Investor Information

Founded: September 1905

Incorporated: June 1911

Fiscal Year: April 1-March 31

Transfer Agent and Office:
The Mitsubishi Trust & Banking Corporation
11-1, Nagata-cho 2-chome, Chiyoda-ku,
TOKYO 100-8212, JAPAN

Listings and Quotations:
Kobe Steel is listed on the Tokyo Stock Exchange, the Osaka Securities Exchange, and the four other exchanges in Japan. Overseas, the Company's shares are listed on the London Stock Exchange. 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
101 Barclay Street,
New York, NY 10286, U.S.A.
Tel: (212) 815-2218 (U.S. toll free: 888-269-2377)
URL: http://www.adrbny.com

Investor Inquiries:
Japan
IR Group
Corporate Planning Department
Kobe Steel, Ltd.
9-12, Kita-Shinagawa 5-chome,
Shinagawa-ku, TOKYO 141-8688, JAPAN
Tel: (03) 5739-6043 Fax: (03) 5739-5973

U. S. A.
Kobe Steel USA Inc.
535 Madison Avenue,
New York, NY 10022, U.S.A.
Tel: (212) 751-9400 Fax: (212) 308-3116

E-mail: www-admin@kobelco.co.jp
URL: http://www.kobelco.co.jp

Printed in Japan on recycled paper

Kobe Steel Interim Report 2000

Six Months Ended September 30

KOBELCO
KOBE STEEL, LTD.

A Message from the President

Business conditions continued to be difficult in the first six months ending September 2000. Spurred by growing investment in information technology (IT), private-sector capital expenditure rose and exports to Asia were strong. While the economy continued its gradual recovery, consumer spending was weak.

With this background, we began to carry out our Consolidated Midterm Management Plan unveiled in May. To maximize profitability, we have been strengthening our involvement in three strategic areas - automotive lightweighting, the independent power producer business, and the environmental business - as well as improving our financial position.

In the interim period, consolidated sales were ¥654.7 billion, aided by higher steel shipments and higher product prices at a semiconductor subsidiary. Operating income was ¥52.5 billion. Net income was ¥5.2 billion, due to extraordinary losses brought about by the introduction of retirement benefit accounting and financial instrument accounting.

Segment Performance

Iron and Steel

Our consolidated Iron and Steel sales were ¥263.5 billion. While steel prices fell in the domestic market, both domestic and overseas shipments went up. Operating income was ¥24.4 billion despite lower steel prices, owing to higher shipments and lower costs from restructuring and other cost reduction measures.

Domestic demand for steel rose in the construction and manufacturing industries. While personal spending was weak, the IT sector exhibited strong growth and private-sector capital investment increased. Overseas, exports to Asia were strong owing to a recovery in the Asian economies, though global supply and demand eased with the softening of the U.S. market.

Aluminum and Copper

Aluminum and Copper sales totaled ¥131.6 billion. Exports of aluminum can stock declined. Domestic and export shipments were firm for aluminum plate for semiconductor fabrication equipment and copper tubing for air conditioners. Domestic demand was up for copper strip for electronic applications. Operating income was ¥6.3 billion due to overall cost reductions.

Machinery

Machinery sales were ¥86.3 billion due to low overseas orders, while operating loss was ¥1.6 billion. A major factor was the drop in overseas sales, despite efforts to boost profitability by reducing costs.

Total Machinery segment orders were ¥112.1 billion and the backlog of orders rose to ¥230.7 billion. In the domestic market, Machinery segment orders were ¥98.5 billion. Contributing factors were strong environment-related orders for municipal solid waste treatment plants to meet dioxin regulations and recovery in private-sector capital investment. Overseas, a cement plant order in Europe brought orders to ¥13.6 billion.

Construction Machinery

Construction machinery sales were ¥82.3 billion with operating income of ¥2.6 billion. With the sluggish economy, the crane market, and primarily rough terrain cranes, continued to face severe market conditions. However, shipments of hydraulic excavators were firm owing to strong demand in North America and Europe, as well as the introduction of new models in the market.

Electronics and Information

Higher shipments and prices from a semiconductor subsidiary led to sales of ¥59.6 billion. Recovery in the semiconductor market, along with improved yield and productivity, contributed to operating income of ¥15.2 billion.

Real Estate

Sales were ¥22.9 billion with operating income of ¥6.5 billion. Strong marketing of condominiums, a major part of the business, contributed to sales despite severe competition.

Looking Ahead

Under our Consolidated Midterm Management Plan, we continued to reorganize our business structure. Under the selective consolidation of our businesses, we entered into a non-binding term sheet in October with our joint venture partner, Micron Technology, Inc., for Micron to acquire our 75% share of KMT Semiconductor, Ltd. The transaction is expected to close by March 2001, at which time Micron will own 100% of KMT. As semiconductor fabrication requires large capital investments in short cycles and as we don't have our own semiconductor technology, we decided that we could no longer consider KMT a core business.

Our independent power producer business is anticipated to be a major pillar of profitability in the 21st century, and work is progressing as planned. The No. 1 Power Plant under construction in Kobe Works is scheduled to go into operation in April 2002. In 2001, we intend to start building the No. 2 Power Plant. When the No. 2 Plant starts up in 2004, we will have a combined 1.4 million kilowatts of capacity.

We are progressing with our management plan to increase the corporate value of the entire Kobe Steel Group. We are focusing on strategic, core businesses, promoting structural reforms through selective consolidation, and improving our financial position.

In our efforts to increase our corporate performance, we ask you for your continued support and understanding.

December 2000

K. Mizukoshi

Koshi Mizukoshi
President and Chief Executive Officer

Consolidated Interim Balance Sheet

At September 30, 2000 (unaudited)

Assets	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets:		
Cash and cash equivalents	¥ 116,053	$ 1,074,565
Marketable securities	4,537	42,009
Notes and accounts receivable:		
Trade	244,553	2,264,380
Unconsolidated subsidiaries and affiliates	77,975	721,991
Other	25,473	235,860
Allowance for doubtful accounts	(1,270)	(11,759)
	346,731	3,210,472
Inventories	270,750	2,506,944
Deferred income taxes	19,751	182,880
Other	23,680	219,259
Total current assets	781,502	7,236,129
Investments and other assets:		
Investments in securities	108,018	1,000,167
Investments in and advances to unconsolidated subsidiaries and affiliates	36,895	341,620
Long-term loans receivable	10,030	92,870
Other	78,454	726,427
Allowance for doubtful accounts	(9,522)	(88,167)
	223,875	2,072,917
Plant and equipment:		
Land	145,868	1,350,630
Buildings and structures	611,999	5,666,657
Machinery and equipment	1,780,124	16,482,630
Construction in progress	37,061	343,157
	2,575,052	23,843,074
Less accumulated depreciation	(1,581,716)	(14,645,518)
	993,336	9,197,556
Intangible assets	21,242	196,685
Deferred income taxes	89,559	829,250
	¥2,109,514	$19,532,537

Liabilities and Stockholders' Equity	Millions of yen	Thousands of U.S. dollars (Note 1)
Current liabilities:		
Short-term borrowings	¥ 239,722	$ 2,219,648
Current portion of long-term debt	161,149	1,492,120
Notes and accounts payable:		
Trade	203,642	1,885,574
Construction	15,868	146,926
Unconsolidated subsidiaries and affiliates	50,859	470,917
Other	15,523	143,731
	285,892	2,647,148
Advances from customers	33,013	305,676
Customers' and employees' deposits	23,413	216,787
Income and enterprise taxes payable	2,982	27,611
Deferred income taxes	258	2,389
Other	53,382	494,279
Total current liabilities	799,811	7,405,658
Long-term liabilities:		
Long-term debt	844,097	7,815,713
Employees' retirement benefits	80,712	747,333
Allowance for special repairs	29,635	274,398
Deferred income	107	991
Deferred income taxes	5,685	52,639
Other	61,702	571,315
	1,021,938	9,462,389
Contingent liabilities (Note 5)		
Minority interests	27,572	255,296
Stockholders' equity:		
Common stock, ¥50 par value; Authorized - 6,000,000,000 shares Issued - 2,835,981,926 shares in 2000	213,667	1,978,398
Additional paid-in capital	132,309	1,225,083
Accumulated deficit	(68,277)	(632,194)
Revaluation of investments in securities	6,558	60,722
Foreign currency translation adjustments	(23,526)	(217,834)
Treasury stock, at cost	(538)	(4,981)
Total stockholders' equity	260,193	2,409,194
	¥2,109,514	$19,532,537

See accompanying notes.

Consolidated Interim Statement of Operations

Six months ended September 30, 2000 (unaudited)

	Millions of yen	Thousands of U.S. dollars (Note 1)
Net sales	¥654,691	$6,061,954
Cost of sales	528,868	4,896,926
Gross profit	125,823	1,165,028
Selling, general and administrative expenses	73,367	679,324
Operating income	52,456	485,704
Other income (expenses) :		
Interest and dividend income	2,448	22,667
Interest expense	(18,035)	(166,991)
Seconded employees' salaries net of reimbursement	(11,666)	(108,019)
Loss on sale of securities	(71)	(657)
Loss on write down of securities and investments	(6,535)	(60,509)
Loss on sale or disposal of plant and equipment	(1,566)	(14,500)
Loss on disposal of inventories	(534)	(4,944)
Foreign exchange gain	152	1,407
Provision for doubtful receivables	(2,458)	(22,759)
Special employees' retirement benefits	(1,267)	(11,731)
Gain on securities for contribution to employee pension plan	11,850	109,722
Effect of applying new accounting standard for retirement benefits	(25,695)	(237,917)
Loss on revaluation of interest swap contracts	(3,969)	(36,750)
Equity in income of unconsolidated subsidiaries and affiliates	297	2,750
Other, net	(4,703)	(43,547)
	(61,752)	(571,778)
Loss before income taxes	(9,296)	(86,074)
Income taxes:		
Current	(3,284)	(30,407)
Deferred	20,637	191,083
	17,353	160,676
Minority interests in income of subsidiaries	(2,855)	(26,435)
Net income	¥ 5,202	$ 48,167

	Yen	U.S. dollars (Note 1)
Net income per 1,000 shares	¥1,839	$17.03

See accompanying notes.

Consolidated Interim Statement of Cash Flows

Six Months ended September 30, 2000 (unaudited)

	Millions of yen	Thousands of U.S. dollars (Note 1)
Cash flows from operating activities:		
Loss before income taxes	¥ (9,296)	$ (86,074)
Depreciation	53,197	492,565
Interest and dividend income	(2,448)	(22,667)
Interest expense	18,035	166,991
Loss on sale of investments in securities	71	657
Loss on write down of securities and investments	6,535	60,509
Equity in income of unconsolidated subsidiaries and affiliates	(297)	(2,750)
Special employees' retirement benefits	1,267	11,731
Effect of applying new accounting standard for retirement benefits	25,695	237,917
Gain on securities for contribution to employee pension plan	(11,850)	(109,722)
Loss on revaluation of interest swap contracts	3,969	36,750
Loss on sales or disposal of plant and equipment	1,566	14,500
Decrease in trade receivables	27,190	251,759
Increase in inventories	(13,469)	(124,713)
Decrease in trade payables	(5,674)	(52,537)
Other	(1,199)	(11,101)
Subtotal	93,292	863,815
Cash received for interest and dividends	5,820	53,889
Cash paid for interest	(17,153)	(158,824)
Cash paid for special employees' retirement benefits	(3,598)	(33,315)
Cash paid for income taxes	(3,116)	(28,852)
Net cash provided by operating activities	75,245	696,713
Cash flows from investing activities:		
Purchase of plant and equipment and other assets	(41,206)	(381,537)
Proceeds from sale of plant and equipment and other assets	2,537	23,491
Purchase of investments in securities	(2,507)	(23,213)
Proceeds from sale of investments in securities	1,081	10,009
Increase in short-term loans receivable	(347)	(3,213)
Long-term loans receivable	(910)	(8,426)
Proceeds from collection of long-term loans	1,490	13,796
Other	(1,940)	(17,963)
Net cash used in investing activities	(41,802)	(387,056)
Cash flows from financing activities:		
Decrease in short-term borrowings	(28,670)	(265,463)
Proceeds from issuance of long-term debt	47,921	443,713
Repayment of long-term debt	(71,303)	(660,213)
Proceeds from issuance of bonds	31,055	287,546
Repayment of bonds	(60,562)	(560,759)
Other	95	880
Net cash used in financing activities	(81,464)	(754,296)
Effect of exchange rate changes on cash and cash equivalents	(86)	(796)
Decrease in cash and cash equivalents	(48,107)	(445,435)
Cash and cash equivalents at beginning of the six months	162,213	1,501,972
Cash and cash equivalents of newly consolidated subsidiary	7,212	66,778
Cash and cash equivalents at end of the six months	¥121,318	$1,123,315

See accompanying notes.

Consolidated Interim Statement of Stockholders' Equity

Six Months ended September 30, 2000 (unaudited)

	Shares of common stock	Millions of yen: Common Stock	Additional paid-in Capital	Accumulated deficit	Revaluation of investments in securities	Foreign currency translation adjustments	Treasury stock
Balance at April 1, 2000	2,835,981,926	¥213,667	¥132,309	¥(74,103)			¥(411)
Net income				5,202			
Bonuses to directors				(27)			
Effect of subsidiaries newly consolidated				778			(108)
Effect of merger of subsidiaries				(127)			
Cost of treasury stock acquired							(19)
Revaluation of investments in securities					6,558		
Foreign currency translation adjustments						(23,526)	
Balance at September 30, 2000	2,835,981,926	¥213,667	¥132,309	¥(68,277)	¥6,558	¥(23,526)	¥(538)

	Thousands of U.S. dollars (Note 1): Common Stock	Additional paid-in Capital	Accumulated deficit	Revaluation of investments in securities	Foreign currency translation adjustments	Treasury stock
Balance at April 1, 2000	$1,978,398	$1,225,083	$(686,139)			$(3,806)
Net income			48,167			
Bonuses to directors			(250)			
Effect of subsidiaries newly consolidated			7,204			(999)
Effect of merger of subsidiaries			(1,176)			
Cost of treasury stock acquired						(176)
Revaluation of investments in securities				60,722		
Foreign currency translation adjustments					(217,834)	
Balance at September 30, 2000	$1,978,398	$1,225,083	$(632,194)	$60,722	$(217,834)	$(4,981)

See accompanying notes.

Notes to Consolidated Interim Financial Statements

September 30, 2000 (Unaudited)

1. Presentation of Financial Statements

Kobe Steel, Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated interim financial statements should be read in conjunction with the financial statements and related notes included in the Annual Report of the Company to stockholders for the year ended March 31, 2000. The accompanying consolidated interim financial statements are translations of the consolidated interim financial statements of the Company which were prepared in accordance with interim accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and were filed with the Ministry of Finance ("MOF") as required by the Securities and Exchange Law.

In preparing the accompanying consolidated interim financial statements, certain reclassifications have been made in the consolidated interim financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at September 30, 2000, which was ¥108.00 to U.S. $1.00. The convenience 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.Employees' Retirement Benefits

Effective April 1, 2000, the Company and domestic consolidated subsidiaries changed their methods of accounting for employees' retirement benefits in accordance with the Opinion on Setting Accounting Standards for Post-Employment Benefits by the Business Accounting Deliberation Council, etc.

3.Financial Instruments

Effective April 1, 2000, the Company and domestic consolidated subsidiaries changed their methods of accounting for financial instruments in accordance with the Opinion on Setting Accounting Standards for Financial Instruments by the Business Accounting Deliberation Council, etc.

4.Translation of Foreign Currencies

Effective April 1, 2000, the Company and domestic consolidated subsidiaries changed their methods of accounting for transaction denominated in foreign currencies in accordance with the Opinion Concerning Revision of Accounting Standard for Foreign Currency Transaction, issued by the Business Accounting Deliberation Council on October 22, 1999.

5. Contingent Liabilities

At September 30, 2000, the Company and its consolidated subsidiaries (the "Group") was contingently liable for guarantees of loans of ¥17,739 million ($164,250 thousand). This figure includes contingent guarantees and letters of awareness of ¥881 million ($8,157 thousand).

6. Prior year consolidated interim financial statements

Interim financial statements for the prior year are not presented because no such statements were required to be prepared on a consolidated basis.