A Message from the President

Business conditions continued to be difficult in the first six months ending September 2000. Spurred by growing investment in information technology (IT), private-sector capital expenditure rose and exports to Asia were strong. While the economy continued its gradual recovery, consumer spending was weak.

With this background, we began to carry out our Consolidated Midterm Management Plan unveiled in May. To maximize profitability, we have been strengthening our involvement in three strategic areas - automotive lightweighting, the independent power producer business, and the environmental business - as well as improving our financial position.

In the interim period, consolidated sales were ¥654.7 billion, aided by higher steel shipments and higher product prices at a semiconductor subsidiary. Operating income was ¥52.5 billion. Net income was ¥5.2 billion, due to extraordinary losses brought about by the introduction of retirement benefit accounting and financial instrument accounting.

Segment Performance

Iron and Steel

Our consolidated Iron and Steel sales were ¥263.5 billion. While steel prices fell in the domestic market, both domestic and overseas shipments went up. Operating income was ¥24.4 billion despite lower steel prices, owing to higher shipments and lower costs from restructuring and other cost reduction measures.

Domestic demand for steel rose in the construction and manufacturing industries. While personal spending was weak, the IT sector exhibited strong growth and private-sector capital investment increased. Overseas, exports to Asia were strong owing to a recovery in the Asian economies, though global supply and demand eased with the softening of the U.S. market.

Aluminum and Copper

Aluminum and Copper sales totaled ¥131.6 billion. Exports of aluminum can stock declined. Domestic and export shipments were firm for aluminum plate for semiconductor fabrication equipment and copper tubing for air conditioners. Domestic demand was up for copper strip for electronic applications. Operating income was ¥6.3 billion due to overall cost reductions.

Machinery

Machinery sales were ¥86.3 billion due to low overseas orders, while operating loss was ¥1.6 billion. A major factor was the drop in overseas sales, despite efforts to boost profitability by reducing costs.

Total Machinery segment orders were ¥112.1 billion and the backlog of orders rose to ¥230.7 billion. In the domestic market, Machinery segment orders were ¥98.5 billion. Contributing factors were strong environment-related orders for municipal solid waste treatment plants to meet dioxin regulations and recovery in private-sector capital investment. Overseas, a cement plant order in Europe brought orders to ¥13.6 billion.

Construction Machinery

Construction machinery sales were ¥82.3 billion with operating income of ¥2.6 billion. With the sluggish economy, the crane market, and primarily rough terrain cranes, continued to face severe market conditions. However, shipments of hydraulic excavators were firm owing to strong demand in North America and Europe, as well as the introduction of new models in the market.

Electronics and Information

Higher shipments and prices from a semiconductor subsidiary led to sales of ¥59.6 billion. Recovery in the semiconductor market, along with improved yield and productivity, contributed to operating income of ¥15.2 billion.

Real Estate

Sales were ¥22.9 billion with operating income of ¥6.5 billion. Strong marketing of condominiums, a major part of the business, contributed to sales despite severe competition.

Looking Ahead

Under our Consolidated Midterm Management Plan, we continued to reorganize our business structure. Under the selective consolidation of our businesses, we entered into a non-binding term sheet in October with our joint venture partner, Micron Technology, Inc., for Micron to acquire our 75% share of KMT Semiconductor, Ltd. The transaction is expected to close by March 2001, at which time Micron will own 100% of KMT. As semiconductor fabrication requires large capital investments in short cycles and as we don't have our own semiconductor technology, we decided that we could no longer consider KMT a core business.

Our independent power producer business is anticipated to be a major pillar of profitability in the 21st century, and work is progressing as planned. The No. 1 Power Plant under construction in Kobe Works is scheduled to go into operation in April 2002. In 2001, we intend to start building the No. 2 Power Plant. When the No. 2 Plant starts up in 2004, we will have a combined 1.4 million kilowatts of capacity.

We are progressing with our management plan to increase the corporate value of the entire Kobe Steel Group. We are focusing on strategic, core businesses, promoting structural reforms through selective consolidation, and improving our financial position.

In our efforts to increase our corporate performance, we ask you for your continued support and understanding.

December 2000

K. Mizukoshi

Koshi Mizukoshi
President and Chief Executive Officer