Notes to Consolidated Financial Statements

Years ended March 31, 2001 and 2000

1. Basis of Presenting Consolidated 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 ("Japanese GAAP"), 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 financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with Japanese GAAP and were filed with the appropriate Local Finance Bureau of the Ministry of Finance ("MOF") as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The statements of shareholders' equity for 2001 and 2000 have been prepared for the purpose of inclusion in the accompanying consolidated financial statements, although such statements were not required for domestic purposes and were not filed with the regulatory authorities.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2001, which was ¥123.9 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. Summary of Accounting Policies

(1) Consolidation

The Company prepared the consolidated financial statements for the years ended March 31, 2001 and 2000 in accordance with the revised Accounting Principles for Consolidated Financial Statements (the "Revised Accounting Principles") effective from the year ended March 31, 2000.

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (the "Group"), the management of which is controlled by the Company. For the year ended March 31, 2001, the accounts of 149 (125 in 2000) subsidiaries have been included in the consolidated financial statements. Intercompany transactions and accounts have been eliminated.

Fifty-one 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 control of the respective subsidiaries.

In prior years unrealized gains and losses on sales of assets or sales of assets among members of the Group were eliminated with respect to the parent company's share. Commencing with the year ended March 31, 2001, both the parent company's and minority interest's share are eliminated in accordance with a revision in accounting standards in Japan. As a result of the change, operating income increased ¥1,358 million and loss before income taxes decreased by the same amount, but there was no effect on net loss for the year ended March 31, 2001.

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 years ended March 31, 2001 and 2000, 48 affiliates were accounted for by the equity method.

The difference, if considered significant, between the cost of investments and the equity in their net assets at their dates of acquisition is amortized over five years (40 years for acquisitions made by certain foreign consolidated subsidiaries).

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.

Commencing in the year ended March 31, 2000, in accordance with a change in accounting standards for equity method accounting in Japan, such losses in excess of the cost of the investment are credited to amounts due from the investee or, are recorded in other payables, when the losses are expected to be shared by the Company.

(2) Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided in amounts considered to be sufficient to cover possible losses on collection. Prior to April 1, 2000, the allowance for doubtful receivables was determined by adding individually estimated uncollectible amounts to an amount calculated by a formula as permitted by the Corporation Tax Law of Japan with respect to the remaining receivables. Effective April 1, 2000 the allowance for doubtful receivables is provided to cover possible losses on collection. In accordance with the new accounting standard for financial instruments, with respect to normal trade accounts receivable, it is stated at an amount based on the actual rate of historical bad debts, and for certain doubtful receivables, the uncollectible amount has been individually estimated.

(3) Securities

Prior to April 1, 2000, listed securities included in both marketable securities and investments in securities are principally stated at the lower of moving average cost or market value. Recoveries of write-downs to market are recorded in subsequent periods. Other securities, excluding investments accounted for by the equity method, are stated at moving average cost. If significant impairment of values is deemed permanent, cost is appropriately reduced.

Effective April 1, 2000, the Group adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments " issued by the Business Accounting Deliberation Council on January 22, 1999).

Upon applying the new accounting standard, all companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale 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 shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost based on carrying value at March 31,2000.

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, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as 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, such securities should be written down to net asset value with a corresponding charge in the statement of operations in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

As a result of adopting the new accounting standard for financial instruments, loss before income taxes increased by ¥4,839 million ($39,056 thousand). Also, based on the examination of the intent of holding each security upon application of the new accounting standard on April 1, 2000, held-to-maturity debt securities and available-for-sale securities maturing within one year from the balance sheet date are included in current assets, and other securities are included in investments and other assets. As a result, at April 1, 2000, securities in current assets decreased by ¥66,089 million and investment securities increased by the same amount compared with what would have been reported under the previous accounting policy.

(4) Inventories

Inventories are valued at cost, as determined principally by the following methods:

Two main works in the Iron and Steel Segment and the three main plants in the Aluminum and Copper Segment ....Last-in, first-out method

Finished goods and work in process in one plant in the Iron and Steel Segment, the Machinery Segment, Electronics and Information Segment and Real Estate Segment..................... ....Specific identification method

Others.......................Average method

(5) Depreciation

Depreciation of plant and equipment and intangible assets is principally provided using the straight-line method over estimated useful lives. Intangible assets include software for internal use.

(6) Long-term Construction Contracts

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

(7) Research and Development Expenses

Expenses in respect of the development of new products and research into and the application of new technologies are charged directly to income. Research and development expenses for the year ended March 31, 2001 were ¥22,683 million ($183,075 thousand) and ¥25,951 million for the year ended March 31, 2000

(8) Bond Issue Expenses and Discounts on Bonds

Bond issue expenses and discounts on bonds are charged to expenses as they are incurred by the Company and domestic consolidated subsidiaries.

(9) 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.

(10) Employees' Severance and Retirement Benefits

The Group provides two types of post-employment benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans.

At March 31, 2000, the Group accrued liabilities for lump-sum severance and retirement payments equal to 40% of the amount required had all eligible employees voluntarily terminated their employment at the balance sheet date. The Group recognized pension expense when, and to the extent, payments were made to the pension plans.

Effective April 1, 2000, the Group adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits", issued by the Business Accounting Deliberation Council on June 16, 1998 (the "New Accounting Standard").

Under the New Accounting Standard, the liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Group provided for employees' severance and retirement benefits at March 31, 2001 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥85,619 million ($691,033 thousand), of which ¥18,785million ($151,614 thousand) was recognized as an expense as a result of the contribution of investment securities worth ¥18,785 million ($151,614 thousand) to the employees' retirement benefit trust in the current year. The remaining net transition obligation amounting to ¥66,834 million ($539,419 thousand) will be recognized in expenses in equal amounts primarily over 5 years commencing with the year ended March 31, 2001. Actuarial gains and losses are recognized in expenses using the straight-line method over the average of the estimated remaining service lives commencing with the following period.

As a result of the adoption of the new accounting standard and the gain on the securities contributed, as noted above, in the year ended March 31, 2001, severance and retirement benefit expenses increased by ¥1,300 million ($10,492 thousand) and loss before income taxes increased by ¥5,958 million ($48,087 thousand) compared with what would have been recorded under the previous accounting standard.

(11) Allowance for Special Repairs

Blast furnaces and hot blast stoves, including related machinery and equipment, periodically require substantial component replacement and repair. The estimated future costs of such work are provided for and charged to income on a straight-line basis over the period to the date of the anticipated replacement and repair. The difference between such estimated costs and actual costs is charged or credited to income at the time the repairs take place.

For the year ended March 31, 2001, the Company reversed the allowances for special repairs, which exceeded the future revised cost of repairs to blast furnaces and hot blast stoves located in the Kakogawa Works and the Kobe Works. Reversal of the allowance for special repairs is shown in the accompanying consolidated statements of operations.

(12) Land Revaluation

Land for operations was revalued by certain consolidated subsidiaries in accordance with the Land Revaluation Law in the year ended 31st March, 2001 and the revaluation amount, net of related taxes, is shown as a separate component of shareholders' equity.

(13) Provision for Restructuring Costs

The provision for restructuring costs is stated at the estimated loss on restructuring of discontinued operations at the end of the fiscal year.

(14) Translation of Foreign Currencies

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates. Prior to April 1, 2000, short-term and long-term receivables and payables denominated in foreign currencies were translated at historical rates. Effective April 1, 2000, the Group adopted the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation", issued by the Business Accounting Deliberation Council on October 22, 1999 (the "Revised Accounting Standard"). Under the Revised Accounting Standard, receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rate. The effect on the consolidated statement of operations of adopting the Revised Accounting Standard was immaterial.

Financial statements of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate, except that shareholders' equity accounts are translated at historical rates and statement of operations items resulting from transactions with the Company at the rates used by the Company.

Due to the adoption of the Revised Accounting Standard, the Group reports foreign currency translation adjustments in shareholders' equity (and minority interests). The prior year's amount, which is included in assets has not been reclassified.

(15) Leases

Finance leases which do not transfer ownership and do not have bargain purchase provisions are accounted for in the same manner as operating leases by the Company and consolidated domestic subsidiaries.

(16) 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. See note 12.

(17) Hedge Accounting

The new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless 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 fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

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.

(18) Net Income (Loss) per 1,000 Shares

Computations of net income (loss) per 1,000 shares are based on the weighted average number of shares outstanding during the year.

3. Differences between Japanese Accounting Principles and International Accounting Standards

As stated in Note 1, there are differences between Japanese GAAP and International Accounting Standards ("IAS"). With respect only to the consolidated financial statements for 2001, the Company has identified differences between Japanese GAAP and IAS including the significant items summarized below.

It has generally not been practicable to quantify the effects on net income of these differences in accounting policy and determine the additional disclosure required by IAS.

(1) Accounting Principles of Overseas Consolidated Subsidiaries

The Company consolidates the accounts of foreign subsidiaries based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Under IAS 27, the accounting principles used in the financial statements of consolidated subsidiaries should be conformed to the accounting principles of the Group before such financial statements are consolidated.

(2) Leases

IAS 17 requires that finance leases be reflected in the lessee's accounts by recording an asset and liability equal to the lower of the net fair value of the leased property and the present value of the minimum lease payments. The asset should be depreciated and rentals apportioned between finance charges and reduction of the outstanding liability. As described in Note 2 (15), in Japan, finance leases may be accounted for in the same manner as operating leases. For the years ended March 31, 2001 and 2000, the Company had no finance leases that were required to be capitalized.

(3) Inventories

As noted in Note 2 (4), the Company and consolidated domestic subsidiaries value inventories at cost. IAS 2 requires that inventories be measured at the lower of cost and net realizable value. Furthermore, for determining the cost of certain inventories the Company applies the last-in, first-out (LIFO) method which is an allowed alternative treatment under IAS 2 for which additional disclosure is required.

(4) Employees' Severance and Retirement Benefits

As described in Note 2 (10), effective April 1, 2000, the Group adopted a new accounting standard for employees' severance and retirement benefits. Under the New Accounting Standard, the liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions. This New Accounting Standard is similar to IAS. However, under Japanese GAAP, a portion of the net transition obligation was expensed on transition through contribution of securities to the employees' retirement benefit trust. The balance is amortized on a straight-line method over 5 years. Under IAS8 the net transition obligation should be recognized immediately or under IAS19 as an expense on a straight-line basis over a maximum of 5 years.

4. Leases

Original lease obligations as lessee under non-capitalized finance leases at March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Buildings and structures	¥ 181	¥ 161	$ 1,461
Machinery and equipment	69,576	54,387	561,549
	¥69,757	¥50,548	$563,010

Future minimum lease payments as lessee under non-capitalized finance leases at March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Due within one year	¥12,315	¥ 8,704	$ 99,395
Due after one year	24,729	16,380	199,588
	¥37,044	¥25,084	$298,983
Lease expense for the years ended March 31	¥12,999	¥ 9,877	$104,915

Future minimum lease payments as lessee under operating leases at March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Due within one year	¥3,938	¥3,284	$31,784
Due after one year	2,647	3,803	21,364
	¥6,585	¥7,087	$53,148

Leased assets as lessor under finance leases, accounted for as operating leases, at March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Buildings and structures	¥ —	¥ 73	$ —
Machinery and equipment	938	553	7,571
Less accumulated depreciation	(251)	(67)	(2,026)
	¥687	¥559	$5,545

Future minimum lease payments receivable under finance leases, accounted for as operating leases, at March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Future minimum lease payments receivable:			
Due within one year	¥411	¥173	$3,317
Due after one year	429	505	3,463
	¥840	¥678	$6,780
Lease income for the years ended March 31	¥125	¥ 85	$1,009

Future minimum lease payments receivable under operating leases at March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Due within one year	¥ 358	¥129	$ 2,889
Due after one year	5,028	133	40,582
	¥5,386	¥262	$43,471

5. Securities

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2001:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	Book values	Fair values	Difference	Difference
Held-to-maturity debt securities				
Securities with available fair values exceeding book values	¥ 50	¥ 55	¥ 5	$ 40
Other securities	4,114	3,709	(405)	(3,268)
	¥4,164	¥3,764	¥(400)	$(3,228)

	Millions of yen			Thousands of U.S. dollars (Note 1)
	Book values	Fair values	Difference	Difference
Available-for-sale securities				
Securities with available fair values exceeding book values:				
Equity securities	¥19,831	¥30,033	¥10,203	$82,349
Bonds	11	11	—	—
	19,842	30,044	10,203	82,349
Other securities:				
Equity securities	38,010	27,913	(10,097)	(81,493)
Bonds	18	17	(1)	(8)
	38,028	27,930	(10,098)	(81,501)
	¥57,870	¥57,974	¥ 105	$ 848

The following table summarizes book values of securities with no available fair values as of March 31, 2001:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Held-to-maturity debt securities:		
Non-listed foreign securities	¥ 8,341	$ 67,320
Available-for-sale securities:		
Non-listed equity securities	17,692	142,793
Non-listed foreign equity securities denominated in yen	4,979	40,186
Money management fund	2,353	18,991

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)
Within one year	¥ 1,985	$ 16,021
Over one year but within five years	2,367	19,104
Over five year but within ten years	7,171	57,877
Over ten years	1,000	8,071

Sales of available-for-sale securities for the year ended March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Sales	¥23,629	$190,710
Gains on sales	12,582	101,550
Losses on sales	33	266

The following table shows the market values and unrealized gains and losses on securities held by the Group at March 31, 2000:

	Millions of yen		
	Balance sheet amount	Market value	Unrecognized gain (loss)
Marketable securities:			
Corporate stocks	¥59,151	¥83,811	¥24,660
Bonds	25	24	(1)
	59,176	83,835	24,659
Investments in securities:			
Corporate stocks	¥18,476	¥25,975	¥ 7,499
Bonds	52	56	4
	¥18,528	¥26,031	¥ 7,503

These amounts do not include unlisted stocks.

6. 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 in case of 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 derivative transactions.

The Company 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, 2001 and 2000 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2001			2000			2001
	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value	Unrecognized gain (loss)	Recognized gain (loss)
Foreign currency exchange contracts							
To sell foreign currencies:							
U.S. dollars	¥7,177	¥7,435	¥(258)	¥11,395	¥11,322	¥73	$(2,082)
Others	—	—	—	2,281	2,308	(27)	—
To buy foreign currencies:							
U.S. dollars	4,060	4,062	1	2,167	2,168	1	8
Others	—	—	—	1,871	1,876	5	—
Foreign currency swap agreements							
To buy foreign currencies:	—	—	—				—
U.S. dollars	—	—	—	637	(112)	(112)	—
			¥(257)			¥(60)	$(2,074)

1. The fair values were estimated by multiplying the contracted foreign currency amount by the forward rate.
2. The above table does not include outstanding foreign exchange contracts which relate to foreign currency receivables and payables that are recorded in the balance sheet by the contracted foreign exchange rates at March 31, 2001 and 2000.
3. Hedge accounting was not applied to the derivative transactions in the above table at March 31, 2001.

Interest rate swap agreements and cap agreements outstanding at March 31, 2001 and 2000 were as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)
	2001		2000		2001
	Contracted amount	Recognized gain (loss)	Contracted amount	Unrecognized gain (loss)	Recognized gain (loss)
Interest rate swap agreements					
To receive fixed and to pay floating rates	¥ —	¥ —	¥ 31,882	¥ 815	$ —
To receive floating and pay fixed rates	33,050	(1,806)	281,130	(7,049)	(14,576)
To exchange floating rates	—	—	15,085	145	—
To receive fixed and to pay floating followed by fixed rates	60,000	(3,146)	80,000	(2,753)	(25,392)
Cap agreements					
To receive floating and to pay fixed rates	—	—	1,076	2	—
		¥(4,952)		¥(8,840)	$(39,968)

1. The unrealized gains (losses) were estimated by obtaining quotes from counterparty banks.
2. Hedge accounting was not applied to the derivative transactions in the above table at March 31, 2001.

Commodities forward contracts outstanding at March 31, 2001 and 2000 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2001			2000			2001
	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value	Unrecognized gain (loss)	Recognized gain (loss)
To sell metals	¥ —	¥ —	¥ —	¥5,715	¥5,820	¥(105)	$ —
To buy metals	—	—	—	19,395	18,525	(870)	—
			¥ —			¥(975)	$ —

1. The fair values were estimated by using the forward rates.
2. Hedge accounting was not applied to the derivative transactions in the above table at March 31, 2001.

7. Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Bank loans	¥226,364	¥ 256,843	$1,826,990

Long-term debt at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Floating rate (Libor plus 0.75%) notes due 2002	¥ —	¥ 5,000	$ —
Floating rate (Libor plus 0.5%) notes due 2003	10,000	10,000	80,710
Floating rate (Libor plus 0.75%) notes due 2004	2,000	2,000	16,142
Floating rate (Libor plus 0.95%) notes due 2005	5,208	5,760	42,034
Floating rate (20 year swap rate minus 2 year swap rate plus 1.2% per annum subject to minimum interest rate of 0.00% per annum) notes due 2008	10,000	—	80,710
1.55% to 5.75% yen bonds, due 2001 through 2012	326,707	366,286	2,636,860
Euro medium-term notes, due 2001 through 2006	17,259	15,182	139,298
Loans, principally from banks and insurance companies	587,167	625,241	4,739,040
	958,341	1,029,469	7,734,794
Less current portion	145,572	207,100	1,174,915
	¥812,769	¥ 822,369	$6,559,879

The aggregate annual maturities of long-term debt at March 31, 2001 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2002	¥145,572	$1,174,915
2003	207,574	1,675,335
2004	171,942	1,387,748
2005 and thereafter	433,253	3,496,796
	¥958,341	$7,734,794

At March 31, 2001 and 2000, 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)
	2001	2000	2001
Assets pledged as collateral			
Plant and equipment-net of accumulated depreciation	¥132,255	¥136,042	$1,067,433
Other assets	9,501	5,091	76,683
	¥141,756	¥141,133	$1,144,116
Secured short-term borrowings and long-term debt			
Bonds (includes within 1 year)	¥ 11,348	¥ 8,560	$ 91,590
Short-term borrowings	27,692	20,380	223,503
Long-term borrowings	57,266	62,135	462,195
Other debt	247	70	1,994
	¥ 96,553	¥ 91,145	$ 779,282

8. Contingent Liabilities

At March 31, 2001 the Group was contingently liable as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Trade notes discounted	¥10,786	$ 87,054
Trade notes endorsed	1,214	9,798
Guarantees of loans	18,243	147,240
	¥30,243	$244,092

Guarantees of loans include contingent guarantees and letters of awareness of ¥880 million ($7,103 thousand).

9. Stockholders' Equity

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as stated capital, although a company may, by resolution of its board of directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital.

The accompanying financial statements for the year ended March 31, 2001, reflect the appropriations of accumulated deficit for the year ended March 31, 2000, which were approved at the general stockholders' meeting held on June 28, 2000.

10. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2001 and 2000 can be analyzed as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Freight	¥ 35,055	¥ 33,790	$ 282,930
Employees' compensation	35,263	33,664	284,609
Research and development	8,999	10,238	72,631
Depreciation	4,415	4,032	35,634
Other	59,941	57,080	483,785
	¥143,673	¥138,804	$1,159,589

11. Income Taxes

Significant components of the Group's deferred income tax assets and liabilities as of March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Deferred income tax assets:			
Loss carryforwards	¥ 46,882	¥40,566	$378,386
Unrealized profit	43,359	54,743	349,952
Other	72,599	32,388	585,948
Total deferred income tax assets	162,840	127,697	1,314,286
Valuation allowance	(27,827)	(32,737)	(224,592)
Deferred income tax assets	135,013	94,960	1,089,694
Deferred income tax liabilities:			
Deferred gains on sales of property	14,763	14,668	119,153
Other	15,814	5,653	127,635
Total deferred income tax liabilities	30,577	20,321	246,788
Net deferred income tax assets	¥104,436	¥74,639	$842,906

12. Consolidated Statements of Cash Flows

The reconcillation of cash and cash equivalents in the cash flow statements and balance sheets are as follows:

March 31, 2001 and 2000	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Cash and cash equivalents (balance sheet)	¥123,631	¥158,227	$ 997,829
Time deposits (due over 3-month)	(835)	(907)	(6,740)
Repurchase agreements accounted for as short term loans receivable	1,037	1,833	8,370
Money management fund accounted for marcketable securities	2,354	—	18,999
Commercial paper accounted for as marketable securities	—	3,060	—
Cash and cash equivalents (cash flow statement)	¥126,187	¥162,213	$1,018,458

Assets and liabilities of Nippon Koshuha Steel Co., Ltd, which became a newly acquired consolidated subsidiary are as follows:

March 31, 2000	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥20,182	$162,889
Fixed assets	25,224	203,584
Total assets	¥45,406	$366,473
Current liabilities	¥22,546	$181,969
Long-term liabilities	9,350	75,464
Total liabilities	¥31,896	$257,433

13. Related Party Transactions

Net sales include sales to Shinsho Corporation, which is an affiliate of the Company, of ¥161,639 million ($1,304,592 thousand) and ¥162,917million at March 31, 2001 and 2000, respectively.

14. Employees' Severance and Retirement Benefits

As explained in Note 2(10), effective April 1, 2000, the Group adopted the new accounting standard for employees' severance and retirement benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liability for severance and retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2001 consists of the following:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Projected benefit obligation	¥(265,091)	$(2,139,556)
Fair value of pension assets	123,969	1,000,557
Unrecognized net transition obligation	52,978	427,587
Unrecognized actuarial differences	15,844	127,877
Prepaid pension cost	(3,823)	(30,856)
Liability for severance and retirements benefits	¥ (76,123)	$ (614,391)

Included in the consolidated statement of operations for the year ended March 31, 2001 are severance and retirement benefit expenses comprised of the following:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Service costs - benefits earned during the year	¥ 9,212	$ 74,350
Interest cost on projected benefit obligation	7,855	63,398
Expected return on plan assets	(3,185)	(25,706)
Amortization of net transition obligation	32,642	263,455
Amortization of actuarial differences	(9)	(73)
Severance and retirement benefit expenses	¥(46,515)	$(375,424)

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 is mainly 3.0% and the rate of expected return on plan assets used by the Group is 2.0-3.1%.

15. Segment Information

(1) Industry Segment

The Group's operations are divided into seven principal business segments: Iron and Steel, Aluminum and Copper, Machinery, Construction Machinery, Electronics and Information, Real Estate, and Other Businesses. Business segment information was as follows:

Years ended March 31, 2001 and 2000		Millions of yen		Thousands of U.S. dollars (Note 1)
		2001	2000	2001
Sales to outside customers:	Iron and Steel	¥ 532,366	¥ 499,083	$ 4,296,739
	Aluminum and Copper	270,454	251,453	2,182,841
	Machinery	224,192	216,487	1,809,459
	Construction Machinery	157,916	122,429	1,274,544
	Electronics and Information	115,638	87,807	933,317
	Real Estate	52,583	43,949	424,399
	Other Businesses	19,942	31,308	160,953
	Consolidated net sales	1,373,091	1,252,516	11,082,252
Inter-segment sales:	Iron and Steel	11,247	10,181	90,775
	Aluminum and Copper	576	667	4,649
	Machinery	12,855	5,402	103,753
	Construction Machinery	476	13,283	3,842
	Electronics and Information	9,839	12,491	79,411
	Real Estate	6,484	7,088	52,333
	Other Businesses	18,724	34,590	151,121
		60,201	83,702	485,884
Total sales:	Iron and Steel	543,613	509,264	4,387,514
	Aluminum and Copper	271,030	252,120	2,187,490
	Machinery	237,047	221,889	1,913,212
	Construction Machinery	158,392	135,712	1,278,386
	Electronics and Information	125,477	100,298	1,012,728
	Real Estate	59,067	51,037	476,732
	Other Businesses	38,666	65,898	312,074
		1,433,292	1,336,218	11,568,136
Operating costs and expenses:	Iron and Steel	496,947	466,364	4,010,872
	Aluminum and Copper	258,591	241,897	2,087,094
	Machinery	235,361	220,769	1,899,605
	Construction Machinery	153,188	136,246	1,236,384
	Electronics and Information	99,444	92,847	802,615
	Real Estate	45,443	31,382	366,772
	Other Businesses	36,941	61,956	298,152
	Eliminations	(59,228)	(81,653)	478,031
	Consolidated operating costs and expenses	1,266,687	1,169,808	10,223,463
Operating income:	Iron and Steel	46,666	42,900	376,642
	Aluminum and Copper	12,439	10,223	100,396
	Machinery	1,686	1,120	13,607
	Construction Machinery	5,204	(534)	42,002
	Electronics and Information	26,033	7,451	210,113
	Real Estate	13,624	19,655	109,960
	Other Businesses	1,725	3,942	13,922
	Eliminations	(973)	(2,049)	(7,853)
	Consolidated operating income	¥ 106,404	¥ 82,708	$ 858,789

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2001	2000	2001
Assets:	Iron and Steel	¥ 907,586	¥ 891,818	$ 7,325,149
	Aluminum and Copper	285,037	298,797	2,300,541
	Machinery	268,737	237,496	2,168,983
	Construction Machinery	169,427	151,849	1,367,450
	Electronics and Information	104,552	114,951	843,842
	Real Estate	180,640	184,453	1,457,950
	Other Businesses	88,581	79,856	714,939
	Corporate and Eliminations	126,563	165,575	1,021,493
	Total	¥2,131,123	¥2,124,795	$17,200,347
Depreciation:	Iron and Steel	¥ 57,073	¥ 55,452	$ 460,638
	Aluminum and Copper	14,157	15,050	114,262
	Machinery	8,243	9,233	66,529
	Construction Machinery	3,165	2,602	25,545
	Electronics and Information	17,838	16,799	143,971
	Real Estate	3,326	3,471	26,844
	Other Businesses	1,145	12,764	9,241
	Corporate and Eliminations	2,043	2,315	16,489
	Total	¥ 106,990	¥ 117,686	$ 863,519
Capital expenditures:	Iron and Steel	¥ 48,083	¥ 41,238	$ 388,079
	Aluminum and Copper	9,172	7,737	74,027
	Machinery	6,900	4,226	55,690
	Construction Machinery	9,121	3,736	73,616
	Electronics and Information	9,403	15,283	75,892
	Real Estate	3,048	3,980	24,600
	Other Businesses	893	25,452	7,207
	Corporate and Eliminations	237	3,619	1,914
	Total	¥ 86,857	¥ 105,271	$ 701,025

Foreign currency translation

As described in Note 2 (14), due to adoption of the Revised Accounting Standard, the Company and its domestic subsidiaries report foreign currency translation adjustments in the shareholders' equity (and minority interests).
The effect of this change was to decrease Corporate and Eliminations of assets by ¥23,627 million ($190,694 thousand).

Segment change

The Company adopts the method of determining the segment of each subsidiary according to the "Internal Company" to which it belongs. Commencing October 1, 1999, the Company transferred all business rights of the construction machinery division to Kobelco Construction Machinery Co., Ltd., which is overseen by the Corporate Planning Department of the Company.

Due to the above change, the construction machinery business, which had been included in "Machinery" through the year ended March 31, 2000, is now listed separately as "Construction Machinery". The amounts for the previous year "2000" in the above table were reclassified. Unreclassified amounts for the previous year "2000" were as follows:

Year ended March 31, 2000		Millions of yen
		2000
Sales to outside customers:	Iron and Steel	¥ 499,083
	Aluminum and Copper	251,453
	Machinery	338,916
	Electronics and Information	87,807
	Real Estate	43,949
	Other Businesses	31,308
	Consolidated net sales	1,252,516
Inter-segment sales:	Iron and Steel	10,181
	Aluminum and Copper	667
	Machinery	18,080
	Electronics and Information	12,491
	Real Estate	7,088
	Other Businesses	34,590
		83,097
Total sales:	Iron and Steel	509,264
	Aluminum and Copper	252,120
	Machinery	356,996
	Electronics and Information	100,298
	Real Estate	51,037
	Other Businesses	65,898
		1,335,613
Operating costs and expenses:	Iron and Steel	466,364
	Aluminum and Copper	241,897
	Machinery	356,490
	Electronics and Information	92,847
	Real Estate	31,382
	Other Businesses	61,956
	Eliminations	(81,128)
	Consolidated operating costs and expenses	1,169,808
Operating income:	Iron and Steel	42,900
	Aluminum and Copper	10,223
	Machinery	506
	Electronics and Information	7,451
	Real Estate	19,655
	Other Businesses	3,942
	Eliminations	(1,969)
	Consolidated operating income	¥ 82,708

		Millions of yen
		2000
Assets:	Iron and Steel	¥ 891,818
	Aluminum and Copper	298,797
	Machinery	330,957
	Electronics and Information	114,951
	Real Estate	184,453
	Other Businesses	79,856
	Corporate and Eliminations	223,963
	Total	¥2,124,795
Depreciation:	Iron and Steel	¥ 55,452
	Aluminum and Copper	15,050
	Machinery	11,835
	Electronics and Information	16,799
	Real Estate	3,471
	Other Businesses	12,764
	Corporate and Eliminations	2,315
	Total	¥ 117,686
Capital expenditures:	Iron and Steel	¥ 41,238
	Aluminum and Copper	7,737
	Machinery	7,962
	Electronics and Information	15,283
	Real Estate	3,980
	Other Businesses	25,452
	Corporate and Eliminations	3,619
	Total	¥ 105,271

Eliminating Unrealized Gains and Losses
As described in Note 2 (1) in the year ended March 31, 2000, the Company changed its method of eliminating unrealized gains and losses. The effect of this change on segment operating income was to increase “Iron and Steel” by ¥11 million, to decrease “Aluminum and Copper” by ¥5 million, to decrease “Machinery” by ¥11 million, to increase “Electronics and Information” by ¥1 million and to increase “Real Estate” by ¥1,364 million for the year ended March 31, 2000.

(2) Geographic Area

Years ended March 31, 2001 and 2000

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2001	2000	2001
Sales to outside customers:	Japan	¥1,249,536	¥1,149,645	$10,085,036
	Asia	22,741	16,437	183,543
	North America	52,898	51,425	426,941
	Other areas	47,916	35,009	386,732
	Total	1,373,091	1,252,516	11,082,252
Inter-segment sales:	Japan	36,506	36,354	294,641
	Asia	1,138	4,139	9,185
	North America	1,512	1,901	12,203
	Other areas	45	87	363
	Total	39,201	42,481	316,392
Total sales:	Japan	1,286,042	1,185,999	10,379,677
	Asia	23,879	20,576	192,728
	North America	54,410	53,326	439,144
	Other areas	47,961	35,096	387,095
	Total	1,412,292	1,294,997	11,398,644
Operating costs and expenses:	Japan	1,180,963	1,102,730	9,531,582
	Asia	23,377	19,609	188,676
	North America	52,402	51,619	422,938
	Other areas	48,473	38,362	391,227
	Eliminations	(38,528)	(42,512)	(310,960)
	Total	1,266,687	1,169,808	10,223,463
Operating income:	Japan	105,079	83,269	848,095
	Asia	502	967	4,052
	North America	2,008	1,707	16,206
	Other areas	(512)	(3,266)	(4,132)
	Eliminations	(673)	31	(5,432)
	Total	¥ 106,404	¥ 82,708	$ 858,789
Assets:	Japan	¥1,797,617	¥1,744,949	$14,508,612
	Asia	26,001	22,027	209,855
	North America	58,414	68,169	471,461
	Other areas	69,764	53,420	563,067
	Corporate and eliminations	179,327	236,230	1,447,352
	Total	¥2,131,123	¥2,124,795	$17,200,347

Foreign currency translation

As described in Note 2 (14), due to adoption of the Revised Accounting Standard, the Company and its domestic subsidiaries report foreign currency translation adjustments in the shareholders' equity (and minority interests). The effect of this change was to decrease Corporate and Eliminations of assets by ¥23,627 million ($190,694 thousand).

Eliminating Unrealized Gains and Losses
As described in Note 2 (1) in the year ended March 31, 2000, the Company changed the method of eliminating unrealized gains and losses. The effect of this change on segment operating income was to increase "Japan" by ¥1,363 million ($12,840 thousand), and to decrease operating income of "Asia" ¥5 million ($47 thousand).

Principal countries and areas in each segment are:
Asia....................Singapore, Malaysia, Thailand, South Korea, Hong Kong
North America....United States, Canada
Other areas ....Netherlands, Australia, Switzerland, United Kingdom, Venezuela

Corporate assets of ¥232,810 million ($1,879,015 thousand) and ¥319,268 million at March 31, 2001 and 2000, respectively, are comprised principally of bank and time deposits and assets of administration departments of the Company.

(3) Overseas Sales
Overseas sales for the years ended March 31, 2001 and 2000 were as follows:

		Percentages of 2001 consolidated net sales	Millions of yen		Thousands of U.S. dollars (Note 1)
			2001	2000	2001
Overseas Sales:	Asia............................	12.6%	¥172,808	¥155,646	$1,394,738
	North America............	5.5%	75,605	54,581	610,210
	Other areas	4.5%	61,706	67,709	498,030
	Total	22.6%	¥310,119	¥277,936	$2,502,978

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

Principal countries and areas in each segment are:
Asia ....China, Taiwan, South Korea, Malaysia, Indonesia
North America ...United States, Canada
Other areas........Venezuela, Australia