

# Aluminum and Copper



## Business Environment and Performance in Fiscal 2006

Despite a drop in sales of can stock for canned beverages due to unseasonable weather, shipments of aluminum rolled products were similar to the previous fiscal year due to brisk domestic and overseas sales of aluminum sheet for automotive panels, aluminum plate for semiconductor manufacturing equipment, and aluminum blanks and substrates for hard disks.

Shipments of copper rolled products surpassed those of the previous fiscal year on the back of continued strong demand for sheet products for use in electronic materials, especially electronic components for automobiles, and higher demand for copper tube mainly in overseas markets.

Although demand from the LCD industry was stagnant due to the market entering an adjustment phase, sales of aluminum castings and forgings to the automotive industry fared well.

As a result, shipments as a whole were similar to the previous year. Sales in the Aluminum and Copper Segment jumped 30.3% year on year to ¥397.3 billion, owing to sharply rising ingot prices that pushed up sales prices.

With the effect of inventory valuation following this steep increase in aluminum and copper ingot prices, operating income rose ¥11.3 billion to ¥34.7 billion.

## Strategy and Investments

### Future Strategy

Future demand for aluminum and copper products is expected to be strong overall, due in large part to projected growth in demand in the automotive, IT, and semiconductor industries. Over the medium term, an upsurge in demand is also expected for aluminum for use in automobiles, aluminum vacuum chambers for semiconductor and LCD manufacturing equipment, aluminum blanks and substrates for hard disk drives, and copper strip for electronic materials.

We recognize that aluminum use is taking hold in high-volume car models as a result of environmental regulations and strong interest shown by automakers in environmental issues. Efforts to address automotive industry demand have been made a top priority at Kobe Steel, and by leveraging our collective technological strength in everything from high-quality materials to design and manufacturing, we will respond to growing demand for aluminum use in automobiles in Japan and overseas markets.

Moving forward, we will create new markets in aluminum and copper by applying our technological and development capabilities and carve out a firm position as a leading company competitive in terms of cost, quality and customer service.



Aluminum forgings for automobiles



Aluminum vacuum chamber for semiconductor and LCD production

## Capital Investments

In fiscal 2006, Kobe Steel decided to implement projects that are critical to its future growth, including investments in Group companies, with an emphasis on upgrading and installing new core equipment. Our policy is to strictly prioritize those fields for investment that will generate higher profits. Presently, Kobe Steel's main areas of focus for future investments are the automotive and IT-related industries.

## Medium-Term Business Plan for Fiscal 2006 to 2008— Targets and Progress

Even if the profit accrued from inventory valuation were excluded, operating income in fiscal 2006 surpassed the Medium-Term Business Plan target, thanks to our successful efforts at responding to strong demand and steady implementation of strategic investment projects. Foreseeing strong earnings in fiscal 2007, we expect to make steady progress toward achieving the fiscal 2008 targets set forth in the Medium-Term Business Plan.



Aluminum bottle can stock



Copper sheet for terminals and connectors

## Topics

### Expanding Automotive Aluminum Forgings in the U.S.

Kobe Aluminum Automotive Products, LLC (or KAAP), which manufactures and sells aluminum forgings for automobile suspension systems in the United States, decided to add a fourth press at its facility in response to increased product demand. KAAP was established in Kentucky, USA, in May of 2003, as a joint venture between Kobe Steel, Mitsui & Co., Ltd., and Toyota Tsusho Corporation, and began mass-production in June 2005. Its third press began operation in December 2006, and the fourth press is scheduled to come on line in April 2008. With demand for lighter automobiles on the rise, Kobe Steel will continue to take steps to meet expected demand growth.

### Suzhou Kobe Copper Technology Begins Full-Scale Operation

Suzhou Kobe Copper Technology Co., Ltd. is engaged in slitting, sales and technical services for copper sheet for electronic materials such as terminals, connectors and leadframes. Established in China in May 2005 as a wholly owned subsidiary of Kobe Steel, the company commenced full-scale operations in October 2006. Trial production and product sample evaluations have been completed, and production and shipping began in July 2006. Through prompt product delivery from factory to consumer, Suzhou Kobe Copper Technology intends to swiftly and flexibly respond to increases in demand.



Suzhou Kobe Copper Technology