

## Management's Discussion and Analysis

- The sales volumes of steel, aluminum rolled products and copper sheet and strip declined year on year due to the effects of the Great East Japan Earthquake and floods in Thailand
- Net sales increased ¥6.1 billion year on year due to rising steel prices
- Earnings decreased on lower sales of steel and aluminum rolled products and rising steel raw material prices

### Analysis of Operating Results

Net sales		Operating income	
	+0.3%		-51.4%
FY2011	<b>¥1,864.7 billion</b>	FY2011	<b>¥60.6 billion</b>
FY2010	¥1,858.6 billion	FY2010	¥124.6 billion
Ordinary income		Net income (loss)	
	-62.1%		-
FY2011	<b>¥33.8 billion</b>	FY2011	<b>-¥14.2 billion</b>
FY2010	¥89.1 billion	FY2010	¥52.9 billion

In the fiscal year ended March 31, 2011, the impact that the Great East Japan Earthquake, which caused a substantial decline in production levels, had on the first quarter receded in the second quarter as Japan's economy headed toward recovery. However, from the third quarter, the overseas economic slowdown and protracted appreciation of the yen weighed heavily, causing the economy to remain largely unchanged from the previous fiscal year. Despite moderate overseas growth, mainly in emerging countries, the overall growth rate slowed due to financial uncertainty in Europe and fiscal austerity measures in China.

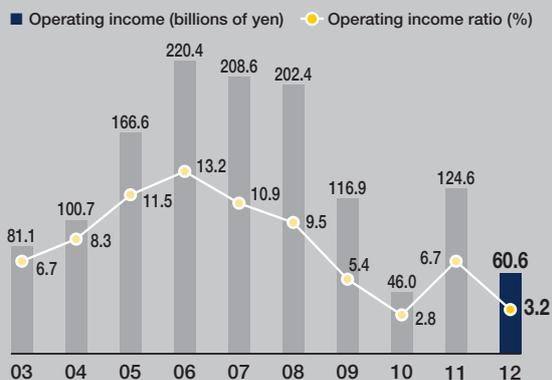
Under these economic conditions, the Kobe Steel Group's sales volumes of steel, aluminum rolled products and copper sheet and strip fell below those of the previous fiscal year due mainly to the impact of the earthquake disaster and floods in Thailand. Despite vigorous demand at the beginning of spring, unit sales of hydraulic excavators in China also declined year on year as a result of the government's fiscal austerity measures begun in April.

Consolidated net sales in fiscal 2011 climbed ¥6.1 billion to ¥1,864.7 billion on higher sales prices of steel. Meanwhile, operating income decreased ¥63.9 billion year on year to ¥60.6 billion, while ordinary income fell ¥55.3 billion to ¥33.8 billion. This was largely attributable to lower sales of steel and aluminum rolled products, declining unit sales of hydraulic excavators in China, rising steel raw material prices and other factors. Net income dropped ¥67.2 billion, resulting in a net loss of ¥14.2 billion, on the reversal of deferred tax assets, despite the reversal of a write-down of investment securities (recorded as an extraordinary loss in the third quarter), excluding those securities whose prices recovered.

#### Net sales / Gross margin ratio



#### Operating income / Operating income ratio



## Analysis of Cash Flows

### Cash flows from operating activities

–¥138.3 billion  
 FY2011 **¥39.5 billion**  
 FY2010 ¥177.8 billion

### Cash flows from investing activities

+¥11.4 billion  
 FY2011 **–¥85.3 billion**  
 FY2010 –¥96.7 billion

### Free cash flows

–¥126.9 billion  
 FY2011 **–¥45.8 billion**  
 FY2010 ¥81.1 billion

### Cash flows from financing activities

+¥58.0 billion  
 FY2011 **–¥40.2 billion**  
 FY2010 –¥98.2 billion

### Cash Flows from Operating Activities

A decrease in income before income taxes, and a decline in trade payables to customers increased the strain on working capital, resulting in net cash provided by operating activities of ¥39.5 billion, a decrease of ¥138.3 billion.

### Cash Flows from Investing Activities

Net cash used in investing activities came to –¥85.3 billion, a year-on-year decrease of ¥11.4 billion, due to such factors as reduced spending on intangible assets and plant and equipment.

### Cash Flows from Financing Activities

Net cash used in financing activities increased ¥58.0 billion to –¥40.2 billion due to inflows such as increased short-term borrowings, despite higher outflows from the repayment of long-term debt.

## Analysis of Financial Condition

### Total assets

–3.2%  
 FY2011 **¥2,159.5 billion**  
 FY2010 ¥2,231.5 billion

### Net assets

–4.4%  
 FY2011 **¥571.3 billion**  
 FY2010 ¥597.4 billion

### Equity ratio

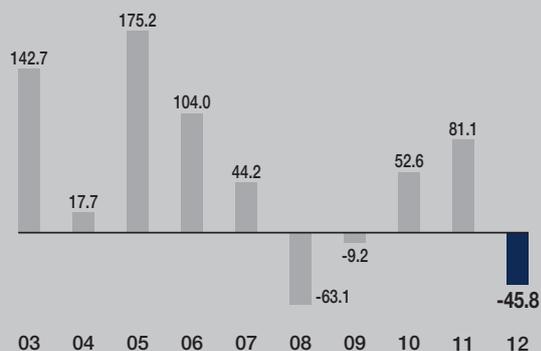
–0.7 point  
 FY2011 **23.9%**  
 FY2010 24.6%

While inventories increased, cash and cash equivalents, and plant and equipment decreased. As a result, total assets at the end of the fiscal year under review decreased ¥72.0 billion from the previous fiscal year-end to ¥2,159.5 billion. Net assets declined ¥26.1 billion to ¥571.3 billion, due to lower retained earnings. As a result, the equity ratio was 23.9%, a 0.7 percentage point decrease from the end of the previous fiscal year.

As of March 31, 2012, the outside debt balance, which include IPP project financing, decreased ¥35.3 billion to ¥810.2 billion.

### Free cash flows

■ Free cash flows (billions of yen)



### Net assets / equity ratio

■ Net assets (billions of yen) ● Equity ratio (%)

