



Iron and Steel

The Company experienced strong demand within Japan for steel from shipbuilders, automobile manufacturers, industrial machinery and other manufacturers during the fiscal year under review. Overseas, market expansion continued in East Asia, particularly China, and remained at a high level. In addition, a tight global supply situation led to rises in prices both in Japan and overseas. Steel sales rose greatly from the level of the previous term, as prices rose and shipments increased in number and volume. In addition, sales of steel forgings and castings increased on the back of brisk demand from shipbuilders.

Sales of titanium products climbed year-on-year as demand in China and other markets expanded. For welding consumables in Japan, positive results were recorded in such fields as shipbuilding, automobiles, construction machinery as well as steel structures. Exports rose significantly in response to growing demand, particularly from auto manufacturers in Southeast Asia. As a result of the above, sales in this segment jumped 18.1% to ¥631.3 million, and operating income was ¥91.9 million, an increase of 73.7% from the previous fiscal year.

■ Research and Development

Kobe Steel made vigorous efforts in product development to contribute to environmental protection as well as to respond to customers' needs. In special steels, we are moving ahead with increased distribution and expanded sales of such products as ELCH2S, a steel bar with superior magnetic and cutting properties; Kobe Super Toughness, steel plate for very high heat input welding; and automotive ultra-high strength steel and other products that have been made lighter and stronger. In March 2005, Kobe Steel became Japan's first steel company to completely dispense with chromate treatment in electro-galvanized steel sheet.

■ Investment in Plant and Equipment

The Company embarked on several programs to strengthen the competitiveness and raise the productivity of its leading products. Our rationalization efforts are expected to lead to early results, and carefully selected investments were made to upgrade aging facilities.

The most important project in fiscal 2004 was the program to raise the quality of high-grade steel made at our Kakogawa Works. We added a vacuum degassing chamber with a desulphurization function, a plate finishing mill with a shape control function, and other advanced facilities. In addition to differentiating our specialty steel products from those of our rivals, we will add a new continuous bloom caster at the Kobe

Works. At the same time, as we look toward the start of operations of the new continuous caster in 2007, we are studying the refurbishment of the No. 3 blast furnace that is now in operation.

The Company has decided to refurbish the No. 2 blast furnace at Kakogawa Works, which is currently unused, by March 2007. The amount of capital investment planned includes approximately ¥8.5 billion in new continuous casting equipment for Kobe Works, and approximately ¥40 billion in the new No. 2 blast furnace for Kakogawa Works.

■ Overseas Expansion

The need for local procurement of auto parts in China has risen greatly as the world's leading auto manufacturers, including Japanese companies, have embarked on full-fledged production operations in that country. To enhance our competitiveness on the basis of product quality and to strengthen our ability to respond to customer needs at the local level while maintaining technical superiority in specialty steels, we have decided to work in cooperation with secondary processors and others to establish two secondary processing facilities near Guangzhou and Shanghai.

■ Outlook

The Company projects continued growth in demand for the



■ Kobe Steel is one of the world's 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.



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

future, particularly in such sectors as the shipbuilding and automotive industries. We expect healthy demand trends to continue in exports. However, we anticipate increased supply from China and other factors to lead to an easing of the supply-demand situation for general steel products. In cast and forged products, robust sales are expected, particularly to leading customers in the shipbuilding industry. Growth is also projected in the domestic market and for exports of our titanium products. In this environment, the Company anticipates further expansion of sales in specialty steels, high tensile steel and other distinctive products that fall into our category of products. Along with increasing efficiencies and cost-cutting efforts, we intend to raise

our sales prices in order to cope with the drastic rise in the cost of raw materials. In addition, the Company will make a Group-wide effort to raise its competitiveness and strengthen its market presence by promoting effective research and development, and strengthening and expanding its overseas production bases.

In welding consumables, Kobe Steel intends to raise sales prices, secure its capability to maximize production volumes by raising productivity, and at the same time, to realize the fullest possible benefits from business integration. In addition, we aim to become one of the world's most respected leading companies by expanding the scale of our overseas operations.