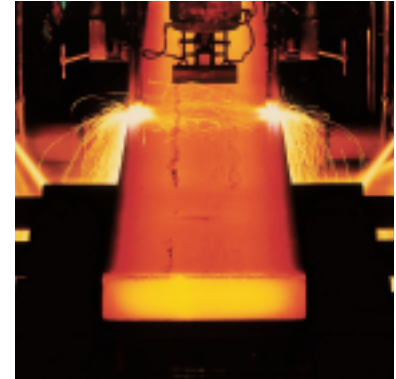


Iron and Steel

Segment

We experienced strong demand for steel from shipbuilders, automobile manufacturers and other manufacturers. The strong market in East Asia, including China, led to robust exports. This surging demand has been positive for pricing, with export prices climbing and the domestic market steadily improving. We thus recorded both an increase in shipments and, with the higher prices, a remarkable increase in overall sales from the previous fiscal year. Sales of steel castings and forgings declined from the previous fiscal year, partly because of smaller assembled crankshafts. Titanium sales also fell, although demand is now recovering. For steel powder, however, sales climbed due to increased automobile production. In our welding business, demand has been strong from shipbuilders and automakers and exports to Asia has risen sharply. These factors enabled us to post year-on-year sales growth. This in turn enabled overall sales to achieve a 4.8% rise from the previous fiscal year, to ¥548.3 billion yen. Operating income was up 29.4%, at ¥63.1 billion yen.



Research and development

Our goal is to develop products that not only meet the demands of customers but also the needs of the global environment. We aim to bolster our strength in specialty steels for valve and suspension springs. We are also developing lead-free cutting steel. And with our customers increasingly looking for strong, lightweight products, we are developing ultra high strength steel sheet for automobiles. We are also developing “Kobe Super Toughness” steel plates for very large heat input welding. Meanwhile, our Kobehonetsu heat releasing steel sheet has been recognized for its excellence and originality, winning a number of

awards. We will maintain our commitment to developing highly distinctive products.

Investing to increase competitiveness

We allocated funds to bolster technological capabilities in product areas in which we excel and in projects to streamline operations. We also allocated spending to upgrade equipment essential for maintaining our business. Major projects implemented in fiscal 2003 include modifications to the No. 3 continuous caster at the Kakogawa Works to further improve the quality of high strength steel sheet, revamping the pickling equipment at the continuous annealing line, and remodeling the flaw detection line at the blooming mill to improve the quality of our specialty steel wire rod.



With the start-up of the second of two plants, the Shinko Kobe Power Station is now in full operation.

Among our group companies

Kobelco Marine Engineering Co., Ltd. merged with the marine-related unit of Eagle Industry Co., Ltd., making a

fresh start in April 2004 as Kobelco Eagle Marine Engineering Co., Ltd. This merger increases our competitiveness in ship seals. In March 2003, we increased our equity stake in Sumitomo Titanium Corporation, our main supplier of titanium sponge, to gain a stronger edge in the titanium business.

In October 2003, we set up a joint venture with JFE Steel Corporation called KOBE JFE Welding Co., Ltd. to reduce production, material purchase and distribution costs.

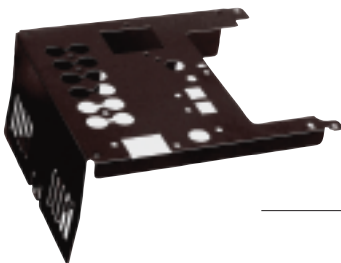
Overseas

Our technology partnership with voestalpine Stahl runs from automotive steel sheet into new areas, such as operational technology. Meanwhile, PRO-TEC Coating Company, a joint venture with U.S. Steel to manufacture hot-dip galvanized steel sheet, is enjoying high shipments, backed by strong demand for automobiles. Automakers have applauded the quality and technical superiority of its products. Kobelco Metal Powder of America, Inc., which makes steel powder, is facing a difficult operating environment, given soaring raw material prices. We aim to strengthen its profits by expanding sales of high-margin items, including SEGLESS™ graphite segregation-free steel powder and cut costs.

Supported by strong in demand in Asia, our overseas welding operations were solid. In China, Kobe Welding of Tangshan Co., Ltd., a joint venture, started production in September 2003. Combining its output with exports from Japan, we are expanding sales in China.

Wholesale power supply business

The No. 1 Power Plant of our Shinko Kobe Power Station enjoyed steady operation, with sales and profit in line with forecasts. The No. 2 Power Plant went into commercial operation in April 2004. The power station can now supply



Developed in 2001, the heat dissipating steel sheet Kobehonetsu is well regarded for its innovativeness. Kobehonetsu has won various awards including the 2002 Nikkei Superior Product and Service Award and the Jury's Special Award in the Japan Industrial Technology Grand Prix.

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



1.4 million kilowatts of electricity, greatly contributing to Kobe City's power needs. We have given careful consideration to environmental protection. The facility also contributes to the community and regional development.

Demand to remain robust in fiscal 2004

Chinese economic growth and a rally in U.S. demand should also mean continued strength in exports. In steel castings and forgings, healthy demand for almost all products will enable higher output. In titanium, domestic demand has yet to fully rebound, but exports will remain strong, principally for power plant applications. We also expect steady demand for steel powder, backed by strong automobile production.

In this environment, we will continue to expand sales of distinctive products such as specialty steel, high strength steel sheet and special chemical-treated steel sheet, while streamlining operations and reducing costs. In addition, we aim to increase sales prices with the rise in raw material costs. And we will strengthen and expand our overseas production bases in collaboration with our group companies. Through these initiatives, we expect to improve our competitiveness and increase our market presence.

Kobe Steel is one of the world's top 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.



The SE Series of solid welding wires have no copper coating, making them environmentally friendly.