KOBE STEEL ANNUAL REPORT 2008

KOBELCO
KOBE STEEL GROUP

ANNUAL REPORT 2008

Year ended March 31, 2008

TECHNOLOGICAL STRENGTH Drives Our Growth

Iron and Steel • Wholesale Power Supply • Aluminum and Copper • Machinery • Construction Machinery • Real Estate • Electronic Materials and Other Businesses

Profile

The Kobe Steel Group, a global enterprise built around Kobe Steel, Ltd., is engaged in three major business fields: materials, machinery and power supply. In the materials field, its primary businesses consist of iron and steel, welding, and aluminum and copper products. The machinery field comprises industrial machinery, construction machinery, environmental solutions, and engineering. The third field is the wholesale power supply business.

Our distinctive “Only One” products—original products that defy competitor imitation—are recognized around the world under the KOBELCO brand. Under its Corporate Philosophy, the Kobe Steel Group has set its sights on achieving greater Group unity and further consolidating Group strength. Through the continual creation of new and distinctive products, technologies and outstanding services, we will raise our profitability, create greater enterprise value, and broadly contribute to building a better society.

The Kobe Steel Group’s Corporate Philosophy for Group Unity

• Our 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.

KOBELCO
KOBE STEEL GROUP

＊KOBELCO is the corporate logo mark of Kobe Steel and its Group companies. KOBELCO is also an international brand for products and is used in the names of Kobe Steel Group companies.

Strengthening Group Capabilities

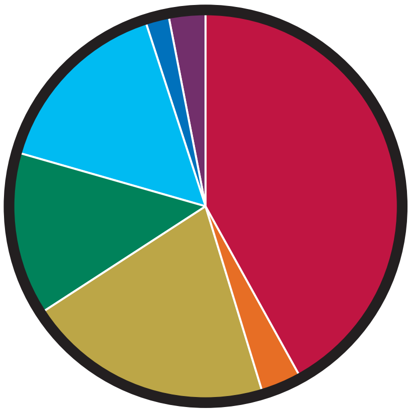
The Kobe Steel Group has established KOBELCO as the Group brand and is expanding its use. With each and every Group company working together to develop the brand value of KOBELCO, together we are building strong Group unity and gaining the trust of the communities that we serve.

Caution Regarding Forward-Looking Statements

Certain statements in this annual report contain forward-looking statements concerning forecasts, assertions, prospects, intentions and strategies. The decisions and assumptions leading to these statements were based on information currently available to Kobe Steel. Due to possible changes in decisions and assumptions, future business operation, and internal and external conditions, actual results may differ materially from the projected forward-looking statements. Kobe Steel is not obligated to revise the forward-looking contents in this publication.

Uncertain and variable factors include, but are not limited to:

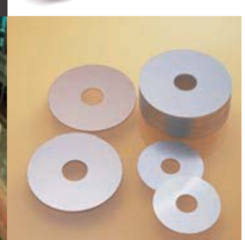
- Changes in economic outlook, demand and market conditions
- Political situation and trade and other regulations
- Changes in currency exchange rates
- Availability and market conditions of raw materials
- Products and services of competing companies, pricing policy, alliances, and business development including M&As
- Strategy changes of alliance partners



Composition of Net Sales (Fiscal 2007)

Iron and Steel	42.1%
Wholesale Power Supply	3.3%
Aluminum and Copper	20.5%
Machinery	13.8%
Construction Machinery	15.5%
Real Estate	2.0%
Electronic Materials and Other Businesses	2.8%

Note: Composition of net sales includes intersegment sales.



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Consolidated Financial Highlights

Kobe Steel, Ltd. and Consolidated Subsidiaries Years ended March 31, 2008, 2007 and 2006

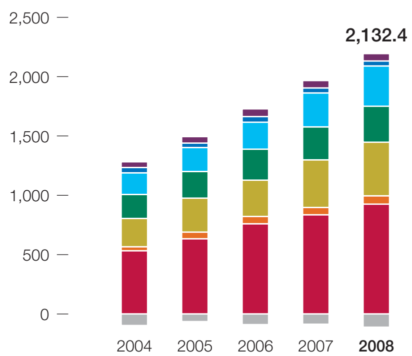
	Millions of yen			Percent change	Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008/2007	**2008**
For the year:					
Net sales	**¥2,132,406**	¥1,910,296	¥1,667,313	11.6%	**$21,283,621**
Iron and Steel	**923,793**	830,696	758,368	11.2	**9,220,411**
Wholesale Power Supply	**71,890**	66,858	65,209	7.5	**717,537**
Aluminum and Copper	**450,081**	397,310	304,945	13.3	**4,492,275**
Machinery	**302,214**	280,947	259,278	7.6	**3,016,409**
Construction Machinery	**339,921**	285,383	227,027	19.1	**3,392,764**
Real Estate	**44,302**	41,362	47,245	7.1	**442,180**
Electronic Materials and Other Businesses	**60,702**	63,579	61,128	(4.5)	**605,869**
Total sales	**2,192,903**	1,966,135	1,723,200	11.5	**21,887,445**
Intersegment sales	**(60,497)**	(55,839)	(55,887)	8.3	**(603,823)**
Operating income	**202,399**	208,624	220,395	(3.0)	**2,020,152**
Iron and Steel	**91,916**	94,589	130,906	(2.8)	**917,417**
Wholesale Power Supply	**18,084**	18,021	19,530	0.3	**180,497**
Aluminum and Copper	**22,004**	34,671	23,362	(36.5)	**219,623**
Machinery	**30,520**	22,132	10,382	37.9	**304,621**
Construction Machinery	**22,838**	14,803	8,828	54.3	**227,947**
Real Estate	**4,938**	5,314	5,127	(7.1)	**49,286**
Electronic Materials and Other Businesses	**8,187**	14,304	17,465	(42.8)	**81,715**
Eliminations	**3,912**	4,790	4,795	(18.3)	**39,046**
Income before income taxes	**153,366**	175,375	152,693	(12.5)	**1,530,752**
Net income	**88,923**	109,669	84,559	(18.9)	**887,544**
Capital investment	**150,585**	133,649	92,319	12.7	**1,502,994**
Depreciation and amortization	**111,514**	86,687	79,507	28.6	**1,113,025**
Research and development	**30,139**	24,893	24,121	21.1	**300,818**
At year end:					
Total assets	**2,329,006**	2,241,570	2,074,242	3.9	**23,245,893**
Net assets (Note 2)	**647,797**	636,432	530,000	1.8	**6,465,685**
Interest-bearing debt	**713,352**	621,227	589,101	14.8	**7,119,995**
Interest-bearing debt including IPP project financing	**823,404**	742,276	720,909	10.9	**8,218,426**

	Yen			Percent change	U.S. dollars (Note 1)
	2008	2007	2006	2008/2007	**2008**
Per share data:					
Net income	**¥ 29.63**	¥ 35.37	¥ 27.94	(16.2)%	**$ 0.30**
Net assets	**199.81**	194.46	170.65	2.7	**1.99**
Cash dividends	**7.00**	7.00	6.00	—	**0.07**

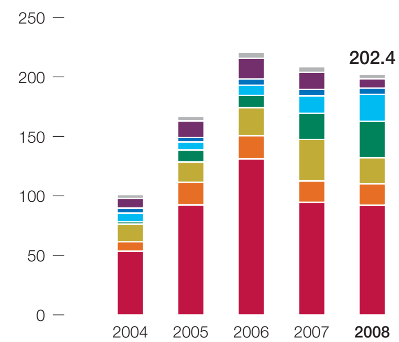
				Percentage point change
	2008	2007	2006	2008/2007
Ratios:				
ROA (%) (Note 3)	**3.8**	4.9	4.1	(1.1)
ROE (%)	**14.9**	19.6	18.6	(4.7)
Debt/equity ratio (Times) (Note 4)	**1.3**	1.2	1.2	0.1

Notes 1. For convenience only, U.S. dollar amounts in this report have been translated from Japanese yen at the rate of ¥100.19 to US$1.00, the rate of exchange prevailing on March 31, 2008.
2. Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005).
3. ROA = Net income after taxes/total assets
4. Debt/Equity Ratio = Interest-bearing debt/stockholders' equity

Net Sales
(Billions of yen)

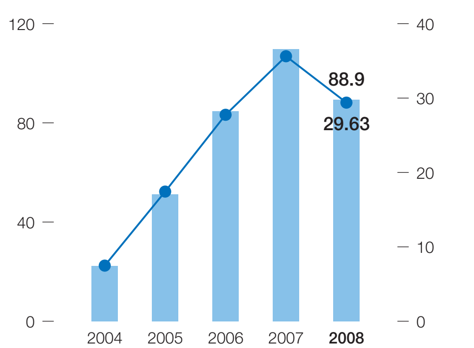


Operating Income
(Billions of yen)



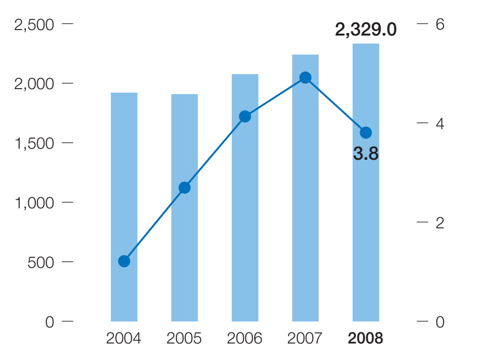
Iron and Steel
Wholesale Power Supply
Aluminum and Copper
Machinery
Construction Machinery
Real Estate
Electronic Materials and Other Businesses
Intersegment Sales/Eliminations

Net Income and Net Income per Share
(Billions of yen) (Yen)



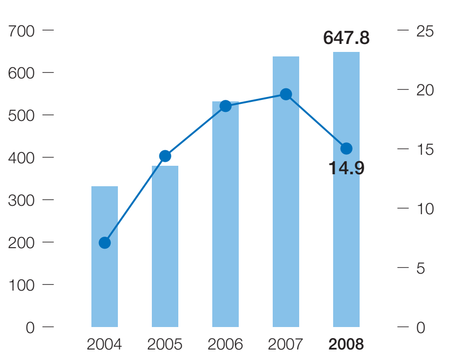
Net Income
Net Income per Share

Total Assets and ROA
(Billions of yen) (%)



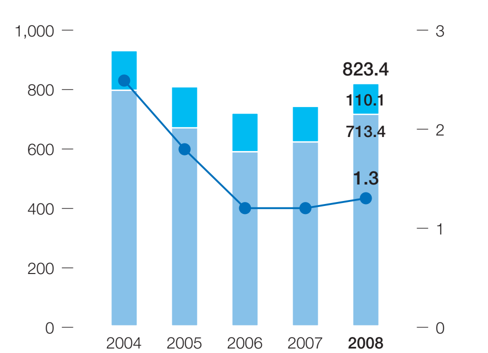
Total Assets
ROA

Net Assets and ROE
(Billions of yen) (%)



Net Assets
ROE

Interest-Bearing Debt and Debt/Equity Ratio
(Billions of yen) (Times)



IPP Project Financing
Interest-Bearing Debt
Debt/Equity Ratio

In a dramatically changing business environment, the Kobe Steel Group is maximizing its advantages and vigorously pushing ahead to sustain its growth.

Yasuo Inubushi
President, CEO and
Representative Director

Fiscal 2007 Earnings Report

Despite overall continuous strong demand, the business environment in the fiscal year ended March 31, 2008 changed dramatically in the second half of the fiscal year. Contributing factors included the appreciation of the yen; progressively higher crude oil prices; sharply rising prices for raw materials, equipment and secondary materials; and a slowing of the U.S. economy.

Consequently, net sales for the Kobe Steel Group were up—especially in steel and construction machinery, where demand was robust—rising ¥222.1 billion, to ¥2,132.4 billion. Meanwhile, income before income taxes slipped ¥22.0 billion, to ¥153.4 billion. This was largely due to higher depreciation expenses from changes in depreciation methods brought about by revisions to the tax system and a smaller contribution to earnings from lower inventory valuations of aluminum and copper ingots.

Fiscal 2008 Initiatives

With the global economy as a whole expected to continue expanding on the back of growth in newly emerging countries, the outlook is for overall continued brisk demand in the Kobe Steel Group's fields of business. Nevertheless, rising steel raw material prices due to tight supplies and rising energy and transport costs owing to high crude oil prices are unavoidable. Kobe Steel recognizes that responding to these increasing costs through such measures as cost reductions and higher sales prices is its most urgent task.

Even with tight supplies, we will do everything within our power to secure raw materials and continuously supply quality products to meet customer demand.

Progress Report: Medium-Term Business Plan

The entire Kobe Steel Group is currently working together to achieve the fiscal 2006–2008 Medium-Term Business Plan. Under a basic policy of attaining a high earnings level through stability and higher growth, we are pushing prioritized policies to: (1) increase sales and develop more "Only One" products, (2) fortify our comprehensive manufacturing capabilities and (3) establish a solid financial position.

1 Increasing Sales and Developing More Only One Products

To maximize the Kobe Steel Group's strengths and unique features, we have enhanced the competitive edge of our existing line of products. Specifically, we have steadily increased sales of Only One products, including high strength steel sheet and aluminum forgings for automobiles, crankshafts for ships, titanium products, compressors, plastics processing machinery and natural gas-based direct reduction plants.

Exciting developments are in store as we move steadily ahead to bring out the next generation of Only One products. A case in point is the agreement we reached with a U.S. electric arc furnace steelmaker to jointly construct an ironmaking plant utilizing ITmk3®, a revolutionary ironmaking process that can use relatively low-grade raw materials to produce high-grade iron nuggets comparable in quality to pig iron produced in a blast furnace. We are now working on future potential projects. For further information, please see the article featuring ITmk3® from page 12 of this report.

In the years ahead, the Kobe Steel Group will redouble its efforts to develop new Only One products that match our wide-ranging technologies with customer needs.

2 Fortifying Comprehensive Manufacturing Capabilities

The term *monozukuri*, or manufacturing capabilities, encompasses every element that forms the foundation of our competitive strength as a manufacturer, from safety and accident prevention, stable production, quality improvement and cost reduction to competent staff. We will continue to hone our manufacturing capabilities through recruiting the required staff, rigorous training and quality control, capital investment and an improved R&D structure. As a manufacturer, we will boost our comprehensive strength while improving and expanding our lineup of Only One products.

3 Establishing a Solid Financial Position

By increasing capital investments and loans to maintain and improve our competitive edge as well as for additional growth, our external debt is expected to surpass that targeted under our Medium-Term Business Plan. Nevertheless, we will focus on generating continuous cash flow with the goal of attaining a debt-equity ratio of 1.0.

Progress of Fiscal 2006–2008 Medium-Term Business Plan

(Billions of yen)

	Fiscal 2008 Forecast	**Fiscal 2007 Result**	Fiscal 2006 Result	Fiscal 2005 Result
Net sales	1,900	**2,132.4**	1,910.3	1,667.3
Operating income	230 or more	**202.4**	208.6	220.4
Ordinary income*	180 or more	**157.9**	183.3	176.9
Net income	100 or more	**88.9**	109.7	84.6
Interest-bearing debt	550 or less	**713.4**	621.2	589.1
Interest-bearing debt including IPP project financing	650 or less	**823.4**	742.3	720.9
Debt/equity ratio (Times)**	0.8 or less	**1.3**	1.2	1.2
ROA***	5% or more	**3.8%**	4.9%	4.1%

* Although not shown on U.S. GAAP consolidated financial statements or in International Financial Reporting Standards, ordinary income is commonly used in Japan as an indication of profits on the statements of income.
** Debt/Equity Ratio = Interest-bearing debt/stockholders' equity
*** ROA = Net income after taxes/total assets

Distributing Profits to Shareholders

In the previous Medium-Term Business Plan, which ran from fiscal 2003 to fiscal 2005, our highest priority was on the reduction of external debt. Our most urgent task then was to improve our financial situation so that we could achieve continuous and stable dividend payments. However, over the past few years, we have slightly lowered the priority given to debt reduction and have been steadily making crucial investments to upgrade and enhance core production facilities and eliminate bottlenecks in order to maintain and improve our competitive position. At the same time, we have worked on responding to calls for greater distribution of profits to shareholders by introducing a dividend payout ratio concept to our dividend policy.

The Kobe Steel Group seeks to increase its corporate value over the medium to long term and considers the periodic distribution of greater profits to shareholders an important management issue. Accordingly, we determine a specific dividend amount by taking a comprehensive approach, based on our performance and the dividend payout ratio as well as on the investment funds required for future growth and the improvement of our financial position.

Taking these factors into consideration, the dividend payout for fiscal 2007 was ¥7 per share, the same payout as in fiscal 2006. Net income amounted to ¥88.9 billion, yielding a dividend payout ratio of 23.6%.

Future Growth Strategy

The business environment surrounding the Kobe Steel Group has undergone dramatic changes in recent years. A megasteelmaker, with a production capacity rivaling that of all the Japanese steel producers combined, has emerged in the global steel industry. Furthermore, the growth of emerging nations, including the BRIC countries, continues to exceed forecasts. While demand is growing on a number of fronts, sharply rising resource and energy costs are having a substantial impact on the bottom line of our business.

Despite these changes, the business strategy of the Kobe Steel Group will continue to be based on growth through the improvement and expansion of Only One products under the ongoing Medium-Term Business Plan. Our approach is one of expanding our strengths. Therefore, we will continue to anticipate demand in the fields in which we already excel, not only beefing up domestic plant and equipment capacity but also examining possible overseas expansion.

Based on this approach, we have already implemented a number of measures that include establishing secondary processing bases for specialty steel in China and a marketing operation in India for construction machinery, as well as increasing production capacity for construction machinery in Thailand.

The Watchword is “Trust”

The Kobe Steel Group’s corporate philosophy contains the following watchwords in which are embedded our thoughts and goals: “Trust,” “Mutual cooperation within the Kobe Steel Group,” “Innovative change” and “Creating value.”

Most importantly, the Kobe Steel Group seeks to create a corporate culture that values above all else the trust that our stakeholders—including customers, investors and local communities—have in Kobe Steel.

By sharpening our competitive edge while improving our financial position, we are building a business foundation capable of ensuring stable earnings even under changing business conditions, while aiming for continuous growth in harmony with society.

My sincere hope is that all shareholders and investors will continue to extend their valued support in our pursuit of stability and growth.

July 2008

Yasuo Inubushi
President, CEO and Representative Director

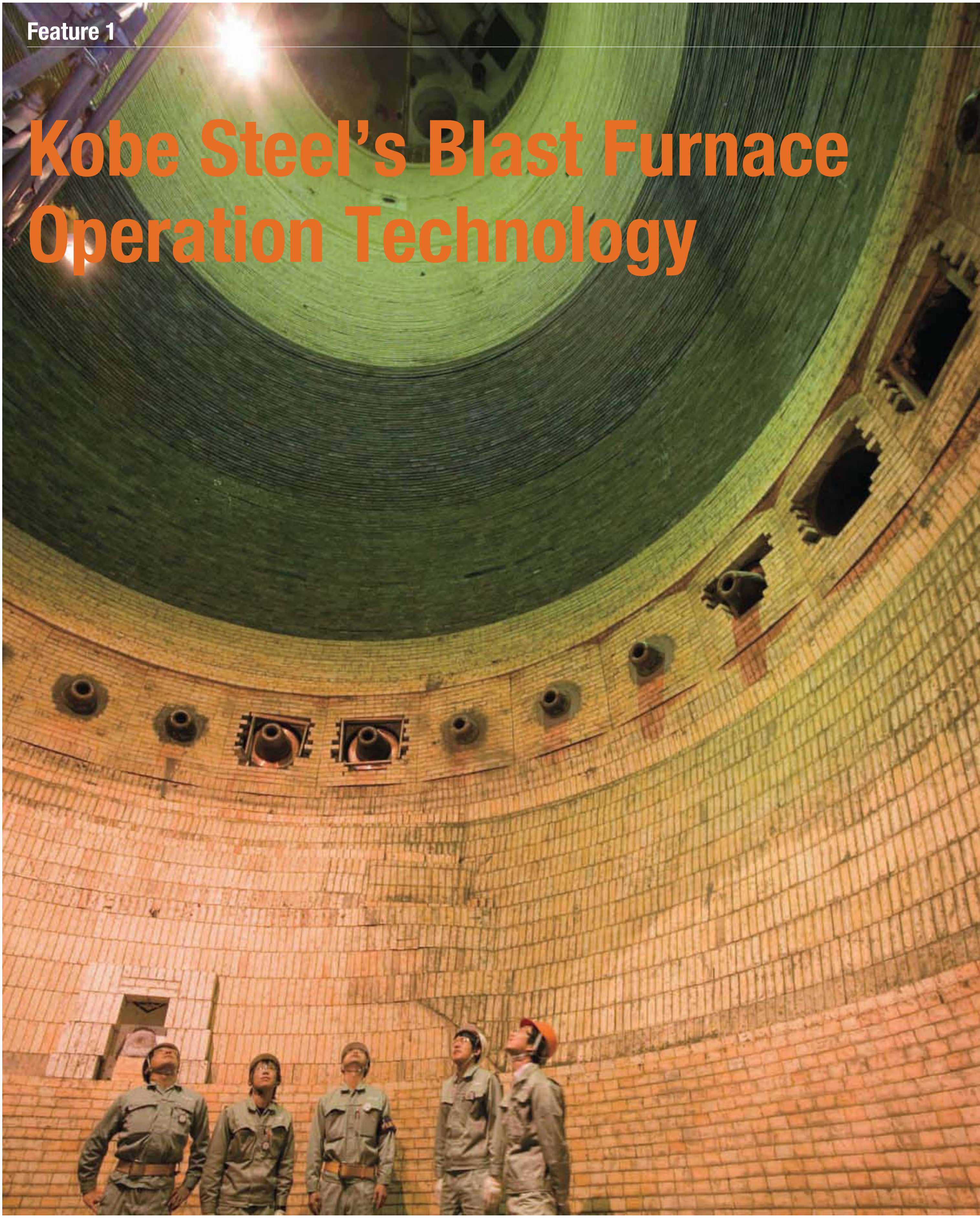
Feature

TECHNOLOGICAL STRENGTH Drives Our Growth

1. Kobe Steel's Blast Furnace Operation Technology — p. 8

2. New Ironmaking Processes —A Global Business — p. 12

Kobe Steel's Blast Furnace Operation Technology



January 2009 marks the 50th anniversary of Kobe Steel's blast furnace operations. Since the start of operations, Kobe Steel, the latest Japanese company to commence blast furnace iron-making, has confronted numerous hurdles. Today, we possess the industry's leading blast furnace operation technology.

The Evolution of Kobe Steel's Blast Furnace Operations

On January 16, 1959, Kobe Steel, then an open-hearth and electric arc furnace steelmaker, fired up the Kobe Works No. 1 blast furnace for the first time and took its initial step as an integrated blast furnace steelmaker. Later, during Japan's period of high economic growth, Kobe Steel constructed blast furnaces Nos. 2 and 3 at the Kobe Works and blast furnaces Nos. 1 and 2 at the Kakogawa Works. Kobe Steel has been improving proprietary blast furnace technology ever since. After renovating its blast furnaces and shutting down its smaller furnaces, Kobe Steel currently operates three blast furnaces: the Kakogawa Works No. 2 blast furnace (inner volume: 5,400m^3), the Kakogawa Works No. 3 blast furnace (4,500m^3), and the Kobe Works No. 3 blast furnace (2,112m^3).

The Role of Blast Furnaces

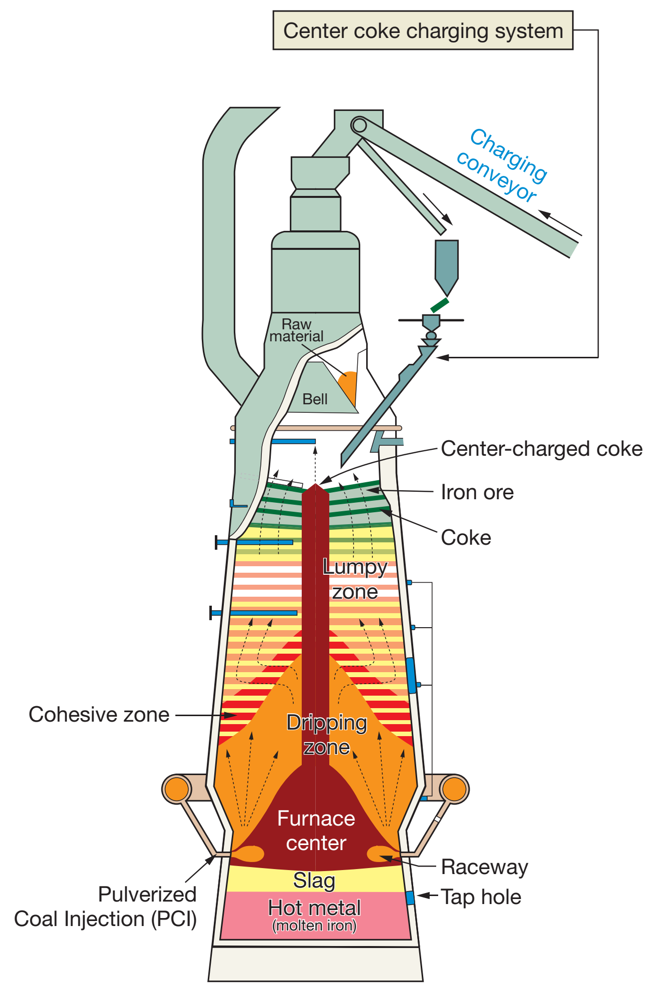
Blast furnaces, which are symbols of the steel industry, are large reaction vessels that produce pig iron by melting and reducing iron ore, which involves the removal of the oxygen from the iron oxide. The process for producing pig iron is:

1. Iron ore and a reductant, such as coke (coal baked in lumps), are alternately fed into the top of the blast furnace.
2. Hot air at approximately 1,200°C and reduction-aiding agents, such as pulverized coal, are fed into the bottom of the blast furnace.
3. The hot air burns the pulverized coal and coke and raises the temperature to more than 2,000°C, which creates carbon monoxide (CO) gas and reduces the coal.
4. The raw material is heated to 1,000°– 2,000°C in the blast furnace and melts at 1,500°C. It then separates into hot metal (molten pig iron) and slag and accumulates at the bottom of the furnace.

Blast Furnace Operation—Key Points

The key to blast furnace operation lies in how efficiently heat is applied and how efficiently reduction occurs. The best way to raise thermal efficiency and increase the reducibility of iron ore is to evenly distribute the hot air blown in from the bottom of the furnace after it is directed to the center. To achieve this, it is essential that the alternating cohesive layers of iron ore lumps and coke (called the cohesive zone) form an inverted V-shape. Kobe Steel's unique blast furnace operation technology enables the formation of this ideal inverted V-shaped cohesive zone.

Cross-Section Drawing of Blast Furnace



Three Unique Technologies

1. Center Coke Charging

Steel raw materials are: lump ore (unprocessed iron ore extracted from mines), sintered ore (iron ore that has been pulverized and hardened at high temperature), and iron ore pellets (a finer grade of iron ore granules that have been pelletized and heated). Kobe Steel, a latecomer to blast furnace ironmaking, uses iron ore pellets extensively. Although relatively inexpensive, because of their round shape, iron ore pellets move to the center of the furnace interior, block the flow of gas, and therefore inhibit the formation of the inverted V-shaped cohesive zone.

To solve this problem, Kobe Steel developed a "center coke charging technology" in 1987. This technology, while also employing the conventional method of alternately charging coke and iron ore, charges small amounts of coke in the center of the furnace, thereby improving the air and liquid permeability of the furnace center and forming an inverted V-shaped cohesive zone. Kobe Steel's technology, a world first, enables stable blast furnace operation and extends furnace operating life. Having acquired a patent, Kobe Steel is licensing its center coke charging technology to other companies.

Diagram of Center Coke Charging

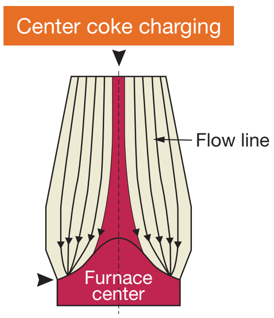
Center coke charging improves blast furnace operations

Basic principle:

- Coke charged in center of furnace forms core

Application of principle:

- Improves air permeability of furnace center
- Forms inverted V-shape cohesive zone and stabilizes operations
- Inhibits deteriorative reaction of center coke
- Provides sound coke core and improves air and liquid permeability



2. All-Pellet Operation

Thanks to the development of center coke charging, Kobe Steel enjoys an extremely high ratio of pellet use. The ratio per ton of ore for other companies is 20% lump ore to 80% sintered ore. In contrast, the Kobe Works No. 3 blast furnace has a ratio of 30% lump ore to 70% iron ore pellets (called all-pellet operation*), while the Kakogawa Works No. 2 and No. 3 blast furnaces have a ratio of 20% lump ore, 30% iron ore pellets and 50% sintered ore.

However, while extensive use of iron ore pellets contributes to improving cost competitiveness, operational problems do result. Iron ore pellets are by nature difficult to reduce. If the periphery but not the center is reduced, the pellets easily break. The broken pellets descend to the furnace's interior and fall into the tuyeres, through which hot air is injected, providing a surge of intense heat that damages the tuyeres.

To resolve these problems, Kobe Steel has made a number of improvements to its pellet technology. For instance, dolomite was added to the iron ore pellets, which were called "dolomite pellets," resulting in a unique technology that is a component design for pellets that do not break.

*All-pellet operation: Of the raw material used in blast furnaces, iron ore that has gone through a pre-firing process, such as iron ore pellets and sintered ore, is called processed iron ore. The term "all-pellet operation" means that all the processed iron ore has been turned into iron ore pellets.

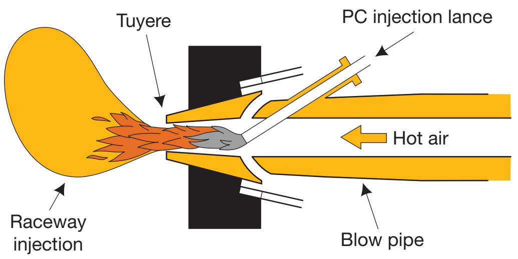
3. Pulverized Coal Injection (PCI)

One characteristic of Kobe Steel is its extensive use of pulverized coal (PC) as a heat source and reductant in blast furnace operations. Pulverized into minute grains with an average particle size of 60 microns, pulverized coal can be purchased for half the price of coke. Kobe Steel procures coke from outside sources and thus has sought to develop a method that would reduce the ratio of coke and increase the ratio of pulverized coal. As a result, of the 500 kg of reductant (total of coke and pulverized coal) required to produce one ton of iron, Kobe Steel was able to lower the coke ratio to under 300 kg—a world first—and thereby achieve the highest pulverized coal ratio in the world.

A high PC ratio is now possible with Kobe Steel's proprietary PCI technology. Specifically, pulverized coal is fed into the furnace through an injection lance, while hot air is sent to the blast furnace via separate means. Both are ignited and burned within the blast furnace. The distinctive feature of Kobe Steel's PCI technology is that the furnace interior is the site of ignition.

Illustration of PCI (Pulverized Coal Injection) Technology—High PC Injection Rate into Blast Furnace

In the injection system developed by Kobe Steel, we are seeking to achieve the world's highest injection levels and are therefore working to develop PCI technology with high injection rates.



Pulverized coal, which is cheaper than coke, is injected through the tuyeres and reduces the volume of coke.

Future Issues

Companies are now working to develop new ironmaking processes that are not blast furnace-dependent, and at Kobe Steel such processes are now being commercialized. (Please see pages 12 to 15 of this report.) However, since the blast furnace process can mass produce high-grade iron units at low cost, this process is likely to continue to coexist with next-generation ironmaking processes in the years ahead. If that is the case, the biggest issue then facing the blast furnace process is its environmental impact, especially CO_2 emissions. In order to resolve this issue, Kobe Steel will address the problem of lowering the reductant ratio.

In blast furnace operations today, many sensors are used to assess furnace conditions and stabilize operations, but there are still areas that rely on human senses. In terms of passing down specialized knowledge and skills to the next generation, we will continue to work to replace the use of human senses with sensors in order to create an easier operating environment.

Column

General Manager, Ironmaking Research & Development Planning Section,
Kakogawa Research & Development Laboratory

Yoshiyuki Matsui

Moving forward, the steel industry must make the concept of "high added value" its core doctrine with the aim of creating more high-end products. To that end, with its hot metal production system, Kobe Steel can secure iron units to stabilize furnace conditions and support the manufacturing of high-value-added steel products. We will also strive for a low reductant ratio of operation with an eye toward reducing our environmental impact by lowering CO_2 emissions and other measures. In these two areas, Kobe Steel will undertake work on technical development.

New Ironmaking Processes —A Global Business

New ironmaking processes are being sought as a result of the tight supply of steel raw materials and soaring prices. Kobe Steel, which has pioneered the development of direct reduction and next-generation ironmaking processes, which do not rely on blast furnaces, has an extensive global track record in these areas.

• MIDREX® Direct Reduction Plant Distribution

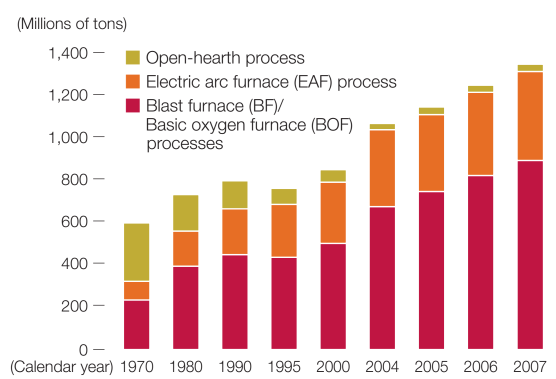
Direct Reduction Processes

Growing Demand for Direct Reduced Iron

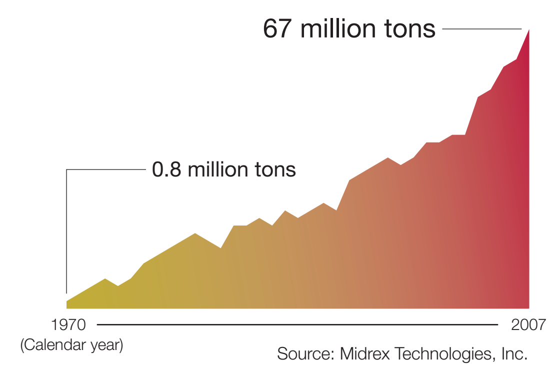
Direct reduced iron (DRI) is a raw material used in steelmaking. It consists of more than 80% iron that results from removing oxygen from iron oxide, the primary constituent of iron ore. As a substitute for high-quality scrap, DRI is primarily used as a raw material in electric arc furnace (EAF) steelmaking. In recent years, EAF steelmaking has been rising alongside a constant upward trend in world crude steel production. With high-quality scrap becoming difficult to obtain, there has been rapid growth in demand for DRI.

Kobe Steel owns two DRI processes, the MIDREX® Direct Reduction Process and the FASTMET® Process, which respectively use natural gas and coal as reductants. We are aggressively promoting these technologies.

World Crude Steel Production by Process



World Direct Reduced Iron (DRI) Production



Source: Midrex Technologies, Inc.

MIDREX® Direct Reduction Process

Using natural gas as the reductant, the MIDREX® Direct Reduction Process was developed by Midrex Technologies, Inc., a wholly owned U.S. subsidiary of Kobe Steel.

World DRI production was approximately 67 million tons in 2007 (a 49% increase over 2002), with 60% of this total being produced by the MIDREX® Process. Kobe Steel is the process owner and its DRI business is centered on plant supply, process licensing, and the production and sale of DRI.

At present, the MIDREX® Process is used in 64 plants in 21 countries around the world, in regions with abundant natural gas resources, including Central and South America, the Middle East, Southeast Asia, and North America. From 2006 through 2010, we will construct and start up 11 plants, with an annual total production capacity of 15 million tons. Business inquiries continue unabated from all over the world.

A direct reduction plant using the MIDREX® Process for the Lebedinsky Mining and Processing Integrated Works in Russia

FASTMET® Process

Developed by Kobe Steel and Midrex Technologies, Inc., FASTMET® is a direct reduction process that utilizes a rotary hearth furnace. The process uses iron units (iron ore fines or steel mill dust) as the raw material and low-grade coal (steaming coal), which is produced over a relatively wide geographical area, as the reductant. The iron units and pulverized coal are formed into pellets, which are then placed in the rotary hearth furnace. High-quality DRI with a metallization of 85%–92% can be produced in approximately 10 minutes. In the FASTMELT® Process, hot metal can be produced in one hour by melting the DRI in a melter.

A FASTMET® plant at Nippon Steel Corporation's Hirohata Works

The main applications for FASTMET® are in: (1) recycling blast furnace (BF) dust; (2) recycling EAF dust; and (3) producing DRI from iron ore. BF dust is being commercially recycled at Nippon Steel Corporation's Hirohata Works and Kobe Steel's Kakogawa Works using FASTMET®. Furthermore, with a grant from the Ministry of Economy, Trade and Industry, Kobe Steel has conducted EAF dust recycling viability tests at its Kakogawa Works with positive results, including high reduction and dezincification rates as well as low dioxin emissions.

ITmk3®—Next-Generation Ironmaking Process

Overview of ITmk3® Process

ITmk3® (Ironmaking Technology Mark Three) is a proprietary, next-generation ironmaking process developed by Kobe Steel. The ITmk3® Process produces high-grade iron nuggets in just 10 minutes from iron ore fines and uses steaming coal as the reductant. The current mainstay process, combining the BF and basic oxygen furnace (BOF) processes, is considered the first generation of ironmaking. The MIDREX® and other direct reduction processes is the second generation. ITmk3® is considered a revolutionary third-generation process.

Process		Reductant	Reduction Time	Pig Iron Production Time	Main Applications	Optimum Siting
Blast furnace		Coke	→	8 hours	BOF steelmaking	Coastal areas
Direct reduction	MIDREX® Process	Natural gas	6 hours		EAF steelmaking	Natural gas-producing areas
	FASTMET®	Steaming coal	10 minutes		Dust recycling	Steelworks
	FASTMELT®	Steaming coal	10 minutes →	1 hour	BOF steelmaking EAF steelmaking	Alternative to BF, supply of hot metal to EAF
ITmk3®		Steaming coal	→	10 minutes	EAF steelmaking	Iron ore and coal-producing areas

ITmk3® Process Features

The ITmk3® Process offers the following advantages over the BF process:

(1) Enables use of low-grade iron ore fines and steaming coal
(2) Can cut CO_2 emissions by approximately 20% (when comparing BF/BOF processes with ITmk3®/EAF processes)
(3) Keeps capital investments down and simplifies operations

In addition, the iron nuggets produced by ITmk3® are of a high grade (metallic iron content: 96%–97%, without slag) and comparable in quality to pig iron produced in a blast furnace. Easy melting and continuous input contribute to improved EAF productivity, and because the high-density nuggets are produced without reoxidation or pulverization, transport and handling are easy.

Iron nuggets

Construction of the first commercial ITmk3® plant in Minnesota, USA

First Commercial Project

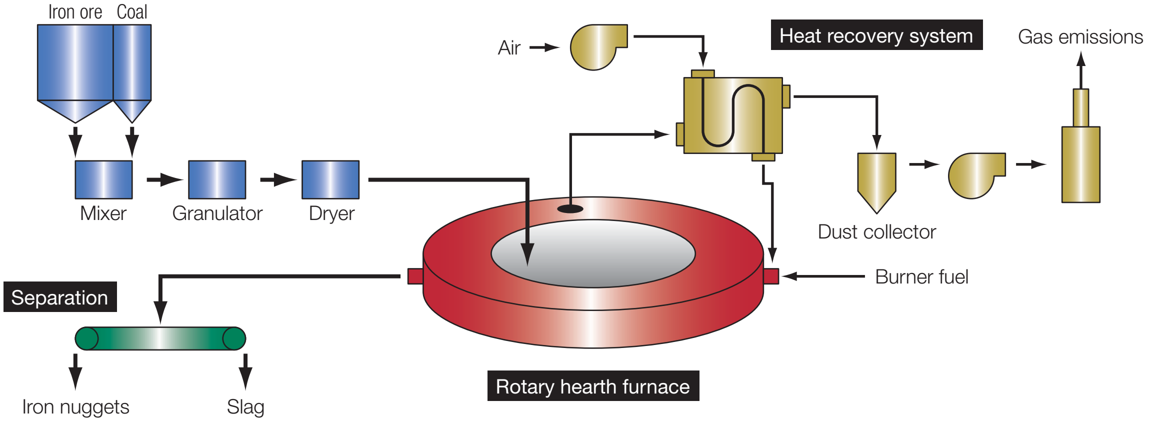
Developing the ITmk3® technology since 1996, Kobe Steel tested its viability at the Kakogawa Works' pilot plant and at a pilot demonstration plant in Minnesota, USA, and continued focusing on the technology's commercial application. Consequently, in November 2007, Kobe Steel reached an agreement with Steel Dynamics, Inc. (SDI), a U.S.-based EAF steelmaker, to construct an ITmk3® plant. The plant, which is currently under construction in Minnesota, is scheduled to commence operations in mid-2009.

Under this project, Mesabi Nugget Delaware, LLC, was established as a joint venture company between Kobe Steel and SDI to operate and manage the ITmk3® Plant and sell the iron nuggets. Kobe Steel is licensing the ITmk3® Process, providing engineering services, key equipment, and technical support. Meanwhile, SDI will take iron nuggets produced at the plant and use them in its steel mills.

Future Developments

Kobe Steel is seeking the early implementation of a proposed joint venture project with U.S.-based Cleveland-Cliffs Inc., and, having received inquiries from India, Ukraine, Vietnam and other countries, is aggressively pursuing new projects.

Diagram of ITmk3® Process



1. The granulator forms iron ore fines and steaming coal into pellets.
2. The pellets are loaded into a rotary hearth furnace and heated.
   In approximately 10 minutes they are reduced and melted and the slag is removed.
3. High-grade iron nuggets (metallic iron content: 96%–97%, without slag) are produced

Column

Associate Director and Head of Iron Unit Division
Shohei Manabe

With its long history in the DRI field, Kobe Steel has been involved in a range of important events, from the construction of the MIDREX® Direct Reduction Plant in Qatar in the 1970s to the acquisition of Midrex Technologies, Inc. Today, the Iron Unit Division of Kobe Steel and Midrex Technologies, Inc. have secured a preeminent position in this field.

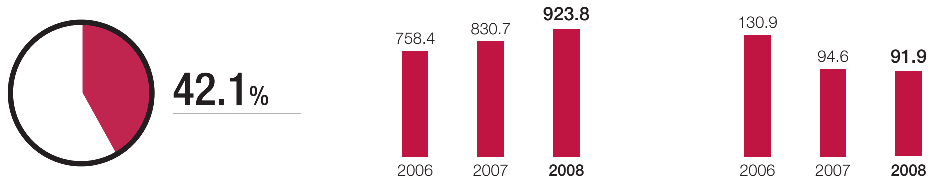
Kobe Steel established the Iron Unit Division in 2004 as a strategic organization within its corporate head office and began to more actively promote this business. With the steel industry facing new problems, including environmental issues and soaring raw material costs, Kobe Steel has set its sights on expanding sales of direct reduction plants, including ITmk3®, which produce economical iron nuggets that are eco-friendly.

Just as Kobe Steel established the DRI market through its hot briquetted iron (HBI) business in Venezuela, the Company hopes it can contribute to the development of the steel industry by supplying iron nuggets—a new iron source—to the market.

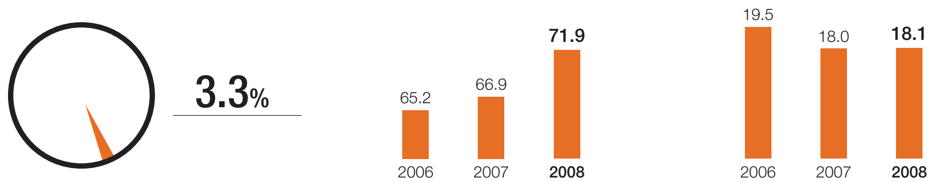
Business Segments

Composition of Net Sales | Net Sales (Billions of yen) (Years ended March 31) | Operating Income (Billions of yen) (Years ended March 31)

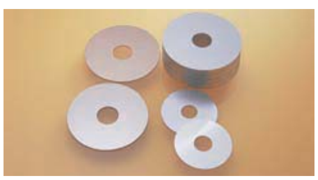
Iron and Steel

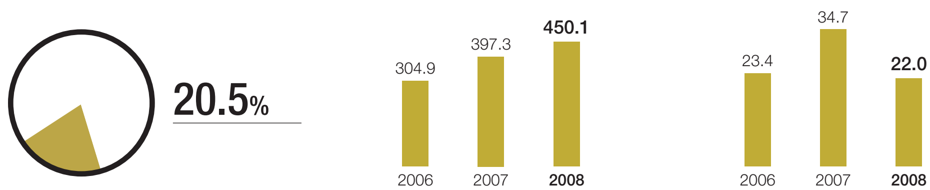


Wholesale Power Supply

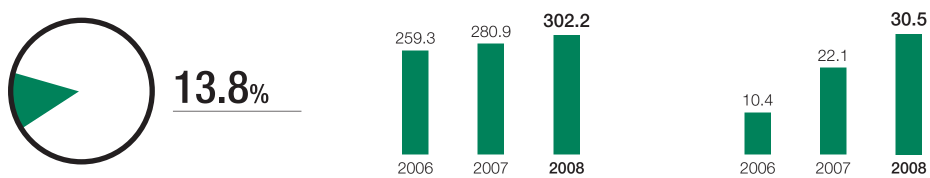


Aluminum and Copper

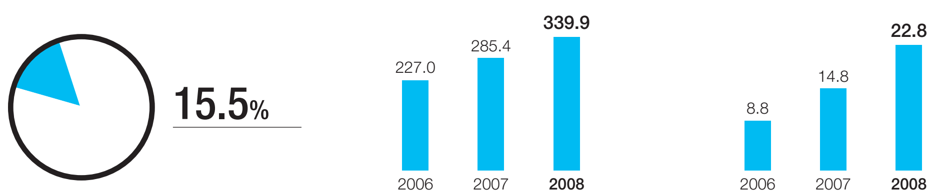




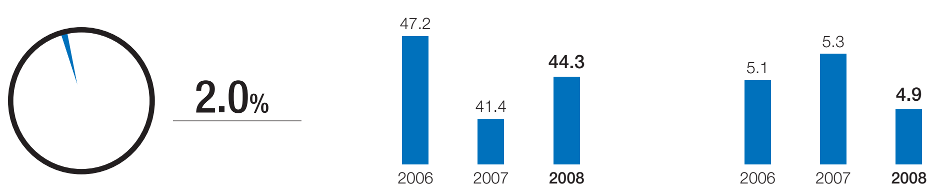
Machinery



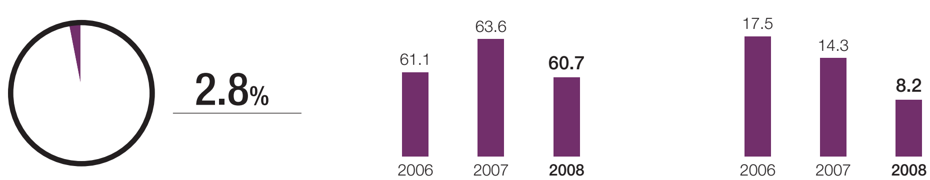
Construction Machinery



Real Estate



Electronic Materials and Other Businesses



Main Products and Services	Major “Only One” Products
Wire rod, steel bar, specialty steel bar, steel plate and sheet (hot-rolled, cold-rolled, surface processed), steel castings and forgings, titanium and titanium alloy, steel powder and other powder products, pig iron, slag products, stainless steel tube, building materials, specialty steel products, steel wire, covered welding electrodes, welding wire for automatic and semi-automatic welding, flux, welding robots, welding power sources, welding robot systems, testing, analysis, inspection and research	**Wire Rod and Bar:** Valve spring steel, suspension spring steel, CHQ wire rod for automotive use, steel bar for automotive use, wire rod for tire cord, bearing steel wire and wire rod **Plate:** Low temperature service steel plate for LPG ships, steel plate for large heat-input welding for giant container ships, “Hizumi-less” Residual stress controlled TMCP steel plate, Ni-containing atmospheric corrosion resistant steel plate, high strength steel plate for architectural construction **Sheet:** High strength steel sheet for automotive (590MPa or more), EG special treatment sheet, heat-releasing coated steel sheet **Castings and Forgings:** Built-up type crankshafts, solid type crankshafts, rolls for rolling mills **Titanium:** Commercially pure titanium, titanium alloy **Steel Powder:** Steel powder for magnetic applications, steel powder for soil/ground water treatment, pre-alloyed steel powder, segregation-free pre-mixed steel powder **Welding:** Flux-cored welding wire (FCW) for carbon steel and stainless steel, non-coated welding wire, welding robot systems
Wholesale electric power supply	Wholesale electric power supply
Aluminum can stock, aluminum for large heat exchangers, aluminum for automobiles, aluminum extrusions, disk blanks, aluminum foil, copper sheet and strip for semiconductors, copper sheet and strip for terminals, leadframes, copper tube for air conditioners, aluminum alloys and magnesium alloy castings and forgings, processed aluminum products	**Aluminum Sheet and Plate:** Bottle can stock, panel material for auto bodies, aluminum sheet for automotive heat exchangers, disk material for HDDs **Aluminum Extrusions:** Auto bumper material, OPC drum material **Aluminum Casting and Forgings:** Forged aluminum parts for auto suspensions, aircraft gearboxes, vacuum chambers for semiconductor fabrication equipment **Copper Sheet:** Auto connectors and terminals, leadframe materials for semiconductors
Engineering services (ironmaking, nonferrous metal, pelletizing, petrochemicals), equipment for energy and chemical fields, equipment for nuclear power plants, civil engineering, advanced transit systems, tire and rubber machinery, plastics processing machinery, isostatic pressing systems, metalworking machinery, compressors, refrigeration compressors, heat pumps, environmental solutions, recycling and soil remediation, cooling towers, heavy electrical equipment, continuous earth-moving systems	**Industrial Machinery:** Batch-type rubber mixers, tire testing machine, plastic mixing and pelletizing systems, physical vapor deposition system, screw gas compressors, integrally geared turbo gas compressors, oil-flooded standard screw air compressors, compact condensing generators **Engineering:** Heavy-wall pressure vessel, LNG vaporizer, brazed aluminum heat exchanger, open-grid dam, rubber tire rail system, coal-based direct reduction processes (FASTMET®, FASTMELT®), ITmk3®, natural gas-based direct reduction process (MIDREX®) **Environment:** Biomass methane fermentation system, sludge incineration/melting/recycling equipment, pure water and ultra-pure water producing equipment, gasification melting furnaces, PCB waste disposal equipment, glass lining manufacturing equipment, hydrogen and oxygen generation equipment, industrial cooling towers
Hydraulic excavators, mini excavators, wheel loaders, crawler cranes, rough terrain cranes, work vessels	Building demolition equipment, debris crushing equipment, automobile dismantling equipment, handling equipment
Total life business encompassing real estate development, construction, property sales, leasing, remodeling, building management, condominium management, insurance brokering	
Special alloys and other new materials (sputtering targets, etc.), materials analysis, high-pressured gas container manufacturing, silicon wafer reclaim, superconducting products, IC testing services, private nursing home management, general trading	Target material used in LCD panels, semiconductor inspection equipment

Iron and Steel

The Kobe Steel Group is strengthening its manufacturing capabilities to offer even more sophisticated and higher value-added products. At the same time, the Group is creating and increasing sales of products that have major shares of the market, such as wire rod for engine valve springs and high strength steel sheet for automobiles. Kobe Steel is also taking steps to expand the scale of its welding consumables business, primarily in Europe, the United States and China, with the goal of becoming a "world-leading company" in this field.

Business Environment and Performance in Fiscal 2007

Demand for steel in Japan remained strong, especially in the automotive, shipbuilding and other manufacturing industries. Exports remained firm with expanding global demand. Consequently, steel shipments surpassed those of the previous fiscal year thanks to Kobe Steel's steady efforts to meet demand, especially for high-end steel products for manufacturing industries. Moreover, steel prices increased year on year owing to upward price revisions, primarily for specialty steel.

Sales surpassed those of the previous fiscal year thanks to brisk demand for steel castings and forgings in the shipbuilding industry and for titanium mill products for electric power generation plants.

Demand for welding consumables, especially in the shipbuilding and construction machinery industries in Japan, continued to be robust, while overseas demand was brisk in the shipbuilding and energy-related project fields. In addition, product prices were revised upward in response to the higher costs of raw and secondary materials.

As a result, overall sales in the Iron and Steel Segment climbed 11.2% over the previous fiscal year to ¥923.8 billion. Meanwhile, changes in the accounting method for calculating depreciation due to revisions in the tax system contributed to a ¥2.7 billion year-on-year decline in operating income to ¥91.9 billion.

Strategy and Investments

• Future Strategy

Demand is expected to remain buoyant in three areas: high-end steel, especially from domestic manufacturing industries; steel castings and forgings; and titanium products.

Meanwhile, the Kobe Steel Group will take steps to ensure that it obtains the necessary volume of steel raw materials, the global demand for which is causing pressure on supply, so that its steel production is not disrupted and it can continue a stable supply of products to its customers. Moreover, we will raise product sales prices in response to

Kobe Steel's Crude Steel Production Volume (Millions of metric tons)

FY2003	FY2004	FY2005	FY2006	**FY2007**
7.31	7.71	7.56	7.83	**8.07**

Kobe Steel's Steel Shipments (Millions of metric tons)

FY2003	FY2004	FY2005	FY2006	**FY2007**
6.29	6.67	6.50	6.58	**6.86**

Kobe Steel's Sales Price (Domestic/export average) (Yen per metric ton)

FY2003	FY2004	FY2005	FY2006	**FY2007**
47,300	57,300	73,300	74,500	**77,600**

Cold heading quality (CHQ) parts

sharply rising raw material costs and continue efforts to maintain and improve earnings through such measures as cost reductions and productivity improvements.

In welding consumables, we will maximize our investments, further accelerate expansion overseas, and scale up the welding systems business with the goal of becoming a "world-leading company." Furthermore, we will take additional steps to reduce costs in response to sharply rising global raw material costs, while raising prices as needed to ensure Company profits.

• Capital Investments

Our primary focus is on projects that will boost Kobe Steel's competitive position by expanding and improving its range of distinctive products and further raising its manufacturing capabilities.

The renovation of blast furnaces at the Kakogawa Works and Kobe Works carried out in fiscal 2007 was completed on schedule and operations are proceeding smoothly. In January 2008, a new titanium melt shop commenced operations and a series of investments to add new capacity for forgings, rolled products and welded tubes were completed in response to increased demand.

Overseas, the Kobe Steel Group strengthened its competitive edge and its ability to respond at the local level in the field of specialty steel following the full-scale entry into China of major automakers, including those from Japan. In November 2007, we established Kobe Special Steel Wire Products (Pinghu) Co., Ltd. in Pinghu, Zhejiang Province, China, as a secondary processing operation for wire rod. We will further fortify our supply structure for specialty steel wire products, for which demand is rapidly growing, at our Kobe Wire Products (Foshan) Co., Ltd. (manufacture and sale of cold finished steel bars and CHQ wire) in southern China, and Jiangyin Sugita Fasten Spring Wire Co., Ltd. (manufacture and sale of oil tempered wire for suspension springs) in eastern China, which have already commenced operations.

Major projects in fiscal 2008 dealing with Only One products include increasing the production capacity of steel castings and forgings used in crankshafts for ships and, as an environmental investment, the installation of denitrification equipment at the sintering plant at the Kakogawa Works.

In welding consumables, to cope with strong demand, especially from domestic and overseas shipbuilders, Kobe Steel invested in additional production capacity for flux-cored wire for carbon steel. Overseas, in response to demand for flux-cored wire for shipbuilding, we established Kobe Welding of Qingdao Co., Ltd. (KWQ) in China with the goal of commencing operations in fiscal 2009.

Topics

Full Lineup of High-Performance Steel for Construction

The Kobe Steel Group acquired ministry approval for 55 kg and 80 kg steel plate for building construction, thus rounding out its lineup of high-performance steel plate and pipe for this application. These product lines are noted for their high strength, durability, weldability, quality and stability. They provide greater freedom of design, lower costs and improved welding procedures, while helping to achieve stability against mega-earthquakes.

PRO-TEC Coating Company Wins Malcolm Baldridge National Quality Award

In November 2007, PRO-TEC Coating Company, a joint venture between Kobe Steel and United States Steel Corporation, was awarded the Malcolm Baldridge National Quality Award by the U.S. Department of Commerce. The award is presented to U.S. businesses as well as educational and health care institutions for excellence in management and best practices in customer service. PRO-TEC was recognized based on the evaluation of its efforts in quality management and performance excellence.

New Trademarks for Welding Consumables Introduced

To build up our international trademark rights and guard against counterfeit goods, three new welding consumable trademarks have been introduced: FAMILIARC™, TRUSTARC™ and PREMIARC™. The designs will be adopted in Japan as well as at all overseas production bases.

- A coined word that combines FAMILIAR with ARC
- Carbon steel welding consumables that are often used in general welded structures.

- A combination of TRUST and ARC
- Welding consumables for low-alloy steel that requires high reliability.

- A word that combines PREMIUM (high added value) with ARC
- Stainless steel and high-alloy/non-ferrous welding consumables

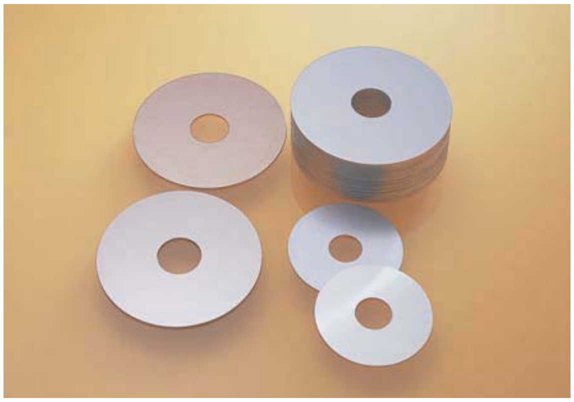
Wholesale Power Supply

Business Environment and Performance in Fiscal 2007

The two power plants at the Shinko Kobe Power Station currently have a combined maximum power generation capacity of 1.4 million kilowatts. By passing on the higher cost of the coal used to fuel these plants in the form of electricity price hikes, sales in this segment showed a 7.5% year-on-year improvement to ¥71.9 billion. Operating income, at ¥18.1 billion, was in line with that of the previous fiscal year.

Kobe Steel will take steps to improve equipment maintenance and accumulate operational technology in an effort to maintain stable operations and ensure steady profits.

Aluminum and Copper



Kobe Steel is focused on the automotive, IT-related and other fields that show promising growth potential and in which the Company holds a leading position over its competitors. While taking steps to expand production capacity and strengthen its manufacturing capabilities, the Company is working to create new markets by applying its technological and development capabilities with the goal of becoming a leading company that is internationally competitive in terms of cost, quality and customer service.

Business Environment and Performance in Fiscal 2007

Despite a drop in sales of aluminum plate for semiconductor and LCD manufacturing equipment due to slackening demand, shipments of aluminum rolled products surpassed those of the previous fiscal year. Primary factors were surging demand for aluminum stock for canned beverages due to hot weather, as well as brisk sales of aluminum sheet for automobiles and aluminum blanks and substrates for hard disks.

Despite continued strong demand for sheet products for electronic automotive components, shipments of copper rolled products fell below those of the previous fiscal year owing to weak domestic demand for copper tubes.

Sales of aluminum castings and forgings surpassed those of the previous fiscal year as a result of a steady meeting of increased demand for aluminum forgings for automobile suspensions brought about by ramped-up U.S. production capacity.

As a result, shipments surpassed those of the previous fiscal year, and the impact of passing on higher year-on-year aluminum and copper ingot prices to product sales prices helped propel sales in the Aluminum and Copper Segment 13.3%, to ¥450.1 billion. Operating income was down ¥12.7 billion, to ¥22.0 billion, owing to decreasing inventory valuation effects associated with sharply rising aluminum and copper ingot prices, which had boosted earnings substantially in the previous fiscal year.

Strategy and Investments

• Future Strategy

In fiscal 2008, aluminum rolled product shipments are expected to remain flat year on year, owing to solid demand for aluminum panel materials for automobiles and aluminum fin stock for air conditioners. Shipments of copper rolled products, especially copper strip for electronic materials, are expected to increase from this fiscal year.

Aluminum forgings for automobile suspensions

Over the medium term, an upsurge in demand is expected in aluminum for use in automobiles, aluminum vacuum chambers for semiconductor and LCD manufacturing equipment, aluminum blanks and substrates for hard disk drives, and copper strip for electronic materials.

We recognize that aluminum use is taking hold in high-volume car models as a result of environmental regulations and strong interest shown by automakers in environmental issues. Efforts to address automotive industry demand have been made a top priority at Kobe Steel and, by leveraging our collective strength in everything from high-quality materials to design and manufacturing, we will respond to growing demand for aluminum use in automobiles in Japan and overseas.

Moving forward, we aim to create new markets for aluminum and copper products by applying our technological and development capabilities and carve out a firm position as a leading company that is competitive in terms of cost, quality and customer service.

• Capital Investments

In fiscal 2007, Kobe Steel decided to implement projects that are critical to its future growth, including investments in Group companies, with an emphasis on upgrading and installing new core equipment. Our policy is to strictly prioritize those fields for investment that will generate higher profits. Presently, Kobe Steel's main areas of focus for future investments are the automotive and IT-related industries.

Aluminum vacuum chamber for semiconductor and LCD production

Aluminum can stock for bottle cans

Copper sheet for terminals and connectors

Topic

Expanding Automotive Aluminum Forgings in the United States

Kobe Aluminum Automotive Products, LLC (or KAAP), which manufactures and sells aluminum forgings for automobile suspension systems, was established in Kentucky, USA, in May 2003, and began mass production in June 2005. Its third press began operation in December 2006, and the fourth was completed in April 2008. With demand for lighter automobiles on the rise, Kobe Steel will continue to take steps to meet projected demand growth.

Four 6,300-ton mechanical presses have been installed to enable KAAP to respond to an expected increase in demand.

Machinery

Against a backdrop of strong capital spending due to expanding global demand for materials and energy, Kobe Steel experienced steady growth, especially in industrial machinery, compressors and engineering services. In order to improve its earnings capacity, Kobe Steel is creating more high-value-added Only One products, which have leading market shares in Japan and abroad, and is expanding its sales channels with the goal of achieving an overwhelming competitive advantage.

Business Environment and Performance in Fiscal 2007

Active capital spending in the petrochemical and automotive industries resulted in a surge of orders in the Machinery Segment, most notably for plastics processing and tire manufacturing machinery, setting a segment record for total orders received.

In the compressor business, as active capital spending in the oil refining and petrochemical industries continued, there was a marked rise in nonstandard compressor orders.

In the engineering business, brisk capital spending, especially in the energy field, brought about an increase in orders for heavy-wall pressure vessels, LNG vaporizers, and air separation plants.

In the Iron Unit Division, global demand for direct reduction (DR) plants, one of Kobe Steel's strengths, remained robust due to tight global supplies of metallics—scrap, pig iron and direct reduced iron—and ever-increasing environmental concerns, including CO_2 emissions. In addition to an order from Egypt for a DR plant that utilizes the MIDREX® Process, a natural gas-based direct reduction process, there was an order from North America for the first commercial ITmk3®* plant.

In the environmental field, government public spending remained low, while private-sector capital spending showed a downward trend. Due to these factors, orders for large waste treatment and sludge treatment projects showed a year-on-year decline in fiscal 2007.

As a result, orders in the Machinery Segment rose 10.1% year on year, to ¥339.8 billion, with sales rising 7.6%, to ¥302.2 billion. Operating income climbed ¥8.4 billion, to ¥30.5 billion on the back of increased sales and higher prices, primarily for nonstandard compressors and energy-related equipment.

*ITmk3® (Ironmaking Technology Mark Three) is a process that uses a rotary hearth furnace to turn iron ore fines and pulverized steaming coal into high-purity iron nuggets (96%–97% metallic iron content), the same purity as pig iron from a blast furnace. Reduction, melting, and slag removal occur in only 10 minutes in contrast to a reduction time of eight hours using a blast furnace. No expensive coking coal is used in the production of the iron nuggets. Please see pages 14 to 15 for further details about ITmk3®.

Strategy and Investments

• Future Strategy

In the industrial machinery business, Kobe Steel will continue to maintain its world-leading share for plastic processing machinery, boost overseas development in Europe, India, China and other countries, and expand its business.

In the compressor business, we are taking steps to increase orders for nonstandard compressors in the petrochemical and oil refining fields, where demand remains strong. We are also expanding our standard compressor business, for example in China and India.

In the engineering field, with the outlook for a continuing strong market environment, especially in the energy field, Kobe Steel will make every effort to win as many orders as

LCM Series plastic mixing and pelletizing system possible for heavy-wall pressure vessels as well as equipment for the nuclear industry.

With demand for high-grade metallics forecast to continue rising, Kobe Steel's focus is on expanding sales of the coal-based ITmk3®, FASTMET® and FASTMELT® DR processes, while working to maximize profits from the MIDREX® Process.

• Capital Investments

With orders on a favorable track, Kobe Steel is under increasing pressure to keep pace with demand. To improve its capacity to handle larger order volumes, Kobe Steel hired more staff, invested in additional production capacity and upgraded outdated equipment, especially in nonstandard compressors and energy-related machinery. In fiscal 2008, we will continue investing in capacity increases as well as in our ability to keep pace with the increasing size of machinery.


Nonstandard compressor


Heavy-wall pressure vessel for oil refining

Topics

STEAM STAR, the World's First Screw-Type Micro Steam Energy Generator, Wins Prime Minister's Award at 37th Japan Industrial Techniques Grand Prix

The STEAM STAR, jointly developed by TLV Co., Ltd. and Shinsho Corporation, won the Prime Minister's Award at the 37th Japan Industrial Techniques Grand Prix sponsored by Nikkan Kogyo Shimbun, Ltd. The world's first commercial screw-type micro steam energy generator, the STEAM STAR offers an extraordinary 150% greater steam flow volume performance than conventional turbines in the compact steam energy generator segment.

Biogas Upgrading System Delivered to Kobe City

Our Biogas Upgrading System takes the digester gas generated during sewage sludge processing and refines it into high-quality gas (methane concentration: 97% and above). Nearly identical to the city gas refined at a facility delivered to Kobe City, the high-quality biogas can be used not only within the facility, but as fuel for natural gas vehicles. The Kobe Biogas Station opened in April 2008 and has begun supplying biogas for natural gas vehicles, including Kobe City buses.


Biogas Upgrading System

Construction Machinery

Kobelco Construction Machinery Co., Ltd., the company in charge of the hydraulic excavator business, and Kobelco Crane Co., Ltd., which specializes in cranes, are developing innovative products using original technologies and expanding business globally, primarily through strategic alliances.

Business Environment and Performance in Fiscal 2007

Amid booming exports of used construction machinery to China, the domestic hydraulic excavator market experienced decelerating demand brought about by decreasing home investments in the second half, despite continuing brisk demand for equipment renewals and upgrades. Meanwhile, overseas, excluding the United States, where demand is eroding following a slowdown in new housing starts, demand was generally favorable, especially in China. Moreover, demand for cranes in North America, the Middle East and Southeast Asia remained robust. As a result, sales in the Construction Machinery Segment advanced 19.1% year on year to ¥339.9 billion, and operating income surged ¥8.0 billion higher than in the previous fiscal year to ¥22.8 billion.

Hydraulic Excavator Business

• Overview

In the domestic market, due to a full range of medium- and large-sized wheel loader and new mini excavator model changes, as well as the launch of hydraulic excavators compatible with Tier III emission regulations, sales increased at a rate exceeding the growth of demand.

Our dual-base system for hydraulic excavator production in China, comprising Chengdu Kobelco Construction Machinery Co., Ltd. (Chengdu, Sichuan Province), our first production base there, and Hangzhou Kobelco Construction Machinery Co., Ltd. (Hangzhou, Zhejiang Province), is operating smoothly and achieved record-breaking production and unit sales.

Overseas (excluding China), through our global alliance with CNH Global N.V. (CNH), we have: (1) expanded business, particularly in the Asia-Pacific region; and (2) strengthened our joint ventures with CNH in Europe and the United States.

Excavator with short tail swing radius

Topic

New Hydraulic Excavator Plant in Thailand Completed

Kobelco Construction Machinery Co., Ltd. completed construction of a hydraulic excavator production facility in Rayong Province, Thailand, and shipped its first excavator in April 2008. Although Thai Kobelco Construction Machinery Ltd., a component manufacturer, was established in 1996, this newly constructed facility for producing complete machines will enable us to build an integrated production system for hydraulic excavators. This facility will supply excavators throughout Southeast Asia, where additional demand growth is projected, and further raise our presence there.

• Future Strategy

With continued global growth in demand expected in the hydraulic excavator business, Kobelco Construction Machinery will continue to improve its manufacturing capabilities and put in place a structure enabling timely response to both qualitative and quantitative shifts in demand. In specific terms, we have prioritized the following issues: (1) the building of a global production system by raising the manufacturing capabilities of the Hiroshima and Ogaki factories, our global core facilities, successfully ramping up operations at a plant in Thailand, and upgrading our production bases in China and improving their quality levels; (2) taking appropriate steps to counter rising costs; (3) developing new excavator models compatible with future emission regulations; (4) developing and expanding sales bases in Southeast Asia, including India and Indonesia; and (5) strengthening our alliance with CNH and expanding markets, including those in newly emerging countries.

Crane Business

• Overview

Kobelco Cranes increased its earnings performance by promoting sales to and tapping crane demand in such priority regions as the Middle East, North America and Southeast Asia, developing new crane models to enhance its product lineup, and forging partnerships with the Manitowoc Company, Inc. of the United States and Tadano Ltd. of Japan. Kobelco Cranes also built up its production capacity in response to increased global demand and reinforced its business foundation to guard against any future recession.

As a result, unit sales of new crane models in fiscal 2007 amounted to roughly 850 units, advancing approximately 16% year on year. Higher unit sales particularly in the Middle East, North America, and Asia, including Japan, contributed substantially to earnings. In addition, overseas crawler crane sales accounted for nearly 80% of total units sold.

• Future Strategy

In the crane business, with the domestic market continuing on an expansionary track and ongoing active construction investments, including large projects in the Middle East, the global demand for cranes is expected to remain strong, despite uncertainties. Given these circumstances, we have prioritized the following issues: (1) optimizing production, creating a more stable production system and cutting costs; (2) boosting earnings by maintaining a system of collaboration with alliance partners; (3) setting up domestic and overseas distribution and a sales system for emerging markets; (4) strengthening the wheel loader business by executing an early market penetration strategy for new models; (5) promoting the institution of a business operation system for used construction equipment to strengthen the stock business; and (6) reinforcing the business foundation to guard against any future recession and formulating the next Medium-Term Business Plan.

Large crawler crane

Topic

Crane Remote Observation Satellite System Developed

Kobelco Cranes Co., Ltd. has developed KCROSS (KOBELCO Crane Remote Observation Satellite System) and is the first Japanese manufacturer to incorporate the system, which utilizes information technology, as a standard feature in all crawler cranes sold in Japan. Sales of this new system commenced in April 2008.

Real Estate

Operating mainly in the Kinki region and major metropolitan areas of Japan, the Real Estate Segment is a total life business encompassing real estate development, construction, property sales, leasing, remodeling, building and condominium management, and insurance brokering. Our goal is to quickly establish a stable business foundation and achieve sustained growth.

Business Environment and Performance in Fiscal 2007

Despite rising land prices, the business environment surrounding the Real Estate Segment remained harsh due to a slackening rate of new condominium contracts and higher inventories of completed units on the back of an economic downturn, resulting in consumer reticence to buy. In addition, with rising construction costs, sales prices climbed, which in turn caused the sales environment to deteriorate. Moreover, new housing starts declined sharply following stricter building certification procedures brought about by the Revised Building Standard Law, which took effect in June 2007. Demand for office space in the greater Tokyo and Osaka metropolitan areas remained high, and though rents had been rising, the economic downturn brought them under control.

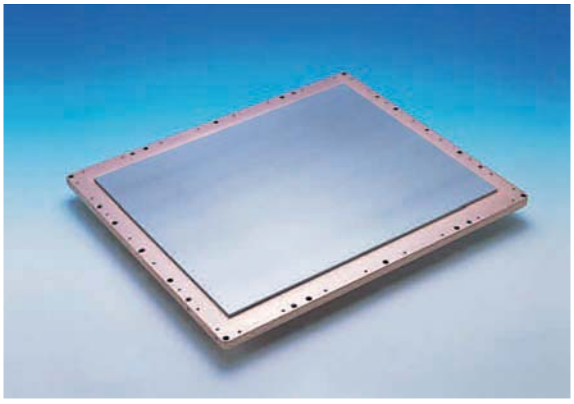
Net sales in the Real Estate Segment in fiscal 2007 rose 7.1% to ¥44.3 billion on a consolidated basis. This was primarily due to increased condominium sales in the Tokyo metropolitan area. Operating income declined ¥0.4 billion to ¥4.9 billion due to one-time expenses following the upgrade and expansion of leasable assets.

Strategy and Investments

In light of the harsh business environment, Kobe Steel will work to manage its business and ensure profits according to the following policies. The Real Estate Segment will take steps to boost its earnings capacity and steadfastly manage its business. The property management business will ensure profitability by rapidly expanding its high-quality leasable assets and by deriving economic benefits from the merger of the building management business within the Kobe Steel Group. In the insurance services business, we will leverage the Kobe Steel network of Group companies to vigorously expand business with the goal of obtaining the highest possible order volume.

With respect to capital investments in fiscal 2007, Yodoyabashi Square, a project begun in the previous fiscal year, and the Amagasaki Office Building Project (tentative name) are progressing favorably. In fiscal 2008, we will start work on the Kakogawa Futamata Dormitory Project.

Electronic Materials and Other Businesses



Business Environment and Performance in Fiscal 2007

Although the testing and analysis business fared well, especially in the areas of transport aircraft and electronics, sales declined 4.5% to ¥60.7 billion and operating income decreased ¥6.1 billion to ¥8.2 billion. These decreases were primarily attributable to declining unit sales of target materials for LCDs brought about by LCD display inventory adjustments and intensifying competition for alternative materials. The Kobe Steel Group will make steady efforts to improve productivity in the area of target materials for LCDs, immediately address customer needs and rapidly commercialize new products.

Kobe Steel Group Business Structure

Iron and Steel

• Raw materials supply
Kansai Coke and Chemicals Co., Ltd.*
OSAKA Titanium Technologies Co., Ltd.*
1 consolidated subsidiary
1 equity-valued affiliate

• Manufacturing, sales and services
Kobelco Logistics, Ltd.
Shinko Engineering & Maintenance Co., Ltd.
Shinko Sohgo Service Ltd.
Kobe Welding Wire Co., Ltd.
5 consolidated subsidiaries

• Manufacturing and sales
Nippon Koshuha Steel Co., Ltd.
Kobe Special Tube Co., Ltd.
Shinko Kenzai, Ltd.
Shinko Bolt, Ltd.
Tesac Wire Rope Co., Ltd.
Sakai Steel Sheets Works, Ltd.
Kobe Welding of Korea Co., Ltd.
Shinko Wire Company, Ltd.*
12 consolidated subsidiaries
11 equity-valued affiliates

• Sales
NI Welding Corporation
3 consolidated subsidiaries
3 equity-valued affiliates

• Manufacturing and sales
Kobelco Metal Powder of America, Inc.
3 equity-valued affiliates

• Sales, investment and services
Kobe Coating Company
6 consolidated subsidiaries

Wholesale Power Supply

• Production and sales
Shinko Kobe Power Inc.

Aluminum and Copper

• Manufacturing, sales and services
Shinko Leadmikk Co., Ltd.
6 consolidated subsidiaries

• Manufacturing and sales
Sun Aluminium Industries, Ltd.
Shinko-North Co., Ltd.
Shinko Metal Products Co., Ltd.
Kobe Precision Technology Sdn. Bhd.
Singapore Kobe Pte. Ltd.
Kobe Electronics Material (Thailand) Co., Ltd.
1 consolidated subsidiary
3 equity-valued affiliates

• Manufacturing and sales
Kobelco & Materials Copper Tube, Ltd.
8 consolidated subsidiaries
2 equity-valued affiliates

Machinery

• Raw materials and services
Shinko Techno Engineering Co., Ltd.
8 consolidated subsidiaries

• Manufacturing, sales and services
Kobelco Compressors Corporation
6 consolidated subsidiaries
1 equity-valued affiliate

• Manufacturing, sales and services
Kobelco Eco-Solutions Co., Ltd.
Shinko Engineering Co. Ltd.
Shinko Electric Co., Ltd.*
Complejo Siderurgico de Guayana, C.A.*
16 consolidated subsidiaries
5 equity-valued affiliates

Construction Machinery

• Manufacturing and sales
Kobelco Construction Machinery Co., Ltd.
Kobelco Cranes Co., Ltd.
35 consolidated subsidiaries
10 equity-valued affiliates

Real Estate

• Regional urban development and real estate
Shinko Real Estate Co., Ltd.
7 consolidated subsidiaries

Electronic Materials and Other Businesses

• Services
Kobelco Research Institute, Inc.
8 consolidated subsidiaries
3 equity-valued affiliates

• Raw materials supply and sales
Shinsho Corporation*

• Sales, investment and services
Shinko JFE Industrial Co., Ltd.
Genesis Technology Inc.*
Japan Medical Materials Corporation*
9 consolidated subsidiaries
1 equity-valued affiliate

Kobe Steel, Ltd.

Customers

(Notes) 1. → Flow of products
2. * Equity-valued affiliates (other companies are consolidated subsidiaries)

R&D and Intellectual Property Activities

Supporting the Kobe Steel Group, the Technical Development Group is engaged in basic and advanced research. The Kobe Corporate Research Laboratories in the Technical Development Group work closely with development departments in the business segments, leveraging their wealth of technological expertise, to precisely meet customers' needs. Blending technologies in the fields of materials, machinery, the environment, energy and electronics, the laboratories pursue the development of truly distinctive "Only One" products and ever higher levels of manufacturing expertise.

The Kobe Corporate Research Laboratories serve as the Group's R&D base. Effectively combining the specialized technologies of the laboratories, the Technical Development Group undertakes research aimed at enhancing the profitability of the business segments, pioneering new products and technologies for the future.

R&D

• Materials Research Laboratory

The Materials Research Laboratory (MRL) engages in research based upon four technological fields: materials processing, materials design, mechanical working, and surface control. For the materials business, MRL is working to enhance the performance of materials and surfaces, develop new products with improved features, and optimize manufacturing processes. For machinery-related businesses, MRL focuses on creating differentiated products utilizing its expertise in materials.

Leveraging its expertise in materials technology, MRL also strives to cultivate new businesses.

• Mechanical Engineering Research Laboratory

The Mechanical Engineering Research Laboratory (MERL) conducts research and development in machinery, materials, the environment, energy, and steel structures. Through the use of advanced simulation, experimental, measurement, and analysis techniques in the fields of structural, strength, dynamics, acoustics, fluids, thermal, combustion, and chemical technologies, MERL works to enhance product performance, improve production processes and design, and focus on developing new products and technologies in an effort to gain a competitive advantage.

• Production Systems Research Laboratory

The Production Systems Research Laboratory (PSRL) is active in bolstering and innovating production technologies for each of the Group's business segments, utilizing cutting-edge technologies for instrumentation and control, production planning, machine systems, information and telecommunications, and signal processing. Maintaining a focus on its core proprietary electronics and system technologies, PSRL is also engaged in the creation of new product menus in machinery-related fields.

• Electronics Research Laboratory

The core technologies of the Electronics Research Laboratory (ERL) include thin-film materials design and film deposition, microfabrication, measurement evaluation, and superconductivity. ERL strives to develop new products and processes for application in such growth fields as nanotechnology, electronics and information, biotechnology, and the environment. ERL is also promoting the application of cutting-edge technologies in production facilities.

• Coal & Energy Technology Department

The Coal & Energy Technology Department (CETD) is developing energy conversion technologies such as the upgrading of brown coal through dewatering and deashing, coal liquefaction, and the hydrocracking of heavy oil. CETD is working to find ways to effectively use the world's untapped natural resources and contribute to securing stable and diversified energy sources for Japan.

• R&D-related subsidiaries

- Kobelco Research Institute, Inc.
- Shinko Research Co., Ltd.


Kobe Corporate Research Laboratories

Principal Technologies Developed by Business Segments and Divisions

Iron and Steel

- Iron and steel production technologies
  Next-generation ironmaking, ultra-clean steel refining, high-precision rolling, material control, surface treatment, others
- Product technology (construction, shipbuilding, automobiles, household appliances, aviation, others)


Wire rod for engine valve springs

Welding

- Design of welding consumables
- Mechanical/chemical performance evaluation of welds
- Physical analysis of arc phenomenon
- Development/application of welding technology
- Design/development of welding robots
- Development of welding systems
- Development of offline teaching systems
- Design/development of welding power sources

Welding robot

Aluminum and Copper

- Aluminum sheet production technology (wide-width high-speed rolling, automatically controlled rolling)
- Aluminum extruded section production technology (high dimensional accuracy extrusion, thin-wall extrusion, electromagnetic forming technology)
- Aluminum cast and forged product technology (large-size thin-wall sand casting, hydraulic and mechanical forging)
- Copper sheet and strip production technology (low-distortion low-residual stress sheet, advanced plating)
- Alloy design, material control, surface treatment, sheet forming, extrusion pressing, welding and joining, FEM simulation for lightweight designs
- Product technology (electric and electronic devices, household appliances, automobiles, aluminum cans, aviation, others)

Machinery and Engineering

- New ironmaking processes
- Compressors (screw, turbo, reciprocating)
- Industrial machinery technology (tire curing presses and testing machines, rubber and plastic mixing, metalworking, high-pressure processes, deposition, beams)
- Energy equipment technology (high-pressure vessels, aluminum heat exchangers, LNG vaporizers, nuclear spent-fuel casks)
- Plant engineering (nuclear waste treatment, chemical weapons destruction, advanced transit systems)

Intellectual Property Activities

Intellectual Property Activities: Raising Corporate Value

Strategic intellectual property activities are essential to the Kobe Steel Group's goal of creating and expanding its range of distinctive Only One products. The importance of intellectual property has gained recognition with the recent enactment of the Basic Law on Intellectual Property. At the same time, a three-pronged strategy covering business, R&D and intellectual property has been advocated amid calls for a response to the increasing problems of imitations in Asia and higher incidence of technological leakage from companies.

The Kobe Steel Group is also taking a lead in energetically promoting intellectual property activities that raise corporate value by: (1) implementing three-pronged intellectual property programs, (2) improving cooperation in the area of intellectual property throughout the Group, and (3) establishing a platform for intellectual property activities. Most importantly, we initiated efforts targeting new intellectual property activities, such as beginning the construction of a new intellectual property management framework, with the goal of shifting to intellectual property management at the product and technology levels.

Overview of Fiscal 2007

In fiscal 2007, Kobe Steel acquired nearly 500 new patents in Japan, primarily to protect Only One products, which now gives the Company approximately 3,300 total patents. Moreover, as a result of the globalization of its business, Kobe Steel is strengthening its acquisition of new patents overseas, especially in Asia, which now account for almost 35% of the total number of patent applications.

Corporate Governance

Kobe Steel is making every effort to strengthen corporate governance and establish a thorough compliance system in order to raise its corporate value.

• Organized Corporate Bodies

Kobe Steel has adopted a corporate auditor system. In addition, the Company has deployed an internal company management system to transform its business structure by improving the earnings capacity of each business unit and strategically selecting and allocating resources in specific areas.

At Kobe Steel, we recognize that management decision making is inseparable from the execution of day-to-day business operations. Therefore, Company directors, who are elected by shareholders at general shareholders' meetings and legally responsible to shareholders, business partners, and other stakeholders, must bear primary responsibility for business affairs that are of major importance to the Company.

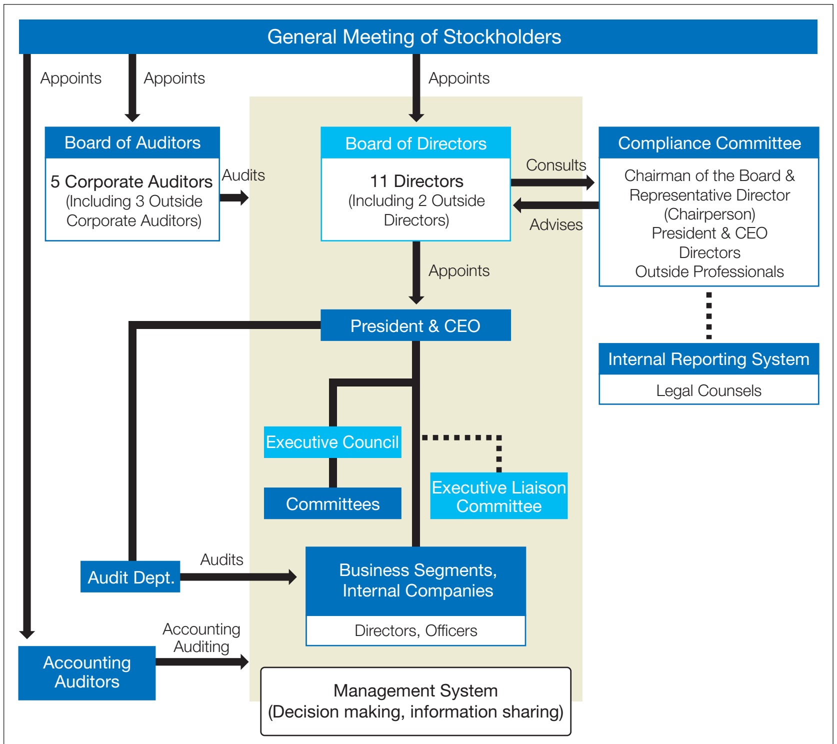
To contribute to ensuring greater management transparency and fairness, Kobe Steel invited two outside directors to join the Board of Directors in June 2007, and created an improved supervisory function for business affairs. No business relationships or other conflicts of interest exist between these directors and Kobe Steel.

The Board is made up of 11 members comprising senior management, key executives at corporate headquarters, executives of major business divisions and internal companies, as well as outside directors.

Corporate officers, under the leadership of the directors, are responsible for conducting business affairs and therefore occupy an important position at Kobe Steel. Although not constituting a legal body, corporate officers are elected by the Board of Directors and carry out duties that the president assigns to them.

To enable the Company to quickly respond to a rapidly changing business environment, the term of office for both directors and corporate officers has been set at one year.

The Group Executive Council (held quarterly) and the Executive Council (held semimonthly) meet to discuss the Company's business direction, including the business strategy, as well as to confer over matters deliberated at Board of Directors' meetings. The Executive Liaison Committee (held quarterly)—composed of directors, corporate officers, the



Corporate Governance

chief engineer and the presidents and officers of affiliates appointed by the president—shares information on important management issues. In addition, other committees may also be set up as a forum for relevant parties to deliberate on issues of high importance to the Company's overall business after considering advice from the president and senior executives.

• Audits by Corporate Auditors, Internal Audits and Accounting Audits

With five corporate auditors, including three outside corporate auditors, Kobe Steel is increasing the effectiveness of corporate governance through stronger management audit capabilities. No business relationships or other conflicts of interest exist between the outside corporate auditors and Kobe Steel.

Kobe Steel established an Audit Department (composed of 12 people, including those holding an additional post) as an independent auditing body to conduct internal audits. Audits, especially those conducted in the areas of compliance, the environment and information security, are carried out cooperatively or in partnership between the Audit Department and each division responsible for the respective area.

Accounting audits are conducted by KPMG AZSA & Co.

Corporate auditors routinely meet with accounting auditors to coordinate internal, corporate and accounting audits and closely cooperate through the exchange of views about the audit system, the audit plan and audit status. Also, when necessary, corporate auditors accompany accounting auditors on their audits of business sites and receive timely reports about the progress of audits. Furthermore, corporate auditors are routinely informed about audit policies and plans by the internal audit division. Corporate auditors also maintain close cooperation with others through reports they receive in such areas as the status of internal control system enforcement, thereby enabling them to conduct efficient audits.

• Compliance System

Kobe Steel has set the building of a compliance system as one of its most important management tasks. In June 2000, Kobe Steel instituted a Corporate Code of Ethics as a practical corporate guideline for legal compliance, which has undergone revision based on subsequent changes in the business environment. The Compliance Committee was established as an advisory body to the Board of Directors. Kobe Steel is working to raise the effectiveness of compliance management not only through the drafting of compliance programs and confirming the status of these programs, but by submitting measures related to reports made through the Internal Reporting System for discussion at Board of Directors' meetings. To spread these efforts throughout the Kobe Steel Group, key Group companies have instituted the Corporate Code of Ethics, which is composed of Ethical Standards and Codes of Conduct, established Compliance Committees and operate the Kobe Steel Group Internal Reporting System as a point of contact to outside legal counsel.

• Policy on Large-Scale Purchasing of Company Shares

In April 2006, to safeguard and further improve corporate value as well as the mutual interests of shareholders, Kobe Steel introduced its Policy on the Large-Scale Purchasing of Company Shares. In principle, this policy was conceived and decided upon by Kobe Steel's Board of Directors to counter purchases of Kobe Steel shares by a specific group of shareholders that has as its goal the acquisition of 15% or more of Company voting rights. To eliminate arbitrariness among the Board members, an Independent Committee composed of outside attorneys, certified public accountants, tax accountants, academic experts and outside directors, has been established. This committee advises the Board of Directors on such decisions as whether information provided by a Large-Scale Purchaser is sufficient and recommends whether to implement or cancel the takeover defense measures.

The Board of Directors resolved to introduce the policy at their April 27, 2006 meeting and reviewed its content at their April 26, 2007 meeting. The policy was ratified at the General Shareholders' Meeting held on June 26, 2007.

Relations with Stakeholders

The Kobe Steel Group is facilitating communication with its stakeholders—including customers, business partners, local communities, shareholders and other investors, as well as its employees—and building relationships of mutual trust. With the goal of being a corporate group that benefits society through its manufacturing capabilities, Kobe Steel will continue to forthrightly disclose Company information and progress with society.

• Shareholders and Other Investors

Kobe Steel appropriately and swiftly discloses a wide range of information to shareholders and other investors. Furthermore, it promotes investor relations through its constant efforts to raise corporate value in order to gain and maintain customer trust.

• Customers

Kobe Steel provides products and services that satisfy the wide-ranging needs of its customers. Every effort is made to develop high-quality products that customers trust and to disclose information in a quick and timely manner.

Kobe Steel Group

• Local Communities

Conscious of its position as a corporate citizen, Kobe Steel goes to great lengths to maintain a harmonious co-existence in the communities in which it operates. To contribute to the safety and development of local communities, Kobe Steel actively participates in community festivals, events and other social activities as well as in disaster prevention programs.

• Business Partners

Having developed a diverse range of businesses in Japan and abroad, Kobe Steel has gained the cooperation of various business partners. Kobe Steel always conducts honest and legitimate transactions and works for mutual prosperity through business.

• Employees

Kobe Steel employees, the driving force behind the Company's development, derive satisfaction from their work and contribute to the maximum of their ability. At the same time, the Company takes steps to maintain a safe and secure work environment, enhances its employee benefits system, and improves its career development program.

Basic Environmental Management Policy

The Kobe Steel Group recognizes that the obligation to protect the global environment is its most urgent task, and therefore, has adopted the mission to pass on a healthy world to future generations. The Kobe Steel Group has formulated its Basic Environmental Management Policy and, accordingly, stepped up efforts to promote environmental management in every facet of its business activities. In 2002, Kobe Steel reorganized its Global Environmental Administration Committee, which was established in 1992, into the Environmental Management Committee, and the entire Group has since been pursuing "environmental management." After responding to the air emission problem in 2006, the Kobe Steel Group established the Environmental Administration Committee as an advisory body to the Board of Directors and has been focused on strengthening environmental management.

■ Basic Environmental Management Policy

Enhancing Enterprise Value through Groupwide Environmental Management

With the aim of enhancing enterprise value and fulfilling its CSR requirements, the Kobe Steel Group shall conduct its business activities based on the following three principles:

1. **Reducing the environmental impact from production**
2. **Contributing to the environment through environment-friendly products, technologies and services**
3. **Maintaining a relationship of trust and collaboration with society at large**

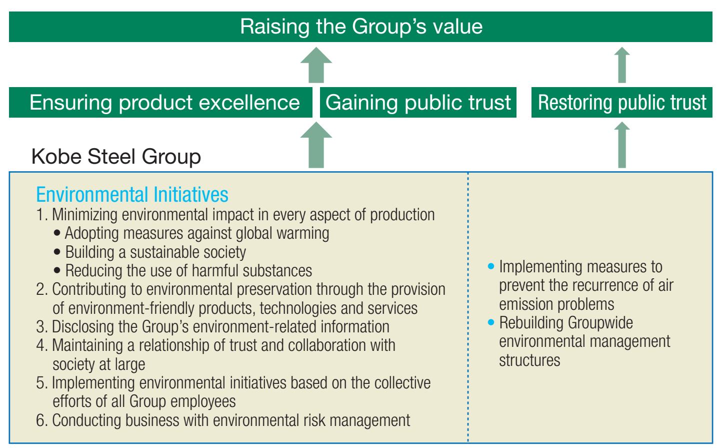
• Environmental Objectives

The Medium-Term Environmental Management Plan for Fiscal 2006 to 2008 was formulated to promote Groupwide environmental management.

Under the plan, we are currently undertaking activities based on the following six principal initiatives: (1) minimizing environmental impact in every aspect of production; (2) contributing to environmental preservation through the provision of environment-friendly products, technologies and services; (3) disclosing the Group's environment-related information; (4) maintaining a relationship of trust and collaboration with society at large; (5) implementing environmental initiatives based on the collective efforts of all Group employees; and (6) conducting business with environmental risk management.

Adhering to relevant laws and regulations, Kobe Steel is rigorously pursing environment-friendly manufacturing in every aspect of operations, including the siting and construction of its facilities, the equipment it uses, and in procurement, production, distribution and product recycling. Kobe Steel provides products, technologies and services that help reduce its environmental impact with the full participation of its employees.

■ Medium-Term Groupwide Environmental Management Initiatives



Measures to Combat Global Warming

Global warming is the term used to describe the impact that is resulting from increasing emissions of greenhouse gases, such as carbon dioxide (CO_2) and chlorofluorocarbon substitutes. The Kyoto Protocol came into effect in 2005 and worldwide efforts have been under way to combat the phenomenon. In Japan, a succession of related laws and regulations, especially those intended to inhibit global warming, have been drawn up and various measures implemented. Various industries have also formulated and initiated action plans. The Kobe Steel Group is rationalizing energy use though energy conservation and other means across all of its business activities based on its voluntary action plans for each industry.

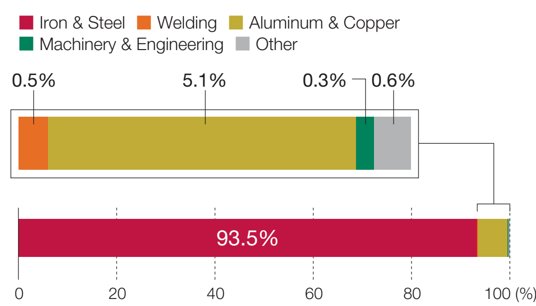
• Energy Conservation in Production Processes

In fiscal 2007, the Kobe Steel Group as a whole consumed 226 PJ (petajoules) of energy. Of this amount, 93.5% was by the Iron and Steel Segment.

Previously, energy consumption had been rationalized at Kobe Steel's production facilities, including its steelworks, through the introduction of the latest energy conservation technologies, such as combustion management, continuous process equipment, and exhaust heat recovery equipment. As a result, Kobe Steel achieves the world's highest levels of energy efficiency in its production processes. Moving forward, Kobe Steel will raise its energy efficiency to even higher levels, reduce its environmental impact and actively develop new production technologies.

■ Energy Consumption by Primary Business (including Group companies)

Total energy consumption in fiscal 2007: 226 PJ



Building a Recycling-Based Society

The Kobe Steel Group is engaged in wide-ranging business development in such areas as materials and industrial machinery and imports iron ore, coal and other raw materials from abroad. Moreover, Kobe Steel supplies environment-related equipment that is helping to build a recycling-based society. Amid its business expansion, Kobe Steel is taking steps to minimize the generation of waste at every one of its business facilities. As much as possible, the Group is also working to reuse and recycle the by-products that it generates and is actively promoting activities aimed at building a recycling-based society, such as the use of iron and steel slag in materials for cement.

• Curbing Waste Product Generation and Promoting Recycling

In fiscal 2007, the Kobe Steel Group generated 4.81 million tons of waste by-products, 98.4% of which was by the Iron and Steel Segment. Kobe Steel promotes the recycling of slag and dust generated as by-products of ironmaking.

Beginning in fiscal 1992, Kobe Steel formulated an action program targeting waste and has been promoting waste reduction and recycling on an ongoing basis. In fiscal 2007, the recycling rate was 93.7% for all Kobe Steel plants and 93.0% for the entire Group.

A portion of the slag could not be reused, while some dust was stored for recycling. As a result, about 290,000 tons of waste was disposed as landfill in fiscal 2007.

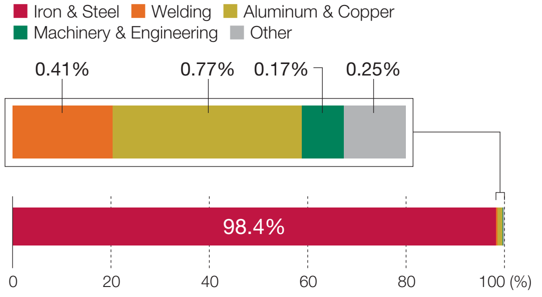
In the years ahead, the Kobe Steel Group will steadily carry out each industry association's voluntary action plan, further promote the development of recycling technologies, curb the generation of waste and reduce the landfill volume.

• Zero Emission Initiative at Plants

All plants have drawn up action programs for reducing their waste disposal volumes and are continuously taking steps to reuse and recycle materials.

Waste Generation by Primary Business (including Group companies)

Waste product generation in fiscal 2007: 4.81 million tons



Contributing to the Environment in Products, Technologies and Services

The Kobe Steel Group contributes to environmental conservation by providing environment-friendly products, technologies and services that leverage the Group's production and engineering technologies and know-how accumulated over the years in steel, aluminum and other materials, as well as in machinery and engineering.

• High-Performance Aluminum Sound-Absorbing Panel

Kobe Steel and Shinko Kenzai, Ltd. have developed the world's first soundproof wall for outdoor use with a sound-absorbing structure that utilizes aluminum foil pierced with innumerable micro holes. The soundproof wall uses conventional aluminum and steel sheet for sound insulation. However, for sound absorption, aluminum foil pierced with numerous micro holes is used instead of the usual sound-absorbing fiber material. The holes are approximately the same diameter as the thickness of the aluminum foil. A layer of air is formed between the aluminum foil and the sound-insulating aluminum sheet.

Installing the soundproof wall along roads and railway lines, around machinery and equipment in factories, or along borderlines between premises, can block out more noise than the soundproof walls that commonly use fiber material. Moreover, the qualities of aluminum make it an environment-friendly product with outstanding light resistance and recyclability.

Aluminum sound-absorbing panel

Financial Section

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Consolidated Six-Year Summary

Kobe Steel, Ltd. and Consolidated Subsidiaries   Years ended March 31, 2008, 2007, 2006, 2005, 2004 and 2003

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2005	2004	2003	**2008**
For the year:							
Net sales	**¥2,132,406**	¥1,910,296	¥1,667,313	¥1,443,772	¥1,219,180	¥1,204,750	**$21,283,621**
Cost of sales	**1,757,342**	1,543,158	1,297,291	1,140,422	993,394	1,001,418	**17,540,094**
Operating income	**202,399**	208,624	220,395	166,577	100,699	81,054	**2,020,152**
Net income	**88,923**	109,669	84,559	51,289	22,066	1,723	**887,544**
Cash flows from operating activities	**124,317**	172,786	198,181	225,751	104,041	115,692	**1,240,815**
Cash flows from investing activities	**(187,381)**	(128,557)	(94,215)	(50,543)	(86,381)	27,021	**(1,870,257)**
Cash flows from financing activities	**31,155**	(48,823)	(93,593)	(163,945)	(35,754)	(174,997)	**310,958**
Capital investment	**150,585**	133,649	92,319	66,016	104,911	43,970	**1,502,994**
Depreciation and amortization	**111,514**	86,687	79,507	80,290	79,244	85,090	**1,113,025**
Research and development	**30,139**	24,893	24,121	19,700	16,929	17,797	**300,818**
At year end:							
Total assets	**2,329,006**	2,241,570	2,074,242	1,901,202	1,916,338	1,902,642	**23,245,893**
Net assets (Note 2)	**647,797**	636,432	530,000	379,213	330,127	293,138	**6,465,685**
Interest-bearing debt	**713,352**	621,227	589,101	669,241	797,041	895,883	**7,119,995**
Interest-bearing debt including IPP project financing	**823,404**	742,276	720,909	811,572	931,891	966,383	**8,218,426**

	Yen						U.S. dollars (Note 1)
	2008	2007	2006	2005	2004	2003	**2008**
Per share data:							
Net income	**¥ 29.63**	¥ 35.37	¥ 27.94	¥ 17.28	¥ 7.44	¥ 0.59	**$ 0.30**
Diluted net income	**—**	—	27.25	16.48	7.38	—	**—**
Net assets	**199.81**	194.46	170.65	127.80	111.24	98.96	**1.99**
Cash dividends	**7.00**	7.00	6.00	3.00	1.50	—	**0.07**

	2008	2007	2006	2005	2004	2003
Ratios:						
Operating income ratio (%)	**9.5**	10.9	13.2	11.5	8.3	6.7
ROA (%)	**3.8**	4.9	4.1	2.7	1.2	0.1
ROE (%)	**14.9**	19.6	18.6	14.5	7.1	0.6
Equity ratio (%)	**25.8**	26.4	25.6	19.9	17.2	15.4
Debt/equity ratio (times)	**1.3**	1.2	1.2	1.8	2.5	3.0
Dividend payout ratio (%)	**23.6**	19.8	21.5	17.4	20.2	—
Number of shares issued (in thousands)	3,115,061	3,115,061	3,115,061	2,976,070	2,976,070	2,974,550
Number of employees	33,657	31,828	29,068	27,067	26,179	26,765

Notes 1. For convenience only, U.S. dollar amounts in this report have been translated from Japanese yen at the rate of ¥100.19 to US$1.00, the rate of exchange prevailing on March 31, 2008.

2. Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005).

Financial Review

In the second half of the fiscal year ended March 31, 2008, Japan's economy slowed down. With the global economy continuing on an expansionary track, the Kobe Steel Group focused its full efforts on meeting demand and increasing sales prices. As a result, net sales jumped ¥222.1 billion to ¥2,132.4 billion over the previous fiscal year, while operating income decreased ¥6.2 billion to ¥202.4 billion due to various cost increases.

Other expenses increased ¥15.8 billion due primarily to a ¥1.3 billion decrease in equity in the income of unconsolidated subsidiaries and affiliates and a ¥5.4 billion increase in foreign exchange loss.

As a result, income before income taxes declined ¥22.0 billion to ¥153.4 billion compared with ¥175.4 billion in the previous fiscal year, while net income after taxes dropped ¥20.7 billion from ¥109.7 billion in the previous fiscal year to ¥88.9 billion.

	Billions of yen		Percent change
	2008	2007	2008/2007
Net sales	**¥2,132.4**	¥1,910.3	11.6%
Operating income	**202.4**	208.6	(3.0)

Business segment information is provided as follows.

Iron and Steel

	Billions of yen		Percent change
	2008	2007	2008/2007
Net sales	**¥923.8**	¥830.7	11.2%
Operating income	**91.9**	94.6	(2.8)

Sales in this segment amounted to ¥923.8 billion compared with ¥830.7 billion in the previous fiscal year, a ¥93.1 billion increase. Demand for steel products for the domestic construction industry dropped substantially due to the enactment of the revised Building Standard Law. In contrast, particularly in the field of medium- to high-grade goods, the manufacturing industries—including automotive and shipbuilding—drove demand, which continued to be robust in Japan and abroad. Despite signs of a slowdown in the United States, exports fared well overall, thanks to strong economic performance in emerging countries. As a result, Kobe Steel's crude steel production amounted to 8,180 thousand tons, 250 thousand tons higher than the 7,930 thousand tons recorded in the previous fiscal year. The Kobe Steel Group raised sales prices, particularly for specialty steel, one of its strong areas. In addition to steel, strong demand, primarily for steel castings and forgings for shipbuilding, and titanium products for electric power generating plants were factors behind the stronger sales. While earnings received a boost from increased steel shipments and cost reductions, operating income in this segment amounted to ¥91.9 billion, a ¥2.7 billion decline from the ¥94.6 billion recorded in the previous fiscal year. This was attributable to the impact of such factors as: rising raw material costs, including various types of metals, and marine transportation costs (¥21.5 billion); changes in depreciation methods following revisions to the tax system (¥11.0 billion); and blast furnace renovations at the Kakogawa Works and Kobe Works (¥3.0 billion).

Wholesale Power Supply

	Billions of yen		Percent change
	2008	2007	2008/2007
Net sales	**¥71.9**	¥66.9	7.5%
Operating income	**18.1**	18.0	0.3

Sales in this segment were ¥71.9 billion, up ¥5.0 billion compared with the ¥66.9 billion recorded in the previous fiscal year. However, the increase was attributed to the passing on of higher fuel-grade coal costs to unit electricity prices. Operating income at ¥18.1 billion was in line with that of the previous fiscal year.

Aluminum and Copper

	Billions of yen		Percent change
	2008	2007	2008/2007
Net sales	**¥450.1**	¥397.3	13.3%
Operating income	**22.0**	34.7	(36.5)

Sales in this segment amounted to ¥450.1 billion, compared with ¥397.3 billion in the previous fiscal year, a ¥52.8 billion increase. Shipments of aluminum rolled products went from 329 thousand tons in the previous fiscal year to 335 thousand tons, a 6,000 ton increase, thanks to favorable sales of aluminum stock for canned beverages due to hot summer weather and the launch of new cold beverages, as well as robust sales of aluminum panel and bumper materials for automobiles and aluminum fin stock for air conditioners. As for shipments of copper rolled products, thanks to favorable demand for copper strip for electronic materials, copper sheet shipments remained at 67 thousand tons, the same level as in the previous fiscal year. Against a backdrop of growing air conditioner markets in Southeast Asia and Europe, overseas shipments for copper tube surged, while domestic shipments declined. As a result, copper tube shipments dropped from 81 thousand tons in the previous fiscal year to 78 thousand tons, a 3-thousand ton decrease.

Consequently, overall shipments in the Aluminum and Copper Segment surpassed those of the previous fiscal year, and sales increased as higher year-on-year ingot prices were passed on to product sales prices. Nevertheless, operating income was down ¥12.7 billion to ¥22.0 billion compared with ¥34.7 billion in the previous fiscal year due to a decrease in inventory valuation gains resulting from sharply rising ingot prices, which had substantially boosted earnings in the previous fiscal year.

Machinery

	Billions of yen		Percent change
	2008	2007	2008/2007
Net sales	**¥302.2**	¥280.9	7.6%
Operating income	**30.5**	22.1	37.9

On the back of robust private-sector capital investments, the Machinery Segment enjoyed buoyant domestic orders for compressors, rolling mills and other products. However, domestic orders decreased ¥23.6 billion to ¥157.6 billion compared with the ¥181.2 billion recorded in the previous fiscal year as a result of large orders received for waste treatment and sludge disposal projects in the environmental field. Overseas orders climbed ¥54.7 billion to ¥182.2 billion compared with ¥127.5 billion in the previous fiscal year. In addition to orders received for a large iron ore pellet plant and air separation plants, active capital investment in the petroleum refining, petrochemical and energy fields in the Middle East, Asia and North America led to continued strong demand for compressors, plastics processing machinery and heavy-wall pressure vessels for oil refineries. As a result, total orders increased ¥31.1 billion to ¥339.8 billion compared with ¥308.7 billion in the previous fiscal year, while the backlog of orders as of the fiscal year-end amounted to ¥377.6 billion.

As a result, sales in the Machinery Segment were ¥302.2 billion, ¥21.3 billion higher than the ¥280.9 billion recorded in the previous fiscal year. Operating income amounted to ¥30.5 billion compared with ¥22.1 billion in the previous fiscal year, an increase of ¥8.4 billion.

Construction Machinery

	Billions of yen		Percent change
	2008	2007	2008/2007
Net sales	**¥339.9**	¥285.4	19.1%
Operating income	**22.8**	14.8	54.3

Despite continued strong demand for new construction machinery, in the midst of booming exports of used equipment to China, demand for hydraulic excavators in Japan weakened due to slack housing investments in the second half of the fiscal year. Overseas, with the exception of the United States, where demand weakened due to a downturn in the number of housing starts, demand was generally strong, especially in China. The crane business remained robust, particularly in North America, the Middle East and Southeast Asia. Due to these factors, segment sales climbed ¥54.5 billion to ¥339.9 billion compared with ¥285.4 billion in the previous fiscal year. Operating income amounted to ¥22.8 billion compared with ¥14.8 billion in the previous fiscal year, an increase of ¥8.0 billion.

Real Estate

	Billions of yen		Percent change
	2008	2007	2008/2007
Net sales	**¥44.3**	¥41.4	7.1%
Operating income	**4.9**	5.3	(7.1)

Segment sales were up, especially in the real estate sales business, rising ¥2.9 billion to ¥44.3 billion compared to ¥41.4 billion in the previous fiscal year. Operating income, on the other hand, slipped ¥0.4 billion to ¥4.9 billion compared with ¥5.3 billion in the previous fiscal year, owing to a one-time increase in expenses in the rental business.

Electronic Materials and Other Businesses

	Billions of yen		Percent change
	2008	2007	2008/2007
Net sales	**¥60.7**	¥63.6	(4.5)%
Operating income	**8.2**	14.3	(42.8)

Although the testing and analysis business experienced strong demand, especially from the transport aircraft and electronics industries, inventory adjustments in LCDs and competition from alternative materials led to significantly lower shipments of target materials for LCDs. As a result, sales were down ¥2.9 billion to ¥60.7 billion compared with ¥63.6 billion in the previous fiscal year, while operating income dropped ¥6.1 billion to ¥8.2 billion compared with ¥14.3 billion in the previous fiscal year.

Note: Consumption tax is not included in sales and order figures.

Analysis of Cash Flows

Net cash provided by operating activities was ¥124.3 billion. Net cash provided by financing activities, including proceeds from the issuance of commercial paper and bonds, amounted to ¥31.2 billion, while net cash used in investing activities was ¥187.4 billion. As a result, cash and cash equivalents at end of year amounted to ¥66.7 billion, a decrease of ¥31.5 billion compared with the end of the previous fiscal year.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥124.3 billion, a decrease of ¥48.5 billion compared with the previous fiscal year. This was mainly attributable to lower income before income taxes on a year on year basis and an increase in trade receivables from customers due to sales growth.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥187.4 billion, a year-on-year increase of ¥58.8 billion. This was mainly attributed to increased expenditures from the purchase of plant, equipment and other assets and the purchase of investments in securities.

Cash Flows from Financing Activities

Net cash provided by financing activities was ¥31.2 billion, a year-on-year increase of ¥80.0 billion, due primarily to the issuance of commercial paper.

Analysis of Financial Position

Total assets as of the end of the fiscal year under review stood at ¥2,329.0 billion, an increase of ¥87.4 billion from ¥2,241.6 billion as of March 31, 2007. This was mainly attributed to the increase in notes and accounts receivable and inventories, reflecting the expanded sales capacity, strategic investments made to enhance business competitiveness and the implementation of essential blast furnace improvements to promote stable production. The external debt balance, excluding project financing related to the wholesale power supply business, increased ¥92.1 billion from ¥621.2 billion as of the end of the previous fiscal year to ¥713.4 billion. Including project financing, the external debt balance as of March 31, 2008 rose ¥81.1 billion year on year from ¥742.3 billion to ¥823.4 billion.

Total net assets climbed ¥11.4 billion year on year from ¥636.4 billion to ¥647.8 billion. While Kobe Steel recorded ¥39.9 billion for unrealized gains on securities, net of taxes due to a drop in market value, ¥20.0 billion for the increase of treasury stock including the purchase of treasury stock based on a Board of Directors' resolution on March 1, 2007, and ¥22.7 billion for the payment of dividends, the Company posted net income of ¥88.9 billion.

As a result, the equity ratio (total net assets less minority interests to total assets) was 25.8% as of March 31, 2008, down 0.6 percentage point from the end of the previous fiscal year.

Business Risks

The Kobe Steel Group's business and financial situation include the following factors that could have a material impact on investor decisions.

1. Economic Conditions in Key Markets

Automobiles, electronic machinery, construction and civil engineering, IT, beverage containers and industrial machinery constitute the principal areas of product demand for domestic sales of Kobe Steel's four key business segments: Iron and Steel, Aluminum and Copper, Machinery, and Construction Machinery. Meanwhile, overseas sales presented 36.2% of total sales in the fiscal year ended March 31, 2008, with Asia, including China—the largest single country source of demand—accounting for over half of the overseas sales.

The Kobe Steel Group's performance is therefore affected by demand trends in these fields, regional economic conditions and other factors. In addition, political and social trends as well as trends in customs duties, import and export regulations, trade and taxes and other statutory regulations could affect the Kobe Steel Group's performance. Moreover, domestic and foreign companies in each of its product markets engage the Kobe Steel Group in intense competition, which, in some circumstances, could affect the Group's performance.

2. Fluctuating Steel Sales Price

Domestic steel sales are broadly divided between contract sales, for which product volumes and specifications are directly negotiated with customers before shipment, and spot sales of products that are shipped for use by unspecified customers. Nearly all of Kobe Steel's sales are of the contract variety. When the supply and demand balance for steel fluctuates, spot sales prices are more sensitive to fluctuating supply and demand balance, although contract sales prices are also eventually affected.

On the other hand, the sales price of steel exports, which comprise about 20% of steel shipments, is affected by regional fluctuations in steel supply and demand balance.

3. Fluctuating Price of Steel Raw Materials

The Kobe Steel Group procures most of its steel raw materials, including iron ore, coal, ferrous alloys and nonferrous metal, from abroad. Because a limited number of suppliers and countries throughout the world produce iron ore and coal in particular, global market conditions tend to be strongly affected by the balance of supply and demand and could affect the Kobe Steel Group's performance.

In the Aluminum and Copper Segment, fluctuating aluminum and copper ingot prices are passed on to customers in the form of higher product prices. Nevertheless, when the spot price of aluminum and copper ingots fluctuates wildly over the short term, the Kobe Steel Group's performance could be temporarily affected by inventory valuations.

The Kobe Steel Group procures sub-materials, including refractory products and capital investment-related materials in the steel and aluminum and copper segments, as well as materials for electrical components, hydraulic equipment and internal combustion devices in the Machinery segment. Fluctuating prices for these materials and equipment could affect the Kobe Steel Group's performance.

4. Exchange Rate Fluctuations

Foreign currency-denominated transactions of the Kobe Steel Group are primarily U.S. dollar-based, with the balance of U.S. dollar-based transactions showing an import surplus in the fiscal year under review. As a short-term measure, the Kobe Steel Group has taken out foreign exchange contracts. However, because of the difficulties in totally eliminating volatility risks, foreign exchange rate fluctuations could affect the Kobe Steel Group's performance.

5. Interest Rate Fluctuations

Total interest-bearing debt for the Kobe Steel Group as of March 31, 2008 stood at ¥823.4 billion (¥713.4 billion, excluding project financing related to the wholesale power supply business), with the majority of this debt at fixed interest rates. Debt with no fixed interest rate could affect the Kobe Steel Group's performance through interest rate fluctuations.

6. Impact on Operations due to Accidents, Natural Disasters, etc.

The production equipment of the Kobe Steel Group, such as blast furnaces and basic oxygen furnaces used for iron and steel production, includes equipment that is operated at high temperatures and pressures. The Group also has factories that handle high-temperature products and chemicals.

The Kobe Steel Group takes every possible measure to prevent accidents to people or property. Nevertheless, should a serious accident occur, production activities could be hindered and the Kobe Steel Group's performance affected.

A massive earthquake, typhoon or other natural disaster could cause damage to production equipment, likewise hinder operations and affect the Kobe Steel Group's performance.

7. Impact of Environmental Regulations

Waste and by-products arise during the production process, especially in the Iron and Steel and the Aluminum and Copper segments. Although the Kobe Steel Group makes every effort to properly conform to domestic and foreign regulations, environmental expenditures can arise because of stricter regulations and other factors, including expenses for cleaning up contaminated soil at old factory sites that have already been sold.

8. Fluctuating Prices of Investment Securities

As of March 31, 2008, the balance sheet amount for investment securities held by the Kobe Steel Group stood at ¥178.5 billion. Fluctuating prices of investment securities associated with fluctuating share prices of listed shares could affect the Kobe Steel Group's performance.

Furthermore, actuarial differences could arise in the calculation of liability for severance and retirement benefits due to fluctuations in the share prices of listed shares, which are made up of pension funds (including retirement benefit trusts) and could affect the Kobe Steel Group's performance.

9. Litigation Risks

The Kobe Steel Group's business activities span a wide range of fields in Japan and abroad. In carrying out these activities, the Kobe Steel Group observes laws, regulations and other social norms, and is guided by business practices that are sound, fair and impartial. Nevertheless, whether or not there has been a violation of laws and regulations by Kobe Steel Group companies or employees, lawsuits could be filed for problems under product liability laws and intellectual property rights, which could, as a result, affect the Group's performance.

Furthermore, business performance and the financial condition of the Kobe Steel Group could be affected by events other than those mentioned above that cannot be anticipated at this time.

Consolidated Balance Sheets

Kobe Steel, Ltd. and Consolidated Subsidiaries　March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2008**	2007	**2008**
Current assets:			
Cash and cash equivalents (Note 14)	**¥ 68,739**	¥ 99,668	**$ 686,086**
Notes and accounts receivable			
Trade	**343,419**	268,693	**3,427,677**
Unconsolidated subsidiaries and affiliates	**38,133**	70,067	**380,607**
Other	**27,651**	22,261	**275,986**
Allowance for doubtful accounts	**(981)**	(831)	**(9,791)**
	408,222	360,190	**4,074,479**
Inventories	**409,425**	367,333	**4,086,486**
Deferred income taxes (Note 12)	**22,515**	20,695	**224,723**
Other	**48,187**	35,593	**480,956**
Total current assets	**957,088**	883,479	**9,552,730**
Investments and other assets:			
Investments in securities (Note 4)	**178,542**	193,670	**1,782,034**
Investments in and advances to unconsolidated subsidiaries and affiliates	**55,350**	53,862	**552,450**
Long-term loans receivable	**6,331**	6,072	**63,190**
Other	**67,351**	66,952	**672,233**
Allowance for doubtful accounts	**(3,819)**	(5,112)	**(38,117)**
Total investments and other assets	**303,755**	315,444	**3,031,790**
Plant and equipment (Note 6):			
Land	**202,094**	203,427	**2,017,107**
Buildings and structures	**663,156**	646,941	**6,618,984**
Machinery and equipment	**1,986,603**	1,886,872	**19,828,356**
Construction in progress	**49,896**	72,147	**498,014**
	2,901,749	2,809,387	**28,962,461**
Less accumulated depreciation	**(1,874,536)**	(1,804,617)	**(18,709,811)**
Total plant and equipment	**1,027,213**	1,004,770	**10,252,650**
Intangible assets	**18,019**	16,791	**179,848**
Deferred income taxes (Note 12)	**22,931**	21,086	**228,875**
	¥ 2,329,006	¥ 2,241,570	**$ 23,245,893**

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2008	2007	Thousands of U.S. dollars (Note 1) 2008
Current liabilities:			
Short-term borrowings (Note 6)	**¥ 202,780**	¥ 88,102	**$ 2,023,955**
Current portion of long-term debt (Note 6)	**139,383**	105,449	**1,391,187**
Notes and accounts payable:			
Trade	**461,097**	419,225	**4,602,226**
Construction	**40,258**	37,592	**401,817**
Unconsolidated subsidiaries and affiliates	**27,772**	80,045	**277,193**
Other	**19,801**	8,934	**197,634**
	548,928	545,796	**5,478,870**
Advances from customers	**64,156**	53,884	**640,343**
Customers' and employees' deposits	**15,025**	12,617	**149,965**
Income and enterprise taxes payable	**26,763**	21,673	**267,122**
Provision for environmental measures	**—**	276	**—**
Provision for restructuring costs	**5,518**	4,109	**55,075**
Deferred income taxes (Note 12)	**3,121**	3,402	**31,151**
Other	**81,398**	85,138	**812,437**
Total current liabilities	**1,087,072**	920,446	**10,850,105**
Long-term liabilities:			
Long-term debt (Note 6)	**481,241**	548,525	**4,803,284**
Employees' severance and retirement benefits (Note 16)	**44,749**	46,919	**446,641**
Provision for environmental measures	**4,424**	4,247	**44,156**
Deferred income taxes (Note 12)	**22,166**	42,266	**221,240**
Other	**41,557**	42,735	**414,782**
Total long-term liabilities	**594,137**	684,692	**5,930,103**
Contingent liabilities (Note 7)			
Net assets (Note 2):			
Stockholders' equity:			
Common stock (Note 8)	**233,313**	233,313	**2,328,705**
Authorized — 6,000,000,000 shares			
Issued — 3,115,061,100 shares in 2008			
Capital surplus (Note 8)	**83,264**	83,282	**831,061**
Retained earnings (Note 8)	**305,335**	239,182	**3,047,560**
Treasury stock, at cost: 112,460,419 shares in 2008	**(51,514)**	(31,519)	**(514,163)**
	570,398	524,258	**5,693,163**
Valuation and translation adjustments:			
Unrealized gains on securities, net of taxes	**35,628**	75,565	**355,604**
Unrealized gains on hedging derivatives, net of taxes	**4,029**	2,179	**40,214**
Land revaluation differences, net of taxes	**(4,899)**	(4,899)	**(48,897)**
Foreign currency translation adjustments	**(5,208)**	(5,021)	**(51,981)**
	29,550	67,824	**294,940**
Minority interests	**47,849**	44,350	**477,582**
Total net assets	**647,797**	636,432	**6,465,685**
	¥2,329,006	¥2,241,570	**$23,245,893**

Consolidated Statements of Income

Kobe Steel, Ltd. and Consolidated Subsidiaries Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Net sales	¥ 2,132,406	¥ 1,910,296	$ 21,283,621
Cost of sales	(1,757,342)	(1,543,158)	(17,540,094)
Gross profit	375,064	367,138	3,743,527
Selling, general and administrative expenses (Note 10)	(172,665)	(158,514)	(1,723,375)
Operating income	202,399	208,624	2,020,152
Other income (expenses):			
Interest and dividend income	5,117	5,129	51,073
Interest expense	(20,933)	(20,597)	(208,933)
Seconded employees' salaries net of reimbursement	(15,059)	(18,157)	(150,304)
Foreign exchange gain (loss)	(4,630)	727	(46,212)
Equity in income of unconsolidated subsidiaries and affiliates	12,793	14,057	127,687
Gain on sale of securities	2,940	2,842	29,344
Loss on impairment of fixed assets (Note 11)	(4,181)	(4,774)	(41,731)
Loss on sale or disposal of plant and equipment	(3,384)	(4,290)	(33,776)
Expenses for environmental measures	—	(3,129)	—
Other, net	(21,696)	(5,057)	(216,548)
	(49,033)	(33,249)	(489,400)
Income before income taxes	153,366	175,375	1,530,752
Income taxes (Note 12):			
Current	58,046	58,413	579,359
Deferred	1,794	2,976	17,906
	59,840	61,389	597,265
Minority interests in income of subsidiaries	4,603	4,317	45,943
Net income	¥ 88,923	¥ 109,669	$ 887,544

	Yen		U.S. dollars (Note 1)
	2008	2007	2008
Per share			
Net income	¥ 29.63	¥ 35.37	$ 0.30
Cash dividends applicable to the year	7.00	7.00	0.07

See accompanying notes.

Consolidated Statements of Changes in Net Assets (Notes 2 and 13)

Kobe Steel, Ltd. and Consolidated Subsidiaries Years ended March 31, 2008 and 2007

	Thousands	Millions of yen									
	Number of shares of common stock	Common stock (Note 8)	Capital surplus (Note 8)	Retained earnings (Note 8)	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, 2006	3,115,061	¥233,313	¥83,145	¥157,275	¥ (1,328)	¥ 69,000	¥ —	¥(4,358)	¥(7,047)	¥38,593	¥568,593
Cash dividends				(28,010)							(28,010)
Bonuses to directors				(27)							(27)
Net income				109,669							109,669
Stock swap			111		69						180
Purchase of treasury stock					(30,280)						(30,280)
Sale of treasury stock			26		20						46
Decrease due to changes in scope of consolidation				(266)							(266)
Adjustment to land revaluation				541							541
Net changes other than stockholders' equity						6,565	2,179	(541)	2,026	5,757	15,986
Net changes during the year			137	81,907	(30,191)	6,565	2,179	(541)	2,026	5,757	67,839
Balance at March 31, 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				**(22,732)**							**(22,732)**
Net income				**88,923**							**88,923**
Purchase of treasury stock					**(20,330)**						**(20,330)**
Sale of treasury stock			**(18)**		**335**						**317**
Decrease due to changes in scope of consolidation				**(44)**							**(44)**
Adjustment to land revaluation				**6**							**6**
Net changes other than stockholders' equity						**(39,937)**	**1,850**	**(0)**	**(187)**	**3,499**	**(34,775)**
Net changes during the year			**(18)**	**66,153**	**(19,995)**	**(39,937)**	**1,850**	**(0)**	**(187)**	**3,499**	**11,365**
Balance at March 31, 2008	**3,115,061**	**¥233,313**	**¥83,264**	**¥305,335**	**¥(51,514)**	**¥ 35,628**	**¥4,029**	**¥(4,899)**	**¥(5,208)**	**¥47,849**	**¥647,797**

	Thousands	Thousands of U.S. dollars (Note 1)									
	Number of shares of common stock	Common stock (Note 8)	Capital surplus (Note 8)	Retained earnings (Note 8)	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 March 31, 2007	3,115,061	$2,328,705	$831,241	$2,387,284	$(314,592)	$ 754,217	$21,749	$ (48,897)	$ (50,115)	$442,659	$6,352,251
Cash dividends				**(226,889)**							**(226,889)**
Net income				**887,544**							**887,544**
Purchase of treasury stock					**(202,914)**						**(202,914)**
Sale of treasury stock			**(180)**		**3,343**						**3,163**
Decrease due to changes in scope of consolidation				**(439)**							**(439)**
Adjustment to land revaluation				**60**							**60**
Net changes other than stockholders' equity						**(398,613)**	**18,465**	**(0)**	**(1,866)**	**34,923**	**(347,091)**
Net changes during the year			**(180)**	**660,275**	**(199,571)**	**(398,613)**	**18,465**	**(0)**	**(1,866)**	**34,923**	**113,434**
Balance at March 31, 2008	**3,115,061**	**$2,328,705**	**$831,061**	**$3,047,560**	**$(514,163)**	**$ 355,604**	**$40,214**	**$ (48,897)**	**$ (51,981)**	**$477,582**	**$6,465,685**

See accompanying notes.

Consolidated Statements of Cash Flows

Kobe Steel, Ltd. and Consolidated Subsidiaries   Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Cash flows from operating activities:			
Income before income taxes	**¥ 153,366**	¥ 175,375	**$ 1,530,752**
Depreciation	**111,514**	86,687	**1,113,025**
Interest and dividend income	**(5,117)**	(5,129)	**(51,073)**
Interest expense	**20,933**	20,597	**208,933**
Loss (gain) on sale of securities	**(2,940)**	(2,842)	**(29,344)**
Equity in income of unconsolidated subsidiaries and affiliates	**(12,793)**	(14,057)	**(127,687)**
Loss on impairment of fixed assets	**4,181**	4,774	**41,731**
Loss on sale or disposal of plant and equipment	**3,384**	4,290	**33,776**
Casualty loss	**—**	(1,430)	**—**
Environmental measures	**—**	(1,004)	**—**
Decrease (increase) in trade receivables from customers	**(32,231)**	23,207	**(321,699)**
Decrease (increase) in inventories	**(40,056)**	(54,260)	**(399,800)**
Increase (decrease) in trade payables to customers	**(15,654)**	39,684	**(156,243)**
Other	**3,278**	(6,766)	**32,718**
Subtotal	**187,865**	269,126	**1,875,089**
Cash received for interest and dividends	**7,768**	9,052	**77,533**
Cash paid for interest	**(20,963)**	(20,370)	**(209,232)**
Cash paid for income taxes	**(50,353)**	(85,022)	**(502,575)**
Net cash provided by operating activities	**124,317**	172,786	**1,240,815**
Cash flows from investing activities:			
Purchase of plant, equipment and other assets	**(147,124)**	(123,676)	**(1,468,450)**
Proceeds from sale of plant, equipment and other assets	**7,757**	1,495	**77,423**
Purchase of investments in securities	**(62,016)**	(10,020)	**(618,984)**
Proceeds from sale of investments in securities	**15,195**	6,183	**151,662**
Decrease (increase) in short-term loans receivable	**1,788**	684	**17,846**
Payments for long-term loans receivable	**(1,262)**	(339)	**(12,596)**
Proceeds from collection of long-term loans receivable	**299**	249	**2,984**
Payments for purchase of investments in subsidiaries resulting in changes in scope of consolidation	**(926)**	—	**(9,242)**
Other	**(1,092)**	(3,133)	**(10,900)**
Net cash used in investing activities	**(187,381)**	(128,557)	**(1,870,257)**
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	**3,950**	(33,010)	**39,425**
Increase (decrease) in commercial paper	**110,000**	—	**1,097,914**
Proceeds from long-term debt	**34,540**	120,430	**344,745**
Repayment of long-term debt	**(85,107)**	(60,189)	**(849,456)**
Proceeds from issuance of bonds	**40,000**	61,100	**399,241**
Repayment of bonds	**(23,276)**	(68,430)	**(232,319)**
Payment of dividends	**(22,613)**	(27,763)	**(225,701)**
Payment for purchase of treasury stock	**(20,327)**	(30,261)	**(202,885)**
Other	**(6,012)**	(10,700)	**(60,006)**
Net cash provided by (used in) financing activities	**31,155**	(48,823)	**310,958**
Effect of exchange rate changes on cash and cash equivalents	**439**	892	**4,381**
Increase (decrease) in cash and cash equivalents	**(31,470)**	(3,702)	**(314,103)**
Cash and cash equivalents at beginning of year	**98,163**	95,485	**979,768**
Cash and cash equivalents of newly consolidated subsidiaries	**(8)**	6,380	**(80)**
Cash and cash equivalents at end of year (Note 14)	**¥ 66,685**	¥ 98,163	**$ 665,585**

See accompanying notes.

Notes to Consolidated Financial Statements

Years ended March 31, 2008 and 2007

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Kobe Steel., Ltd. ("the Company") and its consolidated subsidiaries ("the Group") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of the Company's 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 financial statements have been restructured and translated into English with certain expanded disclosure from the consolidated 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 Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

Commencing in the fiscal year ended March 31, 2007, the Group has changed the principal method of calculating depreciation for machinery and equipment from the straight-line method to the declining balance method. As demand for production from the Company is expected to remain strong, this change was made to present the Group's performance and financial position more accurately by optimizing the long-run allocation of capital expenditure and to strengthen the financial base through the early payback of invested capital. Under the declining balance method, depreciation was ¥6,357 million more than it would have been under the straight-line method, and operating income and income before income taxes were ¥5,021 million and ¥5,019 million less, respectively.

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 in the revised Corporate Tax Law.

Under the new method, depreciation was ¥3,107 million ($31,011 thousand) more than it would have been under the previous method, and operating income and income before income taxes were ¥2,624 million ($26,190 thousand) and ¥2,641 million ($26,360 thousand) less, respectively.

In addition, under the revised Corporate Tax Law, salvage value (5% of acquisition cost) of tangible fixed assets acquired on or before March 31, 2007 is depreciated through the straight-line method over five years starting from the period subsequent to the year the salvage value was reached.

As a result, depreciation was ¥11,545 million ($115,231 thousand) more than it would have been under the previous Corporate Tax Law, and operating income and income before income taxes were ¥9,468 million ($94,500 thousand) and ¥10,072 million ($100,529 thousand) less, respectively.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2008, which was ¥100.19 to U.S. $1.00. The translations 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.

2. Summary of Accounting Policies

(1) Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries, the management of which is controlled by the Company. For the year ended March 31, 2008, the accounts of 163 (163 in 2007) subsidiaries have been included in the consolidated financial statements. Intercompany transactions and accounts have been eliminated.

Sixty-six (63 in 2007) consolidated subsidiaries are consolidated using a fiscal period ending December 31, which differs from that of the Company. Any material effects occurring during the January 1 to March 31 period are adjusted in these consolidated financial statements.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired the control of the respective subsidiary.

Investments in unconsolidated subsidiaries and affiliates over which the Company has significant influence, except for insignificant companies, are accounted for by the equity method. For the year ended March 31, 2008, 52 (52 in 2007) affiliates were accounted for by the equity method.

The difference between the cost of investments and the equity in net assets at the dates of acquisition, if considered significant, is amortized over the estimated years when the amortization period can be determined or over five years when it cannot. Where the difference is small, it's recognized as expense when incurred.

When the Company's share of the net losses of an affiliate exceeds the adjusted cost of the investment, the Company discontinues applying the equity method and the investment is reduced to zero. Losses in excess of the amounts due from the investee are recorded in other payables when the losses are expected to be shared by the Company.

(2) Securities

The Group has no trading securities. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies, which are not consolidated or accounted for using the equity method, are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of valuation and translation adjustments in net assets. Realized gains and losses on the sale of such securities are computed using moving average cost based on the carrying value at March 31, 2000 or at the later date of purchase.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies or available-for-sale securities declines significantly, the securities are stated at fair market value, and the difference between the fair market value and the carrying amount is recognized as a loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, the securities should be written down to net asset value with a corresponding charge in the statement of income in the event net asset value declines significantly. In these cases, the fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(3) Allowance for Doubtful Accounts
The Group provides for doubtful accounts principally at an amount computed based on the actual ratio of bad debts in the past plus the estimated uncollectible amounts of certain individual receivables.

(4) Provision for Environmental Measures
The provision for environmental measures for obligatory PCB treatment and to prevent the spread of ground pollution at the site of the Moka Plant and Takasago Works is stated as an estimated cost at the end of the fiscal year.

(5) Provision for Restructuring Costs
The provision for restructuring costs is stated at an amount based on the estimated loss from restructuring discontinued operations at the end of the fiscal year.

(6) Inventories
Inventories are valued at cost. Cost is determined principally by the average method in the Iron and Steel, Wholesale Power Supply and Aluminum and Copper segments and by the specific identification method for finished goods and work in progress in the Machinery, Construction Machinery and Real Estate segments.

(7) Depreciation
Depreciation of plant and equipment and intangible assets is principally provided by the straight-line method for buildings and structures and intangible assets and the declining-balance method for machinery and equipment.

Useful lives are based mainly on schedules in Japanese tax laws. Intangible assets include software for internal use, which is amortized over the estimated useful life of five years.

(8) Income Taxes
The Company and its domestic consolidated subsidiaries apply deferred tax accounting to recognize tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting.

Deferred taxes relating to temporary differences between financial accounting and tax reporting are also recognized by certain foreign consolidated subsidiaries.

(9) Employees' Severance and Retirement Benefits
The Company and its domestic consolidated subsidiaries provide two types of post-employment benefit plans: unfunded lump-sum payment plans and funded non-contributory pension plans. A domestic consolidated subsidiary provides a contribution pension plan.

The Company and its domestic consolidated subsidiaries provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of plan assets.

Actuarial gains and losses are recognized in expenses using the straight-line method over mainly 12 years, which is within the average of the estimated remaining service years commencing with the following period.

(10) Land Revaluation
Land used for operations was revaluated by certain consolidated subsidiaries in accordance with the Land Revaluation Law in the years ended March 31, 2002 and 2001. The revaluation amount, net of related taxes, is shown as a separate component of valuation and translation adjustments in net assets.

(11) Bond Issue Expenses and Share Issue Expenses
Bond issue expenses and share issue expenses are charged to expenses as they are incurred by the Company and its consolidated subsidiaries.

(12) Translation of Foreign Currencies
Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

Financial statements of consolidated overseas subsidiaries are translated into Japanese yen at year-end rates, except net asset accounts, which are translated at historical rates, and statement of income items resulting from transactions with the Company, which are translated at rates used by the Company.

The Company and its domestic consolidated subsidiaries report foreign currency translation adjustments in net assets and minority interests.

(13) Long-term Construction Contracts
Sales and related costs of certain long-term (over one year) construction contracts of the Company and certain consolidated subsidiaries are recognized by the percentage of completion method.

(14) Leases
The Company and its domestic consolidated subsidiaries account for finance leases that do not transfer ownership and do not have bargain purchase provisions in the same manner as operating leases.

(15) Derivatives
The Company and its domestic consolidated subsidiaries state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless the derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers recognition of gains or losses resulting from changes in the fair value of the derivative financial instruments until the related losses or gains on the corresponding hedged items are recognized. Deferred gains or deferred losses on these derivative instruments are reported, net of applicable income taxes, as a separate component of valuation and translation adjustments in net assets.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

(16) Consolidated Tax Return
Effective March 31, 2004, the Company filed a consolidated tax return with certain domestic subsidiaries.

(17) Cash and Cash Equivalents
In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(18) Accounting Standard for Presentation of Net Assets in the Balance Sheet
Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005) and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").

The consolidated balance sheet as of March 31, 2007 prepared in accordance with the New Accounting Standards comprised three sections, which are the assets, liabilities and net assets sections. The consolidated balance sheet as of March 31, 2006 prepared pursuant to the previous presentation rules comprised the assets, liabilities, minority interests and shareholders' equity sections.

Under the New Accounting Standards, the following items were presented differently at March 31, 2007 compared to March 31, 2006. The net assets section included deferred gains on hedges, net of taxes. Under the previous presentation rules, deferred gains on hedges were included in the assets or liabilities section without considering the related income tax effects. Minority interests were included in the net assets section at March 31, 2007. Under the previous presentation rules, companies were required to present minority interests in the liabilities section and between the noncurrent liabilities and the shareholders' equity sections, respectively.

The adoption of the New Accounting Standards had no impact on the consolidated statement of income for the year ended March 31, 2007. Also, if the New Accounting Standards had not been adopted at March 31, 2007, shareholders' equity amounting to ¥589,903 million would have been presented.

(19) Accounting Standard for Statement of Changes in Net Assets
Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005) and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the Additional New Accounting Standards").

The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. The consolidated statement of shareholders' equity for the year ended March 31, 2006, which was voluntarily prepared for inclusion in the consolidated financial statements for the previous fiscal year, was not adapted to the new presentation rules of 2007.

(20) Accounting Standard for Business Combination and Divestitures
Effective April 1 2006, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Business Combinations" (issued by the Business Accounting Council on October 31, 2003), "Accounting Standard for Business Divestitures" (Statement No. 7 issued by the Accounting Standards Board of Japan on December 27, 2005) and the "Implementation Guidance for the Accounting Standard for Business Combinations and Divestitures" (the Financial Accounting Standard Implementation Guidance No.10 issued by the Accounting Standards Board of Japan on December 27, 2005).

3. Leases

Original lease obligations as lessee under non-capitalized finance leases at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Buildings and structures	**¥ 884**	¥ 827	**$ 8,823**
Machinery and equipment	**59,972**	54,504	**598,583**
	¥60,856	¥55,331	**$607,406**

Future minimum lease payments as lessee under non-capitalized finance leases at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Due within one year	**¥11,522**	¥ 8,851	**$115,001**
Due after one year	**22,196**	17,985	**221,539**
	¥33,718	¥26,836	**$336,540**
Lease expense for the years ended March 31	**¥10,037**	¥ 9,578	**$100,180**

Future minimum lease payments as lessee under operating leases at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Due within one year	**¥2,483**	¥2,551	**$24,783**
Due after one year	**4,608**	6,076	**45,993**
	¥7,091	¥8,627	**$70,776**

Future minimum lease payments receivable as lessor under operating leases at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Due within one year	**¥ 483**	¥ 402	**$ 4,821**
Due after one year	**4,274**	3,981	**42,659**
	¥4,757	¥4,383	**$47,480**

4. Securities

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2008 and 2007:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2008			2007			2008
	Acquisition costs	Book (fair) values	Difference	Acquisition costs	Book (fair) values	Difference	Difference
Available-for-sale securities							
Securities with available book values exceeding acquisition costs:							
Equity securities	**¥ 71,161**	**¥135,202**	**¥64,041**	¥39,294	¥160,971	¥121,677	**$639,195**
Other	**10**	**13**	**3**	10	17	7	**30**
	71,171	**135,215**	**64,044**	39,304	160,988	121,684	**639,225**
Securities with available book values not exceeding acquisition costs:							
Other securities:							
Equity securities	**33,105**	**24,477**	**(8,628)**	4,787	4,677	(110)	**(86,116)**
	33,105	**24,477**	**(8,628)**	4,787	4,677	(110)	**(86,116)**
	¥104,276	**¥159,692**	**¥55,416**	¥44,091	¥165,665	¥121,574	**$553,109**

The following table summarizes book values of securities with no available fair values as of March 31, 2008 and 2007:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Held-to-maturity debt securities			
Non-listed foreign bond	**¥—**	¥100	**$—**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Available-for-sale securities:			
Non-listed equity securities	**¥18,812**	¥22,853	**$187,763**
Preferred subscription certificate	**—**	5,000	**—**

Available-for-sale securities with maturities and held-to-maturity debt securities mature as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Over one year but within five years	**¥—**	¥100	**$—**

Sales of available-for-sale securities for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Sales	**¥5,541**	¥3,396	**$55,305**
Gains on sales	**963**	1,192	**9,612**
Losses on sales	**12**	5	**120**

5. Derivative Transactions

The Group enters into forward currency exchange contracts and currency swap agreements to hedge the risk of changes in foreign currency exchange rates associated with transactions denominated in foreign currencies, interest rate swap agreements and cap agreements to hedge the risk related to interest on borrowings, and commodities forward contracts to hedge the risk of movements in market values of aluminum and copper.

The Group does not enter into derivative transactions for speculative purposes. However, the Group may be exposed to losses from movements in foreign currency exchange rates, interest rates and commodity market values and is exposed to credit risk in the event of non-performance by counterparties to its derivative transactions.

The Group has established policies and controls to manage both market and credit risk, including using only highly rated banks and trading companies as counterparties, hedging exposed positions, limits on transaction types and amounts and reporting to management.

Forward currency exchange contracts and swap agreements outstanding at March 31, 2008 and 2007 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2008			2007			2008
	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value	Recognized gain (loss)	Recognized gain (loss)
Foreign currency exchange contracts							
To sell foreign currencies:							
U.S. dollars	¥17,404	¥17,085	¥ 319	¥17,973	¥18,109	¥(136)	$ 3,184
Others	11,588	11,852	(264)	10,444	10,299	145	(2,635)
To buy foreign currencies:							
U.S. dollars	9,675	9,674	(1)	11,002	11,000	(2)	(10)
Others	2	2	0	433	437	4	0
			¥ 54			¥ 11	$ 539

Notes: 1. The fair values were estimated by multiplying the contracted foreign currency amount by the forward rate.
2. The above table does not include derivative transactions for which hedge accounting is applied and outstanding foreign exchange contracts which relate to foreign currency receivables and payables that were recorded in the balance sheet with the contracted foreign exchange rates at March 31, 2008 and 2007.

Interest rate swap agreements outstanding at March 31, 2008 and 2007 were as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)
	2008		2007		2008
	Contracted amount	Recognized gain (loss)	Contracted amount	Recognized gain (loss)	Recognized gain (loss)
Interest rate swap agreements					
To receive floating and pay fixed rates	¥ —	¥ —	¥ 200	¥ (0)	$ —
To receive fixed and pay floating followed by fixed rates	45,300	(939)	55,300	(1,191)	(9,372)
		¥(939)		¥(1,191)	$(9,372)

Notes: 1. The recognized gains (losses) were estimated by obtaining quotes from counterparty banks.
2. Hedge accounting was not applied to the derivative transactions in the above table as of March 31, 2008 and 2007.

Commodity forward contracts outstanding at March 31, 2008 and 2007 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2008			2007			2008
	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value	Recognized gain (loss)	Recognized gain (loss)
Commodity forward contracts							
To buy commodity	¥90	¥93	¥3	¥—	¥—	¥—	$30
			¥3	¥—	¥—	¥—	$30

Notes: 1. The fair values were estimated by multiplying the contracted volume by the commodity future price.
2. Hedge accounting was not applied to the derivative transactions in the above table as of March 31, 2008 and 2007.

6. Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Bank loans (average rate 2.77% in 2008 and 2.30% in 2007)	**¥ 92,780**	¥88,102	**$ 926,041**
Commercial papers	**110,000**	—	**1,097,914**
	¥202,780	¥88,102	**$2,023,955**

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Floating rate (20-year swap rate minus 2-year swap rate plus 1.2% per annum subject to minimum interest rate of 0.0% per annum) notes due 2008	**¥ —**	¥ 10,000	**$ —**
0.3% to 3.4% yen bonds, due 2009 through 2018	**273,187**	246,471	**2,726,690**
Loans principally from banks and insurance companies	**347,437**	397,503	**3,467,781**
	620,624	653,974	**6,194,471**
Less current portion	**139,383**	105,449	**1,391,187**
	¥481,241	¥548,525	**$4,803,284**

The aggregate annual maturities of long-term debt at March 31, 2008 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2009	¥139,383	$1,391,187
2010	85,114	849,526
2011	66,669	665,426
2012	71,089	709,542
2013	64,551	644,286
2014 and thereafter	193,818	1,934,504
	¥620,624	$6,194,471

At March 31, 2008 and 2007, assets pledged as collateral for short-term borrowings and long-term debt were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Assets pledged as collateral			
Plant and equipment, net of accumulated depreciation	**¥203,421**	¥222,034	**$2,030,352**
Other assets	**31,513**	28,796	**314,532**
	¥234,934	¥250,830	**$2,344,884**
Secured short-term borrowings and long-term debt			
Bonds (includes those due within 1 year)	**¥ 1,096**	¥ 1,448	**$ 10,939**
Short-term borrowings	**19,045**	13,349	**190,089**
Long-term borrowings	**107,416**	121,210	**1,072,123**
Other debt	**640**	709	**6,388**
	¥128,197	¥136,716	**$1,279,539**

At March 31, 2008 and 2007, included in the assets pledged as collateral were assets that were promised to be pledged as collateral for short-term borrowings, long-term borrowings and guarantees of loans as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Short-term borrowings	**¥ 7,449**	¥ 7,667	**$ 74,349**
Long-term borrowings	**15,842**	23,410	**158,120**
Guarantees of loans	**167**	393	**1,667**
	¥23,458	¥31,470	**$234,136**

7. Contingent Liabilities

At March 31, 2008 and 2007 the Group was contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Trade notes discounted	¥ —	¥ 200	$ —
Trade notes endorsed	1,288	1,623	12,856
Guarantees of loans			
Related parties	11,057	8,751	110,360
Others	894	2,308	8,923
	¥13,239	¥12,882	$132,139

Guarantees of loans include contingent guarantees and letters of awareness of ¥700 million ($6,987 thousand) in 2008 and ¥700 million in 2007.

8. Net assets

As described in Note 2 (18), net assets comprises three subsections, which are the owners' equity, accumulated gains (losses) from valuation and translation adjustments and minority interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the Board of Directors meeting held on May 16, 2008, the Board of Directors approved cash dividends amounting to ¥10,527 million ($105,070 thousand). These appropriations have not been accrued in the consolidated financial statements as of March 31, 2008. Such appropriations are recognized in the period in which they are approved by the Board of Directors.

9. Research and Development Expenses

Research and development expenses included in cost of sales and selling, general, and administrative expenses were ¥30,139 million ($300,818 thousand) for the year ended March 31, 2008 and ¥24,893 million for the year ended March 31, 2007.

10. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Freight	¥ 47,233	¥ 43,598	$ 471,434
Employees' compensation	41,770	38,221	416,908
Research and development	10,944	10,242	109,232
Depreciation	3,225	3,106	32,189
Other	69,493	63,347	693,612
	¥172,665	¥158,514	$1,723,375

11. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2008 and 2007 consisted of the following:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2008	**2008**
Assets for business		
Machinery and equipment, etc, (Indiana, USA)	**¥2,127**	**$21,230**
Assets for business		
Machinery and equipment, etc, (Futtsu, Chiba Prefecture)	**2,054**	**20,501**
	¥4,181	**$41,731**

The Company and its consolidated subsidiaries grouped their fixed assets based on the unit of business and recognized impairment losses for the assets whose fair values had diminished significantly compared to book values due to the decline in profitability.

The book values of those fixed assets were reduced to recoverable amounts and impairment loss of ¥4,181 million ($41,731 thousand) was recognized in the year ended March 31, 2008. The amount consisted of machinery and equipment of ¥2,877 million ($28,716 thousand), buildings and structures of ¥1,195 million ($11,927 thousand), land of ¥61 million ($609 thousand), and construction in progress of ¥48 million ($479 thousand).

The recoverable amounts of the assets were net realizable values of zero since the assets are not expected to be resold or reused.

	Millions of yen
	2007
Idle assets	
Land, etc, (Kobe, Hyogo Prefecture, etc.; 3 properties in total)	¥4,080
Assets for business	
Land (Chiba, Chiba Prefecture)	553
Leasehold property	
Land (Kakogawa, Hyogo Prefecture)	141
	¥4,774

The Company and its consolidated domestic subsidiaries grouped their fixed assets based on the unit of business and recognized impairment losses for idle assets whose fair values had diminished significantly compared to book values primarily due to the decline in land prices. The Group also recognized losses for assets for business and leasehold property whose fair values had also diminished due to the decline in land prices.

Book values of those fixed assets were reduced to recoverable amounts and impairment loss of ¥4,774 million was recognized in the year ended March 31, 2007. The amount consisted of land of ¥4,758 million and machinery and equipment of ¥16 million.

The recoverable amounts of the idle assets were net realizable values based on publicly assessed land values.

The recoverable amounts of the assets for business and the leasehold assets were the present values of expected cash flows from ongoing utilization and the subsequent disposition of the assets based on a discount rate of 6%.

12. Income Taxes

Significant components of the Group's deferred income tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2008	**2008**
Deferred income tax assets		
Unrealized profit	**¥ 21,868**	**$ 218,265**
Employees' severance and retirement benefits	**14,781**	**147,530**
Accrued bonuses to employees	**10,359**	**103,394**
Loss on write-down of securities	**8,605**	**85,887**
Loss on impairment of fixed assets	**5,367**	**53,568**
Land revaluation	**5,067**	**50,574**
Unrealized holding losses on securities	**3,622**	**36,151**
Enterprise taxes	**2,381**	**23,765**
Provision for environmental measures	**1,799**	**17,956**
Other	**30,240**	**301,827**
Total deferred income tax assets	**104,089**	**1,038,917**
Valuation allowance	**(27,444)**	**(273,920)**
Deferred income tax assets	**76,645**	**764,997**
Deferred income tax liabilities		
Unrealized holding gains on securities	**25,817**	**257,681**
Special tax purpose reserve	**7,759**	**77,443**
Land revaluation	**5,360**	**53,498**
Other	**17,550**	**175,168**
Total deferred income tax liabilities	**56,486**	**563,790**
Net deferred income tax assets	**¥ 20,159**	**$ 201,207**

	Millions of yen
	2007
Deferred income tax assets	
Unrealized profit	¥ 20,868
Employees' severance and retirement benefits	17,887
Accrued bonuses to employees	9,979
Loss on write-down of securities	7,894
Loss on impairment of fixed assets	7,226
Land revaluation	5,067
Enterprise taxes	2,476
Provision for environmental measures	1,838
Loss carryforwards	1,487
Other	27,875
Total deferred income tax assets	102,597
Valuation allowance	(24,706)
Deferred income tax assets	77,891
Deferred income tax liabilities	
Net unrealized holding gains on securities	49,837
Special tax purpose reserve	8,811
Land revaluation	5,371
Other	17,759
Total deferred income tax liabilities	81,778
Net deferred income tax assets	¥ (3,887)

Significant items in the reconciliation of the aggregate statutory income tax rate with the effective income tax rate for the year ended March 31, 2008 are not disclosed since the difference was not material (less than 5%). The reconciliation for the year ended March 31, 2007 was as follows:

	2007
Aggregate statutory income tax rate in Japan	40.6%
Non-deductible entertainment expenses	1.3
Temporary difference for investments in subsidiaries	(2.6)
Equity in income of unconsolidated subsidiaries and affiliates	(1.3)
Other	(3.0)
Effective income tax rate	35.0%

13. Consolidated Statements of Changes in Net Assets

Changes in number of shares issued and outstanding during the year ended at March 31, 2008 were as follows:

	Number of shares
Common stock outstanding	
Balance at March 31, 2007	3,115,061,100
(No increase)	0
(No decrease)	0
Balance at March 31, 2008	3,115,061,100

	Number of shares
Treasury stock outstanding	
Balance at March 31, 2007	70,435,335
Increase due to purchase of odd-lot stock	725,591
Increase due to purchase of treasury stock based on resolution of the Board of Directors	43,052,000
Decrease due to sale of odd-lot stock	(206,024)
Other reasons (net changes)	(1,546,483)
Balance at March 31, 2008	112,460,419

14. Consolidated Statements of Cash Flows

The reconciliation of cash and cash equivalents in the cash flow statements and balance sheets as of March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Cash and cash equivalents (balance sheets)	**¥68,739**	¥99,668	**$686,086**
Time deposits (due over 3 months)	**(2,054)**	(1,505)	**(20,501)**
Cash and cash equivalents (cash flow statements)	**¥66,685**	¥98,163	**$665,585**

15. Related Party Transactions

Net sales include sales to Shinsho Corporation, which is an affiliate of the Company, of ¥237,219 million ($2,367,691 thousand) and ¥219,711 million for the years ended March 31, 2008 and 2007, respectively.

16. Employees' Severance and Retirement Benefits

The liability for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Projected benefit obligation	**¥(199,159)**	¥(207,368)	**$(1,987,813)**
Fair value of pension assets	**176,030**	219,556	**1,756,962**
Unrecognized net transition obligation	**655**	754	**6,538**
Unrecognized actuarial differences	**9,308**	(32,129))	**92,903**
Prepaid pension cost	**(31,583)**	(27,732)	**(315,231)**
Liability for severance and retirements benefits	**¥ (44,749)**	¥ (46,919)	**$ (446,641)**

Included in the consolidated statements of income for the years ended March 31, 2008 and 2007 were severance and retirement benefit expenses that comprised the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Service costs – benefits earned during the year	**¥ 7,555**	¥ 6,938	**$ 75,407**
Interest cost on projected benefit obligation	**3,904**	4,073	**38,966**
Expected return on plan assets	**(2,712)**	(2,615)	**(27,069)**
Amortization of net transition obligation	**123**	124	**1,228**
Amortization of actuarial differences	**(2,009)**	(1,065)	**(20,052)**
Severance and retirement benefit expenses	**¥ 6,861**	¥ 7,455	**$ 68,480**

Notes: 1. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years.

2. The discount rate was generally 2.0% for the years ended March 31, 2008 and 2007.
The rate of expected return on plan assets was mainly 2.1% for the years ended March 31, 2008 and 2007.

17. Segment Information

(1) Industry Segment

The Group's operations are divided into seven principal business segments:
Iron and Steel, Wholesale Power Supply, Aluminum and Copper, Machinery, Construction Machinery, Real Estate, and Electronic Materials and Other Businesses. Business segment information is as follows:

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2008	2007	2008
Sales to outside customers:	Iron and Steel	¥ 896,914	¥ 805,636	$ 8,952,131
	Wholesale Power Supply	71,890	66,858	717,536
	Aluminum and Copper	448,656	396,181	4,478,052
	Machinery	297,998	274,911	2,974,329
	Construction Machinery	339,868	285,333	3,392,235
	Real Estate	35,481	33,867	354,137
	Electronic Materials and Other Businesses	41,599	47,510	415,201
	Consolidated net sales	2,132,406	1,910,296	21,283,621
Intersegment sales:	Iron and Steel	26,878	25,061	268,270
	Wholesale Power Supply	—	—	—
	Aluminum and Copper	1,426	1,129	14,233
	Machinery	4,216	6,036	42,080
	Construction Machinery	53	50	529
	Real Estate	8,821	7,495	88,043
	Electronic Materials and Other Businesses	19,103	16,068	190,668
		60,497	55,839	603,823
Total sales:	Iron and Steel	923,793	830,696	9,220,411
	Wholesale Power Supply	71,890	66,858	717,537
	Aluminum and Copper	450,081	397,310	4,492,275
	Machinery	302,214	280,947	3,016,409
	Construction Machinery	339,921	285,383	3,392,764
	Real Estate	44,302	41,362	442,180
	Electronic Materials and Other Businesses	60,702	63,579	605,869
		2,192,903	1,966,135	21,887,445
Operating costs and expenses:	Iron and Steel	831,876	736,107	8,302,984
	Wholesale Power Supply	53,807	48,837	537,050
	Aluminum and Copper	428,077	362,639	4,272,652
	Machinery	271,694	258,815	2,711,788
	Construction Machinery	317,082	270,580	3,164,807
	Real Estate	39,365	36,048	392,903
	Electronic Materials and Other Businesses	52,515	49,274	524,154
	Eliminations	(64,409)	(60,628)	(642,869)
	Consolidated operating costs and expenses	1,930,007	1,701,672	19,263,469
Operating income:	Iron and Steel	91,916	94,589	917,417
	Wholesale Power Supply	18,084	18,021	180,497
	Aluminum and Copper	22,004	34,671	219,623
	Machinery	30,520	22,132	304,621
	Construction Machinery	22,838	14,803	227,947
	Real Estate	4,938	5,314	49,286
	Electronic Materials and Other Businesses	8,187	14,304	81,715
	Eliminations	3,912	4,790	39,046
	Consolidated operating income	202,399	208,624	2,020,152
Assets:	Iron and Steel	933,223	880,634	9,314,533
	Wholesale Power Supply	160,501	171,039	1,601,966
	Aluminum and Copper	308,690	302,297	3,081,046
	Machinery	291,386	252,769	2,908,334
	Construction Machinery	270,963	234,947	2,704,491
	Real Estate	128,769	127,624	1,285,248
	Electronic Materials and Other Businesses	73,376	73,367	732,368
	Corporate and Eliminations	162,098	198,893	1,617,907
	Total	¥2,329,006	¥2,241,570	$23,245,893

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2008	2007	2008
Depreciation:	Iron and Steel	¥ 63,554	¥ 45,925	$ 634,335
	Wholesale Power Supply	12,492	12,484	124,683
	Aluminum and Copper	18,371	14,278	183,362
	Machinery	6,507	5,391	64,947
	Construction Machinery	5,421	4,315	54,107
	Real Estate	1,446	1,237	14,432
	Electronic Materials and Other Businesses	2,720	3,097	27,148
	Corporate and Eliminations	1,003	(40)	10,011
	Total	111,514	86,687	1,113,025
Impairment of fixed assets:	Iron and Steel	2,127	—	21,230
	Wholesale Power Supply	—	—	—
	Aluminum and Copper	—	554	—
	Machinery	2,054	16	20,501
	Construction Machinery	—	—	—
	Real Estate	—	202	—
	Electronic Materials and Other Businesses	—	—	—
	Corporate and Eliminations	—	4,002	—
	Total	4,181	4,774	41,731
Capital expenditures:	Iron and Steel	102,644	79,416	1,024,493
	Wholesale Power Supply	138	622	1,377
	Aluminum and Copper	18,754	24,719	187,184
	Machinery	7,793	6,961	77,782
	Construction Machinery	14,602	7,668	145,743
	Real Estate	1,017	1,978	10,151
	Electronic Materials and Other Businesses	2,523	6,142	25,183
	Corporate and Eliminations	3,114	6,143	31,081
	Total	¥ 150,585	¥ 133,649	$ 1,502,994

Corporate assets of ¥229,475 million ($2,290,398 thousand) and ¥239,960 million at March 31, 2008 and 2007, respectively, comprised principally assets of administration departments of the Company.

As mentioned in Note 1, “Basis of Presenting Consolidated Financial Statements,” the depreciation method for tangible fixed assets has been changed due to the revision of the Corporate Tax Law. As a result, compared with the previous method, operating costs and expenses were ¥1,566 million ($15,630 thousand) more in the Iron and Steel Segment, ¥0 million ($0 thousand) more in the Wholesale Power Supply Segment, ¥447 million ($4,462 thousand) more in the Aluminum and Copper Segment, ¥96 million ($958 thousand) more in the Machinery Segment, ¥350 million ($3,493 thousand) more in the Construction Machinery Segment, ¥4 million ($40 thousand) more in the Real Estate Segment and ¥126 million ($1,258 thousand) more in the Electronic Materials and Other Business Segment. Accordingly, operating income in the above segments was less by the same amounts, respectively.

In addition, as mentioned in Note 1, “Basis of Presenting Consolidated Financial Statements,” salvage value of tangible fixed assets is depreciated if certain conditions are met. As a result, operating costs and expenses were ¥7,401 million ($73,870 thousand) more in the Iron and Steel Segment, ¥0 million ($0 thousand) more in the Wholesale Power Supply Segment, ¥1,374 million ($13,714 thousand) more in the Aluminum and Copper Segment, ¥389 million ($3,883 thousand) more in the Machinery Segment, ¥108 million ($1,078 thousand) more in the Construction Machinery Segment, ¥20 million ($199 thousand) more in the Real Estate Segment and ¥60 million ($599 thousand) more in the Electronic Materials and Other Business Segment. Accordingly, operating income in the above segments was less by the same amount respectively.

(2) Geographic Area

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2008	2007	2008
Sales to outside customers:	Japan	¥1,872,914	¥1,707,605	$18,693,622
	Other areas	259,492	202,691	2,589,999
	Total	2,132,406	1,910,296	21,283,621
Intersegment sales:	Japan	122,676	94,366	1,224,434
	Other areas	19,011	12,437	189,749
	Total	141,687	106,803	1,414,183
Total sales:	Japan	1,995,590	1,801,971	19,918,056
	Other areas	278,503	215,128	2,779,748
	Total	¥2,274,093	¥2,017,099	$22,697,804

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2008	2007	**2008**
Operating costs and expenses:	Japan	**¥1,812,789**	¥1,608,223	**$18,093,512**
	Other areas	**258,033**	200,244	**2,575,437**
	Eliminations	**(140,815)**	(106,795)	**(1,405,480)**
	Consolidated operating costs and expenses	**1,930,007**	1,701,672	**19,263,469**
Operating income:	Japan	**182,801**	193,748	**1,824,543**
	Other areas	**20,470**	14,883	**204,312**
	Eliminations	**(872)**	(7)	**(8,703)**
	Consolidated operating income	**202,399**	208,624	**2,020,152**
Assets:	Japan	**1,834,482**	1,833,390	**18,310,031**
	Other areas	**277,219**	207,453	**2,766,933**
	Corporate and Eliminations	**217,305**	200,727	**2,168,929**
	Total	**¥2,329,006**	¥2,241,570	**$23,245,893**

The principal area in other areas is Asia.

Corporate assets of ¥229,475 million ($2,290,398 thousand) and ¥239,960 million at March 31, 2008 and 2007, respectively, comprised principally assets of administration departments of the Company.

As mentioned in Note 1, “Basis of Presenting Consolidated Financial Statements,” the depreciation method for tangible fixed assets has been changed due to the revision of the Corporate Tax Law. As a result, compared with the previous method, operating costs and expenses were ¥2,624 million ($26,190 thousand) more in the Iron and Steel Segment. Accordingly, operating income in the above segment was less by the same amount.

In addition, as mentioned in Note 1, “Basis of Presenting Consolidated Financial Statements,” salvage value of tangible fixed assets is depreciated if certain conditions are met. As a result, operating costs and expenses were ¥9,468 million ($94,500 thousand) more in the Iron and Steel Segment. Accordingly, operating income in the above segment was less by the same amount.

(3) Overseas Sales

Overseas sales for the years ended March 31, 2008 and 2007 were as follows:

		Percentages of 2008 consolidated net sales	Millions of yen		Thousands of U.S. dollars (Note 1)
			2008	2007	**2008**
Overseas sales:	Asia	20.3%	**¥432,613**	¥344,825	**$4,317,926**
	Other areas	15.9	**338,932**	218,042	**3,382,893**
	Total	36.2%	**¥771,545**	¥562,867	**$7,700,819**

Overseas sales consisted of export sales of the Company and its domestic consolidated subsidiaries and sales of overseas consolidated subsidiaries excluding sales to Japan.

Principal countries and areas in each segment were:
Asia: China, Taiwan, Korea, Thailand, Malaysia
Other areas: North America, Middle East

18. Net Income per Share

The basis of calculating net income per share (“EPS”) for the years ended March 31, 2008 and 2007 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net income	Weighted average shares	EPS	
For the year ended March 31, 2008				
Net income available to common shareholders	**¥ 88,923**	**3,001,351**	**¥29.63**	**$0.30**
For the year ended March 31, 2007				
Net income available to common shareholders	109,669	3,100,733	35.37	

Independent Auditors' Report

To the Board of Directors of
Kobe Steel, Ltd.:

We have audited the accompanying consolidated balance sheets of Kobe Steel, Ltd. and consolidated subsidiaries (the "Group") as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kobe Steel, Ltd. and consolidated subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.

(1) As discussed in Note 1 to the consolidated financial statements, effective April 1, 2006, the Group has changed the principal method of calculating depreciation for machinery and equipment.

(2) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2006, the Group has adopted a new accounting standard for the presentation of net assets in the balance sheet.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Osaka, Japan
June 25, 2008

Directors, Corporate Auditors, and Corporate Officers
(As of June 25, 2008)

Chairman of the Board and Representative Director

Koshi Mizukoshi

President, Chief Executive Officer and Representative Director

Yasuo Inubushi

Head Office and Technical Development Group

Executive Vice President and Representative Director

Hiroshi Sato

Keiji Koyama

Senior Managing Director

Takashi Matsutani

Senior Officers

Yutaka Kawata

Hiroaki Fujiwara

Officers

Hiroji Izumi

Seiji Okita

Yuichi Seki

Iron and Steel Sector

Executive Vice President and Representative Director

Tomoyuki Kaya*

Executive Officers

Koichi Onishi

Keiichi Murase

Senior Officers

Terumichi Abe

Ikuhiro Yamaguchi

Yasunobu Kumon

Officers

Masayasu Kimura

Hiroya Kawasaki

Hiroyoshi Tsumura

Akihiko Tsukamoto

Yoshinori Onoe

Welding Company

Senior Managing Director

Isao Aida **

Officer

Tsuyoshi Kasuya

Aluminum and Copper Company

Senior Managing Director

Hiroyuki Nakayama **

Senior Officers

Tetsu Takahashi

Ryosuke Shimomura

Officer

Ryusuke Hamanaka

Machinery and Engineering Company

Senior Managing Director

Kazuo Shigekawa **

Senior Officers

Jun Tanaka

Shuzo Mohri

Officer

Kazuhide Naraki

Outside Directors

Atsushi Nakano

Yukio Doi

Corporate Auditors

Toru Asaoka

Toshinori Okoshi

Takasuke Kaneko

Yoshikazu Ikeda

Shigeo Sasaki

* Head of the Iron and Steel Sector

** President of the internal company

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Branch Offices

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Midosuji Mitsui Building,
1-3, Bingomachi 4-chome, Chuo-ku, Osaka,
OSAKA 541-8536, JAPAN
Phone: (06) 6206-6111 Fax: (06) 6206-6101

Nagoya
Sumitomo Seimei Nagoya Building,
14-19, Meieki Minami 2-chome, Nakamura-ku, Nagoya,
AICHI 450-0003, JAPAN
Phone: (052) 584-6111 Fax: (052) 584-6105

Sales Offices
Hokkaido .... (Sapporo)
Tohoku ....(Sendai)
Niigata .... (Niigata)
Hokuriku ....(Toyama)
Shikoku .... (Takamatsu)
Chugoku ....(Hiroshima)
Kyushu ....(Fukuoka)
Okinawa .... (Naha)

Research Laboratory
Kobe Corporate Research Laboratories
5-5, Takatsukadai 1-chome, Nishi-ku, Kobe,
HYOGO 651-2271, JAPAN
Phone: (078) 992-5600 Fax: (078) 992-5532

Overseas Contacts

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Kobe Steel USA Inc.
535 Madison Avenue, 5th Floor, New York, NY 10022, U.S.A.
Phone: +1-212-751-9400 Fax: +1-212-355-5564

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Kobe Steel USA Inc.
19575 Victor Parkway, Suite 250 Livonia, MI 48152, U.S.A.
Phone: +1-734-462-7757 Fax: +1-734-462-7758

Singapore
Kobe Steel Asia Pte. Ltd.
72 Anson Road #11-01A Anson House, Singapore 079911,
REPUBLIC OF SINGAPORE
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Kobe Steel Asia Pte. Ltd.
Room 1604, MassMutual Tower, 38 Gloucester Road, Wanchai,
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Bangkok Office
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Khwaeng Silom, Khet Bangrak, Bangkok 10500,
KINGDOM OF THAILAND
Phone: +66-2636-8971 to 8974 Fax: +66-2636-8675

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Kobe Steel, Ltd.
Beijing Office
Unit 1208, Bldg. A, The Lucky Tower,
No. 3 North Dongsanhuan Road, Chaoyang District,
Beijing 100027, PEOPLE'S REPUBLIC OF CHINA
Phone: +86-10-6461-8491 to 8494 Fax: +86-10-6461-8490

Shanghai
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Shanghai Office
Room F2, 14F, Jiushi Fuxing Mason, No.918 Huai Hai Zhong Lu,
Shanghai 200020, PEOPLE'S REPUBLIC OF CHINA
Phone: +86-21-6415-4977 Fax: +86-21-6415-9409

Investor Information

(As of March 31, 2008)

Founded .... September 1905

Incorporated .... June 1911

Employees .... 9,467 (Consolidated 33,657)

Fiscal Year .... April 1 – March 31

Ordinary General Meeting of Stockholders .... June of each year

Authorized and Issued Share Capital

Authorized: .... 6,000,000,000 shares

Issued: .... 3,115,061,100 shares

Principal Stockholders

At March 31, 2008, the ten largest stockholders of the Company Stockholdings were as follows:

	Thousands of shares	Percent
Nippon Life Insurance Company	125,310	4.02
Nippon Steel Corporation	107,345	3.45
Sumitomo Metal Industries, Ltd.	107,345	3.45
Japan Trustee Services Bank, Ltd. (Trust Account)	106,829	3.43
The Master Trust Bank of Japan, Ltd. (Trust Account)	97,370	3.13
Mizuho Corporate Bank, Ltd.	70,369	2.26
Mitsubishi UFJ Trust and Banking Corporation	52,333	1.68
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	47,348	1.52
Sojitz Corporation	45,016	1.45
Nissay Dowa General Insurance Co., Ltd.	35,223	1.13

*The Company's holdings of treasury stock (107,462 thousand shares) are not included in the above figures.

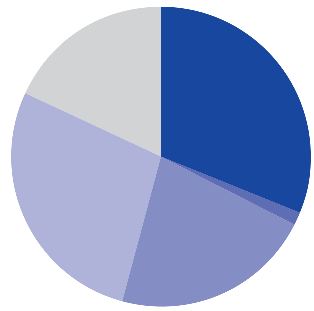
Listing and Quotations

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.

Depositary for American Depositary Receipts

The Bank of New York Mellon Corporation
101 Barclay Street, New York, NY 10286, U.S.A.
Tel: +1-201-680-6825
U.S. toll free: 888-269-2377 (888-BNY-ADRS)
URL: http://www.adrbnymellon.com

Distribution of Shares



Directors' and Corporate Auditors' Stockholdings

The following is a list of the directors and corporate auditors and their stockholdings in the Company at June 25, 2008.

	Number of shares owned
Koshi Mizukoshi	263,000
Yasuo Inubushi	129,000
Hiroshi Sato	156,000
Keiji Koyama	97,000
Tomoyuki Kaya	74,000
Hiroyuki Nakayama	86,000
Takashi Matsutani	107,000
Isao Aida	85,000
Kazuo Shigekawa	70,000
Atsushi Nakano	10,000
Yukio Doi	3,000
Toru Asaoka	112,000
Toshinori Okoshi	46,000
Takasuke Kaneko	31,000
Yoshikazu Ikeda	5,000
Shigeo Sasaki	—

Public Notices

http://www.kobelco.co.jp

All public notices of the Company shall be given by electronic means. In the event that the Company is unable to give electronic public notice, the public notices shall be published in the Nihon Keizai Shimbun.

Transfer Agent & Office

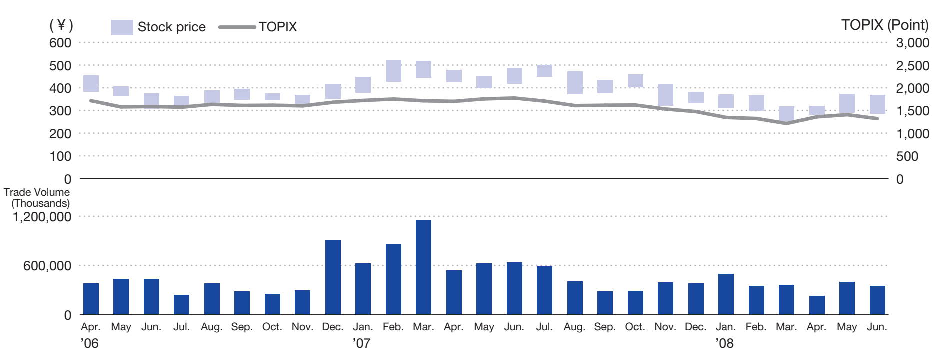
Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku, TOKYO 100-8212, JAPAN

Independent Auditors

KPMG AZSA & Co.
6-5, Kawara-machi 3-chome, Chuo-ku, OSAKA 541-0048, JAPAN

Common Stock Price Range

Tokyo Stock Exchange (High / Low)



Information

Japan

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9-12, Kita-Shinagawa 5-chome, Shinagawa-ku, TOKYO 141-8688, JAPAN
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