

Message from the President

Japan's economy in the first half of fiscal 2004, ended September 30, 2004, was robust, supported by strong exports owing to the expanding Asian and U.S. economies. Capital investment rose, and personal spending steadily increased. Raw material and supply costs continued to escalate due to the soaring Chinese economy.

Under these conditions, the Kobe Steel Group continued to focus its management resources on creating and increasing its "Only One, Number One" upper-end products. We had been carrying out our Fiscal 2003-2005 Consolidated Medium-Term Business Plan, as well as working to meet demand and raise sales prices.

Due to strong demand for steel, aluminum and copper products, Kobe Steel achieved high levels of shipments and higher sales prices. In the wholesale electricity supply business, our two power plants now have a generation capacity of 1.4 million kilowatts. Construction machinery and target material for LCD panels also performed well. As a result, consolidated net sales rose to ¥684.7 billion, up ¥97.7 billion in comparison to the same period last year. Operating income went up 60.4% to ¥67.4 billion. Pretax ordinary income* (also known as pretax recurring profit) increased ¥27.6 billion to ¥45.1 billion. Owing to improved financial performance, Kobe Steel was able to apply fixed-asset impairment accounting, taken as an expense. Net income was ¥15.7 billion, up 74.4%.

<Net Sales>	(billions of yen)		
	FY2004 First Half	FY2003 First Half	%
Iron & Steel	294.0	254.1	15.7%
Wholesale Electricity Supply	27.5	14.5	89.3%
Aluminum & Copper	145.9	122.8	18.8%
Machinery	91.9	83.5	10.1%
Construction Machinery	106.6	93.3	14.3%
Real Estate	16.9	20.6	(17.9%)
Electronic Materials & Other Businesses	25.3	20.7	22.0%
Eliminations	(23.4)	(22.5)	4.1%
Total	684.7	587.0	16.6%

<Operating Income>	FY2004 First Half	FY2003 First Half	%
Iron & Steel	34.9	22.6	54.4%
Wholesale Electricity Supply	9.6	4.5	112.3%
Aluminum & Copper	8.5	7.2	18.1%
Machinery	0.2	(2.4)	-
Construction Machinery	4.4	3.5	27.2%
Real Estate	1.7	2.6	(36.8%)
Electronic Materials & Other Businesses	6.5	2.7	139.6%
Eliminations	1.6	1.3	20.3%
Total	67.4	42.0	60.4%

Iron & Steel

Demand was robust in the first half of the fiscal year. In Japan, sales to manufacturing industries were strong and the construction sector recovered due to strong overseas demand and increased capital investments. With high exports mainly to Asia, Japan's total crude steel production increased over the same period last year. Owing to the tight supply, the steel market steadily improved.

Welding consumables also performed well owing to an increase for rebar and other steel products, along with strong demand from the shipbuilding, construction and automotive industries. In the overseas market, primarily in Asia, demand was strong in the shipbuilding and the energy industries.

For Kobe Steel, higher steel shipments and price increases led to segment sales of ¥294 billion, up 15.7% from the same period

last year. Operating income rose ¥12.3 billion to ¥34.9 billion.

Wholesale Electricity Supply

The second of our two power plants started commercial operation in April 2004. As a result, segment sales rose 89.3% to ¥27.5 billion and operating income doubled to ¥9.6 billion.

Aluminum & Copper

Shipments of rolled aluminum products rose over the same period last year. Domestic sales volume increased owing to higher shipments of aluminum can stock, brought about by the scorching summer and the further use of aluminum bottle cans, while exports fell, which led to a decrease in overall can stock shipments. However, demand went up for aluminum in cars and semiconductor and liquid crystal fabrication equipment, as well as automotive extrusions.

Shipments of rolled copper products also rose due to strong demand for copper strip for automotive terminals and recovery in semiconductor demand. Combining the copper tube business into a joint venture with Mitsubishi Materials Corporation and the strong demand for air conditioner copper tube brought about by the hot summer contributed to higher copper shipments. As a result, segment sales increased 18.8% to ¥145.9 billion and operating income went up ¥1.3 billion to ¥8.5 billion.

Machinery

Domestic orders increased 4.3% to ¥66.1 billion due to a rise in standard compressors used in capital investments. Overseas orders jumped 98.2% to ¥31.5 billion. Orders were strong for rubber and tire machinery, as well as rotating machinery used in the energy, petroleum and gas fields. Orders for energy-related products such as LNG equipment and reactors were also robust. Overall orders rose 23.1% to ¥97.6 billion and the backlog of orders was ¥178.5 billion.

As a result, segment sales increased 10.1% year on year to ¥91.9 billion. Operating income improved ¥2.6 billion to ¥0.2 billion.

Construction Machinery

The Japanese market was strong as exports of used machines reduced inventories in Japan and tougher emission regulations led to replacement sales. Overseas demand was also robust. Controls to rein in China's galloping economy had slowed demand considerably for construction machinery, but North America, Europe and Southeast Asia were on a recovery path. Demand was also strong in the Middle East and Russia. As a result, segment sales rose 14.3% to ¥106.6 billion and operating income increased ¥0.9 billion to ¥4.4 billion.

Real Estate

Sales of new condominiums in the Tokyo area were lower than the same period last year. In the Osaka area, however, sales rose slightly.

For Kobe Steel, large condominium projects, such as O's Town in Akashi, Hyogo and Maya Seaside Place in Kobe, have largely been completed. As a result, segment sales decreased 17.9% to ¥16.9 billion and operating income fell ¥0.9 billion to ¥1.7 billion.

Electronic Materials & Other Businesses

Owing to the strong performance of a subsidiary that makes target material for LCDs, segment sales rose 22% to ¥25.3 billion and operating income increased ¥3.8 billion to ¥6.5 billion.

Outlook

Uncertain factors in the international economy in the second half of fiscal 2004 are the slowdown in the Chinese and U.S. economies and higher oil and raw material costs. In Japan, however, the economy is seen to continue improving.

For the full fiscal year ending in March 2005, the Kobe Steel Group anticipates surpassing the goals of ¥80 billion in pretax ordinary income and ROA of 6% for fiscal 2005, the last year of our medium-term business plan. Steadily carrying out the measures implemented in each of the business segments, we anticipate reducing our debt to ¥640 billion, as well as attain all of our other management goals at an early stage. On a group-wide basis, we are placing our full efforts into improving our profits.

Looking to the future, the Kobe Steel Group is also making major capital investments in its steelmaking facilities that will further strengthen its competitiveness.

To improve stable operation and reduce costs, the blast furnace at Kobe Works will be relined and a blast furnace at Kakogawa Works will be rebuilt. Both are to go into operation in 2007. Kobe Works will also have a new continuous caster so that it can make higher quality specialty steel. These strategic investments will increase the profitability of specialty steel and other upper-end, distinctive products, an area of strength at Kobe Steel.

As we work toward our goals, we ask for your continued support and encouragement.

December 2004



Yasuo Inubushi
President and CEO

(* Ordinary income is operating income after adjustments of net financial revenue and net expenses generated on a regular basis, including seconded employees' salaries net of reimbursement.)