# Consolidated Six-Year Summary

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2010, 2009, 2008, 2007, 2006 and 2005

| | Millions of yen | | | | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 | 2005 | **2010** |
| **For the year:** | | | | | | | |
| Net sales | **¥1,671,022** | ¥2,177,290 | ¥2,132,406 | ¥1,910,296 | ¥1,667,313 | ¥1,443,772 | **$17,960,254** |
| Cost of sales | **1,475,461** | 1,890,318 | 1,757,342 | 1,543,158 | 1,297,291 | 1,140,422 | **15,858,352** |
| Operating income | **46,016** | 116,934 | 202,399 | 208,624 | 220,395 | 166,577 | **494,583** |
| Net income (loss) | **6,305** | (31,438) | 88,923 | 109,669 | 84,559 | 51,289 | **67,767** |
| Cash flows from operating activities | **172,893** | 118,200 | 124,317 | 172,786 | 198,181 | 225,751 | **1,858,264** |
| Cash flows from investing activities | **(120,324)** | (127,405) | (187,381) | (128,557) | (94,215) | (50,543) | **(1,293,250)** |
| Cash flows from financing activities | **(29,641)** | 138,700 | 31,155 | (48,823) | (93,593) | (163,945) | **(318,583)** |
| Capital investment | **128,739** | 118,044 | 150,585 | 133,649 | 92,319 | 66,016 | **1,383,695** |
| Depreciation and amortization | **118,835** | 128,701 | 111,514 | 86,687 | 79,507 | 80,290 | **1,277,246** |
| Research and development expenses | **28,255** | 31,029 | 30,139 | 24,893 | 24,121 | 19,700 | **303,687** |
| **At year end:** | | | | | | | |
| Total assets | **2,249,346** | 2,295,489 | 2,329,006 | 2,241,570 | 2,074,242 | 1,901,202 | **24,176,118** |
| Net assets (Note 2) | **557,002** | 513,461 | 647,797 | 636,432 | 530,000 | 379,213 | **5,986,694** |
| Outside debt | **837,770** | 855,972 | 713,352 | 621,227 | 589,101 | 669,241 | **9,004,407** |
| Outside debt including IPP project financing | **925,120** | 954,791 | 823,404 | 742,276 | 720,909 | 811,572 | **9,943,250** |

| | Yen | | | | | | U.S. dollars (Note 1) |
|---|---|---|---|---|---|---|---|
| **Per share data:** | | | | | | | |
| Net income (loss) | **¥ 2.10** | ¥ (10.47) | ¥ 29.63 | ¥ 35.37 | ¥ 27.94 | ¥ 17.28 | **$0.02** |
| Diluted net income | **—** | — | — | — | 27.25 | 16.48 | **—** |
| Net assets | **172.09** | 159.58 | 199.81 | 194.46 | 170.65 | 127.80 | **1.85** |
| Cash dividends | **1.50** | 3.50 | 7.00 | 7.00 | 6.00 | 3.00 | **0.02** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Ratios:** | | | | | | |
| Operating income ratio (%) | **2.8** | 5.4 | 9.5 | 10.9 | 13.2 | 11.5 |
| ROA (%) | **0.3** | (1.4) | 3.8 | 4.9 | 4.1 | 2.7 |
| ROE (%) | **1.3** | (5.8) | 14.9 | 19.6 | 18.6 | 14.5 |
| Equity ratio (%) | **23.0** | 20.9 | 25.8 | 26.4 | 25.6 | 19.9 |
| Debt/equity ratio (times) | **1.6** | 1.7 | 1.3 | 1.2 | 1.2 | 1.8 |
| Dividend payout ratio (%) | **71.4** | — | 23.6 | 19.8 | 21.5 | 17.4 |
| Number of shares issued (in thousands) | **3,115,061** | 3,115,061 | 3,115,061 | 3,115,061 | 3,115,061 | 2,976,070 |
| Number of employees | **33,629** | 33,526 | 33,657 | 31,828 | 29,068 | 27,067 |

Notes: 1. For convenience only, U.S. dollar amounts in this report have been translated from Japanese yen amounts at the rate of ¥93.04 to US$1.00, the rate of exchange prevailing on March 31, 2010.
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).

# Financial Review

In the fiscal year ended March 31, 2010, Japan's economy picked up as a result of stimulus measures in Japan and overseas, progress in inventory adjustments and improvement in overseas economies. Overseas, China's economy recovered, and the economies in the United States and Europe reversed their downward trend and began to rally after last summer.

The world economy as a whole, however, remained in the doldrums compared with previous fiscal years, and the downturn continued.

In this economic environment, the sales volume of steel products in the Kobe Steel Group's Iron and Steel Segment as well as in its Aluminum and Copper Segment began to recover following the second quarter. The overall sales volume for the fiscal year ended March 31, 2010, however, did not reach the level of the previous fiscal year, in which first-half shipments had been extremely high. As a result, consolidated net sales in the fiscal under review fell ¥506.3 billion from the previous fiscal year to ¥1,671.0 billion. Despite efforts to reduce overall costs, operating income declined ¥70.9 billion to ¥46.0 billion.

| | Billions of yen | | Percent change |
|---|---|---|---|
| | 2010 | 2009 | 2010/2009 |
| Net sales | ¥1,671.0 | ¥2,177.3 | (23.3)% |
| Operating income | 46.0 | 116.9 | (60.6) |

Business segment information is provided as follows.

### Iron and Steel

| | Billions of yen | | Percent change |
|---|---|---|---|
| | 2010 | 2009 | 2010/2009 |
| Net sales | ¥718.1 | ¥1,022.4 | (29.8)% |
| Operating income (loss) | (24.3) | 77.7 | — |

In Japan, demand for steel products bounced back from the second half owing to recoveries in the automobile and electronics industries, while demand from overseas increased, particularly from China. Nonetheless, demand was mired at a persistently low level compared with the previous fiscal year, when it had reached a high level, particularly in the first half. As a result, steel product shipments in the fiscal year under review recorded a year-on-year decline. Product sales prices declined compared with the previous fiscal year due to the impact of falling raw material prices. Net sales for steel castings and forgings fell below those of the previous fiscal year as demand from the shipbuilding industry trailed off after the third quarter. Net sales for welding consumables and titanium products also slipped below those of the previous fiscal year as demand slumped.

Overall, sales in this segment decreased 29.8% year on year to ¥718.1 billion. Although Kobe Steel worked to improve its profits by reducing fixed costs, operating income decreased ¥102.1 billion to an operating loss of ¥24.3 billion.

### Wholesale Power Supply

| | Billions of yen | | Percent change |
|---|---|---|---|
| | 2010 | 2009 | 2010/2009 |
| Net sales | ¥81.6 | ¥80.7 | 1.1% |
| Operating income | 20.3 | 17.3 | 17.5 |

Segment sales amounted to ¥81.6 billion, which was on par with the previous fiscal year. Operating income rose ¥3.0 billion to ¥20.3 billion owing to lower depreciation costs.

### Aluminum and Copper

| | Billions of yen | | Percent change |
|---|---|---|---|
| | 2010 | 2009 | 2010/2009 |
| Net sales | ¥261.8 | ¥379.3 | (31.0)% |
| Operating income (loss) | 7.6 | (26.9) | — |

In aluminum rolled products, shipments of aluminum stock for canned beverages declined from the third quarter as a result of factors such as the impact of cool summer temperatures. On the other hand, demand did bounce back after the second quarter in the automotive sector due to firm sales of environment-friendly cars with their need for lightweight materials. In addition, owing to progress in inventory adjustments, demand in the LCD and semiconductor segments began picking up from the third quarter. However, overall shipments of aluminum rolled products declined compared with the previous fiscal year.

Net sales for aluminum castings and forgings declined year on year, despite visible signs of recovery in demand in the automotive, LCD and semiconductor segments

As for copper rolled products, shipments of copper sheet and strip increased after the second quarter as a result of progress in inventory adjustments. However, demand for copper tube for air conditioners was sluggish, leading to a lower sales volume for this product. Thus, overall shipments of copper rolled products declined year on year.

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

### Machinery

| | Billions of yen | | Percent change |
|---|---|---|---|
| | 2010 | 2009 | 2010/2009 |
| Net sales | ¥305.5 | ¥331.0 | (7.7)% |
| Operating income | 29.0 | 29.6 | (1.8) |

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

Under these conditions, domestic orders increased 1.6% to ¥130.4 billion, while overseas orders fell 42.1% to ¥63.8 billion.

As a result, overall orders decreased 18.6% year on year to ¥194.2 billion. As of March 31, 2010, the backlog of orders stood at ¥240.8 billion.

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

**Construction Machinery**

| | Billions of yen | | Percent change |
|---|---|---|---|
| | **2010** | 2009 | **2010/2009** |
| Net sales | **¥260.0** | ¥333.0 | **(21.9)%** |
| Operating income | **7.9** | 11.3 | **(29.5)** |

Unit sales of hydraulic excavators in China increased considerably year on year, particularly in inland areas. However, unit sales fell further in the persistently sluggish markets of Japan, the United States and Europe. Unit sales of cranes in North America decreased due to customer inventory adjustments; Japan and the Middle East also witnessed considerably lower unit sales compared with the previous fiscal year. As a result, segment sales decreased 21.9% year on year to ¥260.0 billion and operating income decreased ¥3.3 billion to ¥7.9 billion.

**Real Estate**

| | Billions of yen | | Percent change |
|---|---|---|---|
| | **2010** | 2009 | **2010/2009** |
| Net sales | **¥46.2** | ¥37.1 | **24.5%** |
| Operating income | **3.1** | 1.9 | **67.9** |

Segment sales increased 24.5% to ¥46.2 billion, owing to the steady signing of condominium sales contracts and operating income increased ¥1.3 billion to ¥3.1 billion.

**Electronic Materials and Other Businesses**

| | Billions of yen | | Percent change |
|---|---|---|---|
| | **2010** | 2009 | **2010/2009** |
| Net sales | **¥43.6** | ¥55.1 | **(20.9)%** |
| Operating income (loss) | **(0.2)** | 3.1 | **—** |

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

Note: Net sales are exclusive of consumption tax, etc.

Under other expenses, in addition to a decrease in foreign exchange loss, a ¥3.6 billion loss on impairment of fixed assets was recorded. Under other income, a gain on compensation for removal of ¥7.4 billion was recorded. As a result, income before income taxes decreased ¥13.7 billion from the previous fiscal year to ¥14.1 billion. Net income after taxes, however, improved ¥37.7 billion from the loss of the previous fiscal year to ¥6.3 billion.

## ANALYSIS OF CASH FLOWS

Net cash provided by operating activities was ¥172.9 billion. Net cash used in investing activities amounted to ¥120.3 billion, while net cash used in financing activities was ¥29.6 billion. Consequently, cash and cash equivalents at the end of the fiscal year under review, including the effect of exchange rate changes, amounted to ¥211.7 billion, an increase of ¥24.0 billion from the previous fiscal year-end.

### Cash Flows from Operating Activities

Although income before income taxes decreased, a drop in inventories contributed to net cash provided by operating activities of ¥172.9 billion, a year on year increase of ¥54.7 billion.

### Cash Flows from Investing Activities

Net cash used in investing activities decreased ¥7.1 billion to ¥120.3 billion due to such factors as reduced outflow from the purchase of investments in securities.

### Cash Flows from Financing Activities

Due primarily to factors such as a decrease in proceeds from long-term debt, net cash used in financing activities was ¥29.6 billion, reversing the ¥138.7 billion in net cash provided by financing activities in the previous fiscal year.

## ANALYSIS OF FINANCIAL POSITION

While investment in securities increased, inventories went down. As a result, total assets at the end of the fiscal year under review decreased ¥46.1 billion from the previous fiscal year-end to ¥2,249.3 billion. Net assets increased ¥43.5 billion to ¥557.0 billion, as retained earnings and net unrealized holding gains on securities increased. As a result, the equity ratio was 23.0%, increasing 2.1 percentage points from the end of the previous fiscal year.

As of March 31, 2010, the outside debt balance, which includes IPP project financing, decreased ¥29.7 billion to ¥925.1 billion.

# 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, 2010.

## 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 in Kobe Steel's four key business segments: Iron and Steel, Aluminum and Copper, Machinery, and Construction Machinery. Meanwhile, overseas sales represented 33.4% of total sales in the fiscal year ended March 31, 2010, with Asia, including China—the largest single country source of demand—accounting for over half of the overseas sales.

The Kobe Steel Group's performance is therefore affected by demand trends in these fields, regional economic conditions and other factors. In addition, political and social trends as well as changes in customs duties, import and export regulations, trade and taxes, and other statutory regulations could affect the Kobe Steel Group's performance.

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

## 2.

**Fluctuating Steel Volume and Prices**

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

Domestic steel sales are broadly divided between contract sales, for which product volume and specifications are directly negotiated with customers before shipment, and spot sales of products that are shipped for use by unspecified customers. Nearly all of Kobe Steel's sales are of the contract variety. When the supply and demand balance for steel fluctuates, spot sales prices are more sensitive to the fluctuating supply and demand balance, although contract sales prices are also eventually affected. In addition, the sales volume and price of steel exports, which comprise about 30% of steel shipments, are affected by the regional balance of steel supply and demand. These fluctuations in steel shipments and prices affect the Kobe Steel Group's performance.

## 3.

**Fluctuating Price of Raw Materials**

Steel raw material prices and ocean freight charges for iron ore, coal, ferrous alloys, nonferrous metals and scrap procured by the Kobe Steel Group are tied to global market conditions. Fluctuations in these prices and charges affect the Kobe Steel Group's performance. Because a limited number of suppliers and countries throughout the world produce iron ore and coking coal in particular, global market conditions tend to be strongly affected by the balance of supply and demand.

In the Aluminum and Copper segment, fluctuating aluminum and copper ingot prices are passed on to customers in the product prices. Nevertheless, when the spot prices of aluminum and copper ingots fluctuate wildly over the short term, the Kobe Steel Group's performance could be temporarily affected by inventory valuations.

The Kobe Steel Group procures sub-materials, including refractory products and capital investment-related materials in the Iron and Steel and Aluminum and Copper segments, as well as materials for electrical components, hydraulic equipment and internal combustion devices in the Machinery segment. Fluctuating prices for these materials and equipment could affect the Kobe Steel Group's performance.

## 4.

**Impact of Environmental Regulations**

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

If production restraints and taxes are imposed on emissions such as carbon dioxide, this would restrict the business activities of the Kobe Steel Group, especially in the Iron and Steel segment, and could affect the Kobe Steel Group's performance.

## 5.

**Impact on Operations due to Accidents, Natural Disasters, etc.**

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

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

# 6.

## Litigation Risks

The Kobe Steel Group's business activities span a wide range of fields in Japan and abroad. In carrying out these activities, the Kobe Steel Group strives to observe the applicable laws, regulations and social norms, and is guided by business practices that are sound, fair and impartial. Nevertheless, whether or not there has been a violation of law or regulations by Kobe Steel Group companies or their employees, lawsuits could be filed in relation to product liability laws and intellectual property rights, which could, as a result, affect the Group's performance.

# 7.

## Financial Risk

### (1) Exchange Rate Fluctuations

Foreign currency denominated transactions of the Kobe Steel Group are primarily U.S. dollar-based, with U.S. dollar based transactions showing an import surplus in the fiscal year under review. As a short-term measure to protect against fluctuations in exchange rates, the Kobe Steel Group has taken out foreign exchange contracts. However, because of the difficulties in totally eliminating volatility risks, foreign exchange fluctuations could affect the Kobe Steel Group's performance.

### (2) Interest Rate Fluctuations

Total outside debt for the Kobe Steel Group as of March 31, 2010 stood at ¥837.8 billion (¥925.1 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 and debt due to changing financial conditions and other factors could affect the Group's performance.

### (3) Decline in Value of Inventories

If the asset value of inventories held by the Group should decline due to decreased profitability, this could affect the Kobe Steel Group's performance.

### (4) Fluctuating Prices of Investment Securities

As of March 31, 2010, the balance sheet amount for investment securities held by the Kobe Steel Group stood at ¥196.5 billion. Fluctuating prices of investment securities associated with fluctuating share prices of listed shares could affect the Kobe Steel Group's performance.

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

### (5) Recording of Deferred Income Taxes

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

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

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

Furthermore, the financial condition and business performance of the Kobe Steel Group could be affected by events other than those mentioned above that could not be anticipated as of March 31, 2010.

# Consolidated Balance Sheets

Kobe Steel, Ltd. and Consolidated Subsidiaries
March 31, 2010 and 2009

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| ASSETS | 2010 | 2009 | 2010 |
| **Current assets:** | | | |
| Cash and time deposits (Note 15) | ¥ 131,939 | ¥ 188,322 | $ 1,418,089 |
| Notes and accounts receivable | | | |
| Trade | 241,494 | 233,839 | 2,595,593 |
| Unconsolidated subsidiaries and affiliates | 56,317 | 77,371 | 605,299 |
| Other | 93,785 | 21,162 | 1,008,007 |
| Allowance for doubtful accounts | (819) | (671) | (8,803) |
| | 390,777 | 331,701 | 4,200,096 |
| Merchandise and finished goods | 126,812 | 161,998 | 1,362,984 |
| Work-in-process | 138,071 | 163,150 | 1,483,996 |
| Raw materials and supplies | 102,179 | 137,196 | 1,098,227 |
| Deferred income taxes (Note 13) | 32,194 | 10,012 | 346,023 |
| Other | 50,640 | 48,254 | 544,282 |
| Total current assets | 972,612 | 1,040,633 | 10,453,697 |
| **Investments and other assets:** | | | |
| Investments in securities (Note 5) | 145,975 | 116,061 | 1,568,949 |
| Investments in and advances to unconsolidated subsidiaries and affiliates | 52,389 | 53,633 | 563,080 |
| Long-term loans receivable | 8,187 | 5,772 | 87,994 |
| Other | 68,150 | 70,671 | 732,481 |
| Allowance for doubtful accounts | (3,886) | (3,696) | (41,767) |
| Total investments and other assets | 270,815 | 242,441 | 2,910,737 |
| **Plant and equipment (Note 7):** | | | |
| Land | 204,299 | 198,386 | 2,195,819 |
| Buildings and structures | 683,865 | 663,954 | 7,350,226 |
| Machinery and equipment | 2,030,009 | 1,995,935 | 21,818,669 |
| Construction in progress | 68,462 | 53,638 | 735,834 |
| | 2,986,635 | 2,911,913 | 32,100,548 |
| Less accumulated depreciation | (2,018,565) | (1,941,375) | (21,695,668) |
| Total plant and equipment | 968,070 | 970,538 | 10,404,880 |
| **Intangible assets** | 21,386 | 20,472 | 229,858 |
| **Deferred income taxes (Note 13)** | 16,463 | 21,405 | 176,946 |
| | ¥2,249,346 | ¥2,295,489 | $24,176,118 |

See accompanying notes.

| LIABILITIES AND NET ASSETS | Millions of yen 2010 | 2009 | Thousands of U.S. dollars (Note 1) 2010 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term borrowings (Note 7) | ¥ 108,475 | ¥ 175,305 | $ 1,165,896 |
| Current portion of long-term debt (Note 7) | 59,637 | 86,903 | 640,982 |
| Notes and accounts payable: | | | |
| Trade | 357,946 | 385,778 | 3,847,227 |
| Construction | 21,463 | 29,755 | 230,686 |
| Unconsolidated subsidiaries and affiliates | 86,384 | 98,982 | 928,461 |
| Other | 19,004 | 16,592 | 204,256 |
| | 484,797 | 531,107 | 5,210,630 |
| Current portion of lease obligations | 6,128 | 3,021 | 65,864 |
| Advances from customers | 49,430 | 60,504 | 531,277 |
| Customers' and employees' deposits | 17,318 | 14,907 | 186,135 |
| Income and enterprise taxes payable | 6,518 | 5,158 | 70,056 |
| Provision for loss on construction contracts | 2,778 | 1,988 | 29,858 |
| Provision for restructuring costs | 3,038 | 3,927 | 32,653 |
| Deferred income taxes (Note 13) | 2,059 | 1,539 | 22,130 |
| Other | 67,995 | 90,275 | 730,815 |
| Total current liabilities | 808,173 | 974,634 | 8,686,296 |
| **Long-term liabilities:** | | | |
| Long-term debt (Note 7) | 738,357 | 691,379 | 7,935,909 |
| Lease obligations | 41,969 | 25,374 | 451,085 |
| Employees' severance and retirement benefits (Note 17) | 33,248 | 38,144 | 357,352 |
| Provision for environmental measures | 2,780 | 4,201 | 29,880 |
| Deferred income taxes (Note 13) | 29,425 | 11,760 | 316,262 |
| Other | 38,392 | 36,536 | 412,640 |
| Total long-term liabilities | 884,171 | 807,394 | 9,503,128 |
| **Contingent liabilities (Note 8)** | | | |
| **Net assets:** | | | |
| Stockholders' equity: | | | |
| Common stock (Note 9) | 233,313 | 233,313 | 2,507,663 |
| Authorized — 6,000,000,000 shares | | | |
| Issued — 3,115,061,100 shares in 2010 | | | |
| Capital surplus (Note 9) | 83,125 | 83,125 | 893,433 |
| Retained earnings (Note 9) | 258,854 | 252,505 | 2,782,180 |
| Treasury stock, at cost: 112,684,172 shares in 2010 | (51,379) | (51,427) | (552,225) |
| | 523,913 | 517,516 | 5,631,051 |
| Valuation and translation adjustments: | | | |
| Unrealized gains on securities, net of taxes | 22,529 | 448 | 242,143 |
| Unrealized gains or losses on hedging derivatives, net of taxes | 883 | (6,266) | 9,491 |
| Land revaluation differences, net of taxes | (4,867) | (4,837) | (52,311) |
| Foreign currency translation adjustments | (25,787) | (27,719) | (277,160) |
| | (7,242) | (38,374) | (77,837) |
| Minority interests | 40,331 | 34,319 | 433,480 |
| Total net assets | 557,002 | 513,461 | 5,986,694 |
| | ¥2,249,346 | ¥2,295,489 | $24,176,118 |

# Consolidated Statements of Operations

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Net sales | ¥1,671,022 | ¥2,177,290 | $17,960,254 |
| Cost of sales | (1,475,461) | (1,890,318) | (15,858,352) |
| Gross profit | 195,561 | 286,972 | 2,101,902 |
| Selling, general and administrative expenses (Note 11) | (149,545) | (170,038) | (1,607,319) |
| Operating income | 46,016 | 116,934 | 494,583 |
| Other income (expenses): | | | |
| Interest and dividend income | 4,319 | 5,857 | 46,421 |
| Interest expense | (21,322) | (20,003) | (229,170) |
| Seconded employees' salaries, net of reimbursement | (11,629) | (14,146) | (124,989) |
| Foreign exchange loss | (1,614) | (7,763) | (17,348) |
| Equity in income of unconsolidated subsidiaries and affiliates | 1,808 | 7,936 | 19,432 |
| Gain on sale of securities | 960 | 1,293 | 10,318 |
| Compensation for removal | 7,419 | — | 79,740 |
| Loss on write down of securities and investments | — | (17,224) | — |
| Loss on impairment of fixed assets (Note 12) | (3,577) | (15,849) | (38,446) |
| Loss on sale or disposal of plant and equipment | (2,996) | (2,881) | (32,201) |
| Other, net | (5,283) | (26,352) | (56,782) |
| | (31,915) | (89,132) | (343,025) |
| Income before income taxes | 14,101 | 27,802 | 151,558 |
| Income taxes (Note 13): | | | |
| Current | 9,272 | 32,921 | 99,656 |
| Deferred | (8,266) | 26,932 | (88,844) |
| | 1,006 | 59,853 | 10,812 |
| Minority interests in income (loss) of subsidiaries | 6,790 | (613) | 72,979 |
| Net income (loss) | ¥ 6,305 | ¥ (31,438) | $ 67,767 |

| | Yen | | U.S. dollars (Note 1) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Per share | | | |
| Net income (loss) | ¥ 2.10 | ¥ (10.47) | $ 0.02 |
| Cash dividends applicable to the year | 1.50 | 3.50 | 0.02 |

See accompanying notes.

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

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

| | Thousands | Millions of yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares of common stock | Common stock (Note 9) | Capital surplus (Note 9) | Retained earnings (Note 9) | Treasury stock | Unrealized gains on securities, net of taxes | Unrealized gains or losses on hedging derivatives, net of taxes | Land revaluation differences, net of taxes | Foreign currency translation adjustments | Minority interests | Total |
| Balance at March 31, 2008 | 3,115,061 | ¥233,313 | ¥83,264 | ¥305,335 | ¥(51,514) | ¥35,628 | ¥ 4,029 | ¥(4,899) | ¥ (5,208) | ¥47,849 | ¥647,797 |
| Effect of changes in accounting policies applied to foreign subsidiaries | | | | (331) | | | | | | 303 | (28) |
| Cash dividends | | | | (21,053) | | | | | | | (21,053) |
| Net loss | | | | (31,438) | | | | | | | (31,438) |
| Purchase of treasury stock | | | | | (136) | | | | | | (136) |
| Sale of treasury stock | | | (139) | | 223 | | | | | | 84 |
| Decrease due to changes in scope of consolidation | | | | (3) | | | | | | | (3) |
| Adjustment to land revaluation | | | | (5) | | | | | | | (5) |
| Net changes in items other than stockholders' equity | | | | | | (35,180) | (10,295) | 62 | (22,511) | (13,833) | (81,757) |
| Net changes during the year | | | (139) | (52,499) | 87 | (35,180) | (10,295) | 62 | (22,511) | (13,833) | (134,308) |
| Balance at March 31, 2009 | 3,115,061 | ¥233,313 | ¥83,125 | ¥252,505 | ¥(51,427) | ¥ 448 | ¥ (6,266) | ¥(4,837) | ¥(27,719) | ¥34,319 | ¥513,461 |
| Net income | | | | 6,305 | | | | | | | 6,305 |
| Purchase of treasury stock | | | | | (43) | | | | | | (43) |
| Sale of treasury stock | | | | (60) | 91 | | | | | | 31 |
| Increase due to changes in scope of consolidation | | | | 48 | | | | | | | 48 |
| Adjustment to land revaluation | | | | 56 | | | | | | | 56 |
| Net changes in items other than stockholders' equity | | | | | | 22,081 | 7,149 | (30) | 1,932 | 6,012 | 37,144 |
| Net changes during the year | | | | 6,349 | 48 | 22,081 | 7,149 | (30) | 1,932 | 6,012 | 43,541 |
| Balance at March 31, 2010 | 3,115,061 | ¥233,313 | ¥83,125 | ¥258,854 | ¥(51,379) | ¥22,529 | ¥ 883 | ¥(4,867) | ¥(25,787) | ¥40,331 | ¥557,002 |

| | Thousands | Thousands of U.S. dollars (Note 1) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares of common stock | Common stock (Note 9) | Capital surplus (Note 9) | Retained earnings (Note 9) | Treasury stock | Unrealized gains on securities, net of taxes | Unrealized gains or losses on hedging derivatives, net of taxes | Land revaluation differences, net of taxes | Foreign currency translation adjustments | Minority interests | Total |
| Balance at March 31, 2009 | 3,115,061 | $2,507,663 | $893,433 | $2,713,940 | $(552,741) | $ 4,815 | $(67,347) | $(51,988) | $(297,926) | $368,863 | $5,518,712 |
| Net income | | | | 67,767 | | | | | | | 67,767 |
| Purchase of treasury stock | | | | | (462) | | | | | | (462) |
| Sale of treasury stock | | | | (645) | 978 | | | | | | 333 |
| Increase due to changes in scope of consolidation | | | | 516 | | | | | | | 516 |
| Adjustment to land revaluation | | | | 602 | | | | | | | 602 |
| Net changes in items other than stockholders' equity | | | | | | 237,328 | 76,838 | (323) | 20,766 | 64,617 | 399,226 |
| Net changes during the year | | | | 68,240 | 516 | 237,328 | 76,838 | (323) | 20,766 | 64,617 | 467,982 |
| Balance at March 31, 2010 | 3,115,061 | $2,507,663 | $893,433 | $2,782,180 | $(552,225) | $242,143 | $ 9,491 | $(52,311) | $(277,160) | $433,480 | $5,986,694 |

See accompanying notes.

# Consolidated Statements of Cash Flows

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| **Cash flows from operating activities:** | | | |
| Income before income taxes | ¥ 14,101 | ¥ 27,802 | $ 151,558 |
| Depreciation | 118,835 | 128,701 | 1,277,246 |
| Interest and dividend income | (4,319) | (5,857) | (46,421) |
| Interest expense | 21,322 | 20,003 | 229,170 |
| Gain on sale of securities | (960) | (1,293) | (10,318) |
| Loss on write-down of securities | 865 | 17,224 | 9,297 |
| Equity in income of unconsolidated subsidiaries and affiliates | (1,808) | (7,936) | (19,433) |
| Loss on impairment of fixed assets | 3,577 | 15,849 | 38,446 |
| Loss on sale and disposal of plant and equipment | 2,996 | 2,881 | 32,201 |
| Decrease (increase) in trade receivables from customers | (9,083) | 74,333 | (97,625) |
| Decrease (increase) in inventories | 98,566 | (67,521) | 1,059,394 |
| Increase (decrease) in trade payables to customers | (40,878) | 16,353 | (439,359) |
| Other | 45 | (34,684) | 484 |
| Subtotal | 203,259 | 185,855 | 2,184,640 |
| Cash received for interest and dividends | 6,080 | 9,189 | 65,348 |
| Cash paid for interest | (21,359) | (19,323) | (229,568) |
| Cash paid for income taxes | (15,087) | (57,521) | (162,156) |
| Net cash provided by operating activities | 172,893 | 118,200 | 1,858,264 |
| **Cash flows from investing activities:** | | | |
| Purchase of plant, equipment and other assets | (128,227) | (123,638) | (1,378,192) |
| Proceeds from sale of plant, equipment and other assets | 5,138 | 2,358 | 55,224 |
| Purchase of investments in securities | (1,500) | (11,489) | (16,122) |
| Proceeds from sale of investments in securities | 1,499 | 4,623 | 16,111 |
| Decrease in short-term loans receivable | 78 | 89 | 838 |
| Payments for long-term loans receivable | (2,867) | (307) | (30,815) |
| Proceeds from collection of long-term loans receivable | 437 | 698 | 4,697 |
| Proceeds from compensation for removal | 5,641 | 5,313 | 60,630 |
| Purchase of investments in subsidiaries resulting in change in scope of consolidation | (95) | — | (1,021) |
| Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation | — | 627 | — |
| Other | (428) | (5,679) | (4,600) |
| Net cash used in investing activities | (120,324) | (127,405) | (1,293,250) |
| **Cash flows from financing activities:** | | | |
| Increase (decrease) in short-term borrowings | (9,669) | 33,864 | (103,923) |
| Decrease in commercial paper | (55,000) | (55,000) | (591,143) |
| Proceeds from long-term debt | 93,016 | 250,912 | 999,742 |
| Repayment of long-term debt | (37,078) | (69,021) | (398,517) |
| Proceeds from issuance of bonds | 33,000 | 34,830 | 354,686 |
| Repayment of bonds | (69,359) | (58,236) | (745,475) |
| Proceeds from sale-leaseback transactions | 23,846 | 25,287 | 256,298 |
| Repayments of finance lease obligations | (4,750) | — | (51,053) |
| Payment of dividends | (76) | (20,961) | (817) |
| Other | (3,571) | (2,975) | (38,381) |
| Net cash provided by (used in) financing activities | (29,641) | 138,700 | (318,583) |
| **Effect of exchange rate changes on cash and cash equivalents** | 632 | (8,435) | 6,793 |
| **Increase in cash and cash equivalents** | 23,560 | 121,060 | 253,224 |
| **Cash and cash equivalents at beginning of year** | 187,745 | 66,685 | 2,017,896 |
| **Increase in cash and cash equivalents resulting from change in scope of consolidation** | 394 | — | 4,235 |
| **Cash and cash equivalents at end of year (Note 15)** | ¥211,699 | ¥187,745 | $2,275,355 |

See accompanying notes.

# Notes to Consolidated Financial Statements

Years ended March 31, 2010 and 2009

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Kobe Steel, Ltd. ("the Company") and its consolidated subsidiaries ("the Group") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective country of domicile, with necessary adjustments to be in accordance with Japanese GAAP.

The accompanying consolidated financial statements have been restructured and translated into English with certain expanded disclosure from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

Effective from the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Measurement of Inventories" (Statement No. 9 issued by the Accounting Standards Board of Japan on July 5, 2006), and changed the measurement basis of inventories from cost to lower of cost or net realizable value. As a result, operating income and income before income taxes were ¥31,259 million less than they would have been under the previous standard.

In the fiscal year ended March 31, 2009, due to the revision of the Corporate Tax Law in 2008, useful lives of tangible fixed assets were changed in accordance with the schedules prescribed in the revised Corporate Tax Law. As a result, depreciation was ¥8,407 million more than it would have been under the previous schedules, and operating income and income before income taxes were ¥7,270 million and ¥7,316 million less, respectively.

In the fiscal year ended March 31, 2009, the Group changed its method for translating the statements of operations of consolidated overseas subsidiaries from one using the year-end rate to one using the average rate for the year. As the difference between the year-end rate and average rate expanded, this change was made to present the Group's performance more accurately by using more appropriate rates to translate revenue and expenses earned and incurred throughout the period. As a result, sales, operating income and income before income taxes were ¥34,830 million, ¥2,181 million and ¥2,063 million more, respectively, than they would have been under the previous method.

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

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2010, which was ¥93.04 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, 2010, the accounts of 163 (162 in 2009) subsidiaries have been included in the consolidated financial statements. Intercompany transactions and accounts have been eliminated.

Sixty-seven (65 in 2009) 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, 2010, 50 (50 in 2009) affiliates were accounted for by the equity method.

The difference between the cost of investment in a subsidiary and the equity in the net assets of the subsidiary at the date of acquisition, if considered significant, is amortized over the estimated years when the amortization period can be determined or over five years when it cannot. Where the difference is small, it's recognized as expense when incurred.

When the Company's share of the net losses of an affiliate exceeds the adjusted cost of the investment, the Company discontinues applying the equity method and the investment is reduced to zero. Losses in excess of the amounts due from the investee are recorded in other payables when the losses are expected to be shared by the Company.

### (2) Securities

The Group has no trading securities. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies, which are not consolidated or accounted for using the equity method, are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of valuation and translation adjustments in net assets. Realized gains and losses on the sale of such securities are computed using moving average cost based on the carrying value at March 31, 2000 or at the later date of purchase.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies or available-for-sale securities declines significantly, the securities are stated at fair market value, and the difference between the fair market value and the carrying amount is recognized as a loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, the securities should be written down to net asset value with a corresponding charge in the statement of income in the event net asset value declines significantly. In these cases, the fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

### (3) Allowance for Doubtful Accounts

The Group provides for doubtful accounts principally at an amount based on the actual ratio of bad debts in the past plus the estimated uncollectible amounts of certain individual receivables.

### (4) Provision for Restructuring Costs

The provision for restructuring costs is stated at an amount based on the estimated loss from restructuring discontinued operations at the end of the fiscal year.

### (5) Provision for Loss on Construction Contracts

Provision for loss on construction contracts is stated at an amount based on the estimated loss from construction contracts at the end of the fiscal year.

### (6) Provision for Environmental Measures

The provision for environmental measures for obligatory PCB treatment and to prevent the spread of ground pollution at the site of the Takasago Works is stated as an estimated cost at the end of the fiscal year.

### (7) Inventories

Inventories are valued at lower of cost or net realizable value. Cost is determined principally by the average method in the Iron and Steel, Wholesale Power Supply and Aluminum and Copper segments and by the specific identification method for finished goods and work in progress in the Machinery, Construction Machinery and Real Estate segments.

### (8) Depreciation

Depreciation of plant and equipment and intangible assets is provided principally by the straight-line method for buildings and structures and intangible assets and by the declining balance method for machinery and equipment.

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

Depreciation of leased assets under finance leases that do not transfer ownership is provided by the straight-line method with the lease term as the useful life.

### (9) Income Taxes

The Company and its domestic consolidated subsidiaries apply deferred tax accounting to recognize tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting purposes.

Deferred taxes relating to temporary differences between financial accounting and tax reporting are also recognized by certain foreign consolidated subsidiaries.

### (10) Employees' Severance and Retirement Benefits

The Company and its domestic consolidated subsidiaries provide two types of post-employment benefit plans: unfunded lump-sum payment plans and funded non-contributory pension plans. A domestic consolidated subsidiary provides a contribution pension plan.

The Company and its domestic consolidated subsidiaries provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of plan assets.

Actuarial gains and losses are recognized in expenses using the straight-line method over mainly 15 years for those accrued in 2010, mainly 14 years for those accrued in 2009 and 2008, and mainly 12 years for those accrued in and before 2007, which is within the average of the estimated remaining service years of employees commencing with the following period.

### (11) Land Revaluation

In the years ended March 31, 2002 and 2001, land used for operations was revaluated by certain consolidated subsidiaries in accordance with the Land Revaluation Law. The revaluation amount, net of related taxes, is shown as a separate component of valuation and translation adjustments in net assets.

### (12) Bond Issue Expenses and Share Issue Expenses

Bond issue expenses and share issue expenses are charged to expenses as they are incurred by the Company and its consolidated subsidiaries.

### (13) Translation of Foreign Currencies

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

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

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

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

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

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

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers recognition of gain or loss resulting from changes in the fair value of the derivative financial instruments until the related loss or gain on the corresponding hedged item is recognized ("deferred hedge" method). Deferred gains and deferred losses on these derivative instruments are reported, net of applicable income taxes, as a separate component of valuation and translation adjustments in net assets.

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

(17) Consolidated Tax Return
From the fiscal year ended March 31, 2004, the Company has filed a consolidated tax return with certain domestic subsidiaries.

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

(19) Accounting Standard for Lease Transactions
Effective from the year ended March 31, 2009, the Group has adopted the revised accounting standard, "Accounting Standard for Lease Transactions" (Statement No. 13, revised by the Accounting Standards Board of Japan on March 31, 2007) and the revised guidance, "Guidance on Accounting Standard for Lease Transactions" (Guidance No. 16, revised by the Accounting Standards Board of Japan on March 31, 2007), (collectively, "the Revised Standards"). According to the Revised Standards, the Company and its domestic consolidated subsidiaries changed the accounting method for finance leases which do not transfer ownership. Prior to the fiscal year ended March 31, 2009, the Company and its consolidated domestic subsidiaries accounted for such leases as operating leases. Commencing in the year ended March 31, 2009, the Company and its consolidated domestic subsidiaries capitalize assets used under such leases. As permitted, finance leases which commenced prior to April 1, 2008 and have been accounted for as operating leases continue to be accounted for as operating leases.
The effect of this change on the consolidated statements of operations has been immaterial.

(20) Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements
Effective from the year ended March 31, 2009, the Group has adopted the new practical solution, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (PITF No. 18 issued by the Accounting Standards Board of Japan on May 17, 2006) and made necessary adjustments in the consolidation process. The effect of these adjustments on the consolidated statements of operations was immaterial.

## 3. Leases

Original lease obligations as lessee under non-capitalized finance leases at March 31, 2010 and 2009 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Buildings and structures | ¥ 417 | ¥ 467 | $ 4,482 |
| Machinery and equipment | 32,110 | 45,466 | 345,120 |
| | ¥32,527 | ¥45,933 | $349,602 |

Future minimum lease payments as lessee under non-capitalized finance leases at March 31, 2010 and 2009 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Due within one year | ¥ 5,262 | ¥ 8,491 | $ 56,556 |
| Due after one year | 6,891 | 12,905 | 74,065 |
| | ¥12,153 | ¥21,396 | $130,621 |
| Lease expense for the years ended March 31 | ¥ 7,326 | ¥ 9,732 | $ 78,740 |

Future minimum lease payments as lessee under operating leases at March 31, 2010 and 2009 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Due within one year | ¥ 4,144 | ¥ 3,267 | $ 44,540 |
| Due after one year | 10,571 | 7,593 | 113,618 |
| | ¥14,715 | ¥10,860 | $158,158 |

Future minimum lease payments receivable as lessor under operating leases at March 31, 2010 and 2009 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Due within one year | ¥ 473 | ¥ 479 | $ 5,084 |
| Due after one year | 3,664 | 4,122 | 39,381 |
| | ¥4,137 | ¥4,601 | $44,465 |

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

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

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

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

### Supplemental information on fair values

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

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

### Fair value of financial instruments

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

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2010 | | | 2010 |
| | Carrying amount | Fair value | Difference | Difference |
| Cash and time deposits | ¥131,939 | ¥131,939 | ¥ — | $ — |
| Notes and accounts receivable "Trade" | 241,494 | 241,494 | — | — |
| Investments in securities: | | | | |
| Held-to-maturity debt securities | 30 | 30 | — | — |
| Securities of subsidiaries and affiliates | 17,710 | 39,798 | 22,088 | 237,403 |
| Available-for-sale securities | 121,716 | 121,716 | — | — |
| Notes and accounts payable "Trade" | (357,946) | (357,946) | — | — |
| Short-term borrowings and current portion of long-term debt | (168,112) | (168,751) | (639) | (6,868) |
| Bonds included in long-term debt | (213,187) | (220,118) | (6,931) | (74,495) |
| Long-term borrowings included in long-term debt | (525,170) | (540,805) | (15,635) | (168,046) |
| Lease obligations | (41,969) | (44,452) | (2,483) | (26,687) |
| Derivative transactions: | | | | |
| Hedge accounting is not applied | (916) | (916) | — | — |
| Hedge accounting is applied | 2,317 | 2,317 | — | — |

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

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

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

Investments in securities

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

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

The carrying amount approximates fair value because of the short maturities of these instruments. The fair value of 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 borrowings for similar borrowings of comparable maturity.

Derivative transactions

See Note 6.

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

| | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| | 2010 | 2010 |
| Non-listed equity securities | ¥57,109 | $613,811 |

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

### Cash and time deposits

| | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| Years ending March 31 | 2010 | 2010 |
| 2011 | ¥131,939 | $1,418,089 |
| 2015 | — | — |
| 2020 | — | — |
| 2021 and thereafter | — | — |
| | ¥131,939 | $1,418,089 |

### Notes and accounts receivable "Trade"

| Years ending March 31 | Millions of yen 2010 | Thousands of U.S. dollars (Note 1) 2010 |
|---|---|---|
| 2011 | ¥236,537 | $2,542,315 |
| 2015 | 3,069 | 32,986 |
| 2020 | 942 | 10,125 |
| 2021 and thereafter | 946 | 10,167 |
| | ¥241,494 | $2,595,593 |

### Held-to-maturity debt securities

| Years ending March 31 | Millions of yen 2010 | Thousands of U.S. dollars (Note 1) 2010 |
|---|---|---|
| 2011 | ¥ 4 | $ 43 |
| 2015 | 15 | 161 |
| 2020 | 11 | 118 |
| 2021 and thereafter | — | — |
| | ¥30 | $322 |

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

## 5. Securities

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2010 and 2009:

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2010 | | | 2010 |
| | Acquisition costs | Book (fair) values | Difference | Difference |
| **Available-for-sale securities** | | | | |
| Securities with available book values exceeding acquisition costs: | | | | |
| Equity securities | ¥49,271 | ¥ 87,486 | ¥38,215 | $410,737 |
| Other | — | — | — | — |
| | 49,271 | 87,486 | 38,215 | 410,737 |
| Securities with available book values not exceeding acquisition costs: | | | | |
| Other securities: | | | | |
| Equity securities | 40,773 | 34,220 | (6,553) | (70,432) |
| Other | 11 | 10 | (1) | (11) |
| | 40,784 | 34,230 | (6,554) | (70,443) |
| | ¥90,055 | ¥121,716 | ¥31,661 | $340,294 |

| | Millions of yen | | |
|---|---|---|---|
| | 2009 | | |
| | Acquisition costs | Book (fair) values | Difference |
| **Available-for-sale securities** | | | |
| Securities with available book values exceeding acquisition costs: | | | |
| Equity securities | ¥37,703 | ¥50,349 | ¥12,646 |
| Other | — | — | — |
| | 37,703 | 50,349 | 12,646 |
| Securities with available book values not exceeding acquisition costs: | | | |
| Other securities: | | | |
| Equity securities | 52,858 | 37,925 | (14,933) |
| Other | 10 | 7 | (3) |
| | 52,868 | 37,932 | (14,936) |
| | ¥90,571 | ¥88,281 | ¥ (2,290) |

The following table summarizes book values of securities with no available fair values as of March 31, 2010 and 2009:

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2010 | | | 2010 |
| | Acquisition costs | Book (fair) values | Difference | Difference |
| **Held-to-maturity debt securities** | | | | |
| Securities with available book values not exceeding fair values: | | | | |
| Non-listed domestic bonds | ¥30 | ¥30 | ¥— | $— |

| | Millions of yen |
|---|---|
| | 2009 |
| **Held-to-maturity debt securities** | |
| Non-listed domestic bonds | ¥30 |

| | Millions of yen |
|---|---|
| | 2009 |
| **Available-for-sale securities** | |
| Non-listed equity securities | ¥27,706 |

Available-for-sale securities with maturities and held-to-maturity debt securities mature as follows:

| | Millions of yen |
|---|---|
| | 2009 |
| Over one year but within five years | ¥15 |
| Over five years but within ten years | 15 |

Sales of available-for-sale securities for the year ended March 31, 2010 and 2009 were as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| | 2010 | 2010 |
| Sales | ¥923 | $9,920 |
| Gains on sales | 583 | 6,266 |
| Losses on sales | (1) | (11) |

| | Millions of yen |
|---|---|
| | 2009 |
| Sales | ¥43 |
| Gains on sales | 16 |
| Losses on sales | (13) |

## 6. Derivative Transactions

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

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

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2010 | | | 2010 |
| | Contracted amount | Fair value | Recognized gain (loss) | Recognized gain (loss) |
| **Foreign currency exchange contracts** | | | | |
| To sell foreign currencies: | | | | |
| U.S. dollars | ¥15,801 | ¥16,285 | ¥(484) | $(5,202) |
| To buy foreign currencies: | | | | |
| U.S. dollars | 10,563 | 10,553 | (10) | (107) |
| Others | 2,636 | 2,652 | 16 | 172 |
| | | | ¥(478) | $(5,137) |

Note: The fair values were estimated by multiplying the contracted foreign currency amount by the forward rate.

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

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2010 | | | 2010 |
| | Contracted amount | Fair value | Recognized gain (loss) | Recognized gain (loss) |
| **Interest rate swap agreements** | | | | |
| To receive fixed and pay floating followed by fixed rates | ¥35,300 | ¥(458) | ¥(458) | $(4,923) |

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

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

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2010 | | | 2010 |
| | Contracted amount | Fair value | Recognized gain (loss) | Recognized gain (loss) |
| **Commodity forward contracts** | | | | |
| To buy commodity | ¥974 | ¥994 | ¥20 | $215 |

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, 2010 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2010 | | 2010 |
| | 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 | ¥30,200 | ¥29,974 | $322,163 |
| Others | 3,084 | 2,924 | 31,427 |
| To buy foreign currencies: | | | |
| U.S. dollars | 3,738 | 3,776 | 40,585 |
| Others | 4,445 | 4,179 | 44,916 |
| **Foreign currency options** | | | |
| To sell foreign currency options | | | |
| U.S. dollars | ¥16,752 | ¥378 | $4,063 |
| To buy foreign currency options | | | |
| U.S. dollars | 16,752 | 747 | 8,029 |
| **Hedges for which the "Assigning" method was applied** | | | |
| **Foreign currency exchange contracts** | | | |
| To sell foreign currencies: | | | |
| U.S. dollars | ¥15,855 | ¥— | $— |
| Others | 2,508 | — | — |
| To buy foreign currencies: | | | |
| U.S. dollars | 1,136 | — | — |
| Others | 14,165 | — | — |

Notes: 1. Foreign currency exchange contracts
The fair values were estimated by multiplying the contracted foreign currency amount by the forward rate.
2. Foreign currency options
The fair values were estimated by obtaining quotes from counterparty banks.
3. Hedges for which the "Assigning" method was applied
For certain accounts receivable and accounts payable denominated in foreign currencies for which foreign currency exchange contracts were used to hedge the foreign currency fluctuations, the fair values were included in the fair values of the hedged accounts receivable and accounts payable.

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

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2010 | | 2010 |
| | 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 | ¥261,575 | ¥— | $— |

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

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

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2010 | | 2010 |
| | Contracted amount | Fair value | Fair value |
| **Hedges for which the "Deferred hedge" method was applied** | | | |
| **Commodity forward contracts** | | | |
| To sell commodity | ¥ 4,415 | ¥ 4,845 | $ 52,074 |
| To buy commodity | 15,972 | 18,192 | 195,529 |

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

Forward currency exchange contracts and swap agreements outstanding at March 31, 2009 were as follows:

| | Millions of yen | | |
|---|---|---|---|
| | 2009 | | |
| | Contracted amount | Fair value | Recognized gain (loss) |
| **Foreign currency exchange contracts** | | | |
| To sell foreign currencies: | | | |
| U.S. dollars | ¥ 9,711 | ¥ 9,727 | ¥ (16) |
| Others | 14,543 | 16,563 | (2,020) |
| To buy foreign currencies: | | | |
| U.S. dollars | 5,486 | 5,484 | (2) |
| Others | 717 | 600 | (117) |
| | | | ¥(2,155) |
| **Foreign currency options** | | | |
| To sell foreign currency options: | | | |
| U.S. dollars | ¥ 1,029 | ¥ 19 | ¥ 24 |
| To buy foreign currency options: | | | |
| U.S. dollars | 1,029 | 53 | 10 |
| | | | ¥ 34 |

Notes: 1. The fair values were estimated by multiplying the contracted foreign currency amount by the forward rate.
2. The above table does not include derivative transactions for which hedge accounting was applied and outstanding foreign exchange contracts which relate to foreign currency receivables and payables that were recorded in the balance sheet by the contracted foreign exchange rates at March 31, 2009.

Interest rate swap agreements outstanding at March 31, 2009 were as follows:

| | Millions of yen | |
|---|---|---|
| | 2009 | |
| | Contracted amount | Recognized gain (loss) |
| **Interest rate swap agreements** | | |
| To receive floating and pay fixed rates | ¥ 5,122 | ¥ (60) |
| To receive fixed and pay floating followed by fixed rates | 45,300 | (694) |
| | | ¥ (754) |

Notes: 1. The recognized gains (losses) were estimated by obtaining quotes from counterparty banks.
2. Hedge accounting was not applied to the derivative transactions in the above table at March 31, 2009.

Commodity forward contracts outstanding at March 31, 2009 were as follows:

| | Millions of yen | | |
|---|---|---|---|
| | 2009 | | |
| | Contracted amount | Fair value | Recognized gain (loss) |
| **Commodity forward contracts** | | | |
| To sell commodity | ¥354 | ¥249 | ¥105 |
| To buy commodity | 886 | 790 | (96) |
| | | | ¥ 9 |

Notes: 1. The fair values were estimated by multiplying the contracted volume by the commodity future price.
2. Hedge accounting was not applied to the derivative transactions in the above table at March 31, 2009.

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

Short-term borrowings at March 31, 2010 and 2009 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2010** | 2009 | **2010** |
| Bank loans (average rate 1.69% in 2010 and 2.14% in 2009) | **¥108,475** | ¥120,305 | **$1,165,896** |
| Commercial paper | **—** | 55,000 | **—** |
| | **¥108,475** | ¥175,305 | **$1,165,896** |

Long-term debt at March 31, 2010 and 2009 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2010** | 2009 | **2010** |
| 1.04% to 3.4% yen bonds, due 2010 through 2019 | **¥213,422** | ¥249,781 | **$2,293,873** |
| Loans, principally from banks and insurance companies | **584,572** | 528,501 | **6,283,018** |
| | **797,994** | 778,282 | **8,576,891** |
| Less current portion | **59,637** | 86,903 | **640,982** |
| | **¥738,357** | ¥691,379 | **$7,935,909** |

The aggregate annual maturities of long-term debt at March 31, 2010 were as follows:

| Years ending March 31 | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| 2011 | ¥ 59,637 | $ 640,982 |
| 2012 | 128,242 | 1,378,353 |
| 2013 | 97,749 | 1,050,613 |
| 2014 | 181,317 | 1,948,807 |
| 2015 | 73,562 | 790,649 |
| 2016 and thereafter | 257,487 | 2,767,487 |
| | ¥797,994 | $8,576,891 |

At March 31, 2010 and 2009, 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) |
|---|---|---|---|
| | **2010** | 2009 | **2010** |
| Assets pledged as collateral: | | | |
| Plant and equipment, net of accumulated depreciation | **¥163,629** | ¥181,548 | **$1,758,695** |
| Other assets | **34,972** | 36,325 | **375,881** |
| | **¥198,601** | ¥217,873 | **$2,134,576** |
| | | | |
| Secured short-term borrowings and long-term debt: | | | |
| Bonds (includes those due within 1 year) | **¥ 1,122** | ¥ 1,926 | **$ 12,059** |
| Short-term borrowings | **13,644** | 16,976 | **146,647** |
| Long-term borrowings | **81,316** | 94,130 | **873,990** |
| | **¥ 96,082** | ¥113,032 | **$1,032,696** |

At March 31, 2010 and 2009, 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 as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Short-term borrowings | ¥ 3,401 | ¥ 4,311 | $ 36,554 |
| Long-term borrowings | 8,127 | 11,528 | 87,350 |
| | ¥11,528 | ¥15,839 | $123,904 |

## 8. Contingent Liabilities

At March 31, 2010 and 2009, the Group was contingently liable as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Trade notes discounted | ¥18,651 | ¥ 1,204 | $200,462 |
| Trade notes endorsed | 793 | 868 | 8,523 |
| Guarantees of loans: | | | |
| Related parties | 13,265 | 10,151 | 142,573 |
| Others | 167 | 413 | 1,795 |
| Contingent obligations based on debt assumption agreements for bonds with financial institutions | 19,400 | — | 208,512 |
| | ¥52,276 | ¥12,636 | $561,865 |

Guarantees of loans included contingent guarantees and letters of awareness of ¥510 million ($5,482 thousand) in 2010 and ¥912 million in 2009.

## 9. Net Assets

Net assets comprises three subsections, which are the owners' equity, accumulated gains (losses) from valuation and translation adjustments and minority interests.

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

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

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the Board of Directors meeting held on May 14, 2010, the Board of Directors approved cash dividends amounting to ¥4,511 million ($48,485 thousand). These appropriations had not been accrued in the consolidated financial statements as of March 31, 2010. Such appropriations are recognized in the period in which they are approved by the Board of Directors.

## 10. Research and Development Expenses

Research and development expenses included in cost of sales and selling, general, and administrative expenses were ¥28,255 million ($303,687 thousand) for the year ended March 31, 2010 and ¥31,029 million for the year ended March 31, 2009.

## 11. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2010 and 2009 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Freight | ¥ 35,223 | ¥ 43,476 | $ 378,579 |
| Employees' compensation | 33,502 | 36,719 | 360,082 |
| Research and development | 10,440 | 10,697 | 112,210 |
| Depreciation | 3,951 | 3,510 | 42,466 |
| Others | 66,429 | 75,636 | 713,982 |
| | ¥149,545 | ¥170,038 | $1,607,319 |

## 12. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2010 and 2009 consisted of the following:

| | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| | 2010 | 2010 |
| Assets related to Shinko Kakogawa hospital, etc.: | | |
| Building and structures, etc. (Kakogawa, Hyogo Prefecture, etc.; 11 properties in total) | ¥3,577 | $38,446 |
| | ¥3,577 | $38,446 |

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

Book values of those fixed assets were reduced to recoverable amounts, and impairment loss of ¥3,577 million ($38,446 thousand) was recognized in the year ended March 31, 2010. The amount of impairment consisted of loss on buildings and structures in the amount of ¥2,299 million ($24,710 thousand), machinery and equipment of ¥1,169 million ($12,564 thousand), land of ¥89 million ($957 thousand), intangible assets of ¥19 million ($204 thousand) and other assets of ¥1 million ($11 thousand).

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

| | Millions of yen |
|---|---|
| | 2009 |
| Assets for business: | |
| Machinery and equipment, etc. (Shimonoseki, Yamaguchi Prefecture, etc.; 5 properties in total) | ¥10,620 |
| Leasehold property: | |
| Building and structures, etc. (Kobe, Hyogo Prefecture) | 2,827 |
| Idle assets: | |
| Machinery and equipment, etc. (Kakogawa, Hyogo Prefecture, etc.; 12 properties in total) | 2,402 |
| | ¥15,849 |

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 for business whose fair value had diminished significantly compared to the book value due to a decline in production and for leasehold assets and idle assets whose fair value had diminished due mainly to the decline in land prices.

The book values of those fixed assets were reduced to recoverable amounts, and impairment loss of ¥15,849 million was recognized in the year ended March 31, 2009. The amount of impairment consisted of loss on buildings and structures in the amount of ¥4,412 million, machinery and equipment of ¥9,948 million, land of ¥1,288 million, construction in progress of ¥105 million and intangible assets of ¥96 million.

The recoverable amounts of the assets for business were determined mainly by the present value of expected cash flows from ongoing utilization and the subsequent disposition of the asset based on a discount rate of 6% and, for the leasehold assets and the idle assets, by the net realizable value based mainly on third party appraisals.

# 13. Income Taxes

Significant components of the Group's deferred income tax assets and liabilities as of March 31, 2010 and 2009 were as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| | 2010 | 2010 |
| Deferred income tax assets: | | |
| Tax loss carryforwards | ¥ 30,857 | $ 331,653 |
| Unrealized profit | 17,136 | 184,179 |
| Loss on impairment of fixed assets | 11,765 | 126,451 |
| Employees' severance and retirement benefits | 11,454 | 123,108 |
| Accrued bonuses to employees | 7,153 | 76,881 |
| Loss on write-down of securities | 5,944 | 63,887 |
| Loss on write-down of inventories | 5,544 | 59,587 |
| Land revaluation | 4,971 | 53,429 |
| Other | 38,444 | 413,199 |
| Total deferred income tax assets | 133,268 | 1,432,374 |
| Valuation allowance | (75,262) | (808,921) |
| Deferred income tax assets | 58,006 | 623,453 |
| Deferred income tax liabilities: | | |
| Unrealized holding gains on securities | 11,558 | 124,226 |
| Special tax purpose reserve | 5,563 | 59,791 |
| Land revaluation | 5,234 | 56,255 |
| Other | 18,478 | 198,603 |
| Total deferred income tax liabilities | 40,833 | 438,876 |
| Net deferred income tax assets | ¥ 17,173 | $ 184,577 |

| | Millions of yen |
|---|---|
| | 2009 |
| Deferred income tax assets: | |
| Unrealized profit | ¥18,037 |
| Loss on write-down of inventories | 14,115 |
| Employees' severance and retirement benefits | 12,097 |
| Loss on impairment of fixed assets | 11,946 |
| Accrued bonuses to employees | 9,332 |
| Unrealized holding losses on securities | 5,746 |
| Loss on write-down of securities | 5,257 |
| Land revaluation | 5,011 |
| Unrealized holding losses on hedging derivatives | 4,079 |
| Other | 43,502 |
| Total deferred income tax assets | 129,122 |
| Valuation allowance | (75,814) |
| Deferred income tax assets | 53,308 |
| Deferred income tax liabilities: | |
| Special tax purpose reserve | 6,678 |
| Unrealized holding gains on securities | 6,321 |
| Land revaluation | 5,306 |
| Other | 16,885 |
| Total deferred income tax liabilities | 35,190 |
| Net deferred income tax assets | ¥18,118 |

The reconciliation of the statutory tax rate and the effective tax rate for the years ended March 31, 2010 and 2009 was as follows:

| | 2010 |
|---|---|
| Aggregate statutory income tax rate in Japan | 40.6% |
| Differences in tax rates among consolidated subsidiaries | (38.4) |
| Nondeductible entertainment expenses | 21.7 |
| Proceeds from compensation for removal | (21.4) |
| Other | 4.6 |
| Effective income tax rate | 7.1% |

| | 2009 |
|---|---|
| Aggregate statutory income tax rate in Japan | 40.6% |
| Recognition of valuation allowance | 159.1 |
| Nondeductible entertainment expenses | 13.3 |
| Other | 2.3 |
| Effective income tax rate | 215.3% |

## 14. Consolidated Statements of Changes in Net Assets

Changes in number of shares issued and outstanding during the year ended at March 31, 2010 were as follows:

| | Number of shares |
|---|---|
| Common stock outstanding | |
| Balance at March 31, 2009 | 3,115,061,100 |
| (No increase) | 0 |
| (No decrease) | 0 |
| Balance at March 31, 2010 | 3,115,061,100 |

| | Number of shares |
|---|---|
| Treasury stock outstanding | |
| Balance at March 31, 2009 | 112,599,413 |
| Increase due to purchase of odd-lot stock | 236,186 |
| Decrease due to sale of odd-lot stock | (193,810) |
| Increase (decrease) due to other reasons, net | 42,383 |
| Balance at March 31, 2010 | 112,684,172 |

## 15. Consolidated Statements of Cash Flows

The reconciliation of cash and cash equivalents in the cash flow statements and balance sheets as of March 31, 2010 and 2009 was as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Cash and time deposits in the balance sheets | ¥131,939 | ¥188,322 | $1,418,089 |
| Time deposits due over 3 months | (173) | (577) | (1,859) |
| Short-term investments with maturities within 3 months included in current assets and other | 79,933 | — | 859,125 |
| Cash and cash equivalents in cash flow statements | ¥211,699 | ¥187,745 | $2,275,355 |

## 16. Related Party Transactions

Net sales included sales to Shinsho Corporation, which is an affiliate of the Company, of ¥194,331 million ($2,088,682 thousand) and ¥249,659 million for the years ended March 31, 2010 and 2009, respectively.

## 17. Employees' Severance and Retirement Benefits

The liability for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2010 and 2009 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Projected benefit obligation | ¥(174,536) | ¥(186,295) | $(1,875,924) |
| Fair value of pension assets | 146,644 | 142,983 | 1,576,139 |
| Unrecognized net transition obligation | 452 | 543 | 4,858 |
| Unrecognized actuarial differences | 22,638 | 37,068 | 243,315 |
| Prepaid pension cost | (28,446) | (32,443) | (305,740) |
| Liability for severance and retirement benefits | ¥ (33,248) | ¥ (38,144) | $ (357,352) |

Included in the consolidated statements of operations for the years ended March 31, 2010 and 2009 were severance and retirement benefit expenses that comprised the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Service costs – benefits earned during the year | ¥ 6,564 | ¥7,268 | $ 70,550 |
| Interest cost on projected benefit obligation | 3,585 | 3,884 | 38,532 |
| Expected return on plan assets | (248) | (3,175) | (2,666) |
| Amortization of net transition obligation | 91 | 114 | 978 |
| Amortization of actuarial differences | 3,126 | 1,371 | 33,598 |
| Severance and retirement benefit expenses | ¥13,118 | ¥9,462 | $140,992 |

Notes: 1. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years.
2. The discount rate was mainly 2.0% for the years ended March 31, 2010 and 2009.
The rates of expected return on plan assets were mainly 0.1% and 2.9% for the years ended March 31, 2010 and 2009, respectively.

## 18. Segment Information

**(1) Industry Segment**

The Group's operations are divided into seven principal business segments:

Iron and Steel, Wholesale Power Supply, Aluminum and Copper, Machinery, Construction Machinery, Real Estate, and Electronic Materials and Other Businesses. Business segment information was as follows:

| | | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | | 2010 | 2009 | 2010 |
| Sales to outside customers: | Iron and Steel | ¥ 700,983 | ¥ 996,285 | $ 7,534,211 |
| | Wholesale Power Supply | 81,590 | 80,709 | 876,935 |
| | Aluminum and Copper | 260,728 | 378,049 | 2,802,322 |
| | Machinery | 302,190 | 325,593 | 3,247,958 |
| | Construction Machinery | 259,962 | 332,818 | 2,794,089 |
| | Real Estate | 38,802 | 28,808 | 417,046 |
| | Electronic Materials and Other Businesses | 26,767 | 35,028 | 287,693 |
| | Consolidated net sales | 1,671,022 | 2,177,290 | 17,960,254 |
| Intersegment sales: | Iron and Steel | 17,076 | 26,121 | 183,534 |
| | Wholesale Power Supply | — | — | — |
| | Aluminum and Copper | 1,034 | 1,262 | 11,113 |
| | Machinery | 3,315 | 5,410 | 35,630 |
| | Construction Machinery | 73 | 207 | 784 |
| | Real Estate | 7,440 | 8,323 | 79,966 |
| | Electronic Materials and Other Businesses | 16,859 | 20,090 | 181,202 |
| | | 45,797 | 61,413 | 492,229 |
| Total sales: | Iron and Steel | 718,059 | 1,022,407 | 7,717,745 |
| | Wholesale Power Supply | 81,590 | 80,709 | 876,935 |
| | Aluminum and Copper | 261,762 | 379,310 | 2,813,435 |
| | Machinery | 305,505 | 331,002 | 3,283,588 |
| | Construction Machinery | 260,035 | 333,026 | 2,794,873 |
| | Real Estate | 46,242 | 37,131 | 497,012 |
| | Electronic Materials and Other Businesses | 43,626 | 55,118 | 468,895 |
| | | ¥1,716,819 | ¥2,238,703 | $18,452,483 |

| | | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | | 2010 | 2009 | 2010 |
| Operating costs and expenses: | Iron and Steel | ¥ 742,391 | ¥ 944,671 | $ 7,979,267 |
| | Wholesale Power Supply | 61,273 | 63,414 | 658,566 |
| | Aluminum and Copper | 254,189 | 406,169 | 2,732,040 |
| | Machinery | 276,477 | 301,429 | 2,971,593 |
| | Construction Machinery | 252,091 | 321,757 | 2,709,491 |
| | Real Estate | 43,130 | 35,277 | 463,564 |
| | Electronic Materials and Other Businesses | 43,849 | 51,974 | 471,292 |
| | Eliminations | (48,394) | (64,335) | (520,142) |
| | Consolidated operating costs and expenses | 1,625,006 | 2,060,356 | 17,465,671 |
| Operating income: | Iron and Steel | (24,332) | 77,736 | (261,522) |
| | Wholesale Power Supply | 20,317 | 17,295 | 218,368 |
| | Aluminum and Copper | 7,574 | (26,859) | 81,406 |
| | Machinery | 29,028 | 29,573 | 311,995 |
| | Construction Machinery | 7,944 | 11,269 | 85,383 |
| | Real Estate | 3,112 | 1,854 | 33,448 |
| | Electronic Materials and Other Businesses | (224) | 3,143 | (2,408) |
| | Eliminations | 2,597 | 2,923 | 27,913 |
| | Consolidated operating income | 46,016 | 116,934 | 494,583 |
| Assets: | Iron and Steel | 910,099 | 954,042 | 9,781,804 |
| | Wholesale Power Supply | 138,175 | 149,606 | 1,485,114 |
| | Aluminum and Copper | 215,617 | 211,899 | 2,317,466 |
| | Machinery | 274,804 | 305,555 | 2,953,611 |
| | Construction Machinery | 260,674 | 245,992 | 2,801,741 |
| | Real Estate | 109,923 | 125,523 | 1,181,460 |
| | Electronic Materials and Other Businesses | 65,515 | 97,903 | 704,159 |
| | Corporate and Eliminations | 274,539 | 204,969 | 2,950,763 |
| | Total | 2,249,346 | 2,295,489 | 24,176,118 |
| Depreciation: | Iron and Steel | 72,075 | 72,177 | 774,667 |
| | Wholesale Power Supply | 11,195 | 13,934 | 120,324 |
| | Aluminum and Copper | 18,171 | 24,319 | 195,303 |
| | Machinery | 7,050 | 7,021 | 75,774 |
| | Construction Machinery | 5,443 | 5,729 | 58,502 |
| | Real Estate | 1,338 | 1,261 | 14,381 |
| | Electronic Materials and Other Businesses | 2,559 | 3,088 | 27,504 |
| | Corporate and Eliminations | 1,004 | 1,172 | 10,791 |
| | Total | 118,835 | 128,701 | 1,277,246 |
| Impairment of fixed assets: | Iron and Steel | 2,925 | 1,331 | 31,438 |
| | Wholesale Power Supply | — | — | — |
| | Aluminum and Copper | 569 | 9,762 | 6,116 |
| | Machinery | 18 | 132 | 194 |
| | Construction Machinery | 4 | 61 | 43 |
| | Real Estate | 43 | 132 | 462 |
| | Electronic Materials and Other Businesses | — | 1,418 | — |
| | Corporate and Eliminations | 18 | 3,013 | 193 |
| | Total | 3,577 | 15,849 | 38,446 |
| Capital expenditures: | Iron and Steel | 83,247 | 74,452 | 894,744 |
| | Wholesale Power Supply | 129 | 554 | 1,387 |
| | Aluminum and Copper | 8,679 | 12,954 | 93,283 |
| | Machinery | 9,152 | 11,151 | 98,366 |
| | Construction Machinery | 21,874 | 10,724 | 235,103 |
| | Real Estate | 2,968 | 4,296 | 31,900 |
| | Electronic Materials and Other Businesses | 1,082 | 2,231 | 11,629 |
| | Corporate and Eliminations | 1,608 | 1,682 | 17,283 |
| | Total | ¥ 128,739 | ¥ 118,044 | $ 1,383,695 |

Note: Corporate assets of ¥303,674 million ($3,263,908 thousand) and ¥256,680 million at March 31, 2010 and 2009, respectively, consisted principally of assets of administration departments of the Company.

(2) Geographic Area

| | | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | | 2010 | 2009 | 2010 |
| Sales to outside customers: | Japan | ¥1,443,633 | ¥1,910,900 | $15,516,262 |
| | Asia | 175,238 | — | 1,883,470 |
| | Other areas | 52,151 | 266,390 | 560,522 |
| | | 1,671,022 | 2,177,290 | 17,960,254 |
| Intersegment sales: | Japan | 104,801 | 116,452 | 1,126,408 |
| | Asia | 3,651 | — | 39,241 |
| | Other areas | 1,635 | 12,528 | 17,573 |
| | | 110,087 | 128,980 | 1,183,222 |
| Total sales: | Japan | 1,548,434 | 2,027,352 | 16,642,670 |
| | Asia | 178,889 | — | 1,922,711 |
| | Other areas | 53,786 | 278,918 | 578,095 |
| | | 1,781,109 | 2,306,270 | 19,143,476 |
| Operating costs and expenses: | Japan | 1,524,828 | 1,930,798 | 16,388,951 |
| | Asia | 159,317 | — | 1,712,350 |
| | Other areas | 50,097 | 260,073 | 538,446 |
| | Eliminations | (109,236) | (130,515) | (1,174,076) |
| | | 1,625,006 | 2,060,356 | 17,465,671 |
| Operating income: | Japan | 23,606 | 96,553 | 253,719 |
| | Asia | 19,572 | — | 210,361 |
| | Other areas | 3,689 | 18,846 | 39,650 |
| | Eliminations | (851) | 1,535 | (9,147) |
| | Consolidated operating income | 46,016 | 116,934 | 494,583 |
| Assets: | Japan | 1,740,697 | 1,844,194 | 18,709,125 |
| | Asia | 177,429 | — | 1,907,019 |
| | Other areas | 68,570 | 244,315 | 736,995 |
| | Corporate and Eliminations | 262,650 | 206,980 | 2,822,979 |
| | Total | ¥2,249,346 | ¥2,295,489 | $24,176,118 |

Notes: 1. As geographic areas, "Asia" consists principally of China, Singapore, Thailand and Malaysia and "Other areas" principally of North America. Sales in Asia were more than 10% of total sales in 2010. Therefore, Asia is divided from Other areas. In 2009, sales in Asia were ¥196,755 million, operating costs and expenses were ¥183,108 million, operating income was ¥13,647 million and assets were ¥140,421 million.
2. Corporate assets of ¥303,674 million ($3,263,908 thousand) and ¥256,680 million at March 31, 2010 and 2009, respectively, consisted principally of assets of administration departments of the Company.

(3) Overseas Sales

Overseas sales for the years ended March 31, 2010 and 2009 were as follows:

| | | Percentage of 2010 consolidated net sales | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|---|
| | | | 2010 | 2009 | 2010 |
| Overseas sales: | Asia | 24.1% | ¥402,955 | ¥441,532 | $4,330,987 |
| | Other areas | 9.3 | 155,890 | 267,988 | 1,675,516 |
| | Total | 33.4% | ¥558,845 | ¥709,520 | $6,006,503 |

Notes: 1. Overseas sales consisted of export sales of the Company and its domestic consolidated subsidiaries as well as sales of overseas consolidated subsidiaries, excluding sales to Japan.
2. As geographic areas, "Asia" consists principally of China, Singapore, Thailand and Malaysia and "Other areas" principally of North America and the Middle East.

## 19. Net Income per Share

The basis of calculating net income (loss) per share for the years ended March 31, 2010 and 2009 was as follows:

| | Millions of yen | Thousands of shares | Yen | U.S. dollars (Note 1) |
|---|---|---|---|---|
| | Net income (loss) | Weighted average number of shares | EPS | |
| **For the year ended March 31, 2010** | | | | |
| Net income available to common shareholders | ¥ 6,305 | 3,002,451 | ¥ 2.10 | $0.02 |
| For the year ended March 31, 2009 | | | | |
| Net income (loss) available to common shareholders | (31,438) | 3,002,473 | (10.47) | |

# Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Kobe Steel, Ltd. and consolidated subsidiaries (the "Group") as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kobe Steel, Ltd. and consolidated subsidiaries as of March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

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

As discussed in Note 1 to the consolidated financial statements, effective April 1, 2008, the Group has adopted "Accounting Standard for Measurement of Inventories."

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

Osaka, Japan
July 23, 2010