Financial Section

Contents

Consolidated Balance Sheets

As of March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2011	2010	2011
Current assets:			
Cash and time deposits (Note 15)	¥ 145,875	¥ 131,939	$ 1,754,360
Notes and accounts receivable			
Trade and finance	287,703	253,756	3,460,048
Unconsolidated subsidiaries and affiliates	56,456	56,317	678,966
Other	73,109	93,785	879,242
Allowance for doubtful accounts	(571)	(819)	(6,867)
	416,697	403,039	5,011,389
Merchandise and finished goods	131,139	126,812	1,577,138
Work-in-process	127,512	138,071	1,533,518
Raw materials and supplies	122,695	102,179	1,475,586
Deferred income taxes (Note 13)	21,584	32,194	259,579
Other	31,255	38,378	375,887
Total current assets	996,757	972,612	11,987,457
Investments and other assets:			
Investments in securities (Note 5)	141,317	145,975	1,699,543
Investments in and advances to unconsolidated subsidiaries and affiliates	67,470	52,389	811,425
Long-term loans receivable	5,790	8,187	69,633
Other	50,265	68,150	604,510
Allowance for doubtful accounts	(3,129)	(3,886)	(37,631)
Total investments and other assets	261,713	270,815	3,147,480
Plant and equipment (Note 7):			
Land	204,949	204,299	2,464,811
Buildings and structures	689,613	683,865	8,293,602
Machinery and equipment	2,063,261	2,030,009	24,813,722
Construction in progress	75,102	68,462	903,211
	3,032,925	2,986,635	36,475,346
Less accumulated depreciation	(2,099,585)	(2,018,565)	(25,250,571)
Total plant and equipment	933,340	968,070	11,224,775
Intangible assets	22,232	21,386	267,372
Deferred income taxes (Note 13)	17,491	16,463	210,354
	¥2,231,533	¥2,249,346	$26,837,438

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2011	Millions of yen 2010	Thousands of U.S. dollars (Note 1) 2011
Current liabilities:			
Short-term borrowings (Note 7)	¥ 80,443	¥ 108,475	$ 967,444
Current portion of long-term debt (Note 7)	126,051	59,637	1,515,947
Notes and accounts payable:			
Trade	391,678	357,946	4,710,499
Construction	16,981	21,463	204,221
Unconsolidated subsidiaries and affiliates	94,898	86,384	1,141,287
Other	20,724	19,004	249,237
	524,281	484,797	6,305,244
Current portion of lease obligations	6,397	6,128	76,933
Advances from customers	38,597	49,430	464,185
Customers' and employees' deposits	19,849	17,318	238,713
Income and enterprise taxes payable	9,060	6,518	108,960
Provision for loss on construction contracts	8,884	2,778	106,843
Provision for restructuring costs	18	3,038	217
Deferred income taxes (Note 13)	2,281	2,059	27,432
Other	72,519	67,995	872,147
Total current liabilities	888,380	808,173	10,684,065
Long-term liabilities:			
Long-term debt (Note 7)	618,448	738,357	7,437,739
Lease obligations	36,453	41,969	438,400
Employees' severance and retirement benefits (Note 17)	29,346	33,248	352,928
Provision for environmental measures	2,497	2,780	30,030
Deferred income taxes (Note 13)	20,959	29,425	252,063
Other	38,082	38,392	457,992
Total long-term liabilities	745,785	884,171	8,969,152
Contingent liabilities (Note 8)			
Net assets:			
Stockholders' equity:			
Common stock (Note 9)	233,313	233,313	2,805,929
Authorized — 6,000,000,000 shares			
Issued — 3,115,061,100 shares in 2011			
Capital surplus (Note 9)	83,125	83,125	999,699
Retained earnings (Note 9)	302,377	258,854	3,636,524
Treasury stock, at cost:			
114,026,072 shares in 2011	(51,629)	(51,379)	(620,913)
	567,186	523,913	6,821,239
Accumulated other comprehensive income:			
Unrealized gains on securities, net of taxes	19,743	22,529	237,438
Unrealized gains or losses on hedging derivatives, net of taxes	585	883	7,035
Land revaluation differences, net of taxes	(4,757)	(4,867)	(57,210)
Foreign currency translation adjustments	(34,126)	(25,787)	(410,415)
	(18,555)	(7,242)	(223,152)
Minority interests	48,737	40,331	586,134
Total net assets	597,368	557,002	7,184,221
	¥2,231,533	¥2,249,346	$26,837,438

Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income

Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Net sales	¥1,858,574	¥1,671,022	$22,352,063
Cost of sales	(1,570,779)	(1,475,461)	(18,890,908)
Gross profit	287,795	195,561	3,461,155
Selling, general and administrative expenses (Note 11)	(163,244)	(149,545)	(1,963,248)
Operating income	124,551	46,016	1,497,907
Non-operating income (expenses):			
Interest and dividend income	5,505	4,319	66,206
Interest expense	(20,685)	(21,322)	(248,767)
Seconded employees' salaries, net of reimbursement	(10,474)	(11,629)	(125,965)
Foreign exchange loss	(4,233)	(1,614)	(50,908)
Equity in income of unconsolidated subsidiaries and affiliates	3,078	1,808	37,017
Other, net	(8,659)	(7,319)	(104,137)
	(35,468)	(35,757)	(426,554)
Ordinary income	89,083	10,259	1,071,353
Extraordinary income (losses):			
Gain on sale of securities	2,166	—	26,049
Compensation for removal	—	7,419	—
Loss on adjustment for changes of accounting standard for asset retirement obligations	(2,381)	—	(28,635)
Loss on impairment of fixed assets (Note 12)	—	(3,577)	—
	(215)	3,842	(2,586)
Income before income taxes and minority interests	88,868	14,101	1,068,767
Income taxes (Note 13):			
Current	16,311	9,272	196,163
Deferred	3,069	(8,266)	36,909
	19,380	1,006	233,072
Income before minority interests	69,488	13,095	835,695
Minority interests in income of subsidiaries	16,548	6,790	199,014
Net income	¥ 52,940	¥ 6,305	$ 636,681

	Yen		U.S. dollars (Note 1)
Per share	2011	2010	2011
Net income	¥ 17.63	¥ 2.10	$ 0.21
Cash dividends applicable to the year	3.00	1.50	0.04

See accompanying notes.

Effective from the year ended March 31, 2011, the Group has adopted the revised accounting standard, "Accounting Standard for Disclosure about Segments of an Enterprise and Related information" (Statement No. 17, revised by the Accounting Standards Board of Japan on March 27, 2009) and the revised guidance, "Guidance on Accounting Standard for Disclosure about Segments of an Enterprise and Related information" (Guidance No. 20, revised by the Accounting Standards Board of Japan on March 21, 2008).
The Group shows ordinary income (expenses) because ordinary income (expenses) is an important management indicator at the Group.
Ordinary income (expenses) means the indicator added (substracted) non-operating income (expenses) to operating income (expenses).

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Income before minority interests	¥69,488	¥13,095	$835,695
Other comprehensive income:			
Unrealized gains or losses on securities, net of taxes	(2,578)	21,951	(31,004)
Unrealized gains or losses on hedging derivatives, net of taxes	(520)	10,342	(6,254)
Land revaluation differences, net of taxes	50	27	601
Foreign currency translation adjustments	(10,911)	2,162	(131,221)
Share of other comprehensive income related to affiliates	45	330	541
Total other comprehensive income	(13,914)	34,812	(167,337)
Total comprehensive income	¥55,574	¥47,907	$668,358
Total comprehensive income attributable to:			
Equity holders of the parent	¥41,636	¥37,493	$500,733
Minority interests	13,938	10,414	167,625

See accompanying notes.

Kobe Steel, Ltd. and Consolidated Subsidiaries

Consolidated Statements of Changes in Net Assets (Note 14)

Years ended March 31, 2011 and 2010

	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, 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
Cash dividends				(9,022)							(9,022)
Net income				52,940							52,940
Purchase of treasury stock					(321)						(321)
Sale of treasury stock				(35)	71						36
Decrease due to changes in scope of consolidation				(299)							(299)
Adjustment to land revaluation				(61)							(61)
Net changes in items other than stockholders' equity						(2,786)	(298)	110	(8,339)	8,406	(2,907)
Net changes during the year				43,523	(250)	(2,786)	(298)	110	(8,339)	8,406	40,366
Balance at March 31, 2011	3,115,061	¥233,313	¥83,125	¥302,377	¥(51,629)	¥19,743	¥ 585	¥(4,757)	¥(34,126)	¥48,737	¥597,368

	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, 2010	3,115,061	$2,805,929	$999,699	$3,113,097	$(617,907)	$270,944	$10,619	$(58,533)	$(310,126)	$485,039	$6,698,761
Cash dividends				(108,503)							(108,503)
Net income				636,681							636,681
Purchase of treasury stock					(3,860)						(3,860)
Sale of treasury stock				(421)	854						433
Decrease due to changes in scope of consolidation				(3,596)							(3,596)
Adjustment to land revaluation				(734)							(734)
Net changes in items other than stockholders' equity						(33,506)	(3,584)	1,323	(100,289)	101,095	(34,961)
Net changes during the year				523,427	(3,006)	(33,506)	(3,584)	1,323	(100,289)	101,095	485,460
Balance at March 31, 2011	3,115,061	$2,805,929	$999,699	$3,636,524	$(620,913)	$237,438	$ 7,035	$(57,210)	$(410,415)	$586,134	$7,184,221

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Cash flows from operating activities:			
Income before income taxes	¥ 88,868	¥ 14,101	$1,068,767
Depreciation	114,820	118,835	1,380,878
Interest and dividend income	(5,505)	(4,319)	(66,206)
Interest expense	20,685	21,322	248,767
Loss (gain) on sale of securities	(2,826)	(960)	(33,987)
Loss on write-down of securities	1,977	865	23,776
Equity in income of unconsolidated subsidiaries and affiliates	(3,078)	(1,808)	(37,017)
Loss on adjustment for changes of accounting standard for asset retirement obligations	2,381	—	28,635
Loss on impairment of fixed assets	—	3,577	—
Loss on sale and disposal of plant and equipment	2,524	2,996	30,355
Decrease (increase) in trade receivables from customers	(39,295)	(9,083)	(472,580)
Decrease (increase) in lease receivables and investment assets	(15,492)	(8,336)	(186,314)
Decrease (increase) in inventories	(17,666)	98,566	(212,459)
Increase (decrease) in trade payables to customers	54,560	(40,878)	656,164
Other	(2,983)	8,381	(35,875)
Subtotal	198,970	203,259	2,392,904
Cash received for interest and dividends	6,532	6,080	78,557
Cash paid for interest	(20,694)	(21,359)	(248,875)
Cash paid for income taxes	(7,013)	(15,087)	(84,342)
Net cash provided by operating activities	177,795	172,893	2,138,244
Cash flows from investing activities:			
Purchase of plant, equipment and other assets	(96,609)	(128,227)	(1,161,864)
Proceeds from sale of plant, equipment and other assets	1,763	5,138	21,203
Purchase of investments in securities	(3,634)	(1,500)	(43,704)
Proceeds from sale of investments in securities	3,827	1,499	46,025
Decrease (increase) in short-term loans receivable	(51)	78	(613)
Payments for long-term loans receivable	(977)	(2,867)	(11,750)
Proceeds from collection of long-term loans receivable	3,267	437	39,290
Proceeds from compensation for removal	—	5,641	—
Purchase of investments in subsidiaries resulting in change in scope of consolidation	1,481	(95)	17,811
Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation	(14)	—	(168)
Other	(5,740)	(428)	(69,032)
Net cash used in investing activities	(96,687)	(120,324)	(1,162,802)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	(25,616)	(9,669)	(308,070)
Increase (decrease) in commercial paper	—	(55,000)	—
Proceeds from long-term debt	9,805	93,016	117,919
Repayment of long-term debt	(61,665)	(37,078)	(741,612)
Proceeds from issuance of bonds	—	33,000	—
Repayment of bonds	(236)	(69,359)	(2,838)
Proceeds from sale-leaseback transactions	—	23,846	—
Repayments of finance lease obligations	(6,321)	(4,750)	(76,019)
Payment of dividends	(8,966)	(76)	(107,829)
Other	(5,197)	(3,571)	(62,502)
Net cash used in financing activities	(98,196)	(29,641)	(1,180,951)
Effect of exchange rate changes on cash and cash equivalents	(4,903)	632	(58,965)
Increase (decrease) in cash and cash equivalents	(21,991)	23,560	(264,474)
Cash and cash equivalents at beginning of year	211,699	187,745	2,545,989
Increase in cash and cash equivalents resulting from change in scope of consolidation	—	394	—
Cash and cash equivalents at end of year (Note 15)	¥189,708	¥211,699	$2,281,515

See accompanying notes.

Kobe Steel, Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

Years ended March 31, 2011 and 2010

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, 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, 2011, which was ¥83.15 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, 2011, the accounts of 164 (163 in 2010) subsidiaries have been included in the consolidated financial statements. Intercompany transactions and accounts have been eliminated.

Sixty-nine (67 in 2010) 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, 2011, 43 (50 in 2010) 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, Welding and Aluminum and Copper segments and by the specific identification method for finished goods and work in progress in the Machinery, Natural Resources & Engineering, Kobelco Eco-Solutions, Construction Machinery and Kobelco Cranes segments.

(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 16 years for those accrued in 2011, mainly 15 years for those accrued in 2010, mainly 14 years for those accrued in 2009 and 2008, and mainly 12 years for those accrued in and before 2007, which is within the average of the estimated remaining service years of employees commencing with the following period.

(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 completion 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 Asset Retirement Obligations

Effective from the year ended March 31, 2011, the Company and its domestic consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Asset Retirement Obligations" (Statement No. 18 issued by the Accounting Standards Board of Japan on March 31, 2008) and the new application guidance, "Guidance on Accounting Standard for Asset Retirement Obligations" (Guidance No. 21 issued by the Accounting Standards Board of Japan on March 31, 2008). As a result, operating income, ordinary income and income before income taxes were ¥4 million ($48 thousand) , ¥295 million ($3,548 thousand) and ¥2,676 million ($32,183 thousand) less, respectively.

(20) Accounting Standard for Business Combinations and related matters

Effective from the year ended March 31, 2011, the Company and its domestic consolidated subsidiaries adopted the following accounting standards.

"Accounting Standard for Business Combinations" (Statement No. 21 issued by the Accounting Standards Board of Japan on December 26, 2008)

"Accounting Standard for Consolidated Financial Statements" (Statement No. 22 issued by the Accounting Standards Board of Japan on December 26, 2008)

"Partial amendments to Accounting Standard for Research and Development Costs" (Statement No. 23 issued by the Accounting Standards Board of Japan on December 26, 2008)

"Revised Accounting Standard for Business Divestitures" (Statement No. 7 revised by the Accounting Standards Board of Japan on December 26, 2008)

"Revised Accounting Standard for Equity Method of Accounting for Investments" (Statement No. 16 revised by the Accounting Standards Board of Japan on December 26, 2008)

"Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Statement No. 10 revised by the Accounting Standards Board of Japan on December 26, 2008)

(21) Change in presentation method

Consolidated Balance Sheets

The account for "lease receivables and investment assets" was included in current assets and other. Effective from the year ended March 31, 2011, the importance of "lease receivables and investment assets" has increased. Therefore, it is included in trade and finance in 2011 and 2010.

Consolidated Statements of Cash Flows

The account for "Decrease (increase) in lease receivables and investment assets" was included in cash flows from operating activities and other. Effective from the year ended March 31, 2011, the importance of "Decrease (increase) in lease receivables and investment assets" has increased. Therefore, it is presented separately in 2011 and 2010.

(22) Additional information

Effective from the year ended March 31, 2011, the Company and its domestic consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Comprehensive Income" (Statement No. 25 issued by the Accounting Standards Board of Japan on June 30, 2010). As a result of the adoption of this standard, the Company has presented the consolidated statement of comprehensive income in the consolidated financial statements for the fiscal year ended March 31, 2011. The consolidated balance sheet and the consolidated statement of changes in net assets as of and for the fiscal year ended March 31, 2010 have been modified to conform with the new presentation rules of 2011. In addition, the Company has presented the consolidated statement of comprehensive income for the fiscal year ended March 31, 2010 as well as that for the fiscal year ended March 31, 2011.

3. Leases

Original lease obligations as lessee under non-capitalized finance leases at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Buildings and structures	¥—	¥ 417	$—
Machinery and equipment	—	32,110	—
	¥—	¥32,527	$—

Note: The importance of transactions related to non-capitalized finance leases has decreased. Therefore, the notes are omitted for the year ended March 31, 2011.

Future minimum lease payments as lessee under non-capitalized finance leases at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Due within one year	¥—	¥ 5,262	$—
Due after one year	—	6,891	—
	¥—	¥12,153	$—
Lease expense for the years ended March 31	¥—	¥ 7,326	$—

Note: The importance of transactions related to non-capitalized finance leases has decreased. Therefore, the notes are omitted for the year ended March 31, 2011.

Future minimum lease payments as lessee under operating leases at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Due within one year	¥ 5,689	¥ 4,144	$ 68,419
Due after one year	13,199	10,571	158,737
	¥18,888	¥14,715	$227,156

Future minimum lease payments receivable as lessor under operating leases at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Due within one year	¥ 457	¥ 473	$ 5,496
Due after one year	3,110	3,664	37,402
	¥3,567	¥4,137	$42,898

4. Financial Instruments

Policies for using financial instruments

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

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

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

Investments in securities consist principally of 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, 2011 and 2010 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note1)
	2011			2010			2011
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference	Difference
Cash and time deposits	¥145,875	¥145,875	¥ —	¥131,939	¥131,939	¥ —	$ —
Notes and accounts receivable "Trade"	261,721	261,721	—	241,494	241,494	—	—
Investments in securities:							
Held-to-maturity debt securities	26	26	—	30	30	—	—
Securities of subsidiaries and affiliates	16,536	56,042	39,506	17,710	39,798	22,088	475,117
Available-for-sale securities	115,414	115,414	—	121,716	121,716	—	—
Notes and accounts payable "Trade"	(391,678)	(391,678)	—	(357,946)	(357,946)	—	—
Short-term borrowings and current portion of long-term debt	(170,658)	(171,546)	(888)	(168,112)	(168,751)	(639)	(10,679)
Bonds included in current portion of long-term debt	(35,836)	(36,646)	(810)	—	—	—	(9,741)
Bonds included in long-term debt	(177,349)	(184,956)	(7,607)	(213,187)	(220,118)	(6,931)	(91,485)
Long-term borrowings included in long-term debt	(441,099)	(456,956)	(15,857)	(525,170)	(540,805)	(15,635)	(190,704)
Lease obligations	(36,453)	(38,327)	(1,874)	(41,969)	(44,452)	(2,483)	(22,538)
Derivative transactions:							
Hedge accounting is not applied	(705)	(705)	—	(916)	(916)	—	—
Hedge accounting is applied	1,482	1,482	—	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 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)
	2011	2010	2011
Non-listed equity securities	¥58,279	¥57,109	$700,890

The aggregate annual maturities of financial assets at March 31, 2011 and 2010 were as follows:

Cash and time deposits

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Due within 1 year	¥145,875	¥131,939	$1,754,360
Due after 1 year through 5 years	—	—	—
Due after 5 years through 10 years	—	—	—
Due after 10 years	—	—	—
	¥145,875	¥131,939	$1,754,360

Notes and accounts receivable “Trade”

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Due within 1 year	¥256,933	¥236,537	$3,089,994
Due after 1 year through 5 years	2,967	3,069	35,683
Due after 5 years through 10 years	1,064	942	12,796
Due after 10 years	757	946	9,104
	¥261,721	¥241,494	$3,147,577

Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Due within 1 year	¥ 4	¥ 4	$ 48
Due after 1 year through 5 years	15	15	181
Due after 5 years through 10 years	7	11	84
Due after 10 years	—	—	—
	¥26	¥30	$313

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 table summarizes book values of securities with no available fair values as of March 31, 2011 and 2010:

	Millions of yen						Thousands of U.S. dollars (Note1)
	2011			2010			2011
	Book values	Fair values	Difference	Book values	Fair values	Difference	Difference
Held-to-maturity debt securities							
Securities with available book values not exceeding fair values:							
Non-listed domestic bonds	¥26	¥26	¥—	¥30	¥30	¥—	$—

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2011 and 2010:

	Millions of yen						Thousands of U.S. dollars (Note1)
	2011			2010			2011
	Book values	Acquisition costs	Difference	Book values	Acquisition costs	Difference	Difference
Available-for-sale securities							
Securities with available book values exceeding acquisition costs:							
Equity securities	¥ 67,099	¥28,534	¥38,565	¥ 87,486	¥49,271	¥38,215	$463,800
Other	—	—	—	—	—	—	—
	67,099	28,534	38,565	87,486	49,271	38,215	463,800
Securities with available book values not exceeding acquisition costs:							
Other securities:							
Equity securities	48,306	59,764	(11,458)	34,220	40,773	(6,553)	(137,799)
Other	9	10	(1)	10	11	(1)	(12)
	48,315	59,774	(11,459)	34,230	40,784	(6,554)	(137,811)
	¥115,414	¥88,308	¥27,106	¥121,716	¥90,055	¥31,661	$325,989

Sales of available-for-sale securities for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Sales	¥191	¥923	$2,297
Gains on sales	48	583	577
Losses on sales	(3)	(1)	(36)

6. Derivative Transactions

Derivative transactions for which hedge accounting is not applied

Forward currency exchange contracts outstanding at March 31, 2011 and 2010 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note1)
	2011			2010			2011
	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value	Recognized gain (loss)	Recognized gain (loss)
Foreign currency exchange contracts							
To sell foreign currencies:							
U.S. dollars	¥15,265	¥15,450	¥(185)	¥15,801	¥16,285	¥(484)	$(2,225)
Others	260	267	(7)	—	—	—	(84)
To buy foreign currencies:							
U.S. dollars	15,467	15,252	(215)	10,563	10,553	(10)	(2,586)
Others	2,461	2,423	(38)	2,636	2,652	16	(457)
Foreign currency options							
To sell foreign currency options							
Call							
U.S. dollars	¥ 1,655 [36]	¥ 36	¥ 0	¥ —	¥ —	¥ —	$ 0
To buy foreign currency options							
Put							
U.S. dollars	1,655 [36]	24	(12)	—	—	—	(144)
			¥(457)			¥(478)	$(5,496)

Notes:

1. Foreign currency exchange contracts
   The fair values were estimated by multiplying the contracted foreign currency amount by the forward rate.
2. Foreign currency options
   The fair values were estimated by obtaining quotes from counterparty banks.
3. Option premiums were presented below the contracted amount with brackets [ ] .
   Foreign currency options were zero cost options which mean that option premiums were not payed and received.

Interest rate swap agreements outstanding at March 31, 2011 and 2010 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note1)
	2011			2010			2011
	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value	Recognized gain (loss)	Recognized gain (loss)
Interest rate swap agreements							
To receive fixed and pay floating followed by fixed rates	¥35,300	¥(230)	¥(230)	¥35,300	¥(458)	¥(458)	$(2,766)

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

Commodity forward contracts outstanding at March 31, 2011 and 2010 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note1)
	2011			2010			2011
	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value	Recognized gain (loss)	Recognized gain (loss)
Commodity forward contracts							
To sell commodity	¥ 94	¥ 97	¥ (3)	¥ —	¥ —	¥ —	$ (36)
To buy commodity	577	562	(15)	974	994	20	(180)
			¥(18)			¥20	$(216)

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, 2011 and 2010 were as follows:

	Millions of yen				Thousands of U.S. dollars (Note1)
	2011		2010		2011
	Contracted amount	Fair value	Contracted amount	Fair value	Fair value
Hedges for which the "Deferred hedge" method was applied					
Foreign currency exchange contracts					
To sell foreign currencies:					
U.S. dollars	¥43,574	¥42,074	¥30,200	¥29,974	$506,001
Others	4,710	4,762	3,084	2,924	57,270
To buy foreign currencies:					
U.S. dollars	20,200	19,156	3,738	3,776	230,379
Others	5,271	5,436	4,445	4,179	65,376
Foreign currency options					
To sell foreign currency options					
Put					
U.S. dollars	¥21,987 [829]	¥ 714	¥16,752 [717]	¥ 378	$ 8,587
Call					
U.S. dollars	291 [7]	7	—	—	84
To buy foreign currency options					
Put					
U.S. dollars	291 [7]	7	—	—	84
Call					
U.S. dollars	21,987 [829]	835	16,752 [717]	747	10,042
Hedges for which the "Assigning" method was applied					
Foreign currency exchange contracts					
To sell foreign currencies:					
U.S. dollars	¥27,937	¥ —	¥15,855	¥ —	$ —
Others	2,528	—	2,508	—	—
To buy foreign currencies:					
U.S. dollars	1,285	—	1,136	—	—
Others	23,788	—	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.
4. Option premiums were presented below the contracted amount with brackets [ ] .
   Foreign currency options were zero cost options which mean that option premiums were not payed and received.

Interest rate swap agreements outstanding at March 31, 2011 and 2010 were as follows:

	Millions of yen				Thousands of U.S. dollars (Note1)
	2011		2010		2011
	Contracted amount	Fair value	Contracted amount	Fair value	Fair value
Hedges for which the "Exceptional" method was applied					
Interest rate swap agreements					
To receive floating and pay fixed rates	¥223,337	¥—	¥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, 2011 and 2010 were as follows:

	Millions of yen				Thousands of U.S. dollars (Note1)
	2011		2010		2011
	Contracted amount	Fair value	Contracted amount	Fair value	Fair value
Hedges for which the "Deferred hedge" method was applied					
Commodity forward contracts					
To sell commodity	¥ 3,345	¥ 3,609	¥ 4,415	¥ 4,845	$ 43,403
To buy commodity	16,901	17,957	15,972	18,192	215,959

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

7. Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Bank loans (average rate 2.19% in 2011 and 1.69% in 2010)	¥80,443	¥108,475	$967,444

Long-term debt at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
1.04% to 3.4% yen bonds, due 2011 through 2019	¥213,186	¥213,422	$2,563,872
Loans, principally from banks and insurance companies	531,313	584,572	6,389,814
	744,499	797,994	8,953,686
Less current portion	126,051	59,637	1,515,947
	¥618,448	¥738,357	$7,437,739

The aggregate annual maturities of long-term debt at March 31, 2011 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2011	2011
Due within 1 year	¥126,051	$1,515,947
Due after 1 year through 2 years	99,041	1,191,112
Due after 2 years through 3 years	188,412	2,265,929
Due after 3 years through 4 years	73,331	881,912
Due after 4 years through 5 years	70,453	847,300
Due after 5 years	187,211	2,251,486
	¥744,499	$8,953,686

At March 31, 2011 and 2010, 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)
	2011	2010	2011
Assets pledged as collateral:			
Plant and equipment, net of accumulated depreciation	¥131,639	¥163,629	$1,583,151
Other assets	35,016	34,972	421,118
	¥166,655	¥198,601	$2,004,269
Secured short-term borrowings and long-term debt:			
Bonds (includes those due within 1 year)	¥ 886	¥ 1,122	$ 10,655
Short-term borrowings	13,072	13,644	157,210
Long-term borrowings	68,283	81,316	821,203
	¥ 82,241	¥ 96,082	$ 989,068

At March 31, 2011 and 2010, included in the assets pledged as collateral were assets that were promised to be pledged as collateral for short-term borrowings, long-term borrowings and guarantees of loans were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Short-term borrowings	¥2,621	¥ 3,401	$31,521
Long-term borrowings	5,506	8,127	66,218
	¥8,127	¥11,528	$97,739

8. Contingent Liabilities

At March 31, 2011 and 2010, the Group was contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Trade notes discounted	¥20,541	¥18,651	$247,035
Trade notes endorsed	3,636	793	43,728
Guarantees of loans:			
Related parties	5,852	13,265	70,379
Others	126	167	1,515
Contingent obligations based on debt assumption agreements for bonds with financial institutions	—	19,400	—
	¥30,155	¥52,276	$362,657

Guarantees of loans include contingent guarantees and letters of awareness of ¥429 million ($5,159 thousand) in 2011 and ¥510 million in 2010.

9. Net Assets

Net assets comprises three subsections, which are the owners' equity, accumulated other comprehensive income and minority interests.

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

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

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

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

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

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

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

At the Board of Directors meeting held on May 16, 2011, the Board of Directors approved cash dividends amounting to ¥4,509 million ($54,227 thousand). These appropriations had not been accrued in the consolidated financial statements as of March 31, 2011. 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 ¥29,833 million ($358,785 thousand) for the year ended March 31, 2011 and ¥28,255 million for the year ended March 31, 2010.

11. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2011 and 2010 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Freight	¥ 40,977	¥ 35,223	$ 492,808
Employees' compensation	33,183	33,502	399,074
Research and development	10,661	10,440	128,214
Depreciation	4,393	3,951	52,833
Others	74,030	66,429	890,319
	¥163,244	¥149,545	$1,963,248

12. Loss on Impairment of Fixed Assets

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

	Millions of yen
	2010
Assets related to Shinko Kakogawa hospital, etc.:	
Building and structures, etc. (Kakogawa, Hyogo Prefecture, etc.; 11 properties in total)	¥3,577
	¥3,577

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 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, machinery and equipment of ¥1,169 million, land of ¥89 million, intangible assets of ¥19 million and other assets of ¥1 million.

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

13. Income Taxes

Significant components of the Group's deferred income tax assets and liabilities as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Deferred income tax assets:			
Tax loss carryforwards	¥ 20,432	¥ 30,857	$ 245,725
Unrealized profit	17,159	17,136	206,362
Employees' severance and retirement benefits	10,947	11,454	131,654
Loss on impairment of fixed assets	9,950	11,765	119,663
Accrued bonuses to employees	8,689	7,153	104,498
Loss on write-down of securities	5,099	5,944	61,323
Land revaluation	4,922	4,971	59,194
Loss on write-down of inventories	3,861	5,544	46,434
Other	43,403	38,444	521,984
Total deferred income tax assets	124,462	133,268	1,496,837
Valuation allowance	(66,024)	(75,262)	(794,035)
Deferred income tax assets	58,438	58,006	702,802
Deferred income tax liabilities:			
Unrealized holding gains on securities	12,136	11,558	145,953
Land revaluation	5,233	5,234	62,935
Special tax purpose reserve	3,793	5,563	45,617
Other	21,441	18,478	257,859
Total deferred income tax liabilities	42,603	40,833	512,364
Net deferred income tax assets	¥ 15,835	¥ 17,173	$ 190,438

The reconciliation of the statutory tax rate and the effective tax rate for the years ended March 31, 2011 and 2010 was as follows:

	2011	2010
Aggregate statutory income tax rate in Japan	40.6%	40.6%
Decrease in valuation allowance	(10.4)	—
Differences in tax rates among consolidated subsidiaries	(9.5)	(38.4)
Nondeductible entertainment expenses	—	21.7
Proceeds from compensation for removal	—	(21.4)
Other	1.1	4.6
Effective income tax rate	21.8%	7.1%

14. Consolidated Statements of Changes in Net Assets

Changes in number of shares issued and outstanding during the year ended March 31, 2011 were as follows:

	Number of shares
Common stock outstanding	
Balance at March 31, 2010	3,115,061,100
(No increase)	—
(No decrease)	—
Balance at March 31, 2011	3,115,061,100

	Number of shares
Treasury stock outstanding	
Balance at March 31, 2010	112,684,172
Increase due to purchase of odd-lot stock	1,521,644
Decrease due to sale of odd-lot stock	(132,318)
Increase (decrease) due to other reasons, net	(47,426)
Balance at March 31, 2011	114,026,072

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, 2011 and 2010 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Cash and time deposits in the balance sheets	¥145,875	¥131,939	$1,754,360
Time deposits due over 3 months	(130)	(173)	(1,564)
Short-term investments with maturities within 3 months included in current assets and other	43,963	79,933	528,719
Cash and cash equivalents in cash flow statements	¥189,708	¥211,699	$2,281,515

16. Related Party Transactions

Net sales include sales to Shinsho Corporation, which is an affiliate of the Company, of ¥216,325 million ($2,601,624 thousand) and ¥194,331 million for the years ended March 31, 2011 and 2010, 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, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Projected benefit obligation	¥(163,592)	¥(174,536)	$(1,967,432)
Fair value of pension assets	142,799	146,644	1,717,366
Unrecognized net transition obligation	278	452	3,343
Unrecognized actuarial differences	16,921	22,638	203,500
Prepaid pension cost	(25,752)	(28,446)	(309,705)
Liability for severance and retirements benefits	¥ (29,346)	¥ (33,248)	$ (352,928)

Included in the consolidated statements of operations for the years ended March 31, 2011 and 2010 were severance and retirement benefit expenses that comprised the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Service costs – benefits earned during the year	¥ 6,387	¥ 6,564	$ 76,813
Interest cost on projected benefit obligation	3,357	3,585	40,373
Expected return on plan assets	(260)	(248)	(3,127)
Amortization of net transition obligation	174	91	2,093
Amortization of actuarial differences	2,220	3,126	26,699
Severance and retirement benefit expenses	¥11,878	¥13,118	$142,851

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, 2011 and 2010.
The rates of expected return on plan assets were mainly 0.1% for the years ended March 31, 2011 and 2010, respectively.

18. Segment Information

Segment information

1. Overview of reportable segments

The reportable segments of the Group are defined as components of an entity, for which separate financial information is available, that is reviewed regularly by the Board of directors to decide how to allocate management resources and to evaluate operating performance.

The Company has business departments based on products and services (a part of product and service is made by subsidiaries) and every business departments and subsidiaries plans domestic and foreign global strategy to operate business.

The Group consists of segments of business departments and subsidiaries based on products and services. The reportable segments consist of five business groups of the Company and subsidiaries (Iron and Steel, Welding, Aluminum and Copper, Machinery, Natural Resources & Engineering) and three business groups of subsidiaries (Kobelco Eco-Solutions, Kobelco Construction Machinery, Kobelco Cranes).

2. Methods to calculate sales, income (loss), assets and other items of reportable segments

The accounting policies of the reportable segments are the same as those described in "Note 2, Summary of Accounting Policies." Profit (loss) of reportable segments is based on ordinary income (loss). Intersegment sales prices are based on prices applicable to transactions with third parties.

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Sales to outside customers:			
Iron and Steel	¥ 802,924	¥ 705,993	$ 9,656,332
Welding	76,353	76,081	918,256
Aluminum and Copper	301,144	260,728	3,621,696
Machinery	149,198	166,218	1,794,323
Natural Resources & Engineering	62,546	57,343	752,207
Kobelco Eco-Solutions	67,377	78,965	810,307
Kobelco Construction Machinery	311,946	213,133	3,751,606
Kobelco Cranes	35,295	46,829	424,474
Other Businesses	50,239	62,700	604,197
Adjustment	1,552	3,032	18,665
Consolidated total	1,858,574	1,671,022	22,352,063
Intersegment sales:			
Iron and Steel	37,458	36,098	450,487
Welding	1,438	121	17,294
Aluminum and Copper	2,873	1,034	34,552
Machinery	5,324	7,554	64,029
Natural Resources & Engineering	1,719	8,222	20,673
Kobelco Eco-Solutions	2,228	3,923	26,795
Kobelco Construction Machinery	1,197	1,446	14,396
Kobelco Cranes	5,673	8,384	68,226
Other Businesses	15,341	15,071	184,498
Adjustment	(73,251)	(81,853)	(880,950)
Consolidated total	—	—	—
Total sales:			
Iron and Steel	840,382	742,091	10,106,819
Welding	77,792	76,202	935,562
Aluminum and Copper	304,017	261,762	3,656,248
Machinery	154,521	173,772	1,858,341
Natural Resources & Engineering	64,264	65,565	772,868
Kobelco Eco-Solutions	69,605	82,888	837,102
Kobelco Construction Machinery	313,144	214,579	3,766,013
Kobelco Cranes	40,968	55,213	492,700
Other Businesses	65,580	77,771	788,695
Adjustment	(71,699)	(78,821)	(862,285)
Consolidated total	1,858,574	1,671,022	22,352,063
Segment income (loss):			
Iron and Steel	23,734	(24,691)	285,436
Welding	4,621	1,740	55,574
Aluminum and Copper	14,790	2,228	177,871
Machinery	14,513	20,859	174,540
Natural Resources & Engineering	3,052	4,742	36,705
Kobelco Eco-Solutions	3,136	1,651	37,715
Kobelco Construction Machinery	26,303	5,536	316,332
Kobelco Cranes	(1,364)	1,226	(16,404)
Other Businesses	6,494	3,091	78,100
Adjustment	(6,196)	(6,123)	(74,516)
Consolidated total	¥ 89,083	¥ 10,259	$ 1,071,353

	Millions of yen 2011	Millions of yen 2010	Thousands of U.S. dollars (Note 1) 2011
Assets:			
Iron and Steel	¥ 969,394	¥ 974,382	$11,658,376
Welding	62,327	59,192	749,573
Aluminum and Copper	213,798	215,617	2,571,233
Machinery	149,748	117,390	1,800,938
Natural Resources & Engineering	74,839	99,119	900,048
Kobelco Eco-Solutions	52,316	66,465	629,176
Kobelco Construction Machinery	285,066	234,277	3,428,334
Kobelco Cranes	44,251	49,062	532,183
Other Businesses	161,164	157,180	1,938,232
Adjustment	218,630	276,662	2,629,345
Consolidated total	2,231,533	2,249,346	26,837,438
Depreciation:			
Iron and Steel	75,732	78,718	910,788
Welding	2,800	3,308	33,674
Aluminum and Copper	15,737	18,171	189,260
Machinery	5,749	5,333	69,140
Natural Resources & Engineering	553	531	6,651
Kobelco Eco-Solutions	1,203	1,175	14,468
Kobelco Construction Machinery	6,452	4,446	77,595
Kobelco Cranes	910	997	10,944
Other Businesses	3,446	3,862	41,443
Adjustment	2,238	2,294	26,915
Consolidated total	114,820	118,835	1,380,878
Amortization of goodwill:			
Iron and Steel	—	—	—
Welding	486	—	5,845
Aluminum and Copper	21	—	253
Machinery	—	—	—
Natural Resources & Engineering	1	—	12
Kobelco Eco-Solutions	—	—	—
Kobelco Construction Machinery	10	58	120
Kobelco Cranes	—	—	—
Other Businesses	—	15	—
Adjustment	—	129	—
Consolidated total	518	202	6,230
Interest income:			
Iron and Steel	77	81	926
Welding	46	36	553
Aluminum and Copper	130	86	1,563
Machinery	26	109	313
Natural Resources & Engineering	635	536	7,637
Kobelco Eco-Solutions	18	12	216
Kobelco Construction Machinery	2,516	1,730	30,259
Kobelco Cranes	18	30	216
Other Businesses	47	54	565
Adjustment	(383)	(353)	(4,606)
Consolidated total	¥ 3,130	¥ 2,321	$ 37,642

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Interest expense:			
Iron and Steel	¥ 8,272	¥ 10,061	$ 99,483
Welding	23	70	277
Aluminum and Copper	2,060	2,465	24,775
Machinery	191	355	2,297
Natural Resources & Engineering	83	27	998
Kobelco Eco-Solutions	70	108	842
Kobelco Construction Machinery	3,938	2,670	47,360
Kobelco Cranes	88	92	1,058
Other Businesses	547	630	6,578
Adjustment	5,413	4,844	65,099
Consolidated total	20,685	21,322	248,767
Equity in income (loss) of unconsolidated subsidiaries and affiliates:			
Iron and Steel	2,498	1,628	30,042
Welding	365	310	4,390
Aluminum and Copper	(446)	(561)	(5,364)
Machinery	22	45	265
Natural Resources & Engineering	(1,084)	(130)	(13,037)
Kobelco Eco-Solutions	—	—	—
Kobelco Construction Machinery	492	(657)	5,917
Kobelco Cranes	(61)	16	(734)
Other Businesses	1,153	935	13,866
Adjustment	139	222	1,672
Consolidated total	3,078	1,808	37,017
Investments in unconsolidated subsidiaries and affiliates:			
Iron and Steel	36,850	37,343	443,175
Welding	1,293	2,274	15,550
Aluminum and Copper	634	1,841	7,625
Machinery	312	326	3,752
Natural Resources & Engineering	7,710	6,191	92,724
Kobelco Eco-Solutions	—	—	—
Kobelco Construction Machinery	7,309	3,939	87,901
Kobelco Cranes	336	253	4,041
Other Businesses	9,840	9,146	118,340
Adjustment	(3,171)	1,939	(38,136)
Consolidated total	61,113	63,252	734,972
Capital expenditures:			
Iron and Steel	54,544	82,286	655,971
Welding	971	1,089	11,678
Aluminum and Copper	9,551	8,679	114,865
Machinery	3,686	8,163	44,329
Natural Resources & Engineering	324	554	3,897
Kobelco Eco-Solutions	1,809	456	21,756
Kobelco Construction Machinery	12,372	20,573	148,791
Kobelco Cranes	2,411	1,301	28,996
Other Businesses	4,646	4,037	55,875
Adjustment	1,064	1,601	12,796
Consolidated total	¥ 91,378	¥ 128,739	$ 1,098,954

Notes:
1. Other Businesses include Shinko Real Estate, Kobelco Research Institute and other businesses.
2. Details about adjustments at March 31, 2011 and 2010 are as follows:

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

Assets
Adjustment is mainly investments in securities which are not attributed to reportable segments and other businesses.

Depreciation
Adjustment is related mainly to the assets of administrative departments which are not attributed to reportable segments and other businesses.

Amortization of goodwill
Adjustment is related mainly to investments of consolidated subsidiaries which are not attributed to reportable segments and other businesses.

Interest income
Adjustment is related mainly to intersegment transactions.

Interest expense
Adjustment is related mainly to financial liabilities which are not attributed to reportable segments and other businesses.

Equity in income (loss) of unconsolidated subsidiaries and affiliates
Adjustment is related mainly to affiliates which are not attributed to reportable segments and other businesses.

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

Capital expenditures
Adjustment is related mainly to the assets of administrative departments which are not attributed to reportable segments and other businesses.

Related information

1. Information by products and services

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

2. Information by geographic segments

(1) Net sales

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2011	2011
Japan	¥1,192,613	$14,342,911
China	263,466	3,168,563
Others	402,495	4,840,589
Consolidated total	¥1,858,574	$22,352,063

(2) Plant and equipment

This information is omitted because book value of plant and equipment in Japan is over 90% of that on the balance sheet.

3. Information by major customer

Net sales

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2011	2011
Shinsho Corporation	¥267,029	$3,211,413
Metal One Corporation	211,897	2,548,371

Loss on impairment of fixed assets by reportable segments

Nothing to report

Amortization and balance of goodwill by reportable segments

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2011	2011
Amortization		
Iron and Steel	¥ —	$ —
Welding	486	5,845
Aluminum and Copper	21	253
Machinery	—	—
Natural Resources & Engineering	1	12
Kobelco Eco-Solutions	—	—
Kobelco Construction Machinery	10	120
Kobelco Cranes	—	—
Other Businesses	—	—
Adjustment	—	—
Consolidated total	518	6,230
Balance		
Iron and Steel	—	—
Welding	—	—
Aluminum and Copper	—	—
Machinery	—	—
Natural Resources & Engineering	—	—
Kobelco Eco-Solutions	—	—
Kobelco Construction Machinery	—	—
Kobelco Cranes	—	—
Other Businesses	—	—
Adjustment	—	—
Consolidated total	¥ —	$ —

Amortization of negative goodwill by reportable segments

Nothing to report

Supplemental information

Effective from the year ended March 31, 2011, the Group has adopted the revised accounting standard, “Accounting Standard for Disclosures about Segments of an Enterprise and Related information” (Statement No. 17, revised by the Accounting Standards Board of Japan on March 27, 2009) and the revised guidance, “Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related information” (Guidance No. 20, revised by the Accounting Standards Board of Japan on March 21, 2008).

19. Net Income per Share

The basis of calculating net income per share for the years ended March 31, 2011 and 2010 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net income	Weighted average number of shares	EPS	EPS
For the year ended March 31, 2011				
Net income available to common shareholders	¥52,940	3,002,113	¥17.63	$0.21
For the year ended March 31, 2010				
Net income available to common shareholders	6,305	3,002,451	2.10	

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, 2011 and 2010, and the related consolidated statements of income, comprehensive 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, 2011 and 2010, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 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
June 23, 2011