# KOBE STEEL ANNUAL REPORT 2001

Year Ended March 31, 2001

ECO WAY

KOBELCO
KOBE STEEL, LTD.

Kobe Steel, Ltd., is one of Japan's leading steelmakers and producers of aluminum and copper products. Other businesses include welding consumables, infrastructure and plant engineering, and industrial machinery. The Company also has businesses in electronics and information systems.

Kobe Steel has numerous consolidated subsidiaries and equity-valued affiliates in Japan, the Americas, Asia, and Europe.

KOBELCO is the corporate mark used by Kobe Steel on a variety of products and in the names of a number of Group companies. Behind the KOBELCO mark is Kobe Steel's commitment to excellence and quality.

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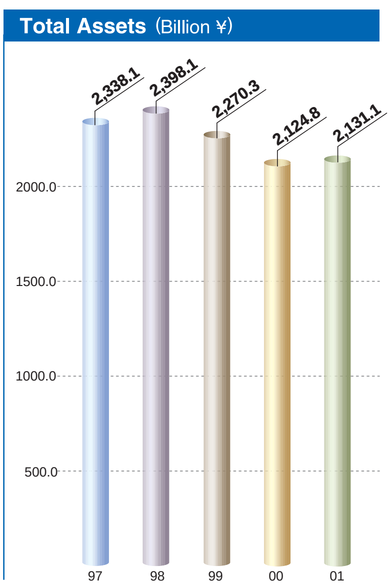
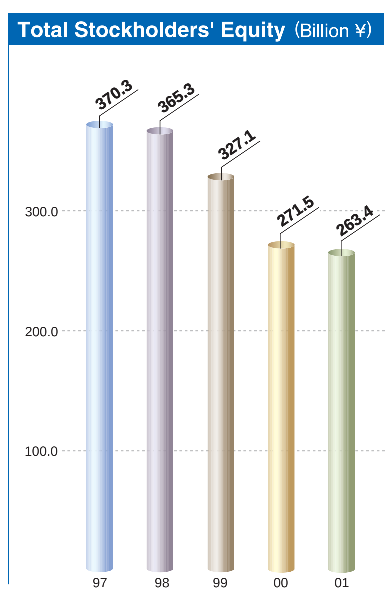
# Consolidated Financial Highlights

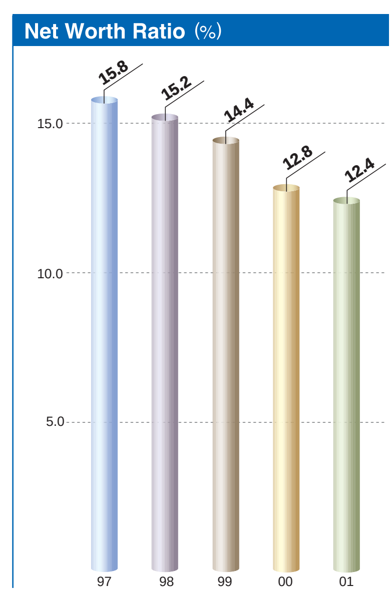
| Years ended March 31, 2001 and 2000 | Millions of yen | | Percent change | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2001 | 2000 | 2001/2000 | 2001 |
| **For the year:** | | | | |
| Net sales | ¥1,373,091 | ¥1,252,516 | 9.6% | $11,082,252 |
| Operating income | 106,404 | 82,708 | 28.7% | 858,789 |
| Loss before income taxes | (5,334) | (46,258) | — | (43,051) |
| Net income (loss) | 6,504 | (53,088) | — | 52,494 |
| Depreciation | 106,990 | 117,686 | –9.1% | 863,519 |
| **At year end:** | | | | |
| Total assets | 2,131,123 | 2,124,795 | 0.3% | 17,200,347 |
| Total stockholders' equity | 263,362 | 271,462 | –3.0% | 2,125,601 |

| | Yen | | U.S. dollars |
|---|---|---|---|
| | 2001 | 2000 | 2001 |
| Net income (loss) per 1,000 shares | ¥2,299 | ¥(18,764) | $18.555 |

For convenience only, U.S. dollar amounts in this report have been translated from Japanese yen at the rate of ¥123.90 to US$1, the rate of exchange prevailing on March 31, 2001.



# Message from the President

We continued to face difficult business conditions in fiscal 2000, ended March 31, 2001. The export environment deteriorated in Asia as the region felt the effects of the slowdown in the U.S. economy. Meanwhile, despite an increase in capital investment in IT industries in the first half of the fiscal year, the Japanese economy soured and sharply worsened in the second half amid retreating private-sector capital expenditure and increasing deflationary pressures.

Despite the severe economy, Kobe Steel's consolidated net sales rose 9.6%, to ¥1,373.1 billion, with major factors being an increase in revenue in our Electronics and Information segment and a larger number of consolidated companies in the Iron and Steel segment and the Construction Machinery segment. Operating income grew 28.7% to ¥106.4 billion, while net income was ¥6.5 billion, a considerable improvement from the ¥53.1 billion net loss in the previous fiscal year.

## Rebuilding for the future

As competition intensifies globally, manufacturing companies are restructuring their operations within and across national borders. For many Japanese companies, fundamental restructuring has become a matter of survival. At Kobe Steel, we have been taking steps to improve our financial position and strengthen our competitiveness.

Under a policy of selection and consolidation, we have been realigning our activities and shifting resources to businesses of strategic priority. In the year under review, we made significant progress and have nearly completed these endeavors.

In December, we formed a cooperative agreement with U.S. Steel to conduct R&D in automotive steel sheet technology. Also in the automotive field, we and Europe's Lucchini Group have begun technical exchanges this year in specialty steel wire rod and bar, which will serve as the basis on which we can consider the formation of a technical alliance. Through such moves, we are enhancing our profile in the automobile industries in Japan, the United States and Europe, as car makers seek worldwide sources of materials and parts.

With CNH Global N.V. of the Fiat Group, we reached an agreement in March to form an alliance in construction equipment. Through cross-shareholdings, we will set up production and marketing joint ventures in Japan, the United States, and Europe, as well as establish marketing bases in Asia and Australia. With a new world-wide formation, we aim to strengthen the operations of our construction equipment business.

Finally, in May we sold our 75% stake in our semiconductor joint venture, KMT Semiconductor, Ltd., to our partner, Micron Technology, Inc. This frees us from having to provide continual funding and loan guarantees to KMT.

## Looking Ahead

Having nearly completed the selection and consolidation of our businesses, we are now focusing on raising the profitability of our key segments. As our business environment undergoes faster and more wide-ranging changes, we are not only stepping up the pace of our Consolidated Midterm Management Plan, but are also implementing new strategies in our core businesses to raise profitability, while building management speed and flexibility.

### Iron and Steel

Our domestic strategy is centered on specialty steel, high strength steel sheet, and electrogalvanized steel sheet – products in which we excel. We are applying these strengths to increase our international competitiveness through alliances in the United States and Europe.

At the same time, we are making steady progress in our 1.4 million-kilowatt wholesale electricity supply business at Kobe Works. Trial runs of the No. 1 Power Plant began in July and the facility is scheduled to go into full operation in April 2002. Construction of the No. 2 Power Plant began in February and is scheduled to come on stream in April 2004.

### Aluminum and Copper

We have formed cooperative alliances to increase our profitability. For extruded aluminum products, we are working with Sumitomo Light Metal Industries, Ltd. In the area of copper sheet and strip, we are cooperating with Mitsubishi Materials Corporation and Mitsubishi Shindoh Co., Ltd.

As demand for aluminum grows due to the need for lighter cars, we are benefiting from our alliance in automotive aluminum sheet with Alcoa Inc.

In these ways, Kobe Steel is working to solidify its position as one of Japan's top suppliers of aluminum products.

### Machinery

In the growing environmental and energy fields, we are striving to increase orders while cutting costs to cope with increasingly fierce competition. We are developing new products and are looking into new markets. At the same time, we are refocusing our overseas engineering business, which faces difficult operating markets, on our most competitive products and services.

Through these strategies, we are striving to further raise the profitability of our businesses, manage our resources more efficiently, and eliminate deficits at an early date. As we focus on what we do best, we are becoming a company that excels in each field of endeavor.

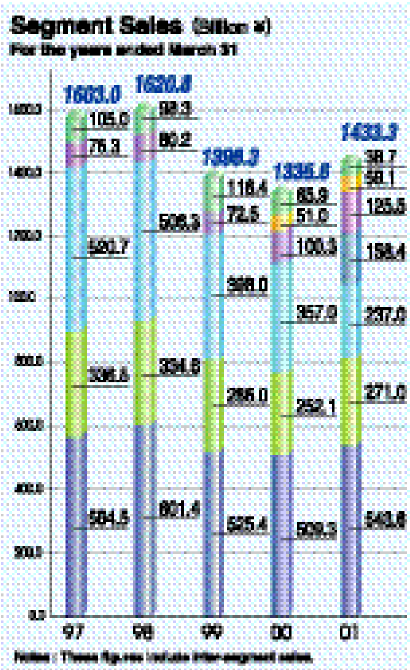
We thank you for your understanding and look forward to your continued support.

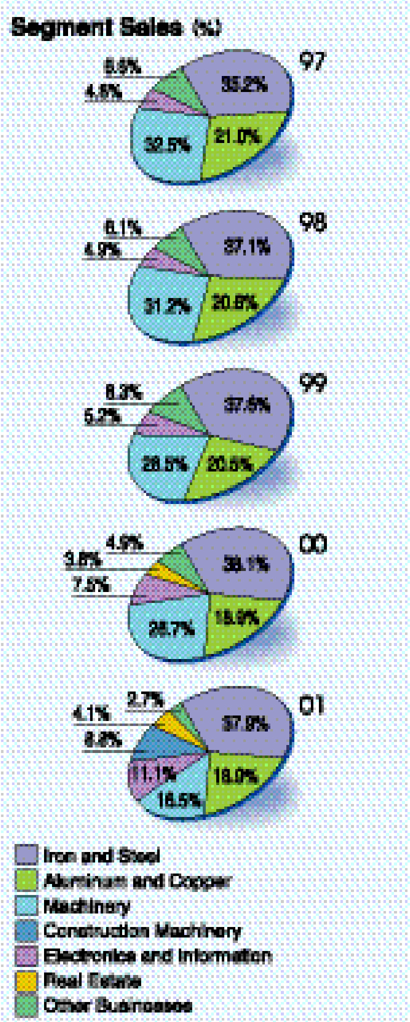
August 2001

K. Mizukoshi

Koshi Mizukoshi
President and
Chief Executive Officer

# Review of Operations




## Iron and Steel Segment

Demand for steel rose in the construction and manufacturing industries, reflecting solid growth in private capital investment on the back of burgeoning IT demand, increased automobile production, and large-scale redevelopment projects in metropolitan areas. However, the export environment deteriorated sharply. Global demand contracted following a strong start in 2000. In the second half, sales began to fall in Asia, which until then was an expanding market, due to the slowdown in the U.S. economy. At the same time, trade friction with China and South Korea intensified.

For Kobe Steel, both domestic shipments and sales increased, while export sales fell year on year. In steel castings and forgings, sales went up sharply, thanks to a large increase in orders for crankshafts, following an upturn in global shipbuilding. Sales of titanium and steel powder products also rose in comparison to the previous year. Sales of titanium products were lifted by an increase in demand from the aircraft and IT industries, while steel powder sold well in the automotive field.

Domestic sales of welding consumables improved, owing to investments by the IT industry and in urban redevelopment projects. Asian demand helped push export volume up, but prices fell both at home and overseas, so sales rose only slightly. Orders for robot welding systems were also buoyant, thanks to demand from the steel structural, construction equipment and bridge markets.

As a result, Kobe Steel's Iron and Steel segment sales rose 6.7%, to ¥543.6 billion, and operating income climbed 8.8%, to ¥46.7 billion.

New Products

Kobe Steel introduced a number of new products for the automotive industry: ultrahigh strength bolts; 980MPa class hot dip galvanized, high strength steel sheet; and a record-high 1,470MPa class high strength steel sheet.

For the shipbuilding industry, we developed and commercialized high strength steel plate with half the deviation of the deformation arising in gas cutting and welding operations. And in the construction field, we introduced a coated steel sheet with significantly higher corrosion resistance than conventional zinc-5%aluminum sheet.

In welding consumables, we commercialized SE Wire, a solid welding wire without a copper coating, and developed the market for MG55 solid wire and MX55 flux-cored wire for welding steel structurals, to meet new

This FASTMET® Direct Reduction Plant contributes to zero emission activities at Kakogawa Works by reclaiming zinc-rich iron oxide dust from blast furnace and steelmaking operations.

construction standards.

Kobe Steel essentially completed investments that sharpen its competitive edge in wire rod, sheet and plate production. Underway at Kakogawa Works is the integration of the pickling and cold-rolling processes at the sheet mill. In environmental activities, we started using waste plastic in February 2000 as a supplement to coal used in blast furnaces at Kakogawa Works. We have also successfully started up a steel dust recycling plant using the FASTMET® Direct Reduction Process, as we work to achieve zero emissions at the Works.

### New Group Companies

Shinko Kaiun Co., Ltd., and Shinko Rikuun Co., Ltd. were merged in April 2000 to form Kobelco Logistics, Ltd., as part of cost-cutting measures. To overhaul and strengthen our specialty steel business, we turned Nippon Koshuha Steel Co., Ltd. into a consolidated subsidiary, and Nippon Koshuha transferred its bearing steel production and marketing to us. Furthermore, to strengthen our wire rope business, in April 2001 Tesac Corporation's steel rope and wire division was transferred to the joint venture Tesac Wirerope Co., Ltd., with us as the main shareholder.

### Alliances and Joint Ventures

We entered into a research and development agreement for automotive steel sheet technology with U.S. Steel in December 2000. In specialty steel wire rod and bar for the automotive industry, we signed an agreement in April this year to conduct technical exchanges with Europe's Lucchini Group. This will serve as the basis on which our two companies will consider the formation of a technical alliance. Through such cooperative arrangements in advanced steel production and processing, we aim to position ourselves to serve the global procurement needs of the automotive industry.

In addition, a wire rod processing joint venture in Nanjing, China with the Shanghai Baosteel Group began commercial production in fiscal 2000. Steel powder producer, Kobelco Metal Powder of America, Inc., increased capacity by approximately 15%, to 5,000 short tons a month, to meet growing demand in North America. Moreover, our Thai wire rod processing venture, Kobe CH Wire (Thailand) Co., Ltd., is expanding its facilities to provide more top-quality CHQ wire rod. Meanwhile, Kobe Welding of Korea Co., Ltd., which supplies the booming South Korean shipbuilding industry, has expanded its production lines of flux-cored welding wire.

### IPP Business

In our wholesale electricity supply business, we began trial runs in July this year at the No. 1 Power Plant of the Shinko Kobe Power Station, in anticipation of full operation in April 2002. Construction of the No. 2 Power Plant began in February, and it will go on stream in April 2004. With each plant having a generating capacity of 700,000 kilowatts, the two together will be able to produce 1.4 million kilowatts. This independent power producer (IPP) business is anticipated to contribute to our profitability in the near future.

### Looking Ahead

In fiscal 2001, domestic and overseas demand for steel is expected to slacken. In these difficult times, we will continue to promote products of excellence, including high strength steel sheet and plate. At the same time, we will continue to rationalize operations, reduce costs, pursue efficient results-oriented R&D, and upgrade our overseas production bases. By following these policies in a concerted effort throughout the Kobe Steel Group, we intend to raise our competitiveness, bring to bear the advantages of our products, and further raise our presence in the market.

In 2004, we will have the capacity to generate 1.4 million kilowatts of electricity at Kobe Works. With trial runs underway at the No. 1 Power Plant, construction is proceeding on the No. 2 Power Plant.


MG55 solid wire for welding steel structurals provides high welding efficiency and excellent cost performance.

## Aluminum and Copper Segment

In rolled aluminum products, demand for can stock rose year on year. Although PET bottles came into wider use, demand increased due to strong sales of *happoshu,* a low-malt beer-like beverage, and from the growing switch to aluminum bottle cans. Strong demand also came from makers of automotive heat exchangers and semiconductor fabrication equipment. In rolled copper products, shipments of copper sheet and strip for semiconductor leadframes were down, but the sales volume of copper tubing rose, supported by seasonal demand from air conditioner makers.

Overall sales in the Aluminum and Copper segment rose 7.5%, to ¥271.0 billion, due to an increase in shipments of rolled aluminum products and higher aluminum ingot prices. Operating income rose 21.7%, to ¥12.4 billion, due to the increased shipments of rolled aluminum products and cost cutting measures.

### Products for Growing Markets

Our research and development activities are focused on the core products of aluminum can stock, aluminum fin material and copper tubing for air conditioners, and copper sheet and strip for automotive electrical terminals. We are also developing products in the promising automotive, electronics, and information fields.

Products developed for the automotive industry include aluminum sheet with outstanding formability and corrosion-resistance properties for use in body panels, highly shock-absorbent extruded aluminum products for frames, extruded aluminum door beams, and aluminum forgings for use in suspension systems. We are leveraging our expertise in welding, surface treatment, structural analysis and processing to offer a wide variety of aluminum products to automakers in their quest to reduce vehicle weight.

For the electronics and information industries, we have been marketing high-strength, high-conductivity copper alloys for leadframes and high-durability aluminum vacuum chambers used in the semiconductor manufacturing industry. Both products are selling well. In providing environmental solutions, we have succeeded in developing technology for recycling aluminum dross into a usable raw material.

While closely monitoring market trends, we are increasing our production capabilities for products in the automotive and semiconductor industries. We have added a coreless furnace for special copper alloys and a slitter in response to rising demand for thinner copper sheet for semiconductor applications. In the casting and forging field, we are building a new mechanical press to meet the growing need for aluminum forged parts for car suspensions.

### Global Networks

Our can stock joint venture with Alcoa, Inc., KAAL Australia Pty. Ltd., continues to perform well. We have licensed our copper alloy technology for semiconductors, terminals and connectors to U.S. and European manufacturers. In Asia, we process and market copper strip and leadframes at Singapore Kobe Pte. Ltd. and Kobe Leadframe Singapore Pte. Ltd. Through the line up of these companies, we have established a global supply network spanning Japan, the United States, Europe, and Asia.

### Alliances

We have actively formed alliances with other companies to strengthen our competitiveness and raise profitability. In December 2000, we agreed with Sumitomo Light Metal Industries, Ltd. to explore tie-ups in extruded aluminum products. In the previous year, we formed a cooperative agreement with Mitsubishi Materials Corporation and Mitsubishi Shindoh Co., Ltd. that covers copper rolling and leadframes.

We supply can stock for aluminum bottles, which are growing in popularity owing to their convenience, ease of use and recyclability.

Aluminum forgings in suspension systems contribute to lighter cars. Demand for these and other aluminum products are expected to grow.

### Outlook

The market for aluminum and copper products is anticipated to expand in the medium term. Demand from the information sector will center on copper sheet and strip for semiconductors, aluminum plate for semiconductor manufacturing equipment, and aluminum sheet for automobiles.

Automotive lightweighting is a strategic priority in our midterm business plan. With our comprehensive technological capabilities, including parts design, we are intent on meeting the need for lighter cars.

We have seen a reduction in demand for aluminum can stock in recent years due to the increasing use of PET bottles. However, we expect PET bottles will be replaced by aluminum bottle cans, which are coming into wider use. Like aluminum automotive parts, aluminum bottles are environment-friendly as they are easily recycled, and demand is expected to burgeon.

We are determined to maintain our position as a leading company in the aluminum and copper industries. We intend to be internationally competitive in price, quality and service as we create new markets using our technological strengths.

## Machinery Segment

In our infrastructure and plant engineering business, overseas demand was curtailed by weak conditions, but demand in Japan was strong. Our waste treatment business had a particularly good year. A tightening of restrictions on dioxin emissions in Japan from December 2002 pushed demand for municipal refuse treatment plants to a peak. In particular, we received orders for three pyrolysis melting incineration plants. As a result, both order levels and our share in this market rose to record highs. Orders in our machinery business also increased, thanks to higher demand for compressors and optical fiber manufacturing equipment. Consequently, overall orders in this sector rose 16.3%, to ¥234.7 billion, and the backlog of orders at the end of the fiscal year stood at ¥232.8 billion.

Segment sales rose 6.8%, to ¥237.0 billion, and operating income rose 50.7%, to ¥1.7 billion. Although domestic sales in the infrastructure and plant engineering business were buoyant thanks to an increase in orders in the previous fiscal year, overseas sales were flat due to weak market conditions. In the machinery business, sales rose for crushing equipment, medium-sized to large compressors, and UPS (uninterruptible power supply) equipment.

### Environment Technology

We have developed solid waste and wastewater treatment processes, while pursuing recycling and non-polluting technologies. We have been marketing pyrolysis melting incineration facilities for solid waste treatment, and plants for recovering fluorocarbons from used refrigerators.

In wastewater treatment, we have brought to market a sophisticated carrier-added activated sludge process and an advanced oxidization process using ozone to break down dioxins. We also offer a thermal recycling process using biomass to treat sewage sludge.

### Process Engineering

In our engineering business, we have completed trials on a new 2,6-DMN process to make an intermediate material for high performance PEN plastic and are currently marketing the technology.

### Machinery Business

We are selling the environment-friendly, low-energy Inverter series of screw compressors, the Ecosand Recymer, which turns waste sludge into sand or formed products, and the Astro GS Mill for sand manufacture.

Overseas, we set up Kobelco Compressors (Shanghai) Corporation to market and service standard compres-

We have developed high-strength, high conductivity copper alloys for terminals, connectors, and semiconductor leadframes.

Our fluidized bed pyrolysis melting furnace offers high-performance incineration of solid waste with minimal emissions.

The Inverter series of medium-sized screw compressors, using a permanent magnet synchronous motor, is noted for low energy consumption.

sors in East China. Similar companies were established last year in Singapore and the Philippines.

Kobe Steel regards its environmental business as a strategic area of high priority. We are developing new products as well as exploring new fields in the environment protection market. With public works programs shrinking and competition intensifying in Japan, we will bring to bear our strengths in pricing and technology to further hone our competitiveness.

## Construction Machinery Segment

Demand for construction equipment was dragged down by slack construction in Japan. Overseas, Europe was firm, but the U.S. economy lost steam and business was also slack in Asia. Nevertheless, although unit sales of cranes declined, we increased our share of the excavator market, chiefly through new product launches.

Fiscal 2000 sales in this segment rose 16.7%, to ¥158.4 billion. Operating income also improved greatly from the previous fiscal year, to ¥5.2 billion, reflecting cost-cutting and efforts.

### Strategic Moves

Kobelco Construction Machinery Co., Ltd., which runs Kobe Steel's construction equipment operations, has turned a profit since its establishment in 1999. It has increased its share of the domestic and overseas markets and strengthened profitability with shortened lead times and improved distribution efficiency.

In March 2001, Kobelco laid the groundwork for its evolution into a truly global concern by reaching an agreement to form an alliance with CNH Global N.V. of the Fiat Group. It has also tied up with Tadano Ltd. for the production of rough terrain cranes.

### New and Upgraded Products

Fiscal 2000 saw a full upgrade of Kobelco's zero tail swing mini excavators. Kobelco also introduced a new range of telescopic crawler cranes that combines the technologies of its lattice boom crawler cranes and rough terrain cranes.

### Global Activities

Kobelco America Inc. (currently Kobelco Construction America LLC) faced a decelerating U.S. economy, a tailing off of demand due to higher dealer inventories, and intensified competition from the rental sector. Nevertheless, it increased revenues and income by expanding sales through the launch of a new range of hydraulic excavators and crawler cranes in the North American market.

With recovery in the Southeast Asian markets remaining elusive, Thai Kobelco Construction Machinery, Ltd. was converted into a supply base for attachments and spare parts for the Kobelco Group.  However, sales fell year on year amid a persistently severe economic environment characterized by the weak baht.

In the growing Chinese market, Chengdu Kobelco Construction Machinery Co., Ltd., expanded sales with the launching of new products.

The Ecosand Recymer is the world's first commercial waste sludge stabilization and treatment system. Stabilizing dry rock dust, construction sludge or dredged sludge, the plant produces artificial sand, which can be used in concrete, or formed products, such as interlocking blocks. By using stabilized waste sludge, the system contributes to improving the environment.

The 200SR is one in a series of excavators with zero tail swing. We pioneered this space-saving features now found in both mini excavators and excavators.

### For the Future

Kobelco Construction Machinery intends to expand its excavator business worldwide. The alliance with CNH will lead to the formation of a production base in Europe and to the introduction of new products in the domestic market as Kobelco becomes a full line supplier. The alliance will also contribute to a more efficient business structure. In the crane business, the Company will focus resources on expanding overseas sales, especially in North America, while maximizing the benefits of its production tie-up with Tadano.

## Electronics and Information Segment

During the year under review, sales in this segment rose 25.1%, to ¥125.5 billion and operating income shot up 249.4% to ¥26.0 billion. The strong performance reflected growth for products and services from semiconductor subsidiaries serving the IT industry and an increase in unit prices.

### Semiconductor Products and Services

Our semiconductor-manufacturing unit, KMT Semiconductor, Ltd. registered impressive improvements in both sales and operating profit following high sales volume for a second consecutive year, on the back of favorable conditions in the IT industry. KMT Semiconductor was a joint venture with Micron Technology, Inc. of the United States. For KMT to remain a world-class manufacturing facility for DRAMs, we decided the best strategy would be for Micron, a leader in semiconductor development and manufacturing technologies, to take full control of KMT's management and continue to make capital investments. As a result, in May 2001 we transferred our 75% shareholding in KMT to Micron.

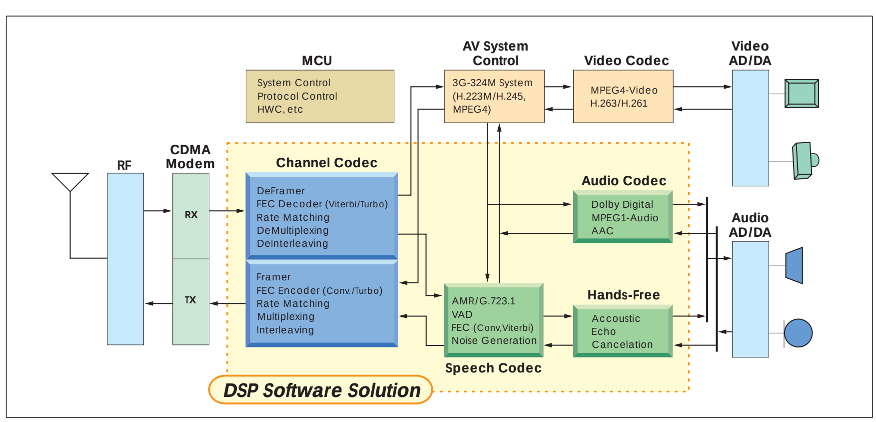
Genesis Technology Inc., a subsidiary involved in semiconductor testing services, enjoyed another year of robust sales as semiconductor manufacturers increased production capacity and boosted demand for outsourced post-processing operations.

Engaged in the design of semiconductors, Kobelco LSI Design Inc. expanded its business by meeting the outsourcing needs for LSI chip design for audio and telecommunications use.

### Solutions Business

Kobelco Systems Corporation, a subsidiary in the IT business, has played a vital role in assisting Kobe Steel and Group companies in constructing network systems. It has also enjoyed significant growth in its solutions business outside the Group, on the back of increased demand for IT products. It posted an increase in e-business demand from its mainstay customer groups, manufacturers, and financial and insurance companies. Based on our technological strength in host computer operation and management as well as production management system design and telecommunications, we are building this business on the twin pillars of solutions and customer services.

Kobe Steel's sales in the IT and telecommunication systems field were stagnant, after dissolving an agreement




Kobelco LSI Design, Inc., specializes in the development of digital signal processor (DSP) software, a core technology in voice, telecommunications, video and audio processing.

to market real-time operating systems, a mainstay product, and a decline in sales of urban information and environment monitoring systems. To get this business on track, we are expanding sales of current products and services, as well as add new menus.

## Real Estate Segment

Sales in this segment rose 15.7%, to ¥59.1 billion, mainly reflecting strong condominium sales in the Kobe area. However, operating income decreased 30.7%, to ¥13.6 billion, chiefly because of changes in the types of real estate sales.

Emphasis on Regional Activities

With regard to Company land development projects, urban projects in Hyogo Prefecture that emphasize distinctive regional features are underway in the new city center in eastern Kobe, Okubo in Akashi, and Doicho in Amagasaki, all in Hyogo Prefecture, as well as Hachinohe in Aomori Prefecture.

At the Maya Seaside Place condominium project in the new city center in eastern Kobe, we have already sold 400 units in the western zone following the start of construction in autumn 1999. We are now putting together a detailed business plan for the eastern zone. Meanwhile, at O's Town, a development in the Okubo area of Akashi, more than 1,300 families have moved into condominiums since their completion in March 1997, located near Mycal Akashi, one of the largest commercial complexes in Japan.

Our real estate subsidiary, Shinko Kosan, Ltd., is conducting business in real estate sales, rentals, and building management services in the Osaka-Kobe area. In the year under review, it worked to strengthen profitability by aggressively developing business in the Tokyo area, as well.

## Other Businesses Segment

A total of 27 consolidated and non-consolidated subsidiaries and four affiliates are engaged in this service-oriented segment covering such fields as materials inspection, pressure vessel fabrication, trading and travel services.

Segment sales fell 41.3%, to ¥38.7 billion, and operating income dropped 56.3%, to ¥1.7 billion. This was due mainly to Shinko Lease Co., Ltd. ceasing to be a consolidated subsidiary after we reduced our equity in that company.

Maya Seaside Place, a condominium development in eastern Kobe

# Directors, Corporate Auditors, and Corporate Officers (As of June 27, 2001)

Chairman of the Board and Representative Director

Masahiro Kumamoto

President, Chief Executive Officer and Representative Director

Koshi Mizukoshi

## Head Office and Technical Development Group

Executive Vice President and Representative Director

Osamu Takata

Directors and Senior Officers

Hiroshi Sato
Toru Asaoka

Officers

Masanori Fukiwake
Takashi Matsutani

## Iron and Steel Sector

Executive Vice President and Representative Director

Noriyoshi Mitsutake

Executive Officer

Yasuo Inubushi

Senior Officers

Toshio Kimura
Izumi Kozakai
Iwao Miyamoto

Officers

Tatsuo Ikeda
Mutsuo Yamamoto
Tsuyoshi Tanaka
Masaaki Nakazono
Keiji Koyama
Saburo Hara
Tomoyuki Kaya

## Welding Company

Executive Officer

Hiroo Shimada*

Officer

Isao Aida

## Aluminum and Copper Company

Executive Officer

Shinji Yano*

Senior Officer

Yutaka Nakayasu

Officers

Eiki Usui
Hiroyuki Nakayama
Hideo Ogi

## Infrastructure and Plant Engineering Company

Executive Vice President and Representative Director

Yasuaki Hirata*

Executive Officers

Takashi Ishida
Susumu Okushima

Senior Officer

Akira Uragami

Officer

Katsunori Aoki

## Machinery Company

Senior Officer

Shigeto Kotani*

Statutory Auditors

Hirokatsu Yokoyama
Katsuyuki Matsumoto
Shigetake Ogata
Taku Morota

Notes: (1) Representative directors are authorized to represent the Company in all matters.
(2) * Denotes the president of the company.

# Consolidated Five-Year Summary

| Years ended March 31 | Millions of yen | | | | | Thousands of U.S. dollars |
|---|---|---|---|---|---|---|
| | 2001 | 2000 | 1999 | 1998 | 1997 | 2001 |
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| Total assets | 2,131,123 | 2,124,795 | 2,270,278 | 2,398,134 | 2,338,123 | 17,200,347 |
| Total stockholders' equity | 263,362 | 271,462 | 327,055 | 365,302 | 370,259 | 2,125,601 |

| | Yen | | | | | U.S. dollars |
|---|---|---|---|---|---|---|
| Amounts per 1,000 shares: | | | | | | |
| Net income (loss) | ¥2,299 | ¥(18,764) | ¥(13,710) | ¥(1,727) | ¥6,174 | $18,555 |
| Cash dividends applicable to the year | — | — | — | 2,000 | — | — |

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# Consolidated Financial Review

## Income Analysis

During the first half of the consolidated accounting period under review, there were signs that the Japanese economy was headed for moderate recovery, indicated by an increase in private sector investment, chiefly in IT equipment, and buoyant exports to Asian nations. However, later in the fiscal year the economy abruptly relapsed into recession due to the continued stagnation of personal spending, a worsening of export conditions amid a slowdown in the U.S. economy, signs of a leveling-off of private-sector investment, and increased deflationary pressures.

Against this background, Kobe Steel, Ltd. posted a ¥120.6 billion rise in net sales, to ¥1,373.1 billion, due to expanded sales in the Electronics and Information Segment and newly consolidated subsidiaries in the Iron and Steel and Construction Machinery Segments. Income before income taxes rose ¥36.3 billion, to ¥50.0 billion, due to increased efficiency through successful comprehensive cost-cutting programs, and sound performance in semiconductor-related businesses. As a result, net income was ¥6.5 billion, a ¥59.6 billion improvement from the previous fiscal year.

Sales in the Iron and Steel Segment rose 6.7%, to ¥543.6 billion, and operating income rose 8.8%, to ¥46.7 billion, due to increased sales by volume to Japanese customers, the beneficial effects of the Company's rationalization and cost-cutting programs, and rises in revenue at consolidated subsidiaries.

Aluminum and Copper Segment sales rose 7.5%, to ¥271.0 billion, and operating income rose 21.7%, to ¥12.4 billion, due mainly to increased sales volumes and the beneficial effect of cost-cutting programs.

In the Machinery Segment sales rose 6.8%, to ¥237.0 billion, and operating income jumped 50.6%, to ¥1.7 billion. The main factors supporting these increases were sound performance in the environmental business, centered on municipal refuse treatment plant, and the standard compressor business.

Construction Machinery sales rose 16.7%, to ¥158.4 billion, and operating income was ¥5.2 billion, a ¥5.7 billion improvement due to cost-cutting programs.

In the Electronics and Information Segment sales climbed 25.1%, to ¥125.5 billion, and operating income soared 249.4%, to ¥26.0 billion, reflecting rising demand for semiconductor products from IT equipment makers and sound performance across the board from subsidiaries. The semiconductor subsidiary also benefited from a rise in product prices.

In the Real Estate Segment sales rose 15.7%, to ¥59.1 billion, but operating income declined 30.7%, to ¥13.6 billion, due to such factors as changes in the types of real estate sales.

Net other expenses totaled ¥111.7 billion and the loss before income taxes amounted to ¥5.3 billion. After adjustments for income tax and minority interests, a net income of ¥6.5 billion was recorded.

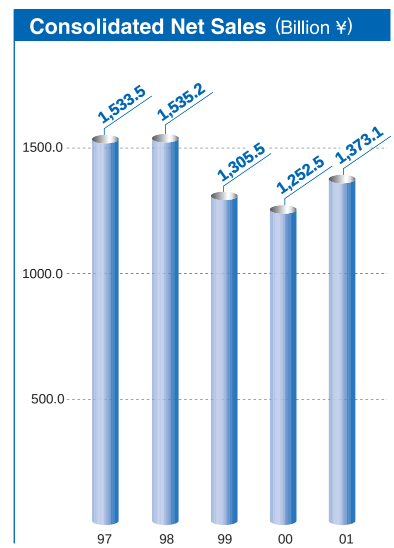
## Analysis of Cash Flow and Financial Position

The Company's operating, investing, and financing activities during the fiscal year resulted in consolidated cash and cash equivalents decreasing ¥36.0 billion, or 22.2%, to ¥126.2 billion. Net cash provided by operating activities totaled ¥137.4 billion, while net outflows consisted of cash used in investing and financing activities in connection with the acquisition of fixed assets and repayment of long-term borrowings and other factors.

Net cash provided by operating activities declined ¥75.3 billion, or 35.4%, to ¥137.4 billion. This was due mainly to a large drop in receivables and inventory assets in the consolidated accounting period under review as well as an increase in extraordinary retirement payments.

Net cash used in investing activities amounted to ¥42.4 billion, a ¥66.0 billion decline, due mainly to a decrease in capital investment expenditures.

Net cash used in financing activities amounted to ¥139.1 billion, an increase of ¥55.4 billion, due mainly to further reductions in external liabilities.



# Consolidated Balance Sheets

| March 31, 2001 and 2000 | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| ASSETS | 2001 | 2000 | 2001 |
| Current assets: | | | |
| Cash and cash equivalents | ¥ 123,631 | ¥ 158,227 | $ 997,829 |
| Marketable securities | 4,310 | 67,340 | 34,786 |
| Notes and accounts receivable: | | | |
| Trade | 288,195 | 241,387 | 2,326,029 |
| Unconsolidated subsidiaries and affiliates | 68,703 | 101,419 | 554,504 |
| Other | 26,667 | 4,485 | 215,230 |
| Allowance for doubtful accounts | (1,096) | (509) | (8,846) |
| | 382,469 | 346,782 | 3,086,917 |
| Inventories | 254,564 | 247,389 | 2,054,592 |
| Deferred income taxes (Note 11) | 12,332 | 11,684 | 99,532 |
| Other | 22,037 | 16,685 | 177,861 |
| Total current assets | 799,343 | 848,107 | 6,451,517 |
| Investments and other assets: | | | |
| Investments in securities | 92,166 | 21,963 | 743,874 |
| Investments in and advances to unconsolidated subsidiaries and affiliates | 38,067 | 46,795 | 307,240 |
| Long-term loans receivable | 8,438 | 20,376 | 68,103 |
| Other | 71,917 | 81,441 | 580,444 |
| Allowance for doubtful accounts | (9,992) | (6,576) | (80,646) |
| | 200,596 | 163,999 | 1,619,015 |
| Plant and equipment: | | | |
| Land | 161,481 | 135,460 | 1,303,317 |
| Buildings and structures | 617,048 | 604,807 | 4,980,210 |
| Machinery and equipment | 1,786,851 | 1,724,011 | 14,421,719 |
| Construction in progress | 60,959 | 33,971 | 492,002 |
| | 2,626,339 | 2,498,249 | 21,197,248 |
| Less accumulated depreciation | 1,618,286 | 1,500,878 | 13,061,227 |
| | 1,008,053 | 997,371 | 8,136,021 |
| Intangible assets | 22,031 | 24,068 | 177,813 |
| Deferred income taxes (Note 11) | 101,100 | 66,537 | 815,981 |
| Foreign currency translation adjustments | — | 24,713 | — |
| | ¥2,131,123 | ¥2,124,795 | $17,200,347 |

See accompanying notes.

| LIABILITIES AND STOCKHOLDERS' EQUITY | Millions of yen 2001 | Millions of yen 2000 | Thousands of U.S. dollars (Note 1) 2001 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term borrowings (Note 7) | ¥ 226,364 | ¥ 256,843 | $ 1,826,990 |
| Current portion of long-term debt (Note 7) | 145,572 | 207,100 | 1,174,915 |
| Notes and accounts payable: | | | |
| Trade | 244,405 | 195,049 | 1,972,599 |
| Construction | 36,507 | 21,790 | 294,649 |
| Unconsolidated subsidiaries and affiliates | 52,440 | 52,122 | 423,245 |
| Other | 13,369 | 33,113 | 107,901 |
| | 346,721 | 302,074 | 2,798,394 |
| Advances from customers | 26,613 | 21,602 | 214,794 |
| Customers' and employees' deposits | 26,203 | 20,658 | 211,485 |
| Provision for restructuring costs | 29,358 | — | 236,949 |
| Income and enterprise taxes payable | 5,051 | 2,764 | 40,767 |
| Deferred income taxes (Note 11) | 147 | 365 | 1,181 |
| Other | 57,392 | 49,387 | 463,213 |
| Total current liabilities | 863,421 | 860,793 | 6,968,693 |
| **Long-term liabilities:** | | | |
| Long-term debt (Note 7) | 812,769 | 822,369 | 6,559,879 |
| Employees' severance and retirement benefits (Note 14) | 76,123 | 70,466 | 614,391 |
| Allowance for special repairs | 5,598 | 29,400 | 45,182 |
| Deferred income taxes (Note 11) | 8,849 | 3,217 | 71,420 |
| Other | 71,025 | 56,332 | 573,244 |
| | 974,364 | 981,784 | 7,864,116 |
| **Contingent liabilities** (Note 8) | | | |
| **Minority interests** | 29,976 | 10,756 | 241,937 |
| **Stockholders' equity:** | | | |
| Common stock, par value ¥50 per share (Note 9); | | | |
| Authorized—6,000,000,000 shares | | | |
| Issued—2,835,981,926 shares in 2001 and 2000 | 213,667 | 213,667 | 1,724,512 |
| Additional paid-in capital (Note 9) | 132,309 | 132,309 | 1,067,869 |
| Land revaluation | 126 | — | 1,017 |
| Accumulated deficit | (62,344) | (74,103) | (503,180) |
| Net unrealized holding gains on securities | 2,019 | — | 16,295 |
| Foreign currency translation adjustments (Note 15) | (21,983) | — | (177,425) |
| Treasury stock, at cost: | | | |
| 6,352,332 shares in 2001 and 6,337,047 shares in 2000 | (432) | (411) | (3,487) |
| Total stockholders' equity | 263,362 | 271,462 | 2,125,601 |
| | ¥2,131,123 | ¥2,124,795 | $17,200,347 |

# Consolidated Statements of Operations

| Years ended March 31, 2001 and 2000 | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2001 | 2000 | 2001 |
| Net sales | ¥1,373,091 | ¥1,252,516 | $11,082,252 |
| Cost of sales | 1,123,014 | 1,031,004 | 9,063,874 |
| Gross profit | 250,077 | 221,512 | 2,018,378 |
| Selling, general and administrative expenses (Note 10) | 143,673 | 138,804 | 1,159,589 |
| Operating income | 106,404 | 82,708 | 858,789 |
| Other income (expenses): | | | |
| Interest and dividend income | 3,960 | 5,191 | 31,961 |
| Interest expense | (35,591) | (38,891) | (287,256) |
| Seconded employees' salaries net of reimbursement | (23,335) | (22,968) | (188,337) |
| Gain (loss) on sale of securities | (2,056) | 7,794 | (16,594) |
| Gain (loss) on sale or disposal of plant and equipment | 3,950 | (8,178) | 31,881 |
| Loss on write down of securities, investments and golf memberships | (9,437) | (4,657) | (76,166) |
| Foreign exchange gain (loss) | 1,383 | (1,590) | 11,162 |
| Provision for doubtful receivables | (3,040) | (3,403) | (24,536) |
| Reversal of allowance for special repairs | 24,247 | — | 195,698 |
| Special employees' retirement benefits | (6,885) | (10,107) | (55,569) |
| Gain on securities contributed to employees' retirement benefit trust | 11,850 | — | 95,642 |
| Effect of applying new accounting standard for retirement benefits | (32,626) | — | (263,325) |
| Loss on revaluation of interest swap contracts | (4,859) | — | (39,217) |
| Provision for restructuring costs | (29,358) | — | (236,949) |
| Loss on disposal of inventories and other assets of discontinued operations | (1,559) | (1,629) | (12,583) |
| Amortization of prior service costs of pension plans | — | (15,211) | — |
| Loss on discontinuance of certain operations in the United States of America | — | (12,858) | — |
| Equity in gain (loss) of unconsolidated subsidiaries and affiliates | 1,426 | (6,631) | 11,509 |
| Other, net | (9,808) | (15,828) | (79,161) |
| | (111,738) | (128,966) | (901,840) |
| Loss before income taxes | (5,334) | (46,258) | (43,051) |
| Income taxes (Note 11): | | | |
| Current | 7,583 | 6,407 | 61,203 |
| Deferred | (25,199) | 5,717 | (203,382) |
| | (17,616) | 12,124 | (142,179) |
| Minority interests in losses (gains) of subsidiaries | (5,778) | 5,294 | (46,634) |
| Net income (loss) | ¥ 6,504 | ¥ (53,088) | $ 52,494 |

| | Yen | | U.S. dollars (Note 1) |
|---|---|---|---|
| Net income (loss) per 1,000 shares | ¥2,299 | ¥(18,764) | $18,555 |

See accompanying notes.

# Consolidated Statements of Stockholders' Equity

Years ended March 31, 2001 and 2000

| | Shares of common stock | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Common stock (Note 9) | Additional paid-in capital (Note 9) | Land revaluation (Note 2) | Accumulated deficit (Note 9) | Net unrealized holding gains on securities | Foreign currency translation adjustments (Note 2) | Treasury stock |
| Balance at April 1, 1999 | 2,835,436,826 | ¥213,640 | ¥132,283 | ¥ — | ¥(18,867) | ¥ — | ¥ — | ¥(1) |
| Net loss | — | — | — | | (53,088) | — | — | — |
| Common stock issued in exchange for common stock of Kobelco Construction Machinery Co., Ltd | 545,100 | 27 | 26 | — | — | — | — | — |
| Bonuses to directors | — | — | — | — | (43) | — | — | — |
| Effect of subsidiaries newly consolidated and affiliates newly accounted for by the equity method | — | — | — | — | (1,879) | — | — | (410) |
| Effect of merger of subsidiaries | — | — | — | — | (226) | — | — | — |
| Balance at March 31, 2000 | 2,835,981,926 | 213,667 | 132,309 | — | (74,103) | — | — | (411) |
| Net income | — | — | — | — | 6,504 | — | — | — |
| Adjustments from translation of foreign currency financial statements | — | — | — | — | — | — | (21,983) | — |
| Adoption of new accounting standard for financial instruments | — | — | — | — | — | 2,019 | — | — |
| Bonuses to directors | — | — | — | — | (31) | — | — | — |
| Effect of subsidiaries newly consolidated and affiliates newly accounted for by the equity method | — | — | — | — | 777 | — | — | — |
| Effect of merger of subsidiaries | — | — | — | — | (128) | — | — | — |
| Effects of revaluation of land | — | — | — | 126 | 4,637 | — | — | — |
| Treasury stock | — | — | — | — | — | — | — | (21) |
| Balance at March 31, 2001 | 2,835,981,926 | ¥213,667 | ¥132,309 | ¥126 | ¥(62,344) | ¥2,019 | ¥(21,983) | ¥(432) |

| | Thousands of U.S. dollars (Note 1) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common stock (Note 9) | Additional paid-in capital (Note 9) | Land revaluation (Note 2) | Accumulated deficit (Note 9) | Net unrealized holding gains on securities | Foreign currency translation adjustments (Note 2) | Treasury stock |
| Balance at March 31, 2000 | $1,724,512 | $1,067,869 | $ — | $(598,087) | $ — | $ — | $(3,317) |
| Net income | — | — | — | 52,494 | — | — | — |
| Adjustments from translation of foreign currency financial statements | — | — | — | — | — | (177,425) | — |
| Adoption of new accounting standard for financial instruments | — | — | — | — | 16,295 | — | — |
| Bonuses to directors | — | — | — | (250) | — | — | — |
| Effect of subsidiaries newly consolidated and affiliates newly accounted for by the equity method | — | — | — | 6,271 | — | — | — |
| Effect of merger of subsidiaries | — | — | — | (1,033) | — | — | — |
| Effects of revaluation of land | — | — | 1,017 | 37,425 | — | — | — |
| Treasury stock | — | — | — | — | — | — | (170) |
| Balance at March 31, 2001 | $1,724,512 | $1,067,869 | $1,017 | $(503,180) | $16,295 | $(177,425) | $(3,487) |

See accompanying notes.

# Consolidated Statements of Cash Flows

| Year ended March 31, 2001 and 2000 | Millions of yen 2001 | Millions of yen 2000 | Thousands of U.S. dollars (Note 1) 2001 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Loss before income taxes | ¥ (5,334) | ¥ (46,258) | $ (43,051) |
| Depreciation | 106,990 | 117,686 | 863,519 |
| Interest and dividend income | (3,960) | (5,191) | (31,961) |
| Interest expense | 35,591 | 38,891 | 287,256 |
| Loss (gain) on sale of securities | 2,056 | (7,794) | 16,594 |
| Loss on write down of securities, investments and golf memberships | 9,437 | 4,657 | 76,166 |
| Equity in loss (gain) of unconsolidated subsidiaries and affiliates | (1,426) | 6,631 | (11,509) |
| Special employees' retirement benefits | 6,885 | 10,107 | 55,569 |
| Reversal of allowance for special repairs | (24,247) | — | (195,698) |
| Effect of applying new accounting standard for retirement benefits | 32,641 | — | 263,446 |
| Gain on securities contributed to employees' retirement benefit trust | (11,850) | — | (95,642) |
| Loss on revaluation of interest swap contracts | 4,859 | — | 39,217 |
| Loss (gain) on sale or disposal of plant and equipment | (3,950) | 8,178 | (31,881) |
| Decrease (increase) in trade receivables from customers | (7,016) | 36,323 | (56,626) |
| Decrease in inventories | 4,179 | 56,311 | 33,729 |
| Increase (decrease) in trade payables to customers | 22,640 | (11,009) | 182,728 |
| Other | 24,711 | 58,385 | 199,443 |
| Subtotal | 192,206 | 266,917 | 1,551,299 |
| Cash received for interest and dividends | 6,669 | 6,971 | 53,826 |
| Cash paid for interest | (35,891) | (41,486) | (289,677) |
| Cash paid for special employees' retirement benefits | (20,378) | (12,566) | (164,471) |
| Cash paid for income taxes | (5,250) | (7,216) | (42,373) |
| Net cash provided by operating activities | 137,356 | 212,620 | 1,108,604 |
| **Cash flows from investing activities:** | | | |
| Proceeds from sale of securities | — | 4,367 | — |
| Purchase of plant and equipment and other assets | (72,329) | (135,150) | (583,769) |
| Proceeds from sale of plant and equipment and other assets | 8,927 | 10,369 | 72,050 |
| Purchase of investments in securities | (5,376) | (5,317) | (43,390) |
| Proceeds from sale of investments in securities | 4,942 | 4,749 | 39,887 |
| Decrease (increase) in short-term loans receivable | 2,254 | (4,607) | 18,192 |
| Long-term loans receivable | (1,111) | (7,073) | (8,967) |
| Proceeds from collection of long-term loans | 12,962 | 11,228 | 104,617 |
| Net proceeds from sale of shares of a former consolidated subsidiary | — | 4,107 | — |
| Other | 7,364 | 8,938 | 59,435 |
| Net cash used in investing activities | (42,367) | (108,389) | (341,945) |
| **Cash flows from financing activities:** | | | |
| Decrease in short-term borrowings | (43,281) | (125,455) | (349,322) |
| Decrease in commercial paper | — | (20,000) | — |
| Proceeds from issuance of long-term debt | 92,307 | 222,126 | 745,012 |
| Repayment of long-term debt | (153,721) | (114,078) | (1,240,686) |
| Proceeds from issuance of bonds | 44,261 | 49,410 | 357,232 |
| Repayment of bonds | (79,039) | (93,078) | (637,926) |
| Other | 348 | (2,650) | 2,809 |
| Net cash used in financing activities | (139,125) | (83,725) | (1,122,881) |
| Effect of exchange rate changes on cash and cash equivalents | 754 | (2,264) | 6,085 |
| Increase (decrease) in cash and cash equivalents | (43,382) | 18,242 | (350,137) |
| Cash and cash equivalents at beginning of year | 162,213 | 121,343 | 1,309,225 |
| Cash and cash equivalents of newly consolidated subsidiaries | 7,356 | 22,628 | 59,370 |
| Cash and cash equivalents at end of year (Note 12) | ¥126,187 | ¥162,213 | $1,018,458 |

See accompanying notes.

# 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 2001 | 2000 | Thousands of U.S. dollars (Note 1) 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

# Report of Independent Certified Public Accountants

To the Board of Directors and Stockholders of
Kobe Steel, Ltd.

We have audited the accompanying consolidated balance sheets of Kobe Steel, Ltd. (a Japanese corporation) and subsidiaries at March 31, 2001 and 2000 and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures, as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Kobe Steel, Ltd. and subsidiaries as of March 31, 2001 and 2000, 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, applied on a consistent basis during the periods, except for the new accounting policies as noted in the following paragraph.

As described in Notes 2. (3), (10), (14) and (17), in the year ended March 31, 2001, Kobe Steel, Ltd. and subsidiaries adopted new accounting standards for securities, retirement benefits, foreign currency translation and derivatives and hedge accounting. As explained in Note 2. (1), in the year ended March 31, 2000, Kobe Steel, Ltd. and subsidiaries prospectively adopted the new Japanese acccounting standard for consolidation and equity method accounting.

Kobe Steel, Ltd. has included information on differences between Japanese generally accepted accounting principles and International Accounting Standards in Note 3 to the Consolidated Financial Statements. This information is not required to be disclosed in Japan and is not included in the audited consolidated financial statements filed with regulatory authorities in Japan.

Also, in our opinion, the U.S. dollar amounts in the accounting consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Asahi & Co.

Osaka, Japan
June 29, 2001

(Member Firm of Andersen Worldwide SC)

## Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

# General Information

## Authorized and Issued Share Capital

The authorized share capital of the Company, as defined in the Articles of Incorporation, is 6,000,000,000 shares of common stock. At March 31, 2001, a total of 2,835,981,926 shares were in issue, each share having a par value of ¥50 and having been issued fully paid and in registered form.

## Principal Stockholders

At March 31, 2001, the seven largest stockholders of the Company were as follows:

| | Thousands of shares | Percent of shares issued |
|---|---|---|
| Nippon Life Insurance Company | 169,175 | 5.97% |
| The Sanwa Bank, Limited | 104,503 | 3.68% |
| The Dai-ichi Kangyo Bank, Limited | 104,503 | 3.68% |
| The Sakura Bank, Limited* | 85,086 | 3.00% |
| Nissho Iwai Corporation | 73,437 | 2.59% |
| The Mitsubishi Trust and Banking Corporation | 73,224 | 2.58% |
| The Yasuda Trust and Banking Company, Limited | 66,034 | 2.33% |
| TOTAL | 675,962 | 23.84% |

*Sumitomo Mitsui Banking Corporation, from April 1, 2001

## Directors' and Corporate Auditors' Stockholdings

The following is a list of the directors and corporate auditors with their stockholdings in the Company at June 27, 2001. At the same date, the directors and corporate auditors owned a total of 886,219 shares in the Company.

| | Number of shares owned | | Number of shares owned | | Number of shares owned |
|---|---|---|---|---|---|
| Masahiro Kumamoto | 203,560 | Yasuaki Hirata | 68,150 | Hirokatsu Yokoyama | 87,729 |
| Koshi Mizukoshi | 125,000 | Hiroshi Sato | 87,000 | Katsuyuki Matsumoto | 23,660 |
| Osamu Takata | 73,120 | Toru Asaoka | 31,000 | Shigetake Ogata | 0 |
| Noriyoshi Mitsutake | 187,000 | | | Taku Morota | 0 |

# Consolidated Subsidiaries

## Iron and Steel

### Domestic

Hanshin Yosetsu Kizai Co., Ltd.
Kobe Special Tube Co., Ltd.
Kobelco Logistics, Ltd.
Kobelco Marine Engineering Co., Ltd.
Kobelco Robotics Service Co., Ltd.
Nippon Koshuha Steel Co., Ltd.
Sakai Steel Sheets Works, Ltd.
Shinko Actec Co., Ltd.
Shinko Bolt, Ltd.
Shinko Kakogawa Koun Co., Ltd.
Shinko Kenzai, Ltd.
Shinko Kohan Kako, Ltd.
Shinko Materia Co., Ltd.
Shinko Mex Co., Ltd.
Shinko Nadahama Transportation Co., Ltd.
Shinko Shearex Chugoku Co., Ltd.
Shinko Shearex Co., Ltd.
Shinko Slag Products Co., Ltd.
Shinko Sohgo Service Ltd.
Shinko Taseto Co., Ltd.
Shinko Welding Service Co., Ltd.

### Overseas

Kobe Coating Company
Kobe Delaware Inc.
Kobe/Lorain Holdings, Inc.
Kobe MIG Wire (Thailand) Co., Ltd.
Kobe RTI Holdings, Inc.
Kobe Steel Asia Pte. Ltd.
Kobe Technologies Proprietary, Inc.
Kobe Welding (Singapore) Pte. Ltd.
Kobelco Metal Powder of America, Inc.
Kobelco Welding of America Inc.
Kobelco Welding of Europe B.V.

## Aluminum and Copper

### Domestic

Daido Light Metal Industry Co., Ltd.
Hatano Pipe Center, Ltd.
Ichikawa Amenity Co., Ltd.
Leadmikk, Ltd.
Niko-Aluminium Industries, Ltd.
Shinko Daian Sohgo Service Ltd.
Shinko Fab Tech, Ltd.
Shinko Metal Products Co., Ltd.
Shinko Moka Sohgo Service Ltd.
Shinko-North Co., Ltd.
Sun Aluminium Industries, Ltd.

### Overseas

Kobe Aluminium (Australia) Pty. Ltd.
Kobe Aluminium Canada Inc.
Kobe Aluminum Cayman Inc.
Kobe Copper (Malaysia) Sdn. Bhd.
Kobe Leadframe Singapore Pte. Ltd.
Kobe Precision, Inc.
Kobe Precision Parts (Malaysia) Sdn. Bhd.
Kobe Precision Technology Sdn. Bhd.
Singapore Kobe Pte. Ltd.

## Machinery

### Domestic

Industrial Services International
Kobe Heating and Cooling Supply Co., Ltd.
Kobelco Compressors Corporation
Kobelco Sanki Service Co., Ltd.
Shinko Airtech, Ltd.
Shinko Engineering Co., Ltd.
Shinko I.E. Tech Co., Ltd.
Shinko Inspection & Service Co., Ltd.
Shinko Pantec Co., Ltd.
Shinko Plant Construction Co., Ltd.
Shinko Techno Engineering Co., Ltd.
Shinwa Wood Works, Ltd.

### Overseas

Bimarco AG
EMC International, Inc.
Forwarding Services International, Inc.
Kobelco Compressors (America), Inc.
Kobelco Machinery Asia Pte. Ltd.
Kobelco Stewart Bolling, Inc.
Midrex Enterprises Inc.
Midrex International B.V.
Midrex Technologies, Inc.
Operaciones al Sur del Orinoco, C.A.
Professional Services International, Inc.
Project Service International S.A. de C.V.

## Construction Machinery

### Domestic

Kobelco Construction Machinary Co., Ltd.

### Overseas

Kobelco America Inc.*

## Electronics and Information

### Domestic

Genesis Technology Inc.
Japan Magnet Technology Inc.
KMT Semiconductor, Ltd.**
Kobelco LSI Design, Inc.
Kobelco Systems Corporation

### Overseas

Shanghai Shinko Computer Technology Co., Ltd.

## Real Estate

### Domestic

Aono Resort Co., Ltd.
Hachinohe Waterfront Development Co., Ltd.
I.H.D. Center Co., Ltd.
Kobe Waterfront Development Co., Ltd.
O's Town Development Co., Ltd.
Shinko Care Life Co., Ltd.
Shinko Kosan, Ltd.

## Other Businesses

### Domestic

Kobelco Accounting Service Co., Ltd.
Kobelco Financial Center Co., Ltd.
Kobelco Office Service Co., Ltd.
Kobelco Personnel Co., Ltd.
Kobelco PR Center Co., Ltd.
Kobelco Research Institute, Inc.
Shinko Human Create Co., Ltd.
Shinko Industrial Co., Ltd.
Shinko Research Co., Ltd.
Shinko Travel Service Co., Ltd.
Twin Foods Co., Ltd.

### Overseas

Kobe Professional Service Inc.
Kobe Real Estate (USA) Inc.
Kobe Steel Australia Pty. Ltd.
Kobe Steel Europe Ltd.
Kobe Steel International (America) Inc.
Kobe Steel International (Netherlands) B.V.
Kobe Steel International (USA) Inc.
Kobe Steel USA Holdings Inc.
Kobe Steel USA Inc.

*Kobelco America Inc. changed its name to Kobelco Construction Machinery America LLC, effective July 2, 2001.

**Kobe Steel,Ltd. transferred all of its equity held in KMT Semiconductor, Ltd. to Micron Technology Inc. on May 1, 2001.

# Domestic and Overseas Offices

## Head Offices

### Tokyo Head Office

9-12, Kita-Shinagawa 5-chome, Shinagawa-ku,
TOKYO, 141-8688 JAPAN
Tel: (03) 5739-6000 Fax: (03) 5739-6903

### Kobe Head Office (registered)

3-18, Wakinohamacho 1-chome, Chuo-ku,
Kobe, HYOGO, 651-8585 JAPAN

### Kobe Head Office (temporary)

Shinko Building,
10-26, Wakinohamacho 2-chome, Chuo-ku,
Kobe, HYOGO, 651-8585 JAPAN
Tel: (078) 261-5111 Fax: (078) 261-4123

## Branch Offices

### Osaka

Midosuji Mitsui Building,
1-3, Bingomachi 4-chome, Chuo-ku,
Osaka, OSAKA, 541-8536 JAPAN
Tel: (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
Tel: (052) 584-6111 Fax: (052) 584-6105

## Sales Offices

Hokkaido (Sapporo)
Tohoku (Sendai)
Niigata (Niigata)
Hokuriku (Toyama)
Shikoku (Takamatsu)
Chugoku (Hiroshima)
Kyushu (Fukuoka)

## Overseas Offices and Contacts

### New York

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

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1000 Town Center, Suite 2450,
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Tel: (248) 827-7757 Fax: (248) 827-7759

### Singapore

Kobe Steel Asia Pte. Ltd.
79 Anson Road,
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REPUBLIC OF SINGAPORE
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### Hong Kong

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### Düsseldorf

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40210 Düsseldorf, GERMANY
Tel: (0211) 17308-0 Fax: (0211) 17308-50

### Beijing

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Unit 1706, Bldg. A, The Lucky Tower
No. 3 North Dongsanhuan Road, Chaoyang District,
Beijing 100027, CHINA
Tel: (010) 6461-8491 Fax: (010) 6461-8490

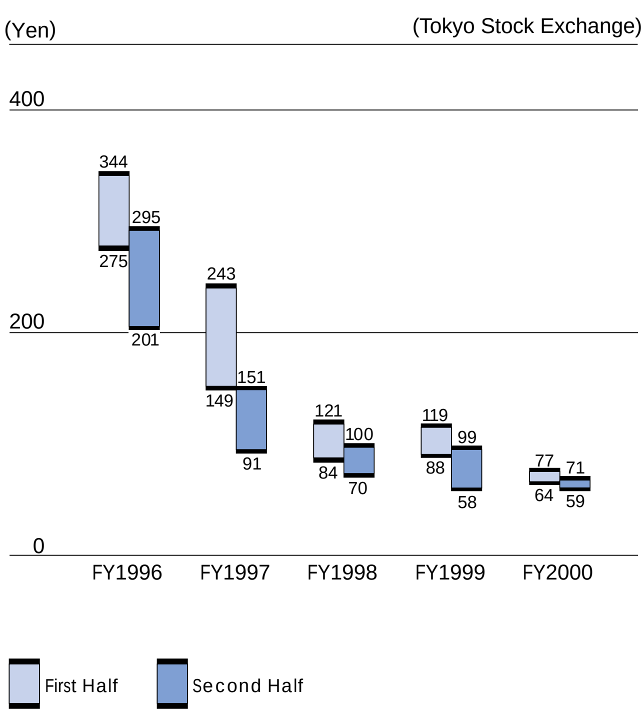
## Investor Information (As of March 31, 2001)

**Founded:** September 1905
**Incorporated:** June 1911
**Employees:** 9,828 (Consolidated 30,129)
**Fiscal Year:** April 1 — March 31
**General Meeting:** The ordinary general meeting of the Company's stockholders is usually held in Kobe, Japan in June of each year.

### Distribution of Shares:

| | Number of stockholders | Thousands of shares |
|---|---|---|
| Japanese financial institutions | 199 | 1,130,510 |
| Japanese securities companies | 160 | 17,440 |
| Other Japanese corporations | 2,547 | 534,120 |
| Japanese individuals and others | 271,042 | 1,075,751 |
| Foreign investors | 300 | 78,161 |
| TOTAL | 274,248 | 2,835,982 |

### Common Stock Price Range:




**Listings and Quotations:** Kobe Steel is listed on the Tokyo Stock Exchange, the Osaka Securities Exchange and the three 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 Company, Inc,
101 Barclay Street, New York, NY 10286, U.S.A.
Tel: (212) 815-2204 (U.S. toll free: 888-269-2377)
URL: http://www.bankofny.com/adr

**Public Notices:**
*The Nihon Keizai Shimbun*
*The Kobe Shimbun*

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

**Independent Auditors:**
Asahi & Co.
8-47, Kakuta-cho, Kita-ku, OSAKA 530-8345, JAPAN

**Information:**
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IR Group
Corporate Planning Department
Kobe Steel, Ltd.
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