

## Summary of Kobe Steel's Consolidated Financial Results for Fiscal 2008

(April 1, 2008 – March 31, 2009)

TOKYO, April 28, 2009 – Kobe Steel, Ltd. announced today its financial results for fiscal 2008, ended March 31, 2009.

### Consolidated financial summary (in millions of yen)

	FY2008	FY2007	% Change
Net sales	2,177,289	2,132,405	2.1%
Operating income	116,934	202,398	(42.2%)
Ordinary income *	60,876	157,918	(61.5%)
Net income (loss)	(31,438)	88,923	--
Net income (loss) per share	(10.47 yen)	29.62 yen	

Note: \* Also known as pretax recurring profit

### Segment sales (in millions of yen)

	FY2008	FY2007
Iron & Steel	1,022,406	923,792
Wholesale Power Supply	80,708	71,890
Aluminum & Copper	379,310	450,081
Machinery	331,002	302,214
Construction Machinery	333,025	339,920
Real Estate	37,131	44,302
Electronic Materials & Other Businesses	55,117	60,702
Eliminations	(61,413)	(60,496)
Consolidated net sales	2,177,289	2,132,405

### Overseas sales (in millions of yen)

	FY2008	FY2007
Overseas sales	709,520	771,544
Consolidated net sales	2,177,289	2,132,405
Percentage of overseas sales	32.6%	36.2%

## Operating Results

The Japanese economy in the first two quarters of fiscal 2008 (April-September 2008) became stagnant due to the high prices of energy and natural resources. From the third quarter (October-December 2008), it rapidly deteriorated as the U.S. financial crisis adversely affected the real economy. All areas in the world – including China, the Middle East and Russia, which had previously been able to maintain growth – experienced worsening conditions.

In this environment, although the slumping economy affected a portion of the Kobe Steel Group's business up to the second quarter (July-September 2008), demand on the whole remained firm. The Iron & Steel segment and other segments were able to pass on the cost of higher raw materials by charging higher sales prices. However, from the third quarter, demand dropped dramatically in all business segments, except for the Wholesale Power Supply segment. As a result, Kobe Steel was forced to reduce production considerably.

Due to these conditions, consolidated net sales for fiscal 2008, ended March 31, 2009, were 2,177.2 billion yen, flat in comparison to fiscal 2007. Operating income fell 85.4 billion yen, in comparison to fiscal 2007, to 116.9 billion yen. Ordinary income decreased 97.0 billion yen, over the previous year, to 60.8 billion yen. The write-down of investments in securities and impairment loss on a portion of the fixed assets were taken as extraordinary loss, in addition to the liquidation of deferred income tax assets. As a result, net income decreased 120.3 billion yen, compared with fiscal 2007, to net loss of 31.4 billion yen.

## Results by Business Segment

### Iron & Steel

The manufacturing of steel products continued to be high owing to firm demand in the first two quarters (April–September 2008). However, from the third quarter (October–December 2008) demand in the manufacturing sector fell sharply, with the exception of the shipbuilding industry, leading to lower shipments of steel products in fiscal 2008, compared with fiscal 2007. As a result of passing higher raw material costs on to steel products, the prices of steel products rose compared with the same period last year.

Titanium products and welding consumables saw firm demand in the first two quarters but lower demand since the third quarter.

On the other hand, demand for steel castings and forgings remained strong owing to the shipbuilding industry.

As a result, segment sales rose 10.7%, in comparison to the previous year, to 1,022.4 billion yen. Operating income decreased 14.1 billion yen, compared with the previous year, to 77.7 billion yen.

### Wholesale Power Supply

Segment sales increased 12.3%, compared with the previous year, to 80.7 billion yen as higher coal prices led to higher electricity unit prices. Operating income decreased 0.7 billion yen over the previous year to 17.2 billion yen. Due to a revision in the Corporation Tax Act, depreciation costs increased due to the shorter legal useful life of machinery and equipment.

### Aluminum & Copper

The sales volume of aluminum rolled products decreased in comparison to the previous year. With the exception of aluminum can stock, in which demand continued to be firm, demand in the automotive, liquid crystal and semiconductor industries declined.

The sales volume of copper rolled products went down over the previous year due to a considerable drop in demand for copper sheet and strip for electronic applications.

Sales of aluminum castings and forgings, mainly to the automotive industry, also fell over the previous year.

In addition to these conditions, ingot prices, which can be reflected in the sales prices, dropped significantly. As a result, segment sales decreased 15.7%, over the previous year, to 379.3 billion yen. Operating income decreased 48.8 billion yen in comparison to the previous year to an operating loss of 26.8 billion yen. The sharp drop in ingot prices affected inventory valuation, pushing down profits markedly.

In the fourth quarter (January–March 2009), Kobe Steel posted an extraordinary loss from impairment loss on fixed assets, due to the low operating rate of copper sheet equipment at the Chofu Works.

### Machinery segment

Orders for LNG-related equipment and large-capacity compressors remained firm. However, since the third quarter (October–December 2008), capital investments were sluggish in the automotive, oil refining and petrochemical sectors. In addition to fewer orders for products for these industries, some projects, including direct reduction plants, were postponed.

Due to these conditions, domestic orders in fiscal 2008 fell 18.5% in comparison to the previous year to 128.4 billion yen. Overseas orders fell 39.5% over the previous year to 110.1 billion yen. As a result, overall orders in the Machinery segment decreased 29.8% over the previous year to 238.5 billion yen and the backlog of orders at the end of the fiscal year was 318.8 billion yen.

Consolidated segment sales increased 9.5% in comparison to the previous year to 331.0 billion yen. Operating income, affected by the high cost of materials and equipment, fell 0.9 billion yen compared with the previous year to 29.5 billion yen.

### Construction Machinery

Demand for hydraulic excavators went down in comparison to last year in Japan, the United States and Europe. Although the Chinese market showed signs of slowing down at the end of fiscal 2008, demand was still higher than the previous year. Demand for cranes in Japan and the Middle East went down from the third quarter (October–December 2008), but the North American market continued to be firm.

As a result, segment sales were 333.0 billion yen, similar to the previous year. Operating income, affected by the high cost of materials and equipment, went down 11.5 billion yen in comparison to the previous year to 11.2 billion yen.

#### Real Estate

Segment sales decreased 16.2% over the previous year to 37.1 billion yen, due to the deteriorating business environment for real estate sales. Operating income decreased 3.0 billion yen over the previous year to 1.8 billion yen.

#### Electronic Materials & Other Businesses

Due to lower demand for liquid crystal panels, the sales volume of target material for thin-film wiring went down. As a result, segment sales decreased 9.2% over the previous year to 55.1 billion yen. Operating income fell 5.0 billion yen over the previous year to 3.1 billion yen.

In April 2006, the Kobe Steel Group unveiled its Fiscal 2006-2008 Medium-Term Business Plan, a three-year plan that ended in March 2009. Over the medium term, Kobe Steel undertook the creation of a corporate structure that provides both stability and growth. Final-year targets for financial results were achieved in the first year. In the second year, fiscal 2007, Kobe Steel continued to achieve high levels of profit. However, in fiscal 2008 profit was affected by drastic changes in the business environment, resulting in figures considerably lower than originally planned.

	FY2008 Plan	FY2006	FY2007	FY2008
Net sales	About 1,900.0	1,910.2	2,132.4	2,177.2
Ordinary income	180.0 or more	183.2	157.9	60.8
Net income	100.0 or more	109.6	88.9	(31.4)
ROA (net income after taxes/total assets)	5.0% or more	4.9%	3.8%	(1.4%)
Debt	550.0 or less	621.2	713.3	855.9
Debt including IPP project financing	650.0 or less	742.2	823.4	954.7
Debt/equity ratio (times)*	0.8 or less	1.2	1.3	1.7
D/E ration including IPP project financing	0.9 or less	1.4	1.4	1.8

\* Debt/equity ratio = Debt/stockholders' equity

Stockholders' equity consists of common stock, capital surplus and retained earnings.

Figures are in billions of yen unless otherwise indicated.

### Forecast for Fiscal 2009

In fiscal 2009, the world economy on the whole is anticipated to register minus growth. Advanced countries are forecasting significant minus growth, while in emerging countries growth is expected to slow down considerably.

As previously mentioned, the Kobe Steel Group was forced to decrease production considerably mainly for steel products and aluminum and copper rolled products in the third and fourth quarters (October 2008-March 2009) of fiscal 2008. Production levels in fiscal 2009 are anticipated to gradually recover to meet actual demand after user inventory goes down. However, it is unclear as to when the economy will recover and after it does recover, to what level.

Due to these conditions, Kobe Steel envisages it difficult to expect a rapid recovery of demand for steel products and aluminum and copper rolled products. In addition, Kobe Steel makes certain assumptions on the prices of raw materials for steelmaking and steel sales prices which are uncertain factors. As a result, Kobe Steel's provisional forecast for fiscal 2009 is net sales of 1,670.0 billion yen, ordinary loss of 30.0 billion yen and net loss of 55.0 billion yen.

The assumptions by segment are as follows.

## Outlook by Business Segment

### Iron & Steel

Steel demand in the first quarter of fiscal 2009 (April-June) is forecast to continue being extremely weak, similar to the fourth quarter of fiscal 2008 (January-March 2009). Demand is anticipated to gradually start recovering after that, but the speed of the recovery is likely to be slow. Steel shipments in fiscal 2009 are forecast to be considerably lower than in fiscal 2008.

On the other hand, the backlog of orders for steel castings and forgings is expected to help maintain sales of these products to a similar level as in fiscal 2008.

Due to this outlook, segment sales are anticipated to go down considerably in comparison to fiscal 2008.

### Wholesale Power Supply

This segment intends to run its power station under stable operation to maintain stable revenue. Segment sales are anticipated to increase in comparison to fiscal 2008, owing to higher electricity unit prices reflecting coal prices.

### Aluminum & Copper

Demand for aluminum can stock is forecast to remain firm. As for other aluminum and copper rolled products and aluminum castings and forgings, although demand is anticipated to hit bottom in the first quarter (April-June 2009), the demand level after recovery is expected to be lower than the level in the second quarter (July-September) of fiscal 2008.

In addition to the above conditions, ingot prices, which fell in fiscal 2008, are expected to remain flat. As a result, segment sales are anticipated to go down considerably in comparison to fiscal 2008.

### Machinery

Orders for tire presses and rubber machinery used in the automotive industry and heavy-wall pressure vessels for the oil industry are anticipated to go down in comparison to fiscal 2008. However, orders for LNG and nuclear power-related equipment and large-capacity compressors are forecast to remain steady. In addition, orders are envisaged for direct reduction plants and other products. As a result, orders are expected to be higher than in fiscal 2008. Although there is a backlog of orders, considering the construction progress of direct reduction plants and other large projects, segment sales are forecast to go down in comparison to the previous year.

### Construction Machinery

Demand in China for hydraulic excavators is forecast to remain firm owing to recovery efforts in the aftermath of the 2008 Sichuan Earthquake and the promising benefits of the Chinese government's economic stimulus measures. However, demand in Japan, the United States and Europe is expected to decrease further.

Crane demand is expected to remain firm in North America, but is forecast to decrease considerably in Japan and the Middle East.

Based on this outlook, segment sales are expected to decrease in comparison to fiscal 2008.

### Real Estate

With regard to real estate sales, plans call for the sale of the backlog of completed units. As a result, segment sales are expected to go up in comparison to fiscal 2008.

### Electronic Materials and Other Businesses

The testing and analysis business plans to expand sales in the energy and other fields, but the sales volume of target material for thin-film wiring is anticipated to go down in comparison to fiscal 2008. As a result, segment sales are expected to go down in comparison to fiscal 2008.

## Analysis of Financial Position

Although cash and cash equivalents increased, account receivables and investment in securities went down. As a result, total assets at the end of the term decreased 33.5 billion yen in comparison to the previous year to 2,295.4 billion yen. As for net assets, retained earnings and unrealized holding gains on securities, net of

taxes, went down. This led to net assets decreasing 134.3 billion yen in comparison to the previous year to 513.4 billion yen. As a result, the net worth ratio was 20.9% at the end of the term, down 4.9% in comparison to the previous year.

Income before income taxes was 27.8 billion yen with depreciation of 128.7 billion yen. Net cash provided by operating activities was 118.1 billion yen. Net cash used in investing activities after purchases of fixed assets amounted to 127.4 billion yen. Net cash from financing activities was 138.7 billion yen due to the increase in borrowings.

As a result, external debt increased 131.3 billion yen to 954.7 billion yen, in comparison to the previous year.

#### Consolidated cash flow indicators

	FY2004	FY2005	FY2006	FY2007	FY2008
Net worth ratio	19.9%	25.6%	26.4%	25.8%	20.9%
Stockholders' equity ratio at market price	29.6%	67.1%	66.0%	38.0%	17.1%
Ratio of cash flow to interest-bearing debt (years)	3.6	3.6	4.3	6.6	7.9
Interest coverage ratio (times)	9.3	9.0	8.5	5.9	6.3

Notes:

\* Net worth ratio = Stockholders' equity/total assets

\* Stockholders' equity ratio at market price = Market capitalization/total assets

(Market capitalization is calculated by multiplying the share price at term-end by the number of outstanding shares at term-end.)

\* Ratio of cash flow to interest-bearing debt = Interest-bearing debt/operating cash flows

\* Interest coverage ratio = Operating cash flows/interest expense

### Basic Policy on Profit Sharing and Dividends

Kobe Steel considers the return of profits to its shareholders as an important management issue. Taking a medium- to long-term view on business development, Kobe Steel is striving to increase the corporate value of the entire Kobe Steel Group.

In distributing its profits, Kobe Steel takes into overall consideration the financial condition of the company, trends in its business performance, future capital needs and other issues. The basis for dividend payments is continuous and stable distribution. Dividends are decided upon taking into account the company's performance for each business term, the payout ratio and other factors.

As for internal reserves, by providing necessary financing for future growth, Kobe Steel strives to improve its profitability as well as improve and strengthen its financial condition.

Taking into consideration profit sharing based on its financial performance, Kobe Steel aims for a dividend payout ratio of approximately 15% to 25% of consolidated net income.

Kobe Steel shall determine the matters concerning distribution of retained earnings, etc. stipulated in each item of Article 459.1 and Article 460.1 of the Company Law, by resolution of the Board of Directors.

The basic policy on dividend distribution is payment twice a year in principle, with the end of the first half of the fiscal year and the end of the fiscal year stipulated as the record dates under the Articles of Incorporation. Other record dates for dividends may be arranged upon approval at the board of directors meeting.

#### Dividends

Kobe Steel incurred a substantial net loss in fiscal 2008 and as the overall climate indicates that the business environment will continue to be severe, Kobe Steel has decided to forego a year-end dividend. As a result, the dividend for fiscal 2008 will be the 3.50-yen dividend paid out for the first half of fiscal 2008.

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## Management Policies

### Fundamental Management Strategy

The Kobe Steel Group aims to continuously improve its corporate value by striving to fulfill its social responsibilities to shareholders, investors, customers, business partners, employees, local communities and other stakeholders, based on the following corporate philosophy:

#### Kobe Steel Group Corporate Philosophy

1. We provide reliable and advanced technologies, products and services that satisfy customers.
2. We support each employee in developing his or her abilities, while respecting mutual cooperation within the Kobe Steel Group.
3. Through continuous efforts for innovative change, we aim to enhance our corporate values.

### Medium- to Long-Term Business Strategy and related Issues

In April 2006, the Kobe Steel Group launched the Fiscal 2006-2008 Medium-Term Business Plan, a three-year plan that ended in March 2009. The basic policies of the plan were to: 1) increase sales and create more "Only One" high-end products; 2) strengthen "monozukuri" (manufacturing) capabilities; 3) establish a solid financial position; 4) promote corporate social responsibility; 5) create a positive work environment that instills pride in the employees' work; 6) strengthen group management; and 7) provide stable returns to shareholders.

In the second half of fiscal 2008, the business environment changed drastically and the future situation is too opaque to predict. Kobe Steel decided not to formulate numerical targets for the medium term, including fiscal 2009. However, Kobe Steel's basic strategy continues unchanged and consists of the abovementioned policies. At the same time, the company will focus on urgent issues, with the background of the current economic downturn and depressed business environment.

With the key words of "Only One" and "manufacturing capabilities," the Kobe Steel Group intends to strengthen its competitive edge and pursue continued growth as the main pillars of its medium-term business strategy.

Only One products are products imbued with the Kobe Steel Group's original value that are held in high regard by users. While keeping a careful eye on market trends, Kobe Steel intends to vigorously expand sales of these products. At the same time, Kobe Steel plans to create and grow new Only One products to meet the changing needs of customers.

In addition, Kobe Steel intends to further strengthen its manufacturing capabilities, the source of its competitive edge as a manufacturer, by strengthening its research and development capabilities; implementing strategic capital investments; and thoroughly undertake quality control, which leads to further improvement in product functions and value added to products.

On the other hand, considering the current economic trends and business environment, Kobe Steel will carry out urgent tasks to strengthen its cost competitiveness, optimize operations, and increase cash flows. In particular, to improve profitability, the Profit Improvement Committee, which was established late last year, is undertaking ways to thoroughly reduce costs.

Business management is suffering in this severe environment, but improving the competitive edge of the businesses and reinforcing the management base by bolstering the business structure will prepare Kobe Steel to take advantage of future opportunities.

The Kobe Steel Group recognizes that fulfilling its social responsibilities as a business enterprise is a basic premise of company management. However, in February 2009, the company discovered that for many years at Kakogawa Works, Takasago Works and Chofu Works, improper payments had been made for a portion of the expenses incurred by campaign groups for assembly member candidates supported by the company's labor union. To date, Kobe Steel has faced a number of compliance issues and has strived to follow the laws and regulations. Despite its efforts, Kobe Steel uncovered new improper acts. Taking this series of incidents with utmost seriousness, the Chairman and the President stepped down from their positions on March 31, 2009. Kobe Steel deeply apologizes to its

shareholders, people in the community, business partners, and authorities concerned for losing their trust in the company. Under new management, Kobe Steel has begun to implement preventive measures to regain trust from all related parties.

Concerned about a potential long economic slump, Kobe Steel Group realizes that the environment in which it operates has become extremely severe. However, it anticipates that demand will be firm for certain businesses, product lines and regions. Each of Kobe Steel's business segments is implementing measures responsive to the business environment.

While demand from the automotive and other major users remains sluggish, Kobe Steel is thoroughly reducing costs and increasing production efficiency in the metals businesses, which comprise the Iron & Steel segment and Aluminum & Copper segment.

To maintain stable revenue, the wholesale power supply segment will continue to improve facility maintenance and make use of its accumulated operating technology.

The Machinery segment and the Construction Machinery segment intend to make maximum use of previous capital investments to increase production capacity and facility improvements. These segments are maintaining sales and profits by smoothly completing orders from customers, as well as meeting demand from emerging countries.

# Highlights of Kobe Steel's FY2008 Consolidated Financial Results

(April 1, 2008 – March 31, 2009)

April 28, 2009

Company name: Kobe Steel, Ltd.  
 Stock exchange listings: Tokyo, Osaka and Nagoya, Japan  
 Code number: 5406  
 Website: www.kobelco.com  
 President & CEO: Hiroshi Satoh  
 General shareholders' meeting: June 24, 2009  
 "Yukashoken hokokusho"  
 (Annual Securities Report) issued: June 24, 2009  
 Dividend payments begin: --

## 1. FY2008 consolidated financial results (April 1, 2008 – March 31, 2009)

(in millions of yen)

### (1) Consolidated financial results

	FY2008	FY2007	% change
Net sales	2,177,289	2,132,405	2.1%
Operating income	116,934	202,398	(42.2%)
Ordinary income	60,876	157,918	(61.5%)
Net income (loss)	(31,438)	88,923	--
Net income (loss) per share	(10.47 yen)	29.62 yen	
Diluted net income per share	--	--	
Return on equity	(5.8%)	14.9%	
Ratio of ordinary income to total assets	2.6%	6.9%	
Ratio of operating income to net sales	5.4%	9.5%	

Equity in income of affiliates in FY2008: 7,935 million yen FY2007: 12,793 million yen

### (2) Consolidated financial position

	FY2008	FY2007
Total assets	2,295,489	2,329,005
Net assets	513,460	647,797
Net worth ratio	20.9%	25.8%
Net assets per share	159.58 yen	199.80 yen

Shareholders' equity at the end of FY2008: 479,141 million yen FY2007: 599,948 million yen

### (3) Consolidated cash flows

	FY2008	FY2007
Net cash provided by operating activities	118,199	124,317
Net cash used in investing activities	(127,405)	(187,380)
Net cash used in financing activities	138,700	31,155
Cash & cash equivalents at end of year	187,745	66,685

## 2. Dividends

Record date	Dividend per share (yen)					Total dividend amount*	Dividend payout ratio	Net income per share
	1Q	2Q	3Q	End	Year			
FY07	--	3.50	--	3.50	7.00	21,053	23.6%	3.6%
FY08	--	3.50	--	0.00	3.50	10,525	--	1.9%
FY09 (est)	Undetermined					--	Undetermined	--

\* in millions of yen



### **3. Consolidated forecast for fiscal 2009 (ending March 31, 2010)**

(in millions of yen)	First half	Full year
Estimated net sales	800,000	1,670,000
Estimated operating income (loss)	(50,000)	5,000
Estimated ordinary income (loss)	(65,000)	(30,000)
Estimated net income (loss)	(85,000)	(55,000)
Estimated net income per (loss) share	(28.31 yen)	(18.31 yen)

### **4. Other**

(1) Changes in number of material subsidiaries in fiscal year

(Changes in specified subsidiaries due to changes in scope of consolidation): No

(2) Changes in accounting principles, procedures, presentation, etc. on the preparation of consolidated financial statements

- Changes due to revised accounting standards: Yes

- Other changes: Yes

(3) Number of issued shares

	FY 2008	FY2007
Common stock (number of issued shares)	3,115,061,100	3,115,061,100
Treasury stock (number of shares)	112,599,413	112,460,419

#### **Explanation on the Appropriate Use of the Earnings Forecast and Other Special Items**

The above forecast is based on currently available information as of today.

Actual results may differ considerably due to various changeable conditions in the future.

For preconditions on the forecast and other related factors, please refer to pages 3 and 4.

The basis for dividend payments is continuous and stable distribution. Factors taken into overall consideration are the company's financial condition, business performance, future and other issues. As the outlook for many of these factors is unclear at this time, Kobe Steel is unable to make a dividend forecast. When it is able to make a forecast, Kobe Steel will promptly do so.

## Consolidated Balance Sheets

(in millions of yen)

<b>Assets</b>	<b>FY2008</b>	<b>FY2007</b>
	<b>Ended Mar. 31, 2009</b>	<b>Ended Mar. 31, 2008</b>
<b>Current Assets</b>		
Cash and cash equivalents	188,322	68,738
Notes and accounts receivable	283,784	380,041
Inventories	--	409,424
Merchandise and finished goods	161,998	--
Work in progress	163,150	--
Raw materials and supplies	137,195	--
Deferred tax assets	10,012	22,514
Other	96,840	77,348
Allowance for doubtful accounts	(671)	(981)
Total current assets	<u>1,040,632</u>	<u>957,086</u>
<b>Tangible fixed Assets</b>		
Buildings and structures	282,594	294,194
Machinery and equipment	421,853	465,671
Tools, furniture and fixtures	14,066	15,356
Land	198,385	202,093
Construction in progress	53,638	49,896
Total tangible fixed assets	<u>970,537</u>	<u>1,027,213</u>
<b>Intangible fixed assets</b>		
Software and rights for using facilities	--	17,469
Software	16,339	--
Goodwill	--	549
Other	4,133	--
	<u>20,472</u>	<u>18,019</u>
<b>Investments and other assets</b>		
Investments in securities	165,858	232,371
Long-term loans receivable	6,734	7,117
Deferred tax assets	21,405	22,931
Other	73,544	68,084
Allowance for doubtful accounts	(3,696)	(3,819)
	<u>263,846</u>	<u>326,686</u>
Total fixed assets, investments & other assets	<u>1,254,856</u>	<u>1,371,919</u>
<b>Total assets</b>	<u>2,295,489</u>	<u>2,329,005</u>

<b>Liabilities, Minority Interests, and Stockholders' Equity</b>	<b>FY2008</b>	<b>FY2007</b>
	<b>Ended Mar. 31, 2009</b>	<b>Ended Mar. 31, 2008</b>
<b>Current liabilities</b>		
Notes and accounts payable	479,644	488,250
Short-term borrowings	157,249	173,926
Lease obligations	3,021	--
Commercial paper	55,000	110,000
Bonds and notes due within one year	49,958	58,236
Accounts payable - other	49,789	59,659
Income and enterprise taxes payable	5,158	26,763
Deferred tax liabilities	1,539	3,121
Provision for bonuses	21,301	--
Provision for product warranties	11,133	7,547
Provision for environmental measures	1,988	--
Provision for restructuring costs	3,927	5,518
Other	134,924	154,048
<b>Total current liabilities</b>	<b>974,634</b>	<b>1,087,071</b>
<b>Long-term liabilities</b>		
Bonds and notes	199,822	214,951
Long-term borrowings	491,557	266,290
Lease obligations	25,374	--
Deferred tax liabilities	6,454	16,806
Deferred tax liabilities on revaluation of land	5,305	5,359
Employees' severance and retirement benefits	38,144	44,749
Provision for environmental measures	4,201	4,423
Other	36,535	41,556
<b>Total long-term liabilities</b>	<b>807,394</b>	<b>594,136</b>
<b>Total current and long-term liabilities</b>	<b>1,782,028</b>	<b>1,681,208</b>
<b>Net Assets</b>		
<b>Stockholders' equity</b>		
Common stock	233,313	233,313
Capital surplus	83,125	83,264
Retained earnings	252,504	305,334
Treasury stock, at cost	(51,426)	(51,514)
<b>Total stockholders' equity</b>	<b>517,516</b>	<b>570,398</b>
<b>Valuation and Translation Adjustments</b>		
Net unrealized holding gains on securities	448	35,628
Deferred gains on hedges	(6,266)	4,029
Land revaluation	(4,836)	(4,899)
Foreign currency translation adjustments	(27,719)	(5,207)
<b>Total valuation and translation adjustments</b>	<b>(38,374)</b>	<b>29,549</b>
<b>Minority interests</b>	<b>34,318</b>	<b>47,849</b>
<b>Total net assets</b>	<b>513,460</b>	<b>647,797</b>
<b>Total liabilities and net assets</b>	<b>2,295,489</b>	<b>2,329,005</b>

## Consolidated Statements of Income

(in millions of yen)

	<b>FY2008</b> Ended Mar. 31, 2009	<b>FY2007</b> Ended Mar. 31, 2008
<b>Net sales</b>	2,177,289	2,132,405
<b>Cost of sales</b>	(1,890,317)	(1,757,341)
Gross profit	286,972	375,063
Selling, general and administrative expenses	(170,038)	(172,665)
<b>Operating income</b>	<u>116,934</u>	<u>202,398</u>
<i>Non-operating income</i>		
Interest and dividend income	5,857	5,116
Other income	30,694	37,443
	<u>36,551</u>	<u>42,559</u>
<i>Non-operating expenses</i>		
Interest expense	(20,002)	(20,932)
Other expenses	(72,607)	(66,106)
	<u>(92,609)</u>	<u>(87,039)</u>
<b>Ordinary income</b>	<u>60,876</u>	<u>157,918</u>
<b>Extraordinary gain</b>		
Gain on sale of securities	--	2,127
<b>Extraordinary loss</b>		
Loss on business restructuring	--	(6,679)
Loss from write-down of investment in securities	(17,224)	--
Loss on impairment of fixed assets	(15,849)	--
	<u>(33,073)</u>	<u>(6,679)</u>
<b>Income before income taxes</b>	<u>27,802</u>	<u>153,366</u>
<b>Income taxes</b>		
Current	(32,920)	(58,045)
Deferred	(26,932)	(1,794)
<b>Minority interests in income of subsidiaries</b>	612	(4,603)
<b>Net income</b>	<u>(31,438)</u>	<u>88,923</u>

## Consolidated Statements of Changes in Net Assets (in millions of yen)

	<b>FY2008</b> Ended Mar. 31, 2009	<b>FY2007</b> Ended Mar. 31, 2008
<b>Stockholders' Equity</b>		
<b>Common Stock</b>		
Balance at end of previous fiscal year	233,313	233,313
Amount of change		
Total changes	--	--
Balance at end of fiscal year	<u>233,313</u>	<u>233,313</u>
<b>Capital surplus</b>		
Balance at end of previous fiscal year	83,264	83,282
Amount of change		
Disposal of treasury stock	(138)	(17)
Total changes	<u>(138)</u>	<u>(17)</u>
Balance at end of fiscal year	<u>83,125</u>	<u>83,264</u>
<b>Retained earnings</b>		
Balance at end of previous fiscal year	305,334	239,182
Effect of changes in accounting policies applied to foreign subsidiaries	(330)	--
Amount of change		
Cash dividends	(21,052)	(22,731)
Net income (loss)	(31,438)	88,923
Decrease due to changes in scope of consolidation	(3)	(44)
Increase due to reversal of land revaluation	(5)	5
Total changes	<u>(52,499)</u>	<u>66,152</u>
Balance at end of fiscal year	<u>252,504</u>	<u>305,334</u>
<b>Treasury stock, at cost</b>		
Balance at end of previous fiscal year	(51,514)	(31,519)
Amount of change		
Purchase of treasury stock	(136)	(20,329)
Disposal of treasury stock	223	335
Total changes	<u>87</u>	<u>(19,994)</u>
Balance at end of fiscal year	<u>(51,426)</u>	<u>(51,514)</u>
<b>Total stockholders' equity</b>		
Balance at end of previous fiscal year	570,398	524,258
Effect of changes in accounting policies applied to foreign subsidiaries	(330)	--
Amount of change		
Cash dividends	(21,052)	(22,731)
Net income (loss)	(31,438)	88,923
Purchase of treasury stock	(136)	(20,329)
Disposal of treasury stock	84	317
Decrease due to changes in scope of consolidation	(3)	(44)
Increase due to reversal of land revaluation	(5)	5
Total changes	<u>(52,550)</u>	<u>46,140</u>
Balance at end of fiscal year	<u>517,516</u>	<u>570,398</u>

<b>Valuation and Translation Adjustments</b>	<b>FY2008</b> Ended Mar. 31, 2009	<b>FY2007</b> Ended Mar. 31, 2008
<b>Net unrealized holding gains on securities</b>		
Balance at end of previous fiscal year	35,628	75,564
Amount of change		
Net changes other than stockholders' equity	(35,179)	(39,936)
Total changes	<u>(35,179)</u>	<u>(39,936)</u>
Balance at end of fiscal year	<u>448</u>	<u>35,628</u>
<b>Deferred gains on hedges</b>		
Balance at end of previous fiscal year	4,029	2,179
Amount of change		
Net changes other than stockholders' equity	(10,295)	1,850
Total changes	<u>(10,295)</u>	<u>1,850</u>
Balance at end of fiscal year	<u>(6,266)</u>	<u>4,029</u>
<b>Land revaluation</b>		
Balance at end of previous fiscal year	(4,899)	(4,899)
Amount of change		
Net changes other than stockholders' equity	62	(0)
Total changes	<u>62</u>	<u>(0)</u>
Balance at end of fiscal year	<u>(4,836)</u>	<u>(4,899)</u>
<b>Foreign currency translation adjustments</b>		
Balance at end of previous fiscal year	(5,207)	(5,020)
Amount of change		
Net changes other than stockholders' equity	(22,511)	(187)
Total changes	<u>(22,511)</u>	<u>(187)</u>
Balance at end of fiscal year	<u>(27,719)</u>	<u>(5,207)</u>
<b>Total valuation and translation adjustments</b>		
Balance at end of previous fiscal year	29,549	67,823
Amount of change		
Net changes other than stockholders' equity	(67,924)	(38,274)
Total changes	<u>(67,924)</u>	<u>(38,274)</u>
Balance at end of fiscal year	<u>(38,374)</u>	<u>29,549</u>
<b>Minority interests</b>		
Balance at end of previous fiscal year	47,849	44,349
Effect of changes in accounting policies applied to foreign subsidiaries	302	--
Amount of change		
Net changes other than stockholders' equity	(13,833)	3,499
Total changes	<u>(13,833)</u>	<u>3,499</u>
Balance at end of fiscal year	<u>34,318</u>	<u>47,849</u>

	<b>FY2008</b>	<b>FY2007</b>
	<b>Ended Mar. 31, 2009</b>	<b>Ended Mar. 31, 2008</b>
<b>Total net assets</b>		
Balance at end of previous fiscal year	647,797	636,431
Effect of changes in accounting policies applied to foreign subsidiaries	(28)	--
Amount of change		
Cash dividends	(21,052)	(22,731)
Net income (loss)	(31,438)	88,923
Acquisition of treasury stock	(136)	(20,329)
Disposal of treasury stock	84	317
Decrease due to changes in scope of consolidation	(3)	(44)
Increase due to reversal of land revaluation	(5)	5
Net changes other than stockholders' equity	(81,758)	(34,774)
Total changes	(134,309)	11,365
Balance at end of fiscal year	513,460	647,797

## Consolidated Statements of Cash Flows

(in millions of yen)

	<b>FY2008</b>	<b>FY2007</b>
	<b>Ended Mar. 31, 2009</b>	<b>Ended Mar. 31, 2008</b>
<b>Cash flows from operating activities</b>		
Income before income taxes	27,802	153,366
Depreciation	128,700	111,514
Interest and dividend income	(5,857)	(5,116)
Interest expense	20,002	20,932
Loss (gain) on sale of securities	(1,293)	(2,939)
Loss from write-down of investment in securities	17,224	--
Equity in income of unconsolidated subsidiaries and affiliates	(7,935)	(12,793)
Loss on impairment for fixed assets	15,849	--
Loss on business restructuring	--	6,679
Loss (gain) on sale of fixed assets	(158)	(974)
Loss on disposal of plant and equipment	3,039	4,358
Decrease (increase) in trade receivables from customers	74,333	(32,231)
Increase in inventories	(67,521)	(40,056)
Increase (decrease) in trade payables to customers	16,352	(15,654)
Other	(34,684)	779
Subtotal	<u>185,855</u>	<u>187,864</u>
Cash received for interest and dividends	9,188	7,768
Cash paid for interest	(19,323)	(20,963)
Cash paid for income taxes	(57,520)	(50,352)
Net cash provided by operating activities	<u>118,199</u>	<u>124,317</u>
<b>Cash flows from investing activities</b>		
Purchase of plant, equipment and other assets	(123,638)	(147,124)
Proceeds from sale of plant, equipment and other assets	2,358	7,757
Purchase of investments in securities	(11,488)	(62,016)
Proceeds from sale of investments in securities	4,622	15,195
Payment for investments in capital	(2,160)	--
Decrease (increase) in short-term loans receivable	89	1,788
Long-term loans receivable	(307)	(1,262)
Proceeds from collection of long-term loans receivable	697	299
Proceeds from compensation for removal	5,312	--
Purchase of shares of subsidiaries accompanying changes in scope of consolidation	--	(925)
Proceeds from sales of investment in subsidiaries resulting in change in scope of consolidation	627	--
Other	(3,518)	(1,092)
Net cash used in investing activities	<u>(127,405)</u>	<u>(187,380)</u>
<b>Cash flows from financing activities</b>		
Increase (decrease) in short-term borrowings	33,863	3,949
Increase (decrease) from commercial paper	(55,000)	110,000
Proceeds from issuance of long-term debt	250,912	34,540
Repayment of long-term debt	(69,021)	(85,106)
Proceeds from issuance of bonds	34,830	40,000
Repayment of bonds	(58,236)	(23,276)
Payment for purchase of treasury stock	--	(20,327)
Proceeds from sale and leaseback transactions	25,287	--
Payment of dividends	(20,960)	(22,613)
Other	(2,975)	(6,011)
Net cash used in financing activities	<u>138,700</u>	<u>31,155</u>
Effect of exchange rate changes on cash and cash equivalents	(8,434)	439
Increase (decrease) in cash and cash equivalents	<u>121,060</u>	<u>(31,469)</u>
Cash and cash equivalents at beginning of year	66,685	98,162
Cash and cash equivalents of newly consolidated subsidiaries	--	(8)
Cash and cash equivalents at end of year	<u>187,745</u>	<u>66,685</u>



## Segment Information

### 1. By industry segment (in millions of yen)

		FY2008	FY2007
Sales to outside customers:	Iron & Steel	996,285	896,914
	Wholesale Power Supply	80,708	71,890
	Aluminum & Copper	378,048	448,655
	Machinery	325,593	297,998
	Construction Machinery	332,818	339,867
	Real Estate	28,807	35,481
	Electronic Materials & Other Businesses	35,027	41,598
	Consolidated net sales	<u>2,177,289</u>	<u>2,132,405</u>
Inter-segment sales:	Iron & Steel	26,121	26,878
	Wholesale Power Supply	--	--
	Aluminum & Copper	1,261	1,425
	Machinery	5,409	4,215
	Construction Machinery	207	52
	Real Estate	8,323	8,820
	Electronic Materials & Other Businesses	20,090	19,103
	Total	<u>61,413</u>	<u>60,496</u>
Total sales:	Iron & Steel	1,022,406	923,792
	Wholesale Power Supply	80,708	71,890
	Aluminum & Copper	379,310	450,081
	Machinery	331,002	302,214
	Construction Machinery	333,025	339,920
	Real Estate	37,131	44,302
	Electronic Materials & Other Businesses	55,117	60,702
	Eliminations	(61,413)	(60,496)
Consolidated net sales	<u>2,177,289</u>	<u>2,132,405</u>	
Operating costs & expenses:	Iron & Steel	944,670	831,876
	Wholesale Power Supply	63,414	53,806
	Aluminum & Copper	406,169	428,076
	Machinery	301,429	271,694
	Construction Machinery	321,756	317,081
	Real Estate	35,277	39,364
	Electronic Materials & Other Businesses	51,974	52,515
	Eliminations	(64,336)	(64,408)
Total operating costs	<u>2,060,355</u>	<u>1,930,006</u>	
Operating income:	Iron & Steel	77,735	91,916
	Wholesale Power Supply	17,294	18,083
	Aluminum & Copper	(26,858)	22,004
	Machinery	29,573	30,519
	Construction Machinery	11,268	22,838
	Real Estate	1,853	4,937
	Electronic Materials & Other Businesses	3,143	8,186
	Eliminations	2,923	3,911
Consolidated operating income	<u>116,934</u>	<u>202,398</u>	

## 2. Overseas Sales (in millions of yen)

	FY2008	% of net sales	FY2007	% of net sales
Asia	441,532	20.3%	432,612	20.3%
Other areas	267,987	12.3%	338,932	15.9%
Total overseas sales	709,520	32.6%	771,544	36.2%
Consolidated net sales	2,177,289		2,132,405	

### Notes:

1. Countries and regions have been grouped by geographical proximity.
2. Asia principally includes China, Taiwan, South Korea, Thailand and Malaysia.  
Other areas principally consist of North America and the Middle East.
3. Overseas sales consist of sales of Kobe Steel and its consolidated subsidiaries derived from countries and regions other than Japan.

## Investor Information

Kobe Steel intends to publish its 2009 annual report covering fiscal 2008 by the end of July 2009. This report will be available from:

Investor Relations  
Corporate Planning Department  
Kobe Steel, Ltd.  
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Shinagawa-ku, Tokyo 141-8688  
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Email [aapress@kobelco.com](mailto:aapress@kobelco.com)  
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Tel +81 (0)3 5739-6010  
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## Supplemental Information

### 1. Consolidated Operating Results for Fiscal 2008 (in billions of yen)

	FY2008	FY2007
Net sales	2,177.2	2,132.4
Operating income	116.9	202.3
Ordinary income	60.8	157.9
Extraordinary loss	(33.0)	(4.5)
Net income (loss)	(31.4)	88.9

### 2. Kobe Steel's Production & Sales in Fiscal 2008

#### (1) Steel Products (non-consolidated)

##### Production & Sales Volume (in millions of metric tons)

	FY2008	FY2007
Crude steel production	7.23	8.07
Sales volume	6.17	6.86
Export ratio (value base)	21.4%	23.1%

##### Steel Price (in yen per metric ton)

	FY2008	FY2007
Domestic & export average	99,500	77,600

#### (2) Rolled Aluminum & Copper Products (non-consolidated, in thousands of metric tons)

	FY2008	FY2007
Rolled aluminum products	295	335
Rolled copper products	48	67

##### Sales Volume of Copper Tube (consolidated, in thousands of metric tons)

	FY2008	FY2007
Copper tube	72	78

#### (3) Machinery Segment Orders (consolidated, in billions of yen)

	FY2008	FY2007
Domestic	128.4	157.5
Export	110.1	182.1
Total orders	238.5	339.7

##### Machinery Segment Backlog of Orders (in billions of yen)

	FY2008	FY2007
Domestic	129.4	153.2
Export	189.4	224.2
Total backlog	318.8	377.5

### 3. Factors Affecting Ordinary Income in Fiscal 2008 (consolidated, in billions of yen)

	FY2008	FY2007	Amount of decrease
Ordinary Income	60.8	157.9	(97.0)

Factors Increasing Profits		Factors Decreasing Profits	
Production & shipments	173.0	Higher raw material prices	(235.0)
Cost reduction	15.0	Increase in fixed costs	(12.0)
Effect of steel inventory valuation*	17.5	Effect of aluminum & copper inventory valuation	(23.0)
Other	11.0	Change in service life for depreciation	(8.5)
		Consolidated subsidiaries & equity-valued affiliates	(35.0)
Total	216.5	Total	(313.5)

\* Effect of inventory valuation includes effect from the lower-of-cost-or-market method.

### 4. Extraordinary Loss in Fiscal 2008 (consolidated, in billions of yen)

	FY2008
Loss from write-down of investments in securities	(17.2)
Loss on impairment of fixed assets	(15.8)
Total extraordinary loss	(33.0)

### 5. Other

#### (1) Cash Flow and External Debt (consolidated, in billions of yen)

##### Cash Flow

	FY2008	FY2007
Free cash flow	(21.3)	(73.3)

(Excludes cash flow from project financing)

##### External Debt

	FY2009 Forecast	FY2008	FY2007
Consolidated debt	990.0	855.9	713.3
Consolidated D/E ratio (times)	2.2	1.7	1.3
Non-consolidated external debt	840.0	727.4	619.0

#### (2) Exchange Rate & Effect of 1 Yen Increase on Profits (non-consolidated)

	FY2009 Est.	FY2008	FY2007
Exchange rate (1 U.S. dollar to yen)	95 yen	101 yen	114 yen
Effect of 1 yen increase on profits (millions of yen)	1,600	2,000	900

#### (3) Capital Investment (in billions of yen)

	FY2009 Est.	FY2008	FY2007
Consolidated capital investment (accrual basis)	149.0	118.0	150.5
Consolidated depreciation	127.0	128.7	111.5
Non-consolidated capital investment (accrual basis)	118.0	85.3	114.6
Non-consolidated depreciation	93.0	91.1	76.4

## 6. Steel Production and Sales Volume by Quarter (non-consolidated)

### Production & Sales Volume (in millions of metric tons)

FY2007	1st half			2nd half			Total
	1Q	2Q	Subtotal	3Q	4Q	Subtotal	
Crude steel	1.99	2.11	4.10	1.94	2.03	3.97	8.07
Sales volume	1.65	1.70	3.35	1.73	1.78	3.51	6.86
Export ratio (value basis)	23.8%	23.9%	23.8%	22.9%	22.1%	22.5%	23.1%

FY2008	1st half			2nd half			Total
	1Q	2Q	Subtotal	3Q	4Q	Subtotal	
Crude steel	2.07	2.11	4.18	1.83	1.22	3.05	7.23
Sales volume	1.75	1.73	3.48	1.67	1.02	2.69	6.17
Export ratio (value basis)	21.0%	22.3%	21.7%	21.6%	20.1%	21.0%	21.4%

### Sales Prices (in thousands of yen per metric ton)

FY2007	1st half			2nd half			Total
	1Q	2Q	Subtotal	3Q	4Q	Subtotal	
Domestic & overseas ave.	76.5	78.4	77.4	77.6	77.8	77.7	77.6

FY2008	1st half			2nd half			Total
	1Q	2Q	Subtotal	3Q	4Q	Subtotal	
Domestic & overseas ave.	86.5	106.3	96.4	106.4	99.1	103.6	99.5

## 7. Preliminary Forecast for Fiscal 2009 (in billions of yen)

	FY2009 Forecast			FY2008
	First half	Second half	Full year	
Net sales	800.0	870.0	1,670.0	2,177.2
Ordinary income	(65.0)	35.0	(30.0)	60.8
Net income (loss)	(85.0)	30.0	(55.0)	(31.4)

## 8. Forecast for FY2009 by Segment (consolidated, in billions of yen)

Segment		FY2009 Forecast			FY2008
		1st half	2nd half	Full year	
Iron & Steel	Sales	340.0	400.0	740.0	1,022.4
	Operating Income	(62.0)	27.0	(35.0)	77.7
Wholesale Power Supply	Sales	44.0	42.0	86.0	80.7
	Operating Income	9.0	11.0	20.0	17.2
Aluminum & Copper	Sales	105.0	115.0	220.0	379.3
	Operating Income	(11.0)	(4.0)	(15.0)	(26.8)
Machinery	Sales	150.0	150.0	300.0	331.0
	Operating Income	9.0	10.0	19.0	29.5
Construction Machinery	Sales	135.0	145.0	280.0	333.0
	Operating Income	2.0	6.0	8.0	11.2
Real Estate	Sales	26.0	19.0	45.0	37.1
	Operating Income	2.0	0.0	2.0	1.8
Electronic Materials & Other Businesses	Sales	22.0	28.0	50.0	55.1
	Operating Income	(1.0)	3.0	2.0	3.1
Eliminations	Sales	(22.0)	(29.0)	(51.0)	(61.4)
	Operating Income	2.0	2.0	4.0	2.9
Total	Sales	800.0	870.0	1,670.0	2,177.2
	Operating Income	(50.0)	55.0	5.0	116.9

**9. Factors Affecting Consolidated Ordinary Loss in Fiscal 2009** (in billions of yen)

	FY2009	FY2008	Amount of decrease
Ordinary income (loss)	(30.0)	60.8	(90.8)

<b>Factors Increasing Profits</b>		<b>Factors Decreasing Profits</b>	
Production & shipments	56.0	Production and shipments	(143.0)
Cost reduction	24.5	Effect of steel inventory valuation*	(28.0)
Effect of aluminum & copper inventory valuation*	12.0	Consolidated subsidiaries & equity-valued affiliates	(21.5)
Other	9.2		
<b>Total</b>	<b>101.7</b>	<b>Total</b>	<b>(192.5)</b>

\* Effect of inventory valuation includes effect from the lower-of-cost-or-market method.

-End-

The forecast in this document is based on currently available information as of today.  
Actual results may differ considerably due to various changeable conditions in the future.