

Consolidated Statements of Changes in Net Assets (Note 15)

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	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, 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 April 1, 2012	3,115,061	¥233,313	¥83,125	¥280,583	¥(51,628)	¥13,020	¥(1,013)	¥(4,141)	¥(37,579)	¥55,578	¥571,258
Cash dividends				—							—
Net loss				(26,976)							(26,976)
Purchase of treasury stock					(8)						(8)
Sale of treasury stock				(18)	21						3
Decrease due to changes in scope of consolidation				(102)							(102)
Adjustment to land revaluation				(288)							(288)
Net changes in items other than stockholders' equity						8,128	(673)	794	15,493	2,294	26,036
Net changes during the year				(27,384)	13	8,128	(673)	794	15,493	2,294	(1,335)
Balance at March 31, 2013	3,115,061	¥233,313	¥83,125	¥253,199	¥(51,615)	¥21,148	¥(1,686)	¥(3,347)	¥(22,086)	¥57,872	¥569,923

	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, 2012	3,115,061	$2,480,734	$883,838	$2,983,339	$(548,942)	$138,437	$(10,771)	$(44,030)	$(399,564)	$590,941	$6,073,982
Cash dividends				—							—
Net loss				(286,826)							(286,826)
Purchase of treasury stock					(85)						(85)
Sale of treasury stock				(191)	223						32
Decrease due to changes in scope of consolidation				(1,085)							(1,085)
Adjustment to land revaluation				(3,062)							(3,062)
Net changes in items other than stockholders' equity						86,422	(7,156)	8,443	164,731	24,391	276,831
Net changes during the year				(291,164)	138	86,422	(7,156)	8,443	164,731	24,391	(14,195)
Balance at March 31, 2013	3,115,061	$2,480,734	$883,838	$2,692,175	$(548,804)	$224,859	$(17,927)	$(35,587)	$(234,833)	$615,332	$6,059,787

See accompanying notes.

Consolidated Statements of Cash Flows

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Cash flows from operating activities:			
Income (loss) before income taxes	¥ (25,231)	¥ 27,758	$ (268,271)
Depreciation	106,725	118,038	1,134,769
Interest and dividend income	(6,910)	(7,346)	(73,472)
Interest expense	20,119	19,777	213,918
Loss (gain) on sale of securities	(453)	(389)	(4,817)
Loss on write-down of investments in securities	6,650	6,022	70,707
Equity in income of unconsolidated subsidiaries and affiliates	(1,438)	(7,878)	(15,290)
Impairment loss	2,358	—	25,072
Gain on negative goodwill	(1,923)	—	(20,447)
Loss on sale and disposal of plant and equipment	3,118	2,927	33,153
Decrease (increase) in trade receivables from customers	10,495	(18,734)	111,590
Decrease (increase) in lease receivables and investment assets	17,235	(14,645)	183,254
Decrease (increase) in inventories	18,849	(29,383)	200,415
Increase (decrease) in trade payables to customers	(88,324)	(24,761)	(939,117)
Other	11,549	(1,628)	122,795
Subtotal	72,819	69,758	774,259
Cash received for interest and dividends	8,307	8,692	88,325
Cash paid for interest	(20,060)	(19,952)	(213,291)
Cash paid for income taxes	(15,664)	(19,012)	(166,550)
Net cash provided by operating activities	45,402	39,486	482,743
Cash flows from investing activities:			
Purchase of plant, equipment and other assets	(109,506)	(83,283)	(1,164,338)
Proceeds from sale of plant, equipment and other assets	1,975	1,025	20,999
Purchase of investments in securities	(14,517)	(5,791)	(154,354)
Proceeds from sale of investments in securities	2,090	3,333	22,222
Decrease (increase) in short-term loans receivable	1,034	209	10,994
Payments for long-term loans receivable	(2,793)	(1,348)	(29,697)
Proceeds from collection of long-term loans receivable	2,496	163	26,539
Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation	(113)	157	(1,201)
Other	(4,179)	268	(44,434)
Net cash used in investing activities	(123,513)	(85,267)	(1,313,270)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	55,216	57,634	587,092
Proceeds from long-term debt	167,060	22,523	1,776,289
Repayment of long-term debt	(73,936)	(91,613)	(786,135)
Proceeds from issuance of bonds	25,000	30,000	265,816
Repayment of bonds	(35,088)	(35,836)	(373,078)
Repayments of finance lease obligations	(7,960)	(6,580)	(84,636)
Payment of dividends	(14)	(7,484)	(149)
Other	(2,634)	(8,877)	(28,006)
Net cash provided by (used in) financing activities	127,644	(40,233)	1,357,193
Effect of exchange rate changes on cash and cash equivalents	8,850	(1,912)	94,099
Increase (decrease) in cash and cash equivalents	58,383	(87,926)	620,765
Cash and cash equivalents at beginning of year	101,901	189,708	1,083,477
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	5	—	53
Increase in cash and cash equivalents resulting from change in scope of consolidation	1,748	119	18,586
Cash and cash equivalents at end of year (Note 16)	¥162,037	¥101,901	$1,722,881

See accompanying notes.

Notes to Consolidated Financial Statements

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

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, 2013, which was ¥94.05 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, 2013, the accounts of 166 (165 in 2012) subsidiaries have been included in the consolidated financial statements. Intercompany transactions and accounts have been eliminated.

Seventy-four (72 in 2012) 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, 2013, 46 (47 in 2012) 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 the 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 of the lease assets 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 the 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 17 years for those accrued in 2013, mainly 16 years for those accrued in 2012 and 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) Changes in Accounting Policies

(Changes in accounting policies which are difficult to distinguish from changes in accounting estimates)

Due to a revision of the Corporate Tax Law, from the year ending March 31, 2013, Kobe Steel and some of its domestic consolidated subsidiaries posted depreciation of tangible fixed assets acquired on or after April 1, 2012, in accordance with the depreciation method prescribed by the revised Corporate Tax Law. As a result, in comparison to the previous accounting method, depreciation decreased ¥1,629 million, operating income increased ¥1,360 million, and ordinary loss and loss before income taxes decreased ¥1,360 million.

(19) Unapplied Accounting Standards

"Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012).

1. Summary

Under the amended rule, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss would be recognized within the net asset section, after adjusting for tax effects, and the deficit or surplus would be recognized as a liability or asset without any adjustments. For determining method of attributing expected benefit to periods, the Standard now allows to choose benefit formula basis, as well as straight-line basis. Method for determination of discount rate has also been amended.

2. Effective dates

Effective for the end of annual periods ending on or after March 31, 2014. Amendments relating to determination of retirement benefit obligations and current service costs are effective from the beginning of annual periods ending on or after March 31, 2015.

3. Effect of application of the standard

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

3. Leases

Future minimum lease payments as lessee under operating leases at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Due within one year	¥ 5,097	¥ 5,693	$ 54,195
Due after one year	9,039	11,528	96,108
	¥14,136	¥17,221	$150,303

Future minimum lease payments receivable as lessor under operating leases at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Due within one year	¥ 378	¥ 422	$ 4,019
Due after one year	2,505	2,925	26,635
	¥2,883	¥3,347	$30,654

4. Financial Instruments

Policies for using financial instruments

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

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

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

Investments in securities consist principally of the listed shares of customers and are exposed to the risk of changes in quoted market prices. Quoted market prices of 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 relationship.

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

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

Supplemental information on fair values

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

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

Fair value of financial instruments

Carrying amounts of the financial instruments included in the consolidated balance sheet and their fair values at March 31, 2013 and 2012 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2013			2012			2013
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference	Difference
Cash and time deposits	¥114,103	¥114,103	¥ —	¥ 95,379	¥ 95,379	¥ —	$ —
Notes and accounts receivable "Trade"	278,115	278,115	—	272,466	272,466	—	—
Investments in securities:							
Held-to-maturity debt securities	19	19	—	23	23	—	—
Securities of subsidiaries and affiliates	17,604	21,753	4,149	17,396	33,187	15,791	44,115
Available-for-sale securities	114,708	114,708	—	102,468	102,468	—	—
Notes and accounts payable "Trade"	(311,964)	(311,964)	—	(361,104)	(361,104)	—	—
Short-term borrowings and current portion of long-term debt	(377,088)	(378,925)	(1,837)	(204,720)	(205,410)	(690)	(19,532)
Bonds included in current portion of long-term debt	(20,000)	(20,102)	(102)	(35,176)	(35,551)	(375)	(1,085)
Bonds included in long-term debt	(177,000)	(178,949)	(1,949)	(172,173)	(179,714)	(7,541)	(20,723)
Long-term borrowings included in long-term debt	(385,039)	(387,130)	(2,091)	(394,580)	(409,625)	(15,045)	(22,233)
Lease obligations	(23,651)	(24,337)	(686)	(32,523)	(33,468)	(945)	(7,294)
Derivative transactions:							
Hedge accounting is not applied	(1,353)	(1,353)	—	(421)	(421)	—	—
Hedge accounting is applied	(3,005)	(3,005)	—	(126)	(126)	—	—

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"

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

Investments in securities

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

Notes and accounts payable "Trade," short-term borrowings and current portion of long-term 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 debt is estimated based on the present value of future cash flows using the current borrowing rate for similar debt of comparable maturity.

Bonds

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

Long-term borrowings and lease obligations

The fair value of long-term borrowings and lease obligations are estimated based on the present value of future cash flows using the current rate for 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)
	2013	2012	2013
Non-listed equity securities	¥62,961	¥59,785	$669,442

The aggregate annual maturities of financial assets at March 31, 2013 and 2012 were as follows:

Cash and time deposits

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Due within 1 year	¥114,103	¥95,379	$1,213,216
Due after 1 year through 5 years	—	—	—
Due after 5 years through 10 years	—	—	—
Due after 10 years	—	—	—
	¥114,103	¥95,379	$1,213,216

Notes and accounts receivable "Trade"

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Due within 1 year	¥270,669	¥268,698	$2,877,927
Due after 1 year through 5 years	6,123	2,250	65,104
Due after 5 years through 10 years	944	943	10,037
Due after 10 years	379	575	4,029
	¥278,115	¥272,466	$2,957,097

Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Due within 1 year	¥ 4	¥ 4	$ 43
Due after 1 year through 5 years	15	15	159
Due after 5 years through 10 years	—	4	—
Due after 10 years	—	—	—
	¥19	¥23	$202

The aggregate annual maturities of bonds at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Due within 1 year	¥ 20,000	¥ 35,176	$ 212,653
Due after 1 year through 2 years	26,000	20,173	276,449
Due after 2 years through 3 years	20,000	26,000	212,653
Due after 3 years through 4 years	35,000	20,000	372,142
Due after 4 years through 5 years	30,000	35,000	318,979
Due after 5 years	66,000	71,000	701,755
	¥197,000	¥207,349	$2,094,631

The aggregate annual maturities of long-term borrowings at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Due within 1 year	¥173,470	¥ 67,608	$1,844,444
Due after 1 year through 2 years	55,849	175,443	593,822
Due after 2 years through 3 years	72,576	50,969	771,675
Due after 3 years through 4 years	84,738	52,103	900,989
Due after 4 years through 5 years	79,128	50,538	841,340
Due after 5 years	92,748	65,527	986,156
	¥558,509	¥462,188	$5,938,426

The aggregate annual maturities of lease obligations at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Due within 1 year	¥18,311	¥ 9,615	$194,694
Due after 1 year through 2 years	12,110	17,237	128,761
Due after 2 years through 3 years	2,077	10,794	22,084
Due after 3 years through 4 years	4,488	803	47,719
Due after 4 years through 5 years	3,522	2,843	37,448
Due after 5 years	1,454	846	15,461
	¥41,962	¥42,138	$446,167

The aggregate annual maturities of other interest bearing debt at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Due within 1 year	¥20,601	¥27,388	$219,043
Due after 1 year through 2 years	535	1,013	5,688
Due after 2 years through 3 years	483	991	5,136
Due after 3 years through 4 years	429	946	4,561
Due after 4 years through 5 years	322	895	3,424
Due after 5 years	306	1,694	3,254
	¥22,676	¥32,927	$241,106

5. Securities

The following table summarizes carrying amounts of securities with no available fair values as of March 31, 2013 and 2012:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2013			2012			2013
	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	¥19	¥19	¥—	¥23	¥23	¥—	$—

The following tables summarize acquisition costs, carrying amounts and fair values of securities with available fair values as of March 31, 2013 and 2012:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2013			2012			2013
	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	¥ 71,227	¥29,214	¥42,013	¥ 54,589	¥22,204	¥32,385	$446,709
Other	—	—	—	—	—	—	—
	71,227	29,214	42,013	54,589	22,204	32,385	446,709
Securities with available carrying amounts not exceeding acquisition costs:							
Other securities:							
Equity securities	43,481	56,916	(13,435)	47,879	65,050	(17,171)	(142,850)
Other	—	—	—	—	—	—	—
	43,481	56,916	(13,435)	47,879	65,050	(17,171)	(142,850)
	¥114,708	¥86,130	¥28,578	¥102,468	¥87,254	¥15,214	$303,859

Sales of available-for-sale securities for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Sales	¥142	¥2,182	$1,510
Gains on sales	16	1,572	170
Losses on sales	(7)	(217)	(74)

6. Derivative Transactions

Derivative transactions for which hedge accounting is not applied

Forward currency exchange contracts outstanding at March 31, 2013 and 2012 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2013			2012			2013
	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	¥ 5,272	¥ 5,490	¥ (218)	¥16,170	¥16,324	¥(154)	$ (2,318)
Others	6	7	(1)	52	53	(1)	(11)
To buy foreign currencies:							
U.S. dollars	350	327	(23)	10,011	10,016	5	(245)
Others	12,950	11,865	(1,085)	8,487	8,262	(225)	(11,536)
Foreign currency options							
To sell foreign currency options							
Call							
U.S. dollars	¥ 963 [20]	¥ 32	¥ (12)	¥ 953 [17]	¥ 36	¥ (19)	$ (128)
To buy foreign currency options							
Put							
U.S. dollars	963 [20]	12	(8)	953 [17]	9	(7)	(85)
			¥(1,347)			¥(401)	$(14,323)

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.

Commodity forward contracts outstanding at March 31, 2013 and 2012 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2013			2012			2013
	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value	Recognized gain (loss)	Recognized gain (loss)
Commodity forward contracts							
To sell commodity	¥ —	¥ —	¥—	¥ —	¥ —	¥ —	$ —
To buy commodity	173	167	(6)	368	348	(20)	(64)
			¥(6)			¥(20)	$(64)

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, 2013 and 2012 were as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)
	2013		2012		2013
	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	¥24,448	¥27,118	¥34,229	¥35,339	$288,336
Others	5,612	6,354	7,235	6,754	67,560
To buy foreign currencies:					
U.S. dollars	2,569	2,853	7,112	7,034	30,335
Others	3,500	3,929	5,474	5,523	41,776
Foreign currency options					
To sell foreign currency options					
Put					
U.S. dollars	¥ 9,372 [209]	¥ 183	¥10,518 [233]	¥ 160	$ 1,946
Call					
U.S. dollars	205 [5]	5	275 [5]	6	53
To buy foreign currency options					
Put					
U.S. dollars	205 [5]	5	275 [5]	5	53
Call					
U.S. dollars	9,372 [209]	367	10,518 [233]	383	3,902
Hedges for which the "Assigning" method was applied					
Foreign currency exchange contracts					
To sell foreign currencies:					
U.S. dollars	¥18,714	¥ —	¥32,367	¥ —	$ —
Others	3,657	—	5,221	—	—
To buy foreign currencies:					
U.S. dollars	1,871	—	8,833	—	—
Others	25,612	—	35,239	—	—

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, 2013 and 2012 were as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)
	2013		2012		2013
	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	¥213,509	¥—	¥176,125	¥—	$—

Notes:

1. The fair values were estimated by obtaining quotes from counterparty banks.

2. Hedges for which the "Exceptional" method was applied
For certain long-term debt for which interest rate swap agreements were used to hedge the variable risk to interest, the fair values were included in the fair values of the long-term debt.

Commodity forward contracts outstanding at March 31, 2013 and 2012 were as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)
	2013		2012		2013
	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	¥ 2,275	¥ 2,202	¥ 1,794	¥ 1,798	$ 23,413
To buy commodity	15,517	14,952	12,695	13,008	158,979

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, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Bank loans (average rate 3.88% in 2013 and 4.30% in 2012)	¥203,618	¥137,112	$2,164,997

Long-term debt at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
0.528% to 2.5% yen bonds, due 2013 through 2022	¥197,000	¥207,349	$2,094,631
Loans, principally from banks and insurance companies, due 2013 through 2027	558,509	462,188	5,938,426
	755,509	669,537	8,033,057
Less current portion	193,470	102,784	2,057,097
	¥562,039	¥566,753	$5,975,960

The aggregate annual maturities of long-term debt at March 31, 2013 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2013	2013
Due within 1 year	¥193,470	$2,057,097
Due after 1 year through 2 years	81,849	870,271
Due after 2 years through 3 years	92,576	984,327
Due after 3 years through 4 years	119,738	1,273,131
Due after 4 years through 5 years	109,128	1,160,319
Due after 5 years	158,748	1,687,912
	¥755,509	$8,033,057

At March 31, 2013 and 2012, 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)
	2013	2012	2013
Assets pledged as collateral:			
Cash and time deposits	¥ 21,056	¥ 20,860	$ 223,881
Plant and equipment, net of accumulated depreciation	94,143	107,009	1,000,989
Other assets	17,285	28,497	183,785
	¥132,484	¥156,366	$1,408,655
Secured short-term borrowings and long-term debt:			
Bonds (includes those due within 1 year)	¥ —	¥ 349	$ —
Short-term borrowings	31,530	33,292	335,247
Long-term borrowings	42,096	55,071	447,592
	¥ 73,626	¥ 88,712	$ 782,839

At March 31, 2013 and 2012, 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)
	2013	2012	2013
Short-term borrowings	¥ 791	¥1,651	$ 8,410
Long-term borrowings	3,064	3,855	32,579
	¥3,855	¥5,506	$40,989

8. Contingent Liabilities

At March 31, 2013 and 2012, the Group was contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Trade notes discounted	¥ 53	¥ 3,524	$ 564
Trade notes endorsed	2,274	1,138	24,179
Guarantees of loans:			
Related parties	18,882	7,685	200,766
Others	48	93	510
	¥21,257	¥12,440	$226,019

Guarantees of loans include contingent guarantees and letters of awareness of ¥400 million ($4,253 thousand) in 2013 and ¥350 million in 2012.

9. Net Assets

Net assets comprise three subsections, which are 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 ¥30,763 million ($327,092 thousand) for the year ended March 31, 2013 and ¥31,437 million for the year ended March 31, 2012.

11. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Freight	¥ 41,590	¥ 42,762	$ 442,212
Employees' compensation	34,721	34,887	369,176
Research and development	10,771	11,328	114,524
Depreciation	4,229	4,125	44,965
Others	72,471	75,172	770,558
	¥163,782	¥168,274	$1,741,435

12. Impairment Loss

Impairment loss for the years ended March 31, 2013 consisted of the following:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2013	2013
Assets to be disposed, etc.:		
Land, etc. (Hiroshima, Hiroshima Prefecture, etc.: 5 properties in total)	¥1,435	$15,258
Idle assets:		
Machinery and equipment, etc. (Kakogawa, Hyogo Prefecture, etc.: 4 properties in total)	923	9,814
	¥2,358	$25,072

The Company and its consolidated subsidiaries grouped their fixed assets based, in principle, on the unit of business establishments and recognized impairment loss for the assets whose fair value had diminished significantly compared to the book value. Because these assets are scheduled to be sold, the book values were reduced to the recoverable amounts.

Impairment loss of ¥2,358 million was recognized as extraordinary loss. The amount of impairment consisted of loss on buildings and structures in the amount of ¥420 million, machinery and equipment of ¥658 million, land of ¥1,077 million, and other assets of ¥203 million.

The recoverable amounts of the Assets to be disposed were determined mainly by the net realizable value based on estimated appraisal price. The recoverable amounts of the Idle assets were determined mainly by the net realizable value based on book value calculated by deducting the estimated cost of disposal from the estimated selling price based on the value of scrap.

13. Income Taxes

Significant components of the Group's deferred income tax assets and liabilities as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Deferred income tax assets:			
Tax loss carryforwards	¥ 43,285	¥ 22,283	$ 460,234
Unrealized profit	16,024	17,083	170,377
Employees' severance and retirement benefits	10,214	9,919	108,602
Loss on write-down of inventories	10,210	8,399	108,559
Loss on write-down of securities	6,670	8,397	70,920
Accrued bonuses to employees	6,223	7,147	66,167
Impairment loss	5,773	6,582	61,382
Land revaluation	3,785	4,310	40,245
Other	37,786	38,878	401,765
Total deferred income tax assets	139,970	122,998	1,488,251
Valuation allowance	(85,376)	(80,024)	(907,772)
Deferred income tax assets	54,594	42,974	580,479
Deferred income tax liabilities:			
Unrealized holding gains on securities	12,224	8,431	129,973
Land revaluation	4,228	4,586	44,955
Special tax purpose reserve	2,668	3,070	28,368
Other	16,728	16,360	177,863
Total deferred income tax liabilities	35,848	32,447	381,159
Net deferred income tax assets	¥ 18,746	¥ 10,527	$ 199,320

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

	2012
Aggregate statutory income tax rate in Japan	40.6%
Decrease in valuation allowance	49.3
Nondeductible entertainment expenses	8.2
Other	2.9
Effective income tax rate	101.0%

A reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2013 is not reported because a loss before income taxes was recorded for the year.

14. Consolidated Statements of Comprehensive Income

Other comprehensive income for the fiscal years ended March 31, 2013 and 2012 were as follows.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Unrealized holding gains (losses) on securities, net—			
Unrealized holding gains (losses) arising during the period	¥ 9,656	¥(11,978)	$102,669
Less reclassification adjustments included in net income	3,003	(553)	31,930
	12,659	(12,531)	134,599
Tax benefit/(expense)	(4,885)	5,664	(51,941)
	7,774	(6,867)	82,658
Unrealized holding gains (losses) on derivative instruments, net—			
Unrealized holding gains (losses) arising during the period	(2,800)	(2,735)	(29,771)
Less reclassification adjustments included in net income	1,192	398	12,674
	(1,608)	(2,337)	(17,097)
Tax benefit/(expense)	888	631	9,441
	(720)	(1,706)	(7,656)
Revaluation reserve for land—			
Less reclassification adjustments included in net income	525	—	5,582
Tax benefit/(expense)	(7)	661	(74)
	518	661	5,508
Foreign currency transaction adjustments—			
Transaction adjustments arising during the period	18,546	(4,792)	197,193
Less reclassification adjustments included in net income	318	—	3,381
	18,864	(4,792)	200,574
Tax benefit/(expense)	—	—	—
	18,864	(4,792)	200,574
Share of other comprehensive income of investments accounted for using the equity method			
Unrealized holding gains (losses) arising during the period	1,388	(44)	14,759
Less reclassification adjustments included in net income	2	825	21
	1,390	781	14,780
Other comprehensive income	¥27,826	¥(11,923)	$295,864

15. Consolidated Statements of Changes in Net Assets

Changes in the number of shares issued and outstanding during the year ended March 31, 2013 were as follows:

	Number of shares
Common stock outstanding	
Balance at March 31, 2012	3,115,061,100
(No increase)	—
(No decrease)	—
Balance at March 31, 2013	3,115,061,100

	Number of shares
Treasury stock outstanding	
Balance at March 31, 2012	114,135,266
Increase due to purchase of odd-lot stock	73,041
Decrease due to sale of odd-lot stock	(44,438)
Increase (decrease) due to other reasons, net	23,942
Balance at March 31, 2013	114,187,811

16. Consolidated Statements of Cash Flows

The reconciliation of cash and cash equivalents in the cash flow statements and balance sheets as of March 31, 2013 and 2012 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Cash and time deposits in the balance sheets	¥114,103	¥ 95,379	$1,213,216
Time deposits due over 3 months	(53)	(77)	(564)
Short-term investments with maturities within 3 months included in current assets and other	47,987	6,599	510,229
Cash and cash equivalents in cash flow statements	¥162,037	¥101,901	$1,722,881

17. Related Party Transactions

Net sales included sales to Shinsho Corporation, which is an affiliate of the Company, of ¥180,887 million ($1,923,307 thousand) and ¥214,927 million for the years ended March 31, 2013 and 2012, respectively.

18. 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, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Projected benefit obligation	¥(166,075)	¥(165,617)	$(1,765,816)
Fair value of pension assets	136,326	136,000	1,449,506
Unrecognized net transition obligation	63	208	670
Unrecognized actuarial differences	12,609	12,811	134,066
Unrecognized prior service cost	10,682	11,468	113,578
Prepaid pension cost	(45,162)	(47,457)	(480,191)
Liability for severance and retirements benefits	¥ (51,557)	¥ (52,587)	$ (548,187)

Included in the consolidated statements of operations for the years ended March 31, 2013 and 2012 were severance and retirement benefit expenses that comprised the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Service costs – benefits earned during the year	¥ 7,195	¥ 7,295	$ 76,502
Interest cost on projected benefit obligation	3,174	3,215	33,748
Expected return on plan assets	(1,129)	(216)	(12,004)
Amortization of net transition obligation	31	70	330
Amortization of actuarial differences	1,724	1,807	18,330
Amortization of prior service cost	1,976	549	21,010
Severance and retirement benefit expenses	¥12,971	¥12,720	$137,916

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 1.3% and 2.0% for the years ended March 31, 2013 and 2012, respectively.
The rate of expected return on plan assets was mainly 1.3% and 0.1% for the years ended March 31, 2013 and 2012, respectively.

19. 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 and 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 units based on products and services (a portion of the products and services are made by subsidiaries), and every business unit and subsidiary plans domestic and foreign global strategy to conduct business.

The Group consists of segments of business units 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 and Natural Resources & Engineering) and three business groups of its subsidiaries (Kobelco Eco-Solutions, Kobelco Construction Machinery and 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.

Due to a revision of the Corporate Tax Law, from the year ending March 31, 2013, Kobe Steel and some of its domestic consolidated subsidiaries posted depreciation of tangible fixed assets acquired on or after April 1, 2012 in accordance with the depreciation method prescribed by the revised Corporate Tax Law.

As a result, in comparison to the previous accounting method, income for the Welding segment have increased by ¥29 million, the Aluminum & Copper segment by ¥132 million, the Machinery segment by ¥43 million, the Kobelco Eco-Solutions segment by ¥1 million, the Kobelco Construction Machinery segment by ¥316 million, and Other Businesses by ¥44 million, respectively. Loss for the Iron & Steel segment have decreased by ¥772 million, Natural Resources & Engineering have decreased by ¥3 million respectively.

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Sales to outside customers:			
Iron & Steel	¥ 710,421	¥ 816,785	$ 7,553,652
Welding	81,509	83,155	866,656
Aluminum & Copper	260,809	288,641	2,773,089
Machinery	149,940	145,855	1,594,258
Natural Resources & Engineering	45,658	55,441	485,465
Kobelco Eco-Solutions	70,313	70,351	747,613
Kobelco Construction Machinery	267,183	306,108	2,840,861
Kobelco Cranes	39,778	42,504	422,945
Other Businesses	57,549	53,151	611,898
Elimination	2,369	2,700	25,190
Consolidated total	1,685,529	1,864,691	17,921,627
Intersegment sales:			
Iron & Steel	32,421	37,452	344,721
Welding	708	1,261	7,528
Aluminum & Copper	1,392	1,286	14,801
Machinery	17,177	6,958	182,637
Natural Resources & Engineering	835	431	8,878
Kobelco Eco-Solutions	2,343	846	24,912
Kobelco Construction Machinery	638	1,052	6,784
Kobelco Cranes	5,724	5,501	60,861
Other Businesses	15,687	16,034	166,794
Elimination	(76,925)	(70,821)	(817,916)
Consolidated total	—	—	—
Total sales:			
Iron & Steel	742,841	854,237	7,898,363
Welding	82,217	84,417	874,184
Aluminum & Copper	262,201	289,928	2,787,889
Machinery	167,117	152,813	1,776,895
Natural Resources & Engineering	46,493	55,872	494,343
Kobelco Eco-Solutions	72,656	71,196	772,525
Kobelco Construction Machinery	267,822	307,160	2,847,656
Kobelco Cranes	45,501	48,005	483,796
Other Businesses	73,237	69,185	778,703
Elimination	(74,556)	(68,122)	(792,727)
Consolidated total	1,685,529	1,864,691	17,921,627
Segment income (loss):			
Iron & Steel	(50,212)	(14,686)	(533,886)
Welding	2,155	3,119	22,913
Aluminum & Copper	3,912	6,081	41,595
Machinery	12,040	9,900	128,017
Natural Resources & Engineering	(1,336)	342	(14,205)
Kobelco Eco-Solutions	3,919	4,235	41,669
Kobelco Construction Machinery	6,853	22,866	72,865
Kobelco Cranes	(2,250)	162	(23,923)
Other Businesses	7,554	7,200	80,319
Elimination	(781)	(5,439)	(8,303)
Consolidated total	¥ (18,146)	¥ 33,780	$ (192,939)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Assets:			
Iron & Steel	¥ 949,361	¥ 954,391	$10,094,216
Welding	64,114	62,858	681,701
Aluminum & Copper	191,124	193,610	2,032,153
Machinery	151,461	156,032	1,610,431
Natural Resources & Engineering	53,005	58,634	563,583
Kobelco Eco-Solutions	56,586	55,123	601,659
Kobelco Construction Machinery	403,469	370,544	4,289,942
Kobelco Cranes	48,312	49,273	513,684
Other Businesses	159,637	159,251	1,697,363
Elimination	149,928	99,796	1,594,130
Consolidated total	2,226,997	2,159,512	23,678,862
Depreciation:			
Iron & Steel	70,213	81,037	746,550
Welding	2,426	2,587	25,795
Aluminum & Copper	12,038	14,456	127,996
Machinery	5,179	5,613	55,066
Natural Resources & Engineering	483	547	5,136
Kobelco Eco-Solutions	1,464	1,162	15,566
Kobelco Construction Machinery	8,767	6,489	93,216
Kobelco Cranes	736	621	7,826
Other Businesses	3,236	3,321	34,407
Elimination	2,183	2,205	23,211
Consolidated total	106,725	118,038	1,134,769
Amortization of goodwill:			
Iron & Steel	—	—	—
Welding	—	196	—
Aluminum & Copper	—	—	—
Machinery	—	—	—
Natural Resources & Engineering	—	—	—
Kobelco Eco-Solutions	—	—	—
Kobelco Construction Machinery	—	—	—
Kobelco Cranes	—	—	—
Other Businesses	—	—	—
Elimination	0	0	0
Consolidated total	0	196	0
Interest income:			
Iron & Steel	97	86	1,031
Welding	128	120	1,361
Aluminum & Copper	186	188	1,978
Machinery	66	58	702
Natural Resources & Engineering	350	396	3,721
Kobelco Eco-Solutions	24	20	255
Kobelco Construction Machinery	3,693	3,391	39,266
Kobelco Cranes	22	34	234
Other Businesses	50	45	532
Elimination	(344)	(251)	(3,657)
Consolidated total	¥ 4,272	¥ 4,087	$ 45,423

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Interest expense:			
Iron & Steel	¥ 8,383	¥ 8,121	$ 89,133
Welding	18	24	191
Aluminum & Copper	1,468	1,702	15,609
Machinery	69	61	734
Natural Resources & Engineering	19	19	202
Kobelco Eco-Solutions	59	64	627
Kobelco Construction Machinery	6,524	4,350	69,367
Kobelco Cranes	155	114	1,648
Other Businesses	478	508	5,082
Elimination	2,946	4,814	31,325
Consolidated total	20,119	19,777	213,918
Equity in income (loss) of unconsolidated subsidiaries and affiliates:			
Iron & Steel	3,086	3,968	32,812
Welding	57	167	606
Aluminum & Copper	(36)	(88)	(383)
Machinery	(505)	(97)	(5,369)
Natural Resources & Engineering	(1,315)	(1,151)	(13,982)
Kobelco Eco-Solutions	—	—	—
Kobelco Construction Machinery	(876)	3,940	(9,314)
Kobelco Cranes	(26)	74	(276)
Other Businesses	1,016	967	10,803
Elimination	37	98	393
Consolidated total	1,438	7,878	15,290
Investments in unconsolidated subsidiaries and affiliates:			
Iron & Steel	48,040	38,890	510,792
Welding	1,104	1,431	11,738
Aluminum & Copper	682	481	7,251
Machinery	4,558	4,670	48,464
Natural Resources & Engineering	2,514	5,352	26,730
Kobelco Eco-Solutions	—	—	—
Kobelco Construction Machinery	12,092	11,203	128,570
Kobelco Cranes	239	297	2,541
Other Businesses	10,807	10,246	114,907
Elimination	(2,536)	(2,782)	(26,963)
Consolidated total	77,500	69,788	824,030
Capital expenditures:			
Iron & Steel	63,671	47,254	676,991
Welding	1,635	2,569	17,384
Aluminum & Copper	12,441	8,731	132,281
Machinery	3,447	4,955	36,651
Natural Resources & Engineering	689	1,031	7,326
Kobelco Eco-Solutions	1,419	1,103	15,088
Kobelco Construction Machinery	20,882	22,700	222,031
Kobelco Cranes	1,988	2,122	21,138
Other Businesses	7,119	4,001	75,693
Elimination	1,645	1,619	17,490
Consolidated total	¥ 114,936	¥ 96,085	$ 1,222,073

Notes:

1. Other Businesses includes Shinko Real Estate, Kobelco Research Institute and other businesses.

2. Details about elimination at March 31, 2013 and 2012 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 the classification of 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)
	2013	2012	2013
Japan	¥1,113,068	¥1,195,772	$11,834,854
China	145,763	232,858	1,549,846
Others	426,698	436,061	4,536,927
Consolidated total	¥1,685,529	¥1,864,691	$17,921,627

(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)
	2013	2012	2013
Shinsho Corporation	229,016	268,721	2,435,045
Metal One Corporation	173,368	208,508	1,843,360

Impairment loss by reportable segments

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Impairment loss			
Iron & Steel	¥1,231	¥—	$13,089
Welding	—	—	—
Aluminum & Copper	12	—	128
Machinery	—	—	—
Natural Resources & Engineering	—	—	—
Kobelco Eco-Solutions	—	—	—
Kobelco Construction Machinery	1,098	—	11,675
Kobelco Cranes	17	—	180
Other Businesses	—	—	—
Elimination	—	—	—
Consolidated total	¥2,358	¥—	$25,072

Amortization and balance of goodwill by reportable segments

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Amortization			
Iron & Steel	¥—	¥ —	$—
Welding	—	196	—
Aluminum & Copper	—	—	—
Machinery	—	—	—
Natural Resources & Engineering	—	—	—
Kobelco Eco-Solutions	—	—	—
Kobelco Construction Machinery	—	—	—
Kobelco Cranes	—	—	—
Other Businesses	—	—	—
Elimination	0	0	0
Consolidated total	0	196	0
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

Due to the acquisition of additional shares of KOBELCO CONSTRUCTION MACHINERY CO., LTD, KSL posted ¥1,923 million ($20,447 thousand) of negative goodwill as an extraordinary gain.

This negative goodwill does not belong to a particular reportable segment.

20. Net Income Per Share

The basis of calculating net income per share for the years ended March 31, 2013 and 2012 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net loss	Weighted average number of shares	EPS	EPS
For the year ended March 31, 2013				
Net loss available to common shareholders	¥(26,976)	3,000,911	¥(8.99)	$(0.10)
For the year ended March 31, 2012				
Net loss available to common shareholders	(14,248)	3,000,951	(4.75)	(0.06)

21. Subsequent Events

Gain on the sale of investment securities

1. Summary

Kobe Steel, Ltd. sold the shares issued by Nabtesco Corporation on May 27, 2013 as follows:
(1) Issue: Nabtesco Corporation
(2) Number of the shares sold: 15,100,000 shares

2. Amount of Gain on the sale of investment securities in first quarter of fiscal 2013

Kobe Steel, Ltd. will record ¥23.9 billion of gain on the sale of investment securities as extraordinary income in the first quarter of fiscal 2013.

Impairment loss

1. Summary

Kobe Steel, Ltd. decided to reform the structure of the steel business by changing the upstream production system at its board of directors' meeting held on May 29, 2013. Upstream production at Kobe Works, will be transferred to Kakogawa Works and Kobe Steel, Ltd. plans to shut down the blast furnace and other upstream production equipment at Kobe Works around fiscal 2017.

In accordance with this decision, there are indications of impairment loss on the abovementioned upstream production equipment at Kobe Works due to a significant reduction of the recoverable amount. Pursuant to the Accounting Standards for Impairment of Fixed Assets, Kobe Steel, Ltd. recognizes impairment loss on these assets in considering their recoverability.

2. Amount of impairment loss in first quarter of fiscal 2013

Kobe Steel, Ltd. will post approximately ¥18.5 billion of impairment loss as an extraordinary loss in the first quarter of fiscal 2013.

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, 2013 and 2012, 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.

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, 2013 and 2012, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the following:

1. As discussed in Note 21 to the consolidated financial statements, the Company sold the shares issued by Nabtesco Corporation on May 27, 2013.
2. As discussed in Note 21 to the consolidated financial statements, the Company decided to shut down the blast furnace and other upstream production equipment at Kobe Works around fiscal 2017 at its board of directors' meeting held on May 29, 2013.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 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

July 25, 2013
Osaka, Japan

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