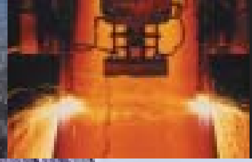


KOBE STEEL ANNUAL REPORT 2003

Year Ended March 31, 2003

KOBELCO
KOBE STEEL, LTD.

Kobe Steel, Ltd. is one of Japan's leading steelmakers and producers of aluminum and copper products. Other major business segments are machinery, construction machinery and real estate.

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 Kobe Steel Group companies. Behind the KOBELCO mark is Kobe Steel's commitment to excellence and quality.

CONTENTS

NOTE
Cautionary Statement
Certain statements in this annual report contain forward-looking statements concerning forecasts, assertions, prospects, intentions and strategies. The decisions and assumptions leading to these statements were based on information currently available to Kobe Steel. Due to possible changes in decisions and assumptions, future business operation, and internal and external conditions, actual results may differ materially from the projected forward-looking statements. Kobe Steel is not obligated to revise the forward-looking contents in this publication.

Uncertain and variable factors include, but are not limited to:
- Changes in economic outlook, demand and market conditions
- Political situation and trade and other regulations
- Changes in currency exchange rates
- Availability and market conditions of raw materials
- Products and services of competing companies, pricing policy, alliances, and business development including M&As
- Strategy changes of alliance partners

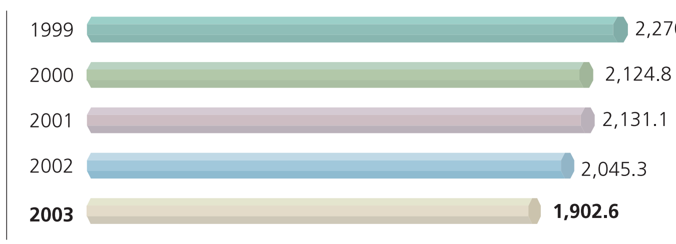
Consolidated Financial Highlights

Years ended March 31, 2003 and 2002	Millions of yen		Percent change	Thousands of U.S. dollars
	2003	2002	2003/2002	2003
For the year:				
Net sales	¥1,204,750	¥1,198,014	0.6%	$10,022,879
Operating income	81,054	35,499	128.3%	674,326
Income (loss) before income taxes	16,004	(31,428)	—	133,145
Net income (loss)	1,723	(28,519)	—	14,334
Depreciation	85,090	86,915	-2.1%	707,903
At year end:				
Total assets	1,902,642	2,045,303	-7.0%	15,828,968
Total stockholders' equity	293,138	280,685	4.4%	2,438,752

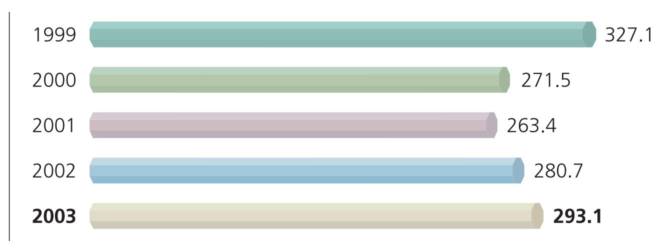
	Yen		U.S. dollars
	2003	2002	2003
Net income (loss) per 1,000 shares	¥592	¥(10,068)	$4.93

For convenience only, U.S. dollar amounts in this report have been translated from Japanese yen at the rate of ¥120.20 to US$1, the rate of exchange prevailing on March 31, 2003

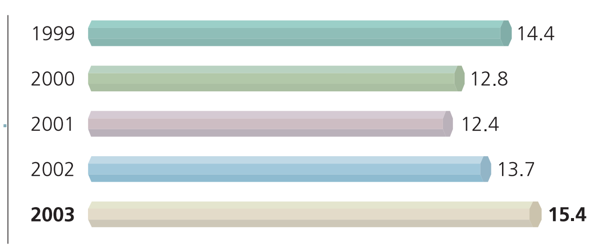
Total Assets (Billion ¥)



Total Stockholders' Equity (Billion ¥)



Net Worth Ratio (%)



Message from the President

Fiscal 2002, ended March 31, 2003, continued to be a difficult year. Increased exports primarily to Asian countries helped the economy, but a slowdown in the U.S. economy as well as sluggish private-sector capital investment and personal consumption in Japan exerted deflationary pressures.

Nevertheless, we were able to maintain consolidated sales of ¥1,204.7 billion, up 0.6% from the previous year. Lower sales following the transfer of partial equity in an IT systems subsidiary were offset by the start of the wholesale electricity supply business in April 2002. Despite losses incurred in the adoption of new accounting standards for retirement benefits and a write-down of securities due to the weak stock market, we registered a net income of ¥1.7 billion, a vast improvement over a loss last year.

Increasing Collaboration

Last year, we continued and formed new collaborations with other companies – an important aspect of our strategy to remain independent and competitive. In November 2002, we strengthened our existing alliance with Nippon Steel Corporation and formed a new one with Sumitomo Metal Industries, Ltd. To solidify the alliances, we took cross-shareholdings with the two partner companies.

Under our alliance with Nippon Steel, we intend to augment cooperation between affiliates. For example, we will combine two of our companies engaged in the melt-cutting of steel plate. We are seeking steps to increase collaboration between distribution subsidiaries and our steelworks, while cooperating in raw materials procurement.

With Sumitomo Metal Industries, we are stepping up our ties in the titanium business. We increased our equity in Sumitomo Titanium Corporation—a publicly listed titanium sponge subsidiary of Sumitomo Metal Industries—to 24.8%. We and Sumitomo Metal Industries are also working to make more effective use of our product distribution network, undertake the joint procurement of raw materials and equipment, and strengthen the scope of our collaboration.

Overseas, we have continued joint R&D with United States Steel Corporation in automotive steel sheet technologies. In April 2002, we signed a formal cooperation pact with Europe's Lucchini Group to collaborate in specialty steel wire rod and bar for automotive applications. In our alliance with voestalpine Stahl GmbH, we are working on a joint study of auto body structures, high strength steel, and personnel exchanges.

In the machinery business, we and Kawasaki Heavy Industries, Ltd. have merged our two crushing equipment businesses into a 50/50 joint venture, Earth Technica Co., Ltd. The design and marketing portions of the crushing equipment businesses in the parent companies have already been transferred to the joint venture. Manufacturing will be transferred in the latter half of fiscal 2004, giving the joint venture a full range of integrated capabilities.

In May 2003, we decided to shift our environmental business to subsidiary Shinko Pantec Co., Ltd., in October 2003. This will combine the Kobe Steel Group's environmental businesses and lay a foundation for strengthening and expanding the Group's comprehensive environmental solutions business. These consolidations are anticipated to further improve opportunities in the sluggish domestic economy.

Building for the Future

Our vision is to further raise our corporate value and contribute to society through our three principal businesses consisting of materials, wholesale power supply, and machinery.

To reach this vision for the Kobe Steel Group, we launched the Fiscal 2003-2005 Consolidated Medium-Term Business Plan in June this year to set us on course for the next three years. Our financial targets are to achieve a pretax ordinary income of 80 billion yen, increase return on assets to 6%, and reduce debt by 250 billion yen to 640 billion yen.

We have set five basic goals under the medium-term plan. The first goal is to further strengthen our position as a manufacturer of distinctive, value-added products. We produce a wide range of first-class products that are highly regarded by domestic and overseas customers. Our plan is to significantly increase the proportion of these distinctive products to make up 40% of our total menu.

Our second goal is to boost our competitiveness. To be competitive, we need both high-quality products and low-cost operation. Particularly in the steel and other material businesses, we need the right facilities. We will increase capital investment to 100 billion yen to bolster our competitiveness over the coming three years.

Third, we aim to improve our financial position. We realize further improvements are needed under the current financial circumstances. Under the plan, we intend to reduce our debt by 250 billion yen to 640 billion yen and lower our debt-to-equity ratio to 1.7.

The fourth goal is to create cash flow of 250 billion yen through higher profits. As the new plan does not include any major sales of assets, profits will be the source of improved cash flow. We will strive to attain pretax ordinary income of 80 billion yen and return on assets of 6 percent.

Finally, we intend to increase the confidence of the capital market by improving our financial position, increasing profits, and ensuring cash flow.

Corporate Governance

To separate strategy and policy decision-making from business operations, Kobe Steel reduced the number of directors in fiscal 1999. However, as management decision-making and day-to-day operations are closely interrelated, strictly divorcing strategy from execution was not found appropriate. Therefore, we have changed the composition of the Board of Directors to include executives responsible for key head office functions as well as business divisions and internal companies. We believe that responsibility for everyday operations should be borne by directors who have a legal responsibility to carry out the Company's business affairs on behalf of the shareholders and customers. This would be the optimum way for shareholders to relegate this responsibility.

Thus, directors oversee the business segments, while corporate officers execute the business affairs of the segments under their guidance. We have also further strengthened our auditing by appointing an additional outside auditor.

Furthermore, we established the Compliance Committee to serve as an advisory body to the Board of Directors on compliance issues. The majority of the members of this standing committee are from outside Kobe Steel. We intend to create compliance systems for the entire company as well as launch an internal notification system to promote self-governance. In these ways, we are improving our corporate governance and compliance to further gain the confidence of our customers and society.

Outlook

We expect our operating environment will continue to be difficult. Low private-sector capital investment and weak personal consumption are anticipated to persist. Global economic trends are also uncertain.

On this outlook, Kobe Steel is focusing its resources on strategic business fields—areas in which we are particularly strong – and markets that have good growth potential. We are carrying out reforms to create a stronger, more stable profit structure, while endeavoring to improve our financial position and significantly increase our corporate value. We ask for the continued understanding and support of our shareholders, customers and employees as we work toward achieving our goals of building a better company.

August 2003

K. Mizukoshi

Koshi Mizukoshi
President and
Chief Executive Officer

Kobe Steel Launches Fiscal 2003-2005 Consolidated Medium-Term Business Plan

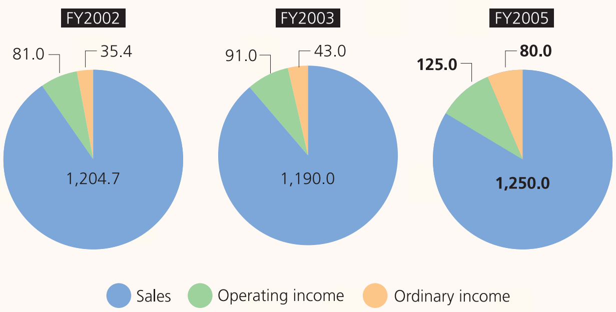
Vision of the Kobe Steel Group

On the threshold of its 100th anniversary, Kobe Steel aims to contribute to society in the coming century through its materials business (steel, welding, aluminum, and copper); the independent power producer (IPP) business; and the machinery business (industrial machinery, construction equipment, environmental solutions, and plant engineering). Recognized as a quality manufacturer, Kobe Steel endeavors to supply products, services and technologies of high renown throughout the world.

I. Goals of the Medium-Term Plan

Strengthen the profitability, performance, and business foundation of the Company by fiscal 2005.

Consolidated Financial Targets (in billions of yen)



Consolidated Financial Targets (in billions of yen)

	FY2002	FY2003	**FY2005**
Sales	1,204.7	1,190.0	**1,250.0**
Operating income	81.0	91.0	**125.0**
Ordinary income*	35.4	43.0	**80.0**
Net income	1.7	14.0	**36.0**
Total assets	1,902.6	1,900.0	**1,800.0**
Debt (interest-bearing liabilities)	895.8	829.0	**640.0**
Debt, including IPP project finance	966.3	965.0	**780.0**)
Cash flow	3-year cumulative total: **250.0**		
Ratio of ordinary income to sales	2.9%	3.6%	**6.4%**
Return on assets	3.4%	3.7%	**6.0%**
Debt-to-equity ratio	3.1	2.7	**1.7**
D/E ratio including IPP project finance	3.3	3.1	**2.1**)

(* also called pretax recurring profit)

By achieving these targets, Kobe Steel aims to raise its credit rating to A or higher under the rating scales used by Japanese credit rating companies by fiscal 2005 and make a complete recovery to the direct financial markets by the same fiscal year.

Factors to Improve Ordinary Income (in billions of yen)

Ordinary income	+45.0	35.4 bln yen in FY2002 to 80 bln yen in FY2005
Raw material cost increases	(10.0)	
Cost increases	(10.0)	Lifting of emergency measures
Cost decreases	+40.0	Variable costs: 22 bln, fixed costs: 18 bln yen
Group companies	+18.0	Higher profits from IPP, construction machinery and other group companies
Price & product mix	+7.0	Price increases, more value-added products

(Figures in parentheses denote minuses.)

II. Major Measures

1. Create and expand sales of distinctive products

- Continue and create "Only One, Number One," distinctive and value-added products, services and technologies of excellence in quality and cost performance.
- Increase sales of distinctive, value-added products 10% in the three main segments of Iron & Steel, Aluminum & Copper, and Machinery to comprise over 40% of total sales by fiscal 2005, in comparison to fiscal 2002.

2. Further advance alliances

- Deepen current alliances and increase benefits from the alliances. Also, promote alliances that contribute to higher profitability in the Company's core businesses.

3. Responding to the global market

- Make effective use of current alliances to meet customers' global procurement requirements.
- Build new supply systems, including independently developed systems based on market characteristics.

4. Reduce costs and undertake investments to improve competitiveness

- Achieve cost reductions of 40 billion yen (non-consolidated) during the 3-year period.
- Allocate 100 billion yen (on a non-consolidated basis) for the three-year period to improve the competitiveness of distinctive, value-added products and to continue the stable operation of facilities. (Amount in preceding 3 years was 70 billion yen.)
- Invest in research and development to commercialize distinctive, value-added products.

5. Measures to improve corporate governance

- Review the management structure.
- Establish and implement compliance systems.
- Promote environmental management in the Kobe Steel Group.
- Reform employee evaluation and compensation.

III. Medium-Term Plan by Business Segment

Consolidated Sales & Ordinary Income Targets

(in billions of yen)

Segment		FY2002	FY2003	**FY2005**
Iron & Steel	Sales	523.4	530.0	**570.0**
	Ordinary Income	20.5	27.0	**50.0**
Aluminum & Copper	Sales	248.0	245.0	**250.0**
	Ordinary Income	3.8	5.0	**8.0**
Machinery	Sales	373.5	355.0	**380.0**
	Ordinary Income	1.0	2.0	**12.0**
Other Businesses	Sales	59.8	60.0	**50.0**
	Ordinary Income	10.1	9.0	**10.0**
Total	Sales	1,204.7	1,190.0	**1,250.0**
	Ordinary Income	35.4	43.0	**80.0**

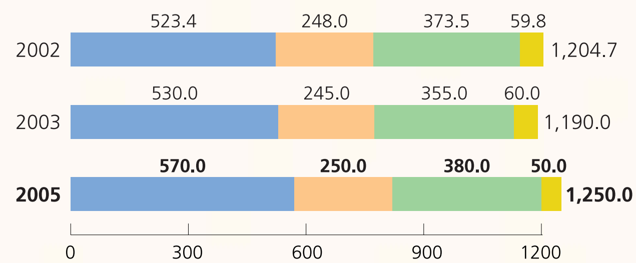
Iron & Steel segment includes Iron & Steel, Welding, and IPP.
Machinery segment includes Industrial Machinery, Construction Machinery, Environmental Solutions.and plant engineering.
Other Businesses segment includes Real Estate.

Targets for Return on Assets

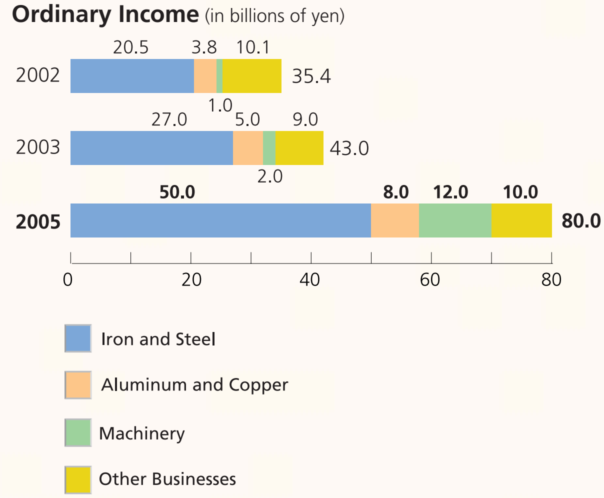
(in percentages)	FY2002	FY2003	**FY2005**
Iron & Steel	4.0%	4.5%	**7.0%**
Aluminum & Copper	3.7%	3.9%	**5.0%**
Machinery	0.9%	1.5%	**4.0%**
Other Businesses	3.9%	3.7%	**4.0%**
Total	3.4%	3.7%	**6.0%**

(ROA: ordinary income plus interest expense divided by total assets)

Consolidated Sales (in billions of yen)



Ordinary Income (in billions of yen)



2003 → 2005
Goals of the Medium-Term Plan

1. Iron & Steel Segment

Iron & Steel

- Aim to be an "indispensable supplier to customers" by increasing the proportion of distinctive, value-added products, such as specialty steel wire rod and bar, high strength steel, and residual stress controlled TMCP steel plate ("Hizumiless"). Production takes place at two nearby steelworks under unified operations with thorough cost reductions.

- Implement and enhance the alliances with Nippon Steel Corporation and Sumitomo Metal Industries, Ltd.

- Strengthen the business foundation of the titanium business.

Independent Power Producer

Maintain high, stable profitability in the wholesale electricity supply business through the combined operation of the two power plants. (The commercial start-up of the No. 2 Power Plant is scheduled to begin in April 2004. The No. 1 Power Plant is already in operation.)

Welding

Maximize the benefits of the alliance with JFE and further solidify its position as Japan's top manufacturer of welding consumables. Kobe Steel also intends to strengthen its overseas operations in China and North, Central and South America.

2. Aluminum & Copper Segment

- Further shift to distinctive, value-added products for the automotive and electronic markets.

- Meet the global market

Automotive materials:	Alliance with Alcoa; independent entry into the U.S. market for aluminum forgings
Copper sheet:	Technical tie-ups in the Americas and Europe

3. Machinery Segment

- Channel management resources into the compressor business. Focus on expanding applications in the energy field and on increasing overseas sales.

- Maximize the benefits of merging the crusher business into a joint venture with Kawasaki Heavy Industries, Ltd.

- Achieve rapid market entry and integration benefits in the environmental business through the launching of Kobelco Eco-Solutions Co., Ltd. in October 2003.

- Promote the commercial application of ITmk3®, a new ironmaking technology.

4. Other Businesses Segment

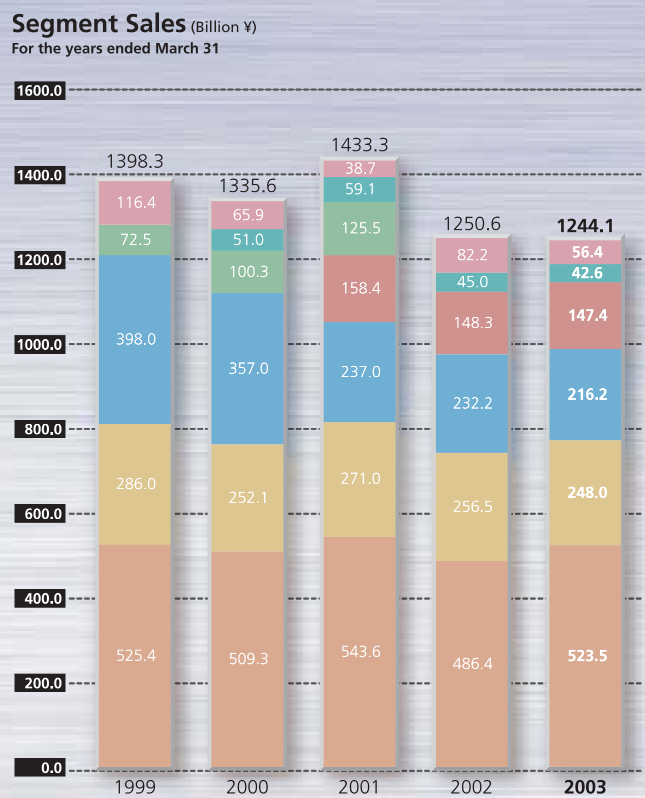
Real Estate

Maintain stable profits through stronger marketing and increasing business in the Tokyo metropolitan area.

Other Products

Increase manufacturing and marketing of target material for LCDs, superconducting magnets and wires, and artificial hip joints.

Sales by Business Segment



Notes : These figures include inter-segment sales.

Iron and Steel Segment

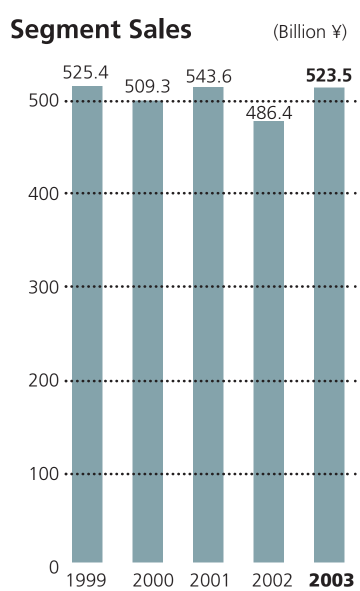
Due to lower capital expenditure and public-sector investment, domestic demand for steel products continued to be slack except for certain fields, such as automobile manufacturing. In contrast, Japan's exports were robust, reflecting a rapid recovery in demand from China and other Asian countries. Strong overseas demand helped boost export prices, while an improvement in domestic market conditions enabled inventories to return to appropriate levels.

On this background, Kobe Steel's vigorous marketing efforts led to a rise in shipments both in Japan and overseas. With the start of the wholesale electricity supply business, Iron and Steel segment sales increased 7.6%, to ¥523.5 billion, and operating income surged 332.6%, to ¥48.8 billion.

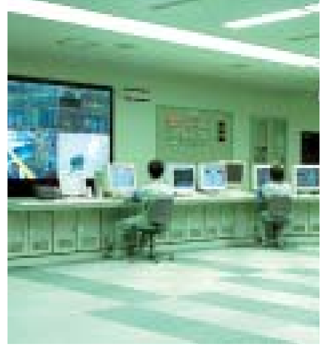
New Products

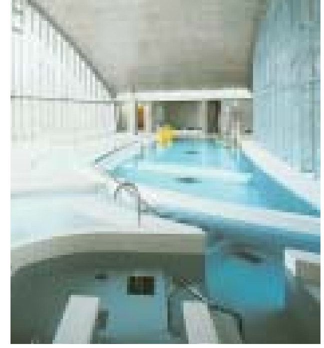
Kobe Steel has been engaged in developing products that actively support customers' needs and also benefit the global environment. Examples of products that have gained considerable attention over the past year include Hizumiless, a residual stress controlled TMCP plate, ultra high strength steel sheet for automobile applications, and other steels that help realize lighter and stronger products. With respect to steel powder, we have recently commercialized Ecomel, which is used to remediate soil contaminated with organic pollutants. Kobehonetsu, a heat-releasing steel sheet has found application in electric components.

The principal capital investments at Kakogawa Works in fiscal 2002 were upgrading the cold strip mill for improved concatenated operation and renovating the No. 3 continuous caster to increase the quality of high strength steel.



Kobe Steel is a leader in research and development on high strength steel sheet featuring superb strength and machinability.





The second of two power plants is currently undedrgoing trials in anticipation of commercial start-up in April 2004. Nadahama Garden Baden (right), a spa facility that utilizes thermal energy generated from No.1 Power Plant, opened in April 2002.

Domestic Mergers and Alliances

We are merging businesses and forming alliances to increase our operational efficiency and competitive position in the Japanese market.

In October 2002, we combined two companies—Shinko Kakogawa Koun Co., Ltd., and Kobelco Logistics, Ltd.—to provide more comprehensive distribution services at our steelworks.

In November 2002, we bolstered an existing alliance with Nippon Steel Corporation, arranged a new alliance with Sumitomo Metal Industries, Ltd., and agreed to take cross-shareholdings with both of these companies. As a result, we issued new shares for third-party allocation to the two companies in January 2003. In order to enhance our respective competitiveness, we are studying collaborative measures with Nippon Steel and Sumitomo Metals.

May 2002 found us in alliance with JFE Steel Corporation to cooperate in the R&D of welding consumables, production and procurement. Out of our discussions, we plan to establish a joint venture called KOBE•JFE Welding Co., Ltd. in October this year to produce solid welding wires in Japan.

Expanding Overseas Collaboration

Our alliances with overseas steelmakers are enabling us to make available the same high-quality steel products to Japanese automobile manufacturers in Europe and North America that we provide domestically. In April 2002, we formed a cooperation pact with the Europe-based Lucchini Group for specialty steel wire rod and bar used in automobiles.

With Austria's voestalpine Stahl GmbH, we started on a joint study of auto body structures, high strength steel, and personnel exchanges. Furthermore, U.S.-based PRO-TEC Coating Company is helping us steadily expand our market share in automotive steel sheet. This joint venture with United States Steel Corporation is highly regarded in the automobile industry for its hot-dip galvanized steel sheet and high strength steel sheet.

We have taken steps to improve our supply of steel powder in North America. Subsidiary Kobelco Metal Powder of America, Inc. increased its manufacturing capacity and began producing SEGLESS™ graphite segregation-free steel powder last year.

In welding materials, affiliate Kobe Welding of Korea Co., Ltd., responded to surging demand for flux-cored welding wire by increasing its monthly manufacturing capacity from 900 metric tons to 1,200 metric tons. In light of projections of a rapid rise in Chinese demand for welding consumables, we established a joint venture, Kobe Welding of Tangshan Co., Ltd., in Tangshan, Hebei Province, which is scheduled to begin manufacturing welding wire later in 2003.

IPP Business

In our wholesale power supply business, the No.1 Power Plant of our Shinko Kobe Power Station has achieved its performance targets.

Developed in 2001, the heat-dissipating steel sheet Kobehonetsu is well regarded for its innovativeness. Kobehonetsu has won various awards including the 2002 Nikkei Superior Product and Service Award and the Jury's Special Award in the Japan Industrial Technology Grand Prix. (left)

Kobehonetsu has seven times the heat dissipating capability of conventional electrogalvanized steel sheet. (right)

The No. 2 Power Plant has commenced testing from July 2003 with commercial operation to begin in April 2004. At that time, the power station will have the capacity to supply 1.4 million kilowatts of electricity, greatly increasing Kobe City's ability to meet its own power needs. As the power station is located in the city, careful consideration has been given to environmental protection and the facility's stable operation is expected to contribute to the local community and regional development.

Outlook

In fiscal 2003, we are striving to increase the prices of our steel products and further expand sales of products in which we excel — specialty steel, high strength steel plate for shipbuilding, high strength steel she et for automobiles, surface-treated steel sheet for appliances, and welding consumables. We are also moving forward with restructuring and cost-cutting measures, pursuing efficient R&D programs, and strengthening and expanding our overseas business.

The SE Series of solid welding wires have no copper coating, making them environmentally friendly.

Aluminum and Copper Segment

Demand for aluminum can stock—a principal product—was virtually unchanged from the previous fiscal year. Downward pressure on demand owing to a rise in the use of small PET bottles was offset by increased growth of two popular beverages—canned happoshu or low-malt beer and canned chu-hi, or shochu liquor mixed with fruit juice. The use of aluminum bottle cans also went up.

Growth in can stock, a recovery in the IT market, and the increasing use of aluminum in automobiles supported a year-on-year rise in shipments of rolled aluminum products.

Demand for aluminum cast and forged products was also up, reflecting a progressive increase in the adoption of aluminum forgings for use in automotive suspension systems as well as higher demand for aluminum vacuum chambers used in LCD manufacturing equipment.

For rolled copper products, shipments of copper strip increased considerably due to higher demand for semiconductor leadframes and continued firm demand for automotive connectors and terminals. However, the market for copper tubing declined, reflecting a drop in domestic demand as domestic air conditioner manufacturers increased their overseas production.

Although product sales increased, the Company's withdrawal from aluminum projects overseas led to a 3% decrease in segment sales, to ¥248.0 billion. However, the rise in product sales and thorough cost-cutting measures enabled a 55% surge in operating income, to ¥12.4 billion.

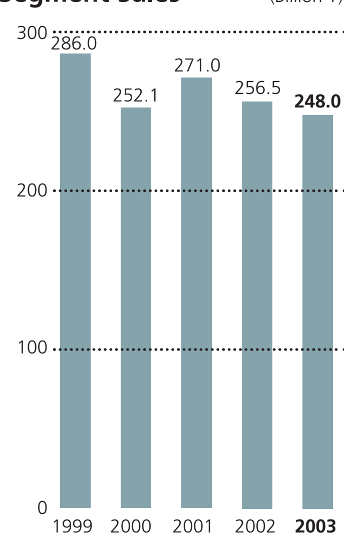
Product Development

Kobe Steel is stepping up its R&D activities in the growth fields of automobiles, IT, and semiconductors.

Products developed for the automotive industry include aluminum sheet with outstanding formability and strength for use in body panels, highly shock-absorbent extruded aluminum products for bumpers, and aluminum forgings for suspension systems. We are effectively leveraging our expertise in welding, surface treatment, and structural analysis for parts design and are using a 1,000-ton press for trial production so that we can propose suitable processing technologies to customers.

In the fields of IT and semiconductors, we have steadily generated useful results in research on high-strength, high-conductivity copper alloys for lead frames; high-durability aluminum vacuum chambers used in LCD production equipment; and

Segment Sales (Billion ¥)



We supply can stock for aluminum bottles, which are growing in popularity. Easy to use, these containers are convenient and recyclable.

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

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

materials for electrodes used in vacuum chambers. We are also aggressively focusing R&D on environmental solutions and have achieved success in reducing waste emissions from manufacturing processes as well as in recycling resources in waste products.

Over the past few years, we have restrained capital investment in light of sluggish market growth. However, we are increasing our production capacity for products used in the auto and semiconductor markets, which are expected to grow over the medium term.

Overseas Activities

In our copper tube business in North America, we dissolved a joint venture with the previous partners and rebuilt the business by creating a new joint venture with Wieland-Werke AG, a leading German manufacturer of rolled copper products. We also sold our equity stake in three aluminum development projects—the Boyne smelter and the Worsley alumina refinery, both in Australia, and the Alouette smelter project in Canada. In turn, we are focusing our resources on our core aluminum rolling businesses.

Aluminum for Autos and Cans

Because of environmental regulations and their own desires to help protect the environment, automobile manufacturers are striving to increase their use of aluminum components. In particular, the number of vehicles incorporating our aluminum forgings for suspension systems has already risen considerably, and automobile manufacturers are now beginning to use greater amounts of our aluminum sheet for body panels. In response to the increasing production by Japanese transplants in the United States, our alliance with Alcoa enables Alcoa to supply aluminum sheet for auto body panels that correspond to the same specifications used in Japan.

On a separate project with two other Japanese companies, we decided to establish a joint venture called Kobe Aluminum Automotive Products LLC, which is scheduled to begin manufacturing aluminum forgings for suspension systems in June 2005.

Our aluminum can stock business, a major product, has benefited from the steady rise in the use of aluminum bottles. In only three years since the launch of this new container, we have gained a 25% share of the can stock for the aluminum soft-drink can market.

Aluminum bottles are environment-friendly as they are easily recycled and demand is expected to continue increasing.

Outlook

Demand for aluminum and copper products in fiscal 2003 is expected to improve owing to a recovery in semiconductors during the latter half of the year as well as a further increase in the use of aluminum in automobiles. Over the medium term, we anticipate growing demand for our aluminum and copper products, particularly sheet, extruded, and forged aluminum materials used in automobiles as well as for such products for the IT and semiconductor industries as copper strip for leadframes, aluminum vacuum chambers used in LCD manufacturing equipment, and aluminum blanks for hard disk drives.

In the future, we will continue employing our technological capabilities to create new markets and make greater use of our competitiveness to consolidate our position as a leading company in the aluminum and copper fields.

Aluminum vacuum chamber for LCD manufacturing equipment

We have developed numerous aluminum alloys, such as high-strength, highly formable alloys for automobile body panels. Kobe Steel is well known in the automobile industry, both in Japan and abroad, for its innovative, quality products.

Machinery Segment

Kobe Steel's Infrastructure and Plant Engineering Company recorded a large drop in domestic orders during fiscal 2002 due to a plunge in orders for municipal solid waste treatment plants. Overseas revenue was up slightly, owing to the start of a construction order for an iron ore pelletizing plant as well as strong exports of equipment for the energy field.

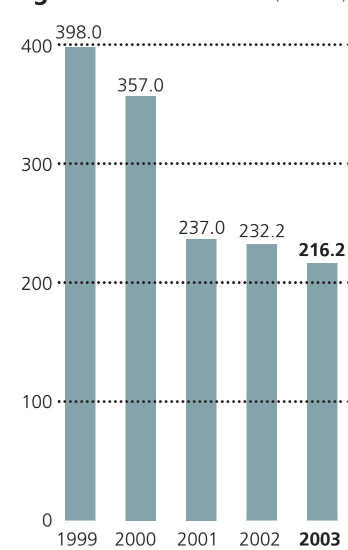
In our Machinery Company, we benefited from a rise in capital investments by leading tire manufacturers, which boosted orders for tire curing presses and rubber mixing machinery, particularly in Japan and China. In our compressor business, we obtained a considerable number of orders from the oil refining and petrochemical industries for high-pressure screw compressors used in electric power generation and gas recovery operations. Launched in June 2002, the Kobelion line of standard air compressors offers greatly improved energy efficiency and environment-friendly features that have earned it a high evaluation from users and attracted a steadily growing number of orders.

Due to the large drop in orders for municipal solid waste treatment plants, segment sales decreased 6.9% to ¥216.2 billion. However, our cost-cutting efforts enabled a 13.8% rise in operating income, to ¥4.2 billion.

Environmental Solutions

Previously providing only facilities and equipment, Kobe Steel has been steadily broadening the scope of its environmental business in view of new, growing needs, such as those for private finance initiative projects and other private-sector schemes for the maintenance and administration of public facilities. To quickly respond to rapid changes in the environmental business, we have decided that it was essential to consolidate the Kobe Steel Group's marketing, technology, and business promotion capabilities. Accordingly, Kobe Steel and subsidiary Shinko Pantec Co., Ltd., have agreed to combine Kobe Steel's environmental business unit with Shinko Pantec on October 1, 2003. The combined business will be renamed Kobelco Eco-Solutions Co., Ltd.

Segment Sales (Billion ¥)



The ITmk3® Process produces high quality iron nuggets, while emitting 20% less carbon dioxide than blast furnace operations. The photo shows the bench-scale plant at the Kakogawa Works.

This screw compressor with a high-speed (7,200 RPM) IPM motor features increased airflow and a variable speed drive.

As a result, Kobelco Eco-Solutions will be able to step up development of advanced wastewater treatment and sludge reduction technologies. In the solid waste treatment business, Kobelco Eco-Solutions plans to expand into new business areas including PCB and dioxin treatment, soil decontamination, and PVC recycling. These initiatives are expected to enable Kobelco Eco-Solutions to grow considerably.

Engineering Opportunities

In the energy field, we have focused our lineup on LNG open rack vaporizers and reactors. Currently, we are aggressively expanding our activities to include associated equipment, such as heat transfer tubes for the vaporizers.

We are actively promoting direct reduced iron processes. In addition to the highly successful MIDREX® Direct Reduction Process, we are marketing the FASTMET® Direct Reduction Process. We are also proceeding with the ITmk3® Process, which makes high-purity iron nuggets in a demonstration plant. We hope to commercialize this next-generation ironmaking technology in the future.

In the machinery business, Kobe Steel and Kawasaki Heavy Industries, Ltd., established a 50/50 joint venture, Earth Technica Co., Ltd., as a means of merging the two companies' crushing equipment business. The crusher marketing and design functions of the parent companies have already been transferred to the joint venture, which began operating in July 2003. Plans call for manufacturing to be transferred in the future, giving the joint venture a full range of integrated capabilities covering manufacturing and marketing operations. We intend to unify the product lines, optimize the distribution of manufacturing tasks among facilities, and take other steps to enhance the joint venture's efficiency and profitability while creating a business capable of sustained growth.

Outlook

Kobe Steel expects steady demand for equipment in the energy field. In our nonstandard compressor business, we will continue emphasizing the oil, gas, and new energy fields. In our standard compressor business, we are seeking to increase the market diffusion of new energy-saving products and obtain more orders in China. In industrial machinery, we have entered new process fields through the launch of such products as the LCM-EX polypropylene plastic mixer. We are also endeavoring to expand the overseas marketing of isostatic pressing systems and physical vapor deposition systems.

At the same time, the Company is investing its energies in expanding its business by creating new product menus, developing new types of machinery, and entering new markets.

Through business and technology, the Company is actively contributing to lessening the burden on the environment and creating a recycling society.

This solid waste treatment plant in Kakogawa in western Japan helps lessen the burden on the environment. We also supply wastewater treatment plants and are broadening our environmental menu.

Commanding a 30% share of the world market, our LCM Series of resin mixing and palletizing systems enjoys an outstanding reputation among polyethylene and polypropylene producers.

Construction Machinery Segment

Diverse trends were seen in the world's major construction equipment markets during fiscal 2002. Having grown rapidly owing to demand from infrastructure projects, the Chinese market attracted increasing attention. In contrast, growth in the United States and Europe clearly decelerated along with weakening economic conditions, while recovery in the ASEAN market remained unclear. In Japan, drops in public works projects, housing starts, and private-sector capital investment protracted a downtrend in demand for construction equipment.

Amid this operating environment, the Construction Machinery segment, centered on subsidiary Kobelco Construction Machinery Co., Ltd., actively worked to increase its revenues in the rapidly growing Chinese market. Based on a global alliance with CNH Global N.V. of the Fiat Group, Kobelco expanded the use of its technologies in the European and North American markets. To enhance profitability in Japan, Kobelco took steps to strengthen the financial performance of its domestic marketing companies and affiliated equipment rental companies. As a result, segment sales rose 6.1%, to ¥157.4 billion, while operating income increased 119%, to ¥4.1 billion.

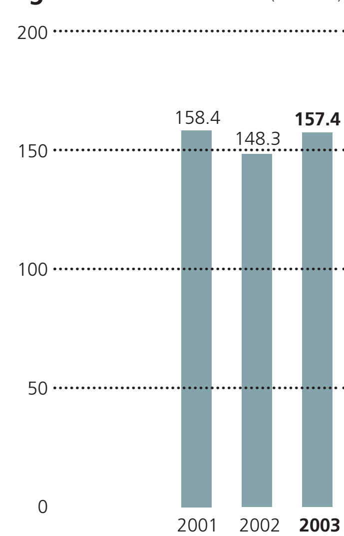
Expanding Global Operations

Kobelco Construction Machinery has been expanding its overseas business in excavators through a venture in China.

Kobelco also has grown its joint ventures in Europe and North America in collaboration with CNH. Kobelco is focusing on business development in China and other countries in the Asia-Pacific region, for which it is responsible under the alliance with CNH.

Amid market conditions considerably more positive than originally projected, Kobelco's joint venture in China laid the basis for future sales growth by strengthening its marketing and service network. A rise in local production and the start of exports increased the number of machines sold.

Segment Sales (Billion ¥)



The first Fiat-Kobelco excavator E215 rolls off the production line at Fiat Kobelco Construction Machinery S.p.A, Italy, a joint venture with CNH Global. A series of excavators features the diversified expertise of Kobelco Construction Machinery.

In joint-venture operations with CNH in Europe and North America, Kobelco worked to accelerate technology applications in locally manufactured products. For the excavator business, Kobelco and CNH established an Italy-based joint manufacturing and marketing venture, Fiat Kobelco Construction Machinery S.p.A, in July 2002.

The new company began production of crawler excavators using Kobelco technology in January 2003.

The increase in sales and profits reflects the increase in OEM products to CNH, the popularity of new products sold through Kobelco's marketing routes, and local component production by joint ventures with CNH.

Aiming to increase market share for crawler excavators in the Asia-Pacific region, Kobelco worked to strengthen its distribution network through the formation of marketing companies in Malaysia and Indonesia and the creation of an operating base in Vietnam, which is projected to grow considerably. In Australia, which enjoyed continued economic expansion, we were able to record a substantial increase in sales through our local marketing network.

We also succeeded in increasing our overseas sales of cranes. Active marketing led to a rise in orders and shipments of large cranes to China.

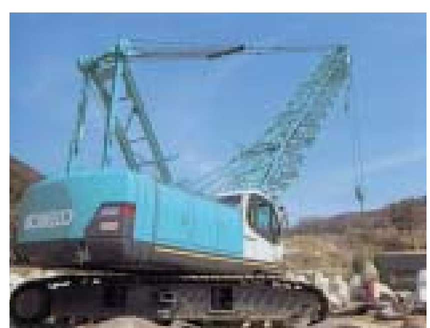
In Japan, besides marketing our existing line of new construction equipment, we have expanded the scope of our profit sources by expanding the "stock business" of used equipment, parts, and maintenance services, which are increasing in demand. At the same time, we have augmented new product lines, primarily related to the environmental protection and recycling fields.

Outlook

We are bolstering our operations in growing overseas markets through developing and marketing distinctive new products, expanding the scale and profitability of our overseas joint venture operations, building networks in growing markets, and focusing our menu on the stock business.

The SK135SR is one in a series of excavators with zero tail swing. We pioneered this space-saving feature now found in both mini excavators and excavators.

Ultra long attachments can demolish over 50 m tall buildings, the highest in its class. This SK 1600D reduces noise and vibration at the work site.



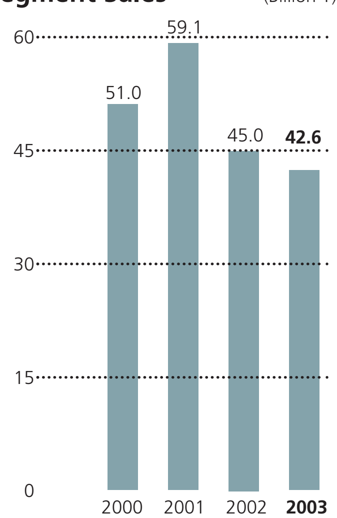
MOBELCO crawler cranes can handle just about any lifting job, ranging from 35 to 800 tons. Our highly versatile 35 to 100 ton class cranes are ideal for lifting materials on construction sites and for general civil engineering work.

Real Estate Segment

Conditions in Japan's real estate market remained severe in fiscal 2002. Despite low interest rates and the extension of tax breaks for new home purchases, new housing construction decreased 2.4%, the third consecutive year of decline.

Amid these conditions, the Kobe Steel Group strived to increase sales by offering high quality properties. However, segment sales decreased 5.5%, to ¥42.6 billion yen.

Segment Sales (Billion ¥)



Reflecting changes in the nature of real estate development properties sold, operating income dropped 45.6%, to ¥4.3 billion.

We began marketing the Maya Seaside Place East in Kobe, Jikurefu Namba Higashiyama in Osaka, and Luxembourg House and Kagurazaka Park House in Tokyo. We also started selling the O's Garden condominiums in the Okubo area of Akashi, Hyogo Prefecture.

In leasing operations, we began leasing land in Amagasaki Amenity Core (Amagasaki, Hyogo Prefecture) to large specialty retailers. In Hachinohe, Aomori Prefecture, we began managing a shopping mall and hot spring facility. Tenant recruitment was also begun for Noble Court Hiragawacho, a project under construction in Tokyo.

In building management operations, we obtained an order for a gymnasium in Kakogawa, Hyogo Prefecture under a project finance initiative. Further, we started management of the Disaster Reduction and Human Renovation Institution in Kobe.

We also made steady progress on the construction of the new Kobe Technical High School and other projects.

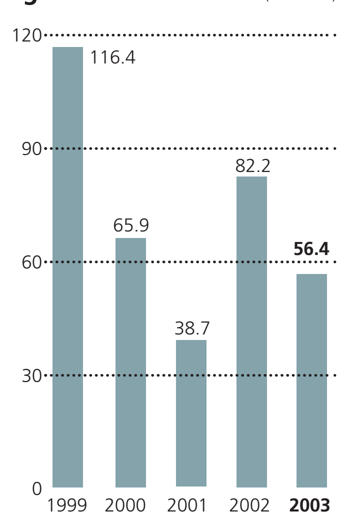
Outlook

Due to the unclear economic outlook, Kobe Steel does not expect a sharp upswing in real estate purchases. As competition will toughen due to the large supply of condominium units, the business environment will continue to be difficult. In fiscal 2003, handovers are to take place for the Maya Seaside Place East in Kobe and the O's Garden condominium development in Okubo, both in western Japan. As a result, segment sales are anticipated to increase slightly.

The O's Garden condominium development in the quiet residential area of Okubo in Akashi, Hyogo Prefecture

Other Businesses Segment

Segment Sales (Billion ¥)



This segment encompasses such fields as electronics-related equipment, information and communications systems, information services, and special alloys and other new materials, as well as the operations of 33 subsidiaries and eight affiliates operating in such fields as materials inspection services, LPG vessel fabrication, travel services, and superconducting wires and magnets.

In fiscal 2002, an equity transfer transformed an IT systems subsidiary into an affiliate outside the scope of our consolidated accounts. As a result, sales decreased 31.4%, to ¥56.4 billion. However, operating income surged 568.1%, to ¥5.7 million, due to the strong performance of a semiconductor testing subsidiary.

Financial Section

Contents

Consolidated Five-Year Summary

Years ended March 31	Millions of yen					Thousands of U.S. dollars)
	2003	2002	2001	2000	1999	2003
Net sales	¥1,204,750	¥1,198,014	¥1,373,091	¥1,252,516	¥1,305,482	$10,022,879
Operating income	81,054	35,499	106,404	82,708	50,024	674,326
Net income (loss)	1,723	(28,519)	6,504	(53,088)	(38,874)	14,334
Total assets	1,902,642	2,045,303	2,131,123	2,124,795	2,270,278	15,828,968
Total stockholders' equity	293,138	280,685	263,362	271,462	327,055	2,438,752

	yen					U.S. dollars
Amounts per 1,000 shares						
Net income (loss)	¥592	¥(10,068)	¥2,299	¥(18,764)	¥(13,710)	$4.93
Cash dividends applicable to the year	—	—	—	—	—	—

For convenience only, U.S. dollar amounts in this report have been translated from Japanese yen at the rate of ¥120.20 to US$1, the rate of exchange prevailing on March 31, 2003.

Consolidated Five-Year Review

Income Analysis

During the consolidated accounting period under review, the Japanese economy continued to remain severe. Although the economy picked up on the back of increased exports, mainly to Asia, the slowdown of the U.S. economy, sluggish private-sector capital investment, and stagnant personal consumption exerted strong deflationary pressures.

Amid this environment, Kobe Steel, Ltd. registered a ¥6.7 billion increase in net sales, to ¥1,204.8 billion. Although sales decreased due to the transfer of equity in an IT systems subsidiary, sales were bolstered by the commercial start of the wholesale electricity supply business.

Losses were incurred in the application of new accounting standards for retirement benefits and the devaluation of investment securities due to the sluggish stock market. However, net income recovered by ¥30.2 billion to ¥1.7 billion.

Sales in the Iron and Steel Segment increased 7.6%, to ¥523.5 billion, and operating income went up 332.6%, to ¥48.8 billion, owing to higher steel shipments, the start of the wholesale electricity supply business, and a reduction in overall costs.

In the Aluminum and Copper Segment sales declined 3.3%, to ¥248.0 billion. However operating income rose 55.7%, to ¥12.4 billion, due to increased shipments and comprehensive cost reductions.

Machinery Segment sales declined 6.9%, to ¥216.2 billion. However, operating income increased 13.8%, to ¥4.2 billion, due to comprehensive cost reductions.

In the Construction Machinery Segment sales rose 6.1%, to ¥157.4 billion, and operating income rose 118.8%, to ¥4.1 billion, owing to strong overseas demand, which in particular, led to a substantial production increase in China.

In the Real Estate Segment sales declined 5.5%, to ¥42.6 billion, and operating income fell 45.6%, to ¥4.3 billion.

These reductions were mainly the result of a change in the composition of properties on the market.

Net other expenses totaled ¥65.1 billion and income before income taxes amounted to ¥16.0 billion. After adjustments for income tax and minority interests, a net income of ¥1.7 billion was recorded.

Analysis of Cash Flow and Financial Position

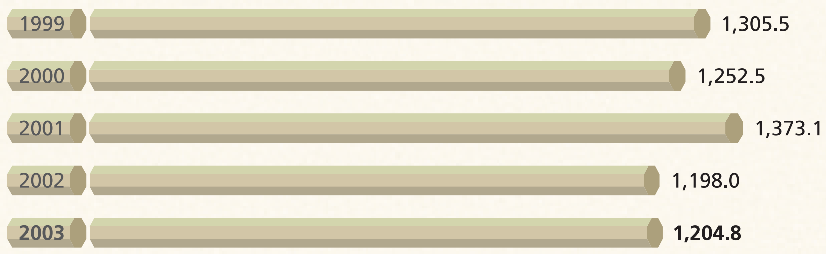
The Company's operating, investing, and financing activities during the fiscal year under review resulted in consolidated cash and cash equivalents decreasing ¥33.5 billion, or 29.0%, to ¥81.8 billion.

Net cash provided by operating activities increased ¥56.6 billion, or 95.7%, to ¥115.7 billion, due mainly to the improvement of income before income taxes.

Net cash provided by investing activities amounted to ¥27.0 billion, a ¥63.5 billion net change. Although the purchase of plant and equipment for the wholesale electricity supply business decreased, proceeds were received from the sale of equity held in the aluminum ingot business.

Net cash used in financing activities amounted to ¥175.0 billion, an increase of ¥138.2 billion due to the repayment of debt and repayment of bonds, although proceeds were received from the issuance of stock.

Consolidated Net Sales (Billion ¥)



Consolidated Balance Sheets

March 31, 2003 and 2002	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2003	2002	2003
Current assets:			
Cash and cash equivalents (Note 12)	¥82,419	¥115,900	$685,682
Marketable securities (Note 5)	—	63	—
Notes and accounts receivable			
Trade	205,480	218,579	1,709,484
Unconsolidated subsidiaries and affiliates	73,870	76,112	614,559
Other	18,217	23,631	151,556
Allowance for doubtful accounts	(687)	(1,189)	(5,715)
	296,880	317,133	2,469,884
Inventories	221,462	229,246	1,842,446
Deferred income taxes (Note 11)	21,523	23,383	179,060
Other	19,142	22,383	159,251
Total current assets	641,426	708,108	5,336,323
Investments and other assets:			
Investments in securities (Note 5)	47,946	53,755	398,885
Investments in and advances to unconsolidated subsidiaries and affiliates	53,831	43,017	447,845
Long-term loans receivable	7,419	8,093	61,722
Other	80,097	87,437	666,364
Allowance for doubtful accounts	(9,156)	(10,205)	(76,172)
	180,137	182,097	1,498,644
Plant and equipment (Note 7):			
Land	229,249	227,072	1,907,230
Buildings and structures	605,984	600,047	5,041,464
Machinery and equipment	1,747,764	1,696,913	14,540,466
Construction in progress	41,042	133,733	341,447
	2,624,039	2,657,765	21,830,607
Less accumulated depreciation	(1,630,885)	(1,601,241)	(13,568,095)
	993,154	1,056,524	8,262,512
Intangible assets	17,917	21,803	149,060
Deferred income taxes (Note 11)	70,008	76,771	582,429
	¥1,902,642	¥2,045,303	$15,828,968

See accompanying notes.

March 31, 2003 and 2002	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY	2003	2002	2003
Current liabilities:			
Short-term borrowings (Note 7)	¥164,025	¥221,028	$1,364,601
Current portion of long-term debt (Note 7)	154,775	193,238	1,287,646
Notes and accounts payable:			
Trade	239,908	219,066	1,995,907
Construction	31,152	19,346	259,168
Unconsolidated subsidiaries and affiliates	59,339	56,952	493,669
Other	8,194	16,940	68,169
	338,593	312,304	2,816,913
Advances from customers	18,981	28,695	157,912
Customers' and employees' deposits	21,163	25,457	176,065
Income and enterprise taxes payable	4,907	4,519	40,824
Provision for restructuring costs	6,523	5,406	54,268
Deferred income taxes (Note 11)	996	182	8,286
Other	50,262	47,415	418,152
Total current liabilities	760,225	838,244	6,324,667
Long-term liabilities:			
Long-term debt (Note 7)	639,605	727,888	5,321,181
Employees' severance and retirement benefits (Note 14)	54,206	54,819	450,965
Allowance for special repairs	—	6,061	957
Deferred income taxes (Note 11)	7,605	11,120	37,013
Other	117,976	100,031	1,006,789
	819,392	899,919	6,816,905
Contingent liabilities (Note 8)			
Minority interests	29,887	26,455	248,644
Stockholders' equity:			
Common stock (Note 9)	218,163	215,167	1,815,000
Authorized-6,000,000,000 shares			
Issued - 2,974,549,861 shares in 2003 and 2,867,549,861 in 2002			
Capital surplus (Note 9)	140,639	137,643	1,170,041
Accumulated deficit	61,710	63,068	513,394
Land revaluation	2,422	2,437	20,150
Net unrealized holding losses on securities	(939)	(73)	(7,812)
Foreign currency translation adjustments	(4,580)	(11,293)	(38,103)
Treasury stock, at cost:			
12,365,783 shares in 2003 and 2,583,969 shares in 2002	(857)	(128)	(7,130)
Total stockholders' equity	293,138	280,685	2,438,752
	¥1,902,642	¥2,045,303	$15,828,968

Consolidated Statements of Operations

Years ended March 31, 2003 and 2002	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Net sales	¥1,204,750	¥1,198,014	$10,022,879
Cost of sales	1,001,418	1,022,195	8,331,265
Gross profit	203,332	175,819	1,691,614
Selling, general and administrative expenses (Note 10)	122,278	140,320	1,017,288
Operating income	81,054	35,499	674,326
Other income (expenses):			
Interest and dividend income	2,871	3,937	23,885
Interest expense	(29,726)	(31,560)	(247,304)
Seconded employees' salaries net of reimbursement	(18,009)	(20,853)	(149,825)
Gain on sale of securities	5,143	11,665	42,787
Gain (loss) on sale or disposal of plant and equipment	(2,142)	1,186	(17,820)
Loss (gain) on write-down of securities, investments and golf memberships	(11,280)	(19,668)	(93,844)
Business transfer gain	2,387	—	19,859
Foreign exchange gain (loss)	(2,845)	596	(23,669)
Provision for doubtful receivables	—	(1,190)	—
Reversal of allowance for special repairs	5,913	—	49,193
Special employees' retirement benefits	(988)	(7,531)	(8,220)
Gain on securities contributed to employees' retirement benefit trust	—	9,021	—
Effect of applying new accounting standard for retirement benefits	(12,798)	(12,966)	(106,473)
Provision for restructuring costs	(811)	(1,590)	(6,747)
Loss on disposal of inventories and other assets of discontinued operations	(2,927)	—	(24,351)
Amortization of prior service costs of pension plans	6,975	6,975	58,028
Equity in income of unconsolidated subsidiaries and affilates	5,586	1,241	46,473
Loss on write-down of plant and equipment	(3,294)	—	(27,404)
Other, net	(9,105)	(6,190)	(75,749)
	(65,050)	(66,927)	(541,181)
Income (loss) before income taxes	16,004	(31,428)	133,145
Income taxes (Note 11):			
Current	6,964	7,452	57,937
Deferred	6,513	(11,122)	54,185
	13,477	(3,670)	112,122
Minority interests in income of subsidiaries	804	761	6,689
Net income (loss)	¥1,723	¥(28,519)	$14,334

	Yen		U.S. dollars (Note 1)
Net income (loss) per 1,000 shares	¥592	¥(10,068)	$4.93

See accompanying notes.

Consolidated Statements of Stockholders' Equity

Years ended March 31, 2003 and 2002

	Millions of yen							
	Shares of common stock	Common stock (Note 9)	Capital surplus (Note 9)	Accumulated deficit (Note 9)	Land revaluation	Net unrealized holding gains (losses) on securities	Foreign currency transaction adjustments	Treasury stock
Balance at March 31,2001	2,835,981,926	¥213,667	¥132,309	¥(62,344)	¥126	¥2,019	¥(21,983)	¥(432)
Net loss	—	—	—	(28,519)	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	10,690	—
Change in unrealized holding losses on securities	—	—	—	—	—	(2,092)	—	—
Effect of merger of parent company and subsidiaries	31,567,935	1,500	5,334	21,868	—	—	—	—
Effect of merger of subsidiaries	—	—	—	3,423	—	—	—	—
Bonuses to directors	—	—	—	(27)	—	—	—	—
Effect of subsidiaries newly consolidated and affiliates newly accounted for by the equity method	—	—	—	35	—	—	—	—
Effect of companies no longer accounted for by the equity method	—	—	—	(62)	—	—	—	—
Effects of revaluation of land	—	—	—	2,558	2,311	—	—	—
Treasury stock	—	—	—	—	—	—	—	304
Balance at March 31,2002	**2,867,549,861**	**215,167**	**137,643**	**(63,068)**	**2,437**	**(73)**	**(11,293)**	**(128)**
Net income	—	—	—	1,723	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	6,713	—
Increase in unrealized holding losses on securities	—	—	—	—	—	(866)	—	—
Issuance of new stock for capital increase	107,000,000	2,996	2,996	—	—	—	—	—
Decrease due to changes in consolidated subsidiaries	—	—	—	(22)	—	—	—	—
Bonuses to directors	—	—	—	(22)	—	—	—	—
Decrease due to changes in investees accounted for by the equity method	—	—	—	(406)	—	—	—	—
Increase due to changes in investees accounted for by the equity method	—	—	—	44	—	—	—	—
Adjustment to revaluation of land	—	—	—	41	(15)	—	—	—
Treasury stock	—	—	—	—	—	—	—	(729)
Balance at March 31,2003	**2,974,549,861**	**¥218,163**	**¥140,639**	**¥(61,710)**	**¥2,422**	**¥(939)**	**¥(4,580)**	**¥(857)**

	Thousands of U.S. dollars (Note 1)						
	Common stock (Note 9)	Capital surplus (Note 9)	Accumulated deficit (Note 9)	Land revaluation	Net unrealized holding gains (losses) on securities	Foreign currency transaction adjustments	Treasury stock
Balance at March 31,2002	$1,790,075	$1,145,116	$(524,692)	$20,275	$(607)	$(93,952)	$(1,065)
Net income	—	—	14,334	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	55,849	—
Increase in unrealized holding losses on securities	—	—	—	—	(7,205)	—	—
Issuance of new stock for capital increase	24,925	24,925	—	—	—	—	—
Decrease due to changes in consolidated subsidiaries	—	—	(183)	—	—	—	—
Bonuses to directors	—	—	(183)	—	—	—	—
Decrease due to changes in investees accounted for by the equity method	—	—	(3,378)	—	—	—	—
Increase due to changes in investees accounted for by the equity method	—	—	366	—	—	—	—
Adjustment to revaluation of land	—	—	342	(125)	—	—	—
Treasury stock	—	—	—	—	—	—	(6,065)
Balance at March 31,2003	**$1,815,000**	**$1,170,041**	**$(513,394)**	**$20,150**	**$(7,812)**	**$(38,103)**	**$(7,130)**

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended March 31, 2003 and 2002	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Cash flows from operating activities:			
Income (loss) before income taxes	¥16,004	¥(31,428)	$133,145
Depreciation	85,090	86,915	707,903
Interest and dividend income	(2,871)	(3,937)	(23,885)
Interest expense	29,726	31,560	247,304
Gain on sale of securities	(5,143)	(11,665)	(42,787)
Loss on write-down of securities, investments and golf memberships	11,280	19,668	93,844
Equity in income of unconsolidated subsidiaries and affiliates	(5,586)	(1,241)	(46,473)
Special employees' retirement benefits	988	7,531	8,220
Business transfer gain	(2,387)	—	(19,859)
Reversal of allowance for special repairs	(5,913)	—	(49,193)
Effect of applying new accounting standard for retirement benefits	12,798	12,966	106,473
Gain on securities contributed to employees' retirement benefit trust	—	(9,021)	—
Amortization of prior service costs of pension plans	(6,975)	(6,975)	(58,028)
Loss (gain) on sale or disposal of plant and equipment	2,142	(1,186)	17,820
Decrease (increase) in trade receivables from customers	(7,897)	57,741	(65,699)
Decrease (increase) in inventories	(2,937)	20,775	(24,434)
Increase (decrease) in trade payables to customers	24,988	(37,635)	207,887
Other	8,957	(22,335)	74,517
Subtotal	152,264	111,733	1,266,755
Cash received for interest and dividends	2,895	5,475	24,085
Cash paid for interest	(30,126)	(33,341)	(250,632)
Cash paid for special employees' retirement benefits	(1,653)	(16,993)	(13,752)
Cash paid for income taxes	(7,688)	(7,764)	(63,960)
Net cash provided by operating activities	115,692	59,110	962,496
Cash flows from investing activities:			
Purchase of plant, equipment and other assets	(45,011)	(142,648)	(374,468)
Proceeds from sale of plant, equipment and other assets	44,376	58,661	369,185
Purchase of investments in securities	(13,014)	(9,463)	(108,270)
Proceeds from sale of investments in securities	10,929	29,310	90,923
Decrease (increase) in short-term loans receivable	2,630	(5,629)	21,880
Long-term loans receivable	(643)	(4,197)	(5,349)
Proceeds from collection of long-term loans	1,038	1,953	8,636
Net proceeds from sale of a former consolidated subsidiary	—	10,640	—
Proceeds from transfer of business	20,188	21,313	167,953
Other	6,528	3,578	54,310
Net cash used in investing activities	27,021	(36,482)	224,800
Cash flows from financing activities:			
Decrease in short-term borrowings	(51,122)	(5,092)	(425,308)
Proceeds from issuance of long-term debt	109,960	110,799	914,809
Repayment of long-term debt	(137,446)	(148,704)	(1,143,478)
Proceeds from issuance of bonds	500	32,173	4,160
Repayment of bonds	(93,348)	(22,280)	(776,606)
Proceeds from issuance of stock	5,992	—	49,850
Other	(9,533)	(3,711)	(79,309)
Net cash used in financing activities	(174,997)	(36,815)	(1,455,882)
Effect of exchange rate changes on cash and cash equivalents	(1,441)	1,891	(11,988)
Decrease in cash and cash equivalents	(33,725)	(12,296)	(280,574)
Cash and cash equivalents at beginning of year	115,292	126,187	959,168
Cash and cash equivalents of newly consolidated subsidiaries	242	1,401	2,013
Cash and cash equivalents at end of year (Note 12)	¥81,809	¥115,292	$680,607

See accompanying notes.

Notes to Consolidated Financial Statements

Years ended March 31, 2003 and 2002

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 consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of statements of stockholders' 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 consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2003, which was ¥120.20 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, 2003, the accounts of 150 (156 in 2002) subsidiaries have been included in the consolidated financial statements. Intercompany transactions and accounts have been eliminated.

Fifty-five 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, 2003, 51 (51 in 2002) 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 5 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 investments, 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 Group provides for doubtful accounts principally at an amount computed based on the actual ratio of bad debts in the past plus the estimated uncollectible amounts based on the analysis of certain individual receivables.

(3) 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 stockholders' 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 a 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.

(4) Inventories

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

The 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 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, 2003 were ¥17,797 million ($148,062 thousand) and ¥22,054 million for the year ended March 31, 2002.

(8) Bond Issue Expenses and Share Issue Expenses

Bond issue expenses and share issue expenses are charged to expenses as they are incurred by the Company and the 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 provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans.

The Company and its consolidated domestic subsidiaries' accrued liabilities and expenses for severance and retirement benefits based on the amounts actuarially calculated using certain assumptions.

The Company and its consolidated domestic subsidiaries provide for employees' severance and retirement benefits 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, the date of adopting a new accounting standard, and the liabilities for severance and retirement benefits recorded as of April 1,2000 (the "net transition obligation") are 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 4 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.

(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 replacements 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, 2003, 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. Reversal of the allowance for special repairs is shown in the accompanying consolidated statements of operations.

(12) Land Revaluation

Land for operations was revaluated by certain consolidated subsidiaries in accordance with the Land Revaluation Law in the years ended March 31, 2002 and 2001. The revaluation amount, net of related taxes, is shown as a separate component of stockholders' 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.

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

The Company and its consolidated domestic subsidiaries report foreign currency translation adjustments in stockholders' equity (and minority interests).

(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) Derivatives

The Company and its consolidated domestic subsidiaries state derivative financial instruments at fair value and 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 Holiday on March 31, 2002

As financial institutions in Japan were closed on March 31, 2002, ¥7,922 million of trade notes receivable and ¥8,090 million of trade notes payable, maturing on March 31, 2002, were settled on the following business day, April 1, 2002 and accounted for accordingly.

(19) Accounting Standard for Treasury Stock and Reversal of Statutory Reserves

Effective April 1, 2002, the Company adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reversal of Statutory Reserves", issued by the Accounting Standards Board of Japan on February 21, 2002).

The effect on net income of the adoption of the new accounting standard was not material.

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

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).

The effect on earnings per share of the adoption of the new accounting standard was not material.

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, 2003 and 2002, 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), The net transition obligation 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, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Buildings and structures	¥264	¥266	$2,196
Machinery and equipment	63,222	64,231	525,973
	¥63,486	¥64,497	$528,169

Future minimum lease payments as lessee under non-capitalized finance leases at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Due within one year	¥10,481	¥10,410	$87,196
Due after one year	19,219	19,485	159,892
	¥29,700	¥29,895	$247,088
Lease expense for the years ended March 31	¥12,148	¥12,675	$101,065

Future minimum lease payments as lessee under operating leases at March 31,2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Due within one year	¥2,322	¥2,064	$19,318
Due after one year	8,354	3,554	69,501
	¥10,676	¥5,618	$88,819

Leased assets as lessor under finance leases, accounted for as operating leases, at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Machinery and equipment	¥584	¥618	$4,859
Less accumulated depreciation	(448)	(433)	(3,727)
	¥136	¥185	$1,132

Future minimum lease payments receivable as lessor under finance leases, accounted for as operating leases, at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Future minimum lease payments recerivable:			
Due within one year	¥82	¥93	$682
Due after one year	131	186	1,090
	¥213	¥279	$1,772
Lease income for the years ended March 31	¥105	¥127	$874

Future minimum lease payments receivable as lessor under operating leases, at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Due within one year	¥295	¥299	$2,454
Due after one year	4,774	5,032	39,717
	¥5,069	¥5,331	$42,171

5. Securities

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2003 and 2002:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2003			2002			2003
	Book values	Fair values	Difference	Book values	Fair values	Difference	Difference
Held-to-maturity debt securities							
Securities with available fair values exceeding book values:							
Bonds	¥50	¨¥54	¥4	¥50	¥55	¥5	¥33
Other securities	23	23	—	21	21	(0)	—
	¥73	**¥77**	**¥4**	**¥71**	**¥76**	**¥5**	**$33**

	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	¥7,626	¥10,107	¥2,482	¥9,944	¥13,376	¥3,432	$20,649
Bonds	—	—	—	30	30	0	—
	7,626	10,107	2,482	9,974	13,406	3,432	20,649
Other securities:							
Equity securities	17,886	15,080	(2,806)	24,145	19,497	(4,648)	(23,345)
Bonds	46	33	(13)	50	37	(13)	(108)
	17,932	15,113	(2,819)	24,195	19,534	(4,661)	(23,453)
	¥25,558	**¥25,220**	**¥(337)**	**¥34,169**	**¥32,940**	**¥(1,229)**	**$(2,804)**

The following table summarizes book values of securities with no available fair values as of March 31, 2003 and 2002:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Available-for-sale securities:			
Non-listed equity securities	¥17,550	¥20,772	$146,007
Preferred subscription certificate	5,000	—	41,597
Non-listed foreign equity securities denominated in yen	—	1,000	—
Non-listed foreign equity securities denominated in foreign currency	—	393	—
Money management fund	—	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)
	2003	2002	2003
Within one year	¥5	¥12	$42
Over one year but within five years	73	470	607
Over five year but within ten years	—	1,000	—

Sales of available-for-sale securities for the years ended March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Sales	¥3,260	¥10,615	$27,121
Gains on sales	310	4,019	2,579
Losses on sales	2,028	14	16,872

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

	Millions of yen
	2002
Book values	¥8,004
Sales	6,867
Net losses on sales	1,137

6.Derivative Transaction

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 the 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, 2003 and 2002 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2003			2002			2003
	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	¥6,820	¥6,906	¥(86)	¥7,136	¥7,309	(¥173)	($715)
Others	—	—	—	0	0	(0)	—
To buy foreign currencies:							
U.S. dollars	5,073	5,072	(1)	3,977	3,977	(0)	(8)
			¥(87)			¥(173)	$(723)

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, 2003 and 2002.

Interest rate swap agreements outstanding at March 31, 2003 and 2002 were as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)
	2003		2002		2003
	Contracted amount	Recognized gain (loss)	Contracted amount	Recognized gain (loss)	Recognized gain (loss)
Interest rate swap agreements:					
To receive floating and pay fixed rates	¥3,188	(¥81)	¥2,938	(¥79)	($674)
To receive fixed and pay floating followed by fixed rates	55,300	(2,317)	60,000	(2,876)	(19,276)
		(¥2,398)		(¥2,955)	($19,950)

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, 2003 and 2002.

7.Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Bank loans (average rate 1.4% in 2003, and 1.2% in 2002)	¥164,025	¥221,028	$1,364,601

Long-term debt at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Floating rate (Libor plus 0.5%) notes due 2002	¥ —	¥10,000	$ —
Floating rate (Libor plus 0.75%) notes due 2003	—	2,000	—
Floating rate (Libor plus 0.95%) notes due 2004	2,139	4,440	17,804
Floating rate (20 year swap rate minus 2 year swap rate plus 1.2% per annum subject to minimum interest rate of 0.0% per annum) notes due 2007	10,000	10,000	83,195
1.12% to 3.58% yen bonds, due 2002 through 2012	272,900	348,248	2,270,383
Euro medium-term notes, due 2003 through 2005	6,147	10,220	51,140
Loans, principally from banks and insurance companies	503,194	536,218	4,186,306
	794,380	921,126	6,608,828
Less current portion	154,775	193,238	1,287,646
	¥639,605	¥727,888	$5,321,181

The aggregate annual maturities of long-term debt at March 31, 2003 were as follows:

Years ended March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
2004	¥154,775	¥193,238	$1,287,646
2005	178,824	176,426	1,487,720
2006	128,158	131,437	1,066,206
2007 and thereafter	332,623	420,025	2,767,256
	¥794,381	¥921,126	$6,608,828

At March 31, 2003 and 2002, 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)
	2003	2002	2003
Assets pledged as collateral			
Plant and equipment-net of accumulated depreciation	¥251,715	¥152,763	$2,094,135
Other assets	17,512	24,348	145,691
	¥269,227	¥177,111	$2,239,826
Secured short-term borrowings and long-term debt			
Bonds (includes due within 1 year)	¥3,265	¥7,278	$27,163
Short-term borrowings	23,538	29,912	195,824
Long-term borrowings (includes due within 1 year)	98,499	108,203	819,459
Other debt	99	—	824
	¥125,401	¥145,393	$1,043,270

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 pledged asset is approximately ¥114 billion.

At March 31, 2003 included in the assets pledged as collateral are assets that are promised to be pledged as collateral for the short-term borrowings of ¥10,848 million ($90,250 thousand) and long-term borrowings of ¥61,388 million ($510,715 thousand) as well as the above-mentioned debt.

8.Contingent Liabilities

At March 31, 2003 the Company and its consolidated domestic subsidiaries were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Trade notes discounted	¥7,977	¥10,242	$66,364
Trade notes endorsed	2,140	556	17,804
Guarantees of loans			
Related parties	6,948	11,727	57,804
Others	3,798	4,740	31,597
Contingent liability undue debt assumption agreement	25,000	—	207,987
	¥45,863	¥27,265	$381,556

Guarantees of loans include contingent guarantees and letters of awareness of ¥685 million ($5,699 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 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, which is included in capital surplus. Effective October 1, 2001, the Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The total amount of legal earnings reserve and additional paid-in capital of the Company has reached 25% of common stock, and therefore the Company is not required to provide any more legal earnings reserve. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors.

On condition that the total amount of legal earnings reserve and additional paid-in capital remains equal to or exceed 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Commercial Code.

10.Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Freight	¥30,321	¥31,099	$252,255
Employees' compensation	29,142	34,757	242,446
Research and development	5,430	7,592	45,175
Depreciation	3,084	4,686	25,657
Other	54,301	62,186	451,755
	¥122,278	¥140,320	$1,017,288

11.Income Taxes

Significant components of the Group's deferred income tax assets and liabilities as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Deferred income tax assets:			
Loss carryforwards	¥44,554	¥60,720	$370,666
Unrealized profit	20,486	24,548	170,433
Other	59,462	61,762	494,691
Total deferred income tax assets	124,502	147,030	1,035,790
Valuation allowance	(17,696)	(15,257)	(147,221)
Deferred income tax assets	106,806	131,773	888,569
Deferred income tax liabilities:			
Gain on merger	12,666	15,402	105,374
Deferred gains on sales of property	3,156	13,189	26,256
Other	8,054	14,330	67,006
Total deferred income tax liabilities	23,876	42,921	198,636
Net deferred income tax assets	¥82,930	¥88,852	$689,933

Significant items in the reconciliation of the aggregate statutory income tax rate to the effective income tax rate for the year ended March 31, 2003 were as follows:

	2003
Aggregate statutory income tax rate in Japan	42.0%
Non-deductable entertainment expenses	20.2
Reduction of carry-forward tax assets due to tax rate changes	18.4
Revision of tax effect due to unrealized gains in fixed assets	17.7
Equity in income of unconsolidated subsidiaries and affiliates	(14.7)
Other	0.6
Effective income tax rate	84.2%

Significant items in the reconciliations of the aggregate statutory income tax rate to the effective income tax rate for the year ended March 31, 2002 are not disclosed becsuse of the loss before income taxes.

The aggregate statutory income tax rate will be reduced for the years commencing on April 1, 2004 or later due to the revised local tax law. At March 31, 2003, the Company and consolidated domestic subsidiaries applied the reduced aggregate statutory income tax rate of 40.6 % for calculating deferred tax assets and liabilities that are expected to be recovered or settled in the years commencing on April 1, 2004 or later. As a result, deferred taxes assets decreased by ¥2,875 million ($23,918 thousand), provision for deferred income taxes increased by ¥2,949 million ($24,534 thousand), net unrealized holding losses on securities increased by ¥5 million ($42 thousand) and land revaluation increased by ¥79 million ($657 thousand) compared with what would be reported using the currently applicable tax rate of 42.0%.

12.Consolidated Statements of Cash Flows

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

March 31, 2003 and 2002	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Cash and cash equivalents (balance sheet)	¥82,419	¥115,900	$685,682
Time deposits (due over 3 months)	(610)	(633)	(5,075)
Repurchase agreements accounted for as short term loans receivable	—	5	—
Money management fund accounted for as marketable securities	—	20	—
Cash and cash equivalents (cash flow statement)	¥81,809	¥115,292	$680,607

Non-cash transactions-Finance leases calling for total payments of ¥23,999 million ($199,659 thousand) and ¥34,359 million were entered into for the years ended March 31, 2003 and 2002 respectively.

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

April 1, 2001	Millions of yen
Current assets	¥19,794
Fixed assets	52,908
Total assets	¥72,702
Current liabilities	¥34,582
Long-term liabilities	10,618
Total liabilities	¥45,200

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

March 31, 2002	Millions of yen
Current assets	¥8,233
Fixed assets	1,459
Total assets	¥9,692
Current liabilities	¥5,465
Long-term liabilities	1,337
Total liabilities	¥6,802

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

December 31, 2001	Millions of yen
Current assets	¥11,503
Fixed assets	1,962
Total assets	¥13,465
Current liabilities	¥8,310
Long-term liabilities	59
Total liabilities	¥8,369

13.Related Party Transactions

Net sales include sales to Shinsho Corporation, which is an affilate of the Company, of ¥146,111 million ($1,215,566 thousand) and ¥155,244 million for the years ended March 31, 2003 and 2002, respectively.

14.Employees' Severance and Retirement Benefits

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2003 and 2002 consist of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Projected benefit obligation	**¥(221,360)**	¥(219,937)	**$(1,841,597)**
Fair value of pension assets	**118,570**	134,498	**986,439**
Unrecognized net transition obligation	**26,842**	39,687	**223,311**
Unrecognized actuarial differences	**47,754**	19,140	**397,288**
Unrecognized prior service costs	**(13,950)**	(20,925)	**(116,057)**
Prepaid pension cost	**(12,062)**	(7,282)	**(100,349)**
Liability for severance and retirements benefits	**¥(54,206)**	¥(54,819)	**$(450,965)**

Included in the consolidated statements of operations for the years ended March 31, 2003 and 2002 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Service costs - benefits earned during the year	**¥6,758**	¥8,138	**$56,223**
Interest cost on projected benefit obligation	**6,130**	7,497	**50,998**
Expected return on plan assets	**(3,095)**	(3,152)	**(25,749)**
Amortization of net transition obligation	**12,813**	13,090	**106,598**
Amortization of actuarial differences	**1,741**	1,871	**14,484**
Amortization of prior service costs	**(6,975)**	(6,975)	**(58,028)**
Severance and retirement benefit expenses	**¥17,372**	¥20,469	**$144,526**

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 mainly 2.5% in 2003 and 3.0% in 2002 and the rates of expected return on plan assets used by the Group are mainly 3.1% in 2003 and 2002.
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 benefit obligation decreased.

15.Segment Information

(1) Industry Segment

The Group's operations are divided into six 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, 2003 and 2002		Millions of yen		Thousands of U.S. dollars (Note 1)
		2003	2002	2003
Sales to outside customers:	Iron and Steel	¥511,750	¥476,023	$4,257,488
	Aluminum and Copper	247,330	256,030	2,057,654
	Machinery	209,280	223,457	1,741,098
	Construction Machinery	156,929	147,885	1,305,566
	Real Estate	38,293	40,063	318,577
	Other Businesses	41,168	54,556	342,496
	Consolidated net sales	1,204,750	1,198,014	10,022,879
Inter-segment sales:	Iron and Steel	11,725	10,360	97,545
	Aluminum and Copper	710	511	5,907
	Machinery	6,936	8,755	57,704
	Construction Machinery	470	420	3,910
	Real Estate	4,297	4,984	35,749
	Other Businesses	15,201	27,605	126,464
		39,339	52,635	327,279
Total sales:	Iron and Steel	523,475	486,383	4,355,033
	Aluminum and Copper	248,040	256,541	2,063,561
	Machinery	216,216	232,212	1,798,802
	Construction Machinery	157,399	148,305	1,309,476
	Real Estate	42,590	45,047	354,326
	Other Businesses	56,369	82,161	468,960
		1,244,089	1,250,649	10,350,158
Operating costs and expenses:	Iron and Steel	474,707	475,110	3,949,309
	Aluminum and Copper	235,637	248,573	1,960,375
	Machinery	211,993	228,501	1,763,669
	Construction Machinery	153,330	146,445	1,275,624
	Real Estate	38,261	37,095	318,311
	Other Businesses	50,663	81,306	421,489
	Eliminations	(40,895)	(54,515)	(340,224)
	Consolidated operating costs and expenses	1,123,696	1,162,515	9,348,553
Operating income:	Iron and Steel	48,768	11,273	405,724
	Aluminum and Copper	12,403	7,968	103,186
	Machinery	4,223	3,711	35,133
	Construction Machinery	4,069	1,860	33,852
	Real Estate	4,329	7,952	36,015
	Other Businesses	5,706	855	47,471
	Eliminations	1,556	1,880	12,945
	Consolidated operating income	¥81,054	¥35,499	$674,326

Years ended March 31, 2003 and 2002		Millions of yen		Thousands of U.S. dollars (Note 1)
		2003	2002	**2003**
Assets:	Iron and Steel	**¥908,093**	¥954,727	**$7,554,850**
	Aluminum and Copper	**241,134**	246,113	**2,006,106**
	Machinery	**229,269**	255,911	**1,907,396**
	Construction Machinery	**172,521**	180,720	**1,435,283**
	Real Estate	**121,370**	165,529	**1,009,734**
	Other Businesses	**71,702**	74,161	**596,522**
	Corporate and Eliminations	**158,553**	168,142	**1,319,077**
	Total	**1,902,642**	2,045,303	**15,828,968**
Depreciation:	Iron and Steel	**54,606**	52,670	**454,293**
	Aluminum and Copper	**11,920**	14,188	**99,168**
	Machinery	**7,941**	8,256	**66,065**
	Construction Machinery	**3,001**	3,229	**24,967**
	Real Estate	**2,044**	2,696	**17,005**
	Other Businesses	**3,308**	3,508	**27,521**
	Corporate and Eliminations	**2,270**	2,368	**18,884**
	Total	**85,090**	86,915	**707,903**
Capital expenditures:	Iron and Steel	**27,410**	106,029	**228,037**
	Aluminum and Copper	**7,685**	8,831	**63,935**
	Machinery	**3,874**	3,181	**32,230**
	Construction Machinery	**1,697**	4,812	**14,118**
	Real Estate	**1,532**	7,215	**12,745**
	Other Businesses	**1,327**	1,564	**11,040**
	Corporate and Eliminations	**446**	788	**3,710**
	Total	**¥43,971**	¥132,420	**$365,815**

Corporate assets

Corporate assets of ¥287,352 million ($ 2,390,616 thousand) and ¥269,468 million at March 31, 2003 and 2002, respectively, are comprised principally of bank and time deposits and assets of administration departments of the Company.

(2) Geographic Area

Years ended March 31, 2003 and 2002		Millions of yen		Thousands of U.S. dollars (Note 1)
		2003	2002	2003
Sales to outside customers:	Japan	¥1,115,160	¥1,083,359	$9,277,537
	Asia	38,314	25,591	318,752
	North America	16,394	47,379	136,389
	Other areas	34,882	41,685	290,201
	Total	1,204,750	1,198,014	10,022,879
Inter-segment sales:	Japan	30,559	33,385	254,235
	Asia	1,111	1,284	9,243
	North America	2,949	2,101	24,534
	Other areas	208	296	1,730
	Total	34,827	37,006	289,742
Total sales:	Japan	1,145,719	1,116,744	9,531,772
	Asia	39,425	26,875	327,995
	North America	19,343	49,480	160,923
	Other areas	35,090	41,981	291,931
	Total	1,239,577	1,235,080	10,312,621
Operating costs and expenses:	Japan	1,069,708	1,085,140	8,899,401
	Asia	36,451	26,271	303,253
	North America	19,415	48,284	161,522
	Other areas	33,606	40,413	279,585
	Eliminations	(35,484)	(37,593)	(295,208)
	Total	1,123,696	1,162,515	9,348,553
Operating income:	Japan	76,011	31,604	632,371
	Asia	2,974	604	24,742
	North America	(72)	1,196	(599)
	Other areas	1,484	1,568	12,346
	Eliminations	657	527	5,466
	Total	81,054	35,499	674,326
Assets:	Japan	1,534,963	1,700,758	12,770,075
	Asia	36,661	29,046	305,000
	North America	41,215	43,770	342,887
	Other areas	42,733	55,196	355,516
	Corporate and eliminations	247,070	216,533	2,055,490
	Total	¥1,902,642	¥2,045,303	$15,828,968

Principal countries in each segment are:

Asia ························Singapore, Malaysia, Thailand, China
North America ·······United States, Canada
Other areas············Netherlands, Australia

Corporate assets of ¥287,352 million ($2,390,616 thousand) and ¥269,468 million at march 31, 2003 and 2002, 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, 2003 and 2002 were as follows:

Years ended March 31, 2003 and 2002		Percentages of 2003 consolidated net sales	Millions of yen		Thousands of U.S. dollars (Note 1)
			2003	2002	2003
Overseas Sales:	Asia ·····················	13.3%	¥160,215	¥123,202	$1,332,904
	North America ·····	2.8%	33,916	52,028	282,163
	Other areas··········	4.6%	54,804	60,570	455,940
	Total ················	20.7%	¥248,935	¥235,800	$2,071,007

Overseas sales consisted of export sales of the Company and domestic consolidated subsidiaries, and sales ofoverseas 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 ....Australia, Italy

Report of Independent Public Accountants

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

We have audited the accompanying consolidated balance sheets of Kobe Steel, Ltd. and subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, Stockholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kobe Steel, Ltd. and subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cashflows for the years then ended, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated financial statements.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Asahi & Co.

Osaka, Japan
June 25, 2003

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, 2003, a total of 2,974,549,861 were in issue.

Principal Stockholders

At March 31, 2003, the six largest stockholders of the Company were as follows:

	Thousands of shares	Percent of voting rights
Nippon Life Insurance Company	165,850	5.71%
Mizuho Corporate Bank, Limited	139,541	4.80%
The Master Trust Bank of Japan, Limited	126,126	4.34%
Japan Trustee Services Bank, Limited	71,288	2.45%
Sumitomo Mitsui Banking Corporation	64,176	2.21%
Mitsubishi Trust and Banking Corporation	56,236	1.93%
TOTAL	**623,217**	**21.44%**

Directors' and Corporate Auditors' Stockholdings

The following is a list of the directors and corporate auditors with their stockholdings in the Company at June 25, 2003.
At the same date, the directors and corporate auditors owned a total of 1,256,761 shares in the Company.

	Number of shares owned		Number of shares owned		Number of shares owned
Koshi Mizukoshi	202,000	Shinji Yano	115,000	Hirokatsu Yokoyama	87,729
Tsuguto Moriwaki	104,500	Susumu Okushima	103,000	Katsuyuki Matsumoto	39,660
Yasuo Inubushi	102,000	Hiroo Shimada	65,872	Shigetake Ogata	16,000
Hiroshi Sato	108,000	Yoshihiro Tanno	119,000	Taku Morota	26,000
Toru Asaoka	67,000	Shigeto Kotani	74,000	Takasuke Kaneko	0
Takashi Matsutani	54,000				

Directors, Corporate Auditors, and Corporate Officers

Chairman of the Board, President, Chief Executive Officer and Representative Director
Koshi Mizukoshi

Head Office and Technical Development Group

Executive Vice President and Representative Director
Tsuguto Moriwaki

Senior Managing Director
Hiroshi Sato

Managing Directors
Toru Asaoka
Takashi Matsutani

Officers
Juzo Hirano
Jun Miyazaki
Tatsuki Yoshida
Toshinori Okoshi

Iron and Steel Sector

Executive Vice President and Representative Director
Yasuo Inubushi

Executive Officer
Toshio Kimura

Senior Officers
Tatsuo Ikeda
Tsuyoshi Tanaka
Masaaki Nakazono
Keiji Koyama

Officers
Saburo Hara
Tomoyuki Kaya
Koichi Onishi
Hideki Nakamura
Keiichi Murase

Welding Company

Senior Managing Director
Hiroo Shimada*

Senior Officer
Isao Aida

Aluminum and Copper Company

Executive Vice President and Representative Director
Shinji Yano*

Senior Officers
Hiroyuki Nakayama
Hideo Ogi

Officers
Tetsu Takahashi
Ryosuke Shimomura

Infrastructure and Plant Engineering Company

Senior Managing Director
Susumu Okushima*

Senior Officer
Katsunori Aoki

Officer
Yasuo Kanda

Machinery Company

Senior Managing Director
Shigeto Kotani*

Officer
Kazuo Shigekawa

Real Estate Company

Senior Managing Director
Yoshihiro Tanno*

Statutory Auditors
Hirokatsu Yokoyama
Katsuyuki Matsumoto
Shigetake Ogata
Taku Morota
Takasuke Kaneko

Notes: *Denotes the president of the company

Principal Consolidated Subsidiaries

Iron and Steel

Domestic
Hanshin Yosetsu Kizai Co., Ltd.
Kobe Special Tube Co., Ltd.
Kobelco Logistics, Ltd.
Kobelco Marine Engineering Co., Ltd.
NI-Kobe Welding Co., Ltd.
Nippon Koshuha Steel Co., Ltd.
Sakai Steel Sheets Works, Ltd.
Shinko Actec Co., Ltd.
Shinko Bolt, Ltd.
Shinko Kenzai, Ltd.
Shinko Kobe Power, Inc.
Shinko Mex 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 MIG Wire (Thailand) Co., Ltd.
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.
Leadmikk, Ltd. *
Shinko Fab Tech, Ltd.
Shinko Daian Sohgo Service 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 Aluminium Cayman Inc.
Kobe Leadframe Singapore Pte. Ltd.
Kobe Precision, Inc.
Kobe Precision Technology Sdn. Bhd.
Singapore Kobe Pte. Ltd.

* Leadmikk, Ltd. changed its name to Kobe Leadmikk, Ltd.

Machinery

Domestic
Industrial Services International
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 Engineering & Construction Co., Ltd.
Shinko Techno Engineering Co., Ltd.
Shinwa Wood Works, Ltd.

Overseas
Bimarco A.G.
Kobelco Compressors (America), Inc.
Kobelco Machinery Asia Pte. Ltd.
Kobelco Stewart Bolling, Inc.
Operaciones al Sur del Orinoco, C.A

Construction Machinery

Domestic
Kobelco Construction Machinery Co., Ltd.

Real Estate

Domestic
Jikurefu Service, Ltd.
Kobelco Development Co., Ltd.
Shinko Care Life Co., Ltd.
Shinko Kosan Building Service, Ltd.
Shinko Kosan Kensetu Co., Ltd.

Other Businesses

Domestic
Genesis Technology Inc.
Japan Superconductor Technology Inc.
Kobelco Business Support Co., Ltd.
Kobelco Personnel Co., Ltd.
Kobelco Research Institute, Inc.
Shinko Human Create Co., Ltd.
Shinko Industrial Co., Ltd.
Shinko Research Co., Ltd.

Overseas
Kobe Professional Service Inc.
Kobe Steel International (America) Inc.
Kobe Steel International (USA) Inc.
Kobe Steel USA Holdings Inc.
Kobe Steel USA Inc.

Main Products and Services

Iron and Steel Sector

Iron and Steel Products
Wire rods, bars, plates, hot-rolled sheets, cold-rolled sheets, electrogalvanized sheets, hot-dip galvanized sheets, painted sheets, deformed bars, pig iron

Steel Castings and Forgings
Marine parts (crankshafts, engine parts, shafts, ship hull parts), electrical parts (rotor shafts, turbine blades, casings), industrial machinery parts (forgings for molds, rolls, bridge parts, centrifugally cast steel pipes, pressure vessels), powder metallurgy products (high-speed steels, hot isostatic pressed cylinders)

Titanium Products
Rolled titanium and titanium alloys for aircraft parts, heat exchangers, construction materials, golf club heads, motorcycle mufflers, wristwatches, IT-related fields

Steel Powders
Atomized steel powders for sintered parts, handwarmers, deoxidizers and metal extrusions

Welding Company

Welding Consumables
Covered welding electrodes, flux-cored and solid welding wires for semi-automatic welding, solid wires and fluxes for submerged arc welding, TIG welding rods, backing materials

Welding Systems
Robot systems for welding steel columns, welding robot systems for bridge construction, off-line teaching systems, other welding robots, power sources

High Functional Materials
High functional filters for deodorization, dehumidification, ozone decomposition, toxic gas absorption, and oil mist elimination; odor neutralizers; dehumidifiers; solvent recovery equipment

Aluminum and Copper Company

Aiuminum Products
Sheets, (can stock, general sheet, blanks and substrates for hard disks), extrusions and fabricated products, castings and forgings

Copper Products
Sheets, strips, tubes, leadframes

Infrastructure and Plant Engineering Company

Environmental Protection
Sewage and sewage sludge treatment plants, municipal solid waste treatment plants, industrial solid waste incineration plants, appliance recycling plants

Construction
General bridge construction, open-grid steel dams, harbor structures, hanger cable work, acoustic absorption panels, urban transit systems, short-distance transit systems, continuous reclaiming systems, noise insulation systems

Steel and Industry
Direct reduction plants, rolling mills, cement plants, pellet plants

Energy
Heavy wall pressure vessels, open rack vaporizers, brazed aluminum heat exchangers, spent fuel casks, power systems

Chemical
Chemical plants (petrochemical, oil refining, synthetic fabrics), air separation plants, pharmaceutical plants

New Business
Fly ash treatment equipment for power plants, chemical recycling using supercritical water, plasma melting system for radioactive waste

Machinery Company

Tire and Rubber Machinery
Batch mixers, twin-screw extruders, tire curing presses, tire testing machines

Plastics Processing Machinery
Large-capacity mixing/pelletizing systems, compounding units, twin-screw extruders, optical fiber processing equipment, wire coating equipment, injection molding machines

Advanced Products
Hot isostatic presses (HIP), cold isostatic presses (CIP), surface modification systems (AIP, UBMS), inspection and analysis systems, uninterruptible power sources

Crushers and Mills
Crushers, mills, feeders and separators, dry aggregate and sand plants, mobile crushers, sand crushing systems, waste sludge cake treatment plant, construction waste treatment system

Compressors
Screw compressors, centrifugal compressors, reciprocating compressors, refrigeration compressors, heat pumps, standard compressors

Real Estate Company

Real Estate
Condominium and Home Sales
Property Leasing
Brokerage Services
Remodeling
Building Management

Information and Telecom Products Dept.

Urban information Systems
Environment monitoring systems, environment information systems

Network Audio Player (Solid Audio)

Medical Implants and Materials Dept.

Implants for artificial hip joints
New designs

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

Branch Offices

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Tohoku (Sendai)
Niigata (Niigata)
Hokuriku (Toyama)
Shikoku (Takamatsu)
Chugoku (Hiroshima)
Kyushu (Fukuoka)
Okinawa (Naha)

Overseas Offices and Contacts

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Tel:(021) 6415-4977 Fax:(021) 6415-9409

Investor Information (As of March 31.2003)

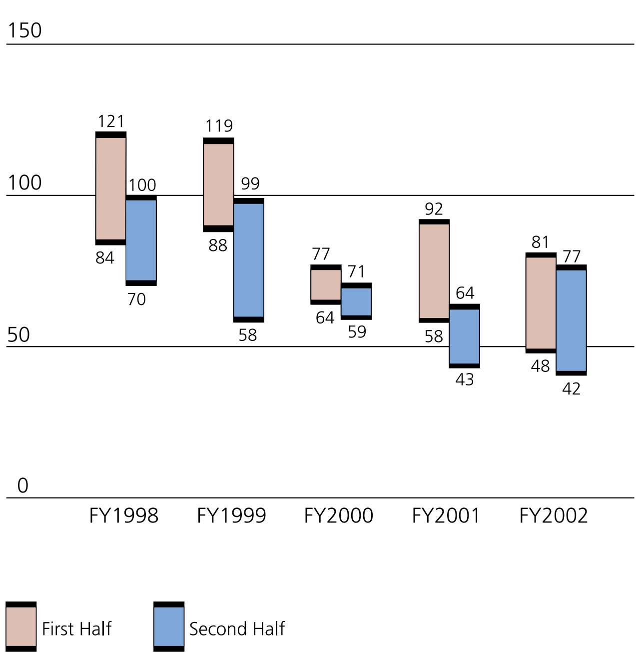
Founded:
September 1905
Incorporated:
June 1911
Employees:
9,122 (Consolidated 26,765)
Fiscal Year:
April 1— March 31
General Meeting:
The ordinary general meeting of the Company's stockholders is usually held in Kobe, Japan in June of each year.

Distribution of Shares:

	Number of stockholders	Thousands of shares
Japanese financial institutions	152	1,215,279
Japanese securities companies	79	15,756
Other Japanese corporations	1,765	541,558
Japanese individuals and others	180,664	1,029,772
Foreign investors	254	104,548
TOTAL	**182,914**	**2,906,913**

Common Stock Price Range:

(Yen) (Tokyo Stock Exchange)



Listings and Quotations:
Kobe Steel is listed on the Tokyo Stock Exchange, the Osaka Securities Exchange and the Nagoya Stock Exchange in Japan. 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) 815-2042 (U.S. toll free: 888-269-2377)
URL: http://www.adrbny.com

Public Notices:
The Nihon Keizai Shimbun
The Kobe Shimbun

Transfer Agent & Office:
The Mitsubishi Trust & Banking Corporation
4-5, Marunouchi 1-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
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KOBE STEEL, LTD.

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03096000 PR-KY Printed in Japan