

Financial Section

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Consolidated Six-Year Summary

Kobe Steel, Ltd. and Consolidated Subsidiaries Years ended March 31, 2008, 2007, 2006, 2005, 2004 and 2003

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2005	2004	2003	2008
For the year:							
Net sales	¥2,132,406	¥1,910,296	¥1,667,313	¥1,443,772	¥1,219,180	¥1,204,750	\$21,283,621
Cost of sales	1,757,342	1,543,158	1,297,291	1,140,422	993,394	1,001,418	17,540,094
Operating income	202,399	208,624	220,395	166,577	100,699	81,054	2,020,152
Net income	88,923	109,669	84,559	51,289	22,066	1,723	887,544
Cash flows from operating activities	124,317	172,786	198,181	225,751	104,041	115,692	1,240,815
Cash flows from investing activities	(187,381)	(128,557)	(94,215)	(50,543)	(86,381)	27,021	(1,870,257)
Cash flows from financing activities	31,155	(48,823)	(93,593)	(163,945)	(35,754)	(174,997)	310,958
Capital investment	150,585	133,649	92,319	66,016	104,911	43,970	1,502,994
Depreciation and amortization	111,514	86,687	79,507	80,290	79,244	85,090	1,113,025
Research and development	30,139	24,893	24,121	19,700	16,929	17,797	300,818

At year end:

Total assets	2,329,006	2,241,570	2,074,242	1,901,202	1,916,338	1,902,642	23,245,893
Net assets (Note 2)	647,797	636,432	530,000	379,213	330,127	293,138	6,465,685
Interest-bearing debt	713,352	621,227	589,101	669,241	797,041	895,883	7,119,995
Interest-bearing debt including IPP project financing	823,404	742,276	720,909	811,572	931,891	966,383	8,218,426

	Yen						U.S. dollars (Note 1)
	2008	2007	2006	2005	2004	2003	2008
Per share data:							
Net income	¥ 29.63	¥ 35.37	¥ 27.94	¥ 17.28	¥ 7.44	¥ 0.59	\$ 0.30
Diluted net income	—	—	27.25	16.48	7.38	—	—
Net assets	199.81	194.46	170.65	127.80	111.24	98.96	1.99
Cash dividends	7.00	7.00	6.00	3.00	1.50	—	0.07

Ratios:

	2008	2007	2006	2005	2004	2003
Operating income ratio (%)	9.5	10.9	13.2	11.5	8.3	6.7
ROA (%)	3.8	4.9	4.1	2.7	1.2	0.1
ROE (%)	14.9	19.6	18.6	14.5	7.1	0.6
Equity ratio (%)	25.8	26.4	25.6	19.9	17.2	15.4
Debt/equity ratio (times)	1.3	1.2	1.2	1.8	2.5	3.0
Dividend payout ratio (%)	23.6	19.8	21.5	17.4	20.2	—

Number of shares issued (in thousands)	3,115,061	3,115,061	3,115,061	2,976,070	2,976,070	2,974,550
Number of employees	33,657	31,828	29,068	27,067	26,179	26,765

Notes 1. For convenience only, U.S. dollar amounts in this report have been translated from Japanese yen at the rate of ¥100.19 to US\$1.00, the rate of exchange prevailing on March 31, 2008.

2. Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005).

Financial Review

In the second half of the fiscal year ended March 31, 2008, Japan's economy slowed down. With the global economy continuing on an expansionary track, the Kobe Steel Group focused its full efforts on meeting demand and increasing sales prices. As a result, net sales jumped ¥222.1 billion to ¥2,132.4 billion over the previous fiscal year, while operating income decreased ¥6.2 billion to ¥202.4 billion due to various cost increases.

Other expenses increased ¥15.8 billion due primarily to a ¥1.3 billion decrease in equity in the income of unconsolidated subsidiaries and affiliates and a ¥5.4 billion increase in foreign exchange loss.

As a result, income before income taxes declined ¥22.0 billion to ¥153.4 billion compared with ¥175.4 billion in the previous fiscal year, while net income after taxes dropped ¥20.7 billion from ¥109.7 billion in the previous fiscal year to ¥88.9 billion.

	Billions of yen		Percent change
	2008	2007	2008/2007
Net sales	¥2,132.4	¥1,910.3	11.6%
Operating income	202.4	208.6	(3.0)

Business segment information is provided as follows.

Iron and Steel

	Billions of yen		Percent change
	2008	2007	2008/2007
Net sales	¥923.8	¥830.7	11.2%
Operating income	91.9	94.6	(2.8)

Sales in this segment amounted to ¥923.8 billion compared with ¥830.7 billion in the previous fiscal year, a ¥93.1 billion increase. Demand for steel products for the domestic construction industry dropped substantially due to the enactment of the revised Building Standard Law. In contrast, particularly in the field of medium- to high-grade goods, the manufacturing industries—including automotive and shipbuilding—drove demand, which continued to be robust in Japan and abroad. Despite signs of a slowdown in the United States, exports fared well overall, thanks to strong economic performance in emerging countries. As a result, Kobe Steel's crude steel production amounted to 8,180 thousand tons, 250 thousand tons higher than the 7,930 thousand tons recorded in the previous fiscal year. The Kobe Steel Group raised sales prices, particularly for specialty steel, one of its strong areas. In addition to steel, strong demand, primarily for steel castings and forgings for shipbuilding, and titanium products for electric power generating plants were factors behind the stronger sales. While earnings received a boost from increased steel shipments and cost reductions, operating income in this segment amounted to ¥91.9 billion, a ¥2.7 billion decline from the ¥94.6 billion recorded in the previous fiscal year. This was attributable to the impact of such factors as: rising raw material costs, including various types of metals, and marine transportation costs (¥21.5 billion); changes in depreciation methods following revisions to the tax system (¥11.0 billion); and blast furnace renovations at the Kakogawa Works and Kobe Works (¥3.0 billion).

Wholesale Power Supply

	Billions of yen		Percent change
	2008	2007	2008/2007
Net sales	¥71.9	¥66.9	7.5%
Operating income	18.1	18.0	0.3

Sales in this segment were ¥71.9 billion, up ¥5.0 billion compared with the ¥66.9 billion recorded in the previous fiscal year. However, the increase was attributed to the passing on of higher fuel-grade coal costs to unit electricity prices. Operating income at ¥18.1 billion was in line with that of the previous fiscal year.

Aluminum and Copper

	Billions of yen		Percent change
	2008	2007	2008/2007
Net sales	¥450.1	¥397.3	13.3%
Operating income	22.0	34.7	(36.5)

Sales in this segment amounted to ¥450.1 billion, compared with ¥397.3 billion in the previous fiscal year, a ¥52.8 billion increase. Shipments of aluminum rolled products went from 329 thousand tons in the previous fiscal year to 335 thousand tons, a 6,000 ton increase, thanks to favorable sales of aluminum stock for canned beverages due to hot summer weather and the launch of new cold beverages, as well as robust sales of aluminum panel and bumper materials for automobiles and aluminum fin stock for air conditioners. As for shipments of copper rolled products, thanks to favorable demand for copper strip for electronic materials, copper sheet shipments remained at 67 thousand tons, the same level as in the previous fiscal year. Against a backdrop of growing air conditioner markets in Southeast Asia and Europe, overseas shipments for copper tube surged, while domestic shipments declined. As a result, copper tube shipments dropped from 81 thousand tons in the previous fiscal year to 78 thousand tons, a 3-thousand ton decrease.

Consequently, overall shipments in the Aluminum and Copper Segment surpassed those of the previous fiscal year, and sales increased as higher year-on-year ingot prices were passed on to product sales prices. Nevertheless, operating income was down ¥12.7 billion to ¥22.0 billion compared with ¥34.7 billion in the previous fiscal year due to a decrease in inventory valuation gains resulting from sharply rising ingot prices, which had substantially boosted earnings in the previous fiscal year.

Machinery

	Billions of yen		Percent change
	2008	2007	2008/2007
Net sales	¥302.2	¥280.9	7.6%
Operating income	30.5	22.1	37.9

On the back of robust private-sector capital investments, the Machinery Segment enjoyed buoyant domestic orders for compressors, rolling mills and other products. However, domestic orders decreased ¥23.6 billion to ¥157.6 billion compared with the ¥181.2 billion recorded in the previous fiscal year as a result of large orders received for waste treatment and sludge disposal projects in the environmental field. Overseas orders climbed ¥54.7 billion to ¥182.2 billion compared with ¥127.5 billion in the previous fiscal year. In addition to orders received for a large iron ore

pellet plant and air separation plants, active capital investment in the petroleum refining, petrochemical and energy fields in the Middle East, Asia and North America led to continued strong demand for compressors, plastics processing machinery and heavy-wall pressure vessels for oil refineries. As a result, total orders increased ¥31.1 billion to ¥339.8 billion compared with ¥308.7 billion in the previous fiscal year, while the backlog of orders as of the fiscal year-end amounted to ¥377.6 billion.

As a result, sales in the Machinery Segment were ¥302.2 billion, ¥21.3 billion higher than the ¥280.9 billion recorded in the previous fiscal year. Operating income amounted to ¥30.5 billion compared with ¥22.1 billion in the previous fiscal year, an increase of ¥8.4 billion.

Construction Machinery

	Billions of yen		Percent change
	2008	2007	2008/2007
Net sales	¥339.9	¥285.4	19.1%
Operating income	22.8	14.8	54.3

Despite continued strong demand for new construction machinery, in the midst of booming exports of used equipment to China, demand for hydraulic excavators in Japan weakened due to slack housing investments in the second half of the fiscal year. Overseas, with the exception of the United States, where demand weakened due to a downturn in the number of housing starts, demand was generally strong, especially in China. The crane business remained robust, particularly in North America, the Middle East and Southeast Asia. Due to these factors, segment sales climbed ¥54.5 billion to ¥339.9 billion compared with ¥285.4 billion in the previous fiscal year. Operating income amounted to ¥22.8 billion compared with ¥14.8 billion in the previous fiscal year, an increase of ¥8.0 billion.

Real Estate

	Billions of yen		Percent change
	2008	2007	2008/2007
Net sales	¥44.3	¥41.4	7.1%
Operating income	4.9	5.3	(7.1)

Segment sales were up, especially in the real estate sales business, rising ¥2.9 billion to ¥44.3 billion compared to ¥41.4 billion in the previous fiscal year. Operating income, on the other hand, slipped ¥0.4 billion to ¥4.9 billion compared with ¥5.3 billion in the previous fiscal year, owing to a one-time increase in expenses in the rental business.

Electronic Materials and Other Businesses

	Billions of yen		Percent change
	2008	2007	2008/2007
Net sales	¥60.7	¥63.6	(4.5)%
Operating income	8.2	14.3	(42.8)

Although the testing and analysis business experienced strong demand, especially from the transport aircraft and electronics industries, inventory adjustments in LCDs and competition from alternative materials led to significantly lower shipments of target materials for LCDs. As a result,

sales were down ¥2.9 billion to ¥60.7 billion compared with ¥63.6 billion in the previous fiscal year, while operating income dropped ¥6.1 billion to ¥8.2 billion compared with ¥14.3 billion in the previous fiscal year.

Note: Consumption tax is not included in sales and order figures.

Analysis of Cash Flows

Net cash provided by operating activities was ¥124.3 billion. Net cash provided by financing activities, including proceeds from the issuance of commercial paper and bonds, amounted to ¥31.2 billion, while net cash used in investing activities was ¥187.4 billion. As a result, cash and cash equivalents at end of year amounted to ¥66.7 billion, a decrease of ¥31.5 billion compared with the end of the previous fiscal year.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥124.3 billion, a decrease of ¥48.5 billion compared with the previous fiscal year. This was mainly attributable to lower income before income taxes on a year on year basis and an increase in trade receivables from customers due to sales growth.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥187.4 billion, a year-on-year increase of ¥58.8 billion. This was mainly attributed to increased expenditures from the purchase of plant, equipment and other assets and the purchase of investments in securities.

Cash Flows from Financing Activities

Net cash provided by financing activities was ¥31.2 billion, a year-on-year increase of ¥80.0 billion, due primarily to the issuance of commercial paper.

Analysis of Financial Position

Total assets as of the end of the fiscal year under review stood at ¥2,329.0 billion, an increase of ¥87.4 billion from ¥2,241.6 billion as of March 31, 2007. This was mainly attributed to the increase in notes and accounts receivable and inventories, reflecting the expanded sales capacity, strategic investments made to enhance business competitiveness and the implementation of essential blast furnace improvements to promote stable production. The external debt balance, excluding project financing related to the wholesale power supply business, increased ¥92.1 billion from ¥621.2 billion as of the end of the previous fiscal year to ¥713.4 billion. Including project financing, the external debt balance as of March 31, 2008 rose ¥81.1 billion year on year from ¥742.3 billion to ¥823.4 billion.

Total net assets climbed ¥11.4 billion year on year from ¥636.4 billion to ¥647.8 billion. While Kobe Steel recorded ¥39.9 billion for unrealized gains on securities, net of taxes due to a drop in market value, ¥20.0 billion for the increase of treasury stock including the purchase of treasury stock based on a Board of Directors' resolution on March 1, 2007, and ¥22.7 billion for the payment of dividends, the Company posted net income of ¥88.9 billion.

As a result, the equity ratio (total net assets less minority interests to total assets) was 25.8% as of March 31, 2008, down 0.6 percentage point from the end of the previous fiscal year.

Business Risks

The Kobe Steel Group's business and financial situation include the following factors that could have a material impact on investor decisions.

1. Economic Conditions in Key Markets

Automobiles, electronic machinery, construction and civil engineering, IT, beverage containers and industrial machinery constitute the principal areas of product demand for domestic sales of Kobe Steel's four key business segments: Iron and Steel, Aluminum and Copper, Machinery, and Construction Machinery. Meanwhile, overseas sales presented 36.2% of total sales in the fiscal year ended March 31, 2008, 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 trends 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 engage the Kobe Steel Group in intense competition, which, in some circumstances, could affect the Group's performance.

2. Fluctuating Steel Sales Price

Domestic steel sales are broadly divided between contract sales, for which product volumes 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 fluctuating supply and demand balance, although contract sales prices are also eventually affected.

On the other hand, the sales price of steel exports, which comprise about 20% of steel shipments, is affected by regional fluctuations in steel supply and demand balance.

3. Fluctuating Price of Steel Raw Materials

The Kobe Steel Group procures most of its steel raw materials, including iron ore, coal, ferrous alloys and nonferrous metal, from abroad. Because a limited number of suppliers and countries throughout the world produce iron ore and coal in particular, global market conditions tend to be strongly affected by the balance of supply and demand and could affect the Kobe Steel Group's performance.

In the Aluminum and Copper Segment, fluctuating aluminum and copper ingot prices are passed on to customers in the form of higher product prices. Nevertheless, when the spot price of aluminum and copper ingots fluctuates 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 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. Exchange Rate Fluctuations

Foreign currency-denominated transactions of the Kobe Steel Group are primarily U.S. dollar-based, with the balance of U.S. dollar-based transactions showing an import surplus in the fiscal year under review. As

a short-term measure, the Kobe Steel Group has taken out foreign exchange contracts. However, because of the difficulties in totally eliminating volatility risks, foreign exchange rate fluctuations could affect the Kobe Steel Group's performance.

5. Interest Rate Fluctuations

Total interest-bearing debt for the Kobe Steel Group as of March 31, 2008 stood at ¥823.4 billion (¥713.4 billion, excluding project financing related to the wholesale power supply business), with the majority of this debt at fixed interest rates. Debt with no fixed interest rate could affect the Kobe Steel Group's performance through interest rate fluctuations.

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

The production equipment of the Kobe Steel Group, such as blast furnaces and basic oxygen furnaces used for iron and steel production, includes equipment that is operated at high temperatures and pressures. The Group also has factories that handle high-temperature products and chemicals.

The Kobe Steel Group takes every possible measure to prevent accidents to people or property. Nevertheless, should a serious accident occur, production activities could be hindered and the Kobe Steel Group's performance affected.

A massive earthquake, typhoon or other natural disaster could cause damage to production equipment, likewise hinder operations and affect the Kobe Steel Group's performance.

7. Impact of Environmental Regulations

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

8. Fluctuating Prices of Investment Securities

As of March 31, 2008, the balance sheet amount for investment securities held by the Kobe Steel Group stood at ¥178.5 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 made up of pension funds (including retirement benefit trusts) and could affect the Kobe Steel Group's performance.

9. 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 observes laws, regulations and other social norms, and is guided by business practices that are sound, fair and impartial. Nevertheless, whether or not there has been a violation of laws and regulations by Kobe Steel Group companies or employees, lawsuits could be filed for problems under product liability laws and intellectual property rights, which could, as a result, affect the Group's performance.

Furthermore, business performance and the financial condition of the Kobe Steel Group could be affected by events other than those mentioned above that cannot be anticipated at this time.

Consolidated Balance Sheets

Kobe Steel, Ltd. and Consolidated Subsidiaries March 31, 2008 and 2007

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Current assets:			
Cash and cash equivalents (Note 14)	¥ 68,739	¥ 99,668	\$ 686,086
Notes and accounts receivable			
Trade	343,419	268,693	3,427,677
Unconsolidated subsidiaries and affiliates	38,133	70,067	380,607
Other	27,651	22,261	275,986
Allowance for doubtful accounts	(981)	(831)	(9,791)
	408,222	360,190	4,074,479
Inventories	409,425	367,333	4,086,486
Deferred income taxes (Note 12)	22,515	20,695	224,723
Other	48,187	35,593	480,956
Total current assets	957,088	883,479	9,552,730
Investments and other assets:			
Investments in securities (Note 4)	178,542	193,670	1,782,034
Investments in and advances to unconsolidated subsidiaries and affiliates	55,350	53,862	552,450
Long-term loans receivable	6,331	6,072	63,190
Other	67,351	66,952	672,233
Allowance for doubtful accounts	(3,819)	(5,112)	(38,117)
Total investments and other assets	303,755	315,444	3,031,790
Plant and equipment (Note 6):			
Land	202,094	203,427	2,017,107
Buildings and structures	663,156	646,941	6,618,984
Machinery and equipment	1,986,603	1,886,872	19,828,356
Construction in progress	49,896	72,147	498,014
	2,901,749	2,809,387	28,962,461
Less accumulated depreciation	(1,874,536)	(1,804,617)	(18,709,811)
Total plant and equipment	1,027,213	1,004,770	10,252,650
Intangible assets	18,019	16,791	179,848
Deferred income taxes (Note 12)	22,931	21,086	228,875
	¥ 2,329,006	¥ 2,241,570	\$ 23,245,893

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Current liabilities:			
Short-term borrowings (Note 6)	¥ 202,780	¥ 88,102	\$ 2,023,955
Current portion of long-term debt (Note 6)	139,383	105,449	1,391,187
Notes and accounts payable:			
Trade	461,097	419,225	4,602,226
Construction	40,258	37,592	401,817
Unconsolidated subsidiaries and affiliates	27,772	80,045	277,193
Other	19,801	8,934	197,634
	548,928	545,796	5,478,870
Advances from customers	64,156	53,884	640,343
Customers' and employees' deposits	15,025	12,617	149,965
Income and enterprise taxes payable	26,763	21,673	267,122
Provision for environmental measures	—	276	—
Provision for restructuring costs	5,518	4,109	55,075
Deferred income taxes (Note 12)	3,121	3,402	31,151
Other	81,398	85,138	812,437
Total current liabilities	1,087,072	920,446	10,850,105
Long-term liabilities:			
Long-term debt (Note 6)	481,241	548,525	4,803,284
Employees' severance and retirement benefits (Note 16)	44,749	46,919	446,641
Provision for environmental measures	4,424	4,247	44,156
Deferred income taxes (Note 12)	22,166	42,266	221,240
Other	41,557	42,735	414,782
Total long-term liabilities	594,137	684,692	5,930,103
Contingent liabilities (Note 7)			
Net assets (Note 2):			
Stockholders' equity:			
Common stock (Note 8)	233,313	233,313	2,328,705
Authorized — 6,000,000,000 shares			
Issued — 3,115,061,100 shares in 2008			
Capital surplus (Note 8)	83,264	83,282	831,061
Retained earnings (Note 8)	305,335	239,182	3,047,560
Treasury stock, at cost: 112,460,419 shares in 2008	(51,514)	(31,519)	(514,163)
	570,398	524,258	5,693,163
Valuation and translation adjustments:			
Unrealized gains on securities, net of taxes	35,628	75,565	355,604
Unrealized gains on hedging derivatives, net of taxes	4,029	2,179	40,214
Land revaluation differences, net of taxes	(4,899)	(4,899)	(48,897)
Foreign currency translation adjustments	(5,208)	(5,021)	(51,981)
	29,550	67,824	294,940
Minority interests	47,849	44,350	477,582
Total net assets	647,797	636,432	6,465,685
	¥2,329,006	¥2,241,570	\$23,245,893

Consolidated Statements of Changes in Net Assets (Notes 2 and 13)

Kobe Steel, Ltd. and Consolidated Subsidiaries Years ended March 31, 2008 and 2007

	Thousands		Millions of yen								
	Number of shares of common stock	Common stock (Note 8)	Capital surplus (Note 8)	Retained earnings (Note 8)	Treasury stock	Unrealized gains on securities, net of taxes	Unrealized gains on hedging derivatives, net of taxes	Land revaluation differences, net of taxes	Foreign currency translation adjustments	Minority interests	Total
Balance at April 1, 2006	3,115,061	¥233,313	¥83,145	¥157,275	¥ (1,328)	¥ 69,000	¥ —	¥(4,358)	¥(7,047)	¥38,593	¥568,593
Cash dividends				(28,010)							(28,010)
Bonuses to directors				(27)							(27)
Net income				109,669							109,669
Stock swap			111		69						180
Purchase of treasury stock					(30,280)						(30,280)
Sale of treasury stock			26		20						46
Decrease due to changes in scope of consolidation				(266)							(266)
Adjustment to land revaluation				541							541
Net changes other than stockholders' equity						6,565	2,179	(541)	2,026	5,757	15,986
Net changes during the year			137	81,907	(30,191)	6,565	2,179	(541)	2,026	5,757	67,839
Balance at March 31, 2007	3,115,061	¥233,313	¥83,282	¥239,182	¥(31,519)	¥ 75,565	¥2,179	¥(4,899)	¥(5,021)	¥44,350	¥636,432
Cash dividends				(22,732)							(22,732)
Net income				88,923							88,923
Purchase of treasury stock					(20,330)						(20,330)
Sale of treasury stock			(18)		335						317
Decrease due to changes in scope of consolidation				(44)							(44)
Adjustment to land revaluation				6							6
Net changes other than stockholders' equity						(39,937)	1,850	(0)	(187)	3,499	(34,775)
Net changes during the year			(18)	66,153	(19,995)	(39,937)	1,850	(0)	(187)	3,499	11,365
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

	Thousands		Thousands of U.S. dollars (Note 1)								
	Number of shares of common stock	Common stock (Note 8)	Capital surplus (Note 8)	Retained earnings (Note 8)	Treasury stock	Unrealized gains on securities, net of taxes	Unrealized gains on hedging derivatives, net of taxes	Land revaluation differences, net of taxes	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2007	3,115,061	\$2,328,705	\$831,241	\$2,387,284	\$(314,592)	\$ 754,217	\$21,749	\$(48,897)	\$(50,115)	\$442,659	\$6,352,251
Cash dividends				(226,889)							(226,889)
Net income				887,544							887,544
Purchase of treasury stock					(202,914)						(202,914)
Sale of treasury stock			(180)		3,343						3,163
Decrease due to changes in scope of consolidation				(439)							(439)
Adjustment to land revaluation				60							60
Net changes other than stockholders' equity						(398,613)	18,465	(0)	(1,866)	34,923	(347,091)
Net changes during the year			(180)	660,275	(199,571)	(398,613)	18,465	(0)	(1,866)	34,923	113,434
Balance at March 31, 2008	3,115,061	\$2,328,705	\$831,061	\$3,047,560	\$(514,163)	\$ 355,604	\$40,214	\$(48,897)	\$(51,981)	\$477,582	\$6,465,685

See accompanying notes.

Consolidated Statements of Cash Flows

Kobe Steel, Ltd. and Consolidated Subsidiaries Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Cash flows from operating activities:			
Income before income taxes	¥ 153,366	¥ 175,375	\$ 1,530,752
Depreciation	111,514	86,687	1,113,025
Interest and dividend income	(5,117)	(5,129)	(51,073)
Interest expense	20,933	20,597	208,933
Loss (gain) on sale of securities	(2,940)	(2,842)	(29,344)
Equity in income of unconsolidated subsidiaries and affiliates	(12,793)	(14,057)	(127,687)
Loss on impairment of fixed assets	4,181	4,774	41,731
Loss on sale or disposal of plant and equipment	3,384	4,290	33,776
Casualty loss	—	(1,430)	—
Environmental measures	—	(1,004)	—
Decrease (increase) in trade receivables from customers	(32,231)	23,207	(321,699)
Decrease (increase) in inventories	(40,056)	(54,260)	(399,800)
Increase (decrease) in trade payables to customers	(15,654)	39,684	(156,243)
Other	3,278	(6,766)	32,718
Subtotal	187,865	269,126	1,875,089
Cash received for interest and dividends	7,768	9,052	77,533
Cash paid for interest	(20,963)	(20,370)	(209,232)
Cash paid for income taxes	(50,353)	(85,022)	(502,575)
Net cash provided by operating activities	124,317	172,786	1,240,815
Cash flows from investing activities:			
Purchase of plant, equipment and other assets	(147,124)	(123,676)	(1,468,450)
Proceeds from sale of plant, equipment and other assets	7,757	1,495	77,423
Purchase of investments in securities	(62,016)	(10,020)	(618,984)
Proceeds from sale of investments in securities	15,195	6,183	151,662
Decrease (increase) in short-term loans receivable	1,788	684	17,846
Payments for long-term loans receivable	(1,262)	(339)	(12,596)
Proceeds from collection of long-term loans receivable	299	249	2,984
Payments for purchase of investments in subsidiaries resulting in changes in scope of consolidation	(926)	—	(9,242)
Other	(1,092)	(3,133)	(10,900)
Net cash used in investing activities	(187,381)	(128,557)	(1,870,257)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	3,950	(33,010)	39,425
Increase (decrease) in commercial paper	110,000	—	1,097,914
Proceeds from long-term debt	34,540	120,430	344,745
Repayment of long-term debt	(85,107)	(60,189)	(849,456)
Proceeds from issuance of bonds	40,000	61,100	399,241
Repayment of bonds	(23,276)	(68,430)	(232,319)
Payment of dividends	(22,613)	(27,763)	(225,701)
Payment for purchase of treasury stock	(20,327)	(30,261)	(202,885)
Other	(6,012)	(10,700)	(60,006)
Net cash provided by (used in) financing activities	31,155	(48,823)	310,958
Effect of exchange rate changes on cash and cash equivalents	439	892	4,381
Increase (decrease) in cash and cash equivalents	(31,470)	(3,702)	(314,103)
Cash and cash equivalents at beginning of year	98,163	95,485	979,768
Cash and cash equivalents of newly consolidated subsidiaries	(8)	6,380	(80)
Cash and cash equivalents at end of year (Note 14)	¥ 66,685	¥ 98,163	\$ 665,585

See accompanying notes.

Notes to Consolidated Financial Statements

Years ended March 31, 2008 and 2007

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 countries of domicile. 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.

Commencing in the fiscal year ended March 31, 2007, the Group has changed the principal method of calculating depreciation for machinery and equipment from the straight-line method to the declining balance method. As demand for production from the Company is expected to remain strong, this change was made to present the Group's performance and financial position more accurately by optimizing the long-run allocation of capital expenditure and to strengthen the financial base through the early payback of invested capital. Under the declining balance method, depreciation was ¥6,357 million more than it would have been under the straight-line method, and operating income and income before income taxes were ¥5,021 million and ¥5,019 million less, respectively.

Commencing in the fiscal year ended March 31, 2008, due to the revision of the Corporate Tax Law in 2007, depreciation of tangible fixed assets acquired on and after April 1, 2007 was charged in accordance with the depreciation method prescribed in the revised Corporate Tax Law.

Under the new method, depreciation was ¥3,107 million (\$31,011 thousand) more than it would have been under the previous method, and operating income and income before income taxes were ¥2,624 million (\$26,190 thousand) and ¥2,641 million (\$26,360 thousand) less, respectively.

In addition, under the revised Corporate Tax Law, salvage value (5% of acquisition cost) of tangible fixed assets acquired on or before March 31, 2007 is depreciated through the straight-line method over five years starting from the period subsequent to the year the salvage value was reached.

As a result, depreciation was ¥11,545 million (\$115,231 thousand) more than it would have been under the previous Corporate Tax Law, and operating income and income before income taxes were ¥9,468 million (\$94,500 thousand) and ¥10,072 million (\$100,529 thousand) less, respectively.

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, 2008, which was ¥100.19 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, 2008, the accounts of 163 (163 in 2007) subsidiaries have been included in the consolidated financial statements. Intercompany transactions and accounts have been eliminated.

Sixty-six (63 in 2007) consolidated subsidiaries are consolidated using a fiscal period ending December 31, which differs from that of the Company. Any material effects occurring during the January 1 to March 31 period are adjusted 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, 2008, 52 (52 in 2007) affiliates were accounted for by the equity method.

The difference between the cost of investments and the equity in net assets at the dates 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 computed based on the actual ratio of bad debts in the past plus the estimated uncollectible amounts of certain individual receivables.

(4) 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 Moka Plant and Takasago Works is stated as an estimated cost at the end of the fiscal year.

(5) 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.

(6) Inventories

Inventories are valued at cost. 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.

(7) Depreciation

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

Useful lives are based mainly on schedules in Japanese tax laws. Intangible assets include software for internal use, which is amortized over the estimated useful life of five years.

(8) 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.

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

(9) 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 12 years, which is within the average of the estimated remaining service years commencing with the following period.

(10) Land Revaluation

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

(11) 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.

(12) Translation of Foreign Currencies

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

Financial statements of consolidated overseas subsidiaries are translated into Japanese yen at year-end rates, except net asset accounts, which are translated at historical rates, and statement of income 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.

(13) Long-term Construction Contracts

Sales and related costs of certain long-term (over one year) construction contracts of the Company and certain consolidated subsidiaries are recognized by the percentage of completion method.

(14) Leases

The Company and its domestic consolidated subsidiaries account for finance leases that do not transfer ownership and do not have bargain purchase provisions in the same manner as operating leases.

(15) Derivatives

The Company and its domestic consolidated subsidiaries state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless the derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers recognition of gains or losses resulting from changes in the fair value of the derivative financial instruments until the related losses or gains on the corresponding hedged items are recognized. Deferred gains or 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.

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.

(16) Consolidated Tax Return

Effective March 31, 2004, the Company filed a consolidated tax return with certain domestic subsidiaries.

(17) 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.

(18) Accounting Standard for Presentation of Net Assets in the Balance Sheet

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), (collectively, "the New Accounting Standards").

The consolidated balance sheet as of March 31, 2007 prepared in accordance with the New Accounting Standards comprised three sections, which are the assets, liabilities and net assets sections. The consolidated balance sheet as of March 31, 2006 prepared pursuant to the previous presentation rules comprised the assets, liabilities, minority interests and shareholders' equity sections.

Under the New Accounting Standards, the following items were presented differently at March 31, 2007 compared to March 31, 2006. The net assets section included deferred gains on hedges, net of taxes. Under the previous presentation rules, deferred gains on hedges were included in the assets or liabilities section without considering the related income tax effects. Minority interests were included in the net assets section at March 31, 2007. Under the previous presentation rules, companies were required to present minority interests in the liabilities section and between the noncurrent liabilities and the shareholders' equity sections, respectively.

The adoption of the New Accounting Standards had no impact on the consolidated statement of income for the year ended March 31, 2007. Also, if the New Accounting Standards had not been adopted at March 31, 2007, shareholders' equity amounting to ¥589,903 million would have been presented.

(19) Accounting Standard for Statement of Changes in Net Assets
Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard,

"Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005) and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the Additional New Accounting Standards").

The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. The consolidated statement of shareholders' equity for the year ended March 31, 2006, which was voluntarily prepared for inclusion in the consolidated financial statements for the previous fiscal year, was not adapted to the new presentation rules of 2007.

(20) Accounting Standard for Business Combination and Divestitures
Effective April 1 2006, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Business Combinations" (issued by the Business Accounting Council on October 31, 2003), "Accounting Standard for Business Divestitures" (Statement No. 7 issued by the Accounting Standards Board of Japan on December 27, 2005) and the "Implementation Guidance for the Accounting Standard for Business Combinations and Divestitures" (the Financial Accounting Standard Implementation Guidance No.10 issued by the Accounting Standards Board of Japan on December 27, 2005).

3. Leases

Original lease obligations as lessee under non-capitalized finance leases at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Buildings and structures	¥ 884	¥ 827	\$ 8,823
Machinery and equipment	59,972	54,504	598,583
	¥ 60,856	¥ 55,331	\$ 607,406

Future minimum lease payments as lessee under non-capitalized finance leases at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Due within one year	¥ 11,522	¥ 8,851	\$ 115,001
Due after one year	22,196	17,985	221,539
	¥ 33,718	¥ 26,836	\$ 336,540
Lease expense for the years ended March 31	¥ 10,037	¥ 9,578	\$ 100,180

Future minimum lease payments as lessee under operating leases at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Due within one year	¥ 2,483	¥ 2,551	\$ 24,783
Due after one year	4,608	6,076	45,993
	¥ 7,091	¥ 8,627	\$ 70,776

Future minimum lease payments receivable as lessor under operating leases at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Due within one year	¥ 483	¥ 402	\$ 4,821
Due after one year	4,274	3,981	42,659
	¥ 4,757	¥ 4,383	\$ 47,480

4. Securities

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2008 and 2007:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2008			2007			2008
	Acquisition costs	Book (fair) values	Difference	Acquisition costs	Book (fair) values	Difference	Difference
Available-for-sale securities							
Securities with available book values exceeding acquisition costs:							
Equity securities	¥ 71,161	¥135,202	¥64,041	¥39,294	¥160,971	¥121,677	\$639,195
Other	10	13	3	10	17	7	30
	71,171	135,215	64,044	39,304	160,988	121,684	639,225
Securities with available book values not exceeding acquisition costs:							
Other securities:							
Equity securities	33,105	24,477	(8,628)	4,787	4,677	(110)	(86,116)
	33,105	24,477	(8,628)	4,787	4,677	(110)	(86,116)
	¥104,276	¥159,692	¥55,416	¥44,091	¥165,665	¥121,574	\$553,109

The following table summarizes book values of securities with no available fair values as of March 31, 2008 and 2007:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Held-to-maturity debt securities			
Non-listed foreign bond	¥—	¥100	\$—

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Available-for-sale securities:			
Non-listed equity securities	¥18,812	¥22,853	\$187,763
Preferred subscription certificate	—	5,000	—

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Over one year but within five years	¥—	¥100	\$—

Sales of available-for-sale securities for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Sales	¥5,541	¥3,396	\$55,305
Gains on sales	963	1,192	9,612
Losses on sales	12	5	120

5. Derivative Transactions

The Group enters into forward currency exchange contracts and currency swap agreements to hedge the risk of changes in foreign currency exchange rates associated with transactions denominated in foreign currencies, interest rate swap agreements and cap agreements to hedge the risk related to interest on borrowings, and commodities forward contracts to hedge the risk of movements in market values of aluminum and copper.

The Group does not enter into derivative transactions for speculative purposes. However, the Group may be exposed to losses from movements

in foreign currency exchange rates, interest rates and commodity market values and is exposed to credit risk in the event of non-performance by counterparties to its derivative transactions.

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, limits on transaction types and amounts and reporting to management.

Forward currency exchange contracts and swap agreements outstanding at March 31, 2008 and 2007 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2008			2007			2008
	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	¥17,404	¥17,085	¥ 319	¥17,973	¥18,109	¥(136)	\$ 3,184
Others	11,588	11,852	(264)	10,444	10,299	145	(2,635)
To buy foreign currencies:							
U.S. dollars	9,675	9,674	(1)	11,002	11,000	(2)	(10)
Others	2	2	0	433	437	4	0
			¥ 54			¥ 11	\$ 539

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 is applied and outstanding foreign exchange contracts which relate to foreign currency receivables and payables that were recorded in the balance sheet with the contracted foreign exchange rates at March 31, 2008 and 2007.

Interest rate swap agreements outstanding at March 31, 2008 and 2007 were as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)
	2008		2007		2008
	Contracted amount	Recognized gain (loss)	Contracted amount	Recognized gain (loss)	Recognized gain (loss)
Interest rate swap agreements					
To receive floating and pay fixed rates	¥ —	¥ —	¥ 200	¥ (0)	\$ —
To receive fixed and pay floating followed by fixed rates	45,300	(939)	55,300	(1,191)	(9,372)
		¥(939)		¥(1,191)	\$ (9,372)

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 as of March 31, 2008 and 2007.

Commodity forward contracts outstanding at March 31, 2008 and 2007 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2008			2007			2008
	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value	Recognized gain (loss)	Recognized gain (loss)
Commodity forward contracts							
To buy commodity	¥90	¥93	¥3	¥—	¥—	¥—	\$30
			¥3	¥—	¥—	¥—	\$30

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 as of March 31, 2008 and 2007.

6. Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Bank loans (average rate 2.77% in 2008 and 2.30% in 2007)	¥ 92,780	¥88,102	\$ 926,041
Commercial papers	110,000	—	1,097,914
	¥202,780	¥88,102	\$2,023,955

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Floating rate (20-year swap rate minus 2-year swap rate plus 1.2% per annum subject to minimum interest rate of 0.0% per annum) notes due 2008	¥ —	¥ 10,000	\$ —
0.3% to 3.4% yen bonds, due 2009 through 2018	273,187	246,471	2,726,690
Loans principally from banks and insurance companies	347,437	397,503	3,467,781
	620,624	653,974	6,194,471
Less current portion	139,383	105,449	1,391,187
	¥481,241	¥548,525	\$4,803,284

The aggregate annual maturities of long-term debt at March 31, 2008 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2009	¥139,383	\$1,391,187
2010	85,114	849,526
2011	66,669	665,426
2012	71,089	709,542
2013	64,551	644,286
2014 and thereafter	193,818	1,934,504
	¥620,624	\$6,194,471

At March 31, 2008 and 2007, 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)
	2008	2007	2008
Assets pledged as collateral			
Plant and equipment, net of accumulated depreciation	¥203,421	¥222,034	\$2,030,352
Other assets	31,513	28,796	314,532
	¥234,934	¥250,830	\$2,344,884

Secured short-term borrowings and long-term debt

	2008	2007	2008
Bonds (includes those due within 1 year)	¥ 1,096	¥ 1,448	\$ 10,939
Short-term borrowings	19,045	13,349	190,089
Long-term borrowings	107,416	121,210	1,072,123
Other debt	640	709	6,388
	¥128,197	¥136,716	\$1,279,539

At March 31, 2008 and 2007, 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)
	2008	2007	2008
Short-term borrowings	¥ 7,449	¥ 7,667	\$ 74,349
Long-term borrowings	15,842	23,410	158,120
Guarantees of loans	167	393	1,667
	¥ 23,458	¥31,470	\$234,136

7. Contingent Liabilities

At March 31, 2008 and 2007 the Group was contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Trade notes discounted	¥ —	¥ 200	\$ —
Trade notes endorsed	1,288	1,623	12,856
Guarantees of loans			
Related parties	11,057	8,751	110,360
Others	894	2,308	8,923
	¥13,239	¥12,882	\$132,139

Guarantees of loans include contingent guarantees and letters of awareness of ¥700 million (\$6,987 thousand) in 2008 and ¥700 million in 2007.

8. Net assets

As described in Note 2 (18), 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 non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the Board of Directors meeting held on May 16, 2008, the Board of Directors approved cash dividends amounting to ¥10,527 million (\$105,070 thousand). These appropriations have not been accrued in the consolidated financial statements as of March 31, 2008. Such appropriations are recognized in the period in which they are approved by the Board of Directors.

9. Research and Development Expenses

Research and development expenses included in cost of sales and selling, general, and administrative expenses were ¥30,139 million (\$300,818 thousand) for the year ended March 31, 2008 and ¥24,893 million for the year ended March 31, 2007.

10. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Freight	¥ 47,233	¥ 43,598	\$ 471,434
Employees' compensation	41,770	38,221	416,908
Research and development	10,944	10,242	109,232
Depreciation	3,225	3,106	32,189
Other	69,493	63,347	693,612
	¥172,665	¥158,514	\$1,723,375

11. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2008 and 2007 consisted of the following:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2008	2008
Assets for business		
Machinery and equipment, etc., (Indiana, USA)	¥2,127	\$21,230
Assets for business		
Machinery and equipment, etc., (Futtsu, Chiba Prefecture)	2,054	20,501
	¥4,181	\$41,731

The Company and its consolidated subsidiaries grouped their fixed assets based on the unit of business and recognized impairment losses for the assets whose fair values had diminished significantly compared to book values due to the decline in profitability.

The book values of those fixed assets were reduced to recoverable amounts and impairment loss of ¥4,181 million (\$41,731 thousand) was recognized in the year ended March 31, 2008. The amount consisted of machinery and equipment of ¥2,877 million (\$28,716 thousand), buildings and structures of ¥1,195 million (\$11,927 thousand), land of ¥61 million (\$609 thousand), and construction in progress of ¥48 million (\$479 thousand).

The recoverable amounts of the assets were net realizable values of zero since the assets are not expected to be resold or reused.

	Millions of yen
	2007
Idle assets	
Land, etc., (Kobe, Hyogo Prefecture, etc.; 3 properties in total)	¥4,080
Assets for business	
Land (Chiba, Chiba Prefecture)	553
Leasehold property	
Land (Kakogawa, Hyogo Prefecture)	141
	¥4,774

The Company and its consolidated domestic subsidiaries grouped their fixed assets based on the unit of business and recognized impairment losses for idle assets whose fair values had diminished significantly compared to book values primarily due to the decline in land prices. The Group also recognized losses for assets for business and leasehold property whose fair values had also diminished due to the decline in land prices.

Book values of those fixed assets were reduced to recoverable amounts and impairment loss of ¥4,774 million was recognized in the year ended March 31, 2007. The amount consisted of land of ¥4,758 million and machinery and equipment of ¥16 million.

The recoverable amounts of the idle assets were net realizable values based on publicly assessed land values.

The recoverable amounts of the assets for business and the leasehold assets were the present values of expected cash flows from ongoing utilization and the subsequent disposition of the assets based on a discount rate of 6%.

12. Income Taxes

Significant components of the Group's deferred income tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2008	2008
Deferred income tax assets		
Unrealized profit	¥ 21,868	\$ 218,265
Employees' severance and retirement benefits	14,781	147,530
Accrued bonuses to employees	10,359	103,394
Loss on write-down of securities	8,605	85,887
Loss on impairment of fixed assets	5,367	53,568
Land revaluation	5,067	50,574
Unrealized holding losses on securities	3,622	36,151
Enterprise taxes	2,381	23,765
Provision for environmental measures	1,799	17,956
Other	30,240	301,827
Total deferred income tax assets	104,089	1,038,917
Valuation allowance	(27,444)	(273,920)
Deferred income tax assets	76,645	764,997
Deferred income tax liabilities		
Unrealized holding gains on securities	25,817	257,681
Special tax purpose reserve	7,759	77,443
Land revaluation	5,360	53,498
Other	17,550	175,168
Total deferred income tax liabilities	56,486	563,790
Net deferred income tax assets	¥ 20,159	\$ 201,207

	Millions of yen
	2007
Deferred income tax assets	
Unrealized profit	¥ 20,868
Employees' severance and retirement benefits	17,887
Accrued bonuses to employees	9,979
Loss on write-down of securities	7,894
Loss on impairment of fixed assets	7,226
Land revaluation	5,067
Enterprise taxes	2,476
Provision for environmental measures	1,838
Loss carryforwards	1,487
Other	27,875
Total deferred income tax assets	102,597
Valuation allowance	(24,706)
Deferred income tax assets	77,891
Deferred income tax liabilities	
Net unrealized holding gains on securities	49,837
Special tax purpose reserve	8,811
Land revaluation	5,371
Other	17,759
Total deferred income tax liabilities	81,778
Net deferred income tax assets	¥ (3,887)

Significant items in the reconciliation of the aggregate statutory income tax rate with the effective income tax rate for the year ended March 31, 2008 are not disclosed since the difference was not material (less than 5%). The reconciliation for the year ended March 31, 2007 was as follows:

	2007
Aggregate statutory income tax rate in Japan	40.6%
Non-deductible entertainment expenses	1.3
Temporary difference for investments in subsidiaries	(2.6)
Equity in income of unconsolidated subsidiaries and affiliates	(1.3)
Other	(3.0)
Effective income tax rate	35.0%

13. Consolidated Statements of Changes in Net Assets

Changes in number of shares issued and outstanding during the year ended at March 31, 2008 were as follows:

	Number of shares
Common stock outstanding	
Balance at March 31, 2007	3,115,061,100
(No increase)	0
(No decrease)	0
Balance at March 31, 2008	3,115,061,100
<hr/>	
Treasury stock outstanding	
Balance at March 31, 2007	70,435,335
Increase due to purchase of odd-lot stock	725,591
Increase due to purchase of treasury stock based on resolution of the Board of Directors	43,052,000
Decrease due to sale of odd-lot stock	(206,024)
Other reasons (net changes)	(1,546,483)
Balance at March 31, 2008	112,460,419

14. Consolidated Statements of Cash Flows

The reconciliation of cash and cash equivalents in the cash flow statements and balance sheets as of March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Cash and cash equivalents (balance sheets)	¥ 68,739	¥ 99,668	\$ 686,086
Time deposits (due over 3 months)	(2,054)	(1,505)	(20,501)
Cash and cash equivalents (cash flow statements)	¥ 66,685	¥ 98,163	\$ 665,585

15. Related Party Transactions

Net sales include sales to Shinsho Corporation, which is an affiliate of the Company, of ¥237,219 million (\$2,367,691 thousand) and ¥219,711 million for the years ended March 31, 2008 and 2007, respectively.

16. 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, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Projected benefit obligation	¥(199,159)	¥(207,368)	\$(1,987,813)
Fair value of pension assets	176,030	219,556	1,756,962
Unrecognized net transition obligation	655	754	6,538
Unrecognized actuarial differences	9,308	(32,129)	92,903
Prepaid pension cost	(31,583)	(27,732)	(315,231)
Liability for severance and retirements benefits	¥ (44,749)	¥ (46,919)	\$ (446,641)

Included in the consolidated statements of income for the years ended March 31, 2008 and 2007 were severance and retirement benefit expenses that comprised the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Service costs – benefits earned during the year	¥ 7,555	¥ 6,938	\$ 75,407
Interest cost on projected benefit obligation	3,904	4,073	38,966
Expected return on plan assets	(2,712)	(2,615)	(27,069)
Amortization of net transition obligation	123	124	1,228
Amortization of actuarial differences	(2,009)	(1,065)	(20,052)
Severance and retirement benefit expenses	¥ 6,861	¥ 7,455	\$ 68,480

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 generally 2.0% for the years ended March 31, 2008 and 2007.

The rate of expected return on plan assets was mainly 2.1% for the years ended March 31, 2008 and 2007.

17. 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 is as follows:

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2008	2007	2008
Sales to outside customers:	Iron and Steel	¥ 896,914	¥ 805,636	\$ 8,952,131
	Wholesale Power Supply	71,890	66,858	717,536
	Aluminum and Copper	448,656	396,181	4,478,052
	Machinery	297,998	274,911	2,974,329
	Construction Machinery	339,868	285,333	3,392,235
	Real Estate	35,481	33,867	354,137
	Electronic Materials and Other Businesses	41,599	47,510	415,201
	Consolidated net sales	2,132,406	1,910,296	21,283,621
Intersegment sales:	Iron and Steel	26,878	25,061	268,270
	Wholesale Power Supply	—	—	—
	Aluminum and Copper	1,426	1,129	14,233
	Machinery	4,216	6,036	42,080
	Construction Machinery	53	50	529
	Real Estate	8,821	7,495	88,043
	Electronic Materials and Other Businesses	19,103	16,068	190,668
		60,497	55,839	603,823
Total sales:	Iron and Steel	923,793	830,696	9,220,411
	Wholesale Power Supply	71,890	66,858	717,537
	Aluminum and Copper	450,081	397,310	4,492,275
	Machinery	302,214	280,947	3,016,409
	Construction Machinery	339,921	285,383	3,392,764
	Real Estate	44,302	41,362	442,180
	Electronic Materials and Other Businesses	60,702	63,579	605,869
		2,192,903	1,966,135	21,887,445
Operating costs and expenses:	Iron and Steel	831,876	736,107	8,302,984
	Wholesale Power Supply	53,807	48,837	537,050
	Aluminum and Copper	428,077	362,639	4,272,652
	Machinery	271,694	258,815	2,711,788
	Construction Machinery	317,082	270,580	3,164,807
	Real Estate	39,365	36,048	392,903
	Electronic Materials and Other Businesses	52,515	49,274	524,154
	Eliminations	(64,409)	(60,628)	(642,869)
	Consolidated operating costs and expenses	1,930,007	1,701,672	19,263,469
Operating income:	Iron and Steel	91,916	94,589	917,417
	Wholesale Power Supply	18,084	18,021	180,497
	Aluminum and Copper	22,004	34,671	219,623
	Machinery	30,520	22,132	304,621
	Construction Machinery	22,838	14,803	227,947
	Real Estate	4,938	5,314	49,286
	Electronic Materials and Other Businesses	8,187	14,304	81,715
	Eliminations	3,912	4,790	39,046
	Consolidated operating income	202,399	208,624	2,020,152
Assets:	Iron and Steel	933,223	880,634	9,314,533
	Wholesale Power Supply	160,501	171,039	1,601,966
	Aluminum and Copper	308,690	302,297	3,081,046
	Machinery	291,386	252,769	2,908,334
	Construction Machinery	270,963	234,947	2,704,491
	Real Estate	128,769	127,624	1,285,248
	Electronic Materials and Other Businesses	73,376	73,367	732,368
	Corporate and Eliminations	162,098	198,893	1,617,907
	Total	¥2,329,006	¥2,241,570	\$23,245,893

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2008	2007	2008
Depreciation:	Iron and Steel	¥ 63,554	¥ 45,925	\$ 634,335
	Wholesale Power Supply	12,492	12,484	124,683
	Aluminum and Copper	18,371	14,278	183,362
	Machinery	6,507	5,391	64,947
	Construction Machinery	5,421	4,315	54,107
	Real Estate	1,446	1,237	14,432
	Electronic Materials and Other Businesses	2,720	3,097	27,148
	Corporate and Eliminations	1,003	(40)	10,011
	Total	111,514	86,687	1,113,025
Impairment of fixed assets:	Iron and Steel	2,127	—	21,230
	Wholesale Power Supply	—	—	—
	Aluminum and Copper	—	554	—
	Machinery	2,054	16	20,501
	Construction Machinery	—	—	—
	Real Estate	—	202	—
	Electronic Materials and Other Businesses	—	—	—
	Corporate and Eliminations	—	4,002	—
	Total	4,181	4,774	41,731
Capital expenditures:	Iron and Steel	102,644	79,416	1,024,493
	Wholesale Power Supply	138	622	1,377
	Aluminum and Copper	18,754	24,719	187,184
	Machinery	7,793	6,961	77,782
	Construction Machinery	14,602	7,668	145,743
	Real Estate	1,017	1,978	10,151
	Electronic Materials and Other Businesses	2,523	6,142	25,183
	Corporate and Eliminations	3,114	6,143	31,081
	Total	¥ 150,585	¥ 133,649	\$ 1,502,994

Corporate assets of ¥229,475 million (\$2,290,398 thousand) and ¥239,960 million at March 31, 2008 and 2007, respectively, comprised principally assets of administration departments of the Company.

As mentioned in Note 1, "Basis of Presenting Consolidated Financial Statements," the depreciation method for tangible fixed assets has been changed due to the revision of the Corporate Tax Law. As a result, compared with the previous method, operating costs and expenses were ¥1,566 million (\$15,630 thousand) more in the Iron and Steel Segment, ¥0 million (\$0 thousand) more in the Wholesale Power Supply Segment, ¥447 million (\$4,462 thousand) more in the Aluminum and Copper Segment, ¥96 million (\$958 thousand) more in the Machinery Segment, ¥350 million (\$3,493 thousand) more in the Construction Machinery Segment, ¥4 million (\$40 thousand) more in the Real Estate Segment and ¥126 million (\$1,258 thousand) more in the Electronic Materials and Other Business Segment. Accordingly, operating income in the above segments was less by the same amounts, respectively.

In addition, as mentioned in Note 1, "Basis of Presenting Consolidated Financial Statements," salvage value of tangible fixed assets is depreciated if certain conditions are met. As a result, operating costs and expenses were ¥7,401 million (\$73,870 thousand) more in the Iron and Steel Segment, ¥0 million (\$0 thousand) more in the Wholesale Power Supply Segment, ¥1,374 million (\$13,714 thousand) more in the Aluminum and Copper Segment, ¥389 million (\$3,883 thousand) more in the Machinery Segment, ¥108 million (\$1,078 thousand) more in the Construction Machinery Segment, ¥20 million (\$199 thousand) more in the Real Estate Segment and ¥60 million (\$599 thousand) more in the Electronic Materials and Other Business Segment. Accordingly, operating income in the above segments was less by the same amount respectively.

(2) Geographic Area

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2008	2007	2008
Sales to outside customers:	Japan	¥1,872,914	¥1,707,605	\$18,693,622
	Other areas	259,492	202,691	2,589,999
	Total	2,132,406	1,910,296	21,283,621
Intersegment sales:	Japan	122,676	94,366	1,224,434
	Other areas	19,011	12,437	189,749
	Total	141,687	106,803	1,414,183
Total sales:	Japan	1,995,590	1,801,971	19,918,056
	Other areas	278,503	215,128	2,779,748
	Total	¥2,274,093	¥2,017,099	\$22,697,804

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2008	2007	2008
Operating costs and expenses:	Japan	¥1,812,789	¥1,608,223	\$18,093,512
	Other areas	258,033	200,244	2,575,437
	Eliminations	(140,815)	(106,795)	(1,405,480)
Consolidated operating costs and expenses		1,930,007	1,701,672	19,263,469
Operating income:	Japan	182,801	193,748	1,824,543
	Other areas	20,470	14,883	204,312
	Eliminations	(872)	(7)	(8,703)
Consolidated operating income		202,399	208,624	2,020,152
Assets:	Japan	1,834,482	1,833,390	18,310,031
	Other areas	277,219	207,453	2,766,933
	Corporate and Eliminations	217,305	200,727	2,168,929
Total		¥2,329,006	¥2,241,570	\$23,245,893

The principal area in other areas is Asia.

Corporate assets of ¥229,475 million (\$2,290,398 thousand) and ¥239,960 million at March 31, 2008 and 2007, respectively, comprised principally assets of administration departments of the Company.

As mentioned in Note 1, "Basis of Presenting Consolidated Financial Statements," the depreciation method for tangible fixed assets has been changed due to the revision of the Corporate Tax Law. As a result, compared with the previous method, operating costs and expenses were ¥2,624 million (\$26,190 thousand) more in the Iron and Steel Segment. Accordingly, operating income in the above segment was less by the same amount.

In addition, as mentioned in Note 1, "Basis of Presenting Consolidated Financial Statements," salvage value of tangible fixed assets is depreciated if certain conditions are met. As a result, operating costs and expenses were ¥9,468 million (\$94,500 thousand) more in the Iron and Steel Segment. Accordingly, operating income in the above segment was less by the same amount.

(3) Overseas Sales

Overseas sales for the years ended March 31, 2008 and 2007 were as follows:

		Percentages of 2008 consolidated net sales	Millions of yen		Thousands of U.S. dollars (Note 1)
			2008	2007	2008
Overseas sales:	Asia	20.3%	¥432,613	¥344,825	\$4,317,926
	Other areas	15.9	338,932	218,042	3,382,893
	Total	36.2%	¥771,545	¥562,867	\$7,700,819

Overseas sales consisted of export sales of the Company and its domestic consolidated subsidiaries and sales of overseas consolidated subsidiaries excluding sales to Japan.

Principal countries and areas in each segment were:

Asia: China, Taiwan, Korea, Thailand, Malaysia

Other areas: North America, Middle East

18. Net Income per Share

The basis of calculating net income per share ("EPS") for the years ended March 31, 2008 and 2007 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net income	Weighted average shares	EPS	
For the year ended March 31, 2008				
Net income available to common shareholders	¥ 88,923	3,001,351	¥29.63	\$0.30
For the year ended March 31, 2007				
Net income available to common shareholders	109,669	3,100,733	35.37	

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, 2008 and 2007, 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, 2008 and 2007, 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.

- (1) As discussed in Note 1 to the consolidated financial statements, effective April 1, 2006, the Group has changed the principal method of calculating depreciation for machinery and equipment.
- (2) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2006, the Group has adopted a new accounting standard for the presentation of net assets in the balance sheet.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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 & Co.

Osaka, Japan
June 25, 2008