Analysis of Operating Results

Net sales
¥1,858.6 billion
+11.2%

Operating income
¥124.6 billion
+170.7%

Ordinary income
¥89.1 billion
+768.4%

Net income
¥52.9 billion
+739.7%

	Billions of yen		
	2010	2011	Change
Net sales	1,671.0	1,858.6	+11.2%
Operating income	46.0	124.6	+170.7%
Ordinary income	10.3	89.1	+768.4%
Net income	6.3	52.9	+739.7%

In fiscal 2010, Japan's economy, on the whole, continued to gradually recover as overseas economies improved, although the third quarter saw a slowdown in the pace of recovery due to a retrenchment in economic measures and the effect of the strong yen. In overseas markets, too, the Chinese economy expanded and the United States and Europe continued to gradually recover.

In this economic environment, the Kobe Steel Group achieved higher sales volume of steel products and aluminum and copper rolled products compared with the previous fiscal year, owing to strong demand from domestic and overseas manufacturing industries. In addition, unit sales of hydraulic excavators increased considerably over the previous fiscal year due to growing demand in China.

As a result, consolidated net sales in the fiscal 2010 climbed ¥187.6 billion, year on year, to ¥1,858.6 billion, operating income rose ¥78.5 billion, to ¥124.6 billion, and ordinary income jumped ¥78.8 billion, to ¥89.1 billion. Net income increased ¥46.6 billion, to ¥52.9 billion.

Analysis of Cash Flows

Cash flows from operating activities
¥177.8 billion
+4.9 billion

Cash flows from investing activities
-¥96.7 billion
+23.6 billion

Free cash flows
¥81.1 billion
+28.5 billion

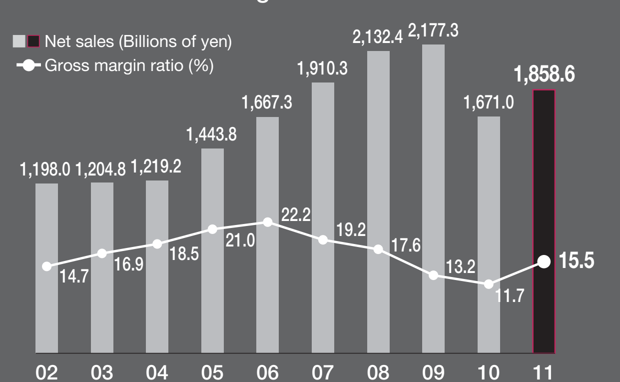
Cash flows from financing activities
-¥98.2 billion
-68.6 billion

Net cash provided by operating activities was ¥177.8 billion. Net cash used in investing activities amounted to ¥96.7 billion, while net cash used in financing activities was ¥98.2 billion.

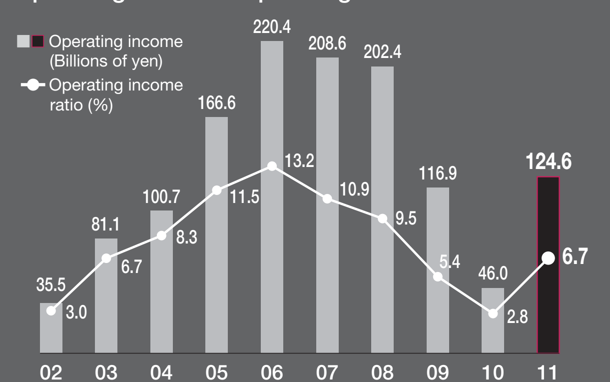
Consequently, cash and cash equivalents at the end of the fiscal year under review, including the effect of exchange rate changes, amounted to ¥189.7 billion, a decease of ¥22.0 billion from the previous fiscal year-end.

Cash flows in consolidated fiscal 2010 were as follows.

Net sales / Gross margin ratio



Operating income / Operating income ratio



Cash Flows from Operating Activities

Although income before income taxes increased, higher inventories increased the strain on working capital, which resulted in net cash provided by operating activities of ¥177.8 billion, largely unchanged from that of the previous fiscal year.

Cash Flows from Investing Activities

Net cash used in investing activities decreased ¥23.6 billion, to ¥96.7 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 was ¥98.2 billion due to such factors as a decrease in proceeds of ¥68.6 billion from long-term debt and the issuance of bonds.

	Billions of yen		
	2010	2011	Difference
Cash and cash equivalents at end of year	211.7	189.7	-22.0
Cash flows from operating activities	172.9	177.8	+4.9
Cash flows from investing activities	(120.3)	(96.7)	+23.6
Cash flows from financing activities	(29.6)	(98.2)	-68.6

Analysis of Financial Condition

Total assets

¥2,231.5 billion

-0.8%

Net assets

¥597.4 billion

+7.2%

Equity ratio

24.6%

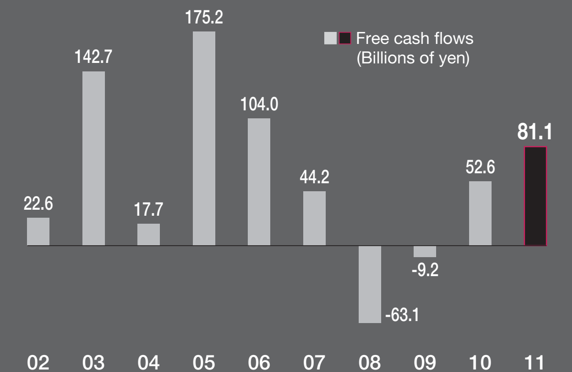
+1.6 points

While cash and cash equivalents and inventories increased, plant and equipment and investments in securities decreased. As a result, total assets at the end of fiscal 2010 declined ¥17.8 billion compared with the end of fiscal 2009, to ¥2,231.5 billion. Net assets increased ¥40.4 billion, to ¥597.4 billion, as retained earnings increased. As a result, the equity ratio at the end of fiscal 2010 was 24.6%, increasing 1.6 percentage points from the end of fiscal 2009.

At the end of fiscal 2010, outside debt, which includes IPP project financing, decreased ¥79.6 billion, to ¥845.5 billion.

	Billions of yen		
	2010	2011	Change
Total assets	2,249.3	2,231.5	-0.8%
Net assets	557.0	597.4	+7.2%
Equity ratio (%)	23.0	24.6	+1.6 points
Outside debt including IPP project financing	925.1	845.5	-8.6%

Free cash flows



Net assets / Equity ratio