KOBELCO
KOBE STEEL GROUP


# New Value, New Growth

## Annual Report 2010

Year ended March 31, 2010

## Profile

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

Kobe Steel creates and markets "Only One" products—original products defying imitation and born of unique technical development prowess. At the same time, the Kobe Steel Group is committed to strengthening *monozukuri*, its manufacturing capabilities. Furthermore, it is accelerating global business development that more fully realizes the Group's comprehensive strengths that arise from the fusion of the Group's diverse knowledge and skill.

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

### THE KOBE STEEL GROUP'S CORPORATE PHILOSOPHY FOR GROUP UNITY

Our Corporate Philosophy

1. We provide reliable and advanced technologies, products and services that satisfy customers.
2. We support each employee in developing his or her abilities, while respecting mutual cooperation within the Kobe Steel Group.
3. Through continuous efforts for innovative change, we aim to enhance our corporate values.

KOBELCO
KOBE STEEL GROUP

### STRENGTHENING GROUP CAPABILITIES

The Kobe Steel Group is expanding the use of its KOBELCO brand. With each and every Group company working together to develop the brand value of KOBELCO, together we are building strong Group unity and gaining the trust of the communities that we serve.

# Contents



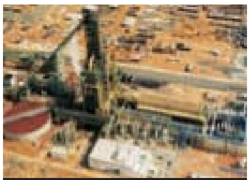




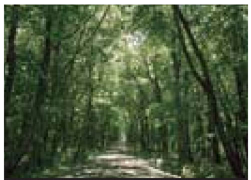
















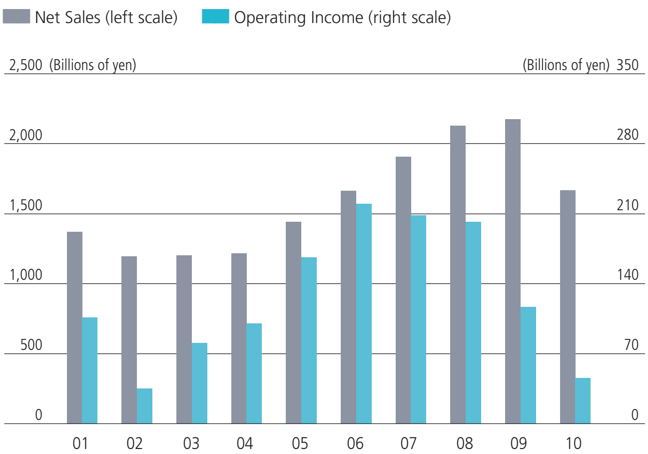
# Consolidated Financial Highlights

Kobe Steel, Ltd. and Consolidated Subsidiaries

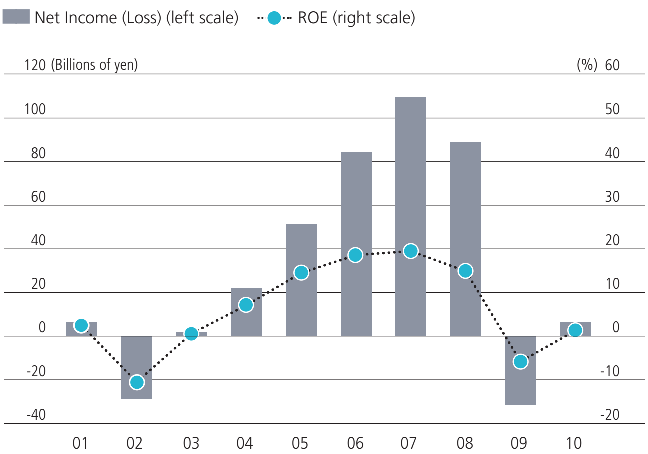
| Years ended March 31 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|
| **For the year:** | | | | |
| Net sales | **¥1,671,022** | ¥2,177,290 | ¥2,132,406 | ¥1,910,296 |
| Operating income | **46,016** | 116,934 | 202,399 | 208,624 |
| Income (loss) before income taxes | **14,101** | 27,802 | 153,366 | 175,375 |
| Net income (loss) | **6,305** | (31,438) | 88,923 | 109,669 |
| Capital investment | **128,739** | 118,044 | 150,585 | 133,649 |
| Depreciation and amortization | **118,835** | 128,701 | 111,514 | 86,687 |
| Research and development expenses | **28,255** | 31,029 | 30,139 | 24,893 |
| **At year end:** | | | | |
| Total assets | **2,249,346** | 2,295,489 | 2,329,006 | 2,241,570 |
| Net assets (Note 3) | **557,002** | 513,461 | 647,797 | 636,432 |
| Outside debt (Note 4) | **837,770** | 855,972 | 713,352 | 621,227 |
| Outside debt including IPP project financing | **925,120** | 954,791 | 823,404 | 742,276 |
| **Per share data:** | | | | |
| Net income (loss) | **¥ 2.10** | ¥(10.47) | ¥ 29.63 | ¥ 35.37 |
| Net assets | **172.09** | 159.58 | 199.81 | 194.46 |
| Cash dividends | **1.50** | 3.50 | 7.00 | 7.00 |
| **Ratios:** | | | | |
| ROA (%) (Note 5) | **0.3** | (1.4) | 3.8 | 4.9 |
| ROE (%) | **1.3** | (5.8) | 14.9 | 19.6 |
| Debt/equity ratio (Times) (Note 6) | **1.6** | 1.7 | 1.3 | 1.2 |

Notes 1. For convenience only, U.S. dollar amounts in this report have been translated from Japanese yen at the rate of ¥93.04 to US$1.00, the rate of exchange prevailing on March 31, 2010.
2. Financial figures throughout this report are rounded to the nearest whole identified unit.
3. 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).

## Net Sales and Operating Income




## Net Income (Loss) and ROE



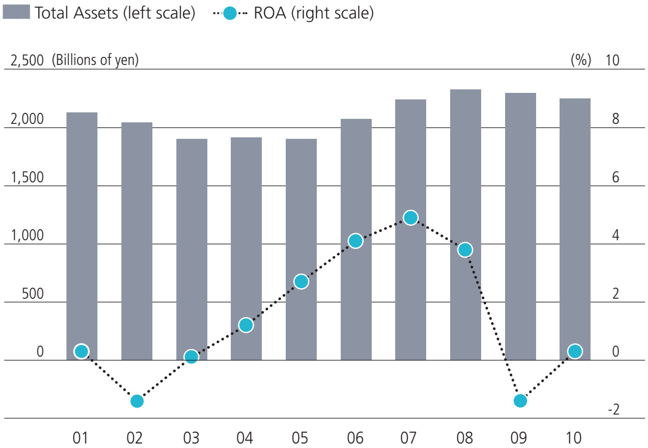
| Millions of yen | | | | | | Percent change | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|---|---|---|
| 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2010/2009 | **2010** |
| | | | | | | | |
| ¥1,667,313 | ¥1,443,772 | ¥1,219,180 | ¥1,204,750 | ¥1,198,014 | ¥1,373,091 | (23.3)% | **$17,960,254** |
| 220,395 | 166,577 | 100,699 | 81,054 | 35,499 | 106,404 | (60.6) | **494,583** |
| 152,693 | 94,687 | 35,734 | 16,004 | (31,428) | (5,334) | (49.3) | **151,558** |
| 84,559 | 51,289 | 22,066 | 1,723 | (28,519) | 6,504 | — | **67,767** |
| 92,319 | 66,016 | 104,911 | 43,971 | 132,420 | 86,857 | 9.1 | **1,383,695** |
| 79,507 | 80,290 | 79,245 | 85,090 | 86,915 | 106,990 | (7.7) | **1,277,246** |
| 24,121 | 19,700 | 16,929 | 17,797 | 22,054 | 22,683 | (8.9) | **303,687** |
| | | | | | | | |
| 2,074,242 | 1,901,202 | 1,916,338 | 1,902,642 | 2,045,303 | 2,131,123 | (2.0) | **24,176,118** |
| 530,000 | 379,213 | 330,127 | 293,138 | 280,685 | 263,362 | 8.5 | **5,986,694** |
| 589,101 | 669,241 | 797,041 | 895,883 | 1,081,897 | 1,195,491 | (2.1) | **9,004,407** |
| 720,909 | 811,572 | 931,891 | 966,383 | 1,152,397 | 1,195,491 | (3.1) | **9,943,250** |

| Yen | | | | | | Percent change | U.S. dollars (Note 1) |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| ¥ 27.94 | ¥ 17.28 | ¥ 7.44 | ¥ 0.59 | ¥(10.07) | ¥ 2.30 | —% | **$0.02** |
| 170.65 | 127.80 | 111.24 | 98.96 | 97.97 | 93.07 | 7.8 | **1.85** |
| 6.00 | 3.00 | 1.50 | — | — | — | (57.1) | **0.02** |

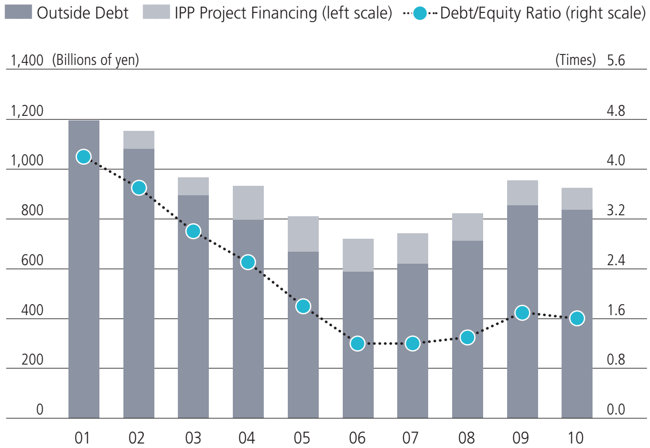
| | | | | | | Percentage point change |
|---|---|---|---|---|---|---|
| | | | | | | |
| 4.1 | 2.7 | 1.2 | 0.1 | (1.4) | 0.3 | 1.7 |
| 18.6 | 14.5 | 7.1 | 0.6 | (10.5) | 2.4 | 7.1 |
| 1.2 | 1.8 | 2.5 | 3.0 | 3.7 | 4.2 | (0.1) |

4. Outside debt is comprised of short-term borrowings (including bank loans and commercial paper), the current portion of long-term debt and long-term debt (including loans and bonds), and trade notes discounted.
5. ROA = Net income (loss) after taxes/total assets
6. Debt/Equity Ratio = Outside debt/stockholders' equity

Total Assets and ROA




Outside Debt and Debt/Equity Ratio



# Kobe Steel Unveils Medium- to Long-Term Business Vision, KOBELCO VISION "G"

## Creating New Value, Aiming for Global Growth with the Group's Combined Strengths


Hiroshi Sato, *President, CEO and Representative Director*

### Fiscal 2009 Overview

In fiscal 2009, ended March 31, 2010, the Kobe Steel Group applied its energies to making the preparations necessary to overcome post-Lehman Shock difficulties. To this end, we put on hold the formulation of the originally scheduled medium-term business plan as we moved forward with business operations, placing emphasis on improvements to short-term earnings. As a result, although initial projections had called for a substantial consolidated ordinary loss of ¥30.0 billion, we were able to finish the fiscal year with ordinary income* of ¥10.3 billion. We also secured ¥6.3 billion in net income, an improvement from the net loss of ¥31.4 billion in fiscal 2008.

### Main Points of the Medium- to Long-Term Business Vision

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

Over this time frame, projections call for a structure in which Japan experiences an overall decline in demand against the backdrop of a falling birthrate and an aging population, as well as a shift by the manufacturing industry to overseas locations. On the other hand, overseas demand is expected to grow, primarily in emerging markets. Moreover, it is believed that such factors as the deepening global problem of greenhouse gas emissions will spur rapid change to a demand structure geared toward a low-carbon society and will impose operational constraints on manufacturers in Japan, as well as growth in nuclear power generation and the increasing spread of hybrid and electric vehicles. Based on this awareness of the business environment, we had the following image of the Group in mind when we formulated this Vision.

> By integrating its knowledge and technologies that cover diverse business areas for materials such as iron and steel, welding and aluminum and copper, as well as for machinery that includes industrial machinery, ironmaking processes, engineering and construction machinery, Kobe Steel aims to be a corporate group that:
> - Has a presence in the global market
> - Maintains a stable profit structure and a strong financial foundation
> - Prospers together with its shareholders, business partners, employees and society

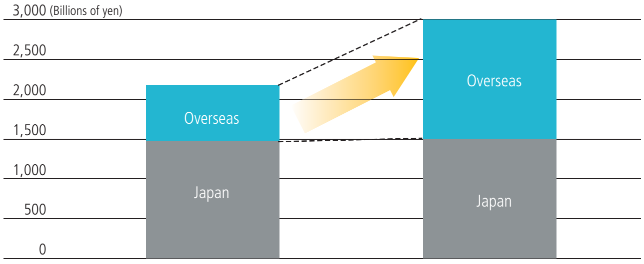
To realize this image of the Group, Kobe Steel adheres to the following basic policies, while creating new value and aiming for global growth.

> **Basic Policy of the Medium- to Long-Term Business Vision**
> 1. Thorough pursuit of high-end "Only One" products, technologies and services
> 2. Further improve manufacturing strengths
> 3. Growth and business expansion
> 4. Demonstrating the comprehensive capabilities of the Group
> 5. Make contributions to society

## Performance Image

Under this Vision, Kobe Steel looks ahead five to ten years to see performance levels at approximately ¥3 trillion for consolidated net sales and over ¥200 billion for ordinary income. Even in a deteriorating economy, I would like to see ordinary income at a minimum level of ¥100 billion. Moving forward, while honing our competitive capabilities in Japan, it is important to find opportunities for growth by gaining a foothold in growing overseas markets. I believe that these markets, where growth is anticipated, will become the main drivers of increased sales. Indeed, Kobe Steel envisages that its overseas ratio, at over 30% in fiscal 2008, will rise to approximately 50% of total sales. I would like to aim for a debt/equity ratio to once again reach 1.0 times.

Consolidated Net Sales (Image)

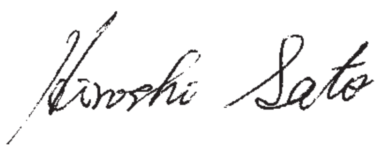



| | FY08 | 5–10 year expectation |
|---|---|---|
| Ordinary income* | ¥60.9 billion | More than ¥200.0 billion (More than ¥100.0 billion, even in a poor economy) |
| Debt/equity ratio | 1.65 times | Aiming for 1.0 times |

## In Conclusion

Kobe Steel, established in 1905, turns 105 years old this year. To come this far we have moved with the times and weathered many storms. While we may be a completely different company a century from now, I hope that the Group will persist with its corporate philosophy, composed of trust, Group harmony and innovative change, while steadily maintaining growth. Making full use of the diversity and originality of our businesses, I anticipate that Kobe Steel will develop capabilities unmatched by other companies and grow in a way that meets all of your expectations. To this end, I would like to ask for your continued support.

July 2010




Hiroshi Sato
President, CEO and Representative Director

* Although not shown on U.S. GAAP consolidated financial statements or in International Financial Reporting Standards, ordinary income is commonly used in Japan as an indication of profits on statements of operations.

# The Kobe Steel Group's Medium- to Long-Term Business Vision: KOBELCO VISION "G"

## Creating New Value, Aiming for Global Growth

### Basic Policy of the Medium- to Long-Term Business Vision

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

(1) As its starting off point Kobe Steel's Only One strategy raises the bar in terms of the technologies and products cultivated in each business. The strategy adapts to the changing times through the integration of the Group's diverse knowledge and technologies, pursuing the development of new Only One products that only the Kobe Steel Group can offer.

(2) Kobe Steel aims to improve customer satisfaction by providing better after-sales services, identify and meet customers' changing needs, and provide better products and technologies.

(3) Keeping in step with the needs of customers and society, Kobe Steel will actively pursue business development, not only with existing businesses, but also going further to downstream and upstream domains, such as with new-generation ironmaking, aiming to dramatically raise the level of added value.

### 2. Further improve manufacturing strengths

(1) The Kobe Steel Group's corporate philosophy states "we provide reliable and advanced technologies, products and services that satisfy customers." To achieve this, Kobe Steel's efforts need to go beyond just the factory floor. What is required is the comprehensive approach known as *monozukuri*—a total range of activities extending from sales and marketing to design and development and from procurement to manufacturing and production.

(2) Kobe Steel's growth engine is *monozukuri-ryoku*, the ability to consistently provide reliable technologies, products and services. To strengthen Groupwide *monozukuri-ryoku* efforts, the source of the Group's competitive strength, Kobe Steel established the MONODZUKURI (Production System Innovation) Planning and Promotion Department, a new organization at headquarters in April 2010. This department will support *monozukuri*-related efforts across the Group, together with sharing information on results and guidance on a Group basis, as well as identifying medium- and long-term issues to be addressed. In addition to this, Kobe Steel aims for an enhanced and innovative *monozukuri-ryoku* through the cross-functional development of the Group and strengthened functions that are the source of synergies by making proposals and promoting diverse initiatives.

### 3. Growth and business expansion

Taking a view of growth markets from the dual perspectives of growth regions and growth fields, the following efforts are being made.

(1) While growth regions are primarily considered to be emerging markets, Kobe Steel pursues regions of expanding growth and conducts development that suits respective characteristics.

(2) With its Only One technologies and services, Kobe Steel will accelerate its efforts in growth fields, both in Japan and overseas, such as the environment, resources and energy.

### 4. Demonstrating the comprehensive capabilities of the Group

(1) Within each business in the Kobe Steel Group exists the vigor of know-how and technologies cultivated in the Group's other businesses. Positioned as a major theme of the Medium- to Long-Term Business Vision is the demonstration of overall Group capabilities that arise from the fusion of the Group's diverse knowledge and skill. Kobe Steel will spread "barrier-free thinking" within the Group by promoting cross-functional activities, and will pursue new Only One product generation, integrating the Group's technologies, human resources, information and knowledge.

(2) As one concrete measure to promote barrier-free thinking within the Group, Kobe Steel abolished the internal company system and introduced a business unit system from April 2010. In 1999, Kobe Steel adopted an internal company system where each of its businesses pursued maximum profits in their respective domains, which, as a result, was tied to the expansion of profits for the entire Group. Moving forward, starting with the maximization of profits in each individual business unit, Kobe Steel will also pursue expanded earnings through the demonstration of overall Group capabilities. For this reason Kobe Steel will to the extent possible lower barriers between business units, and headquarters will act as a "Group headquarters" that supports the entire Group. Specifically, it will perform functions that support the sharing of information and the training and mobility of human resources in the Group. In this way Kobe Steel aims for a structure that considers overall Group earnings a priority.

(3) Amid a volatile business environment, Kobe Steel will methodically give its employees opportunities to develop their skills so that they can strengthen and transform the Group's business foundation and respond to the needs of global business development.

### 5. Make contributions to society

Together with creating a corporate culture across the entire Group that continues to be highly sensitive to issues of compliance, Kobe Steel will fulfill its corporate social responsibility, primarily contributing efforts toward local communities, environmental protection and the problem of global warming.

Note: Global strategies are presented for each new segment classification applied from fiscal 2010. Please refer to page 10 for details of the business segment classification changes.

## Global Strategies for Individual Business Units

### Iron and Steel Business

Only One offerings in the Iron and Steel Business are represented by high-strength steel sheet and specialty steel. High-strength steel sheet is known not only for its strength but also has received much praise from customers for its high formability.

Our ideal global strategy for high-strength steel sheet is first to obtain base sheet from our partners in the United States, where future needs for environmentally friendly vehicles are anticipated to steadily rise, as well as China, India and other emerging markets. We will then use our technologies to process the material into high-grade steel. For specialty steel, more than just the quality of the base material, we are proud of Kobe Steel's total system—including handling during the shipping phase and the care taken to avoid corrosion and scratches—and the recognition we receive for our Only One value.

As the lot sizes for specialty steel are not particularly large, the underlying process of sequential overseas development will become the norm, namely producing the base material in Japan and conducting secondary processing in countries where the actual demand lies. However, in the event that Japan's production capacity becomes insufficient, we must think about steelmaking and rolling at these locations as well. When that happens, we will also consider using our new ironmaking technology, the ITmk3® Process, in the upstream phase.

### Welding Business

Starting in Japan, Kobe Steel's Welding Business has now secured a No. 1 position in Asia. In the domestic market, it is difficult to predict any significant growth over the medium to long term, and with the center of gravity for future growth making a major shift out of Japan to overseas locations, we will need to succeed in world markets. To do this, the Welding Business will combine every element of its accumulated welding-related technologies—including welding consumables, welding robot systems, equipment and process methods—to realize welding solutions that lead to providing customers with answers and proposals. Quick off the mark in establishing an overseas presence, 40 years have already passed since the Welding Business entered the ASEAN market. Furthermore, business is being developed across the world through its 11 manufacturing and sales bases and technology license holders, including two manufacturing and sales bases in China. The Welding Business will review development in markets where it has yet to establish a presence—such as India, where expansion in demand is expected—as it works toward becoming the world's top comprehensive welding company.

### Aluminum and Copper Business

The focus of Kobe Steel's Aluminum and Copper Business has been the automobile and IT fields, and this fundamental strategy will continue. If more hybrid cars and electric vehicles are produced, there will certainly be a greater need to make vehicles lighter. Moreover, with the attention given to China for its huge growth potential, Kobe Steel will respond to this demand with exports that take advantage of the technology and equipment of the Moka Plant, a domestic manufacturing base for aluminum panel materials. On the other hand, production of forgings for automobile suspensions is already firmly established in the United States, and in April 2010 we announced that a manufacturing base would be set up in China.

### Machinery Business

With an overseas sales ratio already at approximately 60%, the Machinery Business has made great strides in its global development. The energy and chemical fields have traditionally shown significant growth, and looking ahead there is also increasing interest in the environmental field. Demand for energy can be expected to rise further, not only in emerging markets but also in the Americas where energy demand is expected to climb in parallel with population growth. To support these markets the basic strategy will be to supply products mainly from the Takasago Works, our manufacturing base in Japan. We will also consider increasing local production as the situation warrants.

In addition to increasing the production capability of large-capacity compressors in the United States, which was decided upon in 2009, we would like to move forward on considering production bases in China and Europe. Furthermore, for industrial machinery, we are considering new expansion plans in growth markets such as China and India.

### Natural Resources and Engineering Business

Overseas development in this business is centered on the existing MIDREX® Direct Reduction Process and the ITmk3® ironmaking process. More than simply an ironmaking process, ITmk3® is groundbreaking in that it effectively utilizes untapped natural resources. This process holds great potential as it enables the production of iron nuggets with the same purity level as pig iron but utilizes hard-to-use, low-grade iron ore and steaming coal as the reductant. In addition, as steel production increases worldwide, the MIDREX® Process also holds enormous potential, depending on location. Demand for direct reduced iron is anticipated to double, going from the just under 70 million tons in 2008 to approximately 140 million tons in 2020. With a view to effectively utilizing natural resources, without doubt there is a great need for Kobe Steel's iron unit processes. We would like to see greater growth in the iron unit business, leveraging not only our machinery and engineering businesses, but also using the technology and know-how cultivated in our Iron and Steel Business.

### Kobelco Eco-Solutions

Kobelco Eco-Solutions is now establishing offices in Vietnam and Europe and has commenced deliberations on future business development.

### Kobelco Construction Machinery

Globalization at Kobelco Construction Machinery is advancing, as demonstrated by its sale of approximately 7,700 excavators in China, out of about 11,000 excavator units sold in total in fiscal 2009. Kobelco Construction Machinery's production capacity in China stood at 12,000 units with the launch of the new plant in Chengdu at the end of 2009. However, to meet rising demand we are working to expand capacity, to 14,400 units. For fiscal 2010, we are planning to set production capacity at the manufacturing base in Thailand at over 2,000 units. In addition, in February 2010, Kobelco held a ceremony to mark the start of construction of a manufacturing base in India, with production scheduled to commence in January 2011. We would like to expand flexibly, while closely monitoring market trends with regard to units produced in each region.

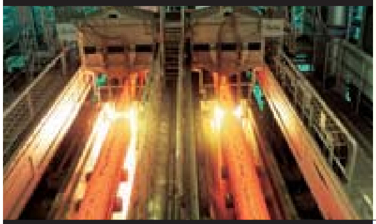
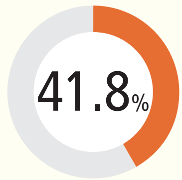
### Kobelco Cranes

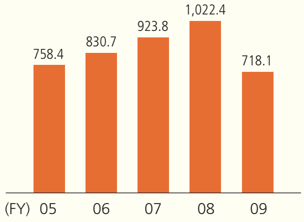
Currently, all units sold by Kobelco Cranes are produced at our plant in Japan. However, globalization is progressing, with 70% to 80% of the mainstay crawler cranes being exported. In the medium to long term, we believe that domestic production capacity will be insufficient to satisfy increasing demand. Given this, in July 2010, we announced that we would commence construction of a plant in India, while we would also like to consider production in China.

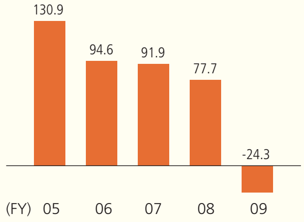
## Review of Operations

Composition of Net Sales | Net Sales (Billions of yen) | Operating Income (Loss) (Billions of yen)

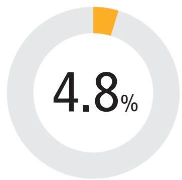
### IRON AND STEEL

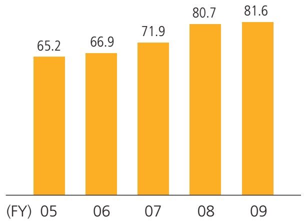



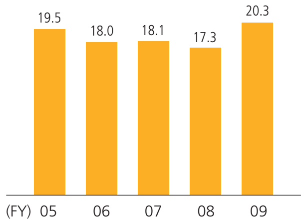




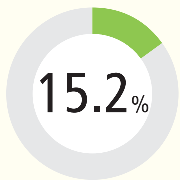

### WHOLESALE POWER SUPPLY

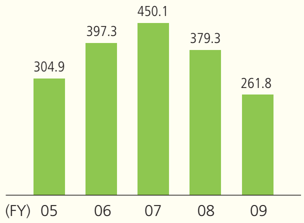



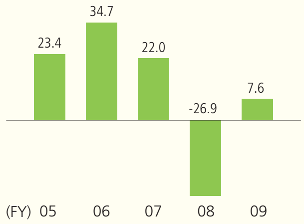




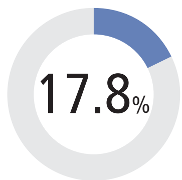

### ALUMINUM AND COPPER

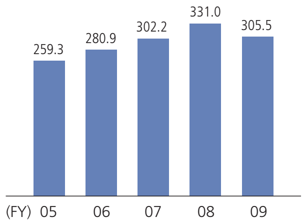



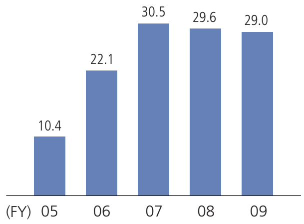




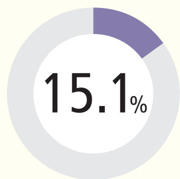

### MACHINERY

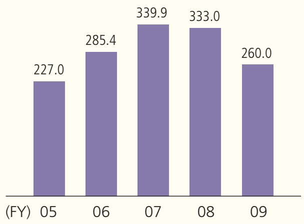



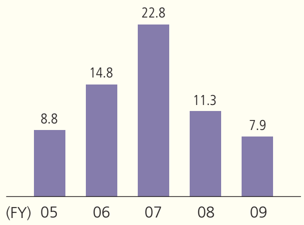




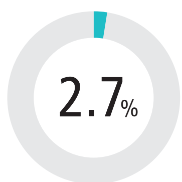

### CONSTRUCTION MACHINERY

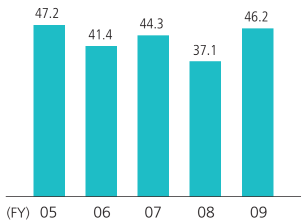



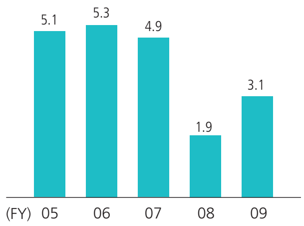




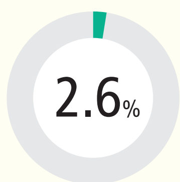

### REAL ESTATE

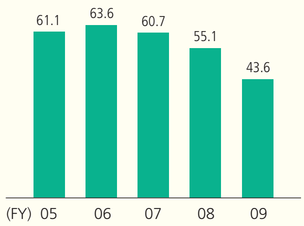



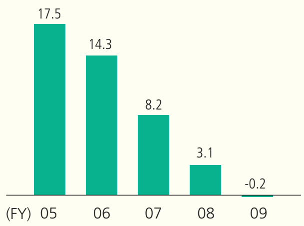





### ELECTRONIC MATERIALS AND OTHER BUSINESSES






Notes: 1. The composition of segment sales and net sales include intersegment sales.

## Business Environment and Performance in Fiscal 2009

Demand for steel products began picking up from the second half of fiscal 2009 owing to recovery in the automobile and electronics industries, while demand increased from overseas, particularly China. Nonetheless, compared with fiscal 2008, demand was mired at a persistently low level with steel shipment volume falling below that of the previous fiscal year, when it had reached a high level, particularly in the first half. 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 fiscal 2008 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.

As a result, overall sales in the Iron and Steel segment declined 29.8% year on year to ¥718.1 billion, while operating income fell ¥102.1 billion for a loss of ¥24.3 billion.

The two power plants at the Shinko Kobe Power Station currently have a combined maximum power generation capacity of 1.4 million kilowatts. Fiscal 2009 net sales in this segment were ¥81.6 billion, on par with the previous fiscal year. As a result of such factors as declining depreciation costs, operating income rose ¥3.0 billion year on year, to ¥20.3 billion.

In aluminum rolled products, shipments of aluminum stock for beverage cans declined from the third quarter onward as a result of such factors as the impact of cool summer temperatures. Demand did bounce back, however, in the automotive, LCD and semiconductor segments. These developments notwithstanding, overall shipments of aluminum rolled products fell below those of the previous fiscal year, when it had reached a high level, especially in the first half. Net sales for aluminum castings and forgings declined year on year, despite visible signs of recovery in demand.

With regard to copper rolled products, shipments of copper sheet and strip increased compared with fiscal 2008, while shipments of copper tube decreased.

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% compared with fiscal 2008, to ¥261.8 billion. However, owing to lower depreciation costs and cost cutting, operating income improved ¥34.4 billion from the loss of the previous year, to ¥7.6 billion.

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

Under these conditions, domestic orders in fiscal 2009 increased 1.6% compared with fiscal 2008, to ¥130.4 billion, while year-on-year 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 fiscal 2008 when an order for a large-scale pellet plant caused a spike in revenue. Operating income decreased ¥0.5 billion compared with fiscal 2008, to ¥29.0 billion.

Unit sales of hydraulic excavators in China increased considerably year on year, particularly from February 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 compared with fiscal 2008 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. Operating income decreased ¥3.3 billion compared with fiscal 2008, to ¥7.9 billion.

Segment sales increased 24.5% compared with fiscal 2008, to ¥46.2 billion, owing to the steady closing of condominium sales. Operating income increased ¥1.3 billion compared with fiscal 2008, to ¥3.1 billion.

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% compared with fiscal 2008, to ¥43.6 billion. Operating income declined ¥3.4 billion for an operating loss of ¥0.2 billion.

2. From fiscal 2010, the Kobe Steel Group has changed its business segment classifications. The above Review of Operations states business performance for business segments up to and including fiscal 2009.

## Business Segment Classification Changes

From fiscal 2010, in line with the application of the *Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related information* (ASBJ Statement No. 17, dated March 27, 2009), Kobe Steel has changed its consolidated business segments from classifications based on product similarities and other items to those based on a "management approach."* The principal changes made were as follows.

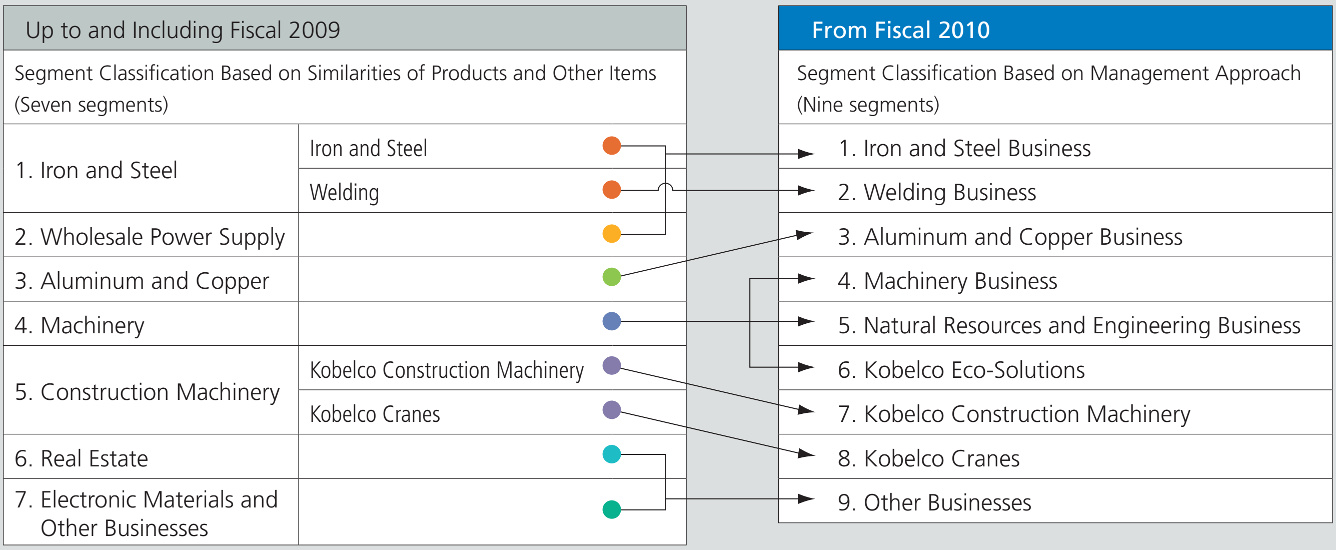
The first change involved the formation of a new Iron and Steel Business unit. Created by combining the Wholesale Power Supply segment with Iron and Steel, this segment now excludes Welding, which became a single autonomous unit.

The next change affected the Machinery segment, which was divided into three separate units: the Machinery Business, with a primary focus on industrial machinery; Natural Resources and Engineering Business, with its focus on ironmaking plants and nuclear power plants; and Kobelco Eco-Solutions.

Furthermore, the Construction Machinery segment was split into two units, namely, Kobelco Construction Machinery and Kobelco Cranes, while Real Estate and Electronic Materials and Other Businesses were combined into an "Other Businesses" unit.

Previously, Kobe Steel disclosed operating income (loss) by segment. From fiscal 2010, however, this will change to disclosure as ordinary income (loss) by segment in conformity with internal management.

*Classifications that conduct internal results management or decision making are now required to disclose results.



# Iron and Steel Business

Consisting of steel products, steel castings and forgings, titanium, steel powder and wholesale power supply business divisions, the Iron and Steel Business thoroughly maintains and strengthens *monozukuri*, or manufacturing capabilities, which focus on improvements in productivity and cost competitiveness. In tandem with this, the business promotes the global development of "Only One" products and technologies as well as a shift to areas of growing demand. In addition, Shinko Kobe Power Inc. works to maintain a stable wholesale power supply structure with a maximum power generation capacity of 1.4 million kilowatts.

### Main Products and Services

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

## Outlook for Fiscal 2010 and Key Initiatives

Compared with the previous fiscal year, the demand environment in fiscal 2010 is expected to be favorable, thanks to a recovery in demand in the manufacturing sector, chiefly for automobiles and electronics, and increased overseas demand for high-grade steel, predominantly from China. On the other hand, uncertainties remain in the environment surrounding the Iron and Steel Business. Kobe Steel faces tight supplies of and soaring prices for raw materials, against the backdrop of burgeoning demand for steel in such growth markets as China and India, and increasing steel supply capacity following the startup of new steelworks throughout Asia.

Based on these circumstances, Kobe Steel will make all-out efforts to improve profitability. These efforts will include ensuring maximum volume by expanding sales centered on Only One products and thoroughly reducing costs by expanding the use of more cost-effective raw materials. In addition, for the portion of the raw material costs that the Company is unable to absorb, Kobe Steel will ask customers to accept higher steel prices in its endeavor to maintain profits.

## Medium- to Long-Term Business Vision and Key Policies

Envisaging changes in demand structure and intensifying competition over the medium to long term, Kobe Steel is making steady efforts in global growth markets and meeting demand. The Company aims to expand profits in two ways: by promoting the creation of new products that fully utilize the Company's Only One products and technologies, and by cultivating new areas of demand.

For steel products, to steadily tap into expanding demand in the high-end fields in which Kobe Steel excels, such as high-strength steel sheet and specialty steel, existing production plants will be expanded and reviews will be conducted with a view to establishing more overseas business bases to serve newly emerging countries and growth regions, including China and India.

In addition to maintaining the world's No. 1 position for built-up crankshafts for ships, efforts involving steel castings and forgings will be redoubled in such growth demand fields as energy, and plans will be put in place to maintain and expand revenue and earnings.

Expanding its aircraft business and increasing its cost competitiveness efforts, the Titanium Division will establish an unshakeable position as the No. 1 integrated titanium manufacturer in Japan.

In addition to these activities, Kobe Steel will work to strengthen its *monozukuri*, or manufacturing capabilities and thoroughly pursue improved productivity and enhanced competitiveness. Furthermore, the Company will move forward on acquiring interests in raw materials and diversify its sources of procurement, making headway on measures geared toward the stable, long-term acquisition of raw materials.

Shinko Kobe Power Inc.


High-strength steel sheet for auto seat

## Topics

### Broader Technical Alliance with Major Austrian Steelmaker

Kobe Steel has broadened its technical alliance with voestalpine Stahl GmbH, an Austrian blast-furnace steelmaker with which it already maintains a technical alliance in the field of automotive steel sheet. Kobe Steel has now provided voestalpine with the technology to produce fingerprint-resistant electrogalvanized steel sheet. This will enable voestalpine to produce steel sheet that is fingerprint and scratch resistant, while demonstrating excellent corrosion resistance and conductivity. As production of at-screen televisions gathers momentum in Poland, the Czech Republic and other Central European countries, a network for supplying steel sheet for home appliance products through voestalpine Stahl will be established.

### Circular Steel Pipe Used Atop Tokyo Sky Tree

Japan's strongest circular steel pipe for construction use, which was jointly developed by Kobe Steel and Sasaki Pipe & Tube Co., Ltd., is being used for the tallest structure in Japan, the Tokyo Sky Tree, which is currently under construction. The circular steel pipe is being used in the gain tower on the uppermost part of Sky Tree, upon which mainly broadcast antennas will be placed. Being highly earthquake resistant, the pipe has such features as a low yield ratio, weld crack prevention, and high toughness in the weld heat affected zone. Sales will be expanded to encompass general construction applications.


Circular steel pipes of the type delivered to the Tokyo Sky Tree


Crankshaft for a ship

# Welding Business

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

### Main Products and Services

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

## Outlook for Fiscal 2010 and Key Initiatives

Over the short term, both welding consumables and welding systems are expected to witness sluggish demand in Japan, the United States and Europe. On the other hand, demand in China and ASEAN countries is projected to grow. From the perspective of raw materials procurement with resources entering an inflationary phase, Kobe Steel anticipates that rising costs will be unavoidable.

In such a business environment, Kobe Steel in Japan will make all-out sales efforts that promote technological excellence and will strive to obtain orders for new projects. In so doing, the Company seeks to secure maximum sales volume. Overseas, Kobe Steel will work to expand sales by leveraging the functions of new locations in China and to solidify an overwhelming No. 1 position in the ASEAN region. Moreover, efforts to curb cost increases and pass on higher costs through higher sales prices will work to achieve firm profitability.

## Medium- to Long-Term Business Vision and Key Policies

Maintaining its No. 1 position in Asia, the Welding Business is moving forward with the aim of becoming a top global manufacturer. To achieve this goal, Kobe Steel will implement initiatives under a basic policy that encompasses dynamic growth in overseas markets, shifting to a production structure synchronized with demand, and acquiring overwhelming technology proposal capabilities. In particular, as overseas markets are the lynchpin of business growth, Kobe Steel will: 1) further fortify overseas locations; 2) enhance its presence in China and ASEAN countries through industry-specific sales and technical proposal capabilities; and 3) aggressively pursue development in untapped markets, primarily in emerging countries.

Welding consumables

## Topics

### KWSH Established in China to Market Welding Consumables and Welding Robot Systems

In February 2010, Kobe Steel established Kobe Welding of Shanghai Co., Ltd. (KWSH) in Shanghai, China. Having commenced business operations in April 2010, the new company markets welding systems and parts, in addition to offering maintenance services. In tandem with expanding orders, primarily for high-value-added welding consumables to meet demand in China's robust energy field, KWSH will also bolster its local capabilities in welding robot systems, building a structure that provides maintenance and parts in response to burgeoning demand in the construction machinery sector.

Efforts made to develop local staff will lead to enhanced competitiveness.

### China-Based Welding Materials Manufacturer and Marketing Company KWQ Commences Sales

Established in Qingdao, China, in February 2008 to manufacture and market ux-cored welding wire, Kobe Welding of Qingdao Co., Ltd. (KWQ) initiated sales operations in March 2010 and held an opening ceremony to celebrate this event on April 16. Large-scale shipbuilding facilities in China are constantly being constructed and upgraded, and highly efficient welding consumables for the shipbuilding industry are expected to be in brisk demand. Taking advantage of ideal access to the coastal areas where shipbuilding facilities are situated, KWQ will strive to expand production and sales volume.


Including guests, a total of 100 participants attended the ceremony to celebrate the new opening.

# Aluminum and Copper Business

**Main Products and Services**

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

Aluminum vacuum chamber for semiconductor and LCD production equipment

The Aluminum and Copper Business is working to strengthen and expand its distinctive "Only One" products, positioning as key fields the automotive and IT industries. As Japan's top-class maker of aluminum and copper products, Kobe Steel is reinforcing its overseas development based on its long-cultivated technologies and reliability.

## Outlook for Fiscal 2010 and Key Initiatives

The business environment in fiscal 2010 is expected to experience strong demand for aluminum stock for beverage cans. Likewise, demand for aluminum rolled products, copper rolled products and aluminum castings and forgings is envisaged to surpass that of fiscal 2009, primarily in the automotive, LCD, and semiconductor manufacturing equipment fields.

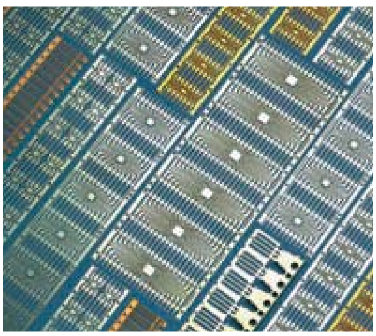
Under these conditions, Kobe Steel has combined the CCI50 (Cost & Cash Innovation 50) program initiated in fiscal 2009 to improve profitability and cash flow together with global development and the strengthening of Only One products. This combination, known as "CCI&GO" activities, represents the Company's aim to build a rock-solid revenue base.

## Medium- to Long-Term Business Vision and Key Policies

Kobe Steel intends to work through the CCI&GO activities that commenced in fiscal 2010 to expand its overseas business—including the establishment of new locations and leveraging alliances—and to fortify and expand Only One products.

One example of overseas business expansion was the decision to produce and market aluminum forgings for automobile suspensions in China. This development builds a three-point production structure with bases in Japan, the United States and China. It will help Kobe Steel address the needs of China's automobile industry and its soaring growth.

Only One products until now have been predominantly geared toward the automobile and IT industries. Moving forward, Kobe Steel aims to continue to expand sales and raise profitability through such Only One products as aluminum sheet for automobiles, aluminum forgings for automobile suspensions, disk material for HDDs, and copper sheet and strip for semiconductor use.



Leadframes for electronic applications

Aluminum forgings for automobile suspensions

Automotive bumper material

## Topics

### Aluminum Forgings Business Arrives in China

Kobe Steel has recently concluded an agreement with Mitsui & Co., Ltd. and Toyota Tsusho Corporation to establish a China-based joint-venture company that will produce and market aluminum forgings for automobile suspensions. The joint venture was established in Suzhou, Jiangsu Province, and plans are to commence operations in August 2012.

The three companies previously established Kobe Aluminum Automotive Products, LLC (KAAP) in the U.S. state of Kentucky. Since 2005, KAAP has been meeting the demand needs of automobile makers in North America. Anticipating growing demand in China, Kobe Steel came to the conclusion that a production base within that country was essential.


Kobe Steel decided to establish the new company in Suzhou New District, Suzhou, Jiangsu Province to address anticipated growth in the Chinese market.

# Machinery Business

**Main Products and Services**

- Equipment for energy and chemical fields
- Equipment for nuclear power plants
- Tire and rubber machinery
- Plastics processing machinery
- Ultrahigh pressure equipment
- Physical vapor deposition systems
- Metalworking machinery
- Compressors
- Refrigeration compressors
- Heat pumps
- Spent fuel casks

The Machinery Business offers a broad product range, including industrial machinery, compressors, and equipment for the energy and nuclear power fields. Kobe Steel is actively working to meet global demand in environmental, energy, automobile and other growth markets, and together with its efforts to generate original products and technologies, the Company endeavors to boost its manufacturing capabilities and to build an optimal production structure.

### Outlook for Fiscal 2010 and Key Initiatives

The order environment is taking small steps toward recovery, and work is picking up, primarily in overseas markets, in areas that include tire machinery, plastics processing machinery, steel production machinery, rotating machinery, heavy-wall pressure vessels and LNG vaporizers. Given this situation, we will work to increase order volume. However, a recovery in profits will take more time, due to the impact of exchange rate fluctuation and escalating competition.

In the mainstay product area of large-capacity compressors, Kobe Steel aims to expand business by addressing environmental and energy applications in Central and South America, and the United States. In this latter market, a third plant is under construction at Kobelco EDTI Compressors, inc. (KEC), which will enhance production capabilities.

## Medium- to Long-Term Business Vision and Key Policies

In the Machinery Business, Kobe Steel will continue its drive to generate world-class proprietary products and technologies, boost its *monozukuri*, or manufacturing capabilities—encompassing quality, cost, delivery time and procurement—and establish an optimal production and operational structure that addresses globalization.

Kobe Steel will focus on overseas markets where it already maintains a presence and aims to raise its profile in resource-rich and emerging markets that demonstrate potential for future growth. In tandem with this, it will launch products in the energy and environmental fields ($CO_2$ emission reduction) where growth in demand is anticipated, and accelerate product development that targets new applications.

To fortify *monozukuri*, manufacturing capabilities that are in the world's top class, the Company will move forward on raising the level of its materials and processing technologies as well as on enhancing distribution at all plants to ensure high productivity. Furthermore, to address globalization and maximize profits, Kobe Steel will work to expand overseas bases and strengthen the functions of domestic plants to optimize its business structure.

Batch-type BB mixer

## Topics

### Large-Capacity Compressor Test Facility Goes into Action

In February 2010, Japan's biggest large-capacity compressor test facility*1 went into operation at the Rotating Machinery Plant*2 at Kobe Steel's Takasago Works in Takasago, Hyogo Prefecture. The new facility has boosted Kobe Steel's ability to test large-capacity gas compressors with variable-speed motors rated at up to 20,000 kilowatts. The start-up of the test facility will enable Kobe Steel to develop and expand its compressor business in global markets, including the United States, Europe, China and the Middle East.

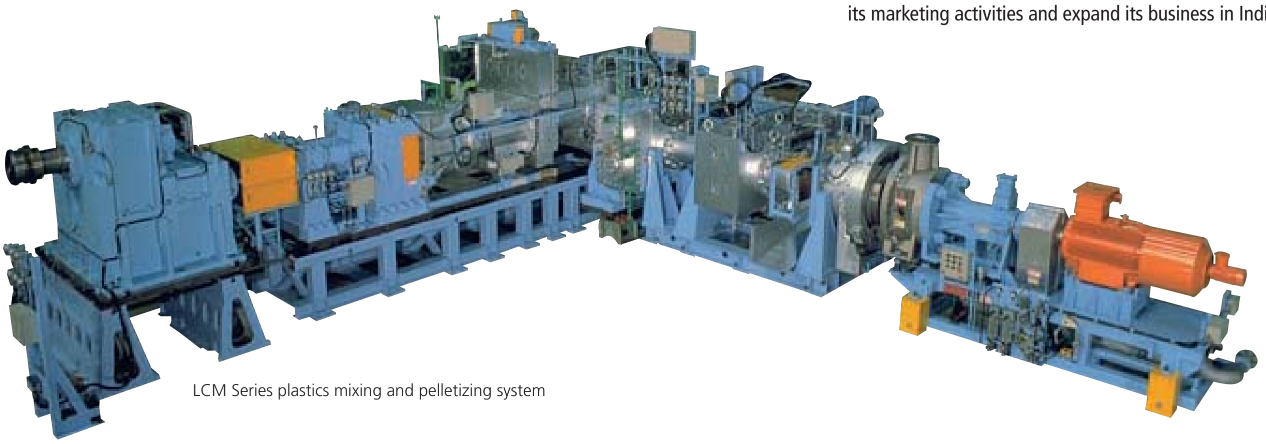
*1 Large-capacity centrifugal compressor test facility to confirm the mechanical stability and design performance of compressors.
*2 Rotating machinery: Another name for large-capacity, non-standard compressors

Large-capacity compressor undergoing testing

### Kobe Steel Establishes Base in India to Market Steel Production Machinery

In June 2009, Kobe Steel established Kobelco Machinery India Private Limited and began marketing steel production machinery in Kolkata, West Bengal, India.

India's steel production has risen dramatically in recent years, and numerous steel production plants are now under construction or are being planned. Kobelco Machinery India will mainly market its steel bar rolling mills and wire rod mills in India. The Kobe Steel Group will work to decisively develop its marketing activities and expand its business in India.



LCM Series plastics mixing and pelletizing system

# Natural Resources and Engineering Business

**Main Products and Services**

- Ironmaking plants (direct reduction)
- Other plants and equipment (nuclear power, pelletizing, petrochemicals, etc.)
- Erosion control and disaster prevention structures
- Civil engineering
- Advanced urban transit systems

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

## Outlook for Fiscal 2010 and Key Initiatives

In the iron unit field, with demand for steel soaring on the back of worldwide economic recovery, primarily in emerging markets, business discussions for DR plants have started to gain momentum. Furthermore, in line with plans to increase nuclear power plants worldwide as a way of cutting $CO_2$ emissions, demand is also steadily increasing for related equipment and facilities.

Kobe Steel will strive to secure orders for large-scale projects currently under discussion, such as for DR plants in the Middle East. In addition, Kobe Steel is also currently considering the formation of a business in Vietnam to produce and market iron nuggets using its ITmk3® Process. A detailed feasibility study is being conducted, aiming for construction to commence by the end of fiscal 2010.

## Medium- to Long-Term Business Vision and Key Policies

Kobe Steel anticipates that the business environment will see growth demand in the iron unit field. Factors for this include: the depletion and persistently high prices of both high-grade iron ore and coking coal; ever-more stringent $CO_2$ emission regulations; and a rising ratio of electric arc furnace (EAF) steelmaking. Economic growth in emerging markets is also projected to lead to heightened demand in the energy field related to coal and nuclear power.

Given its leading position in the industry, Kobe Steel is particularly aggressive in its efforts to tap into rising demand in the iron unit field. Specifically, it will focus on ITmk3®—establishing a licensing business, the manufacture and marketing of iron nuggets, and other new business models. In tandem with these moves, Kobe Steel will also strengthen the competitiveness of its plant engineering business. Through these initiatives, Kobe Steel will work to globalize its business and increase earnings.

*ITmk3® (pronounced "Eye-Tee Mark Three") is a process that uses a rotary hearth furnace to turn iron ore fines and pulverized steaming coal into high-purity iron nuggets (96%-97% metallic iron content), the same purity as pig iron from a blast furnace. Reduction, melting and slag removal occur in only 10 minutes in contrast to a reduction time of 8 hours using a blast furnace. No expensive coking coal is used in the production of the iron nuggets.

## Topics

### World's First Commercial ITmk3® Plant Successfully Begins Production

The world's first commercial plant to use the ITmk3® Process—the Kobe Steel-developed, new ironmaking technology—has been producing iron nuggets since January 2010.

The plant, which has an annual production capacity of 500,000 metric tons, was constructed in Hoyt Lakes, Minnesota, USA in cooperation with Steel Dynamics, Inc., a major EAF steelmaker.

The first iron nuggets produced at the commercial plant

Rotary hearth furnace

View of the world's first commercial ITmk3® Plant

### Bahrain Pellet Plant* Completed

Kobe Steel has completed a pellet plant constructed for Bahrain-based Gulf Industrial Investment Co. (GIIC). This marks Kobe Steel's second pellet plant for GIIC, the first having been completed in 1985. In this project, Kobe Steel was responsible for the design, equipment supply, construction and startup of the plant, the operation of which covered everything from the supply of raw materials to the shipment facilities for the pellets. The new pellet plant has a world-class capacity of 6 million tons per year, significantly exceeding the 4-million-ton plant that Kobe Steel had previously delivered.

*This plant pelletizes pulverized iron ore for use in blast furnaces or DR plants. The KOBELCO Pelletizing Process uses a rotary kiln in the high-temperature zone to enable a comparatively uniform firing of iron ore pellets.

GIIC's No. 2 Pellet Plant

# Kobelco Eco-Solutions

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

### Main Products and Services

- Industrial water, water and sewage plants and equipment
- Ultrapure and pure water generation plants and equipment
- Industrial water and wastewater treatment equipment
- Industrial cooling towers and cooling towers for district heating and cooling
- Municipal waste incineration and melting plants
- Recycling facilities for oversized garbage and disused home appliances
- Recycling plants for processing organic waste materials such as foodstuffs
- PCB detoxification
- Final disposal of waste material
- Equipment for the chemical industry
- Powder processing equipment
- Brewing equipment
- Hydrogen oxygen generator

## Outlook for Fiscal 2010 and Key Initiatives

The outlook for fiscal 2010 is for continued shrinkage in public-sector demand. With the exception of certain areas, the recovery in private-sector capital investment is expected to remain gradual.

In this demanding business environment, Kobelco Eco-Solutions will redouble efforts to gain orders for new projects in the domestic water and waste treatment fields, while bolstering its efforts in the after-sales service area to secure profit. In the overseas water treatment field, the company will develop activities designed to gain orders for water, sewage and discharged water treatment plants, focusing on the Southeast Asian and Indian markets. With regard to the overseas waste treatment field, the company will market waste power generation plants in Europe. The company is aiming to expand its business in cooling towers and process equipment in China and Southeast Asia.

## Medium- to Long-Term Business Vision and Key Policies

As “an environmental solutions company that meets the needs of the times,” Kobelco Eco-Solutions is targeting consolidated net sales of ¥100 billion and ordinary income of ¥5 billion.

In the Japanese market, the company will strengthen its EPC* capabilities in plant construction and expand its after-sales service menu, including facility life extension projects and chemicals used in plants. Gaining ground in overseas markets from its four hubs—in Japan, Vietnam, Germany and India—the company will promote sales expansion. In addition, Kobelco Eco-Solutions will work to create new product menus and business in such areas as $CO_2$ emission reduction, energy creation and recycling.

*Engineering, Procurement and Construction. A contract under which the contractor assumes full responsibility, from design to procurement and construction.

Minami Refuse Incineration Plant, Sagamihara City

Heat recovery facility at the Shigenka Center, Kawagoe City

## Topics

### First Pilot Project in Japan to Inject Biogas into City Gas Pipes Commences

Kobelco Eco-Solutions is working with Kobe City and Osaka Gas Co., Ltd. on a pilot project that utilizes Kobe Biogas, a biogas derived from sewage sludge, to make city gas at Kobe City’s Higashinada Sewage Treatment Plant in Hyogo Prefecture.

This is the first attempt in Japan to inject sewage sludge-derived biogas, refined to city gas specifications, directly into city gas pipes. Utilizing this pilot project to assess operational methods and economic feasibility is anticipated to lead to the spread of similar projects and the effective utilization of biomass resources.

Biogas upgrading facility

### Two Fluidized-Bed Gasification Melting Furnaces Completed

Under construction since fiscal 2006, two uidized-bed gasification melting furnaces—the Minami Refuse Incineration Plant in Sagamihara City, Kanagawa Prefecture and the heat recovery facility at the Shigenka (Recycling) Center in Kawagoe City, Saitama Prefecture—were completed in March 2010.

By using uidized-bed gasification melting furnaces in general waste treatment facilities, both locations use the energy contained in garbage to make molten ash from incineration (reducing volume and creating slag). By so doing, in addition to reducing the environmental impact of using landfill for final disposal, this people- and environment-friendly treatment system also contributes to $CO_2$ emission reduction.

Sagamihara City’s Minami Refuse Incineration Plant, the largest of its kind in Japan, has the capacity to treat 525 tons of garbage per day. Furthermore, the deployment of the highest standard of equipment in Japan realizes highly efficient power generation.

The heat recovery facility at the Shigenka Center in Kawagoe City has introduced advanced exhaust gas treatment equipment to significantly reduce harmful substances in gas emissions. In particular, the facility complies with the country’s most stringent self-regulation values with regard to dioxins.

Kobelco Eco-Solutions is targeting more orders by taking advantage of the fact that it has the best delivery record in Japan for this type of facility and the accumulated expertise in its use.

# Kobelco Construction Machinery

**Main Products and Services**

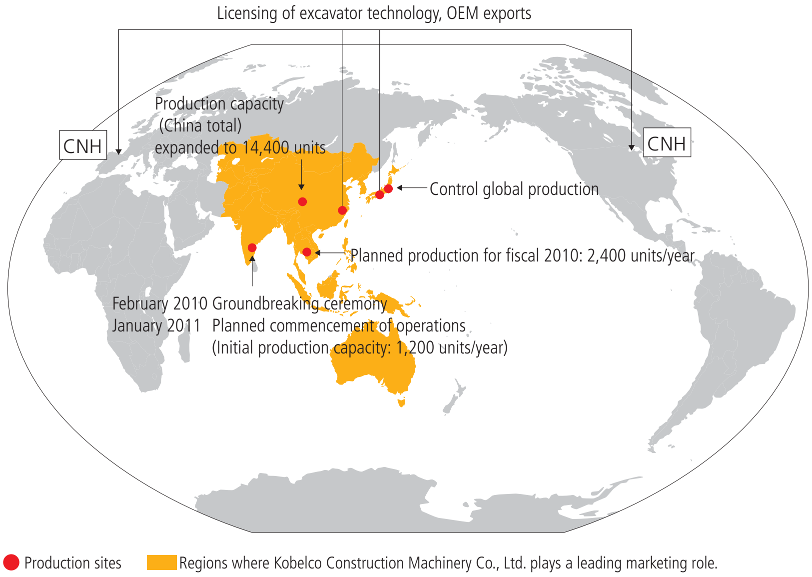
- Hydraulic excavators
- Mini excavators
- Wheel loaders

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

## Outlook for Fiscal 2010 and Key Initiatives

In fiscal 2010, demand for hydraulic excavators is projected to continue to expand in China and Southeast Asia. Although Europe will likely remain sluggish, Japan and the United States are expected to stage a slight recovery, while the overall forecast is for a return to widespread growth. Under these circumstances, Kobelco Construction Machinery will return to the starting point of manufacturing and fortify its *monozukuri* or manufacturing capabilities. In addition to improvements in product quality, it will make further efforts to raise productivity and, in unison with its business partners, to reduce costs. On the marketing front, along with maximizing the benefits of integrating its various sales units into two companies in Japan, Kobelco Construction Machinery is taking a global perspective to unearth opportunities in growth markets, most notably China and other newly emerging markets in Asia.

Kobelco Construction Machinery's Global Development




## Medium- to Long-Term Business Vision and Key Policies

To raise its profitability, Kobelco Construction Machinery will be concentrating its management resources in such Asia-Pacific (APAC) markets as China, Southeast Asia and India, where growth can be expected over the medium and long term. Focusing in particular on achieving further growth in China, establishing a second fundamental business pillar in India, increasing revenues and profits in Southeast Asia, and applying the business model established in Japan to global business, Kobelco Construction Machinery will raise its overall competitiveness as a group. In addition, enhancing its technical development and *monozukuri* capabilities that are the drivers of growth, Kobelco Construction Machinery will supply products suitable to specific local regions, with a focus on low-noise, fuel-efficient technologies.

## Topics

### Elementary School Devastated in China's Great Sichuan Earthquake Rebuilt

Three companies—Kobelco Construction Machinery Co., Ltd. and its joint ventures in China, Chengdu Kobelco Construction Machinery Group Co., Ltd. and Chengdu Kobelco Construction Machinery Co., Ltd.—undertook the rebuilding of an elementary school that collapsed in China's Great Sichuan Earthquake of May 2008. Completed in September 2009, the school is now attended by smiling pupils. Re ecting Chinese government policy, the Chinese characters for "Kobe Steel" have been included in the school's name. Exchanges between the school and the three companies will extend far into the future.

### Hybrid Hydraulic Excavator Sales Commenced

In January 2010, sales commenced of the 8-ton class SK80 hybrid hydraulic excavator, which uses 40% less fuel than conventional models. An urban-use construction machine, the SK80 Hybrid is anticipated to perform well in residential areas. In addition to lower fuel consumption and $CO_2$ emissions, the SK80 Hybrid realizes unparalleled low-noise operations. Kobelco Construction Machinery will continue to produce people- and environment-friendly construction machinery in the years to come.

The rebuilt Qingxing Shengang Primary School
Kobelco Construction Machinery aids in Chengdu City's reconstruction.

SK80 hybrid hydraulic excavator

# Kobelco Cranes

**Main Products and Services**

- Crawler cranes
- Rough terrain cranes
- Civil engineering machinery
- Work vessels

As a construction machinery manufacturer that specializes in the crane business, Kobelco Cranes Co., Ltd. is working to develop attractive products and enhance its business foundation toward business globalization. With its accumulated technologies and brand power, Kobelco Cranes will give added impetus to activities that will enable it to achieve greater prominence on the global stage.

### Outlook for Fiscal 2010 and Key Initiatives

Although there will likely be some contrast according to area, global demand for cranes in fiscal 2010 is projected to face an ongoing severe market environment both in Japan and overseas, with the potential of demand declining even further.

In such a difficult business climate, Kobelco Cranes is planning tried and tested order and sales activities while implementing ongoing cost reductions in its attempts to cut expenditure and secure a profit for fiscal 2010. In preparation for the next leap forward, the company will be tackling five priority issues: maximizing sales volume based on its regional strategy; expanding its service business that focuses on crane lifecycles; reducing lead-times and improving cash flows by upgrading its just-in-time (JIT) production system in unison with its business partners; focusing on overseas emerging markets; and thoroughly streamlining all business activities.

## Medium- to Long-Term Business Vision and Key Policies

With stagnant demand in the crane market persisting, the difficult business environment is currently forecast to continue in fiscal 2010. Under these circumstances, Kobelco Cranes aims to become a company that is assessed on the sum of its environmental, safety, quality and service efforts by its global customers and a world industry leader as a mobile crane manufacturer through its *monozukuri* strengths. Its policies in these efforts will be: ensuring stable profits; improving the Kobelco brand value by strengthening its *monozukuri* and service capabilities; expanding in scale by accelerating its global strategy; and perfecting its crane life cycle business.

## Topics

### Sales Company in China Established

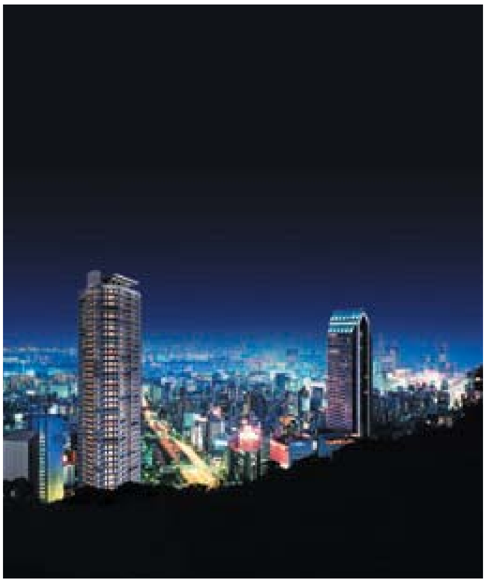
In February 2010, Kobelco Cranes established Kobelco Cranes (Shanghai) Co., Ltd. to provide its customers in China with even better service. With an avowed aim to maintain a high degree of customer satisfaction by developing sales and services tailored to the local region, the new company will strive to deliver highly reliable machines and attractive services to customers in China. Be sure to watch out for exciting new developments at Kobelco Cranes (Shanghai).


Company name: KOBELCO CRANES (SHANGHAI) CO., LTD.
Date established: February 1, 2010
Address: 9th Floor, Unit H, Century Bashi Building, No. 398 Huaihai Zhong Lu, Shanghai 200020
Tel: +86-21-5382-0120 FAX: +86-21-5382-2090
URL: http://www.kobelco-cranes.com/shanghai/index.html

Ultra-large crawler cranes

70-ton class, PANTHER-X 700 city-conscious crane

# Other Businesses



Yodoyabashi Square

The Kobe Steel Group develops a variety of businesses, including real estate and electronic materials, as its Other Businesses.

**Shinko Real Estate Co., Ltd.**

Amid significant shifts in society and economic structure, Shinko Real Estate Co., Ltd. strives to better respond to market changes and to strengthen its stable earnings foundation.

## Outlook for Fiscal 2010 and Key Initiatives

In real estate sales, condominium inventory adjustments have come full circle, primarily in the Tokyo metropolitan area, and market conditions are trending upward. Given this situation, Shinko Real Estate will move forward with acquisitions of land for development in order to secure properties for sale beyond fiscal 2011 and work to completely sell any properties currently on the market.

In the leasing business, vacancy rates are rising, chiefly for newly constructed office buildings. Accordingly, there is a growing risk of declining rents and the early termination of lease contracts. Looking toward assuring stable earnings over the medium to long term, Shinko Real Estate will enhance its portfolio of prime leased assets and repair or remodel aging assets to maintain a high utilization rate.

The building management business is an area where Shinko Real Estate will take the initiative to cut costs, in the face of escalating price competition with renegotiations of contract fees and other developments. In addition, by offering proposals that include energy conservation, the company will work to confirm orders from existing customers for equipment installation as well as to cultivate new customers.

## Medium- to Long-Term Business Vision and Key Policies

It is Shinko Real Estate's goal to be more responsive to market volatility and to bolster its stable earnings foundation.

Shinko Real Estate aims to position its leasing, building management and insurance brokerage businesses as stable sources of earnings. Forming an accurate picture of market changes, the company seeks to expand business scale, increase profitability and improve its business mix.

While preparing for market risk fluctuations, Shinko Real Estate will soundly manage its real estate sales business, its origin as a real estate company, on a steady scale.

Facilitating collaboration between each of its lifestyle businesses—real estate sales, leasing, building management and insurance brokerage—Shinko Real Estate seeks to maximize synergies in its pursuit of improved sales capabilities and strengthened profitability.

### Topics

**Completion of G-Clef Shinkobe Tower and Yodoyabashi Square**

Shinko Real Estate Co., Ltd., which celebrated its 50th anniversary in fiscal 2009, completed construction of G-Clef Shinkobe Tower, the first condominium tower in which it was the lead manager. The building offers a total of 292 units and an on-site medical facility.

In the same year, Shinko Real Estate also completed Yodoyabashi Square, an office building constructed in Kitahama, Osaka, where Shinko Real Estate was originally established. The building, constructed in collaboration with Mitsubishi Estate Co., Ltd., has a total oor area of over 24,300 square meters and offers shops and other amenities.

**Kobelco Research Institute, Inc.**

Kobelco Research Institute, Inc. possesses extensive advanced technologies—for example in materials, chemicals, machinery and electronics—and applies them in the testing and analysis of materials and structures. The company also engages in the manufacture of target materials for liquid crystal display (LCD) wiring film.

Target material

Supporting the Kobe Steel Group, the Technical Development Group engages in basic and advanced research and works closely with development departments in the business segments, applying their wealth of technological expertise to effectively meet customers' needs. Blending technologies in the fields of materials, machinery, the environment, energy and electronics, Kobe Steel's laboratories pursue the development of truly distinctive "Only One" products and ever higher levels of manufacturing excellence.

The Technical Development Group serves as the Group's R&D base. Combining the specialized technologies of each of the laboratories, the Technical Development Group undertakes research aimed at enhancing the profitability of the business segments while pioneering new products and technologies for the future.

## R&D Activities

### Material Research Laboratory

The Material Research Laboratory (MRL) engages in research based upon four technological fields: refining and solidification, materials design, mechanical working, and surface control. For the materials business, MRL is working to develop new high-performance products based on material and surface design and control, and to optimize manufacturing processes. For machinery-related businesses, MRL focuses on creating differentiated products utilizing its expertise in materials. MRL also strives to develop new businesses based on high-value-added products.

### Mechanical Engineering Research Laboratory

The Mechanical Engineering Research Laboratory (MERL) conducts research and development in machinery, materials, the environment, energy, and steel structures. Through the use of advanced simulation, testing, measurement, and analysis techniques in the fields of structural, strength, dynamics, acoustics, fluids, thermal, combustion, and chemical technologies, MERL works to enhance product performance, improve production processes and design, and focus on developing new products and technologies in an effort to improve product development capabilities.

### Production Systems Research Laboratory

The Production Systems Research Laboratory (PSRL) actively innovates production technologies to bolster the Group's manufacturing capabilities, utilizing cutting-edge technologies for instrumentation and inspection, control, production planning, information system and signal processing. PSRL strives to further develop new product menus that have at their core the powerful technologies it has cultivated.

### Electronics Research Laboratory

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

### Coal & Energy Technology Department

The Coal & Energy Technology Department (CETD) is developing energy conversion technologies such as the upgrading of brown coal through dewatering and de-ashing, coal liquefaction, and the hydrocracking of heavy oil. CETD is working to find ways to effectively use the world's untapped natural resources and contribute to securing stable and diversified energy sources for Japan.

### R&D-related Subsidiaries

- Kobelco Research Institute, Inc.
- Shinko Research Co., Ltd.

## Recent R&D Achievements

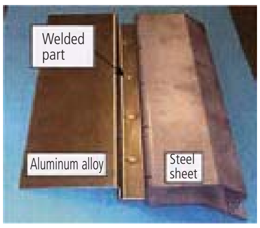
### Joining Techniques for Dissimilar Metals—Aluminum Alloy and Steel—Accelerate Automobile Weight Reduction

To improve fuel efficiency and reduce $CO_2$ emissions by making automobiles lighter, Kobe Steel is promoting the aluminization of various components. As aluminum panel material for hoods and doors has a significant weight-reducing effect, work is being undertaken to develop material and forming techniques to broaden the range of applications.

Using aluminum alloy in an automobile's bodywork requires that aluminum be joined to the surrounding steel. Conventionally, the joining of dissimilar metals such as aluminum alloy and steel has involved the use of mechanical joining with bolts and rivets, but this presented problems from the productivity and cost aspects.

To solve these problems, the Material Research Laboratory (MRL) has advanced the development of joining dissimilar materials using a highly productive welding process that is commonly used for vehicle assembly. Usually, when dissimilar metals such as aluminum alloy and steel are welded, sufficient strength cannot be derived from the joint due to a brittle compound layer generated at the joint itself. By using a material that eliminates the weld inhibitor in the flux, combined with welding condition innovations, the new development has achieved bonding strengths between aluminum alloy and steel on par with cases in which aluminum alloys alone have been welded together.

This area of research is at a stage that has established fundamental joining techniques, and MRL will be pushing ahead with the development necessary for its application to actual components.



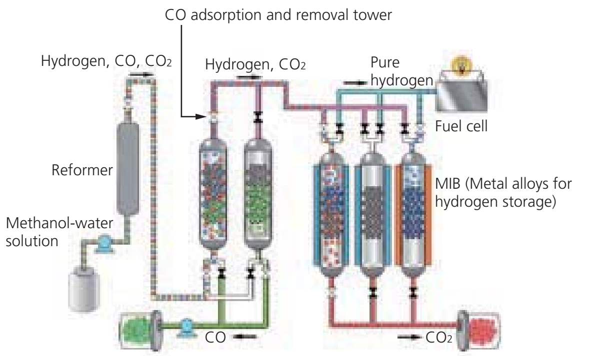

Example of aluminum alloy-steel weld

### Compact Hydrogen Production/Supply Process Promotes Fuel Cell Use

Hydrogen supply infrastructure facilities are indispensable to promote the use of fuel cells, which are expected to help curb $CO_2$ emissions. To achieve a hydrogen-based society, it is necessary to establish a system capable of efficiently refining, storing and supplying hydrogen.

In collaboration with the University of Tsukuba, the Mechanical Engineering Research Laboratory (MERL) developed a compact hydrogen production and storage process—the carbon monoxide (CO) selective adsorbent and metal hydride intermediate buffer (COA-MIB) process—which features excellent start and stop characteristics and is highly responsive to load fluctuations. Applying CO separation and adsorption agents developed for use in the concentration and recovery of CO generated from steelmaking plant by-product gases at steelworks, the CO that seeps out when hydrogen is produced from natural gas is completely removed. Hydrogen of high purity can then be produced, stored and supplied by using hydrogen storage alloys. This process, which does not require a large-scale hydrogen supply network to be constructed, can supply pure hydrogen for fuel cells at a highly efficient hydrogen recovery rate of more than 85%, based on a daily start and stop (DSS) operation basis.

Giving added impetus to this development, MERL will promote its application in compact hydrogen stations and solar cells as a measure against voltage fluctuations in the natural energy field.



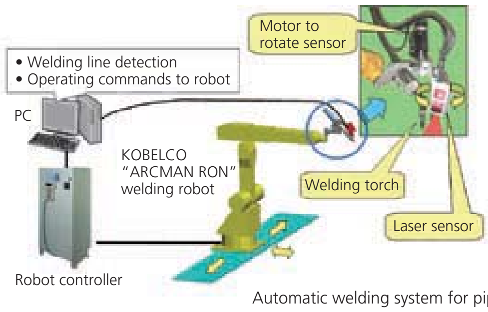

Simplified ow diagram of COA-MIB process

### Automatic Welding System for Crane Booms

Jointly developed by Production Systems Research Laboratory (PSRL), Kobelco Cranes Co., Ltd. and the Welding Systems Department of the Welding Business, an automatic welding system for steel-pipe crane booms has been in operation at Kobelco Cranes' Okubo Plant since November 2007.

Previously, the pipe booms of Kobelco Cranes' mainstay products, lattice-boom crawler cranes, were welded manually by well-experienced technicians. In automatic welding, work that is subjected to the heat of welding will warp. As the welding position changes from time to time, it is essential for robotic welding to make real-time corrections to those constantly changing positions. In addition, welding lines in pipe-to-pipe welding are three-dimensional, saddle-shaped curves, in which the shapes of welding grooves keep changing all the time. Conventionally, no means had been available to measure and correct for those changes.

In order to resolve these issues, by utilizing a laser sensor for arc welding we developed capabilities with regard to: (1) saddle-shaped welding line detection; (2) highly reliable tracking for welding lines with small curvatures; and (3) saddle-type programming data generation. The integration of these capabilities with the pipe welding process expertise of Kobelco Cranes brought to fruition an automatic welding system for steel-pipe booms. Through its commercialization and by providing trouble-free service on sites, this system has brought quality welding to new heights.




Automatic welding system for pipe booms

## Intellectual Property Activities

### Intellectual Property Management at the Product and Technology Level

Strategic intellectual property activities are essential to the Kobe Steel Group's goal of creating and expanding its range of distinctive, Only One products. The importance of intellectual property has gained recognition with the recent enactment of the Intellectual Property Basic Act. At the same time, a three-pronged strategy covering business, R&D and intellectual property has been advocated amid calls for a response to the increasing problems of imitations in Asia and higher incidence of technological leakage from companies.

With its avowed commitment to intellectual property management at the product and technology levels, the Group is making headway with: (1) the promotion of intellectual property management; (2) strengthening its global response; and (3) improving cooperation in the area of intellectual property throughout the Group. Most importantly, with regard to intellectual property management for individual products and technologies, we are moving forward on utilizing a new intellectual property management system.

### Overview of Fiscal 2009

In fiscal 2009, Kobe Steel received nearly 560 new patents in Japan, primarily to protect Only One products, which now gives the Company approximately 3,700 total patents. Moreover, as a result of the globalization of its business, Kobe Steel is strengthening its acquisition of new patents overseas, especially in Asia, which now account for almost 37% of the total number of patent applications.

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

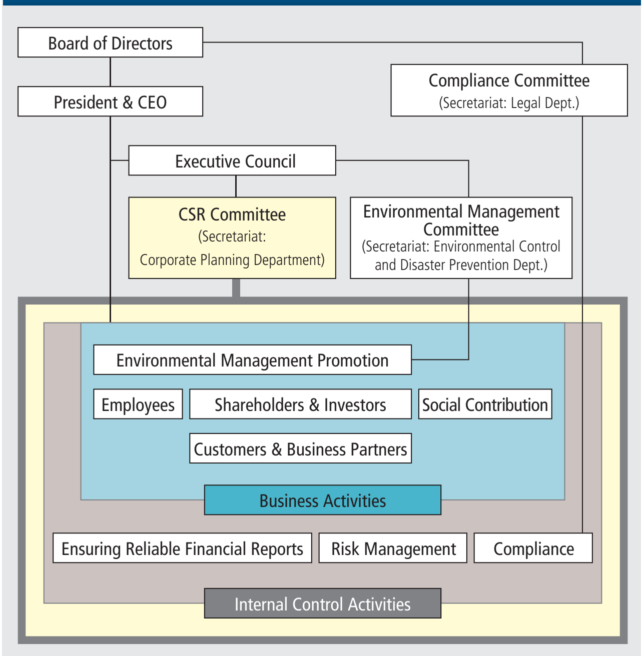
## CSR Promotion System

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

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

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

CSR Promotion Structure




## Corporate Governance

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

Based on this awareness, Kobe Steel established its Corporate Philosophy and Corporate Code of Ethics as corporate ideals as it works to improve its corporate governance capability.

### Corporate Governance

**(1) Basic Concept of Corporate Governance**

Instead of a "corporate system with committees" that completely separates the supervising and execution of business operations, Kobe Steel opted for a "corporate system with a Board of Corporate Auditors" for the purpose of achieving more agile management driven by those with knowledge about Kobe Steel's businesses. In addition, aiming for an increasingly transparent and fair business structure, the Company is reinforcing its oversight functions by selecting outside directors and strengthening auditing functions, as explained below.

**(2) Structure of the Board of Directors and Corporate Auditors**

The Board of Directors is comprised of the president, key directors at corporate headquarters and directors of major business divisions to encourage active and extensive discussions.

In accordance with Japan's Companies Act, three or more corporate auditors are required to be appointed, the majority of whom should be outside corporate auditors. The Company appointed five corporate auditors, including three outside corporate auditors from the legal, financial and industrial areas, in order to secure more transparent and fair business management as well as to better supervise functions.

In addition, in June 2007 the Company appointed two outside directors who have no conflicting interests with the Company. These serve as parties that reflect fair and neutral opinions from outside the Company in Board of Directors' resolutions and enhance the supervisory functions and governance system at Kobe Steel.

The two outside directors attend the monthly Board of Directors' meetings, while working as members of the Independent Committee established in accordance with the Kobe Steel's Policy on a Large-Scale Purchasing of Its Shares. The Independent Committee would be convened should a large-scale purchasing of the Company's shares be proposed, over and above the regular meetings held twice a year to collect information about external factors, including the business environment surrounding the Company during the said period; reviews of business operations; upcoming Companies Act revisions and stock market conditions. By sharing knowledge and discussing the aforementioned topics, the Independent Committee members will prepare for contingencies, proposing fair and neutral opinions to the Board of Directors in an appropriate manner.

With the appointment of three outside corporate auditors and two outside directors, the Company's Board of Directors will have in attendance five parties who are separated from business execution involvement and hold fair and neutral positions. Accordingly, Kobe Steel's governance system has been improved.

The number of Board of Directors is stipulated to be "up to 15 members," in accordance with the Company's Articles of Incorporation. Kobe Steel's Board of Directors consists of 11 directors, including the two outside directors.

**(3) Business Execution Structure**

Appointed by shareholders at the General Meeting of Stockholders, directors who have legal responsibilities to shareholders, business partners and other stakeholders play a central role in business execution and control the business operations of principal business divisions.

Corporate officers, under the leadership of the directors, are responsible for the conduct of business affairs, and therefore occupy an important position at Kobe Steel. Although not constituting a legal body, officers are elected by the Board of Directors and carry out duties that the president assigns to them. To enable the Company to quickly respond to a rapidly changing business environment, the term of office of both directors and officers has been set at one year.

In 1999, Kobe Steel originally adopted an internal company management system to increase profitability by business unit and to implement structural reform by selecting and concentrating management resources. However, in order to meet the changes of the times, the Kobe Steel Group shifted to a business unit system in April 2010, recognizing the importance of transcending boundaries between business units to maximize advantages from the Group's diverse businesses and reinforce Groupwide collaboration.

Under this system, the Group Executive Council (held quarterly) and the Executive Council (held semimonthly) are held to discuss the business direction, including the business strategy of the Group, as well as to confer over matters deliberated on in the Board of Directors' meetings. The Executive Liaison Committee (meeting quarterly)—composed of directors, corporate officers, executive technical advisors, and the presidents and directors of affiliates appointed by the president—shares information on important management issues.

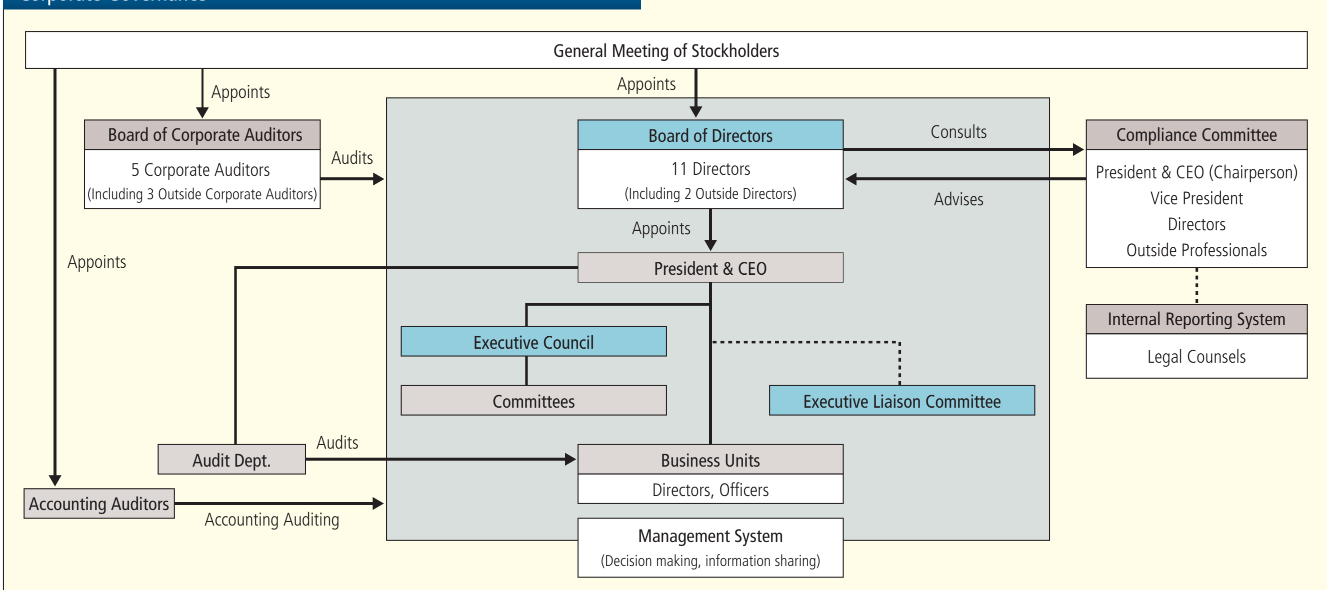
Other committees are set up as forums for relevant parties to consider the president's and senior executives' advice before deliberating on issues that have a high degree of impact on the overall business of the Company.

### Internal Audits, Corporate Auditors and Accounting Audit System

Kobe Steel established the Audit Department as an independent auditing body to conduct internal audits. Audits, especially those conducted in the head office departments for compliance, environment and information security, are carried out cooperatively or in partnership between the Audit Department and the respective administrative departments at Headquarters. In addition, the Audit Department audits and confirms the status of control conducted by the departments responsible for internal control and collaborates with measures such as offering feedback on the results of its findings.

Accounting audits are conducted by three certified public accountants (CPAs) from KPMG AZSA & Co. Other CPAs and junior accountants from KPMG AZSA & Co. are responsible for assisting with the accounting audits. Accounting auditors conduct the audits with regard to internal controls while exchanging information with the departments responsible for internal control.

Corporate Governance

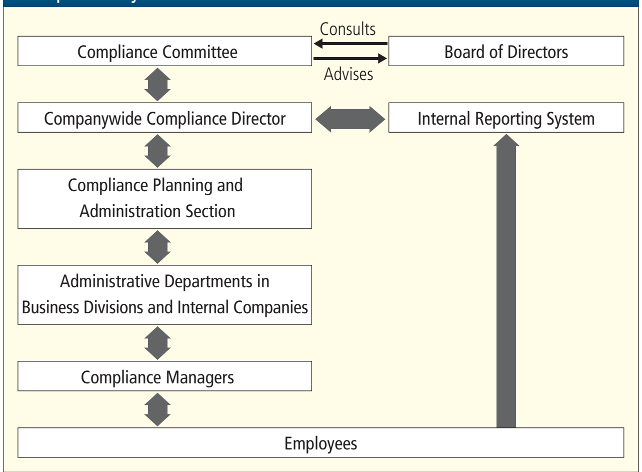


Corporate auditors routinely meet with accounting auditors to coordinate internal audits, corporate audits and accounting audits and closely cooperate through the exchange of views about the audit system, the audit plan and audit status. Also, when necessary, corporate auditors accompany accounting auditors on their audits of business sites and receive timely reports about the progress of those audits. Furthermore, corporate auditors are routinely informed about audit policies and plans by the internal audit department. Corporate auditors also maintain close cooperation with others through reports they receive, from both the Internal Audit Department and the departments responsible for internal control, in such areas as the status of compliance, risk management and other internal control system enforcement, thereby enabling them to conduct efficient audits.

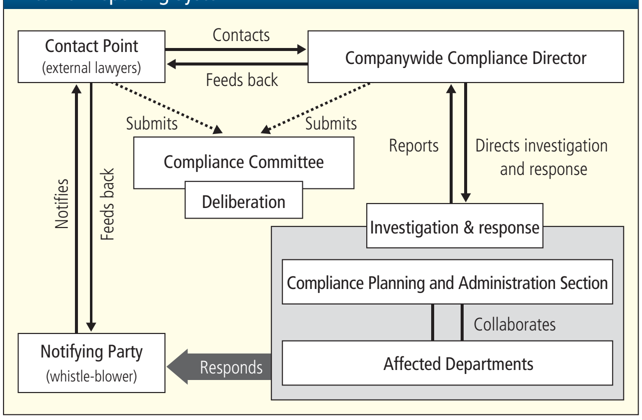
### Compliance Committee

The Compliance Committee was established as an advisory body to the Board of Directors in June 2003 and has undertaken various activities. Specifically, the Compliance Committee works to raise the effectiveness of compliance management not only through the drafting of compliance programs and confirming the progress status of them, but also by submitting measures related to reports made through the Internal Reporting System for discussion at Board of Directors' meetings.

Compliance System




Internal Reporting System




### Corporate Code of Ethics

The Corporate Code of Ethics sets out principles and guidelines established to maintain legal compliance and make us a better company. The Corporate Code of Ethics consists of the Corporate Ethical Principles, Standards of Corporate Conduct and Implementation Guidance. Major group companies have also formulated similar policies.

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

From Kobe Steel's Corporate Ethical Principles

Kobe Steel will:

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

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

### Risk Management Activities

Aiming to achieve an organizational culture that is highly sensitive toward compliance, Kobe Steel has been working on new risk management activities since fiscal 2009.

These activities involve dedicated staff at corporate Headquarters organizing and classifying risk items in light of changes to laws and in society. They present their findings as "common risks" to all business departments, and as much as possible incorporate examples of incidents that had occurred in the past to explain applicable laws or revisions with regard to each item. Each business department adds to the "common risks," those risks that are unique to its own business, reviews them and compiles its own risk management plan. Moreover, based on inspection requests from Headquarters at the end of the fiscal year, all departments verify their organization's risk management status.

More specifically, although each respective department receives risk management guidelines from corporate Headquarters, they identify the risk, including compliance, in their business, and plan and put into practice countermeasures. Upon inspection of the results, they are again linked into the following year's activities. In this way, Kobe Steel aims for a steady risk management Plan-Do-Check-Action (PDCA) cycle that includes compliance at each department.

Kobe Steel places the maintenance of safety and compliance as a major premise in its business activities. An organizational culture that is highly sensitive to compliance developed through these ongoing risk management activities will continue to underpin Kobe Steel's wide-ranging business activities.

### Group Company Compliance System

Each Kobe Steel Group company has set up a Compliance Committee, established a Corporate Code of Ethics and introduced an Internal Reporting System. A Compliance Officer and Compliance Promotion Manager have been appointed in each company and they pursue their efforts in coordination with Kobe Steel. Group companies also engage in risk management activities.

### Basic Policy for Parties Affecting Policy Decision of Kobe Steel's Financial and Business Affairs (hereinafter referred to as the "Basic Policy on Corporate Control")

#### (1) Basic Policy

Kobe Steel, Ltd. (hereinafter referred to as "Kobe Steel" or the "Company"), as a listed company, does not object to any large-scale purchasing of its shares (hereinafter referred to as "Large-Scale Purchase" or "Large-Scale Purchasing") involving a change of its corporate control if such purchase facilitates the protection and enhancement of its corporate value and ultimately, the common interests of its shareholders in the course of open stock trading.

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

Particularly, Kobe Steel is engaged in various businesses, such as those in the materials sector and the machinery sector, and as these businesses have broad fields, there are various stakeholders and synergies to be borne by various businesses. Therefore, if Large-Scale Purchasers, who do not have an adequate understanding of these relationships with the stakeholders and synergies among the businesses, were to control the finances and the business policies of Kobe Steel, there is a possibility that the corporate value of the Company, and ultimately, the common interests of its shareholders would be impaired. Therefore, Kobe Steel believes that for a party to have an impact on its financial and business policy decisions that party must be one that fully understands the Company's management principles, the sources of its corporate value, and the relationships of mutual trust it shares with its stakeholders, which are necessary and indispensable for the enhancement of the corporate value and ultimately, the common interests of its shareholders. Such a party must also be able to protect and enhance Kobe Steel's corporate value and ultimately, the common interests of its shareholders as a result. In contrast, Kobe Steel views any party involved in an aforementioned large-scale purchase or proposal to be unsuitable as a party that will have an impact on its financial and business policy decisions.

With the above in mind, Kobe Steel believes it is necessary to establish rules where the Large-Scale Purchasers are required to provide to the Board of Directors necessary and sufficient information in connection with the Large-Scale Purchasers in advance, and to commence the Large-Scale Purchases only after the expiry of a certain period time for examination and evaluation by the shareholders and the Board of Directors.

#### (2) Initiatives to Prevent Unsuitable Parties from Having an Impact on Kobe Steel's Financial and Business Policy Decisions in Light of Its Basic Policy on Corporate Control

At the General Meeting of Stockholders held on June 24, 2009, a plan to prevent Kobe Steel's financial and business policies from being controlled by inappropriate parties ("the Plan") was approved.

**OVERVIEW OF THE PLAN**

This Plan stipulates the following procedure should a Large-Scale Purchase of the Company's shares be implemented.

(i) Providing Required Information

With respect to Large-Scale Purchasers, it is necessary for shareholders and the Board of Directors to determine whether the proposed Large-Scale Purchase safeguards and further improves corporate value as well as the common interests of shareholders. Therefore, information is required prior to the Large-Scale Purchase about the purpose of the share acquisition and the post-share acquisition management policy.

However, Kobe Steel shall not engage in operations that deviate from the aim, such as demanding of the Large-Scale Purchasers information disclosure exceeding the standards necessary to appropriately decide the question of the Large-Scale Purchases, or that endlessly necessitate providing the Large-Scale Purchasers with required information.

(ii) Establishment of an Independent Committee

To prevent its Board of Directors from making arbitrary judgments and ensure that procedures under the share purchasing rules remain objective, fair, and reasonable, an Independent Committee has been established as an organization independent from the Board of Directors. The Independent Committee is composed of outside attorneys, certified public accountants, tax accountants, academic experts and outside managers and directors.

### (iii) Examination and Evaluation

After disclosing that it has received necessary and sufficient information and secured the periods of time listed below from such disclosure date, the Independent Committee will report to the Board of Directors on whether it should initiate takeover defense measures, based on its examination and judgment of the legitimacy of the Large-Scale Purchase.

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

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

As a general rule, the resolutions of the Independent Committee shall be made by a majority vote with all members in attendance. However, should it be deemed unavoidable, the Independent Committee's resolution may be made by a majority vote of those members present at a meeting attended by a majority of Independent Committee members. However, should the Independent Committee recommend that the Board of Directors take defensive measures, the resolution of such recommendation will require at least one affirmative vote from a committee member who serves as an outside director of the Company.

### (iv) Initiation of Takeover Defense Measures

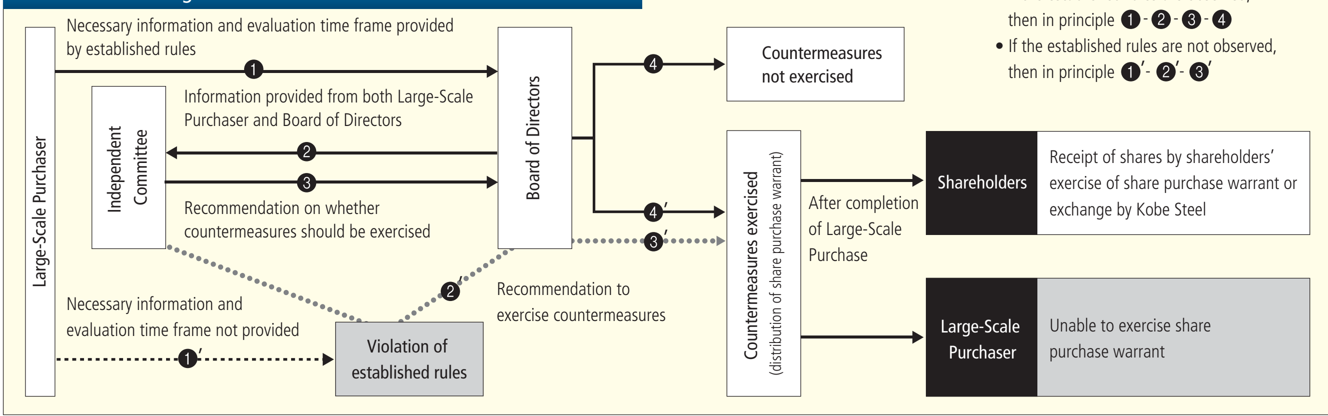
The Board of Directors decides whether to initiate takeover defense measures after giving serious consideration to the Independent Committee's report. The takeover defense measures involve the distribution of share purchase warrants to shareholders under certain terms and conditions, which include prohibiting the exercise of the share purchase warrants by Large-Scale Purchasers. Therefore, exercising these share purchase warrants has the effect of reducing the ratio of the aforementioned Large-Scale Purchasers' voting rights and blocking any Large-Scale Purchase feared to be detrimental to corporate value and the common interests of shareholders.

In addition, as part of the share purchase warrants' terms and conditions, the Board of Directors shall not attach any redemption clauses to the effect that the Company will provide cash as consideration for the redemption of those warrants held by the Large-Scale Purchasers.

### (v) Effective Term

The effective term is set as the date when the first Board of Directors' meeting to be held after the General Meeting of Stockholders, planned to be held in June 2011, has ended.

Schematic Flow Diagram




Note: For details, please refer to the press release "Amendment to Kobe Steel, Ltd.'s Policy on Large-Scale Purchasing of its Shares (Anti-Takeover Measures)" released on April 28, 2009 on the Company's website (http://www.kobelco.co.jp/english).

## Environmental Management Promotion

The Kobe Steel Group recognizes that the obligation to protect the global environment is its most urgent task and, therefore, has adopted the mission to pass on a healthy world to future generations. The Kobe Steel Group formulated a Basic Environmental Management Policy and, accordingly, stepped up efforts to promote environmental management in every facet of its business activities. An Environmental Management Committee is in place to address environmental management issues for the entire Group.

### Basic Environmental Management Policy

Further Enhancing Enterprise Value through Groupwide Environmental Management

—Improving the Group's Environmental Capabilities—

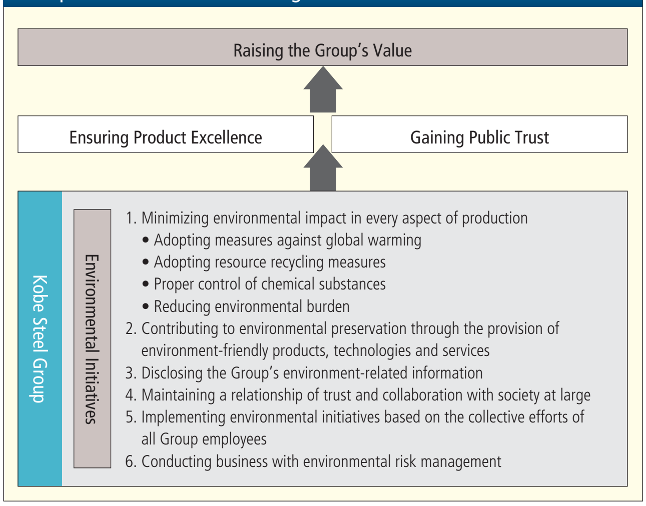
Aiming to remain an advanced environmental business enterprise, the Kobe Steel Group shall fulfill its corporate social responsibilities, improve its environmental capabilities and raise its corporate value by putting the following three principles into practice:

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

To promote Groupwide environmental management, we implement activities based on six principal initiatives. (See chart below.)

Adhering to relevant laws and regulations, the Kobe Steel Group rigorously pursues environment-friendly manufacturing in every aspect of its operations, including the siting and construction of its facilities, the equipment it uses, and procurement, production, distribution and product recycling. The Group provides products, technologies and services that help reduce its environmental impact with the full participation of its employees.

Groupwide Environmental Management Initiatives

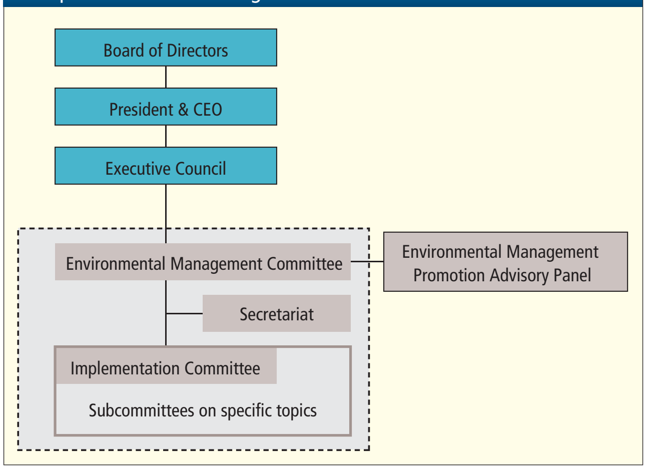



**Group Environmental Management System**

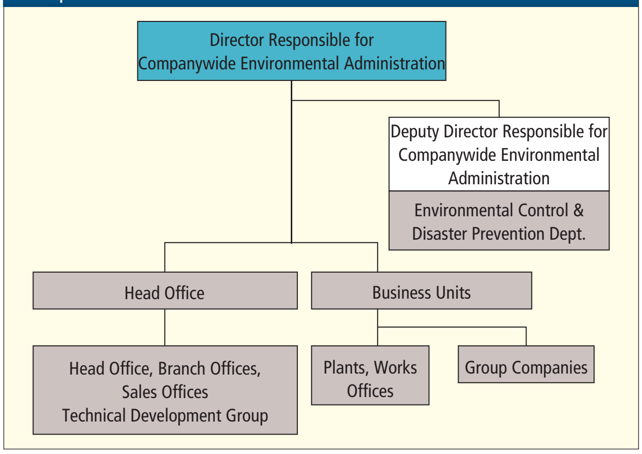
Environmental management in the Kobe Steel Group is promoted mainly through the Environmental Management Committee. This committee, reconstituted in 2002 from the Global Environment Committee originally set up in 1992, works to facilitate a strong management response to a range of environmental problems. In particular, subcommittees have been set up to study such specific issues as global warming countermeasures and to promote activities to make a swift and well-targeted response.

In addition, fiscal 2009 saw the setting up of an Environmental Management Promotion Advisory Panel within the Environmental Management Committee to serve as a conduit for pertinent advice received from external experts.

Group Environmental Management Promotion Structure




Group Environmental Administrative Structure



## Measures against Global Warming

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

### Energy Conservation in Production Processes

In fiscal 2009, the Kobe Steel Group as a whole consumed 209PJ (petajoules) of energy. Of this amount, approximately 95% was used by the Iron and Steel Segment.

Kobe Steel has implemented operational measures at its plants and other production facilities—including the introduction of such state-of-the-art energy conservation technologies as the deployment of highly efficient equipment, continuous processes and exhaust heat recovery—and has also thoroughly implemented combustion and exhaust heat management. As a result, Kobe Steel's business segments achieve the world's highest energy efficiency levels. Moving forward, Kobe Steel will introduce increasingly sophisticated energy conservation technologies and further improve its operations.

#### Iron and Steel Business

In the two decades that followed the 1970s oil shocks, Kobe Steel advanced the efficient use of energy in its Iron and Steel Business by installing energy-saving equipment for continuous and streamlined processes and exhaust-heat recovery. Since the 1990s as well, Kobe Steel has been promoting enhanced exhaust-heat recovery equipment and equipment with greater efficiency and throughout the 2000s has tackled measures that further effectively use waste resources. As a result, given the energy augmenting factors associated with products that are higher in added value and the strengthening of environmental measures, we have achieved energy savings of more than 30% compared with the early 1970s.

In fiscal 2009, the impact of reduced production volume meant that the volume of energy consumed and $CO_2$ emitted declined approximately 7% compared with the previous fiscal year, while $CO_2$ emissions were reduced by 12% against fiscal 1990. Energy consumption and $CO_2$ emissions per metric ton of goods produced worsened slightly from the previous fiscal year, again as a result of the impact of the significant decline in production, although it still represented an improvement of around 12% compared with fiscal 1990.

From fiscal 2010, we anticipate that the volume of energy consumed and $CO_2$ emissions will increase in line with production volume recovery. However, we are striving to meet targets, taking into overall consideration improved operations for each process and the deployment of highly efficient gas turbines in the Kakogawa Works, in tandem with mechanisms put into effect under the Kyoto Protocol and other efforts.

#### Aluminum and Copper Business

At the Aluminum and Copper Business' manufacturing locations—the Moka Plant, Chofu Works and the Daian Plant—we are steadily switching from such petroleum-based fuels as heavy oil and LPG to natural gas. In tandem with this shift, we are working to make combustion equipment more efficient and to better recover exhaust heat.

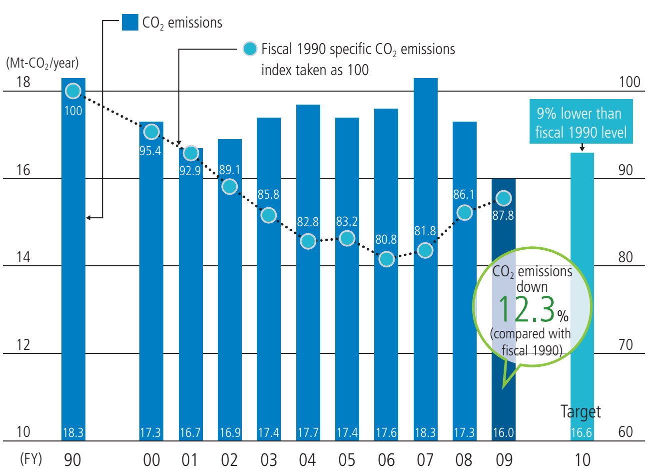
In fiscal 2009, the effect of substantially reduced production volumes was an over 10% reduction in $CO_2$ emissions compared with the previous fiscal year. On the other hand, the reduced production levels had a marked impact on energy used per metric ton of goods, which deteriorated by approximately 3%.

From fiscal 2010, we will continue to shift fuel types and improve consumption efficiency, install inverter drive motors and take other steps linked to the reduction of energy consumption.

Iron and Steel Business

Trends in $CO_2$ Emissions and Specific $CO_2$ Emissions Index (Approximate figures)

■ $CO_2$ emissions (Mt-$CO_2$/year) ● Index of specific $CO_2$ emissions

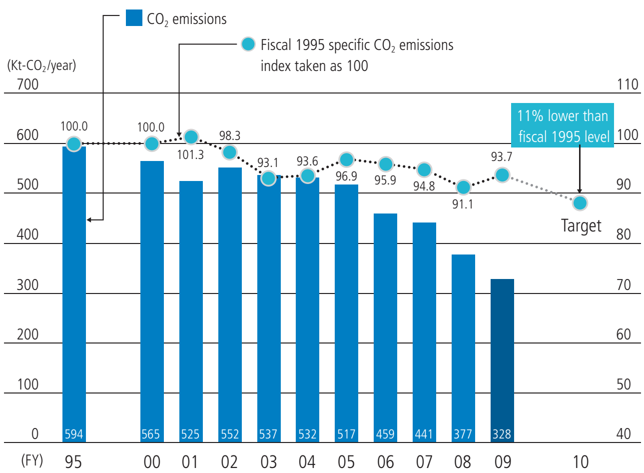



Note: Aggregate figures for the Iron and Steel Business, including coke production. Based on heat generation volumes listed in Comprehensive Energy Statistics (Resources and Energy Agency) and emissions listed in the National Greenhouse Gas Inventory Report of Japan; Fiscal 2009 statistics for emissions of purchased electricity have not yet been disclosed, so those from fiscal 2008 were used.

Aluminum and Copper Business

Trends in $CO_2$ Emissions and Specific $CO_2$ Emissions Index (Approximate figures)

■ $CO_2$ emissions (Kt-$CO_2$/year) ● Index of specific $CO_2$ emissions



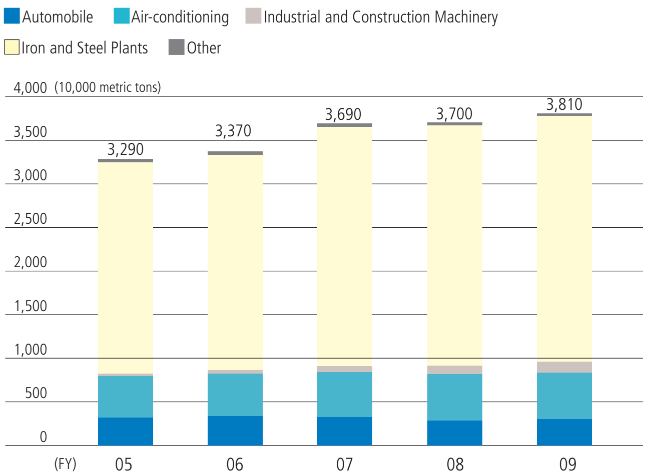
### Contributing to Reduced $CO_2$ Emissions through "Only One" Technologies and Products

Whether it is in such materials businesses as iron and steel or aluminum and copper, or in the fields of machinery or engineering, the Kobe Steel Group brings its strengths in diverse management capabilities to bear as it leverages its Only One technologies and products to reduce $CO_2$ emissions. Kobe Steel estimates that in fiscal 2009, the $CO_2$ emissions reduction effect, both in Japan and overseas, provided by Group products amounted to approximately 38.1 million metric tons. Kobe Steel will continue to contribute to the realization of a low-carbon society through its distinctive *monozukuri* (manufacturing) capabilities.

**THE $CO_2$ EMISSIONS REDUCTION EFFECT PROVIDED BY GROUP PRODUCTS, BOTH IN JAPAN AND OVERSEAS IN FISCAL 2009:**

approximately **38.1** million metric tons

$CO_2$ Emissions Reduction by Sector




## Automobiles: Steel and Aluminum Products

**$CO_2$ EMISSIONS REDUCTION EFFECT THROUGH STEEL AND ALUMINUM PRODUCTS THAT MAKE AUTOMOBILES LIGHTER:**

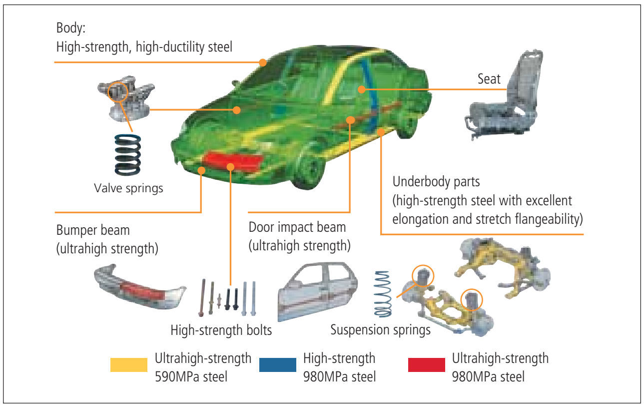
approximately **3** million metric tons

Calculated based on Japan Iron and Steel Federation and Japan Aluminium Association figures; results from fiscal 2009 take into account an automobile's average service life.

**Automobile weight reduction with iron and steel products**

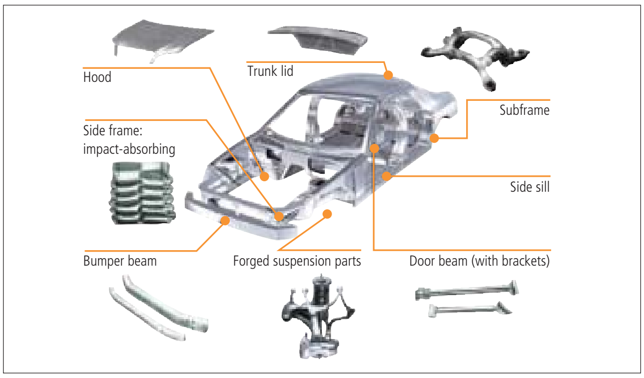
With steel wire rod and bar, Kobe Steel develops and mass produces the world's strongest spring steel and bolt steel, contributing to lighter automobiles and higher performance engines. Kobe Steel spring steel for automotive suspension systems and engine intake valve springs enable weight reductions of 20% and 50%, respectively, compared with conventional products.

Kobe Steel is also developing and implementing a production and supply structure for high-strength steel sheet, utilizing the chemical composition expertise gained from specialty steels for wire rod and bar and the microstructure control from heating and cooling processes. Realizing high tensile strength and exceptional formability, high-strength steel sheet is an ideal material for reducing the weight of the structural components that make up the vehicle body, seat, bumper and door impact beams as well as other parts.




**Aluminum products that reduce vehicle weight**

Kobe Steel was an early adopter of aluminum materials to reduce vehicle weight. Aluminum is particularly effective as panel sheet used for hoods and doors, for such extruded parts as bumpers, and for such forged underbody components as suspensions, which contribute to making vehicles more fuel efficient.




## Air-Conditioning

**$CO_2$ EMISSIONS REDUCTION EFFECT THROUGH HIGH-PERFORMANCE HEAT EXCHANGERS EQUIPPED WITH HIGH-PERFORMANCE INNER-GROOVED COPPER TUBE FOR AIR CONDITIONERS:**

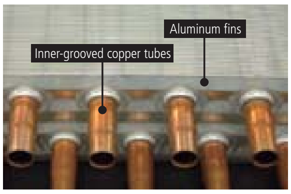
approximately **5.3** million metric tons

Determined based on the Japan Copper and Brass Association's calculation method; results from fiscal 2009 take into account air conditioner life cycles.

**Copper tube in air conditioner heat exchangers reduce $CO_2$ emissions**

Given their high heat transfer performance and conductivity, copper products are playing a major role in improving energy savings for air conditioners, control equipment and other products. Particularly in the case of air conditioners, the development of high-performance grooved copper tubes has further raised the ability to transfer heat. This is possible by processing grooves into the interior surface of the copper tubes used in heat exchangers. Compared with 1990, there has been a two-fold improvement in air conditioner coefficient of performance (COP*); approximately one-third of this is thought to be the result of the higher performance of heat exchangers equipped with inner-grooved copper tubes. Kobe Steel provides about 30% of the copper tubes used in air conditioners, contributing to the reduction of $CO_2$ emissions.

* The COP index is used to state air conditioner performance, comparing the ability to heat and cool against electric power consumed.




Cutaway view of heat exchanger for air conditioner

## Industrial Machinery

**$CO_2$ EMISSIONS REDUCTION EFFECT FROM COMPRESSORS, HEAT PUMPS, EQUIPMENT THAT USES STEAM AND OTHER INDUSTRIAL MACHINERY:**

approximately **900,000** metric tons

Results from fiscal 2009 take into account product life cycles.

**Efforts with compressors that consume approximately 30% of industrial power**

Compressors consume 25% to 30% of overall electric power volume at a typical Japanese factory. To improve upon this, the Kobe Steel Group focused its accumulated machinery and engineering technologies and developed the KOBELION™, a standard compressor that realizes a significant reduction in energy consumption. Having become a mainstay product, the KOBELION™-VS/VX series maximizes the inverter control range to curb wasted power consumption. Responding to various load fluctuations, this product realizes low-energy operation that cuts power consumption by approximately 40%.

**Utilization of untapped steam energy spreads**

The Kobe Steel Group-developed, screw-type compact steam energy generator SteamStar® utilizes steam emitted from compact boilers used in small- to mid-sized manufacturing facilities to enable highly efficient power generation. Compared to the 30% to 40% power generation efficiency of traditional turbine-type power generators, SteamStar® realizes efficiency of 60%, the world's highest. If 10% of the approximately 250,000 small boilers in Japan were SteamStar®, it has been calculated that 5 million metric tons of $CO_2$ emissions could be cut annually.

SteamStar®, recipient of the 2008 Excellent Energy-Saving Equipment Award

**The industry's most energy-efficient water-cooled screw chiller**

In the field of water-cooled screw chillers, Kobe Steel has developed the High Efficiency Mini series that realizes high energy efficiency. The main product in the lineup, High Efficiency Mini II, achieves the highest ranked energy efficiency of COP6.0—six units of heat energy are removed for every one unit of energy consumed—to realize a 70% cut in $CO_2$ emissions over a year.

## Construction Machinery

**$CO_2$ EMISSIONS REDUCTION EFFECT FROM HYDRAULIC EXCAVATORS:**

approximately **400,000** metric tons

Results from fiscal 2009 take into account product life cycles.

**$CO_2$ emissions reduction effect from construction machinery**

Launched in 2006 by Kobelco Construction Machinery Co., Ltd., the ACERA GEOSPEC hydraulic excavator complies with Tier III regulations that control $NO_X$ and hydrocarbon emissions and has improved fuel efficiency by 20% compared with conventional machinery. ACERA GEOSPEC significantly cuts operational noise and vibration while offering advanced features that consider both the environment and people. On a factory delivery basis, approximately 50,000 units of this model have been sold both in Japan and overseas. In fiscal 2009, ACERA GEOSPEC contributed to $CO_2$ emissions reductions of approximately 400,000 metric tons through improved fuel efficiency.

The eco-friendly ACERA GEOSPEC hydraulic excavator

## Iron and Steel Plants

**$CO_2$ EMISSIONS REDUCTION EFFECT FROM IRON AND STEEL PLANTS:**

approximately **28.2** million metric tons

The effect of annual reduction that took place in MIDREX® and FASTMET® plants in operation in 2009

**The MIDREX® Process: A way to slash $CO_2$ emissions by using natural gas to convert iron ore into direct reduced iron**

Iron ore has conventionally been reduced using lump ore or coking coal. With the MIDREX® Process, however, natural gas is used as a reducing agent, enabling substantial reductions to $CO_2$ emissions. The MIDREX® Process, the license of which is held by Kobe Steel, is used in approximately 60% of direct reduced iron production worldwide. There are presently about 60 direct reduction plants around the world that use the MIDREX® Process.

**The ITmk3® Process: Tapping unutilized resources with third-generation ironmaking to open up a low-carbon future**

Originally there was the blast furnace process, then the Kobe Steel Group developed the MIDREX® Process, and now there is a third generation of ironmaking, the proprietary ITmk3® Process. Taking advantage of low-grade iron ore and steaming coal that are difficult to use in conventional blast furnaces, the ITmk3® Process uses a rotary hearth furnace to produce high-purity iron nuggets. There is no need for sintering equipment for the lump ore and coke ovens for the coking coal required by blast furnaces. In addition to being able to reduce the environmental impact of $NO_X$ and $SO_X$, there is the potential to reduce $CO_2$ emissions by approximately 20% compared with ironmaking using blast furnaces in emerging markets or at mine sites.

# 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).

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

## Directors, Corporate Auditors, and Corporate Officers

(As of June 23, 2010)

**President, Chief Executive Officer and Representative Director**
Hiroshi Sato

### Head Office

**Executive Vice President and Representative Director**
Tomoyuki Kaya

**Senior Managing Directors**
Yutaka Kawata
Hiroaki Fujiwara

**Senior Officers**
Hiroji Izumi
Yuichi Seki
Hiroya Kawasaki

**Officers**
Akira Kaneko
Masahiro Hanaoka

### Iron and Steel Business

**Executive Vice President and Representative Director**
Ikuhiro Yamaguchi*

**Senior Officers**
Hiroyoshi Tsumura
Yoshinori Onoe

**Officers**
Akihiko Tsukamoto
Naoto Umehara
Shinya Miyawaki
Yukimasa Miyashita
Michihide Iwasa
Masahiro Kawase
Koji Fujii

### Welding Business

**Managing Director**
Tsuyoshi Kasuya*

**Officer**
Mitsuo Takamura

### Aluminum and Copper Business

**Senior Managing Director**
Tetsu Takahashi*

**Executive Officer**
Ryosuke Shimomura

**Officers**
Ryusuke Hamanaka
Takahiko Sato

### Machinery Business

**Executive Vice President and Representative Director**
Kazuo Shigekawa*

**Senior Officer**
Kazuhide Naraki

**Officer**
Takao Ohama

### Natural Resources and Engineering Business

**Executive Vice President and Representative Director**
Takashi Matsutani*

**Executive Officer**
Jun Tanaka

**Senior Officer**
Seiji Okita

**Officer**
Shohei Manabe

### Outside Directors

Atsushi Nakano
Takao Kitabata

### Corporate Auditors

Toshinori Okoshi
Jun Miyazaki
Takasuke Kaneko**
Yoshikazu Ikeda**
Shigeo Sasaki**

*Head of the business unit
**Outside corporate auditor

# Domestic and Overseas Offices

## Head Offices

**Kobe Head Office**
Shinko Building,
10-26, Wakinohamacho 2-chome, Chuo-ku, Kobe,
HYOGO 651-8585, JAPAN
Phone: (078) 261-5111 Fax: (078) 261-4123

**Tokyo Head Office**
9-12, Kita-Shinagawa 5-chome, Shinagawa-ku,
TOKYO 141-8688, JAPAN
Phone: (03) 5739-6000 Fax: (03) 5739-6903

## Branch Offices

**Osaka**
Midosuji Mitsui Building,
1-3, Bingomachi 4-chome, Chuo-ku, Osaka,
OSAKA 541-8536, JAPAN
Phone: (06) 6206-6111 Fax: (06) 6206-6101

**Nagoya**
Nagoya Prime Central Tower,
27-8, Meieki 2-chome, Nishi-ku, Nagoya,
AICHI 451-0045, JAPAN
Phone: (052) 584-6111 Fax: (052) 584-6105

**Sales Offices**

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

**Research Laboratory**
Kobe Corporate Research Laboratories
5-5, Takatsukadai 1-chome, Nishi-ku, Kobe,
HYOGO 651-2271, JAPAN
Phone: (078) 992-5600 Fax: (078) 992-5532

## Overseas Contacts

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NY 10022, U.S.A.
Phone: +1-212-751-9400 Fax: +1-212-355-5564

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

**Singapore**
Kobe Steel Asia Pte. Ltd.
72 Anson Road #11-01A Anson House, Singapore
079911, REPUBLIC OF SINGAPORE
Phone: +65-6221-6177 Fax: +65-6225-6631

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

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KINGDOM OF THAILAND
Phone: +66-2636-8971 to 8974 Fax: +66-2636-8675

**Beijing**
Kobe Steel, Ltd.
Beijing Office
Unit 1005, Bldg. A, The Lucky Tower,
No. 3 North Dongsanhuan Road, Chaoyang District,
Beijing 100027, PEOPLE'S REPUBLIC OF CHINA
Phone: +86-10-6461-8491 Fax: +86-10-6461-8490

**Shanghai**
Kobe Steel Consulting Co., Ltd.
Room F2, 14F, Jiushi Fuxing Mason, No.918 Huai Hai
Zhong Lu, Shanghai 200020,
PEOPLE'S REPUBLIC OF CHINA
Phone: +86-21-6415-4977 Fax: +86-21-6415-9409

# Investor Information

(As of March 31, 2010)

| | |
|---|---|
| **Founded** | September 1905 |
| **Incorporated** | June 1911 |
| **Employees** | 10,129 (Consolidated 33,629) |
| **Fiscal Year** | April 1– March 31 |

**Ordinary General Meeting of Stockholders**

June of each year

**Authorized and Issued Share Capital**

Authorized: 6,000,000,000 shares

Issued: 3,115,061,100 shares

## Principal Stockholders

At March 31, 2010, the ten largest stockholders of the Company Stockholdings were as follows:

| | Thousands of shares | Percent |
|---|---|---|
| Nippon Life Insurance Company | 125,310 | 4.02 |
| Nippon Steel Corporation | 107,345 | 3.45 |
| Sumitomo Metal Industries, Ltd. | 107,345 | 3.45 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 102,559 | 3.29 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 96,570 | 3.10 |
| Mizuho Corporate Bank, Ltd. | 64,669 | 2.08 |
| Mitsubishi UFJ Trust and Banking Corporation | 52,333 | 1.68 |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 47,348 | 1.52 |
| Sojitz Corporation | 45,016 | 1.45 |
| Nissay Dowa General Insurance Company, Limited | 35,223 | 1.13 |

*The Company's holdings of treasury stock (107,643 thousand shares) are not included in the above figures.

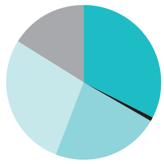
## Listing and Quotations

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

## Depositary for American Depositary Receipts

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

## Distribution of Shares




## Directors' and Corporate Auditors' Stockholdings

The following is a list of the directors and corporate auditors and their stockholdings in the Company at March 31, 2010.

| | Number of shares owned |
|---|---|
| Hiroshi Sato | 209,000 |
| Tomoyuki Kaya | 129,000 |
| Takashi Matsutani | 147,000 |
| Kazuo Shigekawa | 110,000 |
| Ikuhiro Yamaguchi | 95,000 |
| Tetsu Takahashi | 66,120 |
| Yutaka Kawata | 99,000 |
| Hiroaki Fujiwara | 92,000 |
| Tsuyoshi Kasuya | 71,000 |
| Atsushi Nakano | 10,000 |
| Takao Kitabata | 0 |
| Toshinori Okoshi | 52,000 |
| Jun Miyazaki | 70,000 |
| Takasuke Kaneko | 53,000 |
| Yoshikazu Ikeda | 12,000 |
| Shigeo Sasaki | 7,000 |

## Public Notices

http://www.kobelco.co.jp

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

## Transfer Agent & Office

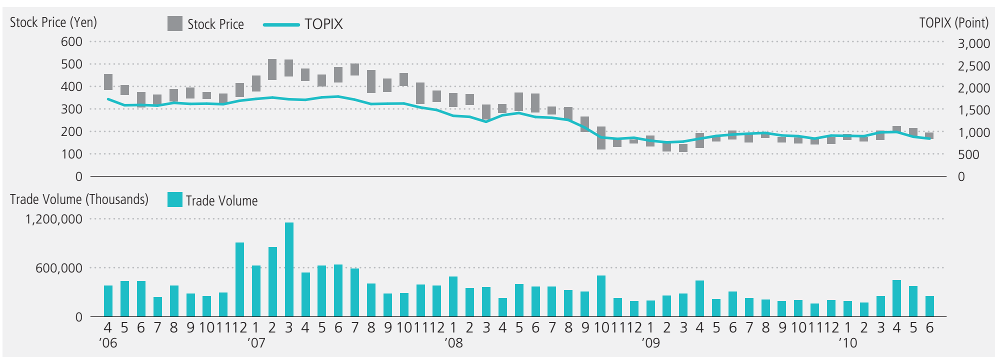
Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku,
TOKYO 100-8212, JAPAN

## Independent Auditors

KPMG AZSA & Co.
6-5, Kawara-machi 3-chome, Chuo-ku,
OSAKA 541-0048, JAPAN

## Common Stock Price Range

Tokyo Stock Exchange (High / Low)




## Information

### Japan

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### U.S.A.

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KOBE STEEL GROUP

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