

Consolidated Interim Statements of Stockholders' Equity

Six months ended September 30, 2005(unaudited)

Millions of yen								
	Shares of common stock	Common stock	Capital surplus	Retained earnings	Land revaluation	Net unrealized holding gains on securities	Foreign currency transaction adjustments	Treasury stock
Balance at April 1, 2005	2,976,070,294	¥ 218,163	¥ 67,980	¥ 81,634	¥ 409	¥ 25,376	¥(13,150)	¥(1,199)
Net income	—	—	—	36,712	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	2,472	—
Increase in unrealized holding gains on securities	—	—	—	—	—	23,467	—	—
Cash dividends	—	—	—	(8,922)	—	—	—	—
Conversion of convertible bond	1,389,908	152	152	—	—	—	—	—
Bonuses to directors	—	—	—	(23)	—	—	—	—
Increase due to changes in scope of consolidation	—	—	—	41	—	—	—	—
Decrease due to changes in scope of consolidation	—	—	—	(14)	—	—	—	—
Adjustment to revaluation of land	—	—	—	—	23	—	—	—
Treasury stock	—	—	—	—	—	—	—	(96)
Balance at September 30, 2005	2,977,460,202	¥ 218,315	¥ 68,132	¥ 109,428	¥ 432	¥ 48,843	¥ (10,678)	¥ (1,295)

Thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Land revaluation	Net unrealized holding gains on securities	Foreign currency transaction adjustments	Treasury stock
Balance at April 1, 2005	\$ 1,927,405	\$ 600,583	\$ 721,212	\$ 3,613	\$ 224,189	\$ (116,176)	\$ (10,593)
Net income	—	—	324,340	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	21,839	—
Increase in unrealized holding gains on securities	—	—	—	—	207,324	—	—
Cash dividends	—	—	(78,823)	—	—	—	—
Conversion of convertible bond	1,343	1,343	—	—	—	—	—
Bonuses to directors	—	—	(203)	—	—	—	—
Increase due to changes in scope of consolidation	—	—	362	—	—	—	—
Decrease due to changes in scope of consolidation	—	—	(124)	—	—	—	—
Adjustment to revaluation of land	—	—	—	204	—	—	—
Treasury stock	—	—	—	—	—	—	(848)
Balance at September 30, 2005	\$ 1,928,748	\$ 601,926	\$ 966,764	\$ 3,817	\$ 431,513	\$ (94,337)	\$ (11,441)

See accompanying notes.

Notes to Consolidated Interim Financial Statements

September 30, 2005 (Unaudited)

1. Presentation of Financial Statements

Kobe Steel, Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Japanese Commercial Code and accounting principles generally accepted in Japan ("Japanese GAAP"). The accounts of 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 interim financial statements should be read in conjunction with the financial statements and related notes included in the Annual Report of the Company to stockholders for the year ended March 31, 2005.

Certain accounting principles generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements.

The accompanying interim financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of statements of stockholders' equity) from the consolidated interim 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 Securities and Exchange Law.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at September 30, 2005, which was ¥113.19 to U.S. \$1.00. The convenience translation 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.

Commencing in fiscal 2005, ending March 31, 2006, the company changed the method of evaluating inventories in the Iron and Steel, Wholesale Power Supply, and

Aluminum and Copper segments from the "last-in, first-out method" to the "average method" in order to present the financial position more appropriately.

As the market prices of raw materials such as iron ore, coal, aluminum and copper have changed rapidly, the difference between the value of inventories calculated under the last-in, first-out method and the market prices of the raw materials tend to differ considerably. In this situation, this change has been executed in order to reflect the change of the market prices of the raw materials on the value of inventories on the Balance Sheet.

As a result, both operating income and income before income taxes for the first half of fiscal 2005, ended September 30, 2005 increased by ¥14,587 million (\$128.9 million).

2. Contingent Liabilities

At September 30, 2005, the Company and its consolidated subsidiaries were contingently liable for guarantees of loans of ¥4,821 million (\$42.6 million). This figure includes contingent guarantees and letters of awareness of ¥802 million (\$7.1 million).

3. Subsequent Event

The company issued new shares as all stock acquisition rights of Zero Coupon Convertible bonds due 2006 were exercised from October 1 to November 21, 2005. Details are as follows:

- (1) Number of new shares : Common stock 137,600,898
- (2) Issue price and amount capitalized
Issue price : ¥218 (\$1.93) per share
Amount capitalized : ¥109 (\$0.96) per share
- (3) Aggregate amount issued : ¥29,997 million (\$265.0 million)
- (4) Increase in common stock and capital surplus
Common stock : ¥14,998 million (\$132.5 million)
Capital surplus : ¥14,998 million (\$132.5 million)
- (5) Initial Date in reckoning of dividend : October 1, 2005