

## Consolidated Interim Statements of Net Assets

Kobe Steel, Ltd. and Consolidated Subsidiaries

Six months ended September 30,

2006 and 2005 (unaudited)

|   | Millions of yen        |              |                 |                   |                |                                       |  |                          |                  |  |   |                    |                  |
|---|------------------------|--------------|-----------------|-------------------|----------------|---------------------------------------|--|--------------------------|------------------|--|---|--------------------|------------------|
|   | Stockholders' equity   |              |                 |                   |                | Valuation and translation adjustments |  |                          |                  |  |   |                    |                  |
|   | Shares of common stock | Common stock | Capital surplus | Retained earnings | Treasury stock | Total stockholders' equity            | Net unrealized holding gains on securities | Deferred gains on hedges | Land revaluation | Foreign currency transaction adjustments | Total valuation and translation adjustments | Minority interests | Total net assets |
| Balance at April 1, 2006                          | 3,115,061,100          | ¥ 233,313    | ¥ 83,145        | ¥ 157,275         | ¥ (1,328)      | ¥ 472,405                             | ¥ 69,000                                   | ¥ —                      | ¥ (4,358)        | ¥ (7,047)                                | ¥ 57,595                                    | ¥ 38,593           | ¥ 568,593        |
| Cash dividends                                    | —                      | —            | —               | (18,673)          | —              | (18,673)                              | —  | —                        | —                | —  | —   | —                  | (18,673)         |
| Bonuses to directors                              | —                      | —            | —               | (27)              | —              | (27)                                  | —  | —                        | —                | —  | —   | —                  | (27)             |
| Net income  | —                      | —            | —               | 51,580            | —              | 51,580                                | —  | —                        | —                | —  | —   | —                  | 51,580           |
| Stock swap  | —                      | —            | 111             | —                 | 69             | 180                                   | —  | —                        | —                | —  | —   | —                  | 180              |
| Acquisition of treasury stock                     | —                      | —            | —               | —                 | (133)          | (133)                                 | —  | —                        | —                | —  | —   | —                  | (133)            |
| Disposal of treasury stock                        | —                      | —            | 17              | —                 | 10             | 27                                    | —  | —                        | —                | —  | —   | —                  | 27               |
| Decrease due to changes in scope of consolidation | —                      | —            | —               | (222)             | —              | (222)                                 | —  | —                        | —                | —  | —   | —                  | (222)            |
| Increase due to reversal of land revaluation      | —                      | —            | —               | 237               | —              | 237                                   | —  | —                        | —                | —  | —   | —                  | 237              |
| Net changes other than stockholders' equity       | —                      | —            | —               | —                 | —              | —                                     | (9,154)                                    | 2,631                    | (237)            | (615)                                    | (7,375)                                     | 3,957              | (3,418)          |
| Balance at September 30, 2006                     | 3,115,061,100          | ¥ 233,313    | ¥ 83,273        | ¥ 190,170         | ¥ (1,382)      | ¥ 505,374                             | ¥ 59,846                                   | ¥ 2,631                  | ¥ (4,595)        | ¥ (7,662)                                | ¥ 50,220                                    | ¥ 42,550           | ¥ 598,144        |

|   | Thousands of U.S. dollars (Note1) |                 |                   |                |                            |  |                          |                  |  |   |                    |                  |
|---|-----------------------------------|-----------------|-------------------|----------------|----------------------------|--|--------------------------|------------------|--|---|--------------------|------------------|
|   | Stockholders' equity              |                 |                   |                |                            | Valuation and translation adjustments      |                          |                  |  |   |                    |                  |
|   | Common stock                      | Capital surplus | Retained earnings | Treasury stock | Total stockholders' equity | Net unrealized holding gains on securities | Deferred gains on hedges | Land revaluation | Foreign currency transaction adjustments | Total valuation and translation adjustments | Minority interests | Total net assets |
| Balance at April 1, 2006                          | \$ 1,978,906                      | \$ 705,216      | \$ 1,333,970      | \$ (11,264)    | \$ 4,006,828               | \$ 585,242                                 | \$ —                     | \$ (36,964)      | \$ (59,771)                              | \$ 488,507                                  | \$ 327,337         | \$ 4,822,672     |
| Cash dividends                                    | —                                 | —               | (158,380)         | —              | (158,380)                  | —  | —                        | —                | —  | —   | —                  | (158,380)        |
| Bonuses to directors                              | —                                 | —               | (229)             | —              | (229)                      | —  | —                        | —                | —  | —   | —                  | (229)            |
| Net income  | —                                 | —               | 437,489           | —              | 437,489                    | —  | —                        | —                | —  | —   | —                  | 437,490          |
| Stock swap  | —                                 | 942             | —                 | 585            | 1,527                      | —  | —                        | —                | —  | —   | —                  | 1,527            |
| Acquisition of treasury stock                     | —                                 | —               | —                 | (1,128)        | (1,128)                    | —  | —                        | —                | —  | —   | —                  | (1,128)          |
| Disposal of treasury stock                        | —                                 | 144             | —                 | 85             | 229                        | —  | —                        | —                | —  | —   | —                  | 229              |
| Decrease due to changes in scope of consolidation | —                                 | —               | (1,883)           | —              | (1,883)                    | —  | —                        | —                | —  | —   | —                  | (1,883)          |
| Increase due to reversal of land revaluation      | —                                 | —               | 2,010             | —              | 2,010                      | —  | —                        | —                | —  | —   | —                  | 2,010            |
| Net changes other than stockholders' equity       | —                                 | —               | —                 | —              | —                          | (77,642)                                   | 22,315                   | (2,010)          | (5,216)                                  | (62,553)                                    | 33,562             | (28,991)         |
| Balance at September 30, 2006                     | \$ 1,978,906                      | \$ 706,302      | \$ 1,612,977      | \$ (11,722)    | \$ 4,286,463               | \$ 507,600                                 | \$ 22,315                | \$ (38,974)      | \$ (64,987)                              | \$ 425,954                                  | \$ 360,899         | \$ 5,073,316     |

See accompanying notes.

## Notes to Consolidated Interim Financial Statements

September 30, 2006 (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, 2006.

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, 2006, which was ¥117.90 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 2006, ending 31st March 2007, with regard to the method used to calculate the depreciation of tangible fixed assets, the Company has changed the

evaluation method of machinery and equipment from the principally used straight-line method to primarily the declining-balance method. On the back of a strong demand environment, the Company anticipates that operations will remain at a high level. Thus, the financial condition and operating results would be more appropriately reflected by a more appropriate allocation of long-term capital costs. In addition, the depreciation method was also changed to further improve the financial standing through the early return on invested capital.

As a result, compared to the straight-line method, depreciation under the declining balance method increased ¥1,991 million (\$16.9 million), operating income decreased ¥1,589 million (\$13.5 million) and ordinary income and income before income taxes decreased ¥1,586 (\$13.5 million) million.

Effective 1st April, 2006, the Company and its domestic subsidiaries adopted the new accounting standard for presentation of net assets in the balance sheet (Statement No.5 "Accounting Standard for Presentation of Net Assets in the Balance Sheet" issued by the Accounting Standards Board of Japan on 9th December, 2005) and the implementation guidance for presentation of net assets in the balance sheet (the Finance Standard Implementation Guidance No.8 issued by the Accounting Standards Board of Japan on 9th December, 2005).

Stockholders' equity under the previous presentation method amounted to ¥552,963 million (\$4,690.1 million) as of 30th September, 2006.

Net assets in the balance sheet as of 30th September, 2006 have been presented in accordance with the revised "Regulations for Consolidated interim Financial Statements".

### 2. Contingent Liabilities

At September 30, 2006, the Company and its consolidated subsidiaries were contingently liable for guarantees of loans of ¥5,750 million (\$48.8 million). This figure includes contingent guarantees and letters of awareness of ¥700 million (\$5.9 million).