

To Our Shareholders



Hiroshi Sato, President, CEO and Representative Director

Fiscal 2011 Overview

Throughout fiscal 2011, the Japanese economy was gradually recovering from the Great East Japan Earthquake, which caused major production level decreases. However, the overseas economic slowdown, due in part to the impact of floods in Thailand, and the protracted appreciation of the yen, served as roadblocks to recovery. As a result, Japan's economy remained largely unchanged from that of fiscal 2010. Despite moderate overseas growth, mainly in emerging countries, the growth rate slowed due to financial uncertainty in Europe and fiscal austerity measures in China.

Under these economic conditions, the Kobe Steel Group's sales volumes of steel and aluminum rolled products fell below those of the previous fiscal year due mainly to the impact of the earthquake disaster in Japan and floods in Thailand. Unit sales of hydraulic excavators in China also declined year on year.

Consolidated net sales in fiscal 2011 climbed ¥6.1 billion year on year to ¥1,864.7 billion on higher sales prices of steel. In contrast, ordinary income decreased ¥55.3 billion to ¥33.8 billion, resulting largely from lower sales volumes of steel and

other products and rising raw material prices. Net income dropped ¥67.2 billion on the reversal of deferred tax assets, resulting in a net loss of ¥14.2 billion.

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

In fiscal 2010, the Kobe Steel Group established KOBELCO VISION "G," its medium- to long-term business vision, which is now being implemented.

Aiming to establish a global market presence, one of the Group's basic strategies is the pursuit of growth and business expansion. The following describes some of the major business initiatives that the Group has taken.

Iron & Steel Business

- ▶ Considering a joint venture with Anshan Iron and Steel Group Corporation in China for the manufacture and sale of cold-rolled high-strength steel sheet for use in automobiles. Expanding globally to address local automaker production in other regions.
- ▶ Concluded an MOU for comprehensive collaboration with Steel Authority of India Limited (SAIL), India's public-sector steel company, and have been studying ways to cooperate.
- ▶ Acquired an interest in a new iron ore project in Australia that will produce pellet feed.

Welding Business

- ▶ Established sales companies in India and South Korea.
- ▶ Expanded production capacity at our Chinese manufacturing company.
- ▶ Assigned regional responsibility to our manufacturing and sales company in Singapore to provide integrated business management across Southeast Asia.

Aluminum & Copper Business

- ▶ Constructed a plant for mass production of aluminum forgings for automobile suspensions in China.
- ▶ Began a feasibility study for local production of aluminum sheet in China.
- ▶ Concluded a technical transfer agreement with Sweden's Sapa AB to provide Sapa with production technology for aluminum extrusions. This enables us to meet the global procurement needs of our customers throughout the world.

Machinery Business

- ▶ Expanded production capacity at compressor manufacturing companies in China and the United States. Invested in a Chinese compressor manufacturer.
- ▶ Commenced operation of a tire and rubber machinery manufacturing company in India.

Natural Resources & Engineering Business

- ▶ Agreed to conduct a detailed feasibility study with India's SAIL for a joint venture that would utilize ITmk3®, a new ironmaking process developed by Kobe Steel. The study is now underway.

Kobelco Eco-Solutions

- ▶ Received the first order for wastewater treatment facility at Vietnam subsidiary. Conducting a study for a water and infrastructure project on Phu Quoc Island in Vietnam.
- ▶ Conducting a demonstration project in a joint undertaking with Kobe City to utilize biogas, a renewable energy.

Kobelco Construction Machinery

- ▶ Constructed the Global Engineering Center, which is responsible for optimizing global production and development, and the Itsukaichi Factory in Hiroshima to achieve world-class productivity and competitiveness. These new facilities will enhance our technical development capabilities and *monozukuri-ryoku*, or manufacturing strengths.

Kobelco Cranes

- ▶ Commenced operation of crawler crane manufacturing companies in India and China. The new locations will enable us to address future demand.

Under our medium- to long-term business vision, growth markets mean both “growth regions” and “growth fields.” By globally developing growth regions, with a focus on emerging countries such as China and India, and breaking into growth fields, especially the environmental, resource, and energy fields, we will continue to meet new demand in growth markets.

Initiatives in Fiscal 2012

Because of the extremely uncertain environment, the improvement of the Kobe Steel Group's earning capacity is a key issue. The Group recognizes that with the Iron & Steel Business having posted an ordinary loss in fiscal 2011, recovery of the earning power in this business segment is an important issue, and the Group has begun taking various corrective actions.


Specifically, investments are being made to reduce costs such as expanding our hot-metal treatment capacity at both Kakogawa and Kobe Works and our steel plate heat treatment capacity at Kakogawa Works and installing our own power generation equipment. Additionally, we have revised product prices, reviewed costs and improved production efficiency.

In Conclusion

The Kobe Steel Group views the returning of profits to shareholders as one of its most important management issues. The Group aims to pay dividends on a stable and continuous basis. The actual amount of the dividend is decided after taking into full account the Company's performance, dividend payout ratio, investment capital needs for future growth, relative improvement in financial position and other factors. The dividend payout ratio we are targeting for now is 15% to 25% of consolidated net income. In fiscal 2011, we paid an interim dividend of ¥1 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.

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Hiroshi Sato
President, CEO and Representative Director