Notes to Consolidated Financial Statements

Years ended March 31, 2002 and 2001

1. Basis of Presenting Consolidated Financial Statements

Kobe Steel, Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Japanese Commercial Code and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation is not presented in the accompanying financial statements.

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, 2002, which was ¥133.25 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 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, 2002, the accounts of 156 (149 in 2001) subsidiaries have been included in the consolidated financial statements. Intercompany transactions and accounts have been eliminated.

Fifty-six 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.

Investments in unconsolidated subsidiaries and affiliates, over which the Company has significant influence, except for insignificant companies, are accounted for by the equity method.

For the year ended March 31, 2001, 51 (48 in 2001) 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. Such losses in excess of the amounts due from the investee are recorded in other payables, when the losses are expected to be shared by the Company.

(2) 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 accounts 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 were principally stated at the lower of moving average cost or market value. Recoveries of write-downs to market were recorded in subsequent periods. Other securities, excluding investments accounted for by the equity method, were stated at moving average cost. If significant impairment of values was deemed permanent, cost was appropriately reduced.

Effective April 1, 2000, the Company and its consolidated domestic subsidiaries 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) 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 or later date of purchase.

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

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, 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. 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 were 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, the Construction Machinery Segment and the 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. Useful lives are based on tax law. 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, 2002 were ¥22,054 million ($165,508 thousand) and ¥22,683 million for the year ended March 31, 2001

(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 Company and its consolidated domestic subsidiaries provides two types of post-employment benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans.

At March 31, 2000, the Company and its consolidated domestic subsidiaries 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 Company and its consolidated domestic subsidiaries recognized pension expense when, and to the extent, payments were made to the pension plans.

Effective April 1, 2000, the Company and its consolidated domestic subsidiaries 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 Company and its consolidated domestic subsidiaries provided for employees’ severance and retirement benefits at March 31, 2002 and 2001 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets.

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, of which ¥18,785 million was recognized as an expense as a result of the contribution of investment securities worth ¥18,785 million to the employees' retirement benefit trust. The remaining net transition obligation amounting to ¥66,834 million is being recognized in expenses in equal amounts primarily over 5 years commencing with the year ended March 31, 2001. Prior service costs are recognized in expenses in equal amounts over four years. Actuarial gains and losses are recognized in expenses using the straight-line method within the average of the estimated remaining service lives (mainly 12 years) 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 and loss before income taxes increased by ¥5,958 million 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 years ended 31st March, 2002 and 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 Company and its consolidated domestic subsidiaries 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 Company and its consolidated domestic subsidiaries report foreign currency translation adjustments in shareholders’ equity (and minority interests). The prior year's amount was included in assets.

(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) Effect of Bank Holidays on March 31, 2002 and 2001

As financial institutions in Japan were closed on March 31, 2002 and 2001, ¥7,922 million ($59,452 thousand) in 2002 (¥8,662 million in 2001) of trade notes receivable and ¥8,090 million ($60,713 thousand) in 2002 (¥9,264 milloin in 2001) of trade notes payable maturing on March 31, 2002 and 2001 were settled on the following business days, April 1,2002 and April 2, 2001 and accounted for accordingly.

(19) 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 to the consolidated financial statements, 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, 2002 and 2001, 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 IAS 8 the net transition obligation should be recognized immediately or under IAS 19 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, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Buildings and structures	**¥ 266**	¥ 181	**$ 1,996**
Machinery and equipment	**64,231**	69,576	**482,034**
	¥64,497	¥69,757	**$484,030**

Future minimum lease payments as lessee under non-capitalized finance leases at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Due within one year	**¥10,410**	¥12,315	**$ 78,124**
Due after one year	**19,485**	24,729	**146,229**
	¥29,895	¥37,044	**$224,353**
Lease expense for the years ended March 31	**¥12,675**	¥12,999	**$ 95,122**

Future minimum lease payments as lessee under operating leases at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Due within one year	**¥2,064**	¥3,938	**$15,490**
Due after one year	**3,554**	2,647	**26,671**
	¥5,618	¥6,585	**$42,161**

Leased assets as lessor under finance leases, accounted for as operating leases, at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Machinery and equipment	**¥618**	¥938	**$4,638**
Less accumulated depreciation	**(433)**	(251)	**(3,250)**
	¥185	¥687	**$1,388**

Future minimum lease payments receivable as lessor under finance leases, accounted for as operating leases, at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Future minimum lease payments receivable:			
Due within one year	**¥ 93**	¥411	**$ 698**
Due after one year	**186**	429	**1,396**
	¥279	¥840	**$2,094**
Lease income for the years ended March 31	**¥127**	¥125	**$ 953**

Future minimum lease payments receivable as lessor under operating leases at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Due within one year	**¥ 299**	¥ 358	**$ 2,244**
Due after one year	**5,032**	5,028	**37,764**
	¥5,331	¥5,386	**$40,008**

5. Securities

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2002 and 2001:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2002			2001			**2002**
	Book values	Fair values	Difference	Book values	Fair values	Difference	Difference
Held-to-maturity debt securities							
Securities with available fair values exceeding book values...	¥50	¥55	¥5	¥ 50	¥ 55	¥ 5	$38
Other securities	21	21	(0)	4,114	3,709	(405)	(0)
	¥71	**¥76**	**¥5**	**¥4,164**	**¥3,764**	**¥(400)**	**$38**

	Millions of yen			Millions of yen			Thousands of U.S. dollars (Note 1)
	Acquisition costs	Book values	Difference	Acquisition costs	Book values	Difference	Difference
Available-for-sale securities							
Securities with available book values exceeding acquisition costs:							
Equity securities............................	¥ 9,944	¥13,376	¥3,432	¥19,831	¥30,033	¥10,203	$25,756
Bonds	30	30	0	11	11	—	0
	9,974	13,406	3,432	19,842	30,044	10,203	25,756
Other securities:							
Equity securities............................	24,145	19,497	(4,648)	38,010	27,913	(10,097)	(34,882)
Bonds	50	37	(13)	18	17	(1)	(97)
	24,195	19,534	(4,661)	38,028	27,930	(10,098)	(34,979)
	¥34,169	**¥32,940**	**¥(1,229)**	**¥57,870**	**¥57,974**	**¥ 105**	**$ (9,223)**

The following table summarizes book values of securities with no available fair values as of March 31, 2002 and 2001:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Held-to-maturity debt securities:			
Non-listed foreign securities	¥ —	¥ 8,341	$ —
Available-for-sale securities:			
Non-listed equity securities	20,772	17,692	155,887
Non-listed foreign equity securities denominated in yen	1,000	4,979	7,505
Non-listed foreign equity securities denominated in foreign currency	393	—	2,949
Money management fund	0	2,353	0

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)
	2002	2001	**2002**
Within one year	¥ 12	¥1,985	$ 90
Over one year but within five years	470	2,367	3,527
Over five year but within ten years	1,000	7,171	7,505
Over ten years	—	1,000	—

Sales of available-for-sale securities for the years ended March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Sales	¥10,615	¥23,629	$79,662
Gains on sales	4,019	12,582	30,161
Losses on sales	14	33	105

Sales of held-to-maturity securities for the year ended March 31, 2002 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Book values	¥8,004	$60,068
Sales	6,867	51,535
Net losses on sales	(1,137)	(8,533)

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, 2002 and 2001 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2002			2001			**2002**
	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value	Recognized gain (loss)	Recognized gain (loss)
Foreign currency exchange contracts							
To sell foreign currencies:							
U.S. dollars	¥7,136	¥7,309	¥(173)	¥7,177	¥7,435	¥(258)	$(1,298)
Others	0	0	(0)	0	0	(0)	(0)
To buy foreign currencies:							
U.S. dollars	3,977	3,977	(0)	4,060	4,062	2	(0)
			¥(173)			**¥(257)**	**$(1,298)**

1. The fair values were estimated by multiplying the contracted foreign currency amount by the forward rate.
2. The above table does not include derivative transactions for which hedge accounting is applied and outstanding foreign exchange contracts which relate to foreign currency receivables and payables that are recorded in the balance sheet by the contracted foreign exchange rates at March 31, 2002 and 2001.

Interest rate swap agreements outstanding at March 31, 2002 and 2001 were as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)
	2002		2001		**2002**
	Contracted amount	Recognized gain (loss)	Contracted amount	Recognized gain (loss)	Recognized gain (loss)
Interest rate swap agreements					
To receive floating and pay fixed rates	¥ 2,938	¥ (79)	¥33,050	¥(1,806)	$ (593)
To receive fixed and to pay floating followed by fixed rates	60,000	(2,876)	60,000	(3,146)	(21,583)
		¥(2,955)		**¥(4,952)**	**$(22,176)**

1. The recognized gains (losses) were estimated by obtaining quotes from counterparty banks.
2. Hedge accounting was not applied to the derivative transactions in the above table at March 31, 2002 and 2001.

7. Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Bank loans (average rate 1.2% in 2002, and 1.5% in 2001)	**¥221,028**	¥226,364	**$1,658,747**

Long-term debt at March 31, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Floating rate (Libor plus 0.5%) notes due 2002	**¥ 10,000**	¥ 10,000	**$ 75,047**
Floating rate (Libor plus 0.75%) notes due 2003	**2,000**	2,000	**15,009**
Floating rate (Libor plus 0.95%) notes due 2004	**4,440**	5,208	**33,321**
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 2007	**10,000**	10,000	**75,047**
1.12% to 6.2% yen bonds, due 2002 through 2012	**348,248**	326,707	**2,613,493**
Euro medium-term notes, due 2002 through 2005	**10,220**	17,259	**76,698**
Loans, principally from banks and insurance companies	**536,218**	587,167	**4,024,150**
	921,126	958,341	**6,912,765**
Less current portion	**193,238**	145,572	**1,450,191**
	¥727,888	¥812,769	**$5,462,574**

The aggregate annual maturities of long-term debt at March 31, 2002 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2003	¥193,238	$1,450,191
2004	176,426	1,324,023
2005	131,437	986,394
2006 and thereafter	420,025	3,152,157
	¥921,126	**$6,912,765**

At March 31, 2002 and 2001, 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)
	2002	2001	**2002**
Assets pledged as collateral			
Plant and equipment-net of accumulated depreciation	¥152,763	¥132,255	$1,146,439
Other assets	24,348	9,501	182,724
	¥177,111	**¥141,756**	**$1,329,163**
Secured short-term borrowings and long-term debt			
Bonds (includes due within 1 year)	¥ 7,278	¥ 11,348	$ 54,619
Short-term borrowings	29,912	27,692	224,480
Long-term borrowings	108,203	57,266	812,030
Other debt	—	247	—
	¥145,393	**¥ 96,553**	**$1,091,129**

With the start of operations of Shinko Kobe Power Inc. on April 1, 2002, the construction in progress account which includes the plant which is pledged at the end of March 2002 as collateral for a long-term loan. The cost of the predged asset is approximately ¥114 billion ($856 million).

8. Contingent Liabilities

At March 31, 2002 the Company and its consolidated domestic subsidiaries were contingently liable as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Trade notes discounted	¥10,242	$ 76,862
Trade notes endorsed	556	4,173
Guarantees of loans		
Related parties	11,727	88,008
Others	4,740	35,572
	¥27,265	$204,615

Guarantees of loans include contingent guarantees and letters of awareness of ¥1,033 million ($7,752 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, 2002, reflect the appropriation of accumulated deficit for the year ended March 31, 2001, which was approved at the general stockholders' meeting held on June 28, 2001.

10. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2002 and 2001 can be analyzed as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Freight	**¥ 31,099**	¥ 35,055	**$ 233,388**
Employees' compensation	**34,757**	35,263	**260,841**
Research and development	**7,592**	8,999	**56,976**
Depreciation	**4,686**	4,415	**35,167**
Other	**62,186**	59,941	**466,686**
	¥140,320	¥143,673	**$1,053,058**

11. Income Taxes

Significant components of the Group's deferred income tax assets and liabilities as of March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Deferred income tax assets:			
Loss carryforwards	**¥ 60,720**	¥46,882	**$455,685**
Unrealized profit	**24,548**	43,359	**184,225**
Other	**61,762**	72,599	**463,505**
Total deferred income tax assets	**147,030**	162,840	**1,103,415**
Valuation allowance	**(15,257)**	(27,827)	**(114,499)**
Deferred income tax assets	**131,773**	135,013	**988,916**
Deferred income tax liabilities:			
Gain on merger	**15,402**	—	**115,588**
Deferred gains on sales of property	**13,189**	14,763	**98,979**
Other	**14,330**	15,814	**107,542**
Total deferred income tax liabilities	**42,921**	30,577	**322,109**
Net deferred income tax assets	**¥88,852**	¥104,436	**$666,807**

12. Consolidated Statements of Cash Flows

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

March 31, 2002 and 2001	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Cash and cash equivalents (balance sheet)	**¥115,900**	¥123,631	**$869,794**
Time deposits (due over 3-month)	**(633)**	(835)	**(4,751)**
Repurchase agreements accounted for as short term loans receivable	**5**	1,037	**38**
Money management fund accounted for as marketable securities	**20**	2,354	**150**
Cash and cash equivalents (cash flow statement)	**¥115,292**	¥126,187	**$865,231**

Non-cash transactions-Finance leases calling for total payments of ¥34,359 millon ($257,854 thousand) were entered into in the year ended March 31, 2002.

Assets and liabilities of Nippon Koshuha Steel Co., Ltd, which became a newly acquired consolidated subsidiary in the year ended March 31, 2001 are as follows:

March 31, 2001	Millions of yen
Current assets	**¥20,182**
Fixed assets	**25,224**
Total assets	**¥45,406**
Current liabilities	**¥22,546**
Long-term liabilities	**9,350**
Total liabilities	**¥31,896**

Assets and liabilities of KMT Semiconductor Co., Ltd, which was excluded from consolidated subsidiaries for 2002, are as follows:

April 1, 2001	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	**¥19,794**	**$148,548**
Fixed assets	**52,908**	**397,058**
Total assets	**¥72,702**	**$545,606**
Current liabilities	**¥34,582**	**$259,527**
Long-term liabilities	**10,618**	**79,685**
Total liabilities	**¥45,200**	**$339,212**

Assets and liabilities of Kobelco System Co., Ltd, which was excluded from consolidated subsidiaries for 2002, are as follows:

March 31, 2002	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	**¥ 8,233**	**$61,786**
Fixed assets	**1,459**	**10,949**
Total assets	**¥ 9,692**	**$72,735**
Current liabilities	**¥5,465**	**$41,013**
Long-term liabilities	**1,337**	**10,034**
Total liabilities	**¥ 6,802**	**$51,047**

Assets and liabilities of Kobelco America, Inc which was excluded from consolidated subsidiaries for 2002, are as follows:

December 31, 2001	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	**¥11,503**	**$ 86,327**
Fixed assets	**1,962**	**14,724**
Total assets	**¥13,465**	**$101,051**
Current liabilities	**¥ 8,310**	**$ 62,364**
Long-term liabilities	**59**	**443**
Total liabilities	**¥ 8,369**	**$ 62,807**

13. Related Party Transactions

Net sales include sales to Shinsho Corporation, which is an affiliate of the Company, of ¥155,244 million ($1,165,058 thousand) and ¥161,639 million for the years ended March 31, 2002 and 2001, respectively.

14. Employees' Severance and Retirement Benefits

As explained in Note 2(10), effective April 1, 2000, the Company and its consolidated domestic subsidiaries 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 sheets as of March 31, 2002 and 2001 consists of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Projected benefit obligation	**¥(219,937)**	¥(265,091)	**$(1,650,560)**
Fair value of pension assets	**134,498**	123,969	**1,009,366**
Unrecognized net transition obligation	**39,687**	52,978	**297,839**
Unrecognized actuarial differences	**19,140**	15,844	**143,640**
Unrecognized prior service costs	**(20,925)**	—	**(157,036)**
Prepaid pension cost	**(7,282)**	(3,823)	**(54,649)**
Liability for severance and retirements benefits	**¥ (54,819)**	¥ (76,123)	**$ (411,400)**

Included in the consolidated statements of operations for the years ended March 31, 2002 and 2001 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Service costs - benefits earned during the year	**¥ 8,138**	¥ 9,212	**$ 61,074**
Interest cost on projected benefit obligation	**7,497**	7,855	**56,263**
Expected return on plan assets	**(3,152)**	(3,185)	**(23,655)**
Amortization of net transition obligation	**13,090**	32,642	**98,236**
Amortization of actuarial differences	**1,871**	(9)	**14,041**
Amortization of prior service costs	**(6,975)**	—	**(52,345)**
Severance and retirement benefit expenses	**¥20,469**	¥46,515	**$153,614**

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 rates are 3.0% in 2002 and mainly 3.0% in 2001 and the rates of expected return on plan assets used by the Group are mainly 3.1% in 2002 and 2.0-3.1% in 2001.
3. During the year ended March 31, 2002, the Company changed the rules and regulations of post-employment benefit plans. As a result, the projected obligation decreased.

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, Real Estate, and Other Businesses. Business segment information was as follows:

Years ended March 31, 2002 and 2001		Millions of yen		Thousands of U.S. dollars (Note 1)
		2002	2001	2002
Sales to outside customers:	Iron and Steel	¥ 476,023	¥ 532,366	$3,572,405
	Aluminum and Copper	256,030	270,454	1,921,426
	Machinery	223,457	224,192	1,676,976
	Construction Machinery	147,885	157,916	1,109,831
	Real Estate	40,063	52,583	300,660
	Other Businesses	54,556	135,580	409,426
	Consolidated net sales	1,198,014	1,373,091	8,990,724
Inter-segment sales:	Iron and Steel	10,360	11,247	77,749
	Aluminum and Copper	511	576	3,835
	Machinery	8,755	12,855	65,704
	Construction Machinery	420	476	3,152
	Real Estate	4,984	6,484	37,403
	Other Businesses	27,605	27,459	207,167
		52,635	59,097	395,010
Total sales:	Iron and Steel	486,383	543,613	3,650,154
	Aluminum and Copper	256,541	271,030	1,925,261
	Machinery	232,212	237,047	1,742,680
	Construction Machinery	148,305	158,392	1,112,983
	Real Estate	45,047	59,067	338,063
	Other Businesses	82,161	163,039	616,593
		1,250,649	1,432,188	9,385,734
Operating costs and expenses:	Iron and Steel	475,110	496,947	3,565,553
	Aluminum and Copper	248,573	258,591	1,865,463
	Machinery	228,501	235,361	1,714,829
	Construction Machinery	146,445	153,188	1,099,024
	Real Estate	37,095	45,443	278,386
	Other Businesses	81,306	135,268	610,176
	Eliminations	(54,515)	(58,111)	(409,116)
	Consolidated operating costs and expenses	1,162,515	1,266,687	8,724,315
Operating income:	Iron and Steel	11,273	46,666	84,601
	Aluminum and Copper	7,968	12,439	59,798
	Machinery	3,711	1,686	27,851
	Construction Machinery	1,860	5,204	13,959
	Real Estate	7,952	13,624	59,677
	Other Businesses	855	27,771	6,417
	Eliminations	1,880	(986)	14,106
	Consolidated operating income	¥ 35,499	¥ 106,404	$ 266,409

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2002	2001	**2002**
Assets:	Iron and Steel	**¥ 954,727**	¥ 907,586	**$ 7,164,931**
	Aluminum and Copper	**246,113**	285,037	**1,847,002**
	Machinery	**255,911**	268,737	**1,920,533**
	Construction Machinery	**180,720**	169,427	**1,356,248**
	Real Estate	**165,529**	180,640	**1,242,244**
	Other Businesses	**74,161**	192,634	**556,555**
	Corporate and Eliminations	**168,142**	127,062	**1,261,853**
	Total	**¥2,045,303**	¥2,131,123	**$15,349,366**
Depreciation:	Iron and Steel	**¥ 52,670**	¥ 57,073	**$ 395,272**
	Aluminum and Copper	**14,188**	14,157	**106,477**
	Machinery	**8,256**	8,243	**61,959**
	Construction Machinery	**3,229**	3,165	**24,233**
	Real Estate	**2,696**	3,326	**20,233**
	Other Businesses	**3,508**	18,983	**26,326**
	Corporate and Eliminations	**2,368**	2,043	**17,770**
	Total	**¥ 86,915**	¥ 106,990	**$ 652,270**
Capital expenditures:	Iron and Steel	**¥ 106,029**	¥ 48,083	**$ 795,715**
	Aluminum and Copper	**8,831**	9,172	**66,274**
	Machinery	**3,181**	6,900	**23,872**
	Construction Machinery	**4,812**	9,121	**36,113**
	Real Estate	**7,215**	3,048	**54,146**
	Other Businesses	**1,564**	10,296	**11,737**
	Corporate and Eliminations	**788**	237	**5,914**
	Total	**¥ 132,420**	¥ 86,857	**$ 993,771**

Corporate assets

Corporate amounts are mainly the common accounts of the head office which cannot be allotted to each segment. Corporate assets, including mainly cash, time deposits and securities, at March 31, 2002 and 2001 are ¥269,468 million ($2,022,274 thousand) and ¥232,810 million, respectively.

Segment change

The Company adopts the method of determining the segment of each subsidiary according to the "Internal Company" to which it belongs. Since "Electronics and Information" decreased in its significance through the sale of securities of KMT Semiconductor Co. Ltd., it is included in "Other Businesses". The amounts for the previous year "2001" in the above table were reclassified. Unreclassified amounts for the previous year "2001" were as follows:

Year ended March 31, 2001		Millions of yen
		2001
Sales to outside customers:	Iron and Steel	¥ 532,366
	Aluminum and Copper	270,454
	Machinery	224,192
	Construction Machinery	157,916
	Electronics and Information	115,638
	Real Estate	52,583
	Other Businesses	19,942
	Consolidated net sales	1,373,091
Inter-segment sales:	Iron and Steel	11,247
	Aluminum and Copper	576
	Machinery	12,855
	Construction Machinery	476
	Electronics and Information	9,839
	Real Estate	6,484
	Other Businesses	18,724
		60,201
Total sales:	Iron and Steel	543,613
	Aluminum and Copper	271,030
	Machinery	237,047
	Construction Machinery	158,392
	Electronics and Information	125,477
	Real Estate	59,067
	Other Businesses	38,666
		1,433,292
Operating costs and expenses:	Iron and Steel	496,947
	Aluminum and Copper	258,591
	Machinery	235,361
	Construction Machinery	153,188
	Electronics and Information	99,444
	Real Estate	45,443
	Other Businesses	36,941
	Eliminations	(59,228)
	Consolidated operating costs and expenses	1,266,687
Operating income:	Iron and Steel	46,666
	Aluminum and Copper	12,439
	Machinery	1,686
	Construction Machinery	5,204
	Electronics and Information	26,033
	Real Estate	13,624
	Other Businesses	1,725
	Eliminations	(973)
	Consolidated operating income	¥ 106,404

		Millions of yen
		2001
Assets:	Iron and Steel	¥ 907,586
	Aluminum and Copper	285,037
	Machinery	268,737
	Construction Machinery	169,427
	Electronics and Information	104,552
	Real Estate	180,640
	Other Businesses	88,581
	Corporate and Eliminations	126,563
	Total	¥2,131,123
Depreciation:	Iron and Steel	¥ 57,073
	Aluminum and Copper	14,157
	Machinery	8,243
	Construction Machinery	3,165
	Electronics and Information	17,838
	Real Estate	3,326
	Other Businesses	1,145
	Corporate and Eliminations	2,043
	Total	¥ 106,990
Capital expenditures:	Iron and Steel	¥ 48,083
	Aluminum and Copper	9,172
	Machinery	6,900
	Construction Machinery	9,121
	Electronics and Information	9,403
	Real Estate	3,048
	Other Businesses	893
	Corporate and Eliminations	237
	Total	¥ 86,857

(2) Geographic Area

Years ended March 31, 2002 and 2001

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2002	2001	**2002**
Sales to outside customers:	Japan	**¥1,083,359**	¥1,249,536	**$8,130,274**
	Asia	**25,591**	22,741	**192,053**
	North America	**47,379**	52,898	**355,565**
	Other areas	**41,685**	47,916	**312,832**
	Total	**1,198,014**	1,373,091	**8,990,724**
Inter-segment sales:	Japan	**33,385**	36,506	**250,544**
	Asia	**1,284**	1,138	**9,636**
	North America	**2,101**	1,512	**15,767**
	Other areas	**296**	45	**2,222**
	Total	**37,066**	39,201	**278,169**
Total sales:	Japan	**1,116,744**	1,286,042	**8,380,818**
	Asia	**26,875**	23,879	**201,689**
	North America	**49,480**	54,410	**371,332**
	Other areas	**41,981**	47,961	**315,054**
	Total	**1,235,080**	1,412,292	**9,268,893**
Operating costs and expenses:	Japan	**1,085,140**	1,180,963	**8,143,640**
	Asia	**26,271**	23,377	**197,156**
	North America	**48,284**	52,402	**362,356**
	Other areas	**40,413**	48,473	**303,287**
	Eliminations	**(37,593)**	(38,528)	**(282,124)**
	Total	**1,162,515**	1,266,687	**8,724,315**
Operating income:	Japan	**31,604**	105,079	**237,178**
	Asia	**604**	502	**4,533**
	North America	**1,196**	2,008	**8,976**
	Other areas	**1,568**	(512)	**11,767**
	Eliminations	**527**	(673)	**3,955**
	Total	**¥ 35,499**	¥ 106,404	**$ 266,409**
Assets:	Japan	**¥1,700,758**	¥1,797,617	**$12,763,662**
	Asia	**29,046**	26,001	**217,981**
	North America	**43,770**	58,414	**328,480**
	Other areas	**55,196**	69,764	**414,229**
	Corporate and eliminations	**216,533**	179,327	**1,625,014**
	Total	**¥2,045,303**	¥2,131,123	**$15,349,366**

Principal countries and areas in each segment are:

Asia ....Singapore, Malaysia, Thailand, Hong Kong
North America ...United States, Canada
Other areas.........Netherlands, Australia

Corporate assets of ¥269,468 million ($2,022,274 thousand) and ¥232,810 million at March 31, 2002 and 2001, 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, 2002 and 2001 were as follows:

		Percentages of 2002 consolidated net sales	Millions of yen		Thousands of U.S. dollars (Note 1)
			2002	2001	**2002**
Overseas Sales:	Asia	**10.3%**	**¥123,202**	¥172,808	**$924,593**
	North America	**4.3%**	**52,028**	75,605	**390,454**
	Other areas	**5.1%**	**60,570**	61,706	**454,559**
	Total	**19.7%**	**¥235,800**	¥310,119	**$1,769,606**

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