

Message from the President



We continued to face difficult business conditions in fiscal 2000, ended March 31, 2001. The export environment deteriorated in Asia as the region felt the effects of the slowdown in the U.S. economy. Meanwhile, despite an increase in capital investment in IT industries in the first half of the fiscal year, the Japanese economy soured and sharply worsened in the second half amid retreating private-sector capital expenditure and increasing deflationary pressures.

Despite the severe economy, Kobe Steel's consolidated net sales rose 9.6%, to ¥1,373.1 billion, with major factors being an increase in revenue in our Electronics and Information segment and a larger number of consolidated companies in the Iron and Steel segment and the Construction Machinery segment. Operating income grew 28.7% to ¥106.4 billion, while net income was ¥6.5 billion, a considerable improvement from the ¥53.1 billion net loss in the previous fiscal year.

Rebuilding for the future

As competition intensifies globally, manufacturing companies are restructuring their operations within and across national borders. For many Japanese companies, fundamental restructuring has become a matter of survival. At Kobe Steel, we have been taking steps to improve our financial position and strengthen our competitiveness.

Under a policy of selection and consolidation, we have been realigning our activities and shifting resources to businesses of strategic priority. In the year under review, we made significant progress and have nearly completed these endeavors.

In December, we formed a cooperative agreement with U.S. Steel to conduct R&D in automotive steel sheet technology. Also in the automotive field, we and Europe's Lucchini Group have begun technical exchanges this year in specialty steel wire rod and bar, which will serve as the basis on which we can consider the formation of a technical alliance. Through such moves, we are enhancing our profile in the automobile industries in Japan, the United States and Europe, as car makers seek worldwide sources of materials and parts.

With CNH Global N.V. of the Fiat Group, we reached an agreement in March to form an alliance in construction equipment. Through

cross-shareholdings, we will set up production and marketing joint ventures in Japan, the United States, and Europe, as well as establish marketing bases in Asia and Australia. With a new worldwide formation, we aim to strengthen the operations of our construction equipment business.

Finally, in May we sold our 75% stake in our semiconductor joint venture, KMT Semiconductor, Ltd., to our partner, Micron Technology, Inc. This frees us from having to provide continual funding and loan guarantees to KMT.

Looking Ahead

Having nearly completed the selection and consolidation of our businesses, we are now focusing on raising the profitability of our key segments. As our business environment undergoes faster and more wide-ranging changes, we are not only stepping up the pace of our Consolidated Midterm Management Plan, but are also implementing new strategies in our core businesses to raise profitability, while building management speed and flexibility.

Iron and Steel

Our domestic strategy is centered on specialty steel, high strength steel sheet, and electrogalvanized steel sheet – products in which we excel. We are applying these

strengths to increase our international competitiveness through alliances in the United States and Europe.

At the same time, we are making steady progress in our 1.4 million-kilowatt wholesale electricity supply business at Kobe Works. Trial runs of the No. 1 Power Plant began in July and the facility is scheduled to go into full operation in April 2002. Construction of the No. 2 Power Plant began in February and is scheduled to come on stream in April 2004.

Aluminum and Copper

We have formed cooperative alliances to increase our profitability. For extruded aluminum products, we are working with Sumitomo Light Metal Industries, Ltd. In the area of copper sheet and strip, we are cooperating with Mitsubishi Materials Corporation and Mitsubishi Shindoh Co., Ltd.

As demand for aluminum grows due to the need for lighter cars, we are benefiting from our alliance in automotive aluminum sheet with Alcoa Inc.

In these ways, Kobe Steel is working to solidify its position as one of Japan's top suppliers of aluminum products.

Machinery

In the growing environmental and energy fields, we are striving to increase orders while cutting costs

to cope with increasingly fierce competition. We are developing new products and are looking into new markets. At the same time, we are refocusing our overseas engineering business, which faces difficult operating markets, on our most competitive products and services.

Through these strategies, we are striving to further raise the profitability of our businesses, manage our resources more efficiently, and eliminate deficits at an early date. As we focus on what we do best, we are becoming a company that excels in each field of endeavor.

We thank you for your understanding and look forward to your continued support.

August 2001



Koshi Mizukoshi
President and
Chief Executive Officer