

# Management's Discussion and Analysis

## Analysis of Operating Results

Net sales		Operating income	
FY2012	<b>¥1,685.5 billion</b>	FY2012	<b>¥11.2 billion</b>
FY2011	¥1,864.7 billion	FY2011	¥60.6 billion
	-9.6%		-81.4%
Ordinary income (loss)		Net loss	
FY2012	<b>-¥18.1 billion</b>	FY2012	<b>-¥27.0 billion</b>
FY2011	¥33.8 billion	FY2011	-¥14.2 billion

Japan's economy in the first half of fiscal 2012 (April 1, 2012 – September 30, 2012) was slowly following a recovery trend on the back of rising demand for reconstruction work from the Great East Japan Earthquake.

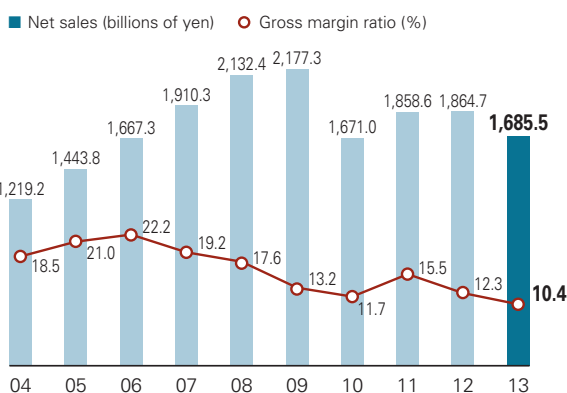
However, in the second half of the fiscal year, although the yen became weaker, the economy remained sluggish due to the ending of eco-friendly car subsidies and other factors. Overseas markets saw a gradually recovering economy in the United States, but a continuation of the financial turmoil in Europe and growing sluggishness in China's economic growth.

Against this economic environment, the sales volume (in terms of tons sold) of steel products and aluminum and copper rolled products in the Kobe Steel Group declined in comparison to the previous year. Although domestic demand from the automotive industry continued to be strong until the second quarter,

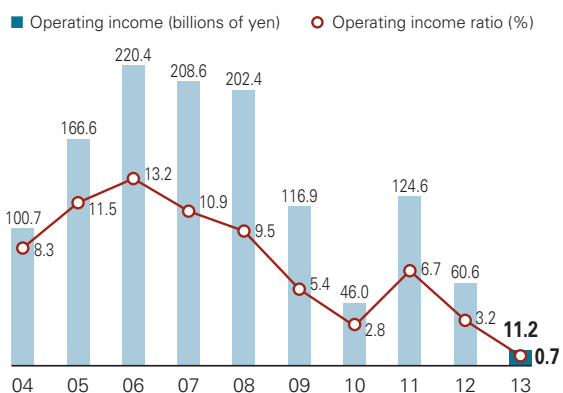
demand decelerated from the third quarter. In addition, the sluggish overseas market for steel products and the high yen led to a worsening in the export environment. Aluminum and copper rolled products also saw continued sluggish demand from the IT-related sectors. Unit sales of hydraulic excavators fell in comparison to the previous year. Although domestic demand increased owing to reconstruction work from the Great East Japan Earthquake and demand increased in Southeast Asia, China experienced a large decrease in demand.

As a result, Kobe Steel's consolidated net sales in fiscal 2012 decreased ¥179.2 billion in comparison to the previous year to ¥1,685.5 billion, largely affected by the low sales volume of steel products, the decrease in sales prices, and low unit sales of hydraulic excavators. Operating income went down ¥49.3 billion from the previous year to ¥11.2 billion due to a loss on inventory valuation for steel, aluminum and copper rolled products. Ordinary income, also known as pretax recurring profit, decreased ¥51.9 billion from the previous year to an ordinary loss of ¥18.1 billion. Net loss went down ¥12.7 billion to a net loss of ¥27.0 billion despite an increase in deferred tax assets.

Net sales / Gross margin ratio



Operating income / Operating income ratio



## Analysis of Cash Flows

Cash flows from operating activities		Cash flows from investing activities	
FY2012	<b>¥45.4 billion</b>	FY2012	<b>-¥123.5 billion</b>
FY2011	¥39.5 billion	FY2011	-¥85.3 billion
	<b>+¥5.9 billion</b>		<b>-¥38.2 billion</b>
Free cash flows		Cash flows from financing activities	
FY2012	<b>-¥78.1 billion</b>	FY2012	<b>¥127.6 billion</b>
FY2011	-¥45.8 billion	FY2011	-¥40.2 billion
	<b>-¥32.4 billion</b>		<b>+¥167.8 billion</b>

### Cash Flows from Operating Activities

Income before income taxes turned into a net loss, and a decline in inventories lowered the strain on working capital, resulting in net cash provided by operating activities of ¥45.4 billion, an increase of ¥5.9 billion.

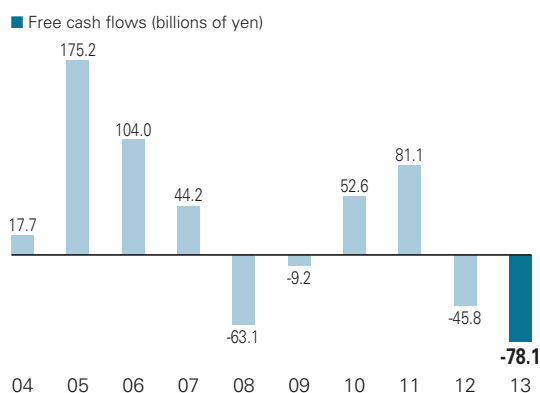
### Cash Flows from Investing Activities

Net cash used in investing activities came to -¥123.5 billion, a year-on-year increase of ¥38.2 billion due to such factors as higher spending on plant and equipment and increased investments in securities.

### Cash Flows from Financing Activities

Net cash provided by financing activities increased ¥167.8 billion to ¥127.6 billion due to higher inflows from long-term debt.

### Free cash flows



## Analysis of Financial Conditions

Total assets		Net assets	
FY2012	<b>¥2,227.0 billion</b>	FY2012	<b>¥569.9 billion</b>
FY2011	¥2,159.5 billion	FY2011	¥571.3 billion
	<b>+3.1%</b>		<b>-0.2%</b>
Equity ratio			
FY2012	<b>23.0%</b>		
FY2011	23.9%		
	<b>-0.9 point</b>		

While inventories decreased, cash and time deposits and investments in securities increased. As a result, total assets at the end of fiscal 2012 increased ¥67.5 billion from the end of fiscal 2011 to ¥2,227.0 billion. Net assets at the end of fiscal 2012 decreased ¥1.3 billion from the end of fiscal 2011 to ¥569.9 billion.

Although foreign currency translation adjustments increased, retained earnings decreased. As a result, the net worth ratio at the end of fiscal 2012 was 23.0%, a decrease of 0.9 points from the end of fiscal 2011.

At the end of fiscal 2012, outside debt, which includes IPP project financing, increased ¥149.0 billion, from the end of fiscal 2011 to ¥959.2 billion.

### Net assets / equity ratio

