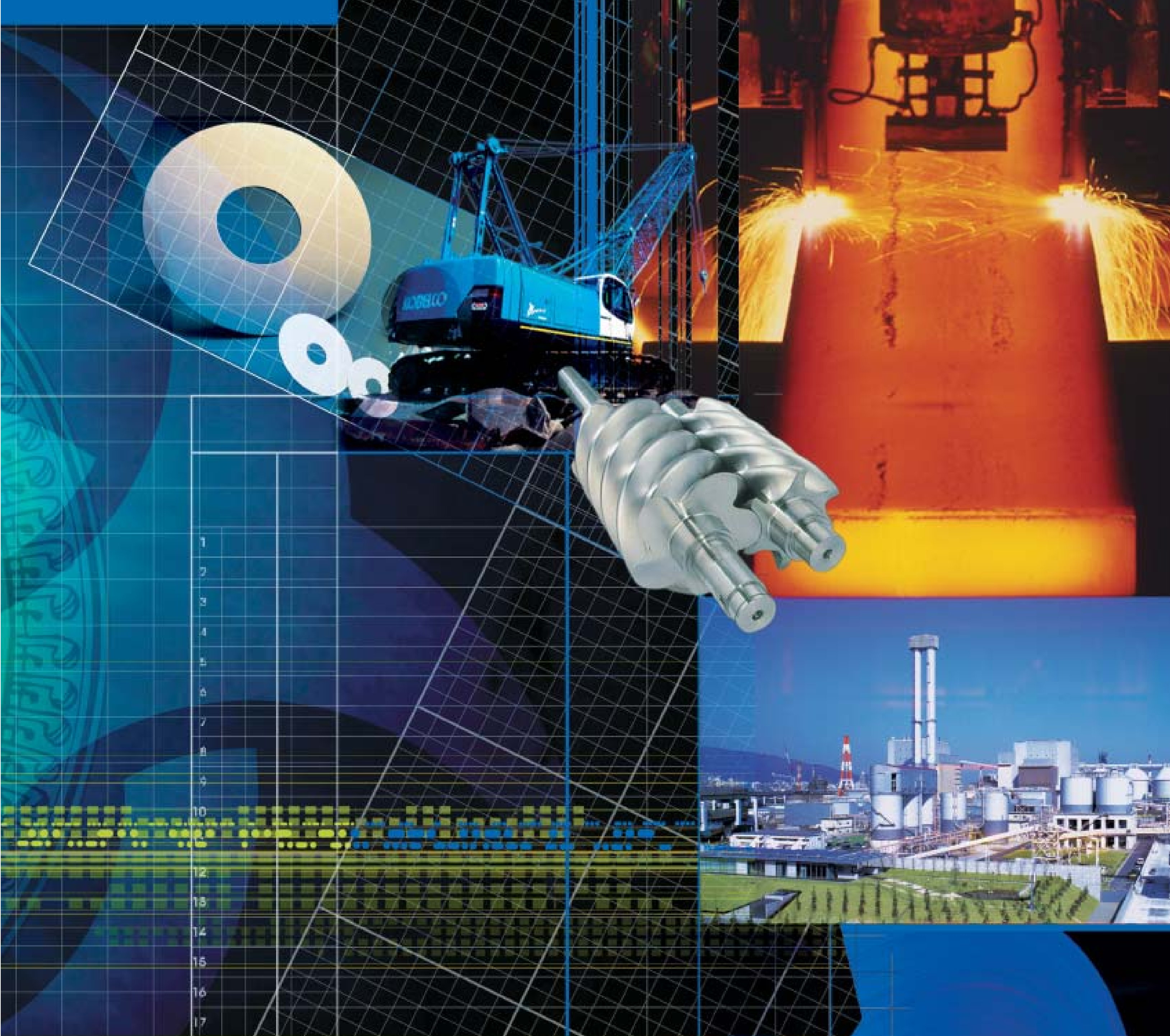



# Going forward, creating new value

KOBE STEEL ANNUAL REPORT 2005

Year Ended March 31, 2005

KOBELCO
KOBE STEEL, LTD.

# PROFILE

Kobe Steel, Ltd. is a global company engaged in the three major business fields of materials, machinery, and power supply. Its main businesses in the materials segment are iron & steel, aluminum & copper, and welding. In the machinery segment, the Company is involved in industrial machinery and construction machinery, as well as environmental solutions, and engineering services.

The Company's strength is its ability to create products with unique features, thanks to its innovative technical development capability. To cite a few examples: One in every two cars in the world has engines fitted with valve springs made from our wire rod; we have the world's largest share in aluminum blanks for hard disks; our screw compressors employ cutting-edge technology; and we have an 80% share of the world market for target materials use in liquid crystal displays.

The Company will continue to create an unending series of unique proprietary products, services and technologies that have competitive advantage, thus improving its profitability and building greater enterprise value. In this way, we will also make a broad contribution to society.

# CONTENTS



KOBELCO

* KOBELCO is the corporate logo mark of Kobe Steel and its Group companies. KOBELCO is also an international brand for products and is used in the names of Kobe Steel Group companies.

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, 2005 and 2004

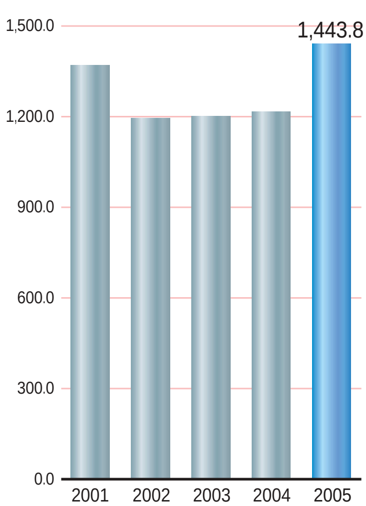
| | Millions of yen | | Percent change | Thousands of U.S. dollars (Note) |
|---|---|---|---|---|
| | 2005 | 2004 | 2005/2004 | 2005 |
| **For the year:** | | | | |
| Net sales | ¥1,443,772 | ¥1,219,180 | 18.4 % | $13,444,194 |
| Operating income | 166,577 | 100,699 | 65.4 | 1,551,141 |
| Income before income taxes | 94,687 | 35,734 | 165.0 | 881,712 |
| Net income | 51,289 | 22,066 | 132.4 | 477,596 |
| Capital investment | 66,016 | 104,911 | (37.1) | 614,731 |
| Depreciation and amortization | 80,290 | 79,245 | 1.3 | 747,649 |
| Research and development | 19,700 | 16,929 | 16.4 | 183,444 |
| **At year-end:** | | | | |
| Assets | 1,901,202 | 1,916,338 | (0.8) | 17,703,715 |
| Stockholders' equity | 379,213 | 330,127 | 14.9 | 3,531,176 |
| Interest-bearing debt | 669,241 | 797,039 | (16.0) | 6,231,874 |
| Interest-bearing debt including IPP project finance | 811,572 | 931,891 | (12.9) | 7,557,240 |

| | Yen | | Percent change | U.S. dollars (Note) |
|---|---|---|---|---|
| | 2005 | 2004 | 2005/2004 | 2005 |
| **Per share data:** | | | | |
| Net income | ¥ 17.28 | ¥ 7.44 | 132.3 % | $ 0.16 |
| Stockholders' equity | 127.80 | 111.24 | 14.9 | 1.19 |
| Cash dividends | 3.00 | 1.50 | 100.0 | 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.

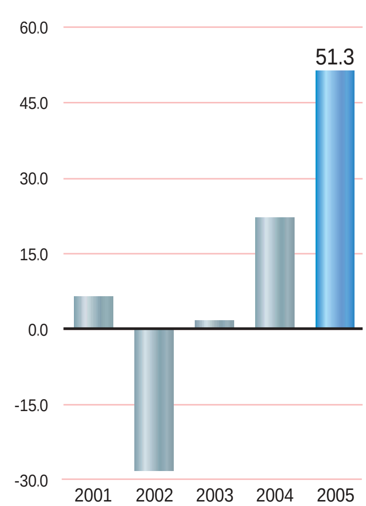
**Net Sales**

(¥ Billion)



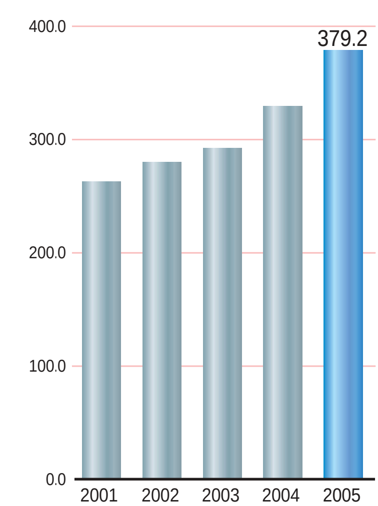

**Net Income**

(¥ Billion)




**Stockholders' Equity**

(¥ Billion)



# Message from the President

**The Kobe Steel group has been implementing fundamental reforms and strengthening its business foundation to build profitability, under its Fiscal 2003-2005 Consolidated Medium-Term Business Plan, drawn up in June 2003. In the current fiscal year, the final year of the plan ending March 2006, we will exceed our targets, as we go forward to create new value in the future.**

Yasuo Inubushi
President and CEO

## Overview of fiscal 2004

During fiscal 2004, the Japanese economy in general was able to maintain a modest recovery, buoyed in particular by the robust economic growth in China, other parts of Asia, and the United States, and growth in capital investment in Japan brought about by improved corporate earnings. In the second half of the term, however, the economy was adversely impacted by factors such as inventory adjustments in the information technology sector, and as a result, growth effectively ground to a halt.

Amid this environment, the Group made steady progress in implementing the priority measures under its medium-term business plan, including the development and sales expansion of its distinctive, market-leading products. We also placed emphasis on meeting demand to the maximum extent possible in every field of our business and on raising our product prices. As a result, we achieved a substantial improvement in our business performance, primarily in the fields of materials, particularly steel products and electronic materials.

Our strong performance was reflected in net sales rising ¥224.6 billion, to ¥1,443.8 billion (US$13,444.2 million) on a consolidated basis. Operating income went up ¥65.9 billion, to ¥166.6 billion (US$1,551.1 million), and ordinary income* rose ¥65.2 billion, to ¥116.0 billion. As a result, our return on assets (ordinary income plus interest expenses divided by total assets) reached 7.4%. In consequence, we were able to achieve our earnings targets under the three-year medium-term business plan, such as ordinary income of ¥80.0 billion and return on assets of 6%, one year ahead of schedule.

Net income was affected by factors such as a loss resulting from the voluntary application of impairment

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

accounting to improve our financial position in the near future, and a loss on valuation of inventories in preparation for changes in the accounting standards for inventory valuation applied to the fiscal 2005 accounts and those subsequent. Nevertheless, net income rose by ¥29.2 billion year-on-year, to ¥51.3 billion (US$477.6 million).

Meanwhile, the balance of interest-bearing debt (excluding project finance) at March 31, 2005, showed a decline of ¥127.8 billion from the previous year-end, to ¥669.2 billion. Stockholders' equity increased by ¥49.1 billion over the same period, to ¥379.2 billion (US$3,531.2 million), and the debt-to-equity ratio fell to 1.8. These indicators linked to our financial position were insufficient to top the goals of our medium-term plan a year earlier, but we are confident of meeting these targets at an early stage in the current fiscal year.

With regard to dividends, the return of profit to our stockholders remains our basic commitment. We maintain a dividend payment policy under which due consideration is given to establishing an earnings and financial base that will enable us to make continuous and stable payments of dividends through the years ahead. We must also keep in mind the need to reform the Group so as to provide the funds necessary to achieve that goal. In line with this stance, we have decided to raise our dividend for the year under review by ¥1.5 from the previous fiscal year, to ¥3 ($US0.03) per share.

To enhance its business competitiveness still further, the Kobe Steel Group is continuing its vigorous efforts to strengthen its core businesses by concentrating management resources on selected fields, and working in partnership with other companies.

In our iron and steel business, during the year we worked in collaboration with Nippon Steel Corporation and Sumitomo Metal Industries, Ltd. to make effective use of existing iron and steelmaking facilities. In March 2005, together with Nippon Steel, we concluded an agreement with Sumitomo Metal Industries to take a capital stake in East Asia United Steel Corporation, the holding company of Sumikin Iron & Steel Corporation. In addition, with Nippon Steel and Sumitomo Metal Industries, we have begun studies into mutual cooperation in such fields as research and development and intellectual property, and are seeking to deepen our collaboration still further.

With regard to the boiler fire at the Kakogawa Works that occurred in May 2005, I offer my most sincere apologies for the concern and trouble that it caused, particularly to the local community and our customers. Safety is fundamental to business management, and we believe that it must take priority over all other activities. We have taken the occurrence of this accident very seriously, and will exhaustively overhaul and rebuild our accident-prevention measures to eliminate any further serious accidents and to regain your confidence.

## Outlook and Issues for the Future

In fiscal 2005, Japan is expected to sustain a modest economic recovery. However, various circumstances around the world do not give me particular cause for optimism. These include the persistence of crude-oil prices at high levels, concern about the inflation of raw materials prices, and the uncertainty of the Chinese economy and exchange rate changes after the revaluation of the yuan.

As for the Kobe Steel Group, while assuring stable and safe production we will push further ahead with the priority measures under our medium-term management plan, which include creating and fostering distinctive products and enhancing core businesses. In this way we will strive to build stable profitability for the entire Group, and a robust business structure.

On September 1 of this year, Kobe Steel marks its 100th anniversary. I wish to express my deep gratitude for the support and goodwill the Company has received from shareholders, customers, suppliers, local communities and many others ever since we started business in Kobe in 1905 and right up to the present day.

We of the Kobe Steel Group are pledged to continue enhancing our enterprise value while at all times carrying out our social responsibilities faithfully. To do that we will go back to our origins and start out afresh on our journey through the next one hundred years.

August 2005

Yasuo Inubushi
President and CEO

# Fiscal 2003-2005 Consolidated Medium-Term Business Plan


## Vision of the Kobe Steel Group

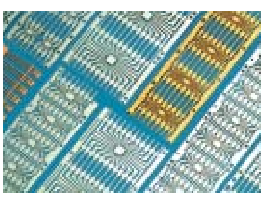
On the threshold of its 100th anniversary, Kobe Steel aims to contribute to society in the coming century through its materials business (steel, welding, aluminum, and copper); the wholesale power supply business; and the machinery business (industrial machinery, construction equipment, environmental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

Task 1

## Further Consolidate Our Position as a Manufacturer of Distinctive Products

Percentage of distinctive and market-leading products in total sales

Fiscal 02 : 30% → Fiscal 03 : 33% → Fiscal 04 : 38% → Fiscal 05 : 40%



Task 2

## Thoroughly Strengthen Competitiveness

### Implement Effective and Prioritized Investment

Investment in equipment will be carried out to further improve blast furnaces as a base for the stable production of steel, together with increasing the capabilities of our production technology for product areas in which we have particular strength.

### Main Capital Investment Plans for Fiscal 2004

| | |
|---|---|
| (Steel) Kakogawa Works-Remodeling of No. 2 blast furnace | ¥40 billion (on a gross investment basis) |
| (Steel) Kobe Works-Construction of No. 5 continuous caster | ¥8.5 billion (on a gross investment basis) |
| (Aluminum and copper) Moka Plant-Remodeling of cold rolling mill | ¥1.4 billion (on a gross investment basis) |

## Target Figures under the Medium-Term Business Plan

In fiscal 2004, a year ahead of schedule, the Company attained many of the targets it had set (on a consolidated basis) for fiscal 2005, the final year of its current medium-term business plan. By the end of fiscal 2005, we expect to have exceeded the target figures for all items.

(¥ billion)

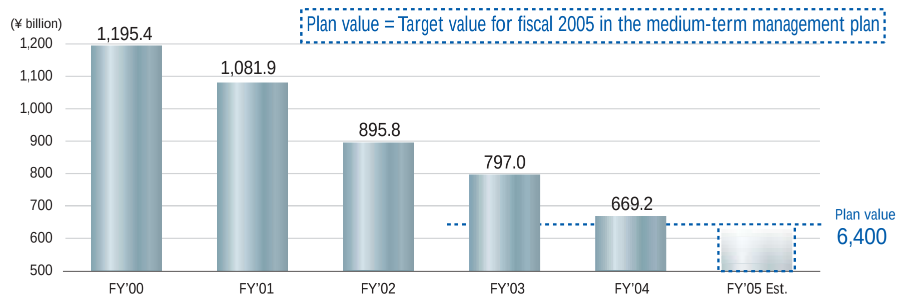
| | Fiscal 2005 forecast | Fiscal 2003 results | **Fiscal 2004 results** |
|---|---|---|---|
| Net Sales | 1250.0 | 1,219.2 | **1,443.8** |
| Operating Income | 12.5 | 100.7 | **166.6** |
| Ordinary Income* | 80.0 | 50.8 | **116.0** |
| Net Income | 36.0 | 22.1 | **51.3** |
| Total Assets | 1,800.0 | 1,916.3 | **1,901.2** |
| Debt (Interest-bearing Liabilities) | 640.0 | 797.0 | **669.2** |
| Debt, including IPP Project Finance | 780.0 | 931.9 | **811.6** |
| Ratio of Ordinary Income to Sales | 8.2% | 4.2% | **8.0%** |
| Return on Assets | 6.0% | 4.0% | **7.4%** |
| Debt-to-Equity Ratio | 1.7 | 2.5 | **1.8** |
| D/E Ratio including IPP Project Finance | 2.1 | 2.9 | **2.2** |

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

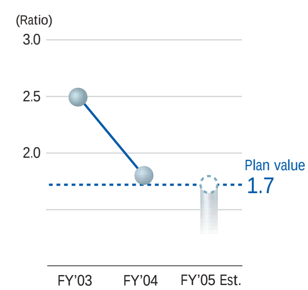
**Task 3**

### Improve Financial Position

Balance of interest-bearing debt (excluding project financing)



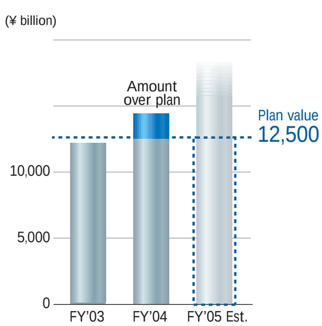

D/E Ratio (excluding project finance)



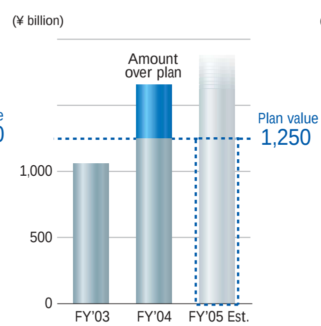

**Task 4**

### Generate Cash Flow from Earnings

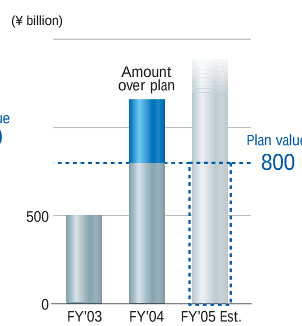
Net Sales



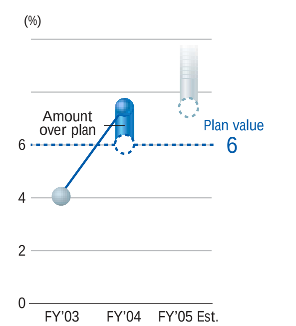

Operating Income




Ordinary Income




ROA




**Task 5**

### Improve Credit Rating in Capital Markets

To return to "A" rating with Japanese rating agencies by fiscal 2005

Fiscal 04 JCR: Returned to A rating (BBB+ ⇒ A)

R&I: Rating raised (BBB ⇒ BBB+)

# Exceeding Our Targets

# Kobe Steel, the Challenge of the Next 100 Years

# A Company Creating New Value

## An Integrated Metals and Machinery Manufacturer Supporting Industry

Kobe Steel, which was founded in the historic international trading city of Kobe, has progressed in parallel with the modernization of Japan and has played an important role in Japan's social and industrial development.

We began operations as a manufacturer of cast and forged steel and subsequently expanded our iron and steel facilities. We then expanded into other businesses such as copper, aluminum, titanium, and machinery. With the construction of our first blast furnace in 1959, we completed an integrated steelmaking system that helped support Japan during the nation's high-growth period.

Thanks to our advanced wire rod manufacturing technology, we have developed the industry's top welding materials and the world's strongest steel sheet. The Moka Plant, which is the manufacturing hub for aluminum, has grown to be one of the most advanced aluminum rolling mills in the world.

Many of our products have acquired large market shares in the automobile market, including specialty steel wire rod, high strength steel sheet, and aluminum materials that are being adopted by manufacturers around the world, thus contributing to safety and weight-reduction in automobiles.

Today, the Kobe Steel Group has grown into a group engaged in a wide range of fields, including iron and steel, welding, wholesale power supply, aluminum, copper, machinery, construction machinery, real estate, electronic materials, and other business areas.

From here on, we will strive to create high value-added products, reduce costs, and reduce product delivery times. We will form a distinctive corporate group that is trusted by society, and recognized for its worth, by undertaking initiatives that are responsive to global markets and acknowledge society's increasing focus on the recycling of resources, thus positioning ourselves in the relentless pursuit of better technology.

### Steelmaking as the Technical Foundation

Kobe Steel's steelmaking business started out making products like anchors and wheels for trolleys. As we improved our casting technology, we produced large cast and forged steel products for the shipbuilding, power generation, and oil industries by utilizing material design technology for greater strength, fatigue resistance, and corrosion resistance, thus establishing our solid position in the world market.

After establishing an integrated steelmaking system in 1959, we established a high-efficiency, high-quality steelmaking process — from the smelting of pig iron to continuous casting — by applying our unique iron and steel production technologies. We improved these technologies to apply them to reduced iron production and waste incineration processes.

### Steel Products

The history of steel products started with wire rods, and due to their excellent materials design technology and secondary processing technologies, such products are turned into valve springs, suspension coil springs, and steel cord which are utilized in important safety components in automobiles.

In the welding business, we are leaders in the industry not only in welding materials, but also in welding technology and automation technology, including robots.

In the 1960s, when we started steel plate production, we combined our welding knowledge with our steel plate design and manufacturing technology to produce large heat input weldable TMCP steel plates, a product which is essential in shipbuilding, building construction, and other basic industries.

### Non-Ferrous Metal Products

Aluminum production started at the Chofu Plant in Yamaguchi Prefecture, with manufacture of cast and forged products at our Nagoya Plant and sheet at the Moka Plant in Tochigi Prefecture. The Moka Plant has the largest width rolling mill in East Asia and is a large production center for can stock for food and drink containers, and substrates for magnetic disks.

In the manufacture of copper products, we have earned the trust of our customers through our unique technologies, from pure copper and brass products, to leadframes for semiconductors, copper alloy plate products for automobile terminals, and connectors.

Kobe Steel was the first company in Japan to succeed in putting titanium metal to practical use, and leads the world in this field. Our coil rolling technology, allows the mass production of titanium and the use of titanium in heat exchangers for nuclear power plants and desalination plants, and roofing materials.

### Machinery and Engineering

The diverse group of products in the field of machinery and engineering came about as the result of three main trends. The first includes construction machinery, cement plants, air separation units, compressors, crushers, and others, which resulted from technology transfer and growth. The second includes direct reduced iron plants, waste incinerators for cities, and sewerage plants, which grew from the fusion with materials processing technologies. In particular, the MIDREX® Direct Reduction Process (for producing reduced iron using natural gas as a reductant), has a good reputation throughout the world, having a two-thirds share of the world's direct reduction processes. Also, we have the FASTMELT® Process, which uses coal (steam coal) as the reductant, and commercialization of the next generation steelmaking process, "ITmk3®, has been attracting attention. Examples of the third include high-pressure containers, corrosion-resistant equipment, LNG vaporizers, and soundproofing materials, which grew from the fusion of special materials, such as titanium and aluminum, with machinery technology.

It is 100 years since our foundation in 1905. The Kobe Steel Group has always risen to the challenge of developing highly original technologies, and has produced many unique and market-leading products that are held in high esteem around the world in a wide range of fields such as materials, machinery, and steelmaking technology. Heading into the next 100 years, the Kobe Steel Group aims to create new value by developing creative products and technologies throughout the world that other companies cannot emulate.

1900 1920 1940 1950 1960 1970 1980 1990 2000

Steel produced using open-hearth furnaces

First blast furnace installed at Nadahama

Development of sintening technology

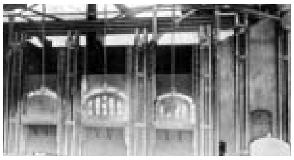
Development of wire rod production technology

Launch of integrated steel production at Kakogawa Works

Development of large-scale steel casting and forging production technology

Development of desulfurization and denitration technologies

Development of pulvenzed coal injection technology



No. 4 slab caster starts up at Kakogawa Works

Development of surface treatment technology

Development of technology for reduction of impurities

Development of pelletizing technology

Start of production of steel bar and sections

Achieved 55% share of wire rod production in Japan

Commercialization of 980 MPa high-strength steel sheet

Launch of rolled steel operations

Start of piano wire rod production (first in Japan)

Launch of specialty steel production

Domestic production of high-quality welding electrodes

Launch of production of carbon chrome steel wire rod (first in Japan)

Successful production of 60mm diameter wire rod (largest diameter in the world)

Production of copper and brass tubes and rods starts at Moji Plant

Start of production of copper alloys for leadframes

Aluminum hot rolling mill completed at Moka Plant

Aluminum production starts at Chofu Plant

Development of high-strength aluminum alloy for cold forging

Start of production of titanium metal

Full-fledged operation begins at Daian Plant

Delivery of Japan's first all-titanium condenser for thermal / nuclear power generation

Start of production of magnesium alloy castings for aerospace use at Nagoya Plant

Start of air compressor production

Development/manufacture of screw compressors (first in Japan)

Development/manufacture of air separation equipment (first in Japan)

Delivery of large plastic mixer (world's first)

Completion of Venezuelan DR plant

Completion of integrated cement plant (Japan's first)

Completion DR integrated steelworks in Qatar

Export of fertilizer plant (first for Japan)

Order received for fluidized bed sludge incineration plant

Delivery of LNG vaporizer

Order received for municipal solid waste treatment plant

## Fusion of Technologies

By fusing our proprietary technologies, we create high-quality, cost-competitive, distinctive products and services.

# New Challenges for the Kobe Steel Group

The Kobe Steel Group has created unique and market-leading technologies and products. These technologies and products have been the result of the fusion of technologies and innovative ideas. They have gained a very high reputation both within Japan and abroad.

## Top Technology and Products in Japan and the World

### Welding consumables

Japan's top market share

As a world-ranking manufacturer of welding consumables, Kobe Steel has the No. 1 share in Japan and Southeast Asia.

### High strength steel sheet

World strongest

Kobe Steel's high strength steel sheet has enabled car manufacturers to reduce the weight of cars and offer sufficient protection to drivers under crash conditions. The Company has commercialized in rapid succession an extensive lineup of high strength steel sheet.

### Wire rod for valve springs for automobiles

In half the cars in the world

Development of wire rod for high strength engine valve springs capable of withstanding several thousand cycles of expansion and contraction per minute and a total of 1 billion cycles. Half of the cars in the world run on Kobe Steel's valve springs.

World No. 1

### Disk blanks

Magnetic disks used in hard disk drives. Kobe Steel has manufacturing centers in Japan and Malaysia, providing over 50% of the aluminum blanks for the world's magnetic disks.

70% of the share in Japan

### Aluminum can stock

Aluminum cans used for canned drinks are easily recycled. Kobe Steel has a 35% share of the Japanese market for aluminum can stock. In particular, two-thirds of the bottle cans are made of Kobe Steel can stock.

Top level in the world

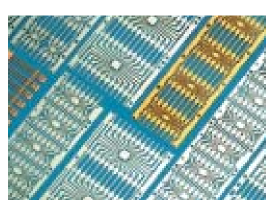
### Compressors

We have pushed out the boundaries of compressor performance with our standard and non-standard models featuring the world's highest pressurization. With a strong track record of shipments at home and overseas, we are way ahead of the competition in innovation and technology.

Largest IPP in Japan

### Wholesale power supply business

The Shinko Kobe Power Station has been built within Kobe Works. This environmentally friendly city-scale power plant has a capacity of 1.4GW. It is the largest independent power producing (IPP) business in Japan.



Top level in East Asia

### Copper sheet for electronic materials

Production of copper alloy sheet products, including leadframes for ICs. Kobe Steel has 25% of the East Asian market for leadframes, and 25% of the Japanese market for automotive terminals and connectors.

Pioneer within Japan

### Titanium alloy for aircraft engines

Kobe Steel was the first in Japan to develop titanium alloys and is the only manufacturer to carry out everything from melting to the finished product. Titanium alloys are used in aircraft engines where stringent durability is required.

# Iron Unit Business Gains World Attention

The Kobe Steel Group has achieved an impressive record in supplying production plants and technology for direct reduced iron (DRI)*, the demand for which is rapidly increasing as a result of a world shortage in ferrous raw materials. Continuing its thrust in innovation, Kobe Steel is growing its iron unit business, including advancing the ITmk3® Process, a next-generation ironmaking technology.

Pilot demonstration plant in Minnesota

## Gaining a Competitive Edge in the World Market

Alternative steelmaking methods are an attractive alternative to traditional blast furnace steelmaking, which requires a large amount of investment. Realizing the opportunities, Kobe Steel in 1983 acquired Midrex Technologies, Inc., developer of the MIDREX® Direct Reduction Process, which uses natural gas as a reductant to make DRI. Observing new trends in demand in recent years, Kobe Steel formed the Iron Unit Division in 2004, positioning it as a strategic business.

World production of DRI in 2004 rose to 54.6 million tons, of which two-thirds was produced by the MIDREX® Direct Reduction Process, owned by Kobe Steel. The Kobe Steel Group's iron unit business is centered on three pillars: plant supply, process licensing, and the manufacture and sale of DRI. In fiscal 2004 alone we succeeded in receiving orders for projects totaling about ¥60 billion in such countries as Qatar, Saudi Arabia, Malaysia, Russia and Oman.

In China, where the construction of new mini blast furnaces is being restricted, we have signed a letter of intent for establishing a joint venture with a Chinese government-owned steelmaker to utilize the FASTMELT®* Process.

Iron nuggets

Direct reduced iron plant in Venezuela

## Development of High Efficiency, Environmentally Friendly Next-Generation Ironmaking Technology

Kobe Steel is working to commercialize the ITmk3® Process, a third-generation ironmaking process, following blast furnace ironmaking as the first generation and direct reduction as the second generation.

ITmk3® does not use coke. With low-grade ore and steam coal, good-quality iron can be made in about 10 minutes, versus blast furnace ironmaking, which requires 8 hours. Furthermore, investment costs can be reduced and $CO_2$ emissions are 20% lower than the blast furnace method. ITmk3® is an economical and environmentally friendly technology.

From May 2003, we operated a pilot demonstration plant for over a year with other partners and in cooperation with the Minnesota state government to test the ITmk3® Process at a larger scale of operation. Excellent results were achieved in continuous operation, process efficiency and product quality. Currently discussions with the partners are ongoing regarding the building of a commercial plant. As a leader in the iron unit business with considerable achievements, the competitive position of Kobe Steel is unshakable.

* Direct reduced iron: Iron ore from which oxygen has been removed, with an iron content of 80% or more. DRI is often used as a supplement or raw material in electric steelmaking. Demand has increased rapidly as an alternative for high quality scrap.

* FASTMET® Process: Jointly developed by Kobe Steel and Midrex Technologies Inc., this process uses readily available steam coal as the reductant to turn iron ore fines into DRI. Unlike blast furnaces, a coke furnace is not necessary. This makes the process an attractive alternative to mini blast furnaces.

* FASTMELT® Process: Uses coal (steam coal) as the reductant and iron ore fines as the raw material. Coke and sintered iron ore (or pellets) are not required. Following reduction, the DRI is melted in a melter, and the molten iron is separated from the slag (impurities).

Towards a Greater Future

# R&D that Supports New Challenges

Research and development at Kobe Steel is carried out at the Kobe Corporate Research Laboratories, which consist of four laboratories engaged in research in basic and advanced fields. The laboratories work closely with development departments in the business segments to clearly meet customers' needs. They contribute toward strengthening the business segments' competitiveness and to creating innovative products.

## Kobe Corporate Research Laboratories

### ■ Material Research Laboratory

The Materials Research Laboratory (MRL) engages in research based upon the four technologies — refining and solidification, material control, processing technology, and surface control. In the material business sector, the staff of the MRL are working to increase the performance of materials and surfaces, and to optimize manufacturing processes. In the machinery sector, the MRL uses materials technology to develop differentiated products. Examples include controlling the nanostructure of metals to increase the strength of main cable wires and improvement of steel's resistance to the environment.

### ■ Mechanical Engineering Research Laboratory

The Mechanical Engineering Research Laboratory (MERL) carries out research and development in machinery, materials, environment, energy, and steel structures, by using advanced simulation technology and experimental and measurement technology in the fields of structures, strength, vibration, acoustics, fluid flow and electrical heating, combustion, and chemistry. The aluminum noise control material "Danshave" used in the 500 and 700 series Nozomi Shinkansen bullet trains is one example.

### ■ Production System Research Laboratory

The Production System Research Laboratory (PRL) is engaged in strengthening of production technology and innovation using advanced electronics. PRL is also engaged in development of communication networks and information systems required for the advanced information society. In addition PRL is developing and commercializing wireless communications systems to allow high-speed and low-cost Internet use.

### ■ Electronics Research Laboratory

The core technologies of the Electronics Research Laboratory (ERL) include thin-film materials and film-forming technology, microprocessing and measurement evaluation technology, superconducting materials and superconducting magnet technology. ERL is engaged in the creation and development of new products and technologies targeting liquid crystal television, DVD and other digital products, bio-, environmental and other high growth fields. ERL is also promoting the application of the developed technologies in the production workplace.

### ■ Coal & Energy Project Section

Coal liquefaction; upgraded brown coal; hyper-coal (ash-free coal); waste lubrication oil using low-rank oil; heavy oil hydro-cracking

R & D

## Principal Technologies Developed by the Business Sector

[Iron & Steel]

- Iron & steel production technology
  - Next-generation ironmaking
  - Ultra clean steel refining
  - High-precision rolling
  - Material control
  - Surface treatment, others
- Product technology (construction, shipbuilding, bridge construction, automobiles, household appliances, aviation, others)

[Welding]

- Design of welding consumables
- Mechanical/chemical performance evaluation of welding
- Physical analysis of arc phenomenon
- Development/application of welding technology
- Design/development of welding robots
- Development of welding systems
- Development of offline teaching systems
- Design/development of welding power sources

[Alminum & Copper]

- Aluminum sheet production technology (wide-width high-speed rolling, automatic controlled rolling)
- Aluminum extruded section production technology (high dimensional accuracy extrusion, thin-wall extrusion)
- Aluminum cast and forged product technology (large-size thin-wall sand casting, hydraulic & mechanical forging)
- Copper sheet and strip production technology (low-distortion low-residual stress sheet, advanced plating)
- Alloy design, material control, surface treatment, sheet forming extrusion processing, welding & joining, FEM simulation for lightweighting design
- Product technology (electric & electronic devices, appliances, automobiles, aluminum cans, aviation, others)

[Machinery & Engineering]

- New ironmaking process
- Compressors (screw, turbo, reciprocating)
- Industrial machinery technology (tire forming, plastic mixing, metalworking, high pressure, deposition, beam)
- Energy equipment technology (high pressure vessels, aluminum heat exchanger, LNG vaporizers, nuclear spent fuel casks)
- Plant engineering (nuclear waste treatment, chemical weapons destruction, advanced transit systems, bridges, cable technology)

[R & D-related subsidiaries]

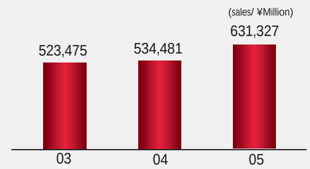
- Kobelco Research Institute, Inc.
- Shinko Research Co., Ltd.

# Business Segment

## Iron and Steel Segment

**[Main Product and Services]**

Steel wire rod and bar, steel sheet, steel plate, billets, steel castings and forgings, titanium and titanium alloy, iron powder and powder products, pig iron for castings, pig iron for steelmaking, slag products, stainless steel tube, building materials, specialty steel products, steel wire, welding consumables, welding robots, welding power supplies, welding robot systems, welding testing/analysis/consulting

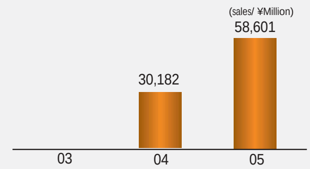



## Wholesale Power Supply Segment

**[Main Product and Services]**

Wholesale power supply

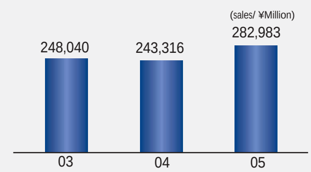
Note: The No. 2 Power Plant of our Shinko Kobe Power Station went into commercial operation in April 2004, supplying electricity as part of our wholesale supply operations. The addition of a second plant substantially augments our power-supply capabilities. Consequently, from the reporting term ended March 2005 we have decided to report this business under a separate business category of "Wholesale Power Supply" instead of the previous category of "Iron and Steel." The sales figures for the said operations have been recalculated for the previous term ended March 2004 in accordance with the new segmentation criteria for purposes of comparison. Sales figures have not been recalculated for the term ended March 2003, and therefore are included in the category of "Iron and Steel."




## Aluminum and Copper Segment

**[Main Product and Services]**

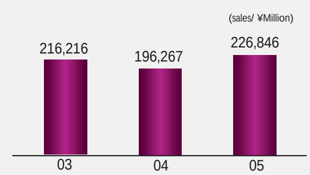
Aluminum rolled products, copper rolled products, aluminum alloy and magnesium alloy cast and forged products, aluminum processed products




## Machinery Segment

**[Main Product and Services]**

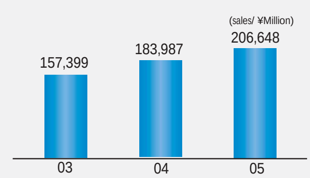
Industrial plants, energy/chemical equipment, nuclear power-related equipment, civil engineering, bridges, new transit systems, tire/rubber processing machinery, plastics processing machinery, isostatic presses, physical vapor deposition systems, metalworking machinery, compressors, refrigeration compressors, heat pumps, mining and rock-crushing equipment, environmental plants, recycling and soil purification systems, cooling towers, internal combustion engines, heavy electrical equipment, handling equipment




## Construction Machinery Segment

**[Main Product and Services]**

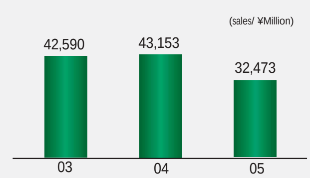
Hydraulic excavators, mini excavators, wheel loaders, crawler cranes, rough-terrain cranes, work vessels, electric mining shovels



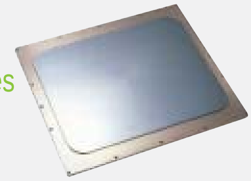

## Real Estate Segment

**[Main Product and Services]**

Real estate sales/leasing, building management, area/urban development, insurance agency services

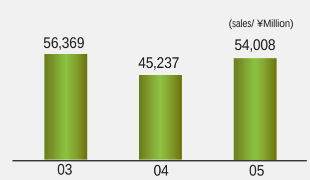


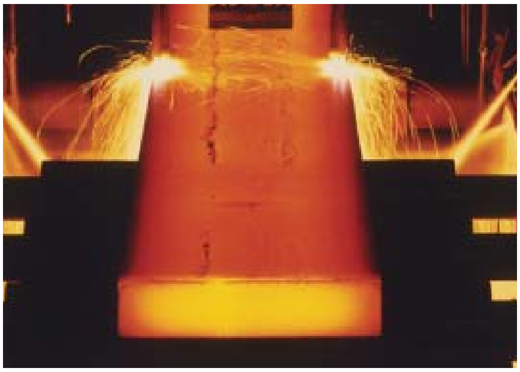

## Electronic Materials and Other Businesses Segment



**[Main Product and Services]**

Electronics-related equipment, IT systems, special alloys and other new materials (for sputtering targets etc), materials inspection, LP gas container manufacturing, general trading, IC testing services, superconductive products, information services, travel agency business





# Iron and Steel

The Company experienced strong demand within Japan for steel from shipbuilders, automobile manufacturers, industrial machinery and other manufacturers during the fiscal year under review. Overseas, market expansion continued in East Asia, particularly China, and remained at a high level. In addition, a tight global supply situation led to rises in prices both in Japan and overseas. Steel sales rose greatly from the level of the previous term, as prices rose and shipments increased in number and volume. In addition, sales of steel forgings and castings increased on the back of brisk demand from shipbuilders.

Sales of titanium products climbed year-on-year as demand in China and other markets expanded. For welding consumables in Japan, positive results were recorded in such fields as shipbuilding, automobiles, construction machinery as well as steel structures. Exports rose significantly in response to growing demand, particularly from auto manufacturers in Southeast Asia. As a result of the above, sales in this segment jumped 18.1% to ¥631.3 million, and operating income was ¥91.9 million, an increase of 73.7% from the previous fiscal year.

## Research and Development

Kobe Steel made vigorous efforts in product development to contribute to environmental protection as well as to respond to customers' needs. In special steels, we are moving ahead with increased distribution and expanded sales of such products as ELCH2S, a steel bar with superior magnetic and cutting properties; Kobe Super Toughness, steel plate for very high heat input welding; and automotive ultra-high strength steel and other products that have been made lighter and stronger. In March 2005, Kobe Steel became Japan's first steel company to completely dispense with chromate treatment in electro-galvanized steel sheet.

## Investment in Plant and Equipment

The Company embarked on several programs to strengthen the competitiveness and raise the productively of its leading products. Our rationalization efforts are expected to lead to early results, and carefully selected investments were made to upgrade aging facilities.

The most important project in fiscal 2004 was the program to raise the quality of high-grade steel made at our Kakogawa Works. We added a vacuum degassing chamber with a desulphurization function, a plate finishing mill with a shape control function, and other advanced facilities. In addition to defferentiating our specialty steel products from those of our rivals, we will add a new continuous bloom caster at the Kobe Works. At the same time, as we look toward the start of operations of the new continuous caster in 2007, we are studying the refurbishment of the No. 3 blast furnace that is now in operation.

The Company has decided to refurbish the No. 2 blast furnace at Kakogawa Works, which is currently unused, by March 2007. The amount of capital investment planned includes approximately ¥8.5 billion in new continuous casting equipment for Kobe Works, and approximately ¥40 billion in the new No. 2 blast furnace for Kakogawa Works.

## Overseas Expansion

The need for local procurement of auto parts in China has risen greatly as the world's leading auto manufacturers, including Japanese companies, have embarked on full-fledged production operations in that country. To enhance our competitiveness on the basis of product quality and to strengthen our ability to respond to customer needs at the local level while maintaining technical superiority in specialty steels, we have decided to work in cooperation with secondary processers and others to establish two secondary processing facilities near Guangzhou and Shanghai.

## Outlook

The Company projects continued growth in demand for the

Kobe Steel is one of the world's 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.

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

future, particularly in such sectors as the shipbuilding and automotive industries. We expect healthy demand trends to continue in exports. However, we anticipate increased supply from China and other factors to lead to an easing of the supply-demand situation for general steel products. In cast and forged products, robust sales are expected, particularly to leading customers in the shipbuilding industry. Growth is also projected in the domestic market and for exports of our titanium products. In this environment, the Company anticipates further expansion of sales in specialty steels, high tensile steel and other distinctive products that fall into our category of products. Along with increasing efficiencies and cost-cutting efforts, we intend to raise our sales prices in order to cope with the drastic rise in the cost of raw materials. In addition, the Company will make a Group-wide effort to raise its competitiveness and strengthen its market presence by promoting effective research and development, and strengthening and expanding its overseas production bases.

In welding consumables, Kobe Steel intends to raise sales prices, secure its capability to maximize production volumes by raising productivity, and at the same time, to realize the fullest possible benefits from business integration. In addition, we aim to become one of the world's most respected leading companies by expanding the scale of our overseas operations.

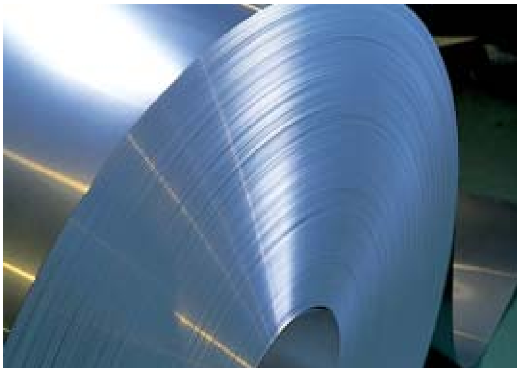
REVIEW OF OPERATIONS

# Wholesale Power Supply

In April 2004, Shinko Kobe Power Station began commercial operation of its No. 2 Power Plant which together with the first plant, has a capacity to produce 1.4 million kilowatts of electricity. This new plant has greatly contributed to Kobe City's ability to be self-sufficient in electric power generation. In promoting this business, we naturally give careful consideration to environmental protection. We view the stable operation of the power generation plants as part of our contribution to society and regional needs. Due to the start of commercial operations of the No. 2 Power Plant, sales rose 94.2% from the previous term to ¥58.6 billion, and operating income increased 127.2% to ¥19.5 billion.

## Future initiatives

While assuring stable operations to secure profits, we work and flourish with communities that host our facilities by applying rigorous environmental measures and providing local venues for exchange.



# Aluminum and Copper

Sales of aluminum rolled products soared above last year's level, as domestic sales of can stock, a leading product, surged due to the intense summer heat and increased use of aluminum bottle-shaped cans. Sales were robust in other fields as well. The trend toward increased aluminum applications in the automotive industry spurred sales of aluminum sheet in that field, and the Company also enjoyed healthy sales of aluminum plate for use in semiconductor & LCD production equipment and other products. Japan's shipments of aluminum sheet reached a record volume for the second consecutive year, and overall shipments of rolled aluminum products rose above the level of the previous fiscal year.

Demand for aluminum castings and forgings also grew year-on-year as a result of the increased adoption of aluminum forged parts for automotive suspension systems and the more extensive employment of aluminum vacuum chambers in semiconductor and LCD production equipment.

In rolled copper products, we posted increases in products for automobile terminals, and in the first half of the term, sales were robust for products used in semiconductors, which led to a year-on-year increase. Sales of copper tubing remained on a par with the previous year due to a slowdown in the pace of increase in imports of air conditioners made by Japanese manufacturers overseas. In this environment, the Company made efforts to raise its product prices, to recover previous price levels, for a second consecutive term.

As a result of these efforts, this segment's sales rose 16.3% from the previous fiscal year to ¥283 billion, and its operating income was ¥16.9 billion, an increase of 13.3%.

## Business Alliance

On April 1, 2004 Kobe Steel merged its copper tube business with that of Mitsubishi Materials Co., Ltd. to form a joint venture company, Kobelco & Materials Copper Tube, Ltd. The Company plans to complete consolidation of domestic production operations at its Hatano Plant in Kanagawa Prefecture by October 2005. This move is designed to strengthen competitiveness and streamline utilization of equipment and human resources. Kobe Steel intends to build a global network that will enable optimal use of three production bases in Thailand, Malaysia and at Hadano.

## Research and Development

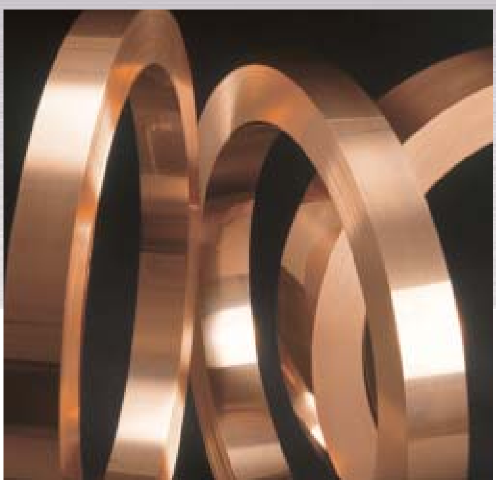
The Company is responding to thriving demand for applications of its products, particularly in the automotive and IT/semiconductor fields where increased demand is projected, with prioritized investment in developing and strengthening our "ultra-strong" products — highly profitable products that boast absolute superiority — and by upgrading production technology to raise product quality and enhance productivity.

In the automotive field, in addition to developing materials, we are utilizing comprehensive technical applications for advances in such technologies as surface treatment, welding, and structural analysis. The Company is also developing and creating aluminum hood material that reduces the impact on pedestrians involved in car accidents, bumper reinforcement materials with superior shock-absorption properties, and aluminum forgings for suspension systems. We have developed an array of new products and applications in the growing field of IT and semiconductor-related products, notably thinner, lighter case material for lithium ion battery cases.

In addition, solid results are being achieved by Kobelco & Materials Copper Tube, Ltd., in research and development into copper tubes for air conditioners, and heat-delivery pipes and water heat-exchange devices for Eco-Cute (carbon dioxide heat pumps for hot-water delivery systems).

## Investment in Plant and Equipment

Capital investment has been substantially held down bit in recent years, but in the current business period, the Company plans to invest in state-of-the-art plant and equipment indispensable to future growth. In the future as well, we will make carefully selected investments in upgrading facilities and in equipment needed to raise competitiveness, particularly for products in the important automotive and IT/semiconductor fields where expansion is anticipated.



**Copper sheet and strip for electronics materials**

With circuits becoming more miniaturized and concentrated, we produce copper alloy products for high-strength, highly conductive semiconductor leadframes, terminals and connectors. Our superior reliability is supported by years of experience and first-class technologies.

## Overseas Expansion

In 2003, we established Kobe Aluminum Automotive Products LLC to engage in the production and sale of aluminum forgings for suspension systems for the North American market. Mass production began in June 2005 after completion of trial operations, evaluation of samples and other preparatory work. Our subsidiary Kobe Leadmikk, Ltd. has established a manufacturing base in Wuxi, China, where mass production and deliveries of leadframe products started in April 2005.

In addition, we have decided to establish a company in China's Jiangsu Province to provide slitting, sales and technical service for copper sheet for electronic materials (terminals, connectors and leadframes). Production is scheduled to start there in 2006. Demand for copper sheet for electronic materials is expanding in China along with the sharp growth in the number of automobiles produced. Our new processing bases in China will enable us to make deliveries to customers rapidly and flexibly, and thus meet growing demand.

## Outlook

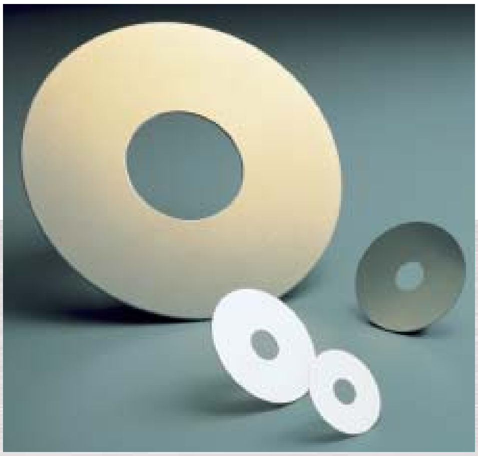
Overall, the outlook is very positive for the Aluminum and Copper segment. The Company expects demand for its aluminum and copper products to continue to expand in the field of automotive materials, and recovery in semiconductor demand is projected.

The medium-term outlook is bright, as demand is expected to grow significantly for such products as aluminum materials for the automotive sector, aluminum vacuum chambers for semiconductor and LCD production equipment, aluminum substrates for hard disks and others, notably in the IT/semiconductor field.

In particular, the use of aluminum in vehicles is becoming further established in the auto industry as environmental regulations become more stringent and manufacturers' concerns about environmental issues increase. The Company assigns the highest priority to meeting the needs of the auto industry and intends to take full advantage of its technical strengths that put it ahead of competitors in materials design and assembly technologies. We will move ahead both in Japan and overseas with technologies that meet the needs of auto manufacturers who are increasingly utilizing aluminum in production.

In our leading segment of aluminum can stock, demand for aluminum bottles is expected to continue to expand. In addition, projections indicate that demand will grow for hard disks in fields other than personal computers, including DVD recorders and game servers.

Kobe Steel will make every effort to advance in the aluminum and copper field by making aggressive use of its ample technical development capabilities, with creative efforts in new markets, and will ensure its status as a leading company by firmly maintaining the internationally competitive strengths it has built in cost, product quality and customer services.



**Disk blanks**

Demand for magnetic disks for hard disk drives continues to rise with the spread of PCs and increased Internet use. Kobe Steel supplies more than 50% of the aluminum blanks used in magnetic disks globally. Through our production bases in Japan and Malaysia, we are raising standards in IT.

# Machinery

Sales rose in the compressor business, primarily due to robust sales of non-standard compressors to our main customers, the electric power utility firms, and oil and gas companies. In addition, orders went up owing to large-scale projects in Taiwan. In standard compressors, solid growth was achieved for our leading products, including those in the energy-saving Kobelion series. The Company's industrial machinery business achieved a large increase in orders for tire and rubber production machinery in the United States and elsewhere, and large-scale orders were received for plastic mixing and pelletizing systems and isostatic presses. In our engineering businesses a large expansion of orders was achieved for direct reduction plants, an area in which the Company is strong, against the background of an upsurge in global demand for steel. Our Venezuelan companies operating direct reduction plants also posted increased sales. We also achieved dramatic growth in LNG equipment, reactors and other energy-related equipment on the back of rising demand for crude oil and natural gas.

In our environmental protection business, orders expanded for wastewater treatment equipment for the LCD industry and cooling tower equipment, with orders and sales rising year-on-year for glass lining equipment and mixers.

As a result of the above, Machinery Segment sales rose 15.6% to ¥226.8 billion, and operating income was ¥10.3 billion, a jump of 623.9% over the previous term.

## Business Alliances

In April 2005 Kobe Steel and Kawasaki Heavy Industries, Ltd. transferred the production departments of their respective crushing equipment businesses to EarthTechnica Co., Ltd., a joint venture operated by the two companies that was already handling marketing and design. We integrated the production and marketing operations in order to achieve greater earning power.

## Research and Development

The Company has succeeded in developing new tire testing equipment capable of accurately measuring tire conditions at speeds as high as 200 km/h, the fastest testing speeds in the world. Kobe Steel has developed a compact and sophisticated Horizontal Rutherford Backscattering Spectrometry device for use in nano-meter-level ultra-thin film analysis. In contracted research and development work, the Company is conducting verification tests on the utilization of rotary furnace technology to recover marketable metals.

In a joint research project with Kobe City in the environment and energy field, we are refining sewage incineration gas to obtain methane that is nearly on a par with natural gas in terms of calorific value, and we have verified that methane gas has the potential to be used as automobile fuel. We are also jointly conducting verification tests with Nippon Steel on plasma melting methods in the field of PCB (polychlorinated biphenyl) treatment technology for the detoxification of contaminants. An evaluation of the technology by the Ministry of the Environment has been completed. An evaluation of the technology by the PCB disposal technology research and discussion committee of the Japan Industrial Waste Technology Center has been completed.

## Overseas Business Development

In February 2004, the Company established Kobelco Compressors Manufacturing (Shanghai) Corporation to expand its standard compressor business in China. Production there began in April 2005. We intend to set up sales bases in China's major cities to energetically expand our business in that country's markets.

## Non-standard compressor

We supply to global markets non-standard compressors with advanced features, such as high-pressure screw compressors with world-beating compression capacity, and natural gas collection/recycling screw compressors that do not exacerbate global warming.

In the field of isostatic presses, Kobe Steel was the first in Asia to receive the prestigious ASME U3 Certification for its ultra high-pressure vessels. With an unchallenged dominant share in the domestic market, the Company intends to expand sales further in American and other overseas markets.

In our iron unit business, we are promoting sales of the hot briquetted iron (HBI) produced at our Minorca and Comsigua direct reduction plants in Venezuela.

## Outlook

In future compressor business activity, the Company intends to follow up on its success in non-standard compressors in the oil and gas field with efforts in the area of new sources of energy. The standard compressors business will strive to win more orders for its inverters such as the Kobelion series in Southeast Asia, China and other markets.

In industrial machinery, we will step up efforts to achieve expanded sales of our high-speed tire testing machines. In the polyethylene field, where demand has recovered, we will make an effort to secure orders for our plastic mixing and pelletizing systems. The Company will also aggressively pursue overseas expansion in isostatic presses and physical vapor deposition (PVD) systems. In the engineering business, we will focus on seeking orders for reduced iron production plants using the direct reduction method, which can use cheaper coal as a reluctant. We will also work to commercialize our next-generation ironmaking process, ITmk3®.

In addition, we will energetically seek new orders for energy-related equipment in the oil and natural gas industries, where demand is booming, and for air separation plants in steelmaking, where capital investment is increasing.

In the environmental protection field, relying on existing businesses with stable earnings as a pillar, we plan to move into new businesses such as the operation of a site for final disposal of waste materials (scheduled to begin in October 2005), and the recycling of polyvinyl chloride waste (scheduled to begin in April 2006).

With global demand growing for steel, the Iron Unit Division expects new sources of demand for its direct reduction plants, which can use cheaper coal as a reductant. Along with vigorous efforts to win orders, we are working to commercialize our next-generation ironmaking process, ITmk3®.*

*In the ITmk3® Process, pulverized iron ore and coal are formed into pellets and heated at a high temperature in a doughnut-shaped rotary hearth furnace. In as little as 10 minutes, the pellets are reduced into iron. When the pellets are melted, the slag separates leaving the iron. This compares with blast furnace ironmaking which takes about eight hours. The purity of the iron nuggets produced is on par with blast furnace pig iron (iron content of 96% to 98%). Kobe Steel's ITmk3 Process is used to produce high-purity iron nuggets. (For further details, please refer to page 9.)

(Photo) Iron nuggets made from the ITmk3 Process.

## PVC recycling business

Kobelco Vinyloop® East Co., Ltd. and Shinko Environmental Solutions aim to commercialize polyvinyl chloride (PVC) recycling using the Vinyloop® Process developed by major Belgian chemical company Solvay S.A.

## Tire uniformity machine

Kobe Steel has developed a high speed tire testing machine that accurately measures tire uniformity. With a maximum speed of 200km per hour, the machine is one of the world's fastest. The testing machine is anticipated to contribute to improved tire and automobile performance.

# Construction Machinery

In the domestic market, despite a continued low level of expenditures for public works, sales of construction machinery were firm, on the back of replacement demand. Overseas, although the Chinese government's policy of restraining investment led to reduced demand for excavators there, solid growth in sales was achieved in Europe, North America, Southeast Asia and the Middle East.

In this business environment, the Company has set its sights on strengthening the operating base of this business in order to expand globally and build profitability.

As a result of this development and solid growth in crane sales, sales in this segment jumped 12.3% year-on-year to ¥206.6 billion. Despite this, operating income in the segment was ¥7.2 billion for the term, a drop of ¥0.9 billion, due to sluggish sales in the Chinese market, the surging cost of materials and other factors.

## Hydraulic Excavator Business

Taking advantage of thriving worldwide construction machinery demand, the Construction Machinery segment steadily increased sales. We have also taken steps to minimize the impact of a sharp rise in the cost of materials, which include adjusting our sales prices, strengthening our procurement capabilities, and taking cost-cutting measures.

For sales within Japan, we have introduced a full model change to the Beetle mini-excavator series, excavators with GPS capability as standard, and other high added value products. Our proactive sales and servicing activities have succeeded, and we have been able to increase sales steadily.

Also, in January 2005 the End-of-Life Vehicle Recycling Law came into force. Due to growing environmental needs, we continued to enjoy strong sales of excavator-application equipment, including used-car dismanting equipment, large building demolition equipment, and other environmental recycling equipment, which are a strong point of the Company.

Abroad, based upon the global alliance with CNH Global N.V., we continued our business expansion in the Asia-Pacific region, and in Europe and America we further strengthened our joint ventures with CNH Global.

In addition, in response to the sudden fall in demand in the Chinese market, we have reduced production and strengthened our accounts receivable. In order to prepare ourselves for medium and long-term expansion of that market, we have moved ahead with efforts to strengthen our production, sales and service systems.

Contributing to disaster relief is viewed as part of our mission as a construction machinery maker. The Kobe Steel Group contributed construction machinery to help in the relief efforts in the aftermath of the Niigata earthquake, and together with our worldwide alliance partner CNH Global, we provided

The Kobelco Construction Machinery Group and CNH Global jointly pledged ¥100 million worth of aid, including construction equipment at no cost and relief goods, to help countries affected by the Asian tsunami disaster.

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.

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.

machinery and relief goods in support of the assistance efforts on behalf of the victims of the earthquakes that occurred off Sumatra.

## Crane Business

To take full advantage of opportunities in response to expanding global demand, in April 2004, we established Kobelco Cranes Co., Ltd. as an independent entity, separating it from Kobelco Construction Machinery Co., Ltd. The new company, which specializes in the production and sale of cranes, substantially increased sales, and took the steps outlined below to build an operational base for a leap forward in sales expansion and profitable growth in global markets.

1) In North America, started to supply crawler cranes to Manitowoc Company as OEM
2) Concluded an OEM supply agreement for crawler cranes with Manitowoc Company for the European market
3) Strengthened our distribution system and expanded sales of large crawler cranes in China
4) Promoted sales to rapidly expanding emerging countries and countries with natural resources
5) Introduced all terrain cranes into Japan from Grove of Germany as OEM
6) Implemented sales price adjustments and cost cutting to minimize the effect of rising material costs
7) Improved production efficiency and enlarged facilities

As a result of these measures, the number of new cranes sold increased by about 30% year-on-year. In particular, a large number of cranes were sold in North America, Europe, China, and Southeast Asia, making a significant contribution to earnings. As a result of our promotion of global expansion in crawler cranes, the ratio of number of new cranes sales sold outside Japan has increased from about 50% to about 70%. As a result, Kobelco Cranes has been able to achieve a profit from its first year of operation.

## Future Tasks

With prices of materials, including steel, expected to soar even higher, the Company must make every effort to improve its sales prices. Also, to further strengthen our construction machinery business, we must enhance our range of excavator and crane models to meet the special requirements of each industry. We also intend to globally expand operations in close cooperation with our business partners.

A Kobelco mini excavator is used to help rebuild water supplies after the Niigata Chuetsu earthquake.

We introduced in Japan a highly reliable all-terrain crane made by Grove of Germany. This variety of machine, customized to Japanese specifications, strengthened our lineup of wheel cranes.

REVIEW OF OPERATIONS

# Real Estate

**G-Clef Mikage**

With Hanshin Electric Railway we have begun selling this 78-unit condominium located in Mikage, a well-known exclusive residential area of Kobe. Residents would be highly satisfied with the comfortable lifestyle offering elegance and luxury by these Mikage residences.

In the key real estate business, sales of condominiums peaked out at large-scale developments including O's Town in Akashi City, Hyogo Prefecture, and Maya Seaside Place in Kobe, as a result of which overall sales in this segment fell 24.8% from the previous period to ¥32.5 billion. Operating income also decreased, by ¥0.7 billion to ¥3.1 billion.

### Real Estate Sales Operations

Condominiums were sold at the Quartier Liberté Gakuentoshi development in Nishinomiya City, Hyogo Prefecture, and at the G-Clef Shukugawa-Kotobukicho development, also in Nishinomiya. We also began selling condominiums at O's Garden East in Akashi City, Hyogo Prefecture, at G-Clef Mikage in Kobe, at G-Clef Mitaka in Tokyo, and at Minami Aoyama Terrace, also in Tokyo.

### Rental Operations

We began the rental of new commercial sites in line with the redevelopment plans for the Motoyama district of Kobe. In addition, smooth progress was made at the Apolan Fujigaoka Seniors Housing Project in Yokohama.

### Building Management Operations

We have employed a private finance initiative scheme for the Kakogawa City Integrated Sports Center, and steadily pushed forward with tenant leasing at the Kobe Airport Passenger Terminal.

### Construction Business

Construction of a store of Hankyu Oasis Co., Ltd. at Motoyama-Minami in Kobe was completed, and construction work progressed at Seflec Rokko Takaha, also in Kobe.

### Outlook

We aim to assure profits by steady promotion of a real-estate development projects and achievement of sales targets. In addition, in our property management business, we aim to enhance the quality of our assets employed for leasing transactions to create a stable revenue base.

REVIEW OF OPERATIONS

# Electronic Materials and Other Businesses

The Electronic Materials and Other Businesses segment is made up of 33 subsidiaries and ten affiliate companies. The subsidiaries engage in materials testing, and the manufacture of materials with sophisticated functions (including target materials used in liquid crystal display production), LP gas containers, and superconductive materials, among other activities. Business results improved greatly, primarily due to increased demand for electronic materials such as target materials used in liquid crystal display production. Sales increased 19.4% over the previous period to ¥54.0 billion, with operating income rising 73.7% to ¥14.1 billion.

From here onward, we expect further increases in the number of flat panel display units shipped. Taking full advantage of this, we will work steadily to exploit the business opportunities for target materials used in liquid crystal display production. We will also push forward with development of products with special features in the field of next-generation optical discs to strengthen our earning capabilities.

# Kobe Steel Group Business Structure

Kobe Steel, Ltd.

Customers

## Iron and Steel

**Raw materials supply**
The Kansai Coke and Chemicals Co., Ltd.,*
Sumitomo Titanium Corporation*
1 equity-valued affiliate

**Manufacturing and sales**
Kobelco Logistics, Ltd.,
Shinko Engineering & Maintenance Co., Ltd.,
Shinko Sohgo Service Ltd.
3 consolidated subsidiaries

**Manufacturing and sales**
Nippon Koshuha Steel Co., Ltd.
Kobe Special Tube Co., Ltd.
Shinko Kenzai, Ltd.
Shinko Bolt, Ltd.
Sakai Steel Sheets Works, Ltd.
Shinko Wire Company, Ltd.*
16 consolidated subsidiaries
13 equity-valued affiliates

**Manufacturing and sales**
Kobelco Metal Powder of America, Inc.
1 consolidated subsidiary
4 equity-valued affiliates

**Sales**
NI Welding Corporation
2 consolidated subsidiaries
3 equity-valued affiliates

**Sales, investment and services**
Kobe Coating Corporation
6 consolidated subsidiaries
1 equity-valued affiliate

## Wholesale Power Supply

**Manufacturing and sales**
Shinko Kobe Power Inc.

## Aluminum and Copper

**Manufacturing, sales and services**
Kobe Leadmikk, Ltd.
6 consolidated subsidiaries
1 equity-valued affiliate

**Manufacturing and sales**
Sun Aluminium Industries, Ltd.
Shinko-North Co., Ltd.
Shinko Metal Products Co., Ltd.
5 consolidated subsidiaries
3 equity-valued affiliates

**Manufacturing and sales**
Kobelco & Materials Copper Tube, Ltd.
8 consolidated subsidiaries
3 equity-valued affiliates

## Machinery

**Raw materials supply and services**
Shinko I.E. Tech Co., Ltd.
12 consolidated subsidiaries

**Manufacturing, sales and services**
Kobelco Compressors Corporation
3 consolidated subsidiaries
3 equity-valued affiliates

**Manufacturing, sales and services**
Kobelco Eco-Solutions Co., Ltd.
Shinko Engineering Co. Ltd.
Shinko Electric Co., Ltd.*
Complejo Siderurgico de Guayana, C.A.*
10 consolidated subsidiaries
4 equity-valued affiliates

## Construction Machinery

**Manufacturing and sales**
Kobelco Construction Machinery Co., Ltd.
Kobelco Cranes Co., Ltd.
27 consolidated subsidiaries
6 equity-valued affiliates

## Real Estate

**Regional Urban Development and real estate**
Kobelco Development Co., Ltd.
9 consolidated subsidiaries

## Electronic Materials and Other Business

**Services**
Kobelco Research Institute Inc.
9 consolidated subsidiaries
3 equity-valued affiliates

**Raw materials supply and sales**
Shinsho Corporation*

**Sales, investment and services**
Shinko JFE Industrial Co., Ltd.
Japan Medical Materials Corporation*
Genesis Technology Inc.*
16 consolidated subsidiaries
2 equity-valued affiliates

1. →: Flow of Products
2. * Denotes equity-valued affiliates, while other companies are consolidated subsidiaries.

# Environmental Sustainability

The protection of the global environment is the most important issue for all forms of life, and it is our mission to bequeath a better environment to the next generation. We are determined to be friendly to the environment. For this purpose, we formulated the Basic Policy for the Environment and to promote "environmental management" in all aspects of our business activities.

## 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 our 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

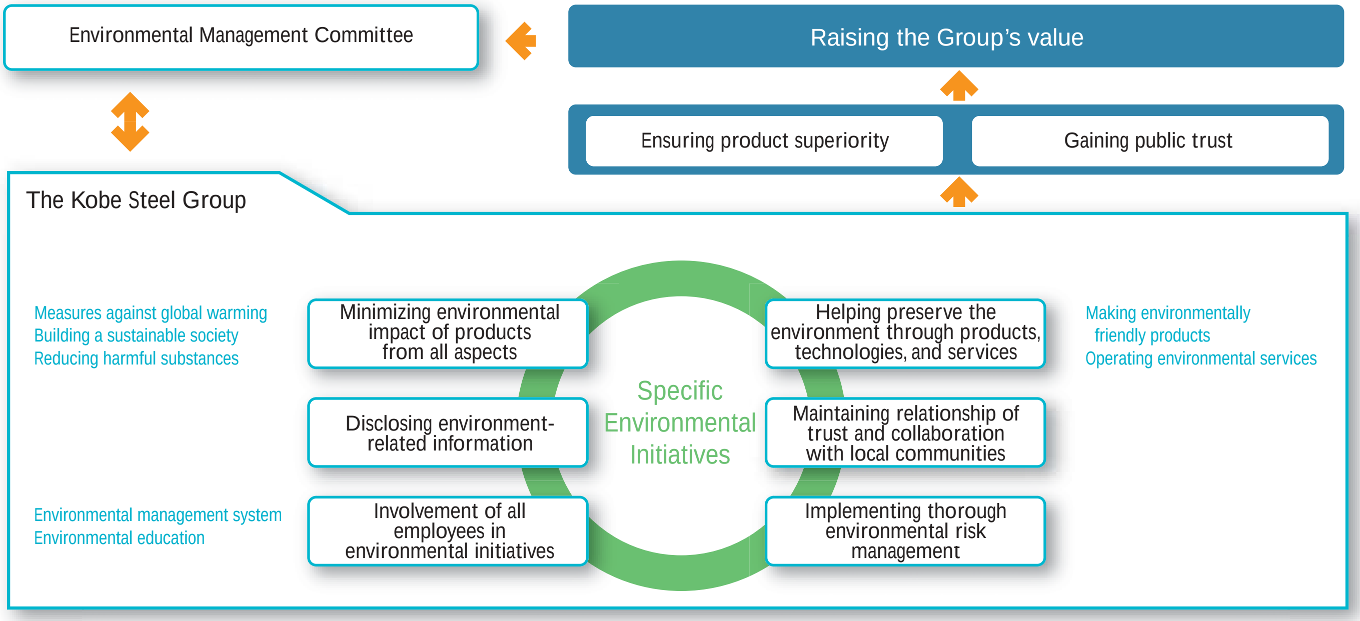
(3) Disclosing environment-related information

(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



## Publication of the Environmental Sustainability Report

Kobe Steel has published an annual environmental report (now known as the Environmental Sustainability Report) since 1999, and this year's report is the seventh edition.

This report summarizes our environmental management activities, which include measures against global warming, building a sustainable society, and reducing harmful substances.

The English language version of the report is provided on the Company's website.

Environmental Sustainability Report on the Internet
http://www.kobelco.co.jp/english/index.htm

## Support for environmental preservation activities

In April 2001, the Kobelco Natural Environment Conservation Fund and the Kobelco Environmental Creation Fund were established with the purpose of supporting people engaged in environmental preservation activities.

Realizing the importance of various types of environmental preservation activities that extend beyond the boundaries of the Kobe Steel Group, as well as activities by citizens, we intend to continue our support for a wide range of environmental preservation activities in the future.

Tree-planting activities

## Contribution to local communities

Through clean-ups and other volunteer activities by employees we are contributing to the beautification of local communities. In the same way also through social volunteer activities we are contributing to the welfare of the local community.

As an example of activities supporting environmental education in 2004, we dispatched an environmental teacher on a regular basis to Amagasaki Technical High School.

Environmental education at Amagasaki Technical High School

## Ecomaterials

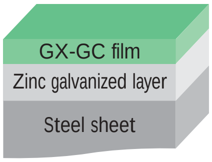
### Chromate treatment for galvanized steel sheet to end

As a priority environmental task, Kobe Steel will be the first Japanese steel manufacturer to fully phase out chromate treatment for all steel sheet in the current term, ending March 31, 2006. Chromate treated steel sheet is widely used in building materials, electrical appliances, and office equipment to improve the corrosion resistance of the steel sheet and to increase paint adhesion. However, in consideration of reducing the impact of substances on the environment, chromate (hexavalent chromium) treatment is being phased out.

The Company had already stopped the chromate treatment of electrogalvanized steel sheet in the reporting term. Chromate treatment is now being phased out in hot-dip galvanized steel sheet. The development of a new chromate-free steel sheet, Galva-Ace GX-GC, has been completed, and commercial production has started. As a result, we now have the prospect of completely phasing out chromate treatment in both galvanized steel products and of supplying steel sheet with excellent environmental characteristics to the market.

Galva-Ace GX-GC
(hot-dip galvanized steel sheet with GX-GC treatment)

Film structure




Features

1. Contains no chromate. This product eliminates chromate treatment
2. Has corrosion resistance equal to chromate-treated process
3. Minimizes dust generation during welding, and has good spot weldability
4. Has excellent heat resistance

## International Cooperation

Based upon our experience to date in the areas of environment and energy, the Kobe Steel Group is promoting international cooperation by receiving trainees from overseas and providing technical guidance.

| Details of cooperation activities | Counterpart country | Counterpart organization |
|---|---|---|
| EMECS (received trainees from world conference on management of enclosed coastal seas) | Middle East, South East Asia, etc. | Japan International Cooperation Agency (JICA) |
| Received trainees on the prevention of acid rain and atmospheric pollution | Mainly Southeast Asia. | Hyogo Prefecture Atmosphere Department |
| Received trainees in environmental preservation technology from Guangdong Province | China | Hyogo Prefecture Environmental Policy Department |
| Received group of professors from Tsinghua University, China | China | Ministry of Foreign Affairs |
| Received trainees for the East Asia acid rain monitoring network | Southeast Asia | Japan International Cooperation Agency (JICA)<br>Hyogo Environmental Advancement Association |
| JICA energy efficiency training | Iran | JICA<br>The Energy Conservation Center, Japan |

# Strengthening & Enhancing Corporate Governance

## Raising the Effectiveness of Corporate Governance

The Company has, in principle, adopted the corporate officer system. In our opinion, however, in the form in which it has been adopted by the majority of companies, this system does not allow day-to-day operations to be taken sufficiently into account in the course of management decision-making. Accordingly, we have concluded that our directors, who are legally responsible for obligations to customers and the interests of shareholders and others, should be primarily responsible for conducting the business affairs of major importance to the Company.

The current Board of Directors comprises senior management and executives responsible for head office functions, key business divisions, internal companies, and equivalent business units. The Company's corporate officers are selected by the Board of Directors. Their role is to carry out the duties assigned to them by the directors.

Under this management system, Kobe Steel employs an auditing system carried out by five statutory auditors, including three outside auditors. This system has led to a further strengthening of auditing functions and has contributed significantly to more effective corporate governance. In addition, internal audits of all of the company's business activities are conducted by the Audit Department established as an independent organization.

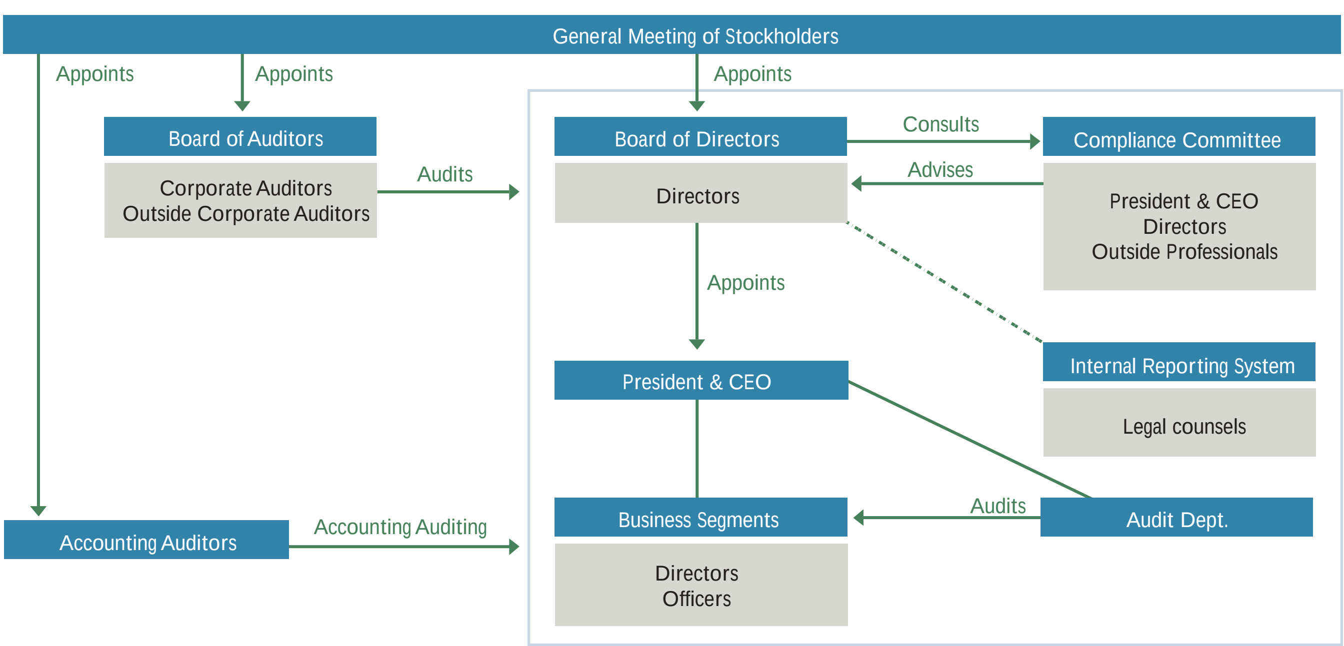
## Strengthening the Compliance System

The management recognizes that strengthening the Company's compliance system is its most important task. This is being carried out with the awareness that the Company could not exist if it did not abide by laws, regulations and generally accepted rules of ethical standards.

In June 2003 we reorganized our Corporate Ethics Committee. In its place we established the Compliance Committee to serve as an advisory body to the Board of Directors. To ensure that the Committee adopts fair and neutral positions, four of its members are selected from inside the Company and a majority of five members are from outside the Company, to provide an impartial viewpoint. The Committee develops proposals on compliance issues, verifies whether or not progress is being made on compliance, and deliberates on concerns that emerge through the internal reporting (whistle-blowing) system, in order to help management engage in more effective compliance.

The Committee also works to spread this activity throughout the Group, and leading group companies have taken such measures as establishing compliance committees to ensure basic corporate ethics are adhered to. In addition, a Kobe Steel Group internal reporting system for whistle-blowing reports has been created under which employees can directly contact lawyers. Moreover, the Committee constantly compiles and updates rules and manuals, and organizes compliance education.

Corporate Governance Structure



# Financial Section

## Contents



# 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:

| Years ended March 31, 2005 and 2004 | | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | | 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 2005 | Millions of yen 2004 | Thousands of U.S. dollars (Note 1) 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

# Directors, Corporate Auditors, and Corporate Officers

(As of June 24, 2005)

### Chairman of the Board and Representative Director

Koshi Mizukoshi

### President, Chief Executive Officer and Representative Director

Yasuo Inubushi

## ■ Head Office and Technical Development Group

Executive Vice President and Representative Director
Hiroshi Sato

Senior Managing Directors
Toru Asaoka
Takashi Matsutani

Senior Officer
Tatsuki Yoshida

Officers
Yutaka Kawata
Jun Tanaka
Hiroaki Fujiwara

## ■ Iron and Steel Sector

Executive Vice President and Representative Director
Toshio Kimura

Executive Officers
Tsuyoshi Tanaka
Keiji Koyama

Senior Officers
Masaaki Nakazono
Tomoyuki Kaya
Koichi Onishi
Hideki Nakamura
Keiichi Murase

Officers
Terumichi Abe
Takanori Kominami
Ikuhiro Yamaguchi
Yasunobu Kumon
Hironobu Yoshida

## ■ Welding Company

Senior 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

Executive Vice President and Representative Director
Shigeto Kotani *

Executive Officer
Katsunori Aoki

Senior Officer
Kazuo Shigekawa

Officer
Shuzo Mohri

## ■ Real Estate Company

Senior Officer
Yasunobu Fujikawa *

### Statutory Auditors

Osamu Takata
Toshinori Okoshi
Shigetake Ogata
Taku Morota
Takasuke Kaneko

Note: *Denotes the president of the company

# Domestic and Overseas Offices

## Head Offices

Tokyo Head Office

9-12, Kita-Shinagawa 5-chome, Shinagawa-ku, TOKYO,
141-8688 JAPAN
Phone: (03) 5739-6000 Fax: (03) 5739-6903

Kobe Head Office

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

## Branch Offices

Osaka

Midosuji Mitsui Building,
1-3, Bingomachi 4-chome, Chuo-ku, Osaka, OSAKA,
541-8536 JAPAN
Phone: (06) 6206-6111 Fax: (06) 6206-6101

Nagoya

Sumitomo Seimei Nagoya Building,
14-19, Meieki Minami 2-chome, Nakamura-ku, Nagoya,
AICHI, 450-0003 JAPAN
Phone: (052) 584-6111 Fax: (052) 584-6105

## Sales Offices

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

## Overseas Offices and Contacts

New York

Kobe Steel USA Inc.
535 Madison Avenue, New York, NY 10022, U.S.A.
Phone: (212) 751-9400 Fax: (212) 308-3116

Detroit

Kobe Steel USA Inc.
1000 Town Center, Suite 340, Southfield, MI 48075, U.S.A.
Phone: (248) 827-7757 Fax: (248) 827-7759

Singapore

Kobe Steel Asia Pte. Ltd.
79 Anson Road, #15-02 Singapore 079906,
REPUBLIC OF SINGAPORE
Phone: 6221-6177 or 6221-6178 Fax: 6225-6631

From September 26, 2005

72 Anson Road #11-01A, Anson House, Singapore 079911,
REPUBLIC OF SINGAPORE
Phone: 6221-6177 Fax: 6225-6631

Hong Kong

Kobe Steel Asia Pte. Ltd.
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Bangkok

Kobe Steel, Ltd.
Bangkok Representative Office
10th Floor, Sathorn Thani Tower II 92/23 North Sathorn Road
Khwaeng Silom, Khet Bangrak, Bangkok 10500
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Phone: (02) 636-8971 to 8974 Fax: (02) 636-8675

Beijing

Kobe Steel, Ltd.
Beijing Representative Office
Unit 1208, Bldg. A, The Lucky Tower No. 3 North
Dongsanhuan Road, Chaoyang District, Beijing 100027,
PEOPLE'S REPUBLIC OF CHINA
Phone: (010) 6461-8491 Fax: (010) 6461-8490

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Shanghai Representative Office
Room 14, F2, Jiushi Fuxin Mason No.918 Huai Hai Zhong Lu,
Shanghai 200020 PEOPLE'S REPUBLIC OF CHINA
Phone: (021) 6415-4977 Fax: (021) 6415-9409

# Investor Information

(as of March 31, 2005)

**Founded:** September 1905
**Incorporated:** June 1911
**Employees:** 8,425 (Consolidated 27,067)
**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.

### Authorized and Issued Share Capital:

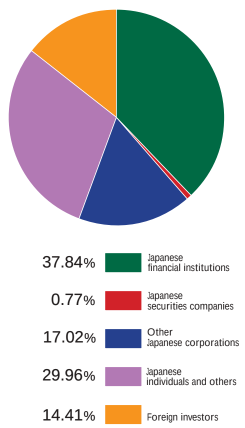
The authorized share capital of the Company, as defined in the Articles of Incorporation, is 6,000,000,000 shares of common stock. At March 31, 2005, a total of 2,976,070,294 were in issue.

### Principal Stockholders:

At March 31, 2005, the ten largest stockholders of the Company were as follows:

| | Thousands of share | Percent |
|---|---|---|
| Japan Trustee Services Bank, Ltd. | 184,256 | 6.19% |
| Nippon Life Insurance Company | 139,234 | 4.68% |
| The Master Trust Bank of Japan, Ltd. | 134,791 | 4.53% |
| Mizuho Corporate Bank, Ltd. | 70,369 | 2.36% |
| Nippon Steel Corporation | 53,500 | 1.83% |
| Sumitomo Metal Industries, Ltd. | 53,500 | 1.83% |
| Kobe Seikosyo Jugyo-in mochikabu-kai (Kobe Steel Employee Stockholding Association) | 46,031 | 1.55% |
| The Mitsubishi Trust and Banking Corporation | 43,324 | 1.46% |
| Sojitz Corporation | 42,016 | 1.41% |
| UFJ Bank Limited | 41,802 | 1.40% |

### Distribution of Shares:




### Directors' and Corporate Auditors' Stockholdings

The following is a list of the directors and corporate auditors with their stockholdings in the Company at June 24, 2005.

| | Number of shares owned |
|---|---|
| Koshi Mizukoshi | 240,000 |
| Yasuo Inubushi | 111,000 |
| Hiroshi Sato | 130,000 |
| Toshio Kimura | 105,000 |
| Shigeto Kotani | 90,000 |
| Toru Asaoka | 94,000 |
| Hiroyuki Nakayama | 46,000 |
| Takashi Matsutani | 78,000 |
| Isao Aida | 68,000 |
| Osamu Takata | 73,120 |
| Toshinori Okoshi | 42,000 |
| Shigetake Ogata | 25,000 |
| Taku Morota | 35,000 |
| Takasuke Kaneko | 13,000 |

### Listing 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:

* All public notices of the Company shall be given by electronic means. In the event that the Company is unable to give electronic public notice, the public notices shall be published in the Nihon Keizai Shimbun.
* At the regular general shareholders' meeting on June 24, 2005, articles in the Company's Articles of Incorporation regarding advertising methods were revised, allowing the Company to issue public notices via the Internet.

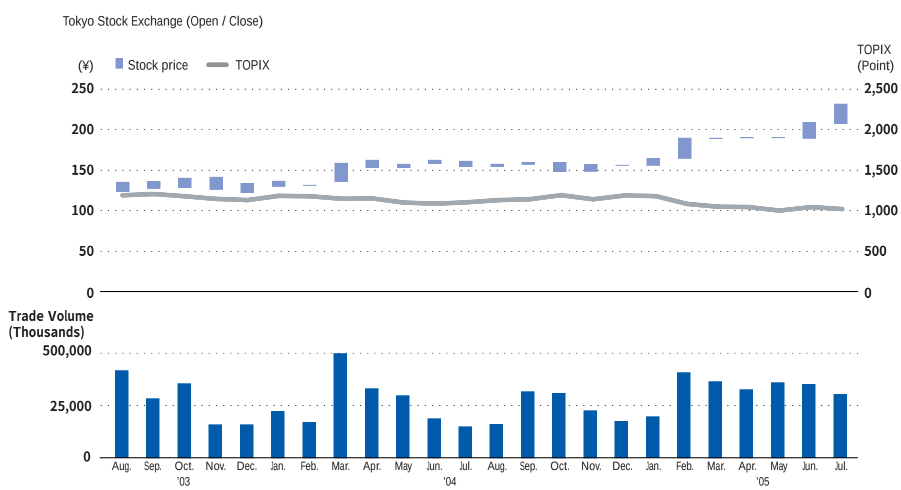
### Transfer Agent & Office:

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

### Independent Auditors:

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

### Common Stock Price Range:




### Information:

**Japan**
IR Group
Corporate Planning Department
Kobe Steel, Ltd.
9-12, Kita-Shinagawa 5-chome, Shinagawa-ku, TOKYO 141-8688, JAPAN
Tel: (03)5739-6045 Fax: (03)5739-5973

**U.S.A.**
Kobe Steel USA Inc.
535 Madison-Avenue, New York, NY 10022, U.S.A.
Tel: (212)751-9400
Fax: (212)308-3116

http://www.kobelco.co.jp

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*Marking Its 100th Anniversary*

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