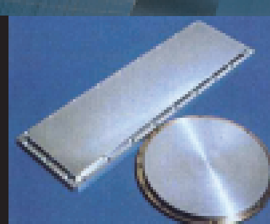
Creating Distinctive Products & Services

KOBE STEEL ANNUAL REPORT 2004

Year Ended March 31, 2004



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. With numerous subsidiaries and equity-valued affiliates, Kobe Steel operates 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.

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NOTES

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

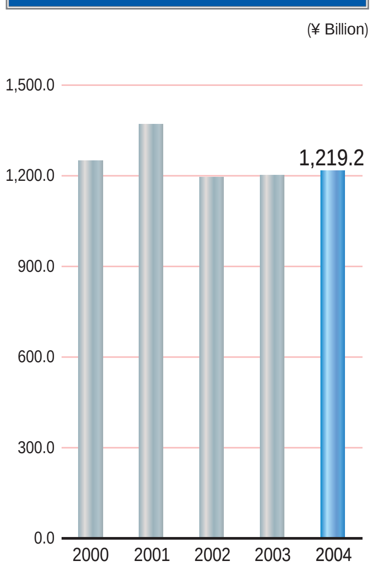
Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Percent change	Thousands of U.S. dollars (Note)
	2004	2003	2004/2003	2004
For the year:				
Net sales	¥1,219,180	¥1,204,750	1.2%	$11,535,434
Operating income	100,699	81,054	24.2	952,777
Income before income taxes	35,734	16,004	123.3	338,102
Net income	22,066	1,723	1,180.7	208,780
Capital investment	104,911	43,970	138.6	992,629
Depreciation and amortization	79,245	85,090	(6.9)	749,787
Research and development	16,929	17,797	(4.9)	160,176
At year-end:				
Total assets	1,916,338	1,902,642	0.7	18,131,687
Stockholders' equity	330,127	293,138	12.6	3,123,541
Interest-bearing debt	797,039	895,881	(11.0)	7,541,291
Interest-bearing debt including IPP project finance	931,891	966,383	(3.6)	8,817,211

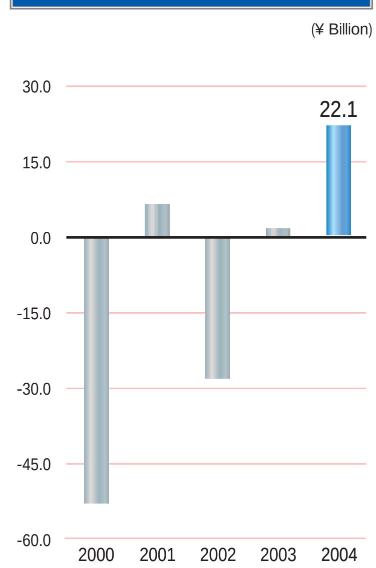
	Yen		Percent change	U.S. dollars (Note)
	2004	2003	2004/2003	2004
Per 1,000 shares data:				
Net income	¥ 7,438	¥ 592	1,156.4%	$ 70.38
Stockholders' equity	111,239	98,960	12.4	1,052.50
Cash dividends	1,500	—	—	14.19

Note: The U.S. dollar amounts represent translations of Japanese yen at the exchange rate of ¥105.69 to US$1.00 on March 31, 2004.

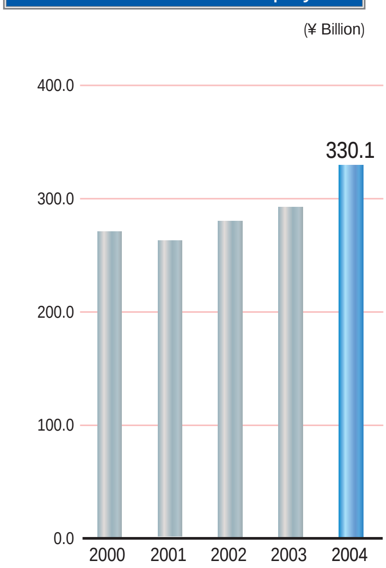
Net Sales



Net Income



Total Stockholders' Equity



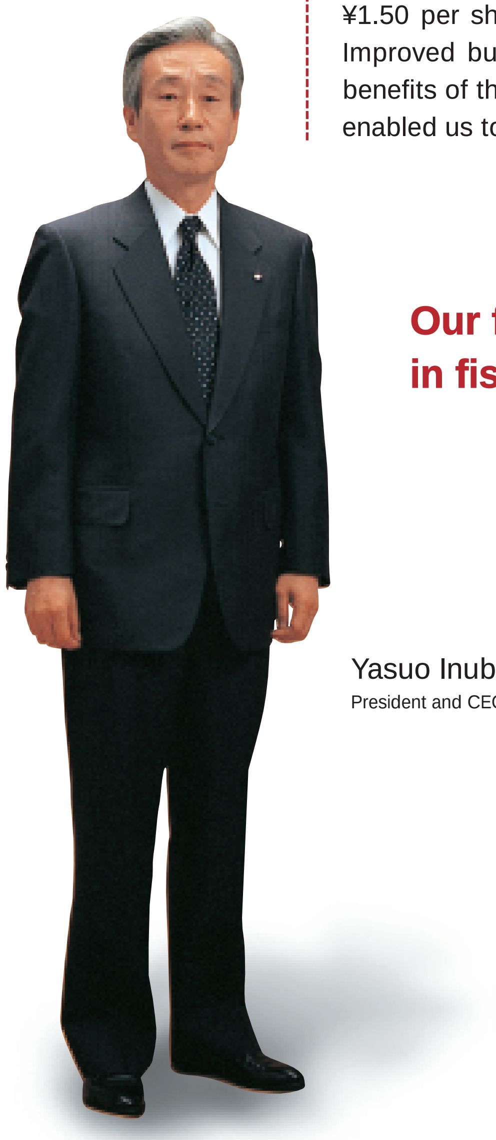
Message from the President

The Japanese economy gained moderate recovery momentum in the second half of fiscal 2003, as exports boomed on the back of a buoyant Chinese and Asian economy and resurgent U.S. growth. Private-sector capital investment also increased amid improved earnings among manufacturers.

In such circumstances, increased steel shipments and selling prices, as well as stronger construction equipment demand in China and robust sales to IT manufacturers, lifted our consolidated net sales ¥14.4 billion from the previous term to ¥1,219.2 billion (US$11,535.4 million). Operating income increased ¥19.6 billion to ¥100.7 billion (US$952.8 million), and income before income taxes increased ¥19.7 billion to ¥35.7 billion (US$338.1 million). Net income came in at ¥22.1 billion (US$208.8 million), a major increase from the previous term.

Moreover, the balance of interest-bearing debt fell ¥98.8 billion from the end of the previous term to ¥797.0 billion.

Our first duty to our shareholders is profit distribution, taking into account our retained earnings and financial performance. Owing to considerable improvements during the term under review, we have been able to set a dividend of ¥1.50 per share. This is the first time we have resumed dividends since 1998. Improved business profitability from thorough cost reductions and the positive benefits of the Fiscal 2003-2005 Consolidated Medium-Term Business Plan have enabled us to resume dividends.



Our financial performance improved considerably in fiscal 2003, ended March 31, 2004.

Yasuo Inubushi
President and CEO

Realizing our Group Vision

We are in the second year of the Fiscal 2003-2005 Consolidated Medium-Term Business Plan and are making steady progress. The final year of the plan, fiscal 2005, marks the centennial of the Company’s founding.

Since my inauguration as President in April this year, I have continued policies aimed at strengthening the earning power of our businesses, with a goal to realize the Vision of the Kobe Steel Group of contributing to society through our materials, wholesale electricity supply and machinery businesses, and winning acclaim for our products, services, and technology.

This medium-term plan is a preparation for our leap to the next stage. Shifting from an emphasis on optimizing assets and liabilities, or stock, we are now focusing on strengthening profitability, or flow, to build up the overall value of the KOBELCO brand.

Outline of the Fiscal 2003-2005 Consolidated Medium-Term Business Plan (for details please see next page)

1. Renew efforts to build up our position as a manufacturer of distinction
2. Rigorously strengthen competitiveness
3. Improve our financial position
4. Create strong operating cash flows through stable earnings
5. Improve our credibility in the capital market

Strengthening our earning power

In fiscal 2003, as in the previous fiscal year, we are committed to reforming the operating structures in all our businesses, and aggressively pursuing alliances with other companies to strengthen our earning power. In the Iron and Steel segment, we are involved in wide-ranging collaborations with Nippon Steel Corporation and Sumitomo Metal Industries, Ltd., streamlining logistics and cooperating between subsidiaries. In welding, we with JFE Steel Corporation established KOBE JFE Welding Co., Ltd. to consolidate production of solid welding wires to reduce production, procurement, and distribution costs.

In the Aluminum and Copper segment, we repositioned our cooperative relationship with Alcoa Inc. of the U.S. to focus on aluminum products for the automotive industry, spurred by rapid growth in that market. Separately, we have also begun building a U.S. production base for forged suspension parts. Operation is due to begin in summer 2005. We merged our copper tube operations with those of Mitsubishi Materials Corporation into a new joint venture company, Kobelco & Material Copper Tube, Ltd.

In the Machinery segment, the Company and Kawasaki Heavy Industries, Ltd. established Earth Technica Co., Ltd. We have already transferred the marketing and design of the crushing equipment business to the new venture. We are planning to merge the manufacturing function in April 2005.

At the same time, we have prioritized our iron unit engineering business, a strength to the Company. We are working to attract orders for direct reduced iron plants and commercialize our proprietary next-generation ironmaking technology ITmk3®.

In our wholesale electricity supply business, we expect a stable, long-term earnings base now that our power station is in full operation following the start-up of the second of two power plants on April 1, 2004.

Progress in compliance

The Company believes that without observance of laws and social norms — compliance — it cannot continue as a corporate entity, and regards creation of a compliance framework as a priority issue for management. In June 2003, we set up a Compliance Committee made up of an advisory body to the Board of Directors, created an internal reporting system with outside lawyers, compiled a code of ethics to build compliance awareness in all employees, and organized training programs. Steps were also taken to make compliance a group-wide concern.

Forward-looking goals for a brighter future

The business environment surrounding the Company has changed greatly. In all business areas, most notably in steel, soaring prices for raw materials and supplies are putting pressure on profitability. In response, we are making every effort to raise product prices in each business.

We are also endeavoring to raise shareholder value by creating and fostering distinctive products under the Consolidated Medium-Term Business Plan and strengthening earning power through strategic investment and improvement of our financial position. We will continue to prioritize compliance, and seek to become a company truly worthy of the respect of our business partners, local communities, and shareholders.

August 2004

Yasuo Inubushi
President and CEO

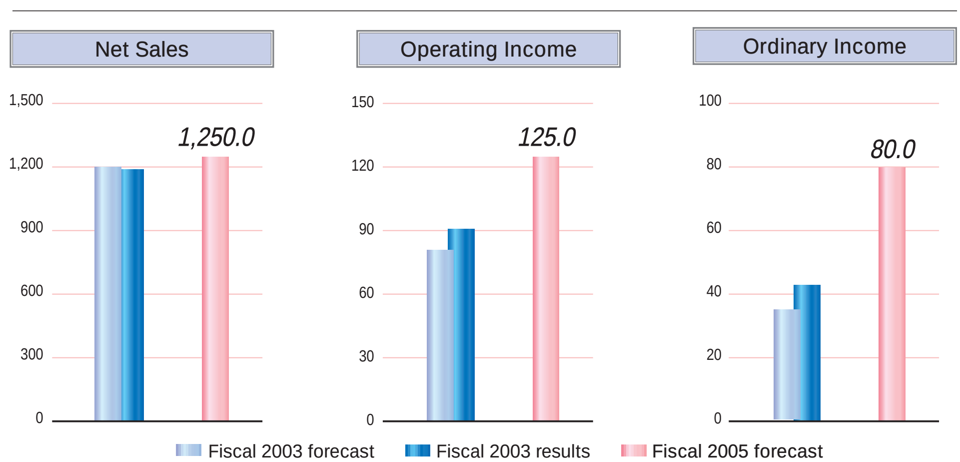
Fiscal 2003-2005 Consolidated Medium-Term Business Plan

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 supplies products, services and technologies of high renown throughout the world.

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)

	Fiscal 2003 forecast	Fiscal 2003 results	Fiscal 2005 forecast
Net sales	1,190.0	1,219.1	*1,250.0*
Operating income	91.0	100.6	*125.0*
Ordinary income*	43.0	50.7	*80.0*
Net income	14.0	22.0	*36.0*
Total assets	1,900.0	1,916.3	*1,800.0*
Debt (interest-bearing liabilities)	829.0	797.0	*640.0*
Debt, including IPP project finance	965.0	931.8	*780.0*
Cash flow		3-year cumulative total:	*250.0*
Ratio of ordinary income to sales	3.6%	4.2%	*6.4%*
Return on assets	3.7%	4.0%	*6.0%*
Debt-to-equity ratio	2.7	2.5	*1.7*
D/E ratio including IPP project finance	3.1	2.9	*2.1*

(* Operating income after adjustments of net financial revenue and net expenses generated on a regular basis, including labor costs for employees temporarily dispatched.)

Factors to Improve Ordinary Income (in billions of yen)

Ordinary income	*+45.0*	35.4 billion yen in FY2002 to 80 billion yen in FY2005
Raw material cost increases	*(10.0)*	
Cost increases	*(10.0)*	Lifting of emergency measures
Cost decreases	*+40.0*	Variable costs: 22 billion, fixed costs: 18 billion 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.)

Task 1 : Further solidifying its position as a “distinctive manufacturer”

- Percentage of “distinctive, value-added products”

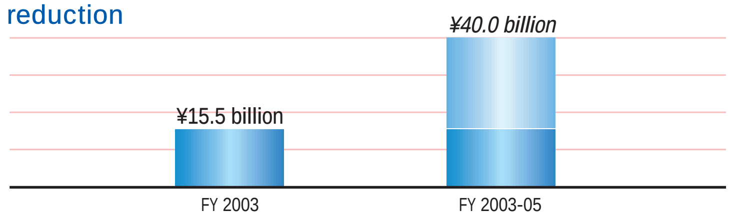
FY 2002: 30.0% ⋯⋯> FY 2003: 33.0% ⋯⋯> FY 2005: *40.0%*

Task 2 : Intensive efforts to bolster competitiveness

Implementation of effective and selective investment (of 100 billion yen in a three-year period)
Achieving 40 billion yen in cost savings over a three-year period

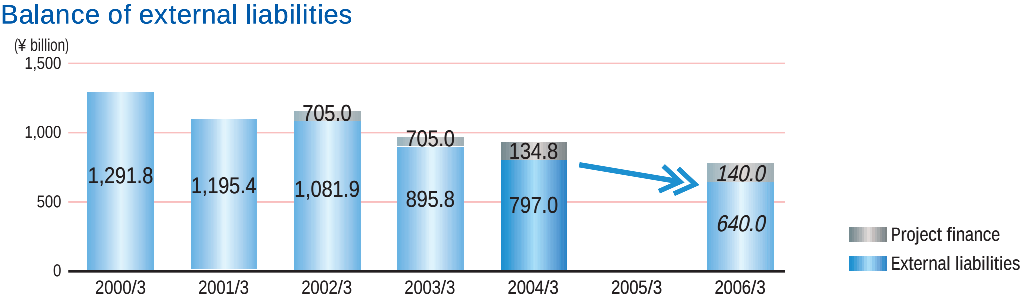
- Capital investment in FY 2003
  Totaled 43.8 billion yen (on a non-consolidated and commencement basis) mainly in projects aimed at increasing the competitiveness of “distinctive, value-added products” and at ensuring stable operation of equipment.

- Cost reduction



Task 3 : Improvement in our financial position

- Balance of external liabilities



- D/E ratio

FY 2002: 3.0 ⋯⋯> FY 2003: 2.5 ⋯⋯> FY 2005: *1.7*

Task 4 : Securing profit to create sufficient level of cash flow

- Ordinary income

FY 2002: ¥35.4 billion ⋯⋯> FY 2003: ¥50.7 billion ⋯⋯> FY 2005: *¥80.0 billion*

- ROA

FY 2002: 3.4% ⋯⋯> FY 2003: 4.0% ⋯⋯> FY 2005: *6.0%*

Task 5 : Raising confidence in the capital market

Aiming to returning to an “A” or higher rating by Japanese rating agencies by the end of fiscal 2005

- FY 2003: JCR – Return to an “A” rating (“BBB+” to “A-”)
  R&I – Unchanged (“BBB”)

Progress in line with plans

Strengths at a Glance

Iron and Steel

Specialty steel wire rod and bar

We have over a 50% share of the global market for wire rod for valve springs in car engines, as well as high shares for wire rod for springs, bearings, and gears, and CHQ wire rod for bolts and nuts.

Steel sheet

Kobe steel specializes in high value-added products including high strength steel sheet for automobiles and special surface-treated steel sheet for electric appliances and IT devices.

Steel casting and forging

Kobe Steel is internationally renowned for its steel casting and forging. Our crankshafts for ships hold a 40% share of the global market.

Welding

Welding consumables

As one of the world's three largest welding manufacturers, Kobe Steel has held the top market share in the Japanese market for half a century. We produce approximately 800 items, including covered electrodes as well as automatic and semi-automatic welding wires.

Examples of "Distinctive Products" Among the World-Class Products Supplied by Kobe Steel

Aluminum

Aluminum sheet

Kobe Steel supplies more than 50% of the worldwide market demand for magnetic disk substrates for hard disk drives. It has more than 30% of the domestic market for can stock and roughly 70% for bottle can stock and the top domestic share for automobile panel materials.

Aluminum casting and forging

Kobe Steel has almost 100% of the domestic market for vacuum chambers for large-scale LCD manufacturing equipment. It also has the top market share in aluminum forgings for the Japanese automobile suspension systems market.

Compressors

Kobe Steel is Japan's only comprehensive compressor manufacturer that supplies all types of compressors, including screw and centrifugal compressors. For screw-type models, it has the largest worldwide market share. In standard compressors, it is among the market leaders.

Industrial machinery

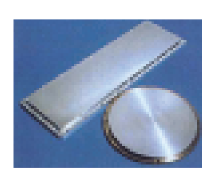
Backed by Kobe Steel's original technology, its industrial machinery is widely used in Japan and abroad. For many applications, including rubber mixers, plastic mixing and pelletizing systems, and crushers, Kobe Steel enjoys high market shares.

MIDREX® Process

Kobe Steel licenses the MIDREX® Process, which is used in roughly 65% of the direct reduction plants in the world. It has built these plants in many parts of the world, including Venezuela.

Target materials

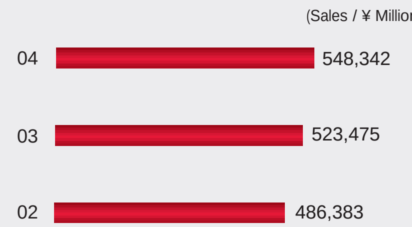
We supply sputtering target materials for manufacturing thin film, which is utilized in LCD panels and DVDs. With the high value-added alloys recently developed for thin film materials, Kobe Steel enjoys an 80% global market share.



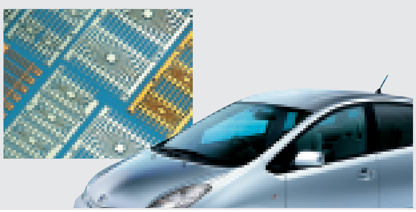
Business at a Glance

Iron and Steel Segment

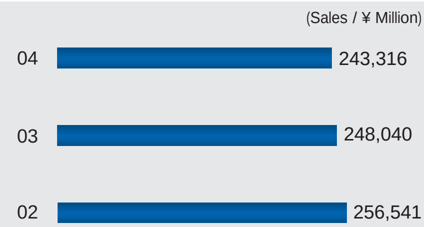
Steel products: wire rod and bar, plate, sheet, steel castings & forgings, titanium products, steel powder, independent power producer (IPP).
Welding: welding consumables, welding systems, highly functional materials



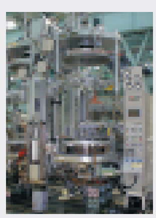
Aluminum and Copper Segment



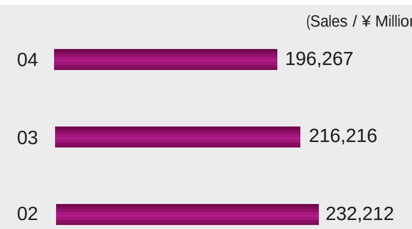
Automotive aluminum sheet, aluminum can stock, computer hard disk material, aluminum extrusions & fabricated products, castings & forgings, copper sheet and strip, copper tube



Machinery Segment

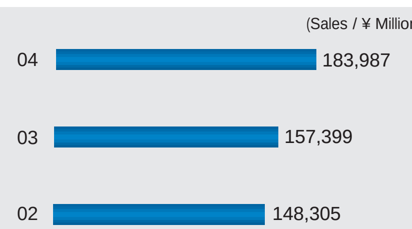


Rubber and plastics processing machinery, advanced technology products, crushers, ferrous & nonferrous rolling mills, environmental and energy-related equipment and plants, nuclear power-related equipment, steel structures, advanced transit systems

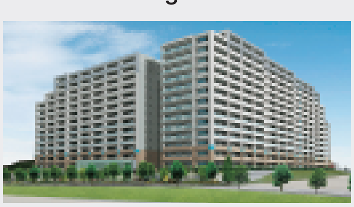


Construction Machinery Segment

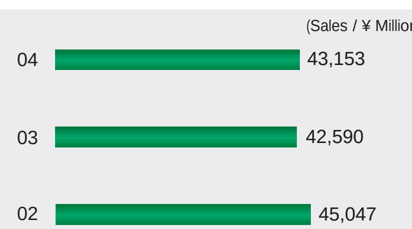
Excavators, mini excavators, wheel loaders, recycling equipment, crawler cranes, wheel cranes, civil engineering machinery, work vessels



Real Estate Segment

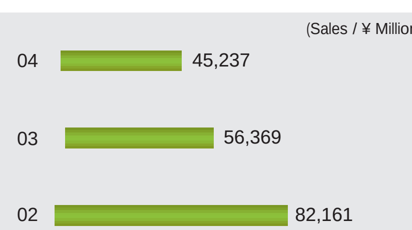


Condominium & home sales, brokerage services, remodeling, building maintenance



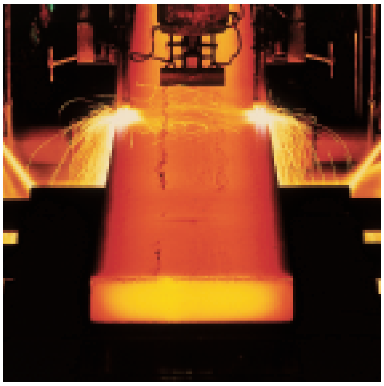
Other Businesses Segment

Urban information systems, superconducting magnets, target material for LCDs



Iron and Steel Segment

We experienced strong demand for steel from shipbuilders, automobile manufacturers and other manufacturers. The strong market in East Asia, including China, led to robust exports. This surging demand has been positive for pricing, with export prices climbing and the domestic market steadily improving. We thus recorded both an increase in shipments and, with the higher prices, a remarkable increase in overall sales from the previous fiscal year. Sales of steel castings and forgings declined from the previous fiscal year, partly because of smaller assembled crankshafts. Titanium sales also fell, although demand is now recovering. For steel powder, however, sales climbed due to increased automobile production. In our welding business, demand has been strong from shipbuilders and automakers and exports to Asia has risen sharply. These factors enabled us to post year-on-year sales growth. This in turn enabled overall sales to achieve a 4.8% rise from the previous fiscal year, to ¥548.3 billion yen. Operating income was up 29.4%, at ¥63.1 billion yen.



Research and development

Our goal is to develop products that not only meet the demands of customers but also the needs of the global environment. We aim to bolster our strength in specialty steels for valve and suspension springs. We are also developing lead-free cutting steel. And with our customers increasingly looking for strong, lightweight products, we are developing ultra high strength steel sheet for automobiles. We are also developing “Kobe Super Toughness” steel plates for very large heat input welding. Meanwhile, our Kobehonetsu heat releasing steel sheet has been recognized for its excellence and originality, winning a number of awards. We will maintain our commitment to developing highly distinctive products.

With the start-up of the second of two plants, the Shinko Kobe Power Station is now in full operation.

Investing to increase competitiveness

We allocated funds to bolster technological capabilities in product areas in which we excel and in projects to streamline operations. We also allocated spending to upgrade equipment essential for maintaining our business. Major projects implemented in fiscal 2003 include modifications to the No. 3 continuous caster at the Kakogawa Works to further improve the quality of high strength steel sheet, revamping the pickling equipment at the continuous annealing line, and remodeling the flaw detection line at the blooming mill to improve the quality of our specialty steel wire rod.

Among our group companies

Kobelco Marine Engineering Co., Ltd. merged with the marine-related unit of Eagle Industry Co., Ltd., making a fresh start in April 2004 as Kobelco Eagle Marine Engineering Co., Ltd. This merger increases our competitiveness in ship seals. In March 2003, we increased our equity stake in Sumitomo Titanium Corporation, our main supplier of titanium sponge, to gain a stronger edge in the titanium business.

In October 2003, we set up a joint venture with JFE Steel Corporation called KOBE JFE Welding Co., Ltd. to reduce production, material purchase and distribution costs.

Overseas

Our technology partnership with voestalpine Stahl runs from automotive steel sheet into new areas, such as operational technology. Meanwhile, PRO-TEC Coating Company, a joint venture with U.S. Steel to manufacture hot-dip galvanized steel sheet, is enjoying high shipments, backed by strong demand for automobiles. Automakers have applauded the quality and technical superiority of its products. Kobelco Metal Powder of America, Inc., which makes steel powder, is facing a difficult operating environment, given soaring raw material prices. We aim to strengthen its profits by expanding sales of high-margin items, including SEGLESS™ graphite segregation-free steel powder and cut costs.

Supported by strong in demand in Asia, our overseas welding operations were solid. In China, Kobe Welding of Tangshan Co., Ltd., a joint venture, started production in September 2003. Combining its output with exports from Japan, we are expanding sales in China.

Wholesale power supply business

The No. 1 Power Plant of our Shinko Kobe Power Station enjoyed steady operation, with sales and profit in line with forecasts. The No. 2 Power Plant went into commercial operation in April 2004. The power station can now supply 1.4 million kilowatts of electricity, greatly contributing to Kobe City's power needs. We have given careful consideration to environmental protection. The facility also contributes to the community and regional development.

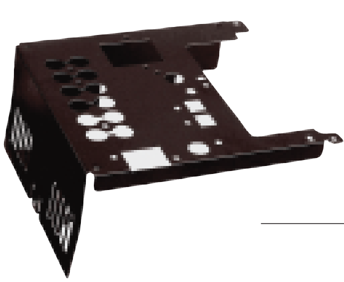
Kobe Steel is a leader in research and development on high strength steel sheet featuring superb strength and formability.

Demand to remain robust in fiscal 2004

Chinese economic growth and a rally in U.S. demand should also mean continued strength in exports. In steel castings and forgings, healthy demand for almost all products will enable higher output. In titanium, domestic demand has yet to fully rebound, but exports will remain strong, principally for power plant applications. We also expect steady demand for steel powder, backed by strong automobile production.

In this environment, we will continue to expand sales of distinctive products such as specialty steel, high strength steel sheet and special chemical-treated steel sheet, while streamlining operations and reducing costs. In addition, we aim to increase sales prices with the rise in raw material costs. And we will strengthen and expand our overseas production bases in collaboration with our group companies. Through these initiatives, we expect to improve our competitiveness and increase our market presence.

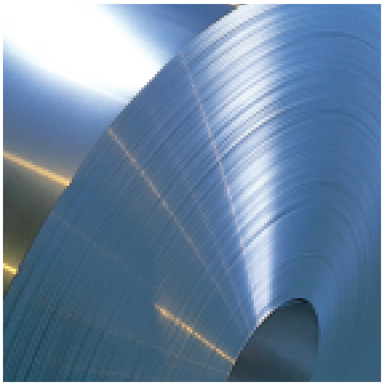
Kobe Steel is one of the world's top three biggest manufacturers of welding consumables. Spanning over half a century, we are Japan's top producer, supplying 800 items from covered electrodes to automatic and semi-automatic welding wires.



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.

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 major product, declined slightly from the previous fiscal year, largely attributable to the decline in demand caused by the unseasonably cool summer. Another factor was the decrease in aluminum can end stock for steel cans, a result of the increased use of PET bottles for soft drinks. There were, however, positive factors such as of the growing adoption of aluminum bottle cans.

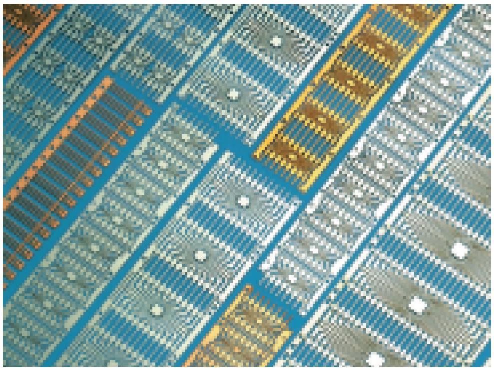
On the other hand, the industry as a whole achieved record domestic shipments of automotive aluminum sheet as well as plate for semiconductor and LCD manufacturing equipment. We consequently achieved higher sales for rolled aluminum products.

Aluminum forgings found growing application in automobile suspension systems. We also enjoyed strong demand for aluminum vacuum chambers used in semiconductor and LCD manufacturing equipment. These factors contributed to year-on-year sales growth in this product area.

Sales of rolled copper products for electronic materials also increased. Sales of copper tubing remained on par with the previous year, impacted by lower imports of air conditioners and components made overseas by Japanese manufacturers.

Looking at aggregate results, despite the increase in the sales value of products, overall sales in this segment declined 1.9%, to ¥243.3 billion, reflecting our withdrawal from the aluminum smelting business. In contrast, operating income rose 20.4% from a year earlier, to ¥14.9 billion, thanks to higher product shipments and comprehensive cost reduction.

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



Kobe Steel has developed high strength, high conductivity copper alloys for terminals, connectors, and semiconductor leadframes.

During the term

We refocused our alliance with Alcoa Inc. on automotive aluminum. In addition to the existing R&D in aluminum sheet, our activities encompass extruded, cast and forged products.

Mitsubishi Materials Corporation and we integrated our copper tubing businesses. In April this year, Kobelco & Materials Copper Tube, Ltd. started operation. With production and sales bases in Thailand and Malaysia, this new company aims to become a leader in Japan and Asia.

Research and development

R&D is focused on materials for the automotive, IT and semiconductor markets, where demand is likely to grow, with the goal of developing high-margin products that dominate their markets.

For example, our product development initiatives in the automotive field, include high formability sheet, thin-walled extrusions and high-strength forgings. We also use our technologies in surface treatment, welding and structural analysis to develop aluminum hoods that reduce the impact and resultant injury for pedestrians in the event of an accident, bumper reinforcement materials that boast high shock absorption, and aluminum forgings for suspension systems.

For the IT and semiconductor market, we have made solid progress in developing new tin plating compatible with lead-free soldering, high-strength copper alloys for springs, terminals, connectors aluminum substrates for magnetic disks and materials for electrodes with highly durable surface treatment that are used in the production of semiconductors and LCDs.

Overseas

We established a company to manufacture aluminum forgings for suspension systems for the North American market. Kobe Aluminum Automotive Products LLC, is slated to begin operation in June 2005. In leadframes, our subsidiary Kobe Leadmikk, Ltd. will establish a manufacturing base in Wuxi (Jiangsu Province, China), with production to begin in January 2005. Meanwhile, we sold our equity stake in an alumina refinery in Worsley, Australia.

For overseas operations, we will continue to concentrate our management resources on carefully selected core businesses.

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

Looking ahead

In the year ending March 2005, we anticipate that demand for aluminum and copper products will remain firm. Demand from semiconductor manufacturers has fully recovered and demand for automotive materials is expected to remain strong.

Both resealable and recyclable, bottle cans account for 40% of the aluminum cans for soft drinks in Japan. As such, we expect the market for aluminum can stock to continue growing.

The Kobe Steel Group calls on its technological capabilities to create new markets in aluminum and copper. As a leader in these markets, we're aiming to be a company that is internationally competitive in cost, quality and customer service.

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

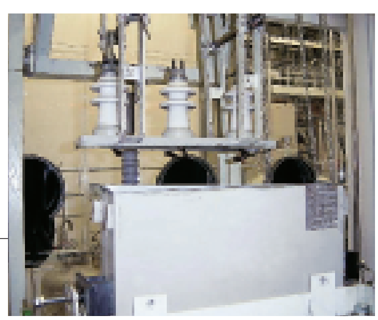
Orders for tire curing presses and rubber mixing machinery in the Machinery business rose in Japan and China, amid stronger capital investment by tire manufacturers. Both standard and nonstandard compressors also generally sold well.

In the Infrastructure and Plant Engineering business, energy- and nuclear power-related equipment enjoyed fairly robust orders from overseas markets. However, the lack of large overseas plant orders and the impact of reduced public works projects had negative effects on our performance.

In our environmental business, we enjoyed strong demand from public and private sector customers in Japan for construction of processing facilities for PCB waste, mainly from local authorities and for wastewater treatment and air-cleaning systems.

Reflecting the above factors, total orders increased 18.1% to ¥183.7 billion, and the balance of orders at term-end totaled ¥156.3 billion. However, sales fell 9.2% to ¥196.3 billion, reflecting a drop in orders for municipal refuse treatment plants.

Kobe Steel's SED Process, processing technology for PCB-contaminated containers, was chosen by the Japan Environmental Safety Corporation for the construction of a PBC waste treatment plant in Toyoda.



Hydrogen-oxygen generators and fuel cells for home use

Kobelco and the Chugoku Electric Power Company, Inc., are jointly undertaking testing of a fuel cell power generation system for home use. This is the first co-generation system of its kind in Japan involving hydrogen production utilizing water electrolysis, and energy generation and thermal reclamation using fuel cell batteries.

Business tie-ups and reforming the business organization

To enhance our technological capabilities and cost competitiveness, thereby strengthening our operating base, we are forming alliances with other companies and reforming our business organization. In the crushing equipment business, July 2003 saw the startup of operations at Earth Technica Co.,Ltd, a joint venture with Kawasaki Heavy Industries, Ltd. which comprises the marketing and design portions of both companies. We are now preparing to integrate the manufacturing segments in April 2005.

In the cryogenic air separation business, we launched Shinko Air Water Cryoplant, Ltd., jointly established with Air Water Inc. in April 2004. In October 2003, we also began operations at Kobelco Eco-Solutions Co., Ltd., a consolidated subsidiary formed by the spin-off of our environmental business and its merger with Shinko Pantec Co., Ltd. We intend to develop the new company into a comprehensive environmental solutions business while working to maximize the benefits of the merger at an early date.

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

Research and development

Principal developments in the term under review were a screw chiller with industry-leading efficiency. Chillers are used in small refrigerators for generation of chilled water for office building air conditioning. And for hydrogen filling stations, we developed an ultra-high-pressure hydrogen compressor, capable of reaching approximately 1,000 bars. We also test-operated our next-generation ITmk3® ironmaking technology at a 25,000-ton per year capacity demonstration plant in Minnesota, U.S.A.

Overseas business development

Having acquired ASME U3 accreditation in June 2004, ahead of all other Asian competitors, we aim to make the most of the opportunity this presents to expand sales of our isostatic pressing systems in the United States and other overseas markets.

At the same time, we are producing hot briquetted iron (HBI) through the operation of two direct reduced iron plants for Minorca and Comsigua in Venezuela. And we posted steady growth in exports of energy-related equipment such as large pressure vessels, LNG vaporizers, and aluminum plate-fin heat exchangers, although many manufacturers around the world have been merged.

Outlook

In rotating machinery, we continue to focus on the oil, gas and new-energy fields. In standard compressors, we are deepening market penetration of our Kobelion series and other new products. In industrial machinery, we have entered new process fields through the launch of such products as LCM-EX polypropylene plastic mixers, and we are expanding overseas marketing of isostatic presses and physical vapor deposition systems.

We forecast that buoyant demand in overseas markets for energy-related equipment will again sustain strong orders, despite the ongoing decline in public works projects in Japan and another difficult year for steel structure orders. We also expect in the Middle East, China, and other regions construction of plants for direct reduced iron will increase as world steel demand grows. Our Group-wide efforts to increase orders, and commercialize the new ITmk3® process will enable us to further strengthen our distinctive operations.

Kobe Steel's leading-edge tire curing press features high productivity and low running costs.

The ITmk3® Process makes high-purity iron nuggets (above), while emitting 20% less carbon dioxide than blast furnace operations. The photo at left shows the demonstration plant in Minnesota.

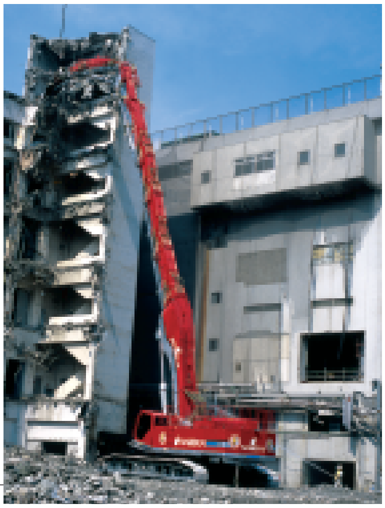
Construction Machinery Segment

In fiscal 2003, the Japanese construction machinery market, appearing to have finally bottomed out, enjoyed its first turnaround in seven years. Despite the contraction in public works spending, exports of used machinery helped reduce stock, generating replacement demand. Compliance with new emission regulations also stimulated purchases. Overseas markets generally recorded healthy growth with continued expansion in China; recovery in Europe, the United States, Southeast Asia and Oceania; and growth in the Middle East and Russia.

Responding to these changes, the Kobe Steel Group focused on building the foundations for greater earnings and for global growth. Specifically, we stepped up operations in the rising Chinese market, formed a company specializing in used machinery to strengthen our Japanese and overseas stock business, reinforced our sales and service structure in the promising Southeast Asian region, and signed a mutual OEM supply agreement for a crane lineup with the Manitowoc Company, based in the United States.

This reciprocal OEM supply agreement with Manitowoc has bolstered our crane business. We also made plans to launch a new company called Kobelco Cranes Co., Ltd.

These strategies produced positive effects. Our Construction Machinery segment posted substantial increases in both sales and income, with segment sales rising 16.9%, to ¥184.0 billion, while operating income jumped 98.3%, to ¥8.1 billion.



The SK 1600D can demolish buildings over 50 meters tall. The ultra long boom gives this machine one of the highest reaches in its class.

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.

Hydraulic excavator business

The Chinese market for the construction of infrastructure is growing rapidly and urban development in China is intensifying. We have consequently positioned China as a top priority area, and we have taken the following steps to strengthen our business in this market in collaboration with our joint venture partners.

We launched a second joint venture company, Hangzhou Kobelco Construction Machinery Co., Ltd., in the city of Hangzhou, Zhejiang Province. Work is underway on a plant that will commence operations in January 2005.

To meet growing demand, we are also expanding the production capacity of Chengdu Kobelco Construction Machinery Co., Ltd., our production joint venture in Chengdu City, Sichuan Province.

In Chendu Kobelco Construction Machinery Group Co., Ltd., we increased our stake through which we will be able to build a strong system that combines production and sales.

With Toyota Tsusho Corporation we launched a joint venture called Kobelco Toyota Tsusho Construction Machinery Holding Asia Co., Ltd. Through the venture, we will cooperate with Toyota Tsusho in production, marketing, services, procurement and distribution.

We bolstered our network of sales agencies and contractors, which now blanket China.

As a result of these moves, which will strengthen our production, marketing and service networks, the number of new hydraulic excavators sold in China was twice that of the previous fiscal year. As a consequence, we were able to gain a bigger share of this market.

In the ASEAN region, we focused on improving distribution. In Indonesia, a market witnessing a resurgence in demand, we expanded our sales bases in an attempt to achieve a substantial increase in market share. In Vietnam, we set up an office in Hanoi, the second office in the country following our office in Ho Chi Minh City.

Our joint ventures with CNH Global N.V. in Europe and North America continued to move forward. We made steady progress with the technical transfer to the Italy-based manufacturing and marketing venture, Fiat Kobelco Construction Machinery S.p.A., and we widened the lineup of locally manufactured products. Through initiatives to increase OEM supply in CNH channels centered on the European and North American markets, including the launch of five mini excavators, we improved our earnings base.

In Japan, we introduced original high value-added products to the market in response to rising demand for machinery meeting higher environmental standards. With the help of growing domestic demand for new machinery, we attained a 15% share of the hydraulic excavator market. We also set up a new company specializing in used construction machinery. This company, Kobelco Construction Machinery International Trading Co., Ltd., increased our ability to generate earnings in the used machinery business. Our overseas network handled an increased quantity of used machinery and we were able to increase used machinery prices.

KOBELCO 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.

Crane business

Our crane business benefited from healthy sales of large cranes for construction projects in China and to South Korean shipbuilders. To help strengthen our crawler crane sales organization in Europe and North America, we launched sales firms dedicated to handling cranes in both markets. We also prepared to set up a sales office in the Middle East. We expect these initiatives will improve our distribution network.

In addition, we concluded a reciprocal OEM supply agreement for cranes with Manitowoc Company, a leading U.S. manufacturer of cranes. This agreement gives us greater cost competitiveness and a stronger foundation for our crane business.

Future development

To enable more responsive management and to achieve further growth, we separated our crane business from our excavator business in April 2004. Kobelco Construction Machinery Co., Ltd. and the recently established Kobelco Cranes Co., Ltd. will independently pursue higher profits and greater corporate value.

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.

REVIEW OF OPERATIONS

Real Estate Segment

Sales of real estate, the key business of this segment, benefited from strong sales of major properties, including the Maya Seaside Place East Buildings 4 and 5, in Kobe. The Kobe Steel Group consequently achieved a 1.3% rise in segment sales from the previous fiscal year, to ¥43.2 billion. In contrast, operating income declined 13.1% to ¥3.8 billion, partly because of changes in the variety of property sales.

Real estate sales and leasing operations

All condominium units were sold in the Maya Seaside Place East Buildings 4 and 5 in Kobe, the O's Town South Phase 2, O's Garden Phase 1 both in Akashi, Hyogo, and G-Clef Tsurumaki in Tokyo. We also commenced sales of Le Quartier Liberté Gakuentoshi in Kobe, G-Clef Shukugawa in Nishinomiya, Hyogo, and G-Clef Shukugawa-Kotobukicho also in Nishinomiya.

We began accepting applications for the rental condominiums, Aprile Omori-Sanno in Tokyo, and concluded leasing agreements for all units prior to completion. At Amagasaki Amenity Core in Amagasaki, Hyogo, we began leasing land for sports facilities.

Building management operations

We expanded our business by taking over the operations of the former Kobe Service Center. We also successfully bid for the Kobe Airport Terminal building construction project. Under this project, we will invite commercial tenants for the building, arrange tenant leasing contracts and undertake maintenance and management services. The airport is scheduled to open in fiscal 2005.

Construction business

We completed a joint venture project to construct the new Kobe Technical High School. We also won an order from Hyogo Prefectural Housing Corporation to build condominiums.

Le Quartier Liberté Gakuentoshi

We commenced sales of a 359-unit condominium located in a quiet residential area in the city of Kobe, in Hyogo Prefecture. Built in a joint venture with Mitsubishi Estate Co., Ltd. and Hanshin Electric Railway Co., Ltd., this condominium boasts exterior and interior designs produced by Afternoon Tea, offering futuristic dwellings and affordable luxury in a sophisticated and relaxed residential environment.

REVIEW OF OPERATIONS

Other Businesses Segment

Sales in the Other Businesses segment fell 19.7% year-on-year, to ¥45.2 billion, due to the sell-off of shares of a semiconductor testing subsidiary, excluding it from the scope of consolidation. In contrast, operating income climbed 42.0%, to ¥8.1 billion, reflecting the healthy performance of a subsidiary engaged in material testing and sputtering targets for LCD production.

Our Other Businesses segment encompasses the operations of 30 subsidiaries and nine affiliates, in areas such as material testing and high-functional materials, LPG container fabrication and superconducting materials. The segment also includes businesses that we operate directly, including information and communication systems, special alloys, and other new materials.

Technological Research and Development

Main Research Themes Pursued by the Technical Development Group

Materials Research Laboratory

MRL's contribution is to enhance the competitive edge of the company's business sectors. In the material sector our contributions are found in new product development and optimization of the manufacturing process based on application of our advanced metal microstructure control technology. In the machinery sector our contributions are found in creation of distinctive products using our material technology. In addition we are developing new materials for new businesses.

- Materials Processing
- Mechanical Working
- Materials Design
- Surface Control

Mechanical Engineering Research Laboratory

MERL is actively involved in the development of novel technologies and new products as well as in the improvement of product performance, design and manufacturing processes. These activities are based on its advanced technologies in the field of structural analysis, metal working, vibration and sound analysis, fluid and heat transfer, combustion and chemistry.

- Strength & Structural Engineering Technologies
- Dynamic & Acoustics Technologies
- Fluid, Thermal & Combustion Technologies
- Chemical Technologies

Production System Research Laboratory

PRL is contributing to the enhancement of competitiveness in Kobe Steel's existing business domain utilizing its advanced electronics and system control technologies. PRL is also concentrating its efforts in developing new technologies and products in order to penetrate growing markets such as the information & communication sectors.

- Instrumentation & Control
- System Engineering
- Information & Communication

Electronics Research Laboratory

ERL is developing new products and new technologies for future business in prospective areas, including electronics and information technology, nano-technology, bio-technology, and environmental technology. These activities are based on a number of our core technologies such as thin films and deposition, microfabrication, optical measurements, and superconductors. These technologies are also applied to production processes, strengthening the technological competitiveness of the divisions. ERL also supports the divisions both technologically and strategically.

- Thin Films
- Applied Electronics
- Superconductor

Environmental Sustainability

Basic Environmental Management Policies and Achievements

Basic Environmental Management Policies: Pursuing Environmental Management at the Group Level

The Kobe Steel Group takes environmental concerns into account in all its business activities, and aims to harness its comprehensive strengths in environmental management. Specifically, we plan to attain our goals through activities under the following themes:

(1) Building and maintaining a relationship of trust and collaboration with the local communities where we operate (disclosure and open communication on environmental issues)

(2) Reducing environmental impact (environmental preservation)

(3) Creating an environment-related value-added element in all our products, technology, and services (environmentally innovative products & services)

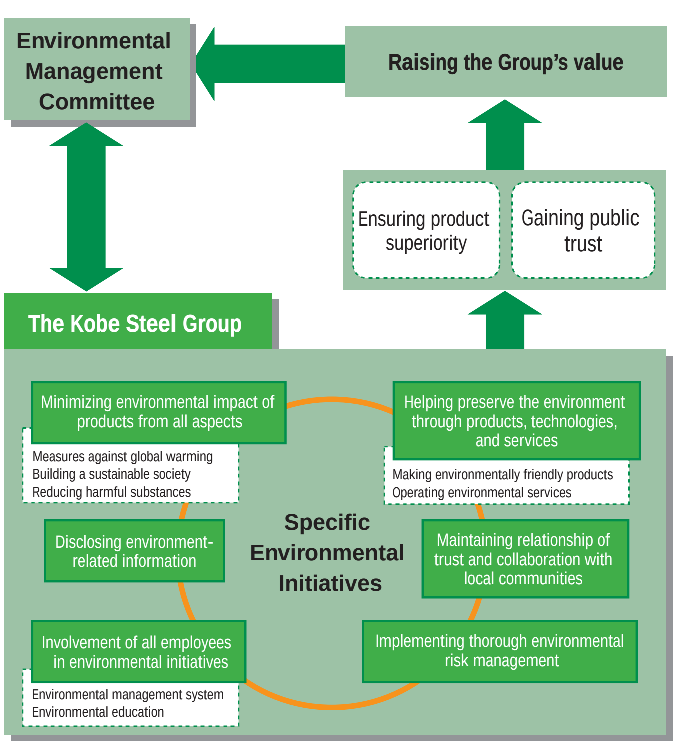
Specific Environmental Initiatives

Environmental issues to be undertaken by the Kobe Steel Group are determined by the Environmental Management Committee. The Committee also oversees the execution of the Group's environmental management.

The Group's environmental management activities are currently being pursued under six categories:

(1) Minimizing the environmental impact of our products at all stages from design to recycling and/or disposal
(2) Helping preserve the environment through products, technologies, and services
(3) Disclosing environment-related information
(4) Building and maintaining a relationship of trust and collaboration with the local communities where we operate
(5) Involvement of all employees in environmental initiatives
(6) Implementing thorough environmental risk management

Group Environmental Management System



Relationship of Trust and Collaboration with Local Communities

Contributing to Local Communities

The staff at our plants help to keep the local environment clean by participating in regular neighborhood cleanups. Other social service initiatives are also pursued to ensure that the Company contributes to the welfare of the local communities within which it operates.

Removing litter from the Kinugawa River

Support for Environmental Activities

In April 2001, the Company set up two funds — the Kobelco Natural Environmental Preservation Fund, and the Kobelco Environmental Improvement Fund — to provide financial support for persons engaging in environmental protection and improvement activities.

We recognize that, in the struggle to preserve the global environment, many initiatives are required that will go beyond the resources of the Kobe Steel Group, and that activities by the general public are also important. For these purposes, we intend to support those activities through donations.

Woodland preservation activities

A Venue for Meeting the Local Community

In April 2004, we opened the Nadahama Science Square, a science museum located next to the power station within the grounds of our Kobe Works. This facility offers demonstrations relating to steelmaking, electric power generation, energy, and environmental themes. Construction of the museum began in November 2002, and cost approximately ¥1,400 million. The museum's grounds contain a biotope area, where wild birds and insects can be viewed in their natural habitat. The facility also includes a wind-power generator, and solar-power generation equipment on the roof.

Primarily targeted at elementary and junior high-school children, there are around 30 exhibits and demonstrations in seven separate sections. The exhibits have been designed to communicate to children the mystery and fascination of science and technology through sight, sound, and touch, and many of them feature experiments and demonstrations that the children can participate in directly. A particularly popular corner features a simulator where visitors can experience the processes of steelmaking and power generation through visual images combined with sound and vibration.

The Nadahama Science Square, together with the adjacent health and fitness center and tennis club, provide a perfect venue for local residents and the Company staff to mingle.

Exterior of Nadahama Science Square

Interactive programs where visitors can enjoy the wonders of science and technology

International Cooperation Initiatives

Kobe Steel engages in a number of international cooperative initiatives, including efforts to counter global warming, as well as afforestation projects.

The Company accepts and trains technical staff from many countries — including Russia, Mongolia, China, and countries in the Middle East and Southeast Asia — in fields such as the prevention of water and air pollution, energy conservation, and environmental analysis. In addition to providing these trainees with valuable expertise, these programs also serve as a forum for international exchange on environmental issues.

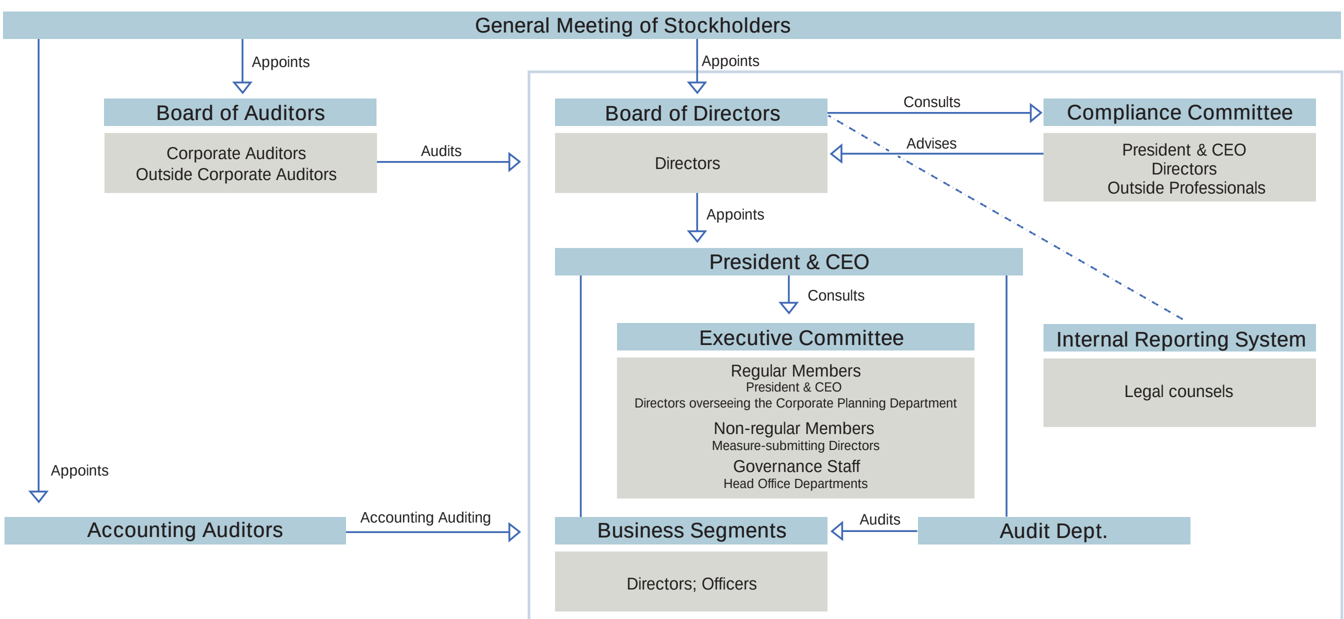
All the companies of the Kobe Steel Group are pursuing international cooperation in those areas of activity that relate to their business operations. For example, in collaboration with the Department of Environmental Science and Engineering of Tsinghua University, in Beijing, subsidiary Shinko Research is conducting surveys of the state of environment-related research in Japan and China.

Corporate Governance

In 1999, Kobe Steel implemented a system of corporate officers to separate policy and strategy decision-making from business operations. Top management and executives responsible for key head office functions were appointed directors, while those responsible for running the businesses became officers. However, as management decision-making and day-to-day operations are closely interrelated, it became clear this system was not appropriate. As a result, the following proposal was presented and approved at the annual stockholders' meeting on June 25, 2003.

- The directors shall have legal responsibility to carry out business affairs on behalf of the shareholders and customers. This would be the optimum way for shareholders to relegate this responsibility.
- The directors shall consist of the top management and executives responsible for key head office functions, as well as important business divisions and internal companies.
- Corporate officers shall be selected by the Board of Directors and are to carry out the business affairs requested of them.

Corporate Governance Structure



Compliance Activities

Jan. 2000	Established the Corporate Ethics Committee, which included members from outside the company.
Jun. 2000	Formulated the Corporate Code of Ethics.
Oct. 2001	Established the Risk Management Framework.
Mar. 2003	Report by Special Committee on Compliance proposing the rebuilding of the compliance system is submitted to the president.
Jun. 2003	Reorganized the Corporate Ethics Committee into the Compliance Committee. (This committee has met 16 times over the year to July 2004.)

Financial Section

Contents

Consolidated Five-Year Summary

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004, 2003, 2002, 2001 and 2000

	Millions of yen					Thousands of U.S. dollars (Note)
	2004	2003	2002	2001	2000	2004
Net sales	¥1,219,180	¥1,204,750	¥1,198,014	¥1,373,091	¥1,252,516	$11,535,434
Operating income	100,699	81,054	35,499	106,404	82,708	952,777
Net income (loss)	22,066	1,723	(28,519)	6,504	(53,088)	208,780
Total assets	1,916,338	1,902,642	2,045,303	2,131,123	2,124,795	18,131,687
Total stockholders' equity	330,127	293,138	280,685	263,362	271,462	3,123,541

	Yen					U.S. dollars (Note)
	2004	2003	2002	2001	2000	2004
Amounts per 1,000 shares						
Net income (loss)	¥7,438	¥592	¥(10,068)	¥2,299	¥(18,764)	$70.38
Diluted net income	7,377	—	—	—	—	69.80
Cash dividends applicable to the year	1,500	—	—	—	—	14.19

Note: For convenience only, U.S. dollar amounts in this report have been translated from Japanese yen at the rate of ¥105.69 to US$1, the rate of exchange prevailing on March 31, 2004.

Financial Review

Income Analysis (Consolidated)

With the Consolidated Medium-Term Business Plan for fiscal 2003-05 introduced in June 2003, we have been endeavoring to establish a sound foundation for our operations.

The fiscal year under review is the first year of the Consolidated Medium-Term Business Plan. Based on this plan, we took a number of steps to improve our earnings capacity. With a healthy performance, primarily in the Iron and Steel, Aluminum and Copper, and Construction Machinery segments, we made a good start.

	Billions of yen		Percent change
	2004	2003	2004/2003
Net sales	¥1,219.2	¥1,204.8	1.2%
Operating income	100.7	81.1	24.2

Net sales climbed ¥14.4 billion from the preceding fiscal year, to ¥1,219.2 billion. Operating income, meanwhile, soared ¥19.6 billion to ¥100.7 billion.

Although the Machinery segment experienced a decline in sales and income, a result of sluggish orders from local governments for solid waste treatment plants, increased shipments and improved prices of steel materials as well as expanding demand for construction machinery in the Japanese and Chinese markets resulted in growing sales and income in the Iron and Steel segment and in the Construction Machinery segment.

Net other expenses totaled ¥65.0 billion and income before income taxes amounted to ¥35.7 billion. After adjustments for income taxes and minority interests, a net income of ¥22.1 billion was recorded.

Business segment information was as follows:

[Iron and Steel Segment]

	Billions of yen		Percent change
	2004	2003	2004/2003
Net sales	¥548.3	¥523.5	4.8%
Operating income	63.1	48.8	29.4

The Iron and Steel segment attained total sales of ¥548.3 billion, representing an increase of ¥24.8 billion, or 4.8%, from the previous fiscal year. Operating income rose ¥14.3 billion, or 29.4%, to ¥63.1 billion. Domestic steel demand was bullish, especially among manufacturers such as automakers and shipbuilders. Backed by solid demand from East Asia, and particularly China, exports remained robust. Since the summer of 2003, there had been concern about the rise in volume of domestic steel inventories. But inventories have been moving toward appropriate levels since the beginning of 2004. As a result, domestic demand went up and we enjoyed a steady improvement in prices. The export prices of many products increased, given healthy demand for steel and soaring prices of raw materials and semifinished products. Despite the impact of rising raw material prices, we achieved earnings growth thanks to improved sales prices and our cost-cutting initiatives.

[Aluminum and Copper Segment]

	Billions of yen		Percent change
	2004	2003	2004/2003
Net sales	¥243.3	¥248.0	(1.9)%
Operating income	14.9	12.4	20.4

Total sales in the Aluminum and Copper segment were down ¥4.7 billion, or 1.9%, from the previous year, at ¥243.3 billion. Nonetheless, we recorded a ¥2.5 billion, or 20.4%, increase in operating income, which reached ¥14.9 billion. Beverage can stock enjoyed strong sales, thanks to robust demand for applications in aluminum beverage cans. Demand rose for aluminum sheet as automobiles are using increasing amounts of this light metal, and aluminum plate for LCD manufacturing equipment also increased steadily. Overall, our aluminum business achieved strong performance gains in comparison with the results of the previous fiscal year.

Among rolled copper products, sales of copper strip for electronic materials, such as semiconductor leadframes and automotive terminals, were strong. Imports of finished air conditioners and air conditioner parts manufactured by Japanese manufacturers outside Japan were on a par with the level seen in the previous year. We consequently continued to enjoy solid demand for copper tube for air conditioners. Overall, our copper business performance also outpaced the results recorded in the preceding fiscal year. But despite the rise in the sales of individual products, this segment suffered a fall in overall sales because of our withdrawal from the aluminum ingot business. On the other hand, with growing product sales and overall cost reduction, we registered impressive earnings growth.

[Machinery Segment]

	Billions of yen		Percent change
	2004	2003	2004/2003
Net sales	¥196.3	¥216.2	(9.2)%
Operating income	1.4	4.2	(66.3)

Total sales of the Machinery segment declined ¥19.9 billion, or 9.2%, to ¥196.3 billion. Operating income also fell from the previous year, dropping ¥2.8 billion, or 66.3% year on year, to ¥1.4 billion. These declines were attributable to a slowdown in orders for solid waste treatment plants from local governments.

Orders in the domestic market jumped ¥35.6 billion, or 31.2%, from the preceding fiscal year, to ¥149.7 billion. Underlying this rise was an increase in orders for industrial machinery, equipment for energy and nuclear applications, and environmental facilities, which offset weak demand from local governments for solid waste treatment plants.

In overseas business, mounting automobile production in East Asia, especially in China, pushed up orders for rubber and tire machinery. This was unfortunately offset by a substantial decline in plant projects, which resulted in a ¥7.4 billion fall in the amount of orders, or 17.9%, to ¥34.0 billion. Total orders received in the Japanese and overseas markets amounted to ¥183.7 billion, a rise of ¥28.2 billion, or 18.1%, from the preceding fiscal year. The balance of orders received at the end of the fiscal year under review was also higher, climbing ¥7.3 billion, or 4.9%, to ¥156.3 billion.

[Construction Machinery Segment]

	Billions of yen		Percent change
	2004	2003	2004/2003
Net sales	¥184.0	¥157.4	16.9%
Operating income....	8.1	4.1	98.3

In our Construction Machinery segment, total sales reached ¥184.0 billion, an improvement of ¥26.6 billion, or 16.9%, from the previous fiscal year. Operating income surged 98.3%, or ¥4.0 billion, to ¥8.1 billion. Despite declining spending on public works in the Japanese market, demand for new machinery rallied as exports of used machinery reduced the number of machines in Japan and customers sought to replace existing equipment. Overseas, the Chinese market posted continued growth, while a turnaround in demand was seen in Europe, North America and Southeast Asia. The Middle East and Russia also witnessed higher demand. Consequently, the Construction Machinery segment posted healthy results in almost all regions.

[Real Estate Segment]

	Billions of yen		Percent change
	2004	2003	2004/2003
Net sales	¥43.2	¥42.6	1.3%
Operating income....	3.8	4.3	(13.1)

Total sales in the Real Estate segment increased by ¥0.6 billion, or 1.3%, to ¥43.2 billion. On the other hand, operating income was down ¥0.5 billion, or 13.1%, to ¥3.8 billion. In our mainstay real estate sales business, we enjoyed good results with the sale of large properties, including the Maya Seaside Place East Buildings 4 and 5 (Nada-ku, Kobe), O's Town South 2nd Phase (Akashi, Hyogo Prefecture) and O's Garden 1st Phase (Akashi, Hyogo Prefecture). This translated into higher revenue. Unfortunately, however, earnings declined following a change in the make-up of properties for sale.

[Other Businesses Segment]

	Billions of yen		Percent change
	2004	2003	2004/2003
Net sales	¥45.2	¥56.4	(19.7)%
Operating income....	8.1	5.7	42.0

In our Other Businesses segment, total sales dropped ¥11.2 billion, or 19.7%, from the preceding fiscal year, to ¥45.2 billion. In contrast, operating income surged ¥2.4 billion, or 42.0%, to ¥8.1 billion. During the term, we sold off a substantial portion of our investment in a semiconductor testing subsidiary. As a result, this company is no longer classified as a consolidated subsidiary and our sales in this segment declined. However, earnings benefited from the solid performance of another subsidiary involved in materials testing and the manufacture and sale of high functional materials, such as sputtering target materials for the production of liquid crystal displays.

Analysis of Cash Flow

At the end of the fiscal year under review, cash and cash equivalents stood at ¥68.5 billion, down ¥13.3 billion, or 16.3%, from the end of the preceding fiscal year. We secured cash flows of ¥104.0 billion from operating activities, but the outflow of cash for investing activities reached ¥86.4 billion, while the outflow of cash for financing activities, including the repayment of external liabilities, amounted to ¥35.8 billion.

(Cash flows from operating activities)
Net cash provided by operating activities declined ¥11.7 billion, or 10.1%, to ¥104.0 billion. Despite an increase in income before income taxes, depreciation decreased and sales growth bolstered trade receivables and inventories.

(Cash flows from investing activities)
Net cash used in investing activities came to ¥86.4 billion, compared with a fund inflow of ¥27.0 billion for the previous fiscal year. In addition to the decline in proceeds from the sale of noncurrent assets and from investments in transfers of business, there was an increase in capital investment for the wholesale electric power supply business.

(Cash flows from financing activities)
Net cash used in financing activities amounted to ¥35.8 billion, a decrease of ¥139.2 billion, or 79.6%, due to proceeds from issuance of bonds and a decline in the repayment of bonds.

Analysis of Financial Position

At the end of the fiscal year under review, the total assets of the Kobe Steel Group amounted to ¥1,916.3 billion, representing growth of ¥13.7 billion from the end of the preceding fiscal year. Despite continued efforts to reduce assets by cutting the deposit balance, our investment in the No. 2 Power Plant of our Shinko Kobe Power Inc. produced an increase. Interest-bearing debt totaled ¥797.0 billion at the end of the year, excluding project finance for the wholesale electric power supply business. This figure represents a decline of ¥98.8 billion from a year earlier, when the figure was ¥895.8 billion.

Interest-bearing debt, including project finance for the wholesale electric power supply business was down ¥34.5 billion from the end of the previous year, at ¥931.9 billion. During the term, we made a reversal of our capital surplus to totally eliminate our accumulated deficit.

Shareholders' equity surged ¥37.0 billion to ¥330.1 billion, a result that reflects both our strong net income result as well as an improvement in net unrealized gains on securities following a turnaround in stock prices. As a consequence, the equity-to-assets ratio was 17.2% at the end of the year, up 1.8 percentage points from a year earlier.

Consolidated Balance Sheets

Kobe Steel, Ltd. and Consolidated Subsidiaries
March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2004	2003	2004
Current assets:			
Cash and cash equivalents (Note 12)	¥ 69,235	¥ 82,419	$ 655,076
Notes and accounts receivable			
Trade	220,518	205,480	2,086,460
Unconsolidated subsidiaries and affiliates	72,902	73,870	689,772
Other	35,908	18,217	339,748
Allowance for doubtful accounts	(1,708)	(687)	(16,160)
	327,620	296,880	3,099,820
Inventories	233,689	221,462	2,211,080
Deferred income taxes (Note 11)	22,781	21,523	215,545
Other	17,094	19,142	161,738
Total current assets	670,419	641,426	6,343,259
Investments and other assets:			
Investments in securities (Note 4)	85,591	47,946	809,831
Investments in and advances to unconsolidated subsidiaries and affiliates	35,370	53,831	334,658
Long-term loans receivable	6,361	7,419	60,185
Other	61,332	80,097	580,301
Allowance for doubtful accounts	(9,514)	(9,156)	(90,018)
	179,140	180,137	1,694,957
Plant and equipment (Note 6):			
Land	223,976	229,249	2,119,179
Buildings and structures	601,805	605,984	5,694,058
Machinery and equipment	1,746,967	1,747,764	16,529,161
Construction in progress	97,600	41,042	923,455
	2,670,348	2,624,039	25,265,853
Less accumulated depreciation	(1,669,182)	(1,630,885)	(15,793,188)
	1,001,166	993,154	9,472,665
Intangible assets	13,615	17,917	128,820
Deferred income taxes (Note 11)	51,998	70,008	491,986
	¥1,916,338	¥1,902,642	$18,131,687

See accompanying notes.

LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2004
Current liabilities:			
Short-term borrowings (Note 6)	¥ 149,378	¥ 164,025	$ 1,413,360
Current portion of long-term debt (Note 6)	123,007	154,775	1,163,847
Notes and accounts payable:			
Trade	264,722	239,908	2,504,702
Construction	26,985	31,152	255,322
Unconsolidated subsidiaries and affiliates	52,473	59,339	496,480
Other	30,587	8,194	289,404
	374,767	338,593	3,545,908
Advances from customers	23,828	18,981	225,452
Customers' and employees' deposits	33,057	21,163	312,773
Income and enterprise taxes payable	6,612	4,907	62,560
Provision for restructuring costs	6,515	6,523	61,643
Deferred income taxes (Note 11)	685	996	6,481
Other	48,424	50,262	458,170
Total current liabilities	766,273	760,225	7,250,194
Long-term liabilities:			
Long-term debt (Note 6)	656,094	639,605	6,207,721
Employees' severance and retirement benefits (Note 14)	46,189	54,206	437,023
Deferred income taxes (Note 11)	6,967	7,605	65,919
Other	77,078	117,976	729,284
	786,328	819,392	7,439,947
Contingent liabilities (Note 7)			
Minority interests	33,610	29,887	318,005
Stockholders' equity:			
Common stock (Note 8)	218,163	218,163	2,064,178
Authorized — 6,000,000,000 shares			
Issued — 2,976,070,294 shares in 2004 and 2,974,549,861 in 2003			
Capital surplus (Note 8)	67,975	140,639	643,156
Retained earnings (Accumulated deficit)	31,633	(61,710)	299,300
Land revaluation	1,905	2,422	18,024
Net unrealized holding gains (losses) on securities	20,994	(939)	198,637
Foreign currency translation adjustments	(9,554)	(4,580)	(90,396)
Treasury stock, at cost:			
8,450,664 shares in 2004 and 12,365,783 shares in 2003	(989)	(857)	(9,358)
Total stockholders' equity	330,127	293,138	3,123,541
	¥1,916,338	¥1,902,642	$18,131,687

Consolidated Statements of Income

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Net sales	¥1,219,180	¥1,204,750	$11,535,434
Cost of sales	993,394	1,001,418	9,399,130
Gross profit	225,786	203,332	2,136,304
Selling, general and administrative expenses (Note 10)	125,087	122,278	1,183,527
Operating income	100,699	81,054	952,777
Other income (expenses):			
Interest and dividend income	2,220	2,871	21,005
Interest expense	(25,897)	(29,726)	(245,028)
Seconded employees' salaries net of reimbursement	(19,807)	(18,009)	(187,407)
Foreign exchange loss	(3,840)	(2,845)	(36,333)
Equity in income of unconsolidated subsidiaries and affiliates	6,022	5,586	56,978
Gain on sale of securities	9,307	5,143	88,059
Loss on write-down of securities, investments and golf memberships	(1,241)	(11,280)	(11,742)
Loss on sale or disposal of plant and equipment	(3,213)	(2,142)	(30,400)
Loss on disposal of inventories of discontinued operations	(1,137)	(2,927)	(10,758)
Loss on write-down of plant and equipment	(7,355)	(3,294)	(69,590)
Effect of applying new accounting standard for retirement benefits	(12,765)	(12,798)	(120,778)
Amortization of prior service costs of pension plans	6,975	6,975	65,995
Gain on securities contributed to employees' retirement benefit trust	3,933	—	37,213
Provision for restructuring costs	(4,334)	(811)	(41,007)
Reversal of allowance for special repairs	—	5,913	—
Business transfer gain	—	2,387	—
Special employees' retirement benefits	—	(988)	—
Other, net	(13,833)	(9,105)	(130,882)
	(64,965)	(65,050)	(614,675)
Income before income taxes	35,734	16,004	338,102
Income taxes (Note 11):			
Current	7,636	6,964	72,249
Deferred	4,146	6,513	39,228
	11,782	13,477	111,477
Minority interests in income of subsidiaries	1,886	804	17,845
Net income	¥ 22,066	¥ 1,723	$ 208,780

	Yen		U.S. dollars (Note 1)
Per 1,000 shares	2004	2003	2004
Net income	¥7,438	¥592	$70.38
Diluted net income	7,377	—	69.80
Cash dividends applicable to the year	1,500	—	14.19

See accompanying notes.

Consolidated Statements of Stockholders' Equity

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

		Millions of yen						
	Shares of common stock	Common stock (Note 8)	Capital surplus (Note 8)	Retained earnings (Accumulated deficit) (Note 8)	Land revaluation	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustments	Treasury stock
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	—	—	—	—
Effects 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)
Net income	—	—	—	22,066	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	(4,974)	—
Unrealized holding gains on securities	—	—	—	—	—	21,933	—	—
Transfer from capital surplus	—	—	(72,728)	72,728	—	—	—	—
Gain on sale of treasury stock	—	—	64	—	—	—	—	—
Bonuses to directors	—	—	—	(19)	—	—	—	—
Increase due to merger of consolidated subsidiaries	—	—	—	7	—	—	—	—
Increase due to changes in scope of consolidation	—	—	—	1,373	—	—	—	—
Decrease due to changes in scope of consolidation	—	—	—	(28)	—	—	—	—
Change due to merger of and with consolidated companies	1,520,433	—	—	(2,655)	—	—	—	—
Adjustment to revaluation of land	—	—	—	(129)	(517)	—	—	—
Treasury stock	—	—	—	—	—	—	—	(132)
Balance at March 31, 2004	2,976,070,294	¥218,163	¥ 67,975	¥ 31,633	¥1,905	¥20,994	¥ (9,554)	¥(989)

	Thousands of U.S. dollars (Note 1)						
	Common stock (Note 8)	Capital surplus (Note 8)	Retained earnings (Accumulated deficit) (Note 8)	Land revaluation	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2003	$2,064,178	$1,330,675	$(583,877)	$22,916	$ (8,885)	$(43,334)	$(8,110)
Net income	—	—	208,780	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	(47,062)	—
Unrealized holding gains on securities	—	—	—	—	207,522	—	—
Transfer from capital surplus	—	(688,125)	688,125	—	—	—	—
Gain on sale of treasury stock	—	606	—	—	—	—	—
Bonuses to directors	—	—	(180)	—	—	—	—
Increase due to merger of consolidated subsidiaries	—	—	66	—	—	—	—
Increase due to changes in scope of consolidation	—	—	12,991	—	—	—	—
Decrease due to changes in scope of consolidation	—	—	(265)	—	—	—	—
Change due to merger of and with consolidated companies	—	—	(25,120)	—	—	—	—
Adjustment to revaluation of land	—	—	(1,220)	(4,892)	—	—	—
Treasury stock	—	—	—	—	—	—	(1,248)
Balance at March 31, 2004	$2,064,178	$ 643,156	$ 299,300	$18,024	$198,637	$(90,396)	$(9,358)

See accompanying notes.

Consolidated Statements of Cash Flows

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Cash flows from operating activities:			
Income before income taxes	¥ 35,734	¥ 16,004	$ 338,102
Depreciation	79,245	85,090	749,787
Interest and dividend income	(2,220)	(2,871)	(21,005)
Interest expense	25,897	29,726	245,028
Gain on sale of securities	(9,307)	(5,143)	(88,059)
Loss on write down of securities, investments and golf memberships	1,241	11,280	11,742
Equity in income of unconsolidated subsidiaries and affiliates	(6,022)	(5,586)	(56,978)
Special employees' retirement benefits	—	988	—
Business transfer gain	—	(2,387)	—
Reversal of allowance for special repairs	—	(5,913)	—
Effect of applying new accounting standard for retirement benefits	12,765	12,798	120,778
Gain on securities contributed to employees' retirement benefit trust	(3,933)	—	(37,213)
Amortization of prior service costs of pension plans	(6,975)	(6,975)	(65,995)
Loss on sale or disposal of plant and equipment	3,213	2,142	30,400
Increase in trade receivables from customers	(14,184)	(7,897)	(134,204)
Increase in inventories	(8,696)	(2,937)	(82,278)
Increase in trade payables to customers	11,194	24,988	105,913
Other	15,525	8,957	146,892
Subtotal	133,477	152,264	1,262,910
Cash received for interest and dividends	3,183	2,895	30,116
Cash paid for interest	(25,689)	(30,126)	(243,060)
Cash paid for special employees' retirement benefits	—	(1,653)	—
Cash paid for income taxes	(6,930)	(7,688)	(65,569)
Net cash provided by operating activities	104,041	115,692	984,397
Cash flows from investing activities:			
Purchase of plant, equipment and other assets	(102,953)	(45,011)	(974,103)
Proceeds from sale of plant, equipment and other assets	8,044	44,376	76,109
Purchase of investments in securities	(5,314)	(13,014)	(50,279)
Proceeds from sale of investments in securities	15,565	10,929	147,270
Decrease (increase) in short-term loans receivable	(1,660)	2,630	(15,706)
Long-term loans receivable	(1,416)	(643)	(13,398)
Proceeds from collection of long-term loans receivable	506	1,038	4,788
Net proceeds from sale of a former consolidated subsidiary	4,153	—	39,294
Proceeds from transfer of business	—	20,188	—
Other	(3,306)	6,528	(31,280)
Net cash provided by (used in) investing activities	(86,381)	27,021	(817,305)
Cash flows from financing activities:			
Decrease in short-term borrowings	(11,096)	(51,122)	(104,986)
Proceeds from issuance of long-term debt	126,685	109,960	1,198,647
Repayment of long-term debt	(175,136)	(137,446)	(1,657,072)
Proceeds from issuance of bonds	95,516	500	903,737
Repayment of bonds	(60,526)	(93,348)	(572,675)
Proceeds from issuance of stock	—	5,992	—
Other	(11,197)	(9,533)	(105,942)
Net cash used in financing activities	(35,754)	(174,997)	(338,291)
Effect of exchange rate changes on cash and cash equivalents	(230)	(1,441)	(2,176)
Decrease in cash and cash equivalents	(18,324)	(33,725)	(173,375)
Cash and cash equivalents at beginning of year	81,809	115,292	774,047
Increase in cash and cash equivalents by merger	4,383	—	41,470
Cash and cash equivalents of newly consolidated subsidiaries	635	242	6,008
Cash and cash equivalents at end of year (Note 12)	¥ 68,503	¥ 81,809	$ 648,150

See accompanying notes.

Notes to Consolidated Financial Statements

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying 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, 2004, which was ¥105.69 to U.S. $1. 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.

In the year ended March 31, 2004, the Company did not adopt early the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted by the period beginning on April 1, 2005, but the standard does not prohibit earlier adoption. The Company has not decided when it will adopt the new standard. The Company has not yet estimated the effect of adoption of the new standard.

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, 2004, the accounts of 155 (150 in 2003) subsidiaries have been included in the consolidated financial statements. Intercompany transactions and accounts have been eliminated.

Sixty-two (fifty-five in 2003) 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 the 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, 2004, 52 (51 in 2003) 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 estimated years when its amortization period can be estimated, or over 5 years when it can't. Where the difference is small, it is recognized as expense when incurred.

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 mainly on Japanese tax laws. Intangible assets include software for internal use which is amortized over estimated useful lives.

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

(7) 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.

(8) 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.

(9) 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 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") is being recognized in expenses in equal amounts primarily over 5 years commencing with the year ended March 31, 2001. Prior service costs are recognized in expenses in equal amounts over 4 years. Actuarial gains and losses are recognized in expenses using the straight-line method over mainly 12 years which is within the average of the estimated remaining service lives commencing with the following period.

(10) Land Revaluation
Land used 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.

(11) 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.

(12) 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).

(13) 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.

(14) 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.

(15) 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.

(16) Consolidated Tax Return
Effective March 31, 2004, the Company files a consolidated tax return with certain domestic subsidiaries.

(17) 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.

(18) Net Income 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. Leases

Original lease obligations as lessee under non-capitalized finance leases at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Buildings and structures	¥ 474	¥ 264	$ 4,485
Machinery and equipment	60,642	63,222	573,772
	¥61,116	¥63,486	$578,257

Future minimum lease payments as lessee under non-capitalized finance leases at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Due within one year	¥ 9,280	¥10,481	$ 87,804
Due after one year	17,835	19,219	168,748
	¥27,115	¥29,700	$256,552
Lease expense for the years ended March 31	¥10,555	¥12,148	$ 99,868

Future minimum lease payments as lessee under operating leases at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Due within one year	¥ 2,847	¥ 2,322	$ 26,937
Due after one year	10,729	8,354	101,514
	¥13,576	¥10,676	$128,451

Leased assets as lessor under finance leases, accounted for as operating leases, at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Machinery and equipment	¥473	¥584	$4,475
Less accumulated depreciation	(340)	(448)	(3,217)
	¥133	¥136	$1,258

Future minimum lease payments to be received as lessor under finance leases, accounted for as operating leases, at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Future minimum lease payments receivable:			
Due within one year	¥ 87	¥ 82	$ 823
Due after one year	96	131	908
	¥183	¥213	$1,731
Lease income for the years ended March 31	¥ 90	¥105	$ 852

Future minimum lease payments receivable as lessor under operating leases, at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Due within one year	¥ 357	¥ 295	$ 3,378
Due after one year	4,679	4,774	44,271
	¥5,036	¥5,069	$47,649

4. Securities

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2004 and 2003:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2004			2003			2004
	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	¥71	¥75	¥4	¥50	¥54	¥ 4	$38
Other securities:							
Bonds	—	—	—	23	23	—	—
	¥71	¥75	¥4	¥73	¥77	¥ 4	$38

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2004			2003			2004
	Acquisition costs	Book (fair) values	Difference	Acquisition costs	Book (fair) values	Difference	Difference
Available-for-sale securities							
Securities with available book values exceeding acquisition costs:							
Equity securities	¥24,949	¥59,099	¥34,150	¥ 7,626	¥10,107	¥2,481	$323,115
Bonds	20	23	3	—	—	—	28
	24,969	59,122	34,153	7,626	10,107	2,481	323,143
Other securities:							
Equity securities	1,331	1,165	(166)	17,886	15,080	(2,806)	(1,571)
Bonds	5	4	(1)	46	33	(13)	(9)
	1,336	1,169	(167)	17,932	15,113	(2,819)	(1,580)
	¥26,305	¥60,291	¥33,986	¥25,558	¥25,220	¥ (337)	$321,563

The following table summarizes book values of securities with no available fair values as of March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Available-for-sale securities:			
Non-listed equity securities	¥20,195	¥17,550	$191,078
Preferred subscription certificate	5,000	5,000	47,308

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)
	2004	2003	2004
Within one year	¥23	¥ 5	$218
Over one year but within five years	50	73	473

Sales of available-for-sale securities for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Sales	¥6,214	¥3,260	$58,795
Gains on sales	3,591	310	33,977
Losses on sales	3	2,028	28

5. Derivative Transactions

The Group enters into forward currency exchange contracts and currency swap agreements to hedge the risk of changes in foreign currency exchange rates associated with transactions denominated in foreign currencies, interest rate swap agreements and cap agreements to hedge the risk related to interest on borrowings, and commodities forward contracts to hedge the risk of movements in market values of aluminum and copper.

The Group does not enter into derivative transactions for speculative purposes. However, the Group may be exposed to losses in case of movements in foreign currency exchange rates, interest rates and commodity market values and is exposed to credit risk in the event of non-performance by counterparties to derivative transactions.

The Company has established policies and controls to manage both market and credit risk, including using only highly-rated banks and trading companies as counterparties, hedging exposed positions, limits on transaction types and amounts, and reporting to management.

Forward currency exchange contracts and swap agreements outstanding at March 31, 2004 and 2003 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2004			2003			2004
	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	¥9,042	¥8,797	¥245	¥6,820	¥6,906	¥(86)	$2,318
To buy foreign currencies U.S. dollars	6,831	6,830	(1)	5,073	5,072	(1)	(9)
			¥244			¥(87)	$2,309

Notes: 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, 2004 and 2003.

Interest rate swap agreements outstanding at March 31, 2004 and 2003 were as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)
	2004		2003		2004
	Contracted amount	Recognized gain (loss)	Contracted amount	Recognized gain (loss)	Recognized gain (loss)
Interest rate swap agreements					
To receive floating and pay fixed rates	¥ 2,838	¥ (40)	¥ 3,188	¥ (81)	$ (378)
To receive fixed and pay floating followed by fixed rates	55,300	(2,004)	55,300	(2,317)	(18,961)
		¥(2,044)		¥(2,398)	$(19,339)

Notes: 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, 2004 and 2003.

6. Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Bank loans (average rate 1.2% in 2004, and 1.4% in 2003)	¥149,378	¥164,025	$1,413,360

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Floating rate (Libor plus 0.95%) notes due 2004	¥ —	¥ 2,139	$ —
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	94,616
1.12% to 3.58% yen bonds, due 2003 through 2012	282,160	272,900	2,669,695
Zero coupon convertible bond, due 2006	30,000	—	283,849
Euro medium-term notes, due 2003 through 2005	3,169	6,147	29,984
Loans, principally from banks and insurance companies	453,772	503,194	4,293,424
	779,101	794,380	7,371,568
Less current portion	123,007	154,775	1,163,847
	¥656,094	¥639,605	$6,207,721

The aggregate annual maturities of long-term debt at March 31, 2004 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2005	¥123,007	$1,163,847
2006	102,291	967,840
2007	128,731	1,218,005
2008 and thereafter	425,072	4,021,876
	¥779,101	$7,371,568

At March 31, 2004 and 2003, 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)
	2004	2003	2004
Assets pledged as collateral			
Plant and equipment-net of accumulated depreciation	¥300,849	¥251,715	$2,846,523
Other assets	15,510	17,512	146,750
	¥316,359	¥269,227	$2,993,273
Secured short-term borrowings and long-term debt			
Bonds (includes due within 1 year)	¥ 3,000	¥ 3,265	$ 28,385
Short-term borrowings	23,880	23,538	225,944
Long-term borrowings (includes due within 1 year)	144,444	98,499	1,366,676
Other debt	10	99	95
	¥171,334	¥125,401	$1,621,100

At March 31, 2004 and 2003, included in the assets pledged as collateral are assets that are promised to be pledged as collateral for short-term borrowings, long-term borrowings and guarantee of loans were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Short-term borrowings	¥ 9,300	¥10,848	$ 87,993
Long-term borrowings	45,492	61,388	430,429
Guarantee of loans	881	—	8,336
	¥55,673	¥72,236	$526,758

7. Contingent Liabilities

At March 31, 2004 and 2003 the Company and its consolidated domestic subsidiaries were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Trade notes discounted	¥ 3,412	¥ 7,977	$ 32,283
Trade notes endorsed	1,943	2,140	18,384
Guarantees of loans			
Related parties	5,459	6,948	51,651
Others	1,744	3,798	16,501
The contingent liability concerning the debt fulfillment underwriting contract of a corporate bond	27,500	25,000	260,195
	¥40,058	¥45,863	$379,014

Guarantees of loans include contingent guarantees and letters of awareness of ¥1,469 million ($13,899 thousand).

8. Stockholders' Equity

(1) Common stock and Capital surplus

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.

(2) Retained earnings

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 being equal to or exceeding 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.

9. Research and Development Expenses

Research and development expenses, included in cost of sales and selling, general, and administrative expenses, for the year ended March 31, 2004 were ¥16,929 million ($160,176 thousand) and ¥17,797 million for the year ended March 31, 2003.

10. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Freight	¥ 31,248	¥ 30,321	$ 295,657
Employees' compensation	29,403	29,142	278,200
Research and development	5,898	5,430	55,805
Depreciation	3,102	3,084	29,350
Other	55,436	54,301	524,515
	¥125,087	¥122,278	$1,183,527

11.Income Taxes

Significant components of the Group's deferred income tax assets and liabilities of March 31, 2004 and 2003 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2004	2004
Deferred income tax assets		
Loss carryforwards	¥ 31,316	$ 296,301
Unrealized profit	20,709	195,941
Loss on write down of securities	20,076	189,952
Employees' retirement benefits	19,389	183,452
Other	30,887	292,240
Total deferred income tax assets	122,377	1,157,886
Valuation allowance	(18,786)	(177,746)
Deferred income tax assets	103,591	980,140
Deferred income tax liabilities		
Net unrealized holding gains (losses) on securities	13,023	123,219
Gain on merger	12,002	113,558
Other	11,439	108,232
Total deferred income tax liabilities	36,464	345,009
Net deferred income tax assets	¥ 67,127	$ 635,131

	Millions of yen
	2003
Deferred income tax assets	
Loss carryforwards	¥ 44,554
Unrealized profit	20,486
Loss on write down of securities	12,844
Employees' retirement benefits	19,559
Other	27,059
Total deferred income tax assets	124,502
Valuation allowance	(17,696)
Deferred income tax assets	106,806
Deferred income tax liabilities	
Gain on merger	12,666
Land Revaluation	3,156
Other	8,054
Total deferred income tax liabilities	23,876
Net deferred income tax assets	¥ 82,930

Significant items in the reconciliations of the aggregate statutory income tax rate to the effective income tax rate for the years ended March 31, 2004 and 2003 were as follows:

	2004
Aggregate statutory income tax rate in Japan	42.0%
Non-deductible entertainment expenses	3.9
Loss carryforwards on merger	(8.9)
Equity in income of unconsolidated subsidiaries and affiliates	(7.1)
Other	3.1
Effective income tax rate	33.0%

	Millions of yen
	2003
Aggregate statutory income tax rate in Japan	42.0%
Non-deductible 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%

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, provision for deferred income taxes increased by ¥2,949 million, net unrealized holding losses on securities increased by ¥5 million and land revaluation increased by ¥79 million at March 31, 2003 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:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31, 2004 and 2003	2004	2003	2004
Cash and cash equivalents (balance sheets)	¥69,235	¥82,419	$655,076
Time deposits (due over 3 months)	(732)	(610)	(6,926)
Cash and cash equivalents (cash flow statements)	¥68,503	¥81,809	$648,150

Non-cash transactions-Finance leases calling for total payments of ¥23,999 million were entered into for the year ended March 31, 2003.

13. Related Party Transactions

Net sales include sales to Shinsho Corporation, which is an affiliate of the Company, of ¥152,195 million ($1,440,013 thousand) and ¥146,161 million for the years ended March 31, 2004 and 2003, respectively.

14. Employees' Severance and Retirement Benefits

The liability for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2004 and 2003 consists of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Projected benefit obligation	¥(217,118)	¥(221,360)	$(2,054,291)
Fair value of pension assets	163,900	118,570	1,550,762
Unrecognized net transition obligation	14,056	26,842	132,993
Unrecognized actuarial differences	14,879	47,754	140,780
Unrecognized prior service costs	(6,975)	(13,950)	(65,995)
Prepaid pension cost	(14,931)	(12,062)	(141,272)
Liability for severance and retirements benefits	¥ (46,189)	¥ (54,206)	$ (437,023)

Included in the consolidated statements of income for the years ended March 31, 2004 and 2003 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Service costs – benefits earned during the year	¥ 6,787	¥ 6,758	$ 64,216
Interest cost on projected benefit obligation	5,218	6,130	49,371
Expected return on plan assets	(2,738)	(3,095)	(25,906)
Amortization of net transition obligation	12,873	12,813	121,800
Amortization of actuarial differences	4,110	1,741	38,887
Amortization of prior service costs	(6,975)	(6,975)	(65,995)
Severance and retirement benefit expenses	¥19,275	¥17,372	$182,373

Notes: 1. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years.
2. The discount rate is mainly 2.5% in 2004 and 2003 and the rate of expected return on plan assets used by the Group is mainly 3.1% in 2004 and 2003.

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, 2004 and 2003		Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2004
Sales to outside customers:	Iron and Steel	¥ 536,760	¥ 511,750	$ 5,078,626
	Aluminum and Copper	242,532	247,330	2,294,749
	Machinery	186,163	209,280	1,761,406
	Construction Machinery	181,580	156,929	1,718,043
	Real Estate	39,036	38,293	369,344
	Other Businesses	33,109	41,168	313,266
	Consolidated net sales	1,219,180	1,204,750	11,535,434
Inter-segment sales:	Iron and Steel	11,583	11,725	109,594
	Aluminum and Copper	783	710	7,408
	Machinery	10,104	6,936	95,600
	Construction Machinery	2,407	470	22,774
	Real Estate	4,117	4,297	38,954
	Other Businesses	12,128	15,201	114,751
		41,122	39,339	389,081
Total sales:	Iron and Steel	548,342	523,475	5,188,211
	Aluminum and Copper	243,316	248,040	2,302,167
	Machinery	196,267	216,216	1,857,006
	Construction Machinery	183,987	157,399	1,740,817
	Real Estate	43,153	42,590	408,298
	Other Businesses	45,237	56,369	428,016
		1,260,302	1,244,089	11,924,515
Operating costs and expenses:	Iron and Steel	485,232	474,707	4,591,087
	Aluminum and Copper	228,387	235,637	2,160,914
	Machinery	194,841	211,993	1,843,514
	Construction Machinery	175,920	153,330	1,664,490
	Real Estate	39,391	38,261	372,703
	Other Businesses	37,137	50,663	351,377
	Eliminations	(42,427)	(40,895)	(401,428)
	Consolidated operating costs and expenses	1,118,481	1,123,696	10,582,657
Operating income:	Iron and Steel	63,110	48,768	597,124
	Aluminum and Copper	14,929	12,403	141,253
	Machinery	1,425	4,223	13,483
	Construction Machinery	8,067	4,069	76,327
	Real Estate	3,763	4,329	35,604
	Other Businesses	8,100	5,706	76,639
	Eliminations	1,305	1,556	12,347
	Consolidated operating income	100,699	81,054	952,777
Assets:	Iron and Steel	934,659	908,093	8,843,401
	Aluminum and Copper	232,833	241,134	2,202,980
	Machinery	204,521	229,269	1,935,103
	Construction Machinery	195,046	172,521	1,845,454
	Real Estate	114,780	121,370	1,086,006
	Other Businesses	43,132	71,702	408,099
	Corporate and Eliminations	191,367	158,553	1,810,644
	Total	1,916,338	1,902,642	18,131,687
Depreciation:	Iron and Steel	48,672	54,606	460,517
	Aluminum and Copper	12,675	11,920	119,926
	Machinery	9,918	7,941	93,840
	Construction Machinery	2,563	3,001	24,250
	Real Estate	1,765	2,044	16,700
	Other Businesses	1,504	3,308	14,230
	Corporate and Eliminations	2,148	2,270	20,324
	Total	79,245	85,090	749,787
Capital expenditures:	Iron and Steel	85,059	27,410	804,797
	Aluminum and Copper	8,076	7,685	76,412
	Machinery	3,945	3,874	37,326
	Construction Machinery	2,878	1,697	27,231
	Real Estate	2,784	1,532	26,341
	Other Businesses	1,075	1,327	10,171
	Corporate and Eliminations	1,094	446	10,351
	Total	¥ 104,911	¥ 43,971	$ 992,629

Corporate assets of ¥292,039 million ($2,763,166 thousand) and ¥287,352 million at March 31, 2004 and 2003, respectively, are comprised principally of bank and time deposits and assets of administration departments of the Company.

(2) Geographic Area

Year ended March 31, 2003		Millions of yen 2003
Sales to outside customers:	Japan	¥1,115,160
	Asia	38,314
	North America	16,394
	Other areas	34,882
	Total	1,204,750
Inter-segment sales:	Japan	30,559
	Asia	1,111
	North America	2,949
	Other areas	208
	Total	34,827
Total sales:	Japan	1,145,719
	Asia	39,425
	North America	19,343
	Other areas	35,090
	Total	1,239,577
Operating costs and expenses:	Japan	1,069,708
	Asia	36,451
	North America	19,415
	Other areas	33,606
	Eliminations	(35,484)
	Total	1,123,696
Operating income:	Japan	76,011
	Asia	2,974
	North America	(72)
	Other areas	1,484
	Eliminations	657
	Total	81,054
Assets:	Japan	1,534,963
	Asia	36,661
	North America	41,215
	Other areas	42,733
	Corporate and eliminations	247,070
	Total	¥1,902,642

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 at March 31, 2003, are comprised principally of bank and time deposits and assets of administration departments of the Company.

For the year ended March 31, 2004, neither sales nor assets of overseas consolidated subsidiaries are of significant materiality (domestic sales and assets are more than 90% of consolidated sales and consolidated total assets) and therefore, geographic segment information is not presented.

(3) Overseas Sales

Overseas sales for the years ended March 31, 2004 and 2003 were as follows:

		Percentages of 2004 consolidated net sales	Millions of yen		Thousands of U.S. dollars (Note 1)
			2004	2003	2004
Overseas Sales:	Asia	14.7%	¥179,060	¥160,215	$1,694,201
	North America	—	—	33,916	—
	Other areas	7.9	96,887	54,804	916,709
	Total	22.6%	¥275,947	¥248,935	$2,610,910

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

Principal countries and areas in each segment are:

Asia	China, Taiwan, South Korea, Malaysia, Indonesia
North America	United States, Canada (in 2003)
Other areas	Australia, Italy (and United States and Canada in 2004)

For year ended March 31, 2004, North America area was not of significant materiality and therefore, information on North America is included in Other areas.

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Kobe Steel, Ltd. and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

AZSA & Co.

Osaka, Japan
June 25, 2004

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, 2004, a total of 2,976,070,294 were in issue.

Principal Stockholders

At March 31, 2004, the six largest stockholders of the Company were as follows:

	Thousands of shares	Percent of voting rights
Japan Trustee Services Bank, Ltd.	202,941	6.94%
The Master Trust Bank of Japan, Ltd.	192,539	6.58%
Nippon Life Insurance Company	141,045	4.82%
Mizuho Corporate Bank, Ltd.	70,369	2.41%
Nippon Steel Corporation	53,500	1.83%
Sumitomo Metal Industries, Ltd.	53,500	1.83%
TOTAL	**713,894**	**24.41%**

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, 2004. At the same date, the directors and corporate auditors owned a total of 1,175,570 shares in the Company.

	Number of shares owned		Number of shares owned		Number of shares owned
Koshi Mizukoshi	225,000	Shigeto Kotani	82,000	Osamu Takata	73,120
Yasuo Inubushi	108,000	Toru Asaoka	82,000	Toshinori Okoshi	39,000
Hiroshi Sato	118,000	Hiroyuki Nakayama	45,000	Shigetake Ogata	22,000
Toshio Kimura	99,450	Takashi Matsutani	64,000	Taku Morota	32,000
Yoshihiro Tanno	119,000	Isao Aida	64,000	Takasuke Kaneko	3,000

Directors, Corporate Auditors, and Corporate Officers

(As of June 25, 2004)

Chairman of the Board and Representative Director
Koshi Mizukoshi

President, CEO and Representative Director
Yasuo Inubushi

Head Office and Technical Development Group

Executive Vice President and Representative Director
Hiroshi Sato

Senior Managing Director
Toru Asaoka

Managing Director
Takashi Matsutani

Senior Officer
Juzo Hirano

Officers
Tatsuki Yoshida
Hitoshi Nakanishi
Yutaka Kawata
Jun Tanaka
Hiroaki Fujiwara

Iron and Steel Sector

Executive Vice President and Representative Director
Toshio Kimura

Senior Officers
Tsuyoshi Tanaka
Masaaki Nakazono
Keiji Koyama
Tomoyuki Kaya
Koichi Onishi
Hideki Nakamura

Officers
Keiichi Murase
Terumichi Abe
Takanori Kominami
Ikuhiro Yamaguchi
Yasunobu Kumon

Welding Company

Managing Director
Isao Aida *

Aluminum and Copper Company

Senior Managing Director
Hiroyuki Nakayama *

Senior Officer
Hideo Ohgi

Officers
Tetsu Takahashi
Ryosuke Shimomura
Seiichi Nagai

Machinery and Engineering Company

Senior Managing Director
Shigeto Kotani *

Executive Officer
Katsunori Aoki

Senior Officer
Kazuo Shigekawa

Officer
Shuzo Mohri

Real Estate Company

Senior Managing Director
Yoshihiro Tanno*

Statutory Auditors
Osamu Takata
Toshinori Okoshi
Shigetake Ogata
Taku Morota
Takasuke Kaneko

Note: *Denotes the president of the company

Principal Consolidated Subsidiaries

Iron and Steel

Domestic

- Hanshin Yosetsu Kizai Co., Ltd.
- Kobe Special Tube 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 Slag Products Co., Ltd.
- Shinko Sohgo Service Ltd.
- Shinko Taseto Co., Ltd.
- Shinko Welding Service Co., Ltd.
- NI Welding 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.
- Kobelco & Materials Copper Tube, Ltd.
- Kobe 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 Aluminum Industries, Ltd.

Overseas

- Kobe Precision Technology Sdn. Bhd.
- Singapore Kobe Pte, Ltd.

Machinery

Domestic

- Industrial Services International Co., Ltd.
- Kobelco Compressors Corporation
- Kobelco Sanki Service Co., Ltd.
- Shinko Airtech, Ltd.
- Shinko Engineering Co., Ltd.
- Shinko I.E. Tech Co., Ltd.
- Shinko Inspection & Service Co., Ltd.
- Kobelco Eco-Solutions Co., Ltd.
- Shinko Plant 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.
- Kobelco Cranes 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

- 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 Precision, Inc.
- Kobe Professional Service Inc.
- Kobe Steel International (America) Inc.
- Kobe Steel International (USA) Inc.
- Kobe Steel USA Holdings Inc.
- Kobe Steel USA Inc.

Domestic and Overseas Offices

Head Offices

Tokyo Head Office
9-12, Kita-Shinagawa 5-chome, Shinagawa-ku, TOKYO,
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Sales Offices

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

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Investor Information (As of March 31, 2004)

Founded:
September 1905

Incorporated:
June 1911

Employees:
8,586 (Consolidated 26,179)

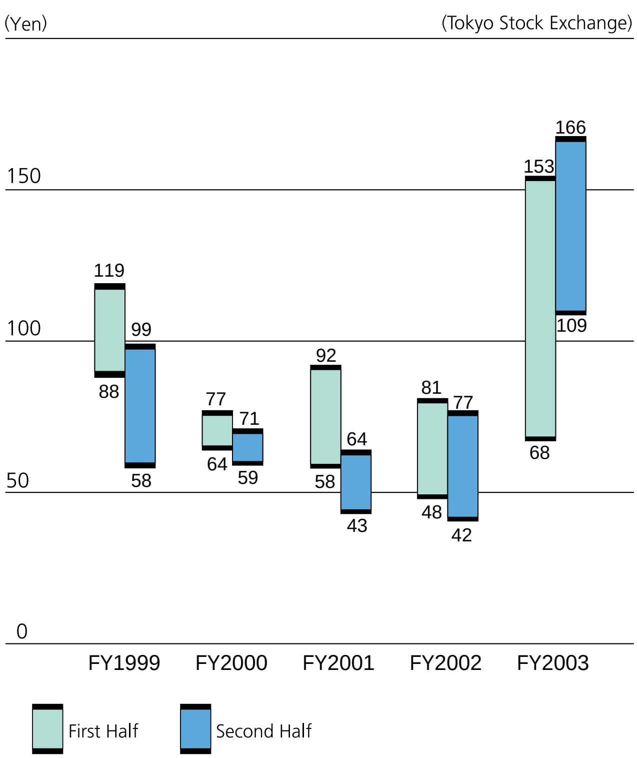
Fiscal Year:
April 1— March 31

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	139	1,219,519
Japanese securities companies	91	25,157
Other Japanese corporations	1,610	506,215
Japanese individuals and others	171,033	912,773
Foreign investors	327	261,359
TOTAL	173,200	2,925,023

Common Stock Price Range:



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 and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku,
TOKYO 100-8212, JAPAN

Independent Auditors:
AZSA & Co.
6-5, Kawara-machi 3-chome, Chuo-ku,
OSAKA 541-0048, JAPAN

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