

To Our Shareholders

In fiscal 2010, the first year of the Kobe Steel Group's medium- to long-term business vision entitled KOBELCO VISION "G," both revenues and earnings increased compared with the previous fiscal year.

The Group is steadily bolstering its operating platform and overseas business while taking significant strides toward realizing its medium- to long-term business vision.



Hiroshi Sato, *President, CEO and Representative Director*

I would like to start off by expressing my deepest condolences to the victims and my sympathies to everyone who was affected by the Great East Japan Earthquake of March 11, 2011. The Kobe Steel Group has a number of facilities in eastern Japan including the Moka Plant in Tochigi Prefecture, which manufactures aluminum flat products. Fortunately, however, none of these facilities suffered any fatalities or significant damage. Nevertheless, many of our business partners received direct damage from the earthquake, which has, as a result, affected production. Although the Kobe Steel Group was devastated by the Great Hanshin-Awaji Earthquake that struck in 1995, we were able to recover thanks to the support of many people. As a company that has experienced past devastation, Kobe Steel has been providing assistance to disaster areas. Supplying our products and technologies, we are hoping to meet social needs and contribute in a small way to the recovery effort.

Fiscal 2010 Overview

Thanks to the economic stimulus measures of various countries and the growth of emerging economies including China, the developed economies of Japan, the United States and Europe continued on a slow path to recovery. Against this

backdrop, the sales volumes of the Group's steel, aluminum and copper rolled products surpassed those of the previous fiscal year, buoyed by firm demand from manufacturing industries in and outside Japan. Unit sales of hydraulic excavators greatly exceeded those of fiscal 2009 primarily behind growing demand in China. As a result, consolidated net sales increased ¥187.6 billion, to ¥1,858.6 billion. Meanwhile, despite the impact of rising prices of steel raw materials, ordinary income surged ¥78.8 billion, to ¥89.1 billion on the back of higher sales volumes, cost reductions and other factors. The financial impact that the Great East Japan Earthquake had on Company earnings, including the opportunity loss of decreased production levels, was -¥3.0 billion on an ordinary income basis.

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

The Group is steadily implementing measures for achieving its corporate vision outlined in its medium- to long-term business vision entitled KOBELCO VISION "G," which was announced in fiscal 2010. With the pursuit of growth and business expansion as one of the pillars of KOBELCO VISION "G," the status of key initiatives in each segment thus far is as follows.

Iron and Steel Business

- ▶ The Company decided to build a new production line for high-strength cold-rolled steel sheet for use in automobiles at its joint venture with U.S.-based United States Steel Corporation. It aims to expand into other world regions with similar projects.
- ▶ Having recently established the Global Business Planning Department within the Company's head office, Kobe Steel will examine projects that can utilize the direct reduced iron technology of the Natural Resources and Engineering Business.
- ▶ A new company was established in the titanium field in Japan. Plans call for the installation of Japan's first advanced 50,000-metric-ton forging press. The company will produce large forgings for aircraft, a field with global growth prospects.

Welding Business

- ▶ Sales companies were established in India and South Korea.
- ▶ Production capacity was increased at existing manufacturing bases in China and further increases in capacity will be considered. We will also look into expanding into other world regions.

Aluminum and Copper Business

- ▶ A manufacturing and sales company for aluminum forgings for automobile suspensions was established in China.
- ▶ Kobe Steel will expand overseas, especially into Asia, in these and other product areas.

Machinery Business

- ▶ Production capacity was increased at compressor manufacturing bases in China and North America. An equity stake was taken in a Chinese compressor manufacturer.
- ▶ A manufacturing and sales company for tire and rubber machinery was established in India.
- ▶ We will examine the possibility of entering the South American market.

Natural Resources and Engineering Business

- ▶ The first commercial plant using the ITmk3® Process, a new ironmaking technology developed by Kobe Steel, commenced operation in Minnesota, USA last year. A second and third such project for Vietnam and India are now under study.

Kobelco Eco-Solutions

- ▶ A subsidiary in Vietnam and joint-venture company in India were established. Our focus will be on developing the water treatment business primarily from these two bases.
- ▶ Market highly efficient waste power generation plants in Europe.

Kobelco Construction Machinery

- ▶ A newly established manufacturing base in India commenced production.
- ▶ Production capacity will be increased at manufacturing bases to accommodate demand growth in each region.
- ▶ A Global Engineering Center (GEC) will be set up in Hiroshima as a base to manage global production and development and drive our global strategy forward.

Kobelco Cranes

- ▶ A decision was made to set up new manufacturing bases in India and China, which are now under construction. We seek to increase our competitive edge through greater local procurement.

The ability to supply distinctive technologies, products and services by applying the original technologies and know-how developed by each business and merging them together is a strength of the Kobe Steel Group. We will leverage this strength to capture demand in growth regions and fields with the goal of establishing the Group's presence in global markets.

In Conclusion

The Kobe Steel Group views the returning of profits to shareholders and the periodic distribution of those profits as one of its most important management issues. The Group pays dividends on a stable and continuous basis. The actual amount of the dividend is decided after taking into full account the Company's performance, dividend payout ratio, investment capital needs for future growth, relative improvement in financial position, and other factors. The standard dividend payout ratio that we are targeting for now is 15% to 25% of consolidated net income. Based on these policies, in fiscal 2010, we paid an interim and year-end dividend of ¥1.5 per share.

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

August 2011



Hiroshi Sato
President, CEO and Representative Director