Financial Section

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Consolidated Five-Year Summary

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005, 2004, 2003, 2002 and 2001

	Millions of yen					Thousands of U.S. dollars (Note)
	2005	2004	2003	2002	2001	2005
Net sales	¥1,443,772	¥1,219,180	¥1,204,750	¥1,198,014	¥1,373,091	$13,444,194
Operating income	166,577	100,699	81,054	35,499	106,404	1,551,141
Net income (loss)	51,289	22,066	1,723	(28,519)	6,504	477,596
Assets	1,901,202	1,916,338	1,902,642	2,045,303	2,131,123	17,703,715
Stockholders' equity	379,213	330,127	293,138	280,685	263,362	3,531,176

	Yen					U.S. dollars (Note)
	2005	2004	2003	2002	2001	2005
Amounts per share						
Net income (loss)	¥17.28	¥7.44	¥0.59	¥(10.07)	¥2.30	$0.16
Diluted net income	16.48	7.38	—	—	—	0.15
Cash dividends applicable to the year	3.00	1.50	—	—	—	0.03

Note: For convenience only, U.S. dollar amounts in this report have been translated from Japanese yen at the rate of ¥107.39 to US$1, the rate of exchange prevailing on March 31, 2005.

Financial Review (Consolidated)

Income Analysis

During the period under review, the Japanese economy marked time during the second half, affected by developments such as inventory adjustments in the information technology sector and related fields. Overall, however, the recovery remained on track, thanks to the robust economic growth in China, other parts of East Asia, and the United States, and the improvement in corporate earnings and growth in capital investment in Japan.

Amid this environment, the Kobe Steel Group proceeded with the implementation of priority measures under its 2003–2005 Medium-Term Business Plan, such as the creation and nurturing of its unique and market-leading products, and also focused on meeting demand to the maximum extent possible and on raising its selling prices. As a result, it achieved a substantial improvement in business performance, particularly in the fields of steel and electronic materials.

	Billions of yen		Percent change
	2005	2004	2005/2004
Net sales	¥1,443.8	¥1,219.2	18.4%
Operating income	166.6	100.7	65.4

Net sales increased by ¥224.6 billion, to ¥1,443.8 billion and operating income was up by ¥65.9 billion, at ¥166.6 billion.

In the sections below we outline the situation in each business segment.

Business segment information was as follows:

[Iron and Steel Segment]

	Billions of yen		Percent change
	2005	2004	2005/2004
Net sales	¥631.3	¥534.5	18.1%
Operating income	91.9	52.9	73.7

Net sales in this segment increased from ¥534.5 billion to ¥631.3 billion year-on-year, up by ¥96.8 billion (18.1%). Steel demand remained at a high level both domestically and overseas, particularly in the industrial fields on which we focus most, including the automotive, shipbuilding and electrical equipment fields. Our crude steel output totaled 7.71 million tons, up 400,000 tons from the 7.31 million tons of the previous year. With regard to selling prices, the global increase in demand for steel and the accompanying steep rises in raw-materials prices caused market prices to increase both in Japan and overseas. Amid this situation, Kobe Steel continued to improve its pricing in individual product groups and areas of demand. On the other hand, our earnings were impacted by substantial increases in raw materials costs and additional expenses such as equipment maintenance costs necessitated by keeping production at a high level. However, by various means, such as improvements to our pricing and ongoing efforts to reduce costs, we were able to achieve a ¥39.0 billion (73.7%) year-on-year increase in consolidated operating income, to ¥91.9 billion, up from ¥52.9 billion in the previous year.

[Wholesale Power Supply Segment]

	Billions of yen		Percent change
	2005	2004	2005/2004
Net sales	¥58.6	¥30.2	94.2%
Operating income	19.5	8.6	127.2

Sales in this segment almost doubled year-on-year, rising 94.2% to ¥58.6 billion, up from ¥30.2 billion in the previous year. The impetus for this growth came from the start of operations, in April last year, of the No. 2 Power Plant at the Shinko Kobe Power Station. Operating income rose ¥10.9 billion (127.2%) to ¥19.5 billion, up from ¥8.6 billion in the previous year.

[Aluminum and Copper Segment]

	Billions of yen		Percent change
	2005	2004	2005/2004
Net sales	¥283.0	¥243.3	16.3%
Operating income	16.9	14.9	13.3

Net sales in this segment totaled ¥283.0 billion, up ¥39.7 billion (16.3%) from the year-earlier total of ¥243.3 billion. Sales of rolled aluminum products were robust within Japan, buoyed by factors such as an increase in sales of aluminum can stock, which were boosted by very hot summer weather, and the increasing use of aluminum in automobiles, but exports were restrained. As a result, overall sales volume fell by 7,000 tons to 356,000 tons, down from 363,000 tons in the previous year. Among rolled copper products, there were brisk sales of terminal material for electrical equipment for automobiles, which was a key factor in propelling sales growth by 3,000 tons year-on-year, from 59,000 tons to 62,000 tons. Meanwhile, copper tubing sales were boosted by factors such as a volume increase resulting from the combination of this business with its counterpart at Mitsubishi Materials, pushing up sales volume from 48,000 tons to 90,000 tons. In addition, the fact that the prices of aluminum and copper ores persisted at high levels during the year under review was a factor that added upward impetus to sales.

Earnings, meanwhile, were affected by an increase in rolling margins, which helped to raise operating income in this segment by ¥2.0 billion (13.3%) compared with the previous year, from ¥14.9 billion to ¥16.9 billion.

[Machinery Segment]

	Billions of yen		Percent change
	2005	2004	2005/2004
Net sales	¥226.8	¥196.3	15.6%
Operating income	10.3	1.4	623.9

In this segment, orders from domestic customers totaled ¥150.1 billion, staying close to the year-earlier level of ¥149.7 billion. This was because the continuing impact of curbs on public investment was offset by increases in such areas as standard compressors, demand for which were buoyed by strong private capital investment. Among overseas orders, a brisk inflow was seen for equipment such as the Company's mainstay compressors and machinery for tires and rubber, together with a succession of orders for direct reduction plants prompted by the global growth in steel demand. Overseas orders consequently grew by 270.8% from the previous year, from ¥34.0 billion to ¥126.1 billion. As a result, total orders in this segment as a whole rose by ¥92.4 billion (50.3%) year-on-year, from ¥183.7 billion to ¥276.1 billion, and total orders outstanding at the year-end stood at ¥235.1 billion.

Owing to factors such as growth in sales of compressors, which were attracting a robust inflow of orders, net sales rose by ¥30.5 billion (15.6%) from the previous year, from ¥196.3 billion to ¥226.8 billion. Meanwhile, operating income was affected positively by factors such as growth in licensing income arising from the inflow of orders for direct reduction plants, and consequently increased by a substantial ¥8.9 billion (624.0%) year-on-year, from ¥1.4 billion to ¥10.3 billion.

[Construction Machinery Segment]

	Billions of yen		Percent change
	2005	2004	2005/2004
Net sales	¥206.6	¥184.0	12.3%
Operating income	7.2	8.1	(10.5)

The domestic market for construction machinery has remained firm, underpinned by factors such as replacement demand that are counterbalancing the impact of the continuing low level of public works. In overseas markets, demand remained firm in Europe, the U.S., Southeast Asia and the Middle East, but demand for excavators in China cooled markedly under the impact of the government's investment-restraint policy. In view of these circumstances, the Kobelco Construction Machinery Group endeavored both to increase unit sales and to improve its pricing in order to offset the sharp rises in steel and other materials prices. As a result, sales in this segment recorded a year-on-year increase of ¥22.6 billion (12.3%), rising from ¥184.0 billion to ¥206.6 billion. Meanwhile the Company was unable to totally absorb the negative impact on operating income of sluggish demand in China and soaring costs of materials, with the result that operating income slipped by ¥0.9 billion (10.5%), from ¥8.1 billion to ¥7.2 billion.

[Real Estate Segment]

	Billions of yen		Percent change
	2005	2004	2005/2004
Net sales	¥32.5	¥43.2	(24.8)%
Operating income	3.1	3.8	(18.2)

This segment was affected by factors such as a lull in large-scale developments in the condominium sales business, with the result that sales declined by ¥10.7 billion (24.8%) from the previous year, falling from ¥43.2 billion to ¥32.5 billion. Operating income was also down slightly, by ¥0.7 billion (18.2%) from ¥3.8 billion to ¥3.1 billion.

[Electronic Materials and Other Businesses Segment]

	Billions of yen		Percent change
	2005	2004	2005/2004
Net sales	¥54.0	¥45.2	19.4%
Operating income	14.1	8.1	73.7

In this segment, factors such as buoyant demand for target material for LCDs enabled us to achieve year-on-year growth in sales of ¥8.8 billion (19.4%), which rose from ¥45.2 billion to ¥54.0 billion. Operating income rose by ¥6.0 billion (73.7%), from ¥8.1 billion to ¥14.1 billion.

Analysis of Cash Flow

Cash and cash equivalents on a consolidated basis increased by ¥12.1 billion (17.6%) year-on-year to a total of ¥80.6 billion at the end of the year under review. The principal factors in this change were that net cash used in investing activities totaled ¥50.5 billion and net cash used in financing activities, for such purposes as the repayment of external debts, amounted to ¥163.9 billion. This more than offset net cash provided by operating activities in the amount of ¥225.8 billion.

(Cash flows from operating activities)
Net cash provided by operating activities increased by ¥121.7 billion (117.0%) year-on-year, to ¥225.8 billion, principally as a result of an improvement in income before income taxes.

(Cash flows from investing activities)
Net cash used in investing activities declined by ¥35.8 billion (41.5%) to a total of ¥50.5 billion. The principal factors included a fall in spending on capital investment in such areas as the wholesale power supply business, which more than offset a decline in cash from the sale of investment securities.

(Cash flows from financing activities)
Net cash used in financing activities totaled ¥163.9 billion, owing to an increase of ¥128.1 billion (358.5%) in payments. This resulted from the fact that outflows for such purposes as repayments of borrowings and bond redemptions outweighed the inflows from the issuance of bonds, and long-term borrowings.

Analysis of Financial Position

The total assets of the Kobe Steel Group at the end of the fiscal year under review stood at ¥1,901.2 billion , representing a decline of ¥15.1 billion from the previous year-end. This decrease is primarily attributable to the fact that although current assets rose as a result of sales growth, capital investment was below the level of depreciation charges. Total interest-bearing debt, excluding project finance relating to the wholesale power supply business, fell by ¥127.8 billion from its total of ¥797.0 billion at the previous year-end, to ¥669.2 billion. Total interest-bearing debt — including project finance relating to the wholesale power supply business — fell ¥120.3 billion year-on-year, to ¥811.6 billion, down from ¥931.9 billion.

Primarily as a result of the posting of ¥51.3 billion of net income for the year under review, stockholders' equity rose ¥49.1 billion to ¥379.2 billion up from ¥330.1 billion. As a net result of these developments, the equity-to-assets ratio stood at 19.9% as of March 31, 2005, representing an increase of 2.7 percentage points from the previous year-end.

Consolidated Balance Sheets

Kobe Steel, Ltd. and Consolidated Subsidiaries
March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2005	2004	2005
Current assets:			
Cash and cash equivalents (Note 13)	¥ 81,824	¥ 69,235	$ 761,933
Notes and accounts receivable			
Trade	212,011	220,518	1,974,215
Unconsolidated subsidiaries and affiliates	75,890	72,902	706,676
Other	28,634	35,908	266,636
Allowance for doubtful accounts	(793)	(1,708)	(7,384)
	315,742	327,620	2,940,143
Inventories	252,823	233,689	2,354,251
Deferred income taxes (Note 12)	24,728	22,781	230,264
Other	17,692	17,094	164,745
Total current assets	692,809	670,419	6,451,336
Investments and other assets:			
Investments in securities (Note 4)	97,235	85,591	905,438
Investments in and advances to unconsolidated subsidiaries and affiliates	39,464	35,370	367,483
Long-term loans receivable	5,859	6,361	54,558
Other	60,950	61,332	567,557
Allowance for doubtful accounts	(8,672)	(9,514)	(80,752)
	194,836	179,140	1,814,284
Plant and equipment (Note 6):			
Land	207,987	223,976	1,936,745
Buildings and structures	618,354	601,805	5,758,022
Machinery and equipment	1,822,425	1,746,967	16,970,155
Construction in progress	32,136	97,600	299,246
	2,680,902	2,670,348	24,964,168
Less accumulated depreciation	(1,714,267)	(1,669,182)	(15,963,004)
	966,635	1,001,166	9,001,164
Intangible assets	13,912	13,615	129,547
Deferred income taxes (Note 12)	33,010	51,998	307,384
	¥1,901,202	¥1,916,338	$17,703,715

See accompanying notes.

LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 1) 2005
Current liabilities:			
Short-term borrowings (Note 6)	¥ 121,245	¥ 149,378	$ 1,129,016
Current portion of long-term debt (Note 6)	111,942	123,007	1,042,388
Notes and accounts payable:			
Trade	307,580	264,722	2,864,140
Construction	15,492	26,985	144,259
Unconsolidated subsidiaries and affiliates	57,902	52,473	539,175
Other	29,134	30,587	271,292
	410,108	374,767	3,818,866
Advances from customers	29,508	23,828	274,774
Customers' and employees' deposits	25,225	33,057	234,891
Income and enterprise taxes payable	23,803	6,612	221,650
Provision for restructuring costs	7,365	6,515	68,582
Deferred income taxes (Note 12)	1,130	685	10,522
Other	63,432	48,424	590,670
Total current liabilities	793,758	766,273	7,391,359
Long-term liabilities:			
Long-term debt (Note 6)	577,300	656,094	5,375,733
Employees' severance and retirement benefits (Note 15)	49,142	46,189	457,603
Deferred income taxes (Note 12)	10,728	6,967	99,898
Other	56,841	77,078	529,295
	694,011	786,328	6,462,529
Minority interests	34,220	33,610	318,651
Contingent liabilities (Note 7)			
Stockholders' equity:			
Common stock (Note 8)	218,163	218,163	2,031,502
Authorized — 6,000,000,000 shares			
Issued — 2,976,070,294 shares in 2005 and 2004			
Capital surplus (Note 8)	67,980	67,975	633,020
Retained earnings (Note 8)	81,634	31,633	760,164
Land revaluation	409	1,905	3,808
Net unrealized holding gains on securities	25,376	20,994	236,298
Foreign currency translation adjustments	(13,150)	(9,554)	(122,451)
Treasury stock, at cost:			
8,955,212 shares in 2005 and 8,450,664 shares in 2004	(1,199)	(989)	(11,165)
Total stockholders' equity	379,213	330,127	3,531,176
	¥1,901,202	¥1,916,338	$17,703,715

Consolidated Statements of Income

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Net sales	¥1,443,772	¥1,219,180	$13,444,194
Cost of sales	(1,140,422)	993,394	(10,619,443)
Gross profit	303,350	225,786	2,824,751
Selling, general and administrative expenses (Note 10)	(136,773)	125,087	(1,273,610)
Operating income	166,577	100,699	1,551,141
Other income (expenses):			
Interest and dividend income	2,572	2,220	23,950
Interest expense	(23,773)	(25,897)	(221,371)
Seconded employees' salaries net of reimbursement	(19,289)	(19,807)	(179,616)
Foreign exchange gain (loss)	16	(3,840)	149
Equity in income of unconsolidated subsidiaries and affiliates	10,011	6,022	93,221
Gain on sale of securities	2,676	9,307	24,919
Loss on write down of inventories	(10,944)	—	(101,909)
Loss on disposal of inventories of discontinued operations	—	(1,137)	—
Loss on write down of securities, investments and golf memberships	—	(1,241)	—
Loss on impairment of fixed assets (Note 11)	(9,076)	—	(84,514)
Loss on write down of plant and equipment	—	(7,355)	—
Loss on sale or disposal of plant and equipment	(2,382)	(3,213)	(22,181)
Effect of applying new accounting standard for retirement benefits	(12,736)	(12,765)	(118,596)
Amortization of prior service costs of pension plans	6,975	6,975	64,950
Gain on securities contributed to employees' retirement benefit trust	—	3,933	—
Provision for restructuring costs	—	(4,334)	—
Other, net	15,940	(13,833)	148,431
	(71,890)	(64,965)	(669,429)
Income before income taxes	94,687	35,734	881,712
Income taxes (Note 12):			
Current	25,741	7,636	239,696
Deferred	16,225	4,146	151,085
	41,966	11,782	390,781
Minority interests in income of subsidiaries	1,432	1,886	13,335
Net income	¥ 51,289	¥ 22,066	$ 477,596

	Yen		U.S. dollars (Note 1)
Per share	2005	2004	2005
Net income	¥17.28	¥7.44	$0.16
Diluted net income	16.48	7.38	0.15
Cash dividends applicable to the year	3.00	1.50	0.03

See accompanying notes.

Consolidated Statements of Stockholders' Equity

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

		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, 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)
Net income	—	—	—	51,289	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	(3,596)	—
Increase in unrealized holding gains on securities	—	—	—	—	—	4,382	—	—
Cash dividends	—	—	—	(4,462)	—	—	—	—
Effect of change in interests in subsidiaries	—	—	—	2,273	—	—	—	—
Gain on sale of treasury stock	—	—	5	—	—	—	—	—
Bonuses to directors	—	—	—	(14)	—	—	—	—
Increase due to merger of consolidated subsidiaries	—	—	—	79	—	—	—	—
Increase due to changes in scope of consolidation	—	—	—	178	—	—	—	—
Decrease due to changes in scope of consolidation	—	—	—	(356)	—	—	—	—
Adjustment to revaluation of land	—	—	—	1,014	(1,496)	—	—	—
Treasury stock	—	—	—	—	—	—	—	(210)
Balance at March 31, 2005	2,976,070,294	¥218,163	¥ 67,980	¥ 81,634	¥ 409	¥25,376	¥(13,150)	¥(1,199)

	Thousands of U.S. dollars (Note 1)						
	Common stock (Note 8)	Capital surplus (Note 8)	Retained earnings (Note 8)	Land revaluation	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2004	$2,031,502	$632,973	$294,562	$17,739	$195,493	$ (88,966)	$ (9,209)
Net income	—	—	477,596	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	(33,485)	—
Increase in unrealized holding gains on securities	—	—	—	—	40,805	—	—
Cash dividends	—	—	(41,550)	—	—	—	—
Effect of change in interests in subsidiaries	—	—	21,166	—	—	—	—
Gain on sale of treasury stock	—	47	—	—	—	—	—
Bonuses to directors	—	—	(130)	—	—	—	—
Increase due to merger of consolidated subsidiaries	—	—	736	—	—	—	—
Increase due to changes in scope of consolidation	—	—	1,657	—	—	—	—
Decrease due to changes in scope of consolidation	—	—	(3,315)	—	—	—	—
Adjustment to revaluation of land	—	—	9,442	(13,931)	—	—	—
Treasury stock	—	—	—	—	—	—	(1,956)
Balance at March 31, 2005	$2,031,502	$633,020	$760,164	$ 3,808	$236,298	$(122,451)	$(11,165)

See accompanying notes.

Consolidated Statements of Cash Flows

Kobe Steel, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Cash flows from operating activities:			
Income before income taxes	¥ 94,687	¥ 35,734	$ 881,712
Depreciation	80,290	79,245	747,649
Interest and dividend income	(2,572)	(2,220)	(23,950)
Interest expense	23,773	25,897	221,371
Gain on sale of securities	(2,676)	(9,307)	(24,919)
Loss on write down of securities, investments and golf memberships	—	1,241	—
Equity in income of unconsolidated subsidiaries and affiliates	(10,011)	(6,022)	(93,221)
Loss on write down of inventories	10,944	—	101,909
Loss on impairment of fixed assets	9,076	—	84,514
Effect of applying new accounting standard for retirement benefits	12,736	12,765	118,596
Amortization of prior service costs of pension plans	(6,975)	(6,975)	(64,950)
Gain on securities contributed to employees' retirement benefit trust	—	(3,933)	—
Loss on sale or disposal of plant and equipment	2,382	3,213	22,181
Decrease (increase) in trade receivables from customers	7,696	(14,184)	71,664
Increase in inventories	(29,508)	(8,696)	(274,774)
Increase in trade payables to customers	44,233	11,194	411,891
Other	21,082	15,525	196,312
Subtotal	255,157	133,477	2,375,985
Cash received for interest and dividends	3,461	3,183	32,228
Cash paid for interest	(24,248)	(25,689)	(225,794)
Cash paid for income taxes	(8,619)	(6,930)	(80,259)
Net cash provided by operating activities	225,751	104,041	2,102,160
Cash flows from investing activities:			
Purchase of plant, equipment and other assets	(56,175)	(102,953)	(523,093)
Proceeds from sale of plant, equipment and other assets	7,739	8,044	72,064
Purchase of investments in securities	(8,491)	(5,314)	(79,067)
Proceeds from sale of investments in securities	3,684	15,565	34,305
Decrease (increase) in short-term loans receivable	1,247	(1,660)	11,612
Long-term loans receivable	(165)	(1,416)	(1,537)
Proceeds from collection of long-term loans receivable	2,195	506	20,440
Net proceeds from sale of a former consolidated subsidiary	—	4,153	—
Other	(577)	(3,306)	(5,373)
Net cash used in investing activities	(50,543)	(86,381)	(470,649)
Cash flows from financing activities:			
Decrease in short-term borrowings	(45,898)	(11,096)	(427,395)
Proceeds from commercial paper	15,000	—	139,678
Proceeds from issuance of long-term debt	25,316	126,685	235,739
Repayment of long-term debt	(110,007)	(175,136)	(1,024,369)
Proceeds from issuance of bonds	10,580	95,516	98,519
Repayment of bonds	(21,735)	(60,526)	(202,393)
Payment of dividends	(4,415)	—	(41,112)
Other	(32,786)	(11,197)	(305,299)
Net cash used in financing activities	(163,945)	(35,754)	(1,526,632)
Effect of exchange rate changes on cash and cash equivalents	(98)	(230)	(912)
Increase (Decrease) in cash and cash equivalents	11,165	(18,324)	103,967
Cash and cash equivalents at beginning of year	68,503	81,809	637,890
Increase in cash and cash equivalents by merger	—	4,383	—
Cash and cash equivalents of newly consolidated subsidiaries	924	635	8,604
Cash and cash equivalents at end of year (Note 13)	¥ 80,592	¥ 68,503	$ 750,461

See accompanying notes.

Notes to Consolidated Financial Statements

Years ended March 31, 2005 and 2004

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 stockholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2005, which was ¥107.39 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.

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, 2005, the accounts of 159 (155 in 2004) subsidiaries have been included in the consolidated financial statements. Intercompany transactions and accounts have been eliminated.

62 (62 in 2004) 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, 2005, 55 (52 in 2004) 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 income 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, the two power stations in the Wholesale Power Supply 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 mainly 5 years.

(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 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 loss carryforwards and 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. A certain consolidated domestic subsidiary provides a contributory pension plan.

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 income 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.

(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 Impairment of Fixed Assets

Effective April 1, 2004, the Company and its consolidated domestic subsidiaries adopted 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 accounting standard for impairment of fixed assets (the Finance Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003).

The effect of the adoption of the new accounting standard was to decrease income before income taxes by ¥9,076 million ($84,514 thousand). The accumulated impairment loss was deducted from each asset's acquisition cost directly.

3. Leases

Original lease obligations as lessee under non-capitalized finance leases at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Buildings and structures	¥ 631	¥ 474	$ 5,876
Machinery and equipment	51,616	60,642	480,641
	¥52,247	¥61,116	$486,517

Future minimum lease payments as lessee under non-capitalized finance leases at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Due within one year	¥ 8,221	¥ 9,280	$ 76,553
Due after one year	16,863	17,835	157,026
	¥25,084	¥27,115	$233,579
Lease expense for the years ended March 31	¥ 9,777	¥10,555	$ 91,042

Future minimum lease payments as lessee under operating leases at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Due within one year	¥ 2,921	¥ 2,847	$ 27,200
Due after one year	9,169	10,729	85,380
	¥12,090	¥13,576	$112,580

Leased assets as lessor under finance leases, accounted for as operating leases, at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Machinery and equipment	¥159	¥473	$1,481
Less accumulated depreciation	(149)	(340)	(1,387)
	¥ 10	¥133	$ 94

Future minimum lease payments to be received as lessor under finance leases, accounted for as operating leases, at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Future minimum lease payments to be receivable:			
Due within one year	¥ 6	¥ 87	$ 56
Due after one year	4	96	37
	¥10	¥183	$ 93
Lease income for the years ended March 31	¥15	¥ 90	$140

Future minimum lease payments receivable as lessor under operating leases, at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Due within one year	¥ 359	¥ 357	$ 3,343
Due after one year	4,344	4,679	40,451
	¥4,703	¥5,036	$43,794

4. Securities

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2005 and 2004:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2005			2004			2005
	Book values	Fair values	Difference	Book values	Fair values	Difference	Difference
Held-to-maturity debt securities							
Securities with available fair values exceeding book values:							
Bonds	¥50	¥52	¥2	¥71	¥75	¥4	$19
	¥50	¥52	¥2	¥71	¥75	¥4	$19

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2005			2004			2005
	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	¥28,516	¥70,467	¥41,951	¥24,949	¥59,099	¥34,150	$390,642
Bonds	10	10	—	20	23	3	—
	28,526	70,477	41,951	24,969	59,122	34,153	390,642
Other securities:							
Equity securities	1,920	1,618	(302)	1,331	1,165	(166)	(2,812)
Bonds	3	2	(1)	5	4	(1)	(9)
	1,923	1,620	(303)	1,336	1,169	(167)	(2,812)
	¥30,449	¥72,097	¥41,648	¥26,305	¥60,291	¥33,986	$387,821

The following table summarizes book values of securities with no available fair values as of March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Available-for-sale securities:			
Non-listed equity securities	¥20,750	¥20,195	$193,221
Preferred subscription certificate	5,000	5,000	46,559

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)
	2005	2004	2005
Within one year	¥50	¥23	$466
Over one year but within five years	—	50	—

Sales of available-for-sale securities for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Sales	¥1,409	¥6,214	$13,120
Gains on sales	497	3,591	4,628
Losses on sales	4	3	37

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, 2005 and 2004 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2005			2004			2005
	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	¥11,000	¥11,205	¥(205)	¥9,042	¥8,797	¥245	$(1,909)
Others	160	159	1	—	—	—	9
To buy foreign currencies:							
U.S. dollars	7,981	7,980	(1)	6,831	6,830	(1)	(9)
Others	32	31	(1)	—	—	—	(9)
			¥(206)			¥244	$(1,918)

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, 2005 and 2004.

Interest rate swap agreements outstanding at March 31, 2005 and 2004 were as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)
	2005		2004		2005
	Contracted amount	Recognized gain (loss)	Contracted amount	Recognized gain (loss)	Recognized gain (loss)
Interest rate swap agreements					
To receive floating and pay fixed rates	¥ 1,800	¥ (14)	¥ 2,838	¥ (40)	$ (130)
To receive fixed and pay floating followed by fixed rates	55,300	(1,750)	55,300	(2,004)	(16,296)
		¥(1,764)		¥(2,044)	$(16,426)

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, 2005 and 2004.

6. Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Bank loans (average rate 1.2% in 2005 and 2004)	¥106,245	¥149,378	$ 989,338
Commercial paper (average rate 0.0% in 2005)	15,000	—	139,678
	¥121,245	¥149,378	$1,129,016

Long-term debt at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
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	$ 93,119
0.91% to 3.50% yen bonds, due 2004 through 2012	272,800	282,160	2,540,274
Zero coupon convertible bond, due 2006 (convertible into common stock at ¥218.00 per share)	30,000	30,000	279,356
Euro medium-term notes, due 2004 through 2006	1,220	3,169	11,360
Loans, principally from banks and insurance companies	375,222	453,772	3,494,012
	689,242	779,101	6,418,121
Less current portion	111,942	123,007	1,042,388
	¥577,300	¥656,094	$5,375,733

The aggregate annual maturities of long-term debt at March 31, 2005 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2006	¥111,942	$1,042,388
2007	130,029	1,210,811
2008	117,627	1,095,325
2009 and thereafter	329,644	3,069,597
	¥689,242	$6,418,121

At March 31, 2005 and 2004, 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)
	2005	2004	2005
Assets pledged as collateral			
Plant and equipment-net of accumulated depreciation	¥270,440	¥300,849	$2,518,298
Other assets	39,128	15,510	364,354
	¥309,568	¥316,359	$2,882,652
Secured short-term borrowings and long-term debt			
Bonds (includes due within 1 year)	¥ 2,720	¥ 3,000	$ 25,328
Short-term borrowings	23,618	23,880	219,927
Long-term borrowings (includes due within 1 year)	140,174	144,444	1,305,280
Other debt	2	10	19
	¥166,514	¥171,334	$1,550,554

At March 31, 2005 and 2004, 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)
	2005	2004	2005
Short-term borrowings	¥ 7,594	¥ 9,300	$ 70,714
Long-term borrowings	38,721	45,492	360,564
Guarantee of loans	716	881	6,667
	¥47,031	¥55,673	$437,945

7. Contingent Liabilities

At March 31, 2005 and 2004 the Company and its consolidated domestic subsidiaries were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Trade notes discounted	¥1,085	¥ 3,412	$10,103
Trade notes endorsed	516	1,943	4,805
Guarantees of loans			
Related parties	1,351	5,459	12,580
Others	1,626	1,744	15,141
The contingent liability concerning the debt fulfillment underwriting contract of a corporate bond	—	27,500	—
	¥4,578	¥40,058	$42,629

Guarantees of loans include contingent guarantees and letters of awareness of ¥802 million ($7,468 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, 2005 were ¥19,700 million ($183,444 thousand) and ¥16,929 million for the year ended March 31, 2004.

10. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2005 and 2004 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Freight	¥ 34,847	¥ 31,248	$ 324,490
Employees' compensation	31,421	29,403	292,588
Research and development	6,659	5,898	62,008
Depreciation	2,718	3,102	25,310
Other	61,128	55,436	569,214
	¥136,773	¥125,087	$1,273,610

11. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the year ended March 31, 2005 consisted of the following:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Leasehold property		
Land (Ichikawa, Chiba Prefecture, etc. : 4 properties in total)	¥1,573	$14,648
Idle assets		
Buildings and structures, land, etc. (Kaizuka, Osaka Prefecture, etc. : 15 properties in total)	2,259	21,035
Assets for business		
Buildings and structures, land, etc. (Amagasaki, Hyogo Prefecture, etc. : 4 properties in total)	5,244	48,831
	¥9,076	$84,514

The Company and its consolidated domestic subsidiaries grouped their fixed assets based on the unit of business establishments in principle, and recognized impairment losses for the leasehold property and idle assets whose fair value have diminished significantly compared to book values due to the recent decline in land prices, and a part of assets for business due to the deterioration of profitability or recent decline in land prices.

Book values of those fixed assets were reduced to recoverable amounts and impairment loss of ¥9,076 million ($84,514 thousand) was recognized in the year ended March 31, 2005. The amount consisted of buildings and structures of ¥1,325 million ($12,338 thousand), machinery and equipment of ¥695 million ($6,472 thousand), land of ¥6,990 million ($65,090 thousand), and other assets of ¥65 million ($605 thousand).

The recoverable amounts of leasehold property and idle assets were net realizable values calculated based on publicly-assessed land values.

The recoverable amounts of assets for business were the present values of expected cash flows from on-going utilization and subsequent disposition of assets based on the discount rate of 6%.

12. Income Taxes

Significant components of the Group's deferred income tax assets and liabilities as of March 31, 2005 and 2004 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2005	2005
Deferred income tax assets		
Employees' severance and retirement benefits	¥ 21,416	$ 199,423
Unrealized profit	21,059	196,098
Loss on write down of securities	10,991	102,347
Loss carryforwards	8,433	78,527
Loss on impairment of fixed assets	5,806	54,065
Loss on write down of inventories	4,448	41,419
Other	35,687	332,312
Total deferred income tax assets	107,840	1,004,191
Valuation allowance	(12,591)	(117,246)
Deferred income tax assets	95,249	886,945
Deferred income tax liabilities		
Net unrealized holding gains on securities	16,908	157,445
Gain on merger	11,700	108,949
Special tax purpose reserve	8,146	75,854
Other	12,615	117,469
Total deferred income tax liabilities	49,369	459,717
Net deferred income tax assets	¥ 45,880	$ 427,228

	Millions of yen
	2004
Deferred income tax assets	
Loss carryforwards	¥ 31,316
Unrealized profit	20,709
Loss on write down of securities	20,076
Employees' retirement benefits	19,389
Other	30,887
Total deferred income tax assets	122,377
Valuation allowance	(18,786)
Deferred income tax assets	103,591
Deferred income tax liabilities	
Net unrealized holding gains (losses) on securities	13,023
Gain on merger	12,002
Other	11,439
Total deferred income tax liabilities	36,464
Net deferred income tax assets	¥ 67,127

Significant items in the reconciliations of the aggregate statutory income tax rate to the effective income tax rate for the years ended March 31, 2005 and 2004 were as follows:

	2005
Aggregate statutory income tax rate in Japan	40.6%
Non-deductible entertainment expenses	2.6
Other	1.1
Effective income tax rate	44.3%

	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%

13. 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, 2005 and 2004	2005	2004	2005
Cash and cash equivalents (balance sheets)	¥81,824	¥69,235	$761,933
Time deposits (due over 3 months)	(1,232)	(732)	(11,472)
Cash and cash equivalents (cash flow statements)	¥80,592	¥68,503	$750,461

14. Related Party Transactions

Net sales include sales to Shinsho Corporation, which is an affiliate of the Company, of ¥170,148 million ($1,584,393 thousand) and ¥152,195 million for the years ended March 31, 2005 and 2004, respectively.

15. 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, 2005 and 2004 consists of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Projected benefit obligation	¥(211,158)	¥(217,118)	$(1,966,272)
Fair value of pension assets	167,376	163,900	1,558,581
Unrecognized net transition obligation	1,374	14,056	12,794
Unrecognized actuarial differences	11,673	14,879	108,697
Unrecognized prior service costs	—	(6,975)	—
Prepaid pension cost	(18,407)	(14,931)	(171,403)
Liability for severance and retirements benefits	¥ (49,142)	¥ (46,189)	$ (457,603)

Included in the consolidated statements of income for the years ended March 31, 2005 and 2004 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Service costs – benefits earned during the year	¥ 6,782	¥ 6,787	$ 63,153
Interest cost on projected benefit obligation	4,993	5,218	46,494
Expected return on plan assets	(3,031)	(2,738)	(28,224)
Amortization of net transition obligation	12,837	12,873	119,536
Amortization of actuarial differences	2,095	4,110	19,508
Amortization of prior service costs	(7,067)	(6,975)	(65,807)
Severance and retirement benefit expenses	¥16,609	¥19,275	$154,660

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 2005 and 2004 and the rates of expected return on plan assets used by the Group are mainly 2.9% in 2005 and 3.1% in 2004.

16. Segment Information

(1) Industry Segment

The Group's operations are divided into 7 principal business segments:

Iron and Steel, Wholesale Power Supply, Aluminum and Copper, Machinery, Construction Machinery, Real Estate, and Electronic Materials & Other Businesses.

Business segment information was as follows:

		Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended March 31, 2005 and 2004		2005	2004	2005
Sales to outside customers:	Iron and Steel	¥ 613,803	¥ 506,578	$ 5,715,644
	Wholesale Power Supply	58,601	30,182	545,684
	Aluminum and Copper	282,091	242,532	2,626,790
	Machinery	215,207	186,163	2,003,976
	Construction Machinery	206,065	181,580	1,918,847
	Real Estate	28,562	39,036	265,965
	Electronic Materials & Other Businesses	39,443	33,109	367,288
	Consolidated net sales	1,443,772	1,219,180	13,444,194
Inter-segment sales:	Iron and Steel	17,524	27,903	163,181
	Wholesale Power Supply	—	—	—
	Aluminum and Copper	892	784	8,306
	Machinery	11,639	10,104	108,381
	Construction Machinery	583	2,407	5,429
	Real Estate	3,911	4,117	36,419
	Electronic Materials & Other Businesses	14,565	12,128	135,627
		49,114	57,443	457,343
Total sales:	Iron and Steel	631,327	534,481	5,878,825
	Wholesale Power Supply	58,601	30,182	545,684
	Aluminum and Copper	282,983	243,316	2,635,096
	Machinery	226,846	196,267	2,112,357
	Construction Machinery	206,648	183,987	1,924,276
	Real Estate	32,473	43,153	302,384
	Electronic Materials & Other Businesses	54,008	45,237	502,915
		1,492,886	1,276,623	13,901,537
Operating costs and expenses:	Iron and Steel	539,459	481,592	5,023,363
	Wholesale Power Supply	39,105	21,601	364,140
	Aluminum and Copper	266,073	228,387	2,477,633
	Machinery	216,529	194,842	2,016,286
	Construction Machinery	199,429	175,920	1,857,054
	Real Estate	29,394	39,391	273,713
	Electronic Materials & Other Businesses	39,942	37,137	371,934
	Eliminations	(52,736)	(60,389)	(491,070)
	Consolidated operating costs and expenses	1,277,195	1,118,481	11,893,053
Operating income:	Iron and Steel	91,868	52,889	855,461
	Wholesale Power Supply	19,496	8,581	181,544
	Aluminum and Copper	16,910	14,929	157,463
	Machinery	10,316	1,425	96,061
	Construction Machinery	7,220	8,067	67,232
	Real Estate	3,078	3,763	28,662
	Electronic Materials & Other Businesses	14,066	8,100	130,981
	Eliminations	3,623	2,945	33,737
	Consolidated operating income	166,577	100,699	1,551,141

Years ended March 31, 2005 and 2004		Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 1) 2005
Assets:	Iron and Steel	¥ 796,491	¥ 810,484	$ 7,416,808
	Wholesale Power Supply	210,419	201,133	1,959,391
	Aluminum and Copper	234,779	232,833	2,186,228
	Machinery	223,796	204,520	2,083,956
	Construction Machinery	203,787	195,046	1,897,635
	Real Estate	108,908	114,780	1,014,135
	Electronic Materials & Other Businesses	57,547	43,132	535,869
	Corporate and Eliminations	65,475	114,410	609,693
	Total	1,901,202	1,916,338	17,703,715
Depreciation:	Iron and Steel	41,526	42,617	386,684
	Wholesale Power Supply	12,441	6,946	115,849
	Aluminum and Copper	13,596	12,675	126,604
	Machinery	5,625	9,919	52,379
	Construction Machinery	3,135	2,563	29,193
	Real Estate	1,698	1,765	15,811
	Electronic Materials & Other Businesses	2,359	1,504	21,967
	Corporate and Eliminations	(90)	1,256	(838)
	Total	80,290	79,245	747,649
Impairment of fixed assets:	Iron and Steel	1,744	—	16,240
	Wholesale Power Supply	—	—	—
	Aluminum and Copper	—	—	—
	Machinery	837	—	7,794
	Construction Machinery	239	—	2,226
	Real Estate	4,202	—	39,127
	Electronic Materials & Other Businesses	—	—	—
	Corporate and Eliminations	2,054	—	19,127
	Total	9,076	—	84,514
Capital expenditures:	Iron and Steel	37,106	28,982	345,526
	Wholesale Power Supply	1,039	56,077	9,675
	Aluminum and Copper	13,475	8,076	125,477
	Machinery	3,867	3,945	36,009
	Construction Machinery	5,079	2,878	47,295
	Real Estate	1,211	2,784	11,277
	Electronic Materials & Other Businesses	1,806	1,075	16,817
	Corporate and Eliminations	2,433	1,094	22,655
	Total	¥ 66,016	¥ 104,911	$ 614,731

Corporate assets of ¥278,226 million ($2,590,800 thousand) and ¥292,039 million at March 31, 2005 and 2004, respectively, are comprised principally of bank and time deposits and assets of administration departments of the Company.

Segment change

In April 2004, Shinko Kobe Power Station in the Wholesale Power Supply segment started commercial operation of the No.2 Power Plant, enabling Kobe Steel Ltd., to supply the full amount of electricity from its two power plants. As a result, the Wholesale Power Supply business, which had been in the Iron and Steel segment in the previous fiscal year, was made into a separate segment in the year ended March 2005. The business segments for the year ended March 31, 2004 were reclassified into the seven segments used for the year ended March 31, 2005 to reflect this change. Unreclassified amounts for the previous year “2004” were as follows:

Year ended March 31, 2004		Millions of yen 2004
Sales to outside customers:	Iron and Steel	¥ 536,760
	Aluminum and Copper	242,532
	Machinery	186,163
	Construction Machinery	181,580
	Real Estate	39,036
	Other Businesses	33,109
	Consolidated net sales	1,219,180
Inter-segment sales:	Iron and Steel	11,583
	Aluminum and Copper	783
	Machinery	10,104
	Construction Machinery	2,407
	Real Estate	4,117
	Other Businesses	12,128
		41,122
Total sales:	Iron and Steel	548,342
	Aluminum and Copper	243,316
	Machinery	196,267
	Construction Machinery	183,987
	Real Estate	43,153
	Other Businesses	45,237
		1,260,302
Operating costs and expenses:	Iron and Steel	485,232
	Aluminum and Copper	228,387
	Machinery	194,841
	Construction Machinery	175,920
	Real Estate	39,391
	Other Businesses	37,137
	Eliminations	(42,427)
	Consolidated operating costs and expenses	1,118,481

Year ended March 31, 2004		Millions of yen 2004
Operating income:	Iron and Steel	¥ 63,110
	Aluminum and Copper	14,929
	Machinery	1,425
	Construction Machinery	8,067
	Real Estate	3,763
	Other Businesses	8,100
	Eliminations	1,305
	Consolidated operating income	100,699
Assets:	Iron and Steel	934,659
	Aluminum and Copper	232,833
	Machinery	204,521
	Construction Machinery	195,046
	Real Estate	114,780
	Other Businesses	43,132
	Corporate and Eliminations	191,367
	Total	1,916,338
Depreciation:	Iron and Steel	48,672
	Aluminum and Copper	12,675
	Machinery	9,918
	Construction Machinery	2,563
	Real Estate	1,765
	Other Businesses	1,504
	Corporate and Eliminations	2,148
	Total	79,245
Capital expenditures:	Iron and Steel	85,059
	Aluminum and Copper	8,076
	Machinery	3,945
	Construction Machinery	2,878
	Real Estate	2,784
	Other Businesses	1,075
	Corporate and Eliminations	1,094
	Total	¥ 104,911

(2) Overseas Sales

Overseas sales for the years ended March 31, 2005 and 2004 were as follows:

		Percentages of 2005 consolidated net sales	Millions of yen		Thousands of U.S. dollars (Note 1)
			2005	2004	2005
Overseas Sales:	Asia	15.9%	¥229,764	¥179,060	$2,139,529
	Other areas	9.4	136,160	96,887	1,267,902
	Total	25.3%	¥365,924	¥275,947	$3,407,431

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, Thailand, Malaysia (and Indonesia in 2004)
Other areas	United States, Canada, Australia, Italy

17. Subsequent Event

On April 28, 2005, the Company concluded an agreement to transfer its real estate business to Kobelco Development Co., Ltd., a subsidiary of the Company on October 1, 2005. The transfer was approved at the 152nd General Meeting of Shareholders of the Company on June 24, 2005.

A summary of the transfer is as follows:

(1) Reason for the Transfer

To improve its market competitiveness and profitability, the Company decided to transfer its real estate business to design the operational structure for maximizing.

(2) Outline of the Business to be Transferred

① Business

Real estate sales and leasing, building management, and area and urban development.

② Sales for the year ended March 31, 2005: ¥18,499 million ($172,260 thousand)

(3) Method of Transfer

The "corporate demerger" method, in which Kobe Steel is the demerging company and Kobelco Development is the successor company, will be applied.

(4) Outline of the Successor Company

① Name: Kobelco Development Co., Ltd.

② Assets, liabilities and stockholders' equity as of March 31, 2005:

Assets ¥ 16,131 million ($150,210 thousand)

Liabilities ¥10,430 million ($97,123 thousand)

Stockholders' equity ¥5,701 million ($53,087 thousand)

③ Number of employees as of March 31, 2005: 5

(5) Effect of the Transfer

The Company anticipates incurring a loss of approximately ¥12 billion ($112 billion) in the half-year period ending September 30, 2005.

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, 2005 and 2004, and the related consolidated statements of income, stockholders' 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, 2005 and 2004, 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.

Without qualifying our opinion, we draw attention to the following.

(1) As discussed in Note 2 (17) to the consolidated financial statements, Kobe Steel, Ltd. and consolidated domestic subsidiaries adopted early the new accounting standards for impairment of fixed assets in the year ended March 31, 2005.
(2) As discussed in Note 16 to the consolidated financial statements, effective April 1, 2004, the Company changed the method of classifying industry segments and the Wholesale Electricity Supply business, which had been in the Iron and Steel segment in the previous fiscal year, was made into a separate segment.
(3) As discussed in Note 17 to the consolidated financial statements as a subsequent event, on April 28, 2005, the Company concluded an agreement to transfer its real estate business to Kobelco Development Co., Ltd. a subsidiary of the Company on October 1, 2005 and the transfer was approved at the General Meeting of Shareholders of the Company on June 24, 2005.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 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.

KPMG AZSA & Co.

Osaka, Japan
June 24, 2005