

## Consolidated Financial Review

### Income Analysis

During the first half of the consolidated accounting period under review, there were signs that the Japanese economy was headed for moderate recovery, indicated by an increase in private sector investment, chiefly in IT equipment, and buoyant exports to Asian nations. However, later in the fiscal year the economy abruptly relapsed into recession due to the continued stagnation of personal spending, a worsening of export conditions amid a slowdown in the U.S. economy, signs of a leveling-off of private-sector investment, and increased deflationary pressures.

Against this background, Kobe Steel, Ltd. posted a ¥120.6 billion rise in net sales, to ¥1,373.1 billion, due to expanded sales in the Electronics and Information Segment and newly consolidated subsidiaries in the Iron and Steel and Construction Machinery Segments. Income before income taxes rose ¥36.3 billion, to ¥50.0 billion, due to increased efficiency through successful comprehensive cost-cutting programs, and sound performance in semiconductor-related businesses. As a result, net income was ¥6.5 billion, a ¥59.6 billion improvement from the previous fiscal year.

Sales in the Iron and Steel Segment rose 6.7%, to ¥543.6 billion, and operating income rose 8.8%, to ¥46.7 billion, due to increased sales by volume to Japanese customers, the beneficial effects of the Company's rationalization and cost-cutting programs, and rises in revenue at consolidated subsidiaries.

Aluminum and Copper Segment sales rose 7.5%, to ¥271.0 billion, and operating income rose 21.7%, to ¥12.4 billion, due mainly to increased sales volumes and the beneficial effect of cost-cutting programs.

In the Machinery Segment sales rose 6.8%, to ¥237.0 billion, and operating income jumped 50.6%, to ¥1.7 billion. The main factors supporting these increases were sound performance in

the environmental business, centered on municipal refuse treatment plant, and the standard compressor business.

Construction Machinery sales rose 16.7%, to ¥158.4 billion, and operating income was ¥5.2 billion, a ¥5.7 billion improvement due to cost-cutting programs.

In the Electronics and Information Segment sales climbed 25.1%, to ¥125.5 billion, and operating income soared 249.4%, to ¥26.0 billion, reflecting rising demand for semiconductor products from IT equipment makers and sound performance across the board from subsidiaries. The semiconductor subsidiary also benefited from a rise in product prices.

In the Real Estate Segment sales rose 15.7%, to ¥59.1 billion, but operating income declined 30.7%, to ¥13.6 billion, due to such factors as changes in the types of real estate sales.

Net other expenses totaled ¥111.7 billion and the loss before income taxes amounted to ¥5.3 billion. After adjustments for income tax and minority interests, a net income of ¥6.5 billion was recorded.

### Analysis of Cash Flow and Financial Position

The Company's operating, investing, and financing activities during the fiscal year resulted in consolidated **cash and cash equivalents** decreasing ¥36.0 billion, or 22.2%, to ¥126.2 billion. Net cash provided by operating activities totaled ¥137.4 billion, while net outflows consisted of cash used in investing and financing activities in connection with the acquisition of fixed assets and repayment of long-term borrowings and other factors.

**Net cash provided by operating activities** declined ¥75.3 billion, or 35.4%, to ¥137.4 billion. This was due mainly to a large drop in receivables and inventory assets in the consolidated accounting period under review as well as an increase in extraordinary retirement payments.

**Net cash used in investing activities** amounted to ¥42.4 billion, a ¥66.0 billion decline, due mainly to a decrease in capital investment expenditures.

**Net cash used in financing activities** amounted to ¥139.1 billion, an increase of ¥55.4 billion, due mainly to further reductions in external liabilities.

