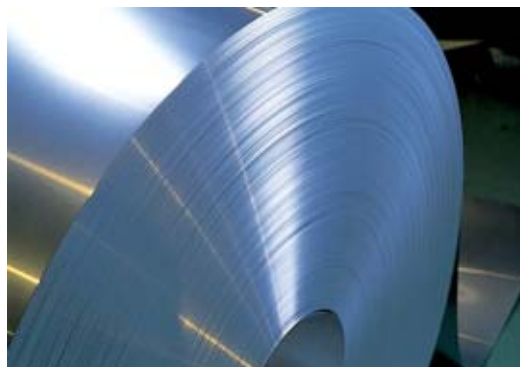


Aluminum and Copper



Sales of aluminum rolled products soared above last year's level, as domestic sales of can stock, a leading product, surged due to the intense summer heat and increased use of aluminum bottle-shaped cans. Sales were robust in other fields as well. The trend toward increased aluminum applications in the automotive industry spurred sales of aluminum sheet in that field, and the Company also enjoyed healthy sales of aluminum plate for use in semiconductor & LCD production equipment and other products. Japan's shipments of aluminum sheet reached a record volume for the second consecutive year, and overall shipments of rolled aluminum products rose above the level of the previous fiscal year.

Demand for aluminum castings and forgings also grew year-on-year as a result of the increased adoption of aluminum forged parts for automotive suspension systems and the more extensive employment of aluminum vacuum chambers in semiconductor and LCD production equipment.

In rolled copper products, we posted increases in products for automobile terminals, and in the first half of the term, sales were robust for products used in semiconductors, which led to a year-on-year increase. Sales of copper tubing remained on a par with the previous year due to a slowdown in the pace of increase in imports of air conditioners made by Japanese manufacturers overseas. In this environment, the Company made efforts to raise its product prices, to recover previous price levels, for a second consecutive term.

As a result of these efforts, this segment's sales rose 16.3% from the previous fiscal year to ¥283 billion, and its operating income was ¥16.9 billion, an increase of 13.3%.

■ Business Alliance

On April 1, 2004 Kobe Steel merged its copper tube business with that of Mitsubishi Materials Co., Ltd. to form a joint venture company, Kobelco & Materials Copper Tube, Ltd. The Company plans to complete consolidation of domestic production operations at its Hatano Plant in Kanagawa Prefecture by October 2005. This move is designed to strengthen competitiveness and streamline utilization of equipment and human resources. Kobe Steel intends to build a global network that will enable optimal use of three production bases in Thailand, Malaysia and at Hadano.

■ Research and Development

The Company is responding to thriving demand for applications of its products, particularly in the automotive and IT/semiconductor fields where increased demand is projected, with prioritized investment in developing and strengthening our "ultra-strong" products — highly profitable products that boast absolute superiority — and by upgrading production technology to raise product quality and enhance productivity.

In the automotive field, in addition to developing materials, we are utilizing comprehensive technical applications for

advances in such technologies as surface treatment, welding, and structural analysis. The Company is also developing and creating aluminum hood material that reduces the impact on pedestrians involved in car accidents, bumper reinforcement materials with superior shock-absorption properties, and aluminum forgings for suspension systems. We have developed an array of new products and applications in the growing field of IT and semiconductor-related products, notably thinner, lighter case material for lithium ion battery cases.

In addition, solid results are being achieved by Kobelco & Materials Copper Tube, Ltd., in research and development into copper tubes for air conditioners, and heat-delivery pipes and water heat-exchange devices for Eco-Cute (carbon dioxide heat pumps for hot-water delivery systems).

■ Investment in Plant and Equipment

Capital investment has been substantially held down bit in recent years, but in the current business period, the Company plans to invest in state-of-the-art plant and equipment indispensable to future growth. In the future as well, we will make carefully selected investments in upgrading facilities and in equipment needed to raise competitiveness, particularly for products in the important automotive and IT/semiconductor fields where expansion is anticipated.



■ Copper sheet and strip for electronics materials

With circuits becoming more miniaturized and concentrated, we produce copper alloy products for high-strength, highly conductive semiconductor leadframes, terminals and connectors. Our superior reliability is supported by years of experience and first-class technologies.

■ Overseas Expansion

In 2003, we established Kobe Aluminum Automotive Products LLC to engage in the production and sale of aluminum forgings for suspension systems for the North American market. Mass production began in June 2005 after completion of trial operations, evaluation of samples and other preparatory work. Our subsidiary Kobe Leadmikk, Ltd. has established a manufacturing base in Wuxi, China, where mass production and deliveries of leadframe products started in April 2005.

In addition, we have decided to establish a company in China's Jiangsu Province to provide slitting, sales and technical service for copper sheet for electronic materials (terminals, connectors and leadframes). Production is scheduled to start there in 2006. Demand for copper sheet for electronic materials is expanding in China along with the sharp growth in the number of automobiles produced. Our new processing bases in China will enable us to make deliveries to customers rapidly and flexibly, and thus meet growing demand.

■ Outlook

Overall, the outlook is very positive for the Aluminum and Copper segment. The Company expects demand for its aluminum and copper products to continue to expand in the field of automotive materials, and recovery in semiconductor demand is projected.

The medium-term outlook is bright, as demand is expected to grow significantly for such products as aluminum materials for the

automotive sector, aluminum vacuum chambers for semiconductor and LCD production equipment, aluminum substrates for hard disks and others, notably in the IT/semiconductor field.

In particular, the use of aluminum in vehicles is becoming further established in the auto industry as environmental regulations become more stringent and manufacturers' concerns about environmental issues increase. The Company assigns the highest priority to meeting the needs of the auto industry and intends to take full advantage of its technical strengths that put it ahead of competitors in materials design and assembly technologies. We will move ahead both in Japan and overseas with technologies that meet the needs of auto manufacturers who are increasingly utilizing aluminum in production.

In our leading segment of aluminum can stock, demand for aluminum bottles is expected to continue to expand. In addition, projections indicate that demand will grow for hard disks in fields other than personal computers, including DVD recorders and game servers.

Kobe Steel will make every effort to advance in the aluminum and copper field by making aggressive use of its ample technical development capabilities, with creative efforts in new markets, and will ensure its status as a leading company by firmly maintaining the internationally competitive strengths it has built in cost, product quality and customer services.

■ Disk blanks

Demand for magnetic disks for hard disk drives continues to rise with the spread of PCs and increased Internet use. Kobe Steel supplies more than 50% of the aluminum blanks used in magnetic disks globally. Through our production bases in Japan and Malaysia, we are raising standards in IT.

