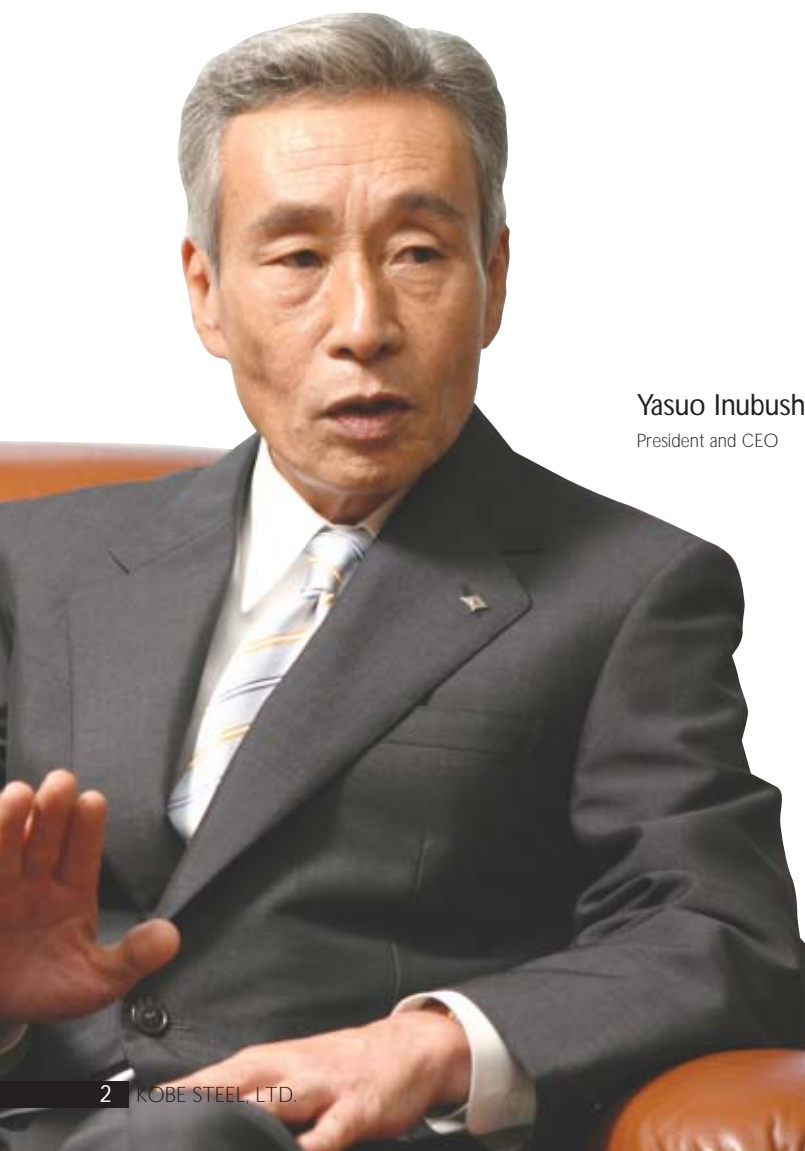


Message from the President

The Kobe Steel group has been implementing fundamental reforms and strengthening its business foundation to build profitability, under its Fiscal 2003-2005 Consolidated Medium-Term Business Plan, drawn up in June 2003. In the current fiscal year, the final year of the plan ending March 2006, we will exceed our targets, as we go forward to create new value in the future.



Yasuo Inubushi
President and CEO

Overview of fiscal 2004

During fiscal 2004, the Japanese economy in general was able to maintain a modest recovery, buoyed in particular by the robust economic growth in China, other parts of Asia, and the United States, and growth in capital investment in Japan brought about by improved corporate earnings. In the second half of the term, however, the economy was adversely impacted by factors such as inventory adjustments in the information technology sector, and as a result, growth effectively ground to a halt.

Amid this environment, the Group made steady progress in implementing the priority measures under its medium-term business plan, including the development and sales expansion of its distinctive, market-leading products. We also placed emphasis on meeting demand to the maximum extent possible in every field of our business and on raising our product prices. As a result, we achieved a substantial improvement in our business performance, primarily in the fields of materials, particularly steel products and electronic materials.

Our strong performance was reflected in net sales rising ¥224.6 billion, to ¥1,443.8 billion (US\$13,444.2 million) on a consolidated basis. Operating income went up ¥65.9 billion, to ¥166.6 billion (US\$1,551.1 million), and ordinary income* rose ¥65.2 billion, to ¥116.0 billion. As a result, our return on assets (ordinary income plus interest expenses divided by total assets) reached 7.4%. In consequence, we were able to achieve our earnings targets under the three-year medium-term business plan, such as ordinary income of ¥80.0 billion and return on assets of 6%, one year ahead of schedule.

Net income was affected by factors such as a loss resulting from the voluntary application of impairment

* Ordinary income: Operating income after adjustments of net financial revenue and net expenses generated on a regular basis, including labor costs for employees temporarily dispatched.

accounting to improve our financial position in the near future, and a loss on valuation of inventories in preparation for changes in the accounting standards for inventory valuation applied to the fiscal 2005 accounts and those subsequent. Nevertheless, net income rose by ¥29.2 billion year-on-year, to ¥51.3 billion (US\$477.6 million).

Meanwhile, the balance of interest-bearing debt (excluding project finance) at March 31, 2005, showed a decline of ¥127.8 billion from the previous year-end, to ¥669.2 billion. Stockholders' equity increased by ¥49.1 billion over the same period, to ¥379.2 billion (US\$3,531.2 million), and the debt-to-equity ratio fell to 1.8. These indicators linked to our financial position were insufficient to top the goals of our medium-term plan a year earlier, but we are confident of meeting these targets at an early stage in the current fiscal year.

With regard to dividends, the return of profit to our stockholders remains our basic commitment. We maintain a dividend payment policy under which due consideration is given to establishing an earnings and financial base that will enable us to make continuous and stable payments of dividends through the years ahead. We must also keep in mind the need to reform the Group so as to provide the funds necessary to achieve that goal. In line with this stance, we have decided to raise our dividend for the year under review by ¥1.5 from the previous fiscal year, to ¥3 (\$US0.03) per share.

To enhance its business competitiveness still further, the Kobe Steel Group is continuing its vigorous efforts to strengthen its core businesses by concentrating management resources on selected fields, and working in partnership with other companies.

In our iron and steel business, during the year we worked in collaboration with Nippon Steel Corporation and Sumitomo Metal Industries, Ltd. to make effective use of existing iron and steelmaking facilities. In March 2005, together with Nippon Steel, we concluded an agreement with Sumitomo Metal Industries to take a capital stake in East Asia United Steel Corporation, the holding company of Sumikin Iron & Steel Corporation. In addition, with Nippon Steel and Sumitomo Metal Industries, we have begun studies into mutual cooperation in such fields as research and development and intellectual property, and are seeking to deepen our collaboration still further.

With regard to the boiler fire at the Kakogawa Works that occurred in May 2005, I offer my most sincere

apologies for the concern and trouble that it caused, particularly to the local community and our customers. Safety is fundamental to business management, and we believe that it must take priority over all other activities. We have taken the occurrence of this accident very seriously, and will exhaustively overhaul and rebuild our accident-prevention measures to eliminate any further serious accidents and to regain your confidence.

Outlook and Issues for the Future

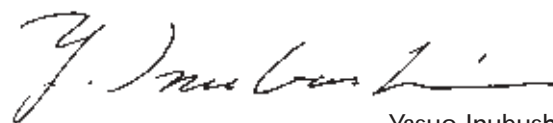
In fiscal 2005, Japan is expected to sustain a modest economic recovery. However, various circumstances around the world do not give me particular cause for optimism. These include the persistence of crude-oil prices at high levels, concern about the inflation of raw materials prices, and the uncertainty of the Chinese economy and exchange rate changes after the revaluation of the yuan.

As for the Kobe Steel Group, while assuring stable and safe production we will push further ahead with the priority measures under our medium-term management plan, which include creating and fostering distinctive products and enhancing core businesses. In this way we will strive to build stable profitability for the entire Group, and a robust business structure.

On September 1 of this year, Kobe Steel marks its 100th anniversary. I wish to express my deep gratitude for the support and goodwill the Company has received from shareholders, customers, suppliers, local communities and many others ever since we started business in Kobe in 1905 and right up to the present day.

We of the Kobe Steel Group are pledged to continue enhancing our enterprise value while at all times carrying out our social responsibilities faithfully. To do that we will go back to our origins and start out afresh on our journey through the next one hundred years.

August 2005



Yasuo Inubushi

President and CEO