

# Kobe Steel's FY2005 Third Quarter Consolidated Operating Results (April 1, 2005 - December 31, 2005)

February 2, 2006

Listed company name: Kobe Steel, Ltd.  
 Stock Exchange Number: 5406  
 Listings: Tokyo, Osaka and Nagoya, Japan  
 Website: www.kobelco.co.jp  
 President & CEO: Yasuo Inubushi

## 1. Basis of Presenting Quarterly Financial Information

- (1) Adoption of simplified accounting method: Yes  
 A partial simplified accounting method has been used to report tax expenses and other items.
- (2) Changes in accounting methods from the most recent consolidated fiscal year: Yes  
 Since the first quarter of fiscal 2005, Kobe Steel changed the method of evaluating inventories in the Iron & Steel, Wholesale Power Supply, and Aluminum & Copper segments from the last-in, first-out method to the average method to present the financial position more appropriately. As the market prices of major raw materials, including iron ore, coal, aluminum ingot and copper cathode, have changed sharply in recent years, 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. The change to the average method reflects changes in the market prices of the raw materials on the value of the inventories on the Balance Sheet. As a result of this change, both operating income and pretax ordinary income for the nine-month period (April 1 – December 31, 2005) increased 18,165 million yen.
- (3) Changes in the scope of consolidation and equity-valued method: Yes
- |                             |    |                                  |   |
|-----------------------------|----|----------------------------------|---|
| New consolidated companies: | 10 | Consolidated companies excluded: | 7 |
| New equity-valued company:  | 1  | Equity-valued company excluded:  | 1 |

## 2. Outline of Operating Results for nine months ended December 31, 2005

(in millions of yen)	9 months ended December 31, 2005	9 months ended December 31, 2004	FY2004
Net sales	1,191,734	--	1,443,771
Operating Income	157,616	--	166,576
Ordinary income *	128,077	--	116,028
Net income	62,889	--	51,288
Net income per share	20.96 yen	--	17.27 yen
Diluted net income per share	20.27 yen	--	16.48 yen

**Notes:**

Amounts of less than 1 million yen are rounded down.

\* Also known as pretax recurring profit.

As results for the nine-month period are announced for the first time, no figures are available for the equivalent nine months of fiscal 2004.

### Segment Information for nine months ended December 31, 2005 (in millions of yen)

	Net Sales	Operating Income
Iron & Steel	554,727	97,855
Wholesale Power Supply	46,362	13,234
Aluminum & Copper	226,005	17,334
Machinery	160,288	2,574
Construction Machinery	165,772	6,492
Real Estate	33,193	3,587
Electronic Materials & Other Businesses	43,320	13,029
Subtotal	1,229,670	154,109
Eliminations	(37,936)	3,506
<b>Total</b>	<b>1,191,734</b>	<b>157,616</b>

## **Review of Consolidated Operations**

Japan's economy continues to steadily recover, with corporate earnings reaching high levels and capital investment, personal spending and employees' income going up. Overseas, although high oil prices are pressuring inflation, the economy continues to be robust.

In this economic environment, the Kobe Steel Group posted consolidated net sales of 1,191.7 billion yen, pretax ordinary income of 128 billion yen, and aftertax net income of 62.8 billion yen for the nine-month period beginning April 1 and ending December 31, 2005.

### **Iron & Steel**

Domestic demand for steel continued to be strong in the automotive, shipbuilding and other manufacturing industries. However, the supply and demand for general steel products eased due to higher steel production in China. The market has clearly become polarized into upper-end steel products used in manufacturing and general steel products.

Under these conditions, Kobe Steel has undertaken careful production and shipments in response to actual demand in each field and for each product category. Placing top priority on stable supplies to customers in high production, the Company kept a close watch on changes in supply and demand and inventory trends. Kobe Steel was able to increase prices of steel products used in the domestic manufacturing market

In both the domestic and overseas markets, where demand for standard steel products softened, Kobe Steel continued its stance of maintaining its steel prices. As a result, third-quarter exports of steel products fell in comparison to the first two quarters. Domestic shipments of steel sheet also decreased in the same period.

### **Wholesale Power Supply**

This segment has been operating as planned. Stable operation of the power station and steady income are expected to be maintained.

### **Aluminum & Copper**

Domestic demand for aluminum can stock for beverage containers; copper sheet for electronic applications; and aluminum disks for hard disk drives continued to enjoy strong demand. For copper tube, however, certain markets, such as the European air conditioner market, are showing signs of softening. In both the aluminum and copper businesses, profits increased as inventories, on the back of high raw material prices, were evaluated using the average method.

### **Machinery**

Orders for compressors, plastics processing machinery, LNG equipment and pressure vessels used in oil refineries were strong owing to active capital investment in the world petrochemical and energy fields, mainly in the Middle East and China. The domestic public works field continued to face difficult operating conditions. However, Kobe Steel has been working to maintain orders and improving costs.

### **Construction Machinery**

Domestic demand for hydraulic excavators was strong, and the Chinese market showed signs of recovery.

### **Real Estate**

Centered on condominium sales, this segment saw business proceeding as planned.

### **Electronic Materials & Other Businesses**

Demand continued to be strong for target material used in LCD panels.

## **Next Forecast**

Kobe Steel intends to disclose its forecast for fiscal 2005, ending March 31, 2006, in early March. At this time, Kobe Steel has not revised its outlook from the previous forecast in October 2005.

## Supplementary Information (non-consolidated)

### Crude Steel Production (in millions of metric tons)

	FY2005					FY2004		
	1Q	2Q	1st half	3Q	9 months	1st Half	2nd Half	Full Year
Japan's total	28.97	27.83	56.80	27.92	84.72	56.38	56.52	112.90
Kobe Steel	1.88	1.95	3.83	1.88	5.71	3.80	3.91	7.71

### Kobe Steel's Shipments of Steel Products (in thousands of metric tons)

	FY2005					FY2004		
	1Q	2Q	1st half	3Q	9 months	1st Half	2nd Half	Full Year
Domestic	1,318	1,325	2,643	1,308	3,951	2,429	2,595	5,024
Exports	380	314	694	282	976	806	841	1,647
Total	1,698	1,639	3,337	1,590	4,927	3,235	3,436	6,671

### Kobe Steel's Average Domestic & Export Steel Price (in yen per metric ton)

	FY2005					FY2004		
	1Q	2Q	1st half	3Q	9 months	1st Half	2nd Half	Full Year
Average price	68,000	74,700	71,300	75,300	72,600	53,500	60,900	57,300

### Kobe Steel's Export Ratio of Steel Products

	FY2005					FY2004		
	1Q	2Q	1st half	3Q	9 months	1st Half	2nd Half	Full Year
Tonnage basis	22.4%	19.1%	20.8%	17.8%	19.8%	24.9%	24.5%	24.7%
Value basis	25.6%	21.8%	23.7%	21.0%	22.8%	26.9%	27.0%	27.0%

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