

## Consolidated Financial Review

### Income Analysis

During the consolidated accounting period under review, the condition of the Japanese economy became increasingly severe, owing to such factors as a slump in exports due to sluggish IT-related demand worldwide, depressed private sector investment, continued stagnation of personal spending, and reduced public investment.

Amid this environment, Kobe Steel, Ltd. experienced a ¥175.1 billion decrease in net sales, to ¥1,198.0 billion, due to a significant drop in product prices in steel-related businesses coupled with the impact of disposing of its semiconductor subsidiary. Loss on devaluation of investment securities precipitated by the languishing stock market and the application of new accounting standards for retirement benefits led to a ¥35.0 billion drop in net income from the previous fiscal year, amounting to a ¥28.5 billion loss.

Sales in the Iron and Steel Segment fell 10.5%, to ¥486.4 billion, and operating income dropped 75.8%, to ¥11.3 billion, owing to a steep decline in the price of steel products coupled with a rise in the price of raw materials.

In the Aluminum and Copper

Segment sales declined 5.3%, to ¥256.5 billion, and operating income fell 35.9%, to ¥8.0 billion, due to the downturn in IT-related and automobile-related demand as well as reduced domestic demand in copper tubing for air conditioners.

Machinery Segment sales declined 2.0%, to ¥232.2 billion. However, operating income soared 120.1%, to ¥3.7 billion, reflecting comprehensive cost reductions.

In the Construction Machinery Segment sales fell 6.4%, to ¥148.3 billion, and operating income dropped ¥64.3%, to ¥1.9 billion, owing to a reduction in the number of units sold in Japan.

In the Real Estate Segment sales dropped 23.7%, to ¥45.0 billion, and operating income fell 41.6%, to ¥8.0 billion. These reductions were mainly the result of diminished consumer confidence due to the drawn out economic recession, lower property prices precipitated by substantial drops in land prices, and a change in the composition of property on the market.

Net other expenses totaled ¥66.9 billion and loss before income taxes amounted to ¥31.4 billion. After adjustments for income tax and minority interests, a net loss of ¥28.5 billion was recorded.

### Analysis of Cash Flow and Financial Position

The Company's operating, investing, and financing activities during the fiscal year under review resulted in consolidated cash and cash equivalents decreasing ¥10.9 billion, or 8.6%, to ¥115.3 billion. Net cash provided by operating activities totaled ¥59.1 billion, while net outflows consisted of cash used in investing and financing activities in connection with the acquisition of fixed assets and other factors.

Net cash provided by operating activities declined ¥78.2 billion, or 57.0%, to ¥59.1 billion, due mainly to the disposal of the semiconductor subsidiary.

Net cash used in investing activities amounted to ¥36.5 billion, a ¥5.9 billion decline. This was due mainly to increased inflow as a result of the sale of the semiconductor subsidiary and the sale of fixed assets that offset increased investment in the wholesale electricity supply business and other businesses.

Net cash used in financing activities amounted to ¥36.8 billion, a decrease of ¥102.3 billion, due mainly to a reduction in bond repayments.

