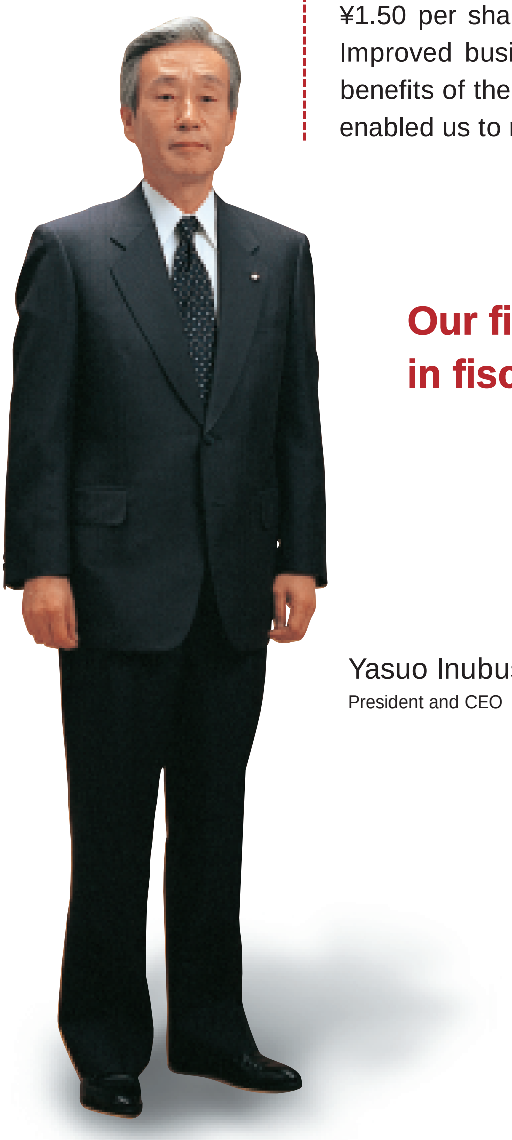
Message from the President

The Japanese economy gained moderate recovery momentum in the second half of fiscal 2003, as exports boomed on the back of a buoyant Chinese and Asian economy and resurgent U.S. growth. Private-sector capital investment also increased amid improved earnings among manufacturers.

In such circumstances, increased steel shipments and selling prices, as well as stronger construction equipment demand in China and robust sales to IT manufacturers, lifted our consolidated net sales ¥14.4 billion from the previous term to ¥1,219.2 billion (US$11,535.4 million). Operating income increased ¥19.6 billion to ¥100.7 billion (US$952.8 million), and income before income taxes increased ¥19.7 billion to ¥35.7 billion (US$338.1 million). Net income came in at ¥22.1 billion (US$208.8 million), a major increase from the previous term.

Moreover, the balance of interest-bearing debt fell ¥98.8 billion from the end of the previous term to ¥797.0 billion.

Our first duty to our shareholders is profit distribution, taking into account our retained earnings and financial performance. Owing to considerable improvements during the term under review, we have been able to set a dividend of ¥1.50 per share. This is the first time we have resumed dividends since 1998. Improved business profitability from thorough cost reductions and the positive benefits of the Fiscal 2003-2005 Consolidated Medium-Term Business Plan have enabled us to resume dividends.



Our financial performance improved considerably in fiscal 2003, ended March 31, 2004.

Yasuo Inubushi
President and CEO

Realizing our Group Vision

We are in the second year of the Fiscal 2003-2005 Consolidated Medium-Term Business Plan and are making steady progress. The final year of the plan, fiscal 2005, marks the centennial of the Company's founding.

Since my inauguration as President in April this year, I have continued policies aimed at strengthening the earning power of our businesses, with a goal to realize the Vision of the Kobe Steel Group of contributing to society through our materials, wholesale electricity supply and machinery businesses, and winning acclaim for our products, services, and technology.

This medium-term plan is a preparation for our leap to the next stage. Shifting from an emphasis on optimizing assets and liabilities, or stock, we are now focusing on strengthening profitability, or flow, to build up the overall value of the KOBELCO brand.

Outline of the Fiscal 2003-2005 Consolidated Medium-Term Business Plan (for details please see next page)

1. Renew efforts to build up our position as a manufacturer of distinction
2. Rigorously strengthen competitiveness
3. Improve our financial position
4. Create strong operating cash flows through stable earnings
5. Improve our credibility in the capital market

Strengthening our earning power

In fiscal 2003, as in the previous fiscal year, we are committed to reforming the operating structures in all our businesses, and aggressively pursuing alliances with other companies to strengthen our earning power. In the Iron and Steel segment, we are involved in wide-ranging collaborations with Nippon Steel Corporation and Sumitomo Metal Industries, Ltd., streamlining logistics and cooperating between subsidiaries. In welding, we with JFE Steel Corporation established KOBE JFE Welding Co., Ltd. to consolidate production of solid welding wires to reduce production, procurement, and distribution costs.

In the Aluminum and Copper segment, we repositioned our cooperative relationship with Alcoa Inc. of the U.S. to focus on aluminum products for the automotive industry, spurred by rapid growth in that market. Separately, we have also begun building a U.S. production base for forged suspension parts. Operation is due to begin in summer 2005. We merged our copper tube operations with those of Mitsubishi Materials Corporation into a new joint venture company, Kobelco & Material Copper Tube, Ltd.

In the Machinery segment, the Company and Kawasaki Heavy Industries, Ltd. established Earth Technica Co., Ltd. We have already transferred the marketing and design of the crushing equipment business to the new venture. We are planning to merge the manufacturing function in April 2005.

At the same time, we have prioritized our iron unit engineering business, a strength to the Company. We are working to attract orders for direct reduced iron plants and commercialize our proprietary next-generation ironmaking technology ITmk3®.

In our wholesale electricity supply business, we expect a stable, long-term earnings base now that our power station is in full operation following the start-up of the second of two power plants on April 1, 2004.

Progress in compliance

The Company believes that without observance of laws and social norms — compliance — it cannot continue as a corporate entity, and regards creation of a compliance framework as a priority issue for management. In June 2003, we set up a Compliance Committee made up of an advisory body to the Board of Directors, created an internal reporting system with outside lawyers, compiled a code of ethics to build compliance awareness in all employees, and organized training programs. Steps were also taken to make compliance a group-wide concern.

Forward-looking goals for a brighter future

The business environment surrounding the Company has changed greatly. In all business areas, most notably in steel, soaring prices for raw materials and supplies are putting pressure on profitability. In response, we are making every effort to raise product prices in each business.

We are also endeavoring to raise shareholder value by creating and fostering distinctive products under the Consolidated Medium-Term Business Plan and strengthening earning power through strategic investment and improvement of our financial position. We will continue to prioritize compliance, and seek to become a company truly worthy of the respect of our business partners, local communities, and shareholders.

August 2004

Yasuo Inubushi
President and CEO