

## Notes to Consolidated Interim Financial Statements

September 30, 2000 (Unaudited)

### *1. Presentation of Financial Statements*

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

The accompanying consolidated interim financial statements should be read in conjunction with the financial statements and related notes included in the Annual Report of the Company to stockholders for the year ended March 31, 2000.

The accompanying consolidated interim financial statements are translations of the consolidated interim financial statements of the Company which were prepared in accordance with interim accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and were filed with the Ministry of Finance ("MOF") as required by the Securities and Exchange Law.

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

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at September 30, 2000, which was ¥108.00 to U.S. \$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

### *2. Employees' Retirement Benefits*

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

### *3. Financial Instruments*

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

### *4. Translation of Foreign Currencies*

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

### *5. Contingent Liabilities*

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

### *6. Prior year consolidated interim financial statements*

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