

Kobe Steel Group
Medium-to Long-Term business Vision
KOBELCO VISION "G+"

Rolling of the Medium-Term Management Plan
For Fiscal Years 2019–2020

May 15, 2019

Kobe Steel, Ltd.



- 1. Review of Fiscal 2016–2018**
- 2. Earnings Forecast for Fiscal 2019**
- 3. Positioning of Rolling of the Medium-Term Management Plan**
- 4. Key Themes for Fiscal Years 2019–2020**
 - ① Strengthen Profitability with a Focus on Materials**
 - ② Make Efficient Use of Management Resources and Strengthen the Business Base**
- 5. Continuing Themes for the Next Management Plan**
 - ① Automotive Weight Reduction Strategies**
 - ② Continued Strengthening of Corporate Governance**
- 6. Summary: Future Vision**
- 7. Reference Materials**

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1. Review of Fiscal 2016–2018: (1) Progress and Results

- Started to pursue medium-to long-term business vision in fiscal 2016 to **1) advance growth strategies for the three core business areas of materials, machinery and electric power, and 2) establish a business enterprise with a solid profit structure.**
- Major progress and results as of fiscal 2018 are shown below.

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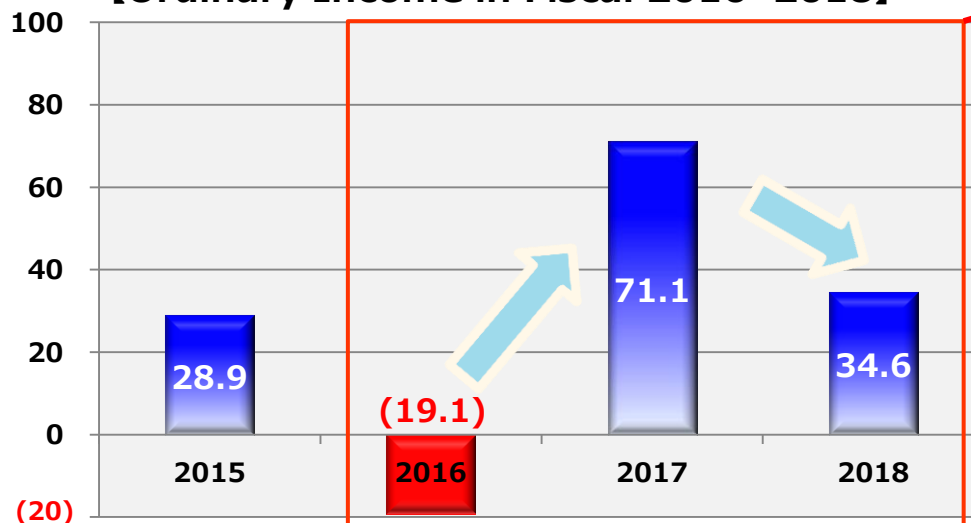
(Major progress and results up to fiscal 2018)



1. Review of Fiscal 2016–2018: (2) Financial Results

- **Profits:** Recovered on demand for construction machinery; profitability declined in materials due to temporary factors.
- **Financials:** Generated cash of about 110 billion over three years; maintained financial discipline by keeping D/E ratio below 1.0 times.

[Ordinary Income in Fiscal 2016–2018]



[Segment Breakdown]

(Billions of yen)		2016	2017	2018
Materials	Iron & Steel	(29.5)	17.3	4.7
	Welding	6.8	4.9	3.6
	Aluminum & Copper	12.0	11.8	(1.5)
	Subtotal	(10.7)	34.0	6.8
Machinery	Machinery	5.8	2.3	1.2
	Engineering	2.8	6.9	6.5
	Construction Machinery	(31.3)	21.9	25.5
	Subtotal	(22.7)	31.1	33.2
Electric power		13.0	7.9	(0.3)
Other Businesses		7.6	5.4	2.3
Adjustment		(6.4)	(7.5)	(7.5)
Total		(19.1)	71.1	34.6

[Cash Flow & D/E Ratio in Fiscal 2016–2018]

(Billions of yen)	2016	2017	2018
Operating cash flow	126.7	191.8	72.3
Investing cash flow	(131.9)	(160.7)	(10.9)
Free cash flow*	(5.2)	31.1	61.4

*Excludes project financing

D/E ratio	2016	2017	2018
(Excludes early procurement of borrowings)	1.00	-	0.85

1. Review of Fiscal 2016–2018: (3) Identified Issues

➤ To realize the medium- to long-term business vision, **strengthening profitability with a focus on materials**, which is based on restoring trust, is an urgent issue for the next two years to fiscal 2020.

Identified issues

Quality misconduct

- **Losses exceeded 20 billion yen in fiscal years 2017–2018**
- Completed safety verification at 688 customers with their cooperation
- **Issues still need to be resolved, including litigations overseas, etc.**

Production issues in materials

- **Steel production trouble led to 10-billion-yen loss in fiscal 2018**
- **Production efficiency declined in aluminum business**

Delayed returns on strategic investments

- **Returns on strategic investments delayed in steel, aluminum and titanium businesses, etc.**

Higher raw material and other costs

- **Costs increased for raw materials, distribution, energy, etc.**
- **Achieving appropriate sales prices is an issue**

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2. Earnings Forecast for Fiscal 2019 (Consolidated Basis)

	Fiscal 2016 (Actual)	Fiscal 2017 (Actual)	Fiscal 2018 (Actual)	Fiscal 2019 (Forecast)
Net sales	1,695.8 billion yen	1,881.1 billion yen	1,971.8 billion yen	2,070.0 billion yen
Ordinary income	(19.1) billion yen	71.1 billion yen	34.6 billion yen	30.0 billion yen
Net income/loss attributable to owners of the parent	(23.0) billion yen	63.1 billion yen	35.9 billion yen	25.0 billion yen
D/E Ratio	1.17 times ^{*3}	0.98 times	0.98 times ^{*4}	Around 0.9 times
ROA ^{*1}	(0.8%)	3.1%	1.5%	1.2%
ROE ^{*2}	(3.4%)	8.9%	4.8%	3.3%

*1: Ordinary income (loss) / total assets

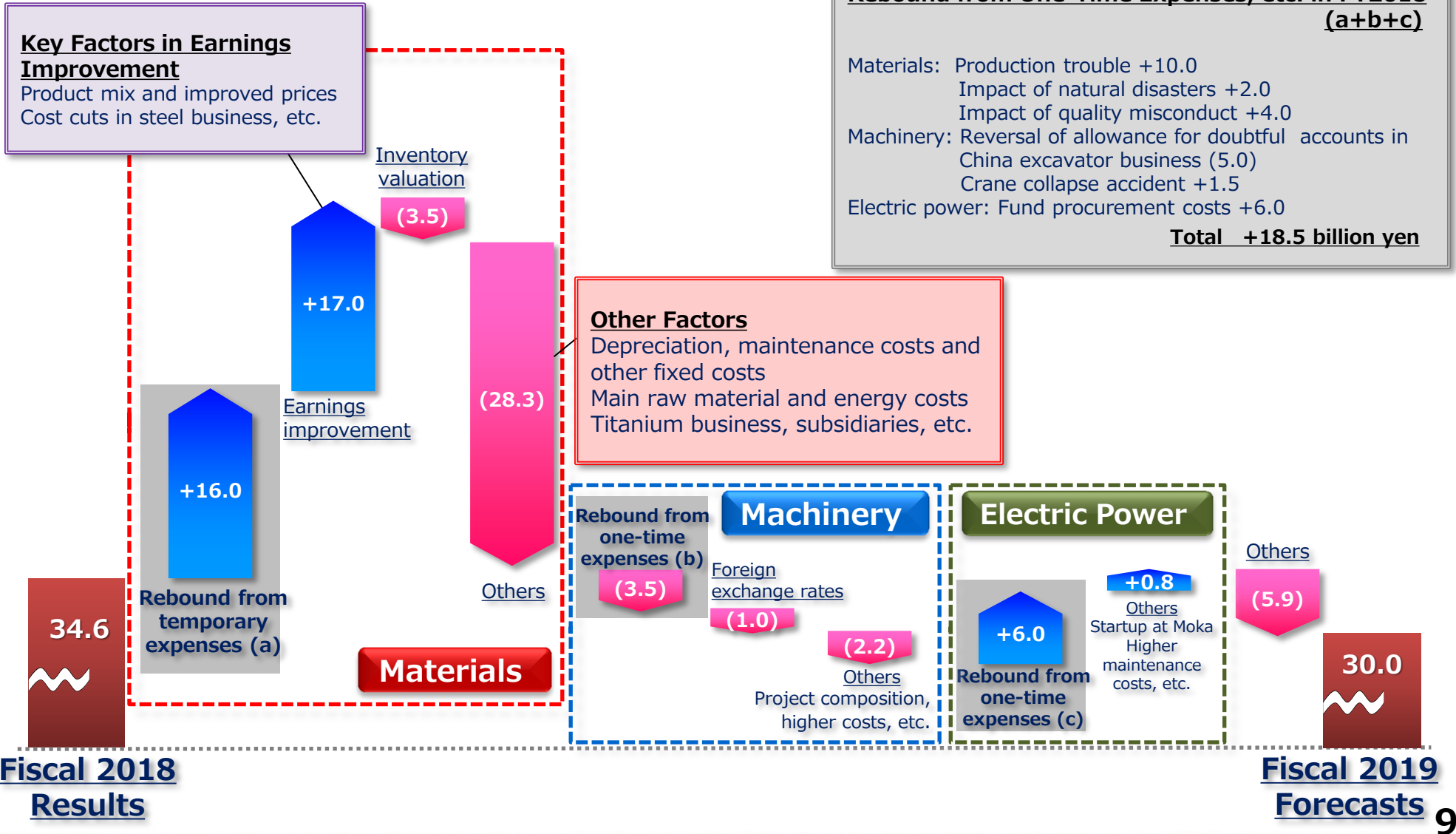
*2: Net income (loss) attributable to owners of the parent / shareholders' equity

*3: Includes early procurement of borrowings for fiscal 2017 (117.6 billion yen);
D/E ratio for fiscal 2016: 1.00 times (excluding early procurement of borrowings)

*4: Includes early procurement of borrowings for fiscal 2019 (92.1 billion yen);
D/E ratio for fiscal 2018: 0.85 times (excluding early procurement of borrowings)

2. Earnings Forecast for Fiscal 2019: Factors Behind Change in Ordinary Income

(Billions of yen)



**Fiscal 2018
Results**

**Fiscal 2019
Forecasts**

2. Earnings Forecasts for Fiscal 2019: Ordinary Income (Loss) by Segment

Ordinary Income (Loss) (Billions of yen)	Fiscal 2016 (Actual)	Fiscal 2017 (Actual)	Fiscal 2018 (Actual)	Fiscal 2019 (Forecast)	18→19 (Difference)
Iron & Steel	(29.5)	17.3	4.7	8.0	3.3
Welding	6.8	4.9	3.6	4.0	0.4
Aluminum & Copper	12.0	11.8	(1.5)	(4.0)	(2.5)
Machinery	5.8	2.3	1.2	4.5	3.3
Engineering	2.8	6.9	6.5	6.0	(0.5)
Construction Machinery	(31.3)	21.9	25.5	16.0	(9.5)
Electric Power	13.0	7.9	(0.3)	6.5	6.8
Other Businesses	7.6	5.4	2.3	3.5	1.2
Adjustment	(6.4)	(7.5)	(7.5)	(14.5)	(7.0)
Total	(19.1)	71.1	34.6	30.0	(4.6)

※See Page 31 for fiscal 2019 earnings forecast on a half-year basis.

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3. Positioning of Rolling of the Medium-Term Management Plan

- Focus on key themes for fiscal years 2019–2020. Adhere to Kobe Steel Group’s basic policies for achieving a business enterprise established in three core business areas of materials, machinery and electric power.
- Aim to restore trust in Kobe Steel as an essential entity that supports society through growth initiatives that also contribute to the environment and society.



Key themes in the rolling of the Medium-Term Management Plan	
Key themes for fiscal years 2019–2020	<p>(1) Strengthen profitability with a focus on materials</p> <ul style="list-style-type: none"> ➤ Strengthen <i>monozukuri</i> capabilities and increase sales prices ➤ Obtain returns on strategic investment projects ➤ Make further contributions to customers by reorganizing the Iron & Steel Business and Aluminum & Copper Business <p>(2) Make efficient use of management resources and strengthen the business base</p>
Ongoing themes for next medium-term plan	<ul style="list-style-type: none"> ➤ Steadily implement automotive weight reduction strategies ➤ Continue to reinforce corporate governance ➤ Initiatives for securing and cultivating human resources ➤ Strengthen IT strategies ➤ Promote sustainability management that leverages the distinctive features of the Kobe Steel Group (Contribute to society and the environment through business activities; pursue sustainable growth)

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Strengthen *monozukuri* capabilities and increase sales prices

Kobe Steel's Advantages

Steel products

Ultra high-strength steel

Material for car body structure

- Track record and know-how as a top runner
- 30-40% market share in ultra high-strength steel for several Japanese OEMs



Special steel wire rod

Wire rods for automotive engine valve springs, bolt material for high-rise buildings, etc.

- World-class rolling and cooling technologies for strength and precise dimensions
- High market shares for each menu, such as 50% share of world market for wire rods for automotive engine valve springs



Aluminum products

Aluminum rolled products

Automotive, beverage cans, HDD disk materials, IT-related, etc.

- Edge in alloy technology, high surface quality
- Top domestic share in aluminum sheets for automotive closure panels, 60% share of world market for HDD disk materials, etc.



Aluminum castings and forgings

Automotive and aircraft parts, etc.

- Top share of domestic market for aluminum forged suspension products for automobiles, etc.



Aluminum extrusions and fabricated products

Automotive and rolling stock parts, etc.

- Top domestic market share in aluminum shapes for rolling stock, etc.

Initiatives for Fiscal 2020

Steel / Kakogawa Works

- Prevent production trouble by improving equipment and control maintenance systems

Aluminum / Moka Plant

- Improve productivity and yield by increasing heat treatment capacity

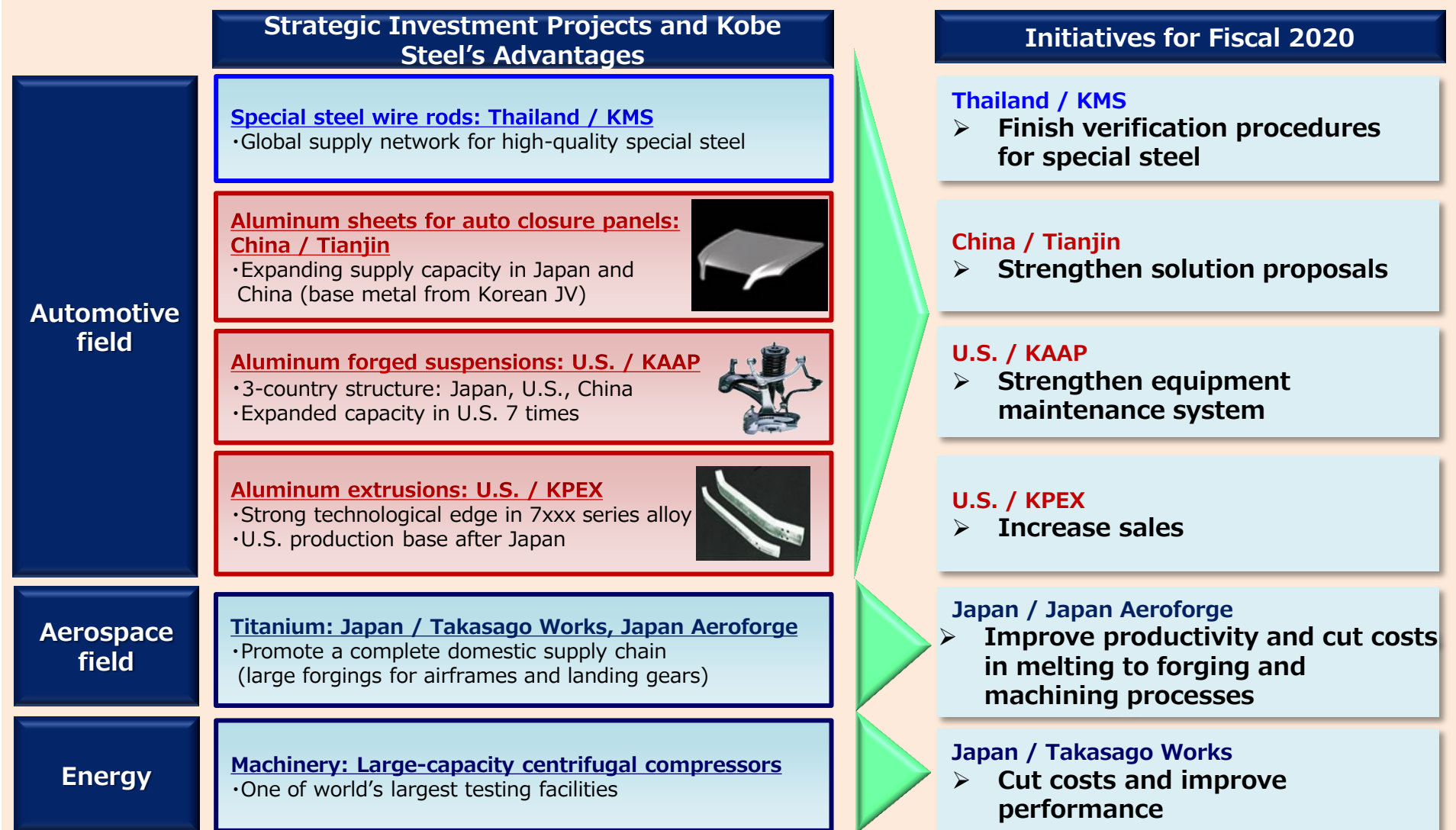
Aluminum / Daian Works

- Improve productivity

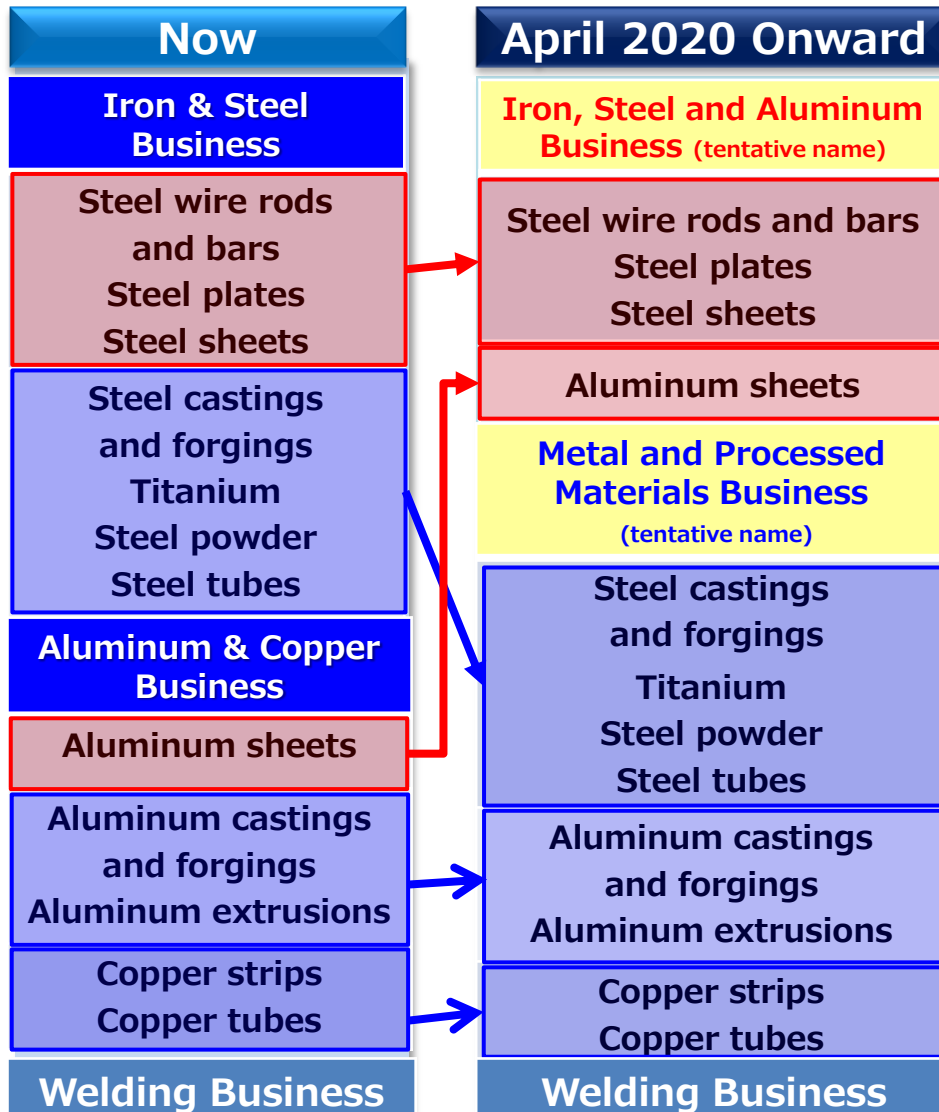
Increase sales prices

- Revise prices following rise in raw material and distribution costs
- Achieve appropriate sales prices
- Expand sales of value-added products through solution proposals, etc.

Obtain Returns from Strategic Investment Projects



Make further contributions to customers by reorganizing the Iron & Steel Business and Aluminum & Copper Business



Objectives of the Reorganization

Strengthen Strategies for Each Demand Field

- ✓ Reorganize along **materials** (steel products, aluminum sheets) and **parts** (automotive/ aluminum castings and forgings and extrusions, aircraft/titanium and aluminum castings and forgings)
- ✓ Consider integrating automotive steel sheet sales and aluminum sheet sales departments and product technology-related departments
 - ⇨ **Strengthen automotive weight reduction strategies**
- ✓ Expand sales through solution proposals

Strengthen *monozukuri* capabilities

- ✓ Link common elemental technologies and quality management across business divisions
- ✓ **[Materials]** rolling, continuous annealing, etc.
- ✓ **[Parts]** forging, extrusion, assembly, etc.

Reinforce corporate governance

- ✓ Strengthen management functions of business segments

Strengthen common functions

- ✓ Strengthen common functions in procurement, information systems, distribution, facility maintenance, etc.

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Make Efficient Use of Management Resources and Strengthen the Business Base with attention to capital costs

Initiatives to be Completed by Fiscal 2020

Business management and governance

◆ Revise the evaluation method of each business

- ✓ Use ROIC to assess the businesses
- ✓ Start using non-financial indicators in assessments from fiscal 2019

◆ Strengthen Group governance, including Group company reorganization

Finance

◆ Make efficient use of capital and assets

- Improve working capital
- Make disciplined investments
- Reduce strategically held shares, etc.

→ **Target 50 billion yen**

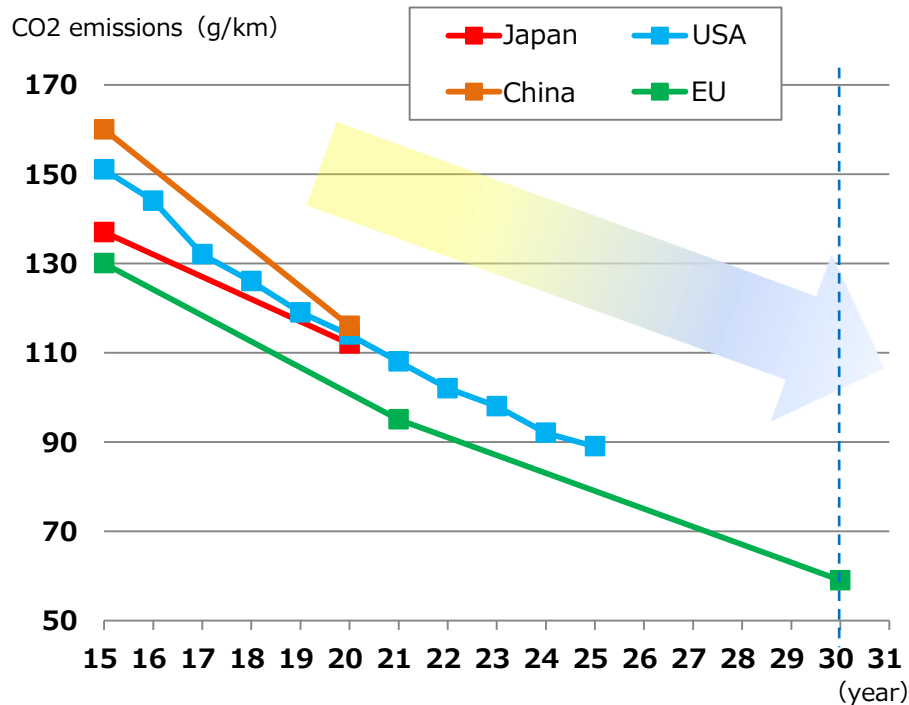
→ **Maintain financial discipline with D/E ratio of 1.0 times or less**

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① Automotive Weight Reduction Strategies: External Environment

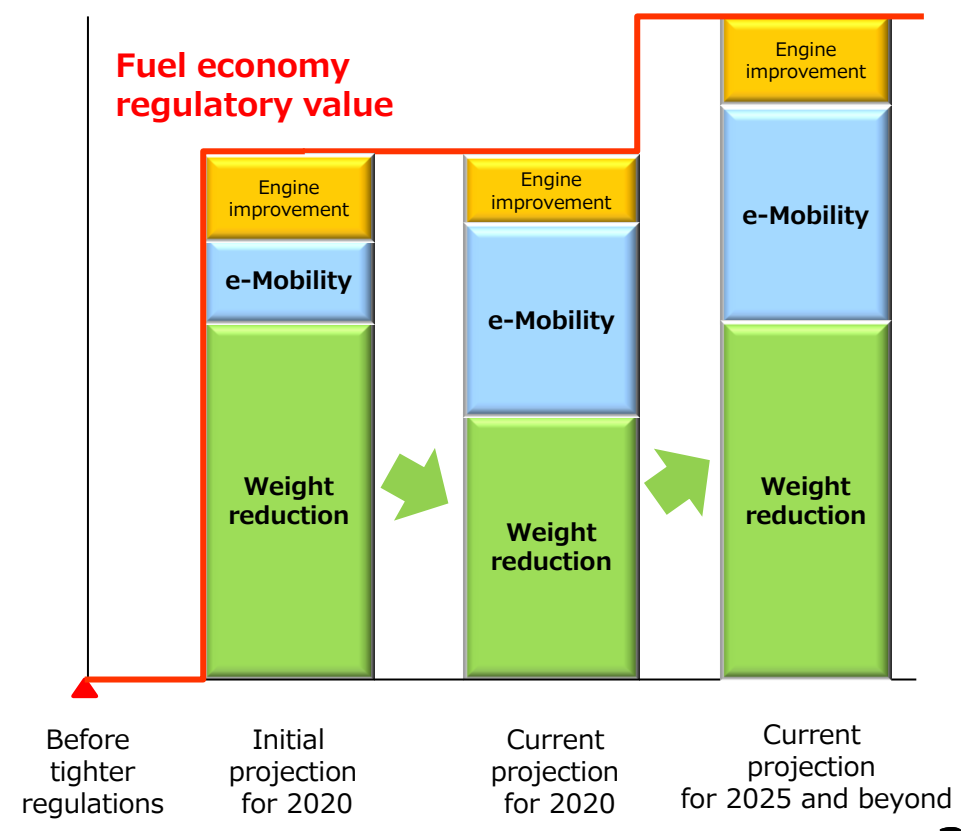
- Tougher vehicle fuel economy and emissions regulations likely through 2030.
- Demand for ultra-high-strength steel, a means of making vehicles lighter in order to meet stricter regulations, was in line with expectations, but the switch to aluminum is taking longer than initially anticipated. However, automotive weight reduction will continue to drive demand.

【Fuel Economy Regulations by Region (CO2 emission equivalent)】



Europe: Decided to further tighten fuel economy and emission regulations in 2030
 Japan: 2030 regulatory values to be decided around summer 2019

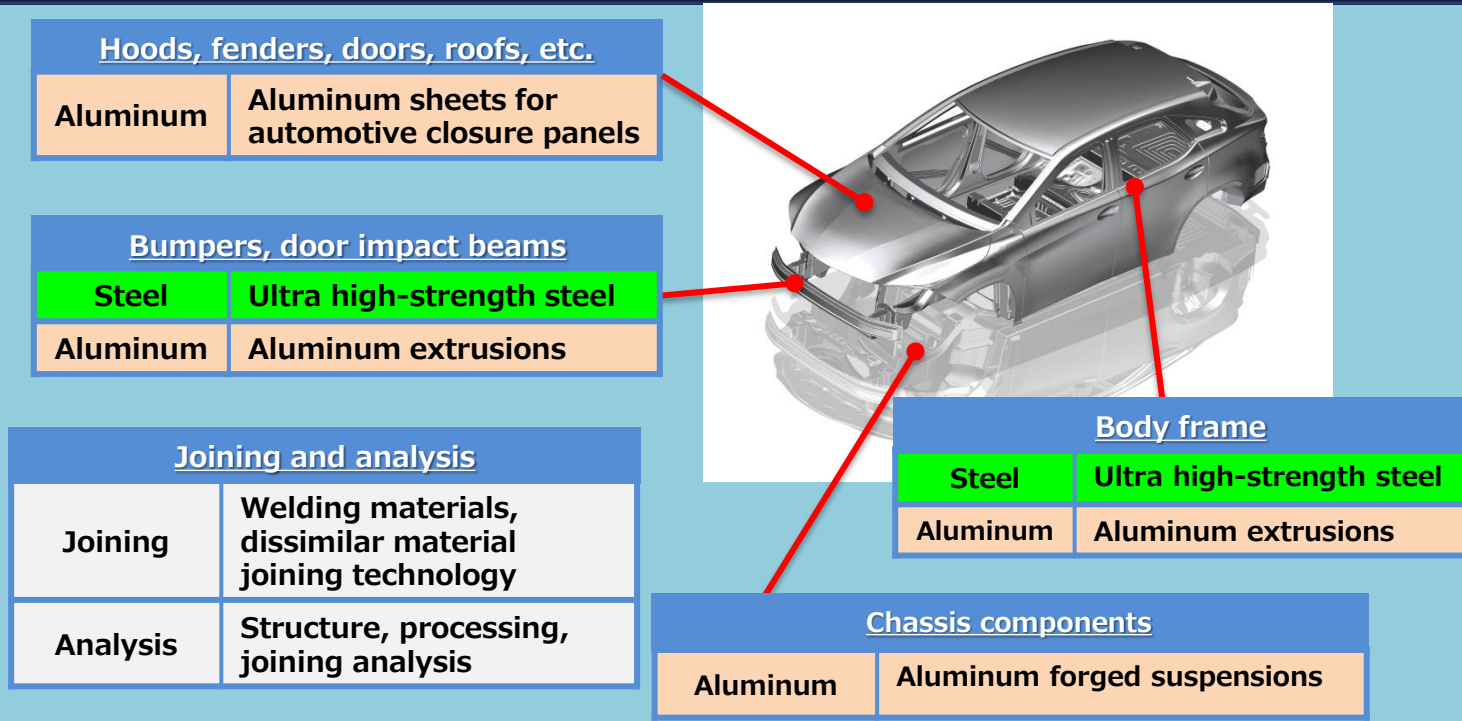
【Changes in Ways to Meet Regulations (Kobe Steel projections)】



① Automotive Weight Reduction Strategies: Kobe Steel's Unique Initiatives

- Promote solution proposals as the world's only manufacturer that has steel, aluminum, welding and dissimilar material joining technologies.
- Strengthen ability to propose solutions for making vehicles lighter by reorganizing materials-related businesses.
- In addition to automotive weight reduction, contribute to reducing CO2 emissions by providing Kobe Steel Group technologies, products and services to meet the needs for satisfying stricter fuel economy and emissions regulations, including e-mobility.

Multi-Materials that Contribute to Automotive Weight Reduction



Propose comprehensive solutions for materials that contribute to reducing weight with ultra high-strength steel and aluminum, combined with processing, structural proposals and joining methods to make full use of materials

Fields That Contribute to e-Mobility	
Steel	Soft magnetic iron material, magnetic steel powder
Copper	Copper alloys for high voltage circuits
Machinery	Equipment and units for hydrogen refueling stations
Others	Fast chargers for vehicles, mobile power supply vehicles

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② Continued strengthening of Corporate Governance: Progress of Measures to Prevent Reoccurrence of Quality Misconduct

- The Independent Quality Supervision Committee has completed the monitoring of measures to prevent reoccurrence of misconduct. The Quality Management Committee has been established to continue initiatives for improving quality management.
- **Governance** : Strengthen governance, starting with the corporate philosophy.
- **Management**: Improve the quality assurance system; continue the Quality Caravan Team and other initiatives.
- **Process**: Plan to finish creating quality management process in fiscal 2020 to eliminate opportunities for misconduct.

		Up to Fiscal 2018	Fiscal 2019–2020	From Fiscal 2021
G O V E R N A N C E	1. Penetration of the Group's corporate philosophy	Next 100 Project	Continue dialogues with the president and dialogue platforms at department level	
	2. Desirable state of the Board of Directors	Continue review of structure, including composition of the Board of Directors		
	3. Restructuring of risk management system		Strengthen governance at Group companies	
	4. Reforming the insular nature of organizations	Rotate personnel among business divisions	Reorganize Iron & Steel Business and Aluminum & Copper Business	
	5. Restructuring of quality assurance system	Create Quality Charter, invite outside quality experts, set up Quality Management Department, etc.		
	6. Restructuring of management indicators		Create and start using seven management indicators, including ROIC, etc.	
	Management	Continue quality audits and the Quality Caravan Team		
	Process	Automate key inspection equipment, finished visualization of process capacity		

*Refer to the web page below for more information about measures to prevent a reoccurrence
Progress on measures to prevent a reoccurrence <http://www.kobelco.co.jp/progress/relapse-prevention/index.html>

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Key themes for fiscal years 2019-2020

Strengthen profitability with a focus on materials

Make Efficient Use of Management Resources and Strengthen the Business Base

Medium- to long-term business vision
KOBELCO VISION "G+"

Growth in materials and machinery, stable earnings base in electric power

Continuing themes for the next medium-term management plan

- ✓ Automotive weight reduction strategies
- ✓ Corporate governance, securing and cultivating human resources, IT strategies, other
- ✓ Sustainability management (Contribution to the environment and society, sustainable growth)

Initiatives to restore trust

Ordinary income
34.6 billion yen

Ordinary income (Forecast)
30.0 billion yen

Rolling of Medium-Term Management Plan

Next medium-term management plan

FY2018

FY2019

FY2020

Materials
40-50%*

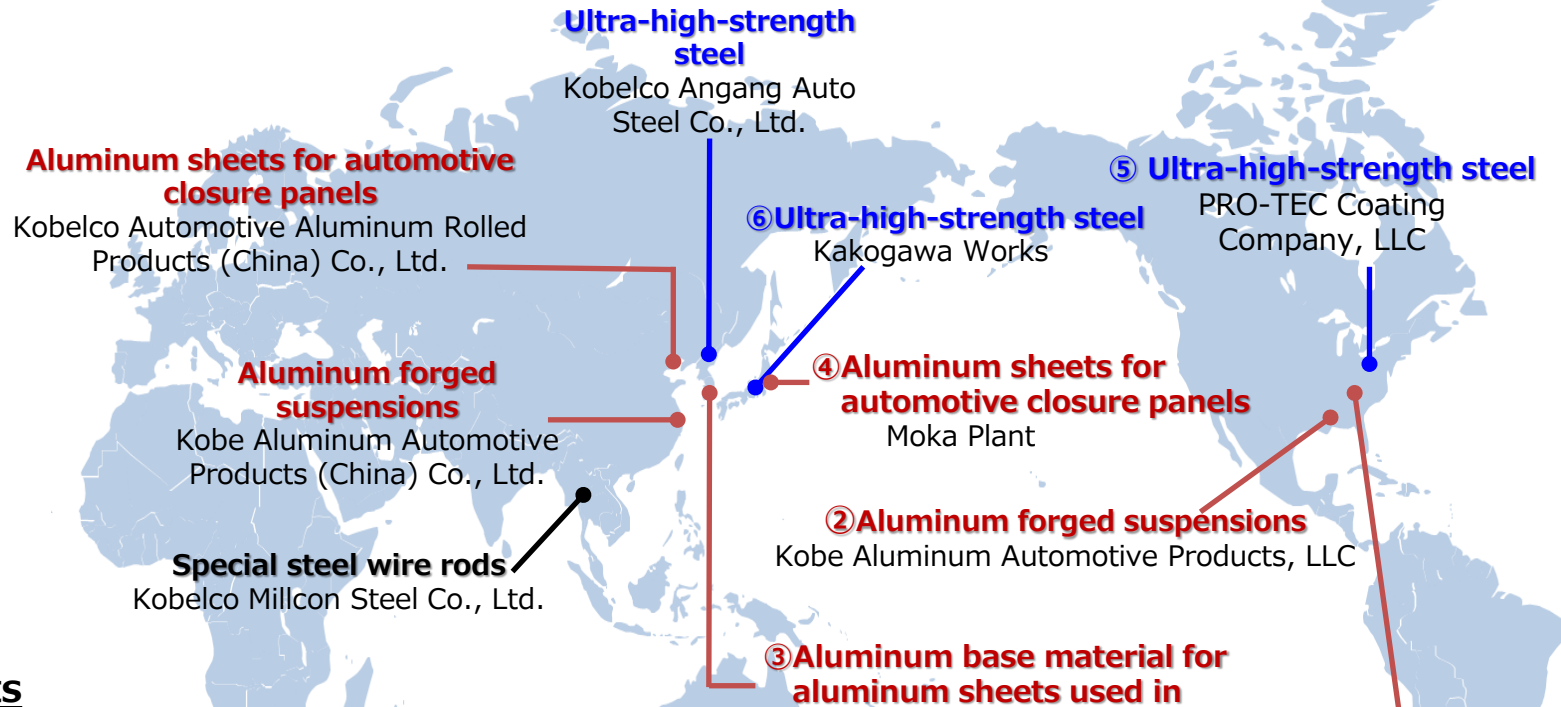
Machinery
30-40%*

Electric power
20-30%*

Business enterprise established in three core business areas

*image of composition by business

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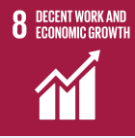









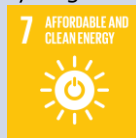





Status of Investments

	Remarks	Investment	Decision date
①	Established new production and sales base (KPEX) for aluminum extrusions and fabricated products	US\$46.7 million	April 2016
②	Expanded production facility for aluminum forged suspensions (KAAP) (7th expansion)	US\$53 million	April 2017
③	Established joint venture with Novelis in South Korea (aluminum base material for closure panels)	US\$315 million	May 2017
④	Expanding production equipment for aluminum sheets for automotive closure panels at Moka Plant	About ¥20 billion	May 2017
⑤	Added new production facility for ultra-high-strength steel at PRO-TEC	US\$400 million*	Sept. 2017
⑥	Adding new production facility for ultra-high-strength steel at Kakogawa Works	About ¥50 billion	April 2018
⑦	Expanding production facility for extrusions and fabricated products at KPEX	US\$42 million	August 2018
Total investments		About ¥160 billion	

* Financing arranged by PRO-TEC

(Reference) Medium- and Long-Term Initiatives: SDG Examples

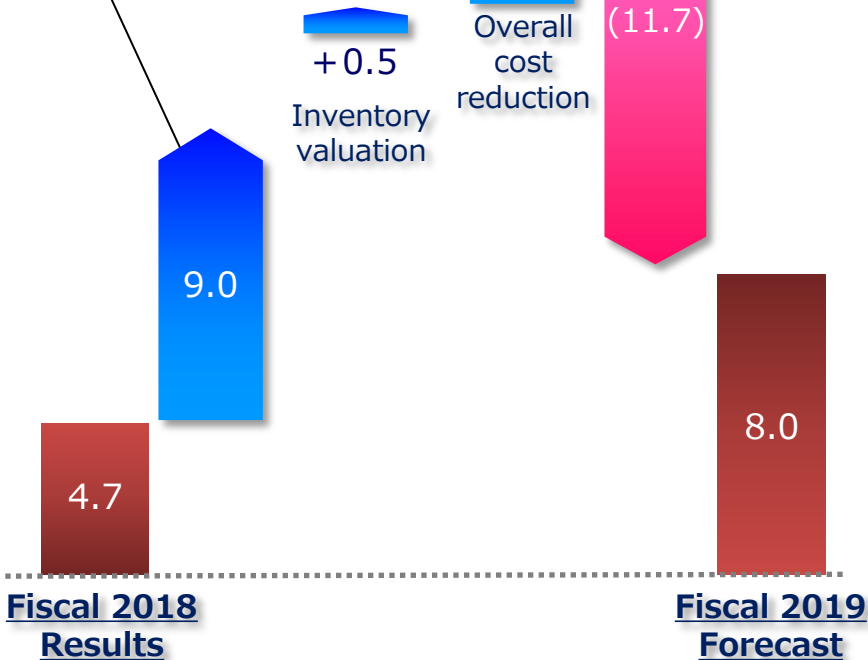
Business segment	SDG examples	Business segment	SDG examples
Materials (steel, welding, aluminum)	<p>Supply of products, technologies and services that contribute to automotive weight reduction (ultra-high-strength steel, aluminum sheets for automotive closure panels, aluminum extrusions, aluminum forged suspensions, dissimilar material welding technology, etc.)</p>   	Engineering	<p>Start of operations on North-South Line of the Jakarta Mass Rapid Transit system, Indonesia's first subway line</p> 
Iron & Steel	<p>Supply of steel slag products (steel slag hydrated matrix that helps restore coastal environments) for coastal projects in Hyogo Prefecture</p>  	Engineering	<p>Delivery of MIDREX® Direct Reduction Steel Plant in Algeria</p> 
Technical Development	<p>Sale of materials for hydroponics that use KENIFINE, an antibacterial coating</p>   	Engineering	<p>Operation of wood biomass power generation facility using timber from forest thinning (Fukui Green Power Co., Ltd.)</p>     
Welding	<p>Joint international industry-academia research in welding technology in Vietnam</p>    	Engineering	<p>Order received for water purification facility in Cambodia, entry into waterworks business</p>   
Machinery	<p>Start of long-term operational tests with Kawasaki Kisen on a binary cycle power generation system installed on an actual ship</p>    	Machinery, Engineering, Electric power	<p>Effective use of underutilized regional energy resources at Kobe Power Plant (power generation using wastewater sludge as some fuel, production of hydrogen supplied to hydrogen refueling stations)</p>    

Iron & Steel

(Billions of yen)

Metal spread and product mix

Production & shipments +34.5
Raw material prices (25.5)
Foreign exchange rates ±0.0

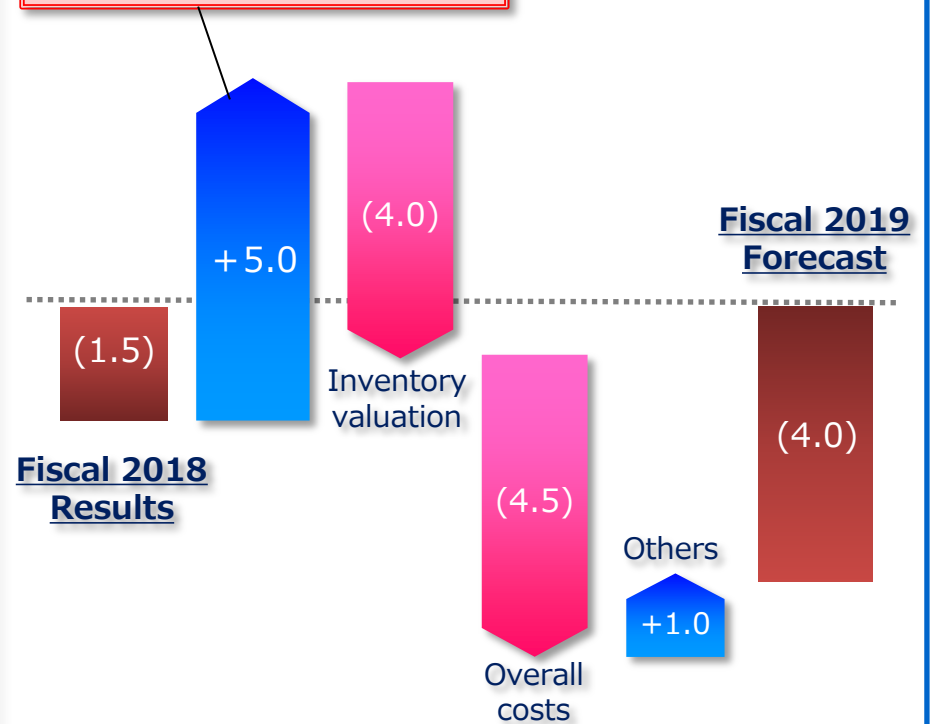


Aluminum & Copper

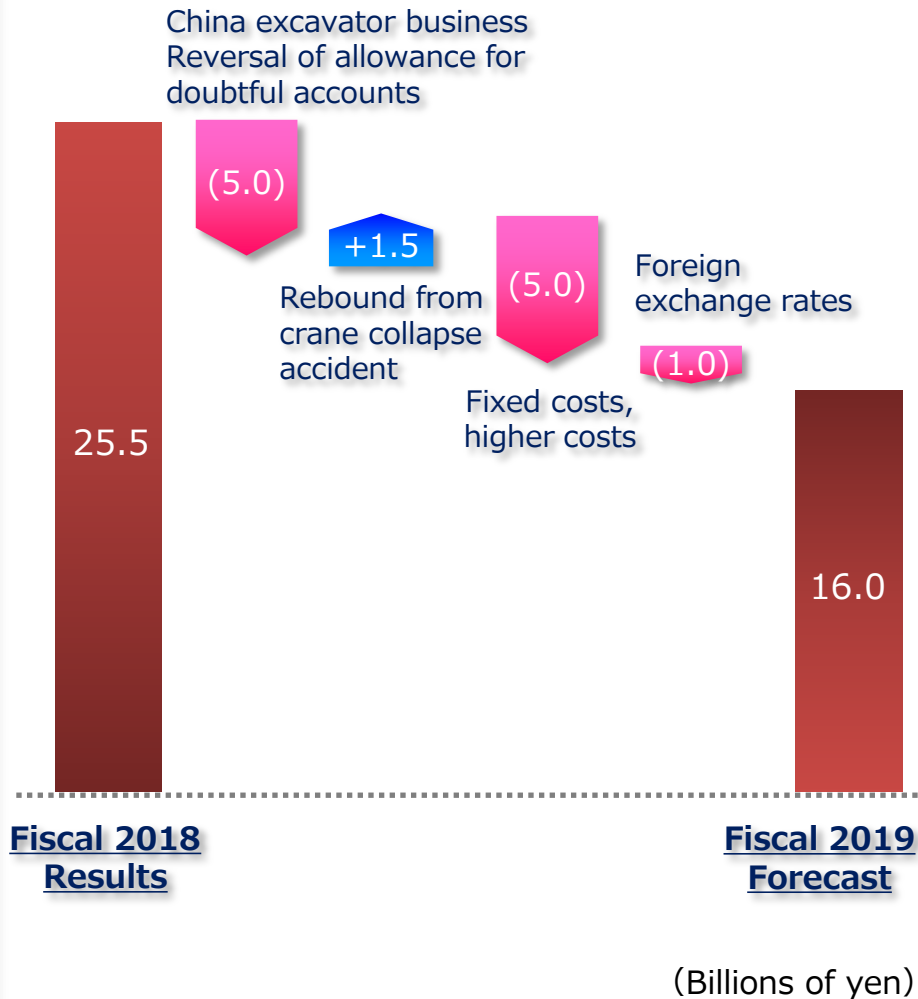
(Billions of yen)

Roll margin and product mix

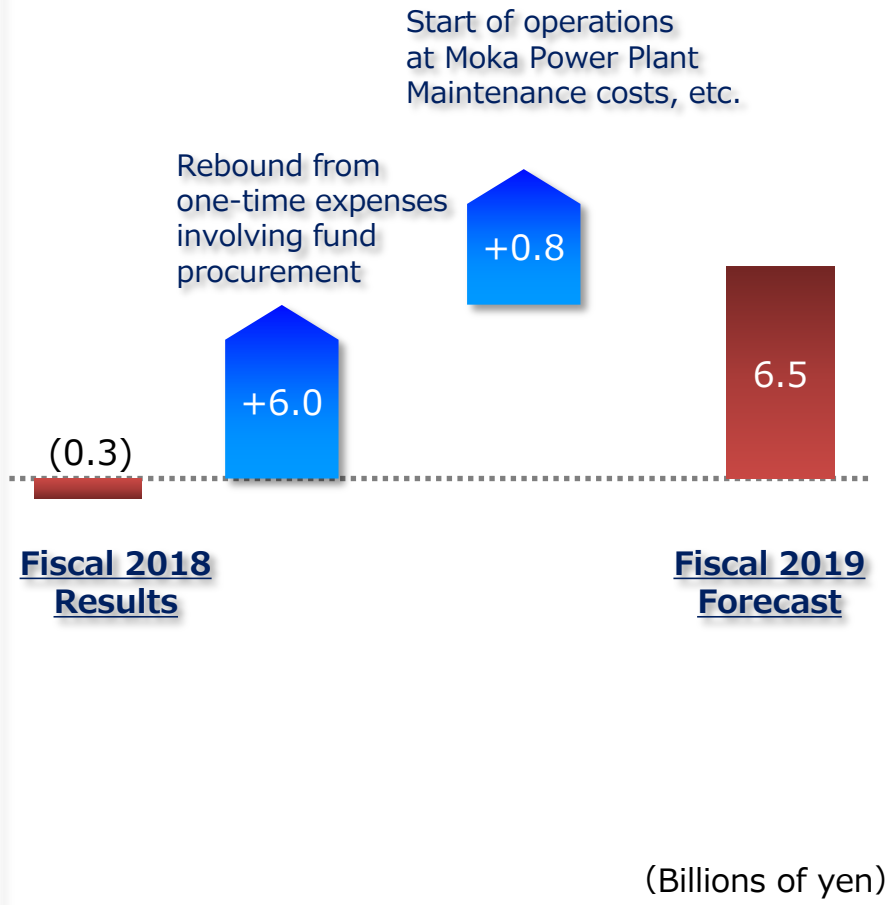
Production & shipments +4.5
Raw material prices +0.5
Foreign exchange rates ±0.0



Construction Machinery



Electric Power



(Reference) Earnings Forecast for Fiscal 2019

➤ Consolidated Basis

(Billions of yen)

	1H	2H	Full Year
Net sales	1,010.0	1,060.0	2,070.0
Ordinary Income	0.0	30.0	30.0
Net income/loss attributable to owners of the parent	0.0	25.0	25.0

➤ Ordinary Income (Loss) by Segment

	1H	2H	Full Year
Iron & Steel	(2.0)	10.0	8.0
Welding	1.5	2.5	4.0
Aluminum & Copper	(4.5)	0.5	(4.0)
Machinery	0.5	4.0	4.5
Engineering	2.0	4.0	6.0
Construction Machinery	9.0	7.0	16.0
Electric Power	(0.5)	7.0	6.5
Other businesses	0.0	3.5	3.5
Adjustment	(6.0)	(8.5)	(14.5)
Total	0.0	30.0	30.0

(Reference) Free Cash Flow, Capital Investment



(Billions of yen)

➤ Free Cash Flow

	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019 Forecast
Operating cash flow	126.7	191.8	72.3	60.0
Investing cash flow	(131.9)	(160.7)	(10.9)	(155.0)
Excluding project finance Free cash flow	(5.2)	31.1	61.4	(95.0)
Including project finance Free cash flow	3.9	29.2	38.5	(210.0)
Excluding project finance Cash balance	197.0	158.2	192.6	70.0
Outside Debt	789.6	726.0	724.2	705.0

➤ Capital Investment

	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019 Forecast
Capital investment (accrual basis)	160.2	128.6	133.4	300.0
Depreciation	167%	126%	130%	273%
Capital investment (payment)	138.9	136.6	132.5	290.0
Depreciation	144%	134%	129%	264%
Depreciation	96.2	102.0	102.5	110.0

◆ Dividend Policy

- Kobe Steel's basic policy is to provide continuous and stable dividends to its shareholders. Dividends are decided taking into account the Company's financial condition, earnings trends, and future capital needs.
- For the time being, priority will be placed on investments necessary for future growth to improve profitability, raise the overall corporate value of the Group, and thereby improve the common interest of shareholders.

◆ Consolidated Dividend Payout Ratio (Target)

- **15–25%** for the time being, in line with current policy

◆ Dividends Paid

	Fiscal 2014			Fiscal 2015			Fiscal 2016			Fiscal 2017			Fiscal 2018		
	Interim	Year-end		Interim	Year-end		Interim	Year-end		Interim	Year-end		Interim	Year-end	
Dividends per share (¥)	2.0	2.0	4.0	2.0	–	2.0	–	–	–	–	30.0	30.0	10.0	10.0	20.0
Dividend payout ratio			16.8%			–			–			17.2%			20.2%

* The Company carried out a 1-for-10 reverse stock split of its shares on October 1, 2016.

(Reference) Production, Sales and Orders

	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019 Forecast
Crude steel production (Millions of tons)	7.2	7.5	6.9	About 7.2
Sales volume of steel products (Millions of tons)	5.9	6.0	5.6	About 5.9
(Domestic)	(4.2)	(4.4)	(4.3)	—
(Exports)	(1.7)	(1.6)	(1.4)	—
Average steel sales price (Thousands of yen/ton)	70.6	81.5	86.1	—
Export ratio of steel production (value basis)	28.6%	27.2%	24.9%	—
Sales volume of welding materials (Thousands of tons)	297	291	298	About 310
(Domestic)	125	128	127	—
(Exports)	172	162	171	—
Sales volume of aluminum rolled products (Thousands of tons)	359	363	345	About 340
(Domestic)	291	285	269	About 295
(Exports)	68	78	76	About 45
Copper rolled products (Thousands of tons)	143	142	144	About 150
Value of orders in Machinery Business (Billions of yen)	128.2	151.1	171.7	About 155.0
Value of orders in Engineering Business (Billions of yen)	174.2	119.2	122.6	About 155.0

Core Values of KOBELCO

1. We provide technologies, products and services that win the trust and confidence of our customers we serve and the society in which we live.
2. We value each employee and support his and her growth on an individual basis, while creating a cooperative and harmonious environment.
3. Through continuous and innovative changes, we create new values for the society of which we are a member.

Six Pledges of KOBELCO Men and Women

1. Heightened Sense of Ethics and Professionalism
2. Contribution to the Society by Providing Superior Products and Services

Quality Charter

Guided by our "Quality Charter," we provide safe, sound, and innovative products and services to our customers, and thereby ensure customer satisfaction and contribute to the advancement of the society.

3. Establishing a Comfortable but Challenging Work Environment
4. Living in Harmony with Local Community
5. Contribution to a Sustainable Environment
6. Respect for Each Stakeholder

- Certain statements in this presentation contain forward-looking statements concerning forecasts, assertions, prospects, intentions and strategies. The decisions and assumptions leading to these statements were based on information currently available to Kobe Steel. Due to possible changes in decisions and assumptions, future business operation, and internal and external conditions, actual results may differ materially from the projected forward-looking statements. Kobe Steel is not obligated to revise the forward-looking contents of this presentation.
- Uncertain and variable factors include, but are not limited to:
 - Changes in economic outlook, demand and market conditions
 - Political situation and trade and other regulations
 - Changes in currency exchange rates
 - Availability and market conditions of raw materials
 - Products and services of competing companies, pricing policy, alliances, and business development including M&As
 - Strategy changes of alliance partners