

Kobe Steel Interim Report

2007

*Six Months Ended
September 30*

KOBELCO

Message from the President

Japan's economy gradually expanded in the first half of fiscal 2007. With high corporate earnings and generally favorable business sentiment, private-sector capital investment continued to increase and household incomes continued to gradually rise, leading to firm personal spending. The overseas economy, centered on Asia and in particular China, expanded worldwide.

Under these conditions, Kobe Steel's consolidated net sales in the first six months of fiscal 2007 rose 135.8 billion yen, in comparison to the same period last year, to 1,034.7 billion yen, owing to strong demand mainly in the Iron and Steel segment and the Construction Machinery segment. However, operating income was 95.7 billion yen, a decrease of 3.1 billion yen in comparison to the same period last year. In addition to high ocean freight rates and high prices for some metals, depreciation rose due to a change in the depreciation method brought about by tax reforms. Ordinary income went down 11.4 billion yen to 75.9 billion yen, and net income decreased 4.6 billion yen to 47.0 billion yen.

Kobe Steel has decided to pay an interim dividend of 3.50 yen per share for the half-year period, up 0.50 yen from the same period last fiscal year. The amount is based on our policy of steady and stable dividend payment. We also took into consideration our overall performance such as the profit level of the period; dividend payout ratio; investment funds necessary for our future growth; and our financial condition.

Net sales and operating income by segment are as shown below:

(in billions of yen)			
< Net Sales >	FY2007 First Half	FY2006 First Half	%
Iron & Steel	443.7	397.1	11.7%
Wholesale Power Supply	34.1	34.3	(0.7%)
Aluminum & Copper	232.9	192.4	21.0%
Machinery	133.1	119.5	11.4%
Construction Machinery	174.8	133.1	31.3%
Real Estate	17.9	18.9	(5.8%)
Electronic Materials & Other Businesses	27.7	30.5	(9.1%)
Eliminations	(29.5)	(27.0)	-
Total	1,034.7	898.9	15.1%

< Operating Income >	FY2007 First Half	FY2006 First Half	%
Iron & Steel	40.1	45.5	(11.7%)
Wholesale Power Supply	8.2	9.4	(12.8%)
Aluminum & Copper	14.0	18.1	(22.4%)
Machinery	12.6	5.5	127.7%
Construction Machinery	13.1	6.9	88.6%
Real Estate	2.0	2.8	(29.6%)
Electronic Materials & Other Businesses	3.6	8.2	(56.0%)
Eliminations	2.1	2.5	-
Total	95.7	98.8	(3.2%)

Iron & Steel

Domestic demand for steel products from the automotive, shipbuilding and other manufacturing industries remained strong in the period under review. Exports continued to be firm on the back of expanding world demand. Under these conditions, Kobe Steel achieved higher shipments of steel products by striving to meet active demand centered on upper-end steel products for manufacturing industries. Sales prices also rose in comparison to the same period last year due to higher sales prices for specialty steels. Demand was also active for steel castings and forgings for the shipbuilding industries and titanium products for the aircraft market. As a result, sales for these products went up over the same period last year.

For welding consumables, sales increased in comparison to the same period last year. Demand remained firm from the domestic shipbuilding,

automotive and construction industries. Overseas demand continued to be firm from shipbuilders and for energy-related projects.

As a result, segment sales increased 11.7% over the same period last year to 443.7 billion yen. However, the higher cost of ocean freight for steel raw materials, higher prices for some metals, and the change in the depreciation method led to a decrease of 5.3 billion yen in operating income to 40.1 billion yen.

Wholesale Power Supply

Segment sales of 34.1 billion yen were similar to the same period last year. Operating income went down 1.2 billion yen to 8.2 billion yen due to the concentration of maintenance work in the half-year period. The Shinko Kobe Power Station has an electricity generation capacity of 1.4 million kilowatts.

Aluminum & Copper

Shipments of rolled aluminum products increased over the same period last year. The sales volume of aluminum plate used in the production of liquid crystal manufacturing equipment went down as this material continued to be in an adjustment phase. However, shipments were strong for aluminum can stock for beverage containers due to the hot summer and the introduction of new soft drinks. In addition, demand for aluminum automotive panel material and bumper material, as well as for air conditioning fin stock, continued to be firm.

The sales volume of copper rolled products went down in comparison to the same period last year. Although demand remained firm for copper sheet and strip used in electronic applications, domestic demand for copper tube used in air conditioners went down.

Aluminum castings and forgings saw lower sales in comparison to the same period last year, as the adjustment phase continued for liquid crystal manufacturing equipment.

Under these conditions, overall sales volume increased over the same period last year and high ingot prices pushed up sales prices. As a result, segment sales increased 21.0% over the same period last year to 232.9 billion yen. However, operating income fell 4.0 billion yen to 14.0 billion yen as high ingot prices, which contributed to higher profits in the first half of fiscal 2006, had less of an effect on inventory valuation in the period under review.

Machinery

Domestic orders decreased 14.8%, in comparison to the same period last year, to 74.7 billion yen. Due to strong private-sector capital investment, orders continued to be firm for compressors, rolling mills and other products. However, in the environmental business, Kobe Steel received fewer orders for large waste treatment projects in comparison to the same period last year.

Overseas orders grew 44.3% to 127.7 billion yen. Capital investments were active in the oil refining, petrochemical and energy fields in the Middle East, Asia and North America. Thus, demand continued to remain high for compressors, plastics processing machinery and heavy-wall pressure vessels. Kobe Steel also received an order for a large pellet plant.

As a result, total orders increased 14.9% to 202.4 billion yen, and the backlog of orders was 392.0 billion yen.

Owing to strong orders, Machinery segment sales rose 11.4%, in comparison to the same period last year, to 133.1 billion yen. Operating income increased 7.0 billion yen to 12.6 billion yen.

Construction Machinery

The domestic market for hydraulic excavators remained brisk. Although public works projects continued on a downward trend, private-sector capital investment was firm and reduced inventories brought about by higher exports of used machines to China and other overseas markets supported new demand for excavators. The overseas market as a whole, centered on China, was also strong. The exception was the U.S. market where demand fell due to lower housing starts. In the crane business, demand also continued to be robust, mainly in the Middle East and Southeast Asia. Due to these factors, segment sales increased 31.3%, in comparison to the same period last year, to 174.8 billion yen. Operating income increased 6.1 billion yen to 13.1 billion yen.

Real Estate

Segment sales went down 5.5% from the same period last year to 17.9 billion yen as fewer condominiums were handed over. Operating income decreased 0.8 billion yen to 2.0 billion yen.

Electronic Materials & Other Businesses

Due to inventory adjustments of liquid crystal displays and competition from alternative materials, shipments of target material for thin-film wiring went down. As a result, segment sales declined 9.1%, in comparison to the same period last year, to 27.7 billion yen. Operating income decreased 4.6 billion yen to 3.6 billion yen.

Outlook

Japan's economy in the second half of the fiscal year is forecast to continue expanding gradually. Domestic demand in the private sector is expected to continue increasing, and the overseas economy as a whole is anticipated to expand. However, some domestic industries have cautious outlooks for future business conditions. Other factors including the exchange rate and trends in the U.S. economy are of concern. Due to these conditions in Japan and overseas, the outlook is not entirely optimistic.

We are steadily carrying out the basic policies set forth in our Medium-Term Business Plan. As a result, we are strengthening our operations to stabilize our profitability in the face of changing external business conditions. Furthermore, we are enforcing our internal controls to ensure our compliance with the law and increase the credibility of our financial reporting. Pursuing environmental preservation, we are also aiming to coexist harmoniously with local communities.

December 2007



Yasuo Inubushi
President, CEO &
Representative Director

(* Ordinary income is operating income after adjustments of net financial revenue and net expenses generated on a regular basis, including seconded employees' salaries net of reimbursement.)

Consolidated Interim Statements of Income

Kobe Steel, Ltd. and Consolidated Subsidiaries

Six months ended September 30, 2007

and 2006 (unaudited)

Thousands of
U.S. dollars
(Note 1)

	Millions of yen		2007
	2007	2006	
<i>Net sales</i>	¥ 1,034,655	¥ 898,862	\$ 8,963,484
<i>Cost of sales</i>	(853,618)	(723,230)	(7,395,114)
Gross profit	181,037	175,632	1,568,370
<i>Selling, general and administrative expenses</i>	(85,322)	(76,788)	(739,167)
Operating income	95,715	98,844	829,203
<i>Other income (expenses):</i>			
Interest and dividend income	2,755	2,550	23,867
Interest expense	(10,620)	(10,085)	(92,004)
Seconded employees' salaries net of reimbursement	(7,957)	(9,277)	(68,933)
Equity in income of unconsolidated subsidiaries and affiliates	6,516	8,140	56,450
Other, net	(10,480)	(2,811)	(90,791)
<i>Income before income taxes</i>	75,929	87,361	657,792
<i>Income taxes:</i>			
Current	27,600	29,209	239,106
Deferred	(1,581)	4,331	(13,697)
	26,019	33,540	225,409
<i>Minority interests in income of subsidiaries</i>	2,894	2,241	25,071
<i>Net income</i>	¥ 47,016	¥ 51,580	\$ 407,312

<i>Per share</i>	Yen		U.S. dollars (Note 1)
	2007	2006	2007
<i>Net Income</i>	¥ 15.67	¥ 16.61	\$ 0.14
<i>Interim dividends</i>	3.50	3.00	0.03

See accompanying notes.

Consolidated Interim Statements of Cash Flows

Kobe Steel, Ltd. and Consolidated Subsidiaries

Six months ended September 30,

2007 and 2006 (unaudited)

Thousands of
U.S. dollars
(Note 1)

	Millions of yen		2007
	2007	2006	
<i>Cash flows from operating activities:</i>			
Income before income taxes	¥ 75,929	¥ 87,361	\$ 677,792
Depreciation	52,857	41,168	457,914
Interest and dividend income	(2,755)	(2,550)	(23,867)
Interest expense	10,620	10,085	92,004
Gain on sale of securities	-	(1,637)	0
Equity in income of unconsolidated subsidiaries and affiliates	(6,516)	(8,140)	(56,450)
Decrease in provision for casualty loss	-	(1,430)	0
Decrease in provision for environmental measures	-	(1,700)	0
Loss on disposal of plant and equipment	1,714	1,392	14,849
Decrease in trade receivables from customers	8,800	20,062	76,236
Increase in inventories	(36,469)	(35,293)	(315,940)
Increase (decrease) in trade payables to customers	(1,928)	12,957	(16,704)
Other	(270)	1,343	(2,338)
Subtotal	101,982	123,618	883,496
Cash received for interest and dividends	4,964	4,238	43,004
Cash paid for interest	(10,860)	(9,826)	(94,083)
Cash paid for income taxes	(23,595)	(51,457)	(204,409)
Net cash provided by operating activities	72,491	66,573	628,008
<i>Cash flows from investing activities:</i>			
Purchase of plant, equipment and other assets	(66,715)	(52,050)	(577,969)
Proceeds from sale of plant, equipment and other assets	1,282	600	11,106
Purchase of investments in securities	(21,409)	(3,321)	(185,472)
Proceeds from sale of investments in securities	8,738	2,919	75,700
Decrease (increase) in short-term loans receivable	(824)	802	(7,139)
Long-term loans receivable	(97)	(190)	(840)
Proceeds from collection of long-term loans	107	108	927
Other	(1,603)	(454)	(13,887)
Net cash used in investing activities	(80,521)	(51,586)	(697,574)
<i>Cash flows from financing activities:</i>			
Increase (decrease) in short-term borrowings	5,730	(5,886)	49,640
Proceeds from commercial paper	39,000	27,000	337,867
Proceeds from issuance of long-term debt	10,337	34,755	89,552
Repayment of long-term debt	(42,679)	(29,787)	(369,739)
Repayment of bonds	(138)	(45,608)	(1,196)
Cash dividends	(12,125)	(18,551)	(105,042)
Payment for purchase of treasury stock	(20,222)	-	(175,188)
Other	(1,608)	(2,609)	(13,930)
Net cash used in financing activities	(21,705)	(40,686)	(188,036)
<i>Effect of exchange rate changes on cash and cash equivalents</i>			
	1,915	(30)	16,590
<i>Increase (decrease) in cash and cash equivalents</i>	(27,820)	(25,729)	(241,012)
<i>Cash and cash equivalents at the beginning of the six months</i>	98,163	95,485	850,411
<i>Increase due to changes in scope of consolidation</i>	521	182	4,514
<i>Cash and cash equivalents at the end of the six months</i>	¥ 70,864	¥ 69,938	\$ 613,913

See accompanying notes.

Consolidated Interim Statements of Net Assets

Kobe Steel, Ltd. and Consolidated Subsidiaries

Six months ended September 30,

Thousands

Thousands of yen

2007 (unaudited)

	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	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, 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	-	-	-	(12,204)	-	-	-	-	-	-	(12,204)
Net income	-	-	-	47,016	-	-	-	-	-	-	47,016
Purchase of treasury stock	-	-	-	-	(20,224)	-	-	-	-	-	(20,224)
Sale of treasury stock	-	-	(3)	-	37	-	-	-	-	-	34
Decrease due to changes in scope of consolidation	-	-	-	(9)	-	-	-	-	-	-	(9)
Net changes other than stockholders' equity	-	-	-	-	-	4,621	(762)	5	4,879	3,266	12,009
Net changes during the interim period	-	-	(3)	34,803	(20,187)	4,621	(762)	5	4,879	3,266	26,622
Balance at September 30, 2007	3,115,061	¥ 233,313	¥ 83,279	¥ 273,985	¥ (51,706)	¥ 80,186	¥ 1,416	¥ (4,894)	¥ (141)	¥ 47,616	¥ 663,054

Thousands

Thousands of U.S. dollars (Note1)

	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	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, 2007	3,115,061	\$ 2,021,251	\$ 721,494	\$ 2,072,096	\$ (273,057)	\$ 654,639	\$ 18,877	\$ (42,441)	\$ (43,498)	\$ 384,216	\$ 5,513,575
Cash dividends	-	-	-	(105,726)	-	-	-	-	-	-	(105,726)
Net income	-	-	-	407,312	-	-	-	-	-	-	407,312
Purchase of treasury stock	-	-	-	-	(175,206)	-	-	-	-	-	(175,206)
Sale of treasury stock	-	-	(26)	-	321	-	-	-	-	-	295
Decrease due to changes in scope of consolidation	-	-	-	(78)	-	-	-	-	-	-	(78)
Net changes other than stockholders' equity	-	-	-	-	-	40,033	(6,601)	43	42,268	28,294	104,037
Net changes during the interim period	-	-	(26)	301,507	(174,885)	40,033	(6,601)	43	42,268	28,294	230,633
Balance at September 30, 2007	3,115,061	\$ 2,021,251	\$ 721,467	\$ 2,373,603	\$ (447,942)	\$ 12,267	\$ 694,672	\$ (42,398)	\$ (1,222)	\$ 412,510	\$ 5,744,208

See accompanying notes.

Notes to Consolidated Interim Financial Statements

September 30, 2007 (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 Corporate Law 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, 2007.

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 certain expanded disclosure 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, 2007, which was ¥115.43 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 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 by the revised Corporate Tax Law.

As a result, in comparison to the previous accounting method, depreciation increased ¥1,007 million (\$8.7 million), operating income decreased ¥811 million (\$7.0 million) and ordinary income and income before income taxes decreased ¥816 million (\$7.1 million).

In addition, due to the revision of the Corporate Tax Law in 2007, for tangible assets, which had been acquired on or before March 31, 2007, the remaining book value of the assets is depreciated over the five years starting from the period subsequent to the year the depreciable limits have reached, using the average method.

As a result, in comparison to the previous accounting method, depreciation increased ¥5,839 million (\$50.6 million), operating income decreased ¥4,280 million (\$37.1 million) and ordinary income and income before income taxes decreased ¥4,583 million (\$39.7 million).

2. Contingent Liabilities

At September 30, 2007, the Company and its consolidated subsidiaries were contingently liable for guarantees of loans of ¥11,695 million (\$101.3 million). This figure includes contingent guarantees and letters of awareness of ¥700 million (\$6.1 million).

Investor Information

Founded: September 1905

Incorporated: June 1911

Fiscal Year: April 1-March 31

Transfer Agent and Office:

Mitsubishi UFJ Trust and Banking Corporation
Osaka Corporate Agency Division
3-6-3, Fushimimachi, Chuo-ku, OSAKA 541-8502 JAPAN

Listings and Quotations:

Kobe Steel is listed on the Tokyo Stock Exchange, the Osaka Securities Exchange and the Nagoya Stock Exchange in Japan. American Depositary Receipts for common stock are traded over the counter in the United States.

Depository for American Depositary Receipts:

The Bank of New York Company, Inc.
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URL : <http://www.adrbny.com>

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