

Consolidated Interim Statements of Cash Flows

Kobe Steel, Ltd. and Consolidated Subsidiaries

Six months ended September 30,

2006 and 2005 (unaudited)

Thousands of

U.S. dollars

(Note 1)

	Millions of yen		Thousands of
	2006	2005	U.S. dollars (Note 1)
			2006
<i>Cash flows from operating activities</i>			
Income before income taxes	¥ 87,361	¥ 66,774	\$ 740,975
Depreciation	41,168	39,246	349,177
Interest and dividend income	(2,550)	(2,124)	(21,628)
Interest expense	10,085	10,639	85,539
Gain on sale of securities	(1,637)	-	(13,885)
Equity in income of unconsolidated subsidiaries and affiliates	(8,140)	(5,038)	(69,042)
Loss on separation of real estate business	-	14,101	-
Increase (decrease) in provision for casualty loss	(1,430)	3,271	(12,129)
Decrease in provision for environmental measures	(1,700)	-	(14,419)
Loss on disposal of plant and equipment	1,392	1,433	11,807
Decrease in trade receivables from customers	20,062	13,890	170,161
Increase in inventories	(35,293)	(39,585)	(299,347)
Increase in trade payables to customers	12,957	28,857	109,898
Other	1,343	270	11,391
Subtotal	123,618	131,734	1,048,498
Cash received for interest and dividends	4,238	3,810	35,946
Cash paid for interest	(9,826)	(10,988)	(83,342)
Cash paid for income taxes	(51,457)	(19,631)	(436,446)
Net cash provided by operating activities	66,573	104,925	564,656
<i>Cash flows from investing activities</i>			
Purchase of plant, equipment and other assets	(52,050)	(34,415)	(441,476)
Proceeds from sale of plant, equipment and other assets	600	478	5,089
Purchase of investments in securities	(3,321)	(5,780)	(28,168)
Proceeds from sale of investments in securities	2,919	1,456	24,758
Decrease (increase) in short-term loans receivable	802	39	6,803
Long-term loans receivable	(190)	(417)	(1,611)
Proceeds from collection of long-term loans	108	107	916
Other	(454)	(87)	(3,851)
Net cash used in investing activities	(51,586)	(38,619)	(437,540)
<i>Cash flows from financing activities</i>			
Decrease in short-term borrowings	(5,886)	(5,949)	(49,924)
Proceeds from commercial paper	27,000	17,000	229,007
Proceeds from issuance of long-term debt	34,755	2,290	294,784
Repayment of long-term debt	(29,787)	(46,523)	(252,646)
Proceeds from issuance of bonds	-	10,000	-
Repayment of bonds	(45,608)	(25,378)	(386,836)
Cash dividends	(18,551)	(8,841)	(157,345)
Other	(2,609)	(8,327)	(22,129)
Net cash used in financing activities	(40,686)	(65,728)	(345,089)
<i>Effect of exchange rate changes on cash and cash equivalents</i>			
	(30)	969	(254)
<i>Increase (decrease) in cash and cash equivalents</i>	(25,729)	1,547	(218,227)
<i>Cash and cash equivalents at the beginning of the six months</i>	95,485	80,592	809,881
<i>Increase due to changes in scope of consolidation</i>	182	1,578	1,544
<i>Cash and cash equivalents at the end of the six months</i>	¥ 69,938	¥ 83,717	\$ 593,198

See accompanying notes.