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Kobe Steel Group Vision
「KOBELCO VISION “ G ”」

Fiscal 2013–2015 Medium–Term Business Plan

— Rebuilding the Business Foundation for Stability and Growth —

May 29, 2013

KOBE STEEL, LTD.



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—CONTENTS—

- ▶ Framework for the Kobe Steel Group
- ▶ Business Conditions and Financial position of FY2010-2012
- ▶ - Rebuilding the Business Foundation -
 <FY2013-2015 Medium-Term Business Plan>
- ▶ Laying the Foundation for Stable Profits and Business Growth
- ▶ Our Dividend Policy



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Framework for the Kobe Steel Group

[Release at April 14,2010]

Integrating the knowledge
and technologies of diverse businesses
in materials and machinery,
Kobe Steel aims to become
a corporate group that:

- ❑ Has a presence in the global market
- ❑ Maintains a stable profit structure and a strong financial foundation
- ❑ Prospers together with its shareholders, business partners, employees and society



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Business conditions

FY2010

Business conditions assumed when formulating KOBELCO VISION “G”

- ◆ Economic progress and rise of capabilities in emerging countries, such as China
- ◆ Gradual recovery of the U.S. and European economies after the Lehman shock
- ◆ Move to bolster natural environment protection and a low-carbon society with energy saving needs due to soaring resource prices
- ◆ Appreciation of the yen with the dollar in the 90-yen range

~FY2012

Changing business conditions

- ◆ Concern over the European fiscal and financial crisis
- ◆ Appreciation of the yen and continuation of the extremely strong yen
- ◆ Slowdown in growth in China economy
- ◆ Concern over power shortage
- ◆ Worsening relationship between Japan and China

Natural disasters

- ◆ Great East Japan Earthquake
- ◆ Flood in Thailand, etc.

FY2013~

Business conditions assumed from now on

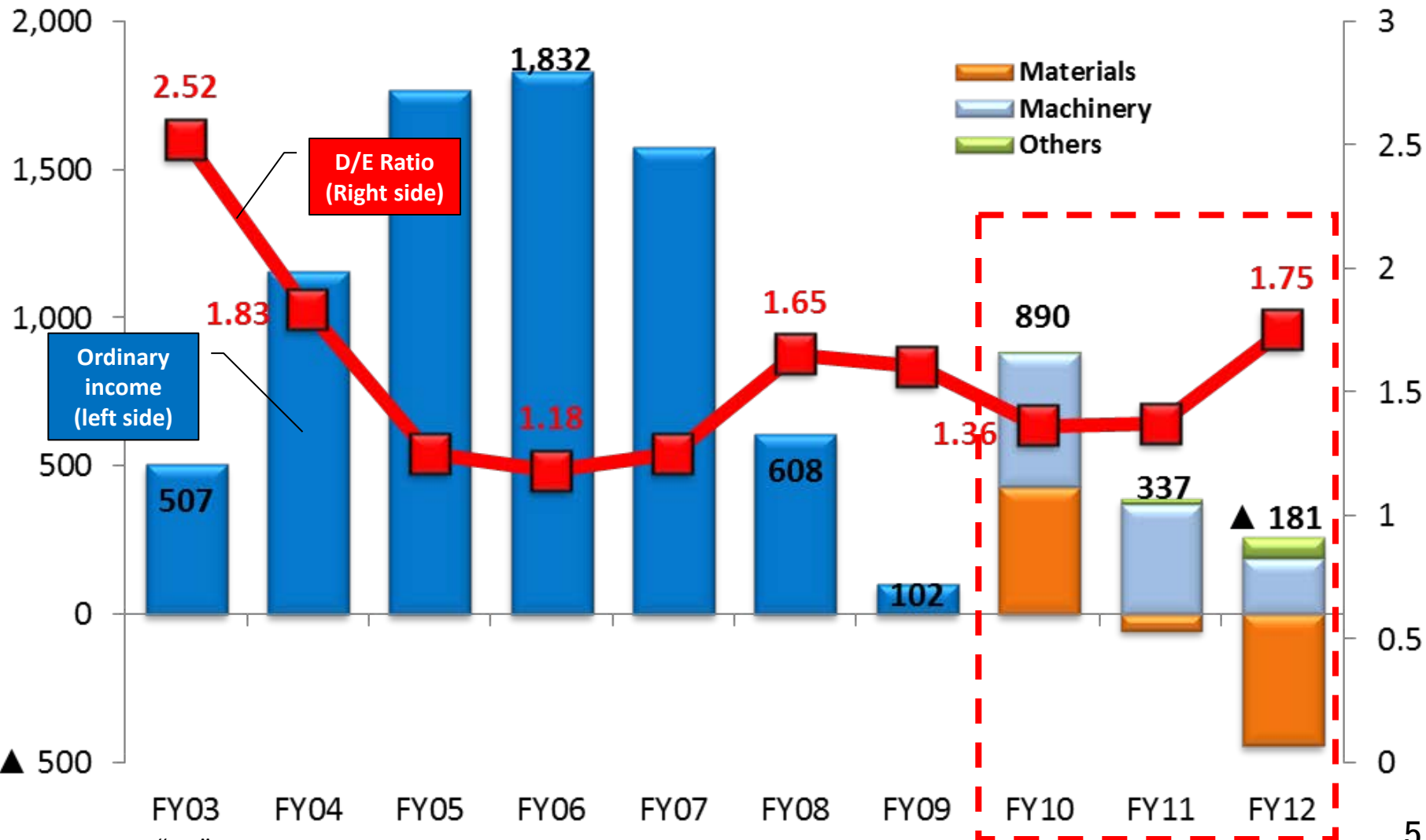
- ◆ Growth of U.S. economy, demand for shale gas
- ◆ Continuation of the growth in emerging nations
- ◆ Concern over financial institutions in Europe
- ◆ Problem of over-capacity and environment in China
- ◆ Elevated resource prices
- ◆ Correction of the extremely strong yen → Increases in the prices of imported goods
- ◆ Power shortage, increases in power consumption and cost
- ◆ Consumption tax increase (consumer slump) ⇔ Pulling out of deflation(?)



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Financial Performance in FY2010-2012

◆ Ordinary income (100 million yen) and D/E ratio (times)





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Actions taken in FY2010~2012

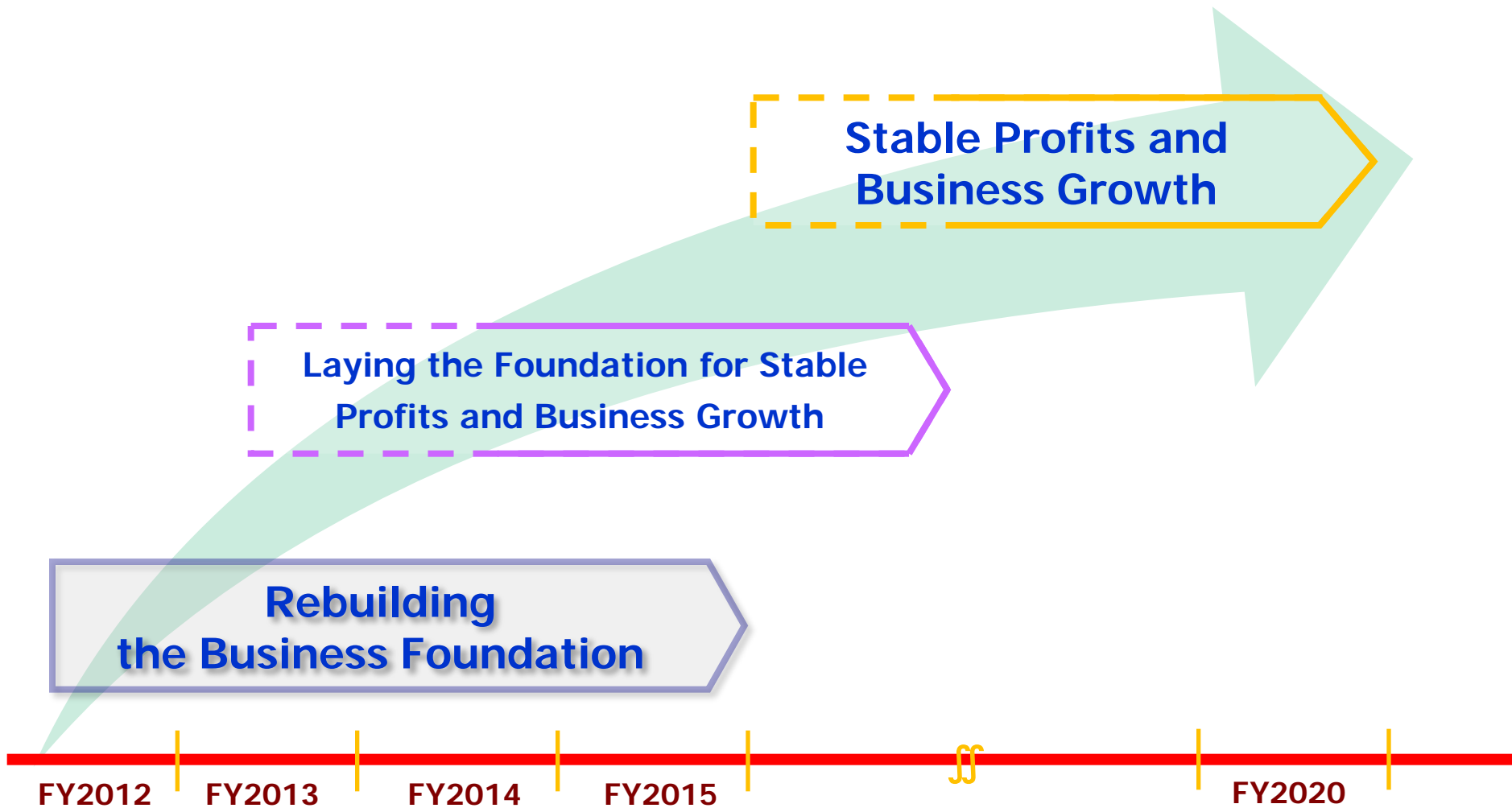
○ Measures taken to earn stable profits and to meet demand in growing markets

Segment	Main Capex	
Iron & Steel	Introduction of hot metal treatment plant, heat treatment furnace for steel plate, and a high-efficiency private power generation plant	FY2012~
Iron & Steel	Constructed production line for high-strength steel sheet for auto bodies in the U.S.	FY2013
Aluminum & Copper	Established a base in China to make automotive aluminum forgings (Established production locations for suspension parts in three major countries: Japan, the U.S. and China)	FY2012
Machinery	Made capital injection into a maker of large-capacity compressors in China	FY2011
Kobelco Construction machinery	Established Global Engineering Center (GEC) (Optimization of production and development)	FY2012



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Step to Stable Profits and Business Growth





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Rebuilding the Business Foundation

Rebuilding the business foundation

to withstand global competition by strengthening the financial position and competitiveness of each business

1. Strengthening the Profitability of the Steel Business
2. Securing Sales Volume in Growing Sectors and Regions
3. Improving the Competitiveness of the Company
4. Improving Financial Performance

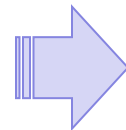


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1. Strengthening the Profitability of the Steel Business

Profit improvement plans for Iron & Steel Business	Amount of an effect (Billion yen)		
	FY2013 Compared with FY2012	FY2015 Compared with FY2013	TTL Compared with FY2012
● Equipment investment effects	4.0	19.0	23.0
● Cost reduction at production sites	12.0	10.0	22.0
● Improving raw material costs	8.0	0.0	8.0
● Reduction of fixed costs, etc.	6.0	1.0	7.0
TTL	30.0	30.0	60.0

Other reasons for increasing profit (FY2012→FY2013)	
(1) Changing the depreciation method	18.0
(2) Inventory valuation, etc.	20.2
TTL	68.2

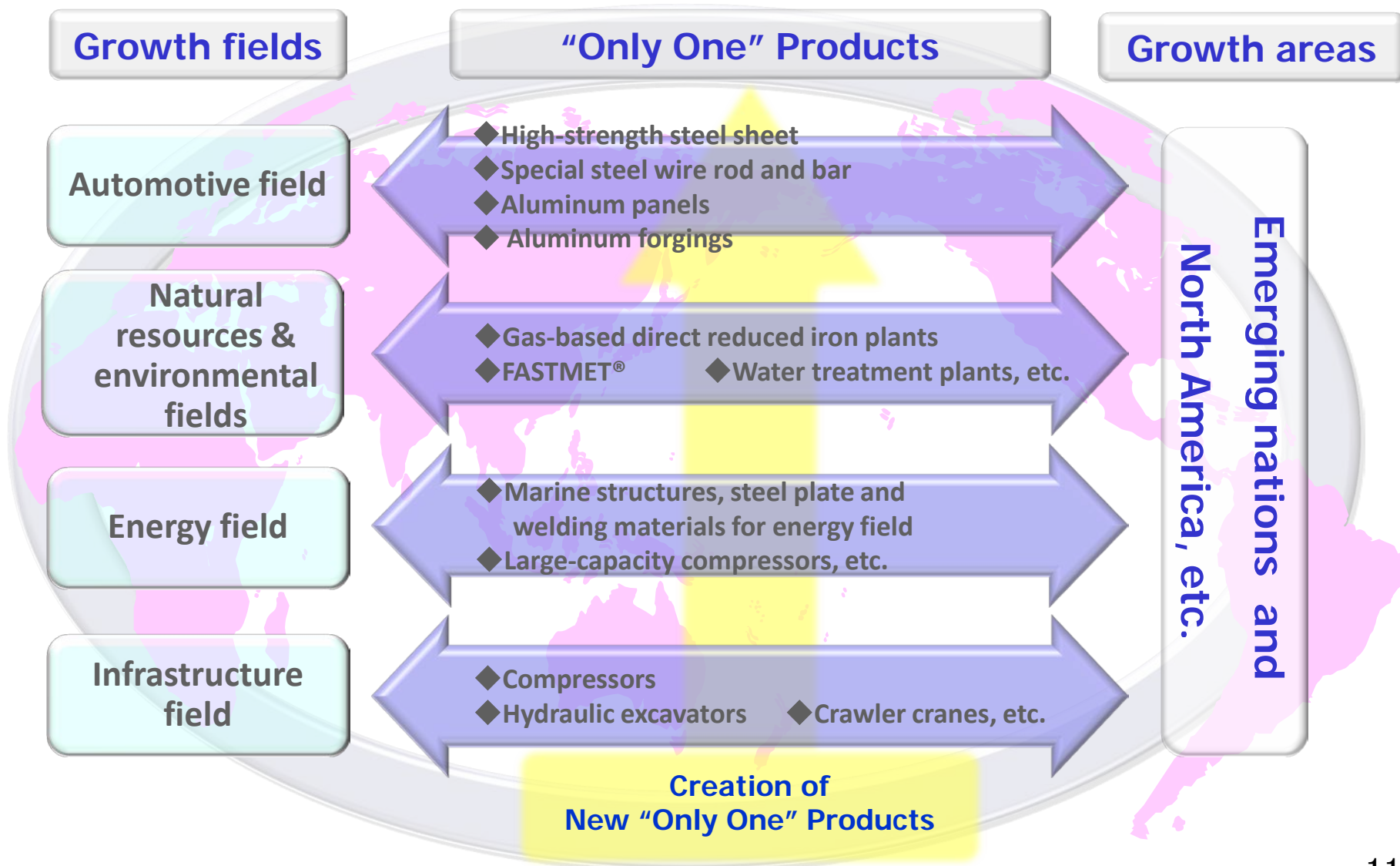


Iron & Steel Business Ordinary income	
FY2012	FY2013
▲50.2	18.0



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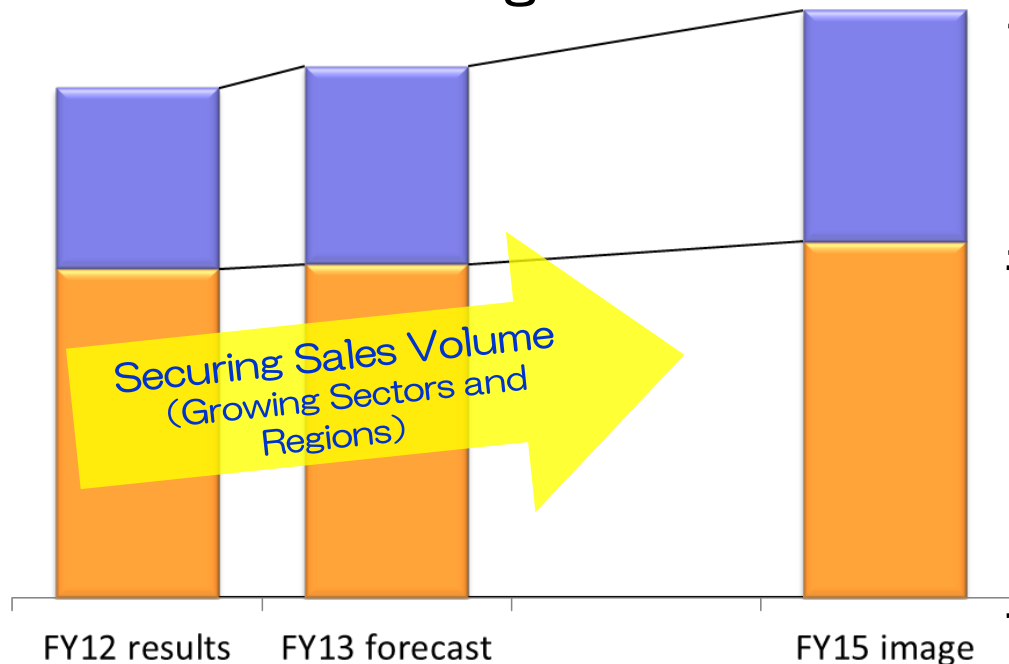
2. Securing Sales Volume in Growth Sectors and Regions





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Plan for Securing Sales Volume



Machinery business

Materials business

Overseas sales ratio

FY2012
34%

FY2013
35%



FY2015
about 40%

Materials business	Iron & Steel	Maximizing profits by manufacturing high-strength steel sheet for auto bodies in the U.S. and wire rod processing
	Aluminum & Copper	Sales expansion by boosting production capacity of bases for aluminum forged products
Machinery business	Machinery	Sales expansion by utilizing a Chinese manufacturer
	Kobelco Construction Machinery	Secure unit sales in China, Southeast Asia and India Sales expansion in the U.S. and Europe
	Engineering	Supporting earthquake recovery



3. Improving the Competitiveness of the Company

	(Billion yen)	Amount of effect in FY2015 (vs. FY2012)
● Labor costs /efficiency improvements		1.0
● Reduction of F costs		10.0
● Reduction of V costs		15.0
● “Monozukuri-ryoku” strengthening		4.0
TTL		30.0

● Actions

- Labor costs /efficiency improvements : Pay cuts for executives and managers, increasing work productivity of staff, etc.
- Reduction of F costs : Reduction of maintenance costs, cutting down expenses, etc.
- Reduction of V costs : Getting competitive quotes, central buying, buying from overseas, etc.
- “Monozukuri-ryoku” Strengthening : Reduction of Quality Failure Cost, promoting energy savings, etc.



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4. Improving Financial Performance

D/E ratio

**Maximum 1.0 times in or after FY2016
(fiscal discipline is maintained)**

- Thoroughness of financial indicator management.
- Distribution of funds to growth areas.
- Consideration of optimal financing method according to business characteristics.

Cash Generation Plan	Amount of Cash
● Reduction of inventory	40 bn
● Promotion of securitization	15 bn
● Selling of assets, etc.	65 bn
Create cash by own efforts	TTL about 120 bn
● Careful selection of investment	

D/E ratio: About 1.3 times in FY2015



“Monozukuri-ryoku” Strengthening

- Going beyond the current framework of the organization, visualization, synergy from the fusion of technologies
- Reduction of Quality Failure Cost by thorough management of quality

Enhancement of Human Resource Development

- Development of training programs for specialists and global human resources
- Skill transmission and building a system for the training of engineers

Technological Development Strengthening

- Information sharing in Kobe Steel Group and creation of new “Only One” products by utilizing technology
- Strengthening leading-edge technology and basic technology for maintaining competitive advantage in the medium to long term

Enforcement of Compliance and Contributing to Society

- Cultivating a compliance-sensitive culture
- Contributing to local communities and environmental conservation



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For FY2015 (FY2012 actual →FY2015 medium-term plan)

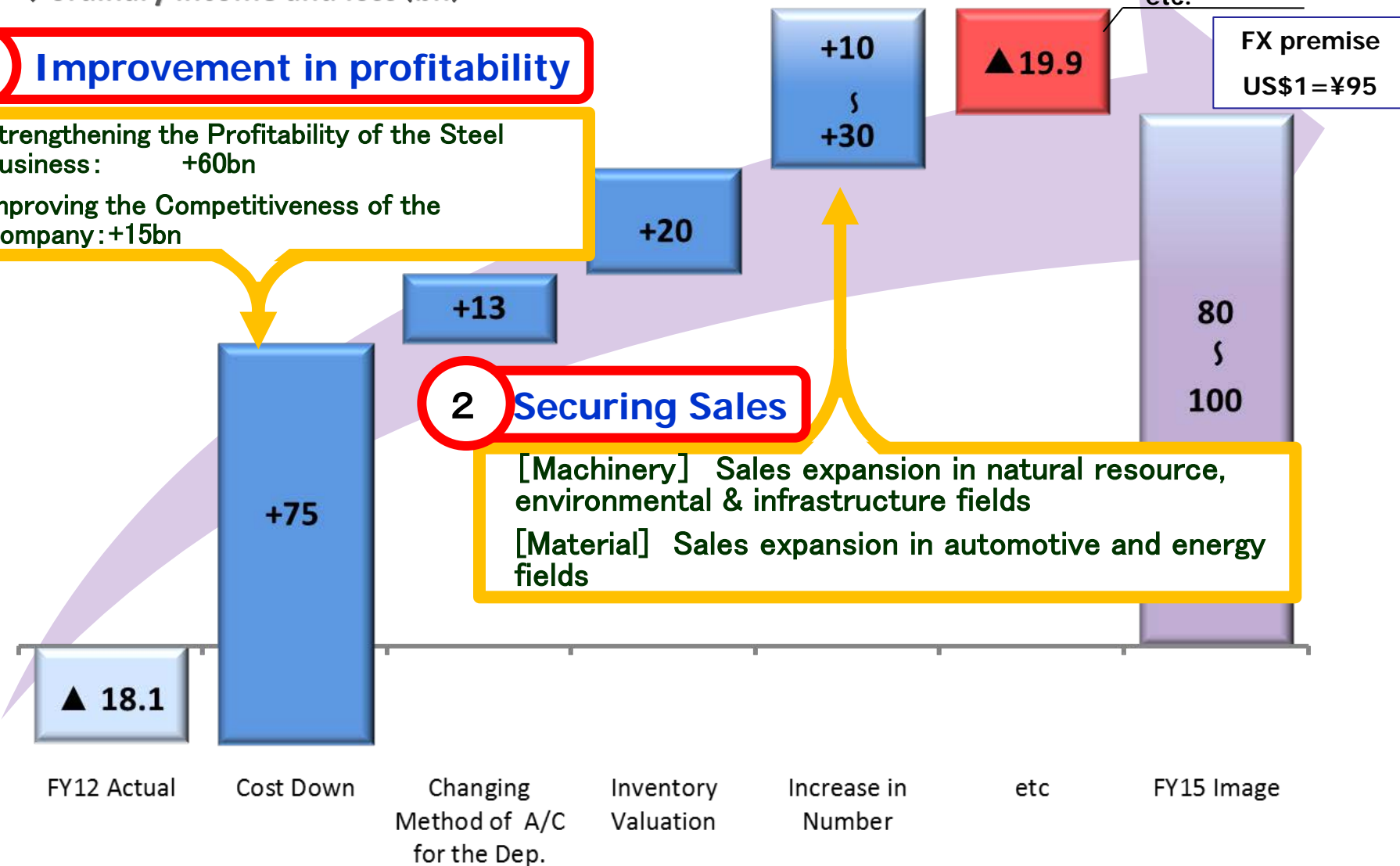
◆ordinary income and loss (bn)

1 Improvement in profitability

Strengthening the Profitability of the Steel Business: +60bn
Improving the Competitiveness of the Company: +15bn

2 Securing Sales

[Machinery] Sales expansion in natural resource, environmental & infrastructure fields
[Material] Sales expansion in automotive and energy fields



exchange rate factor, etc.

FX premise
US\$1=¥95

80
\$
100

FY12 Actual

Cost Down

Changing Method of A/C for the Dep.

Inventory Valuation

Increase in Number

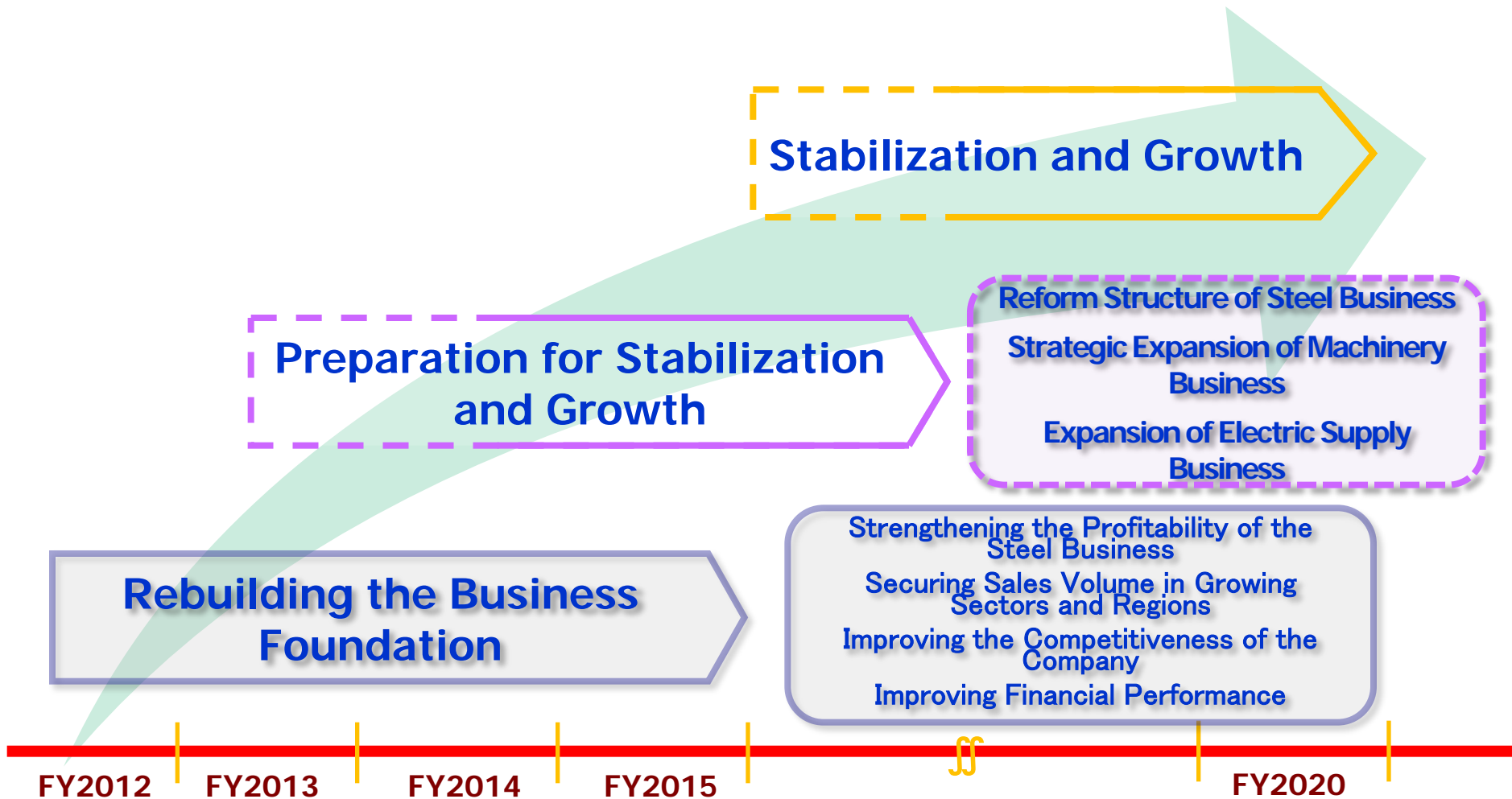
etc

FY15 Image



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Step for Stabilization and Growth





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Reform Structure of Steel Business (1)

Medium- to Long-Term Business Environment

Japan

Steel demand is estimated to gradually decrease, due to the expansion of overseas production and the decrease in population

East Asia

Steel supply is estimated to increase, as operations are planned to start up in new steel works located in East Asia

Competition will become more intensified while cost competitiveness will control the future of the steel business



Reform Structure of Steel Business (2)

Create Profit by Strengthening Profitability

Steel demand is estimated to decrease, based on medium- to long-term forecast on the trends in Japan and overseas. Further strengthening of cost competitiveness is vital.



Structural Limitations:

< Kobe Works >

- Small scale compared with Kakogawa Works
- Not equipped with raw material pretreatment facilities such as coke ovens and sinter plant
- Dependence of Raw Material Supply from Kakogawa Works or outside source

< Kakogawa Works >

- Expected Surplus Capacity due to the Demand Decrease



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Reform Structure of Steel Business (3)

Upstream production at Kobe Works will be transferred around FY2017 to Kakogawa Works, which has cost advantage in ironmaking and steelmaking.

Kobe Works

- **Shut down upstream production mills**
 - Blast Furnace, Hot-Metal Pretreatment, Ladle Refining, Continuous Casting, Blooming, etc.
- **Continue downstream operations**
 - Wire & Bar Rolling

Kakogawa Works

- **Cover the capacity reduction at Kobe Works by increasing upstream operations**
- **Increase the production of intermediate products to Kobe Works**
 - Construct new Continuous Bloom Caster and Ladle Refining Equipment
 - Increase production capacity of Bloom Mill, transfer capability of intermediate products

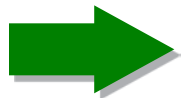
 Expected Investment Amount will be JPY50 billion



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Reform Structure of Steel Business (4)

- ◆ Strengthening cost competitiveness through process transfer to Kakogawa Works
 - Cost reduction in ironmaking process
(Improvement in tapping ratio of molten iron, reduction of coking cost, etc.)
 - Cost reduction in steelmaking process
(Reduction of consumption ratio in steelmaking)
 - Other cost reductions (Improvement in utility efficiency, reduction of fixed costs)



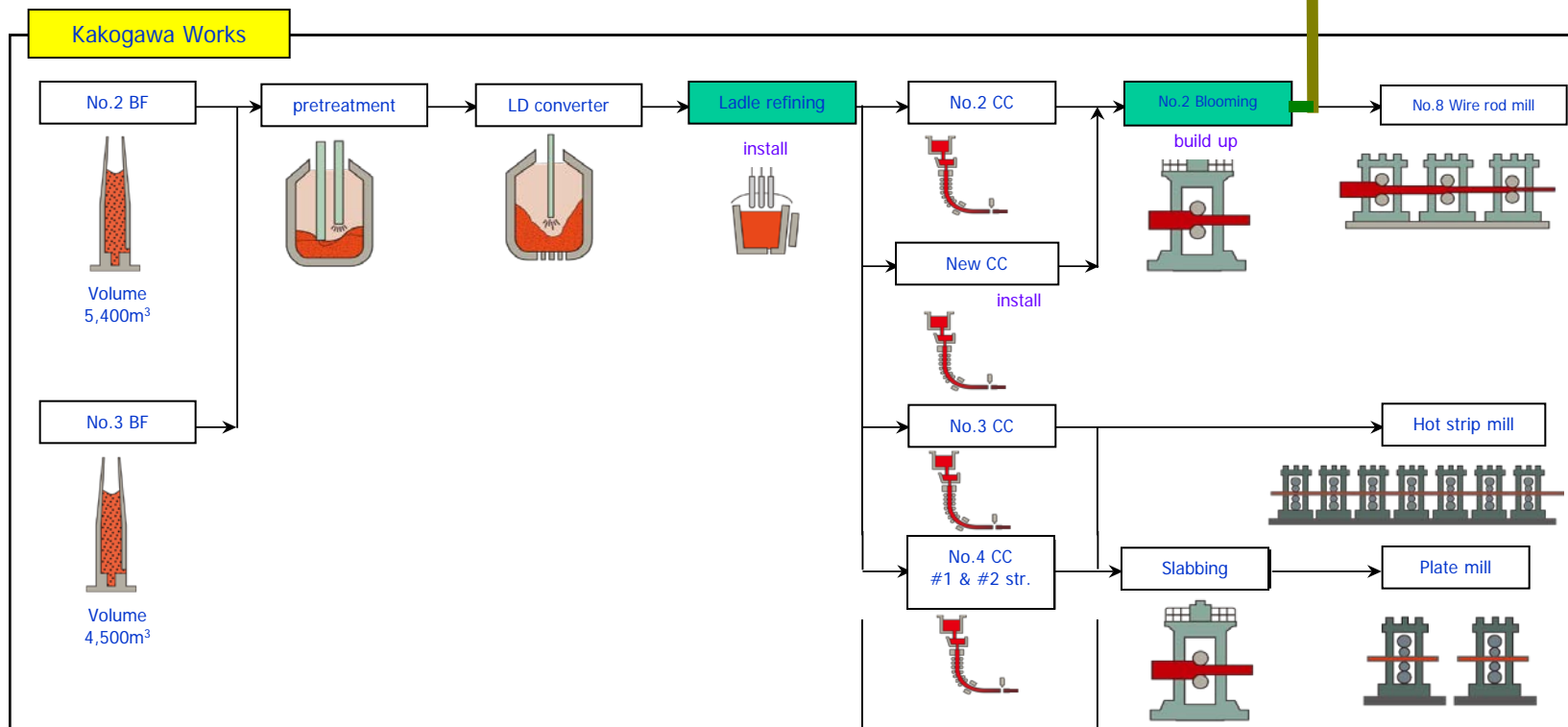
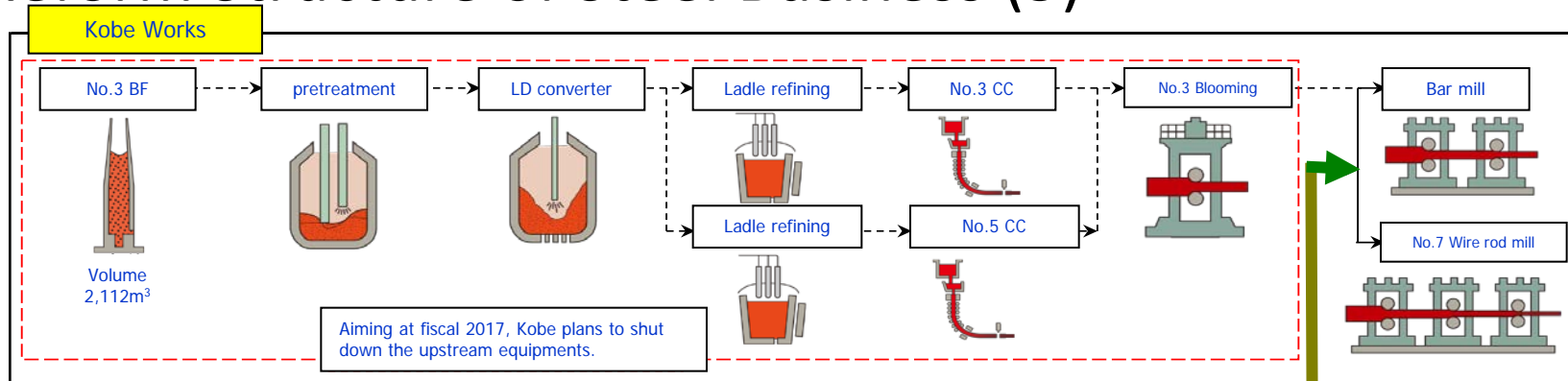
Return on Process Transfer & Equipment Investment:
More than JPY15 billion/year

- ◆ Quality improvement and strengthening delivery capability by utilizing the new, state-of-the-art continuous caster and refining equipment
- ◆ Expansion of sales and profit through total cost reduction
- ◆ Sales expansion of "Only One" products
(Special steel wire rod & bar, automotive high strength steel sheet, heavy steel plate for energy sector)



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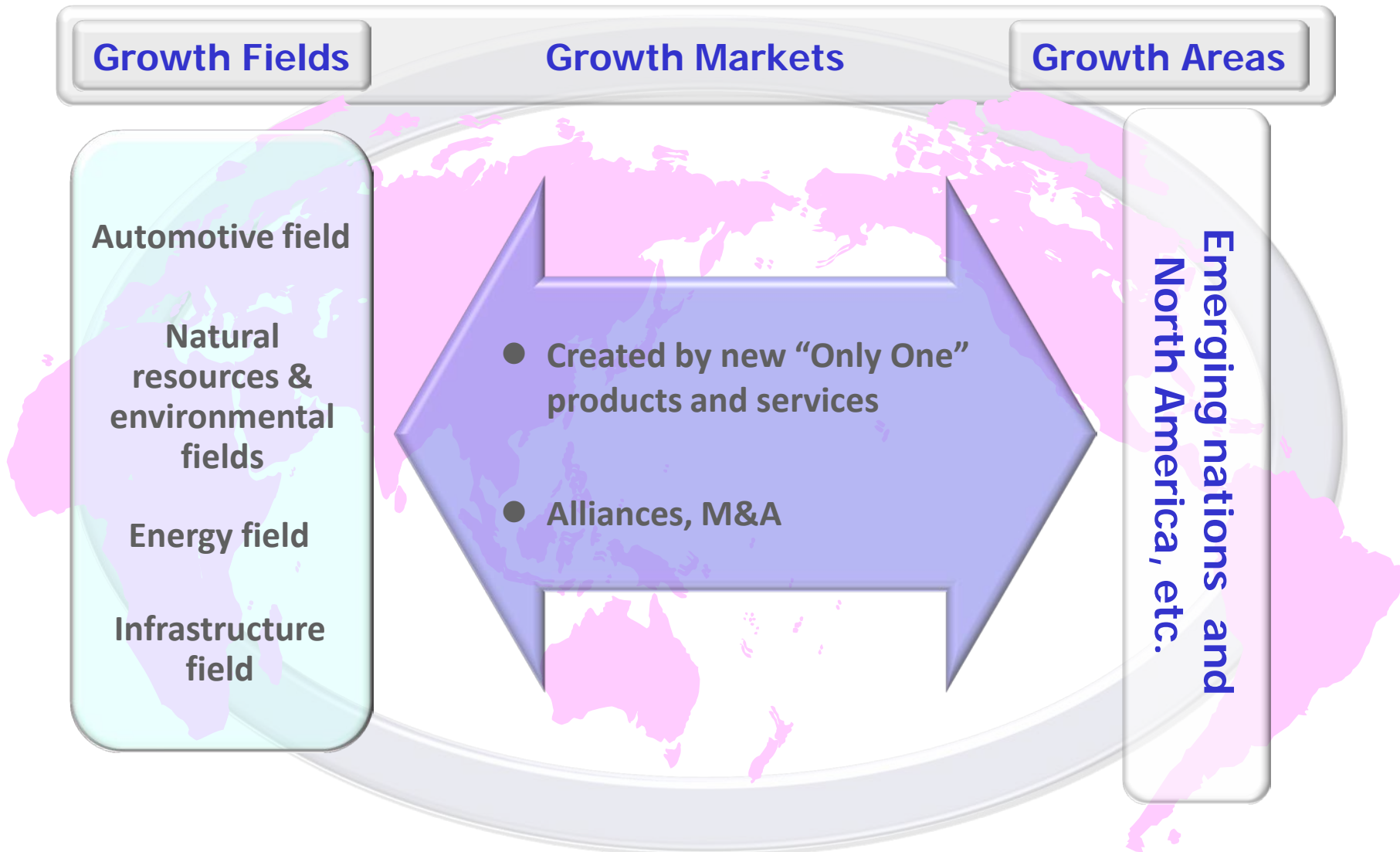
Reform Structure of Steel Business (5)





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Business Expansion in Growth Markets





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Strategically Expanding the Machinery Business

Compressor Business

Global business covering Asia, America, and Europe

- Nonstandard compressor production bases in Japan, the U.S., and China.
- Active expansion of the compressor business, aiming at global deployment through M&As, tie-ups, etc.

Kobelco Construction Machinery

Play active role from Asia as true global Company.

- Establishment of optimal global production network (with bases in Japan, China, Thailand & India), which utilizes GEC
- Reenter the European and North American markets (previously CNH's territories) and recapture market share

DRI process

Maximize opportunities in shale gas revolution

- Strengthen the competitiveness of MIDREX® Process, and maximize orders. (North America and Russia)



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Promote Project Activities Across the Kobe Steel Group

Automotive lightweighting

- Steel-Aluminum => Hybrid-Materials
- Multi Materials
(High strength steel, aluminum panels)

Next-generation cars (Engine, HV/EV)

- Power train components
- Material for fuel cells

Energy Fields

- Binary cycle power generation and steam electric generation
- Product line-up for hydrogen stations for automobiles
- Materials and welding consumables for reactors and marine structures

**Promotion of
technical fusion
by project activities
across the Kobe Steel
Group**



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Expand the Power Supply Business(1)

To expand the power supply business as a stable profit base, taking advantage of management know-how.



Shinko Kobe Power Inc.

Electricity produced

Scale

Fuel

Plant

Shinko Kobe Power Inc.

1.4MW

Coal

Boiler-turbine

In-house Power Generation
(Kakogawa & Kobe Works)

About
0.6MW

Byproduct gas Heavy oil,
LPG, LNG ,etc.

Boiler-turbine and
Gas-Turbine Combined Cycle(GTCC)

- For over half a century, we have been operating our own inhouse generation facilities.
- GTCC power generation equipment using blast furnace gas is under operation at Kakogawa Works.
- We are managing the IPP business through Shinko Kobe Power Inc.

We've accumulated many years of know-how in power generation. We have experience in using coal and gas as fuel. We operate boiler turbines, GTCC systems and other equipment. We have even undertaken plant construction.



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Expand the Power Supply Business (2)

Japan's first power station to be located inland in Moka, Tochigi Prefecture

(Start-up of operations is targeted to commence between 2019 and 2021.)

Total Generation Capacity	Method of Generation	Fuel
about 1.4 million kW	GTCC	City Gas

- The U.S. Government has permitted the export to Japan of natural gas including shale gas. The price of fuel for power generation will come down.
- This will contribute to social requests such as distributed power supplies inland and local economic development
- This power station will cover about 40% of the demand for electricity in Tochigi Prefecture.

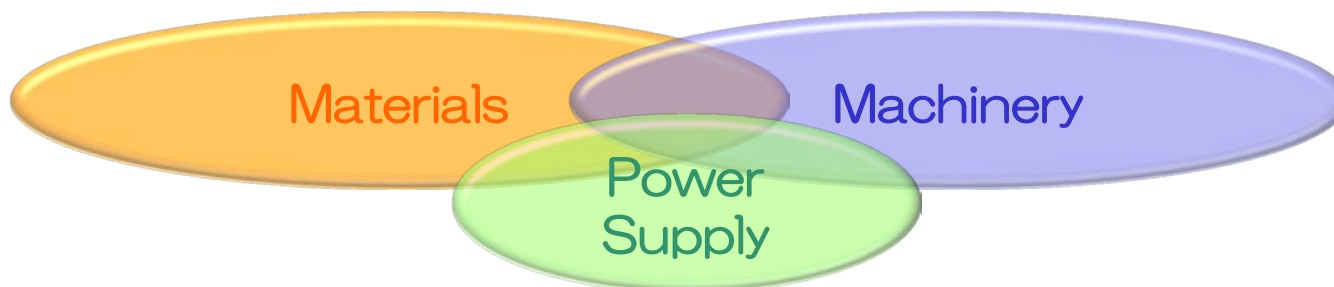
Kobe Steel will also study the possibility of using the land made available after shutting down the blast furnace at Kobe Works for the power supply business.



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Considerations for Management Platform

Consider the best management platform to meet changes in the business portfolio





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Steps to Achieve KOBELCO VISION “ G ”

Stable Profits and Business Growth



Considerations for Management Platform

Establishing a Stable Profit Base

Focusing on Growth Markets

- Reform Structure of Steel Business
- Expansion of Power Supply Business

- Strategic Expansion of Machinery Business
- Promoting Project Activities Across the Kobe Steel Group

- Rebuild the Business Foundation**
1. Strengthening the Profitability of the Steel Business
 2. Securing Sales Volume in Growing Sectors and Regions
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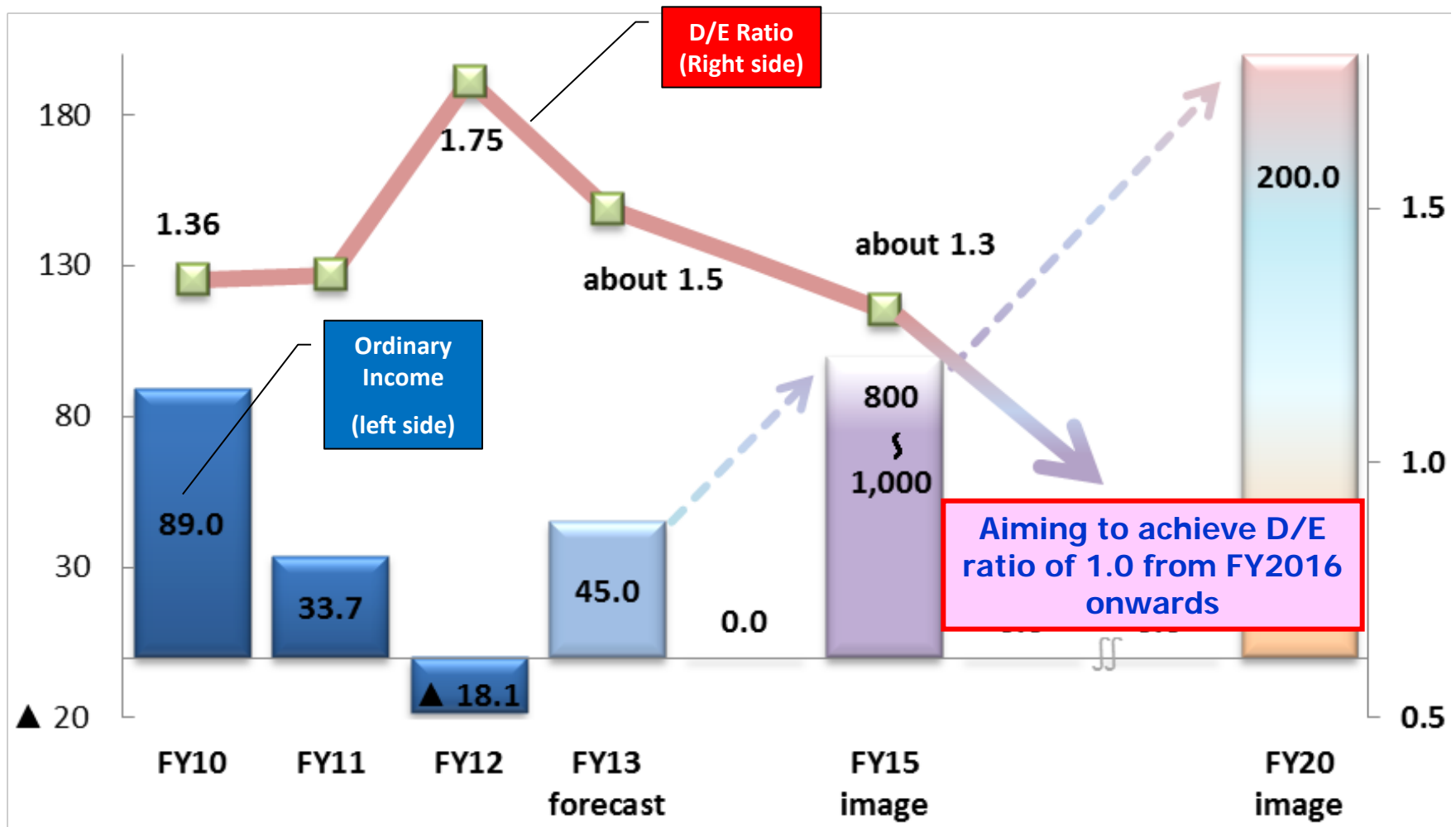
Ensuring Safety and Disaster prevention
Corporate Culture with an Enhanced Sense of Compliance and Self-discipline



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Company's Performance in Coming 10 Years

◆ Ordinary Income (billion yen & D/E ratio (times))





Dividend Policy

Dividends remain stable and continuous

Making decisions comprehensively considering the following:

- ① Actual results and dividend rate**
- ② Future investments and financial standing**

[Dividend Rate : 15%-25% of consolidated net income as a rough indication]

Aiming to Resume Dividend Early



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(Appendix)

Actions by Business Segment



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Iron & Steel Business

- Return the Iron & Steel Business to profit in fiscal 2013 through effective capital investments and the results of numerous cost reduction measures.
- Maximize sales volume by strengthening responses to the local procurement needs in overseas markets for special steel wire and rod, expanding sales of steel plate for the energy sector, and establishing a global supply network (in North America and China) for automotive high strength steel.
- Strengthen the aerospace sector and other fields in the titanium business.



**Offering Competitive Technologies and Products,
Maximizing Individuality**



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Welding Business

- Strengthen the competitiveness of the domestic welding business. (Shift to an optimum production structure.)
- Maximize sales in the ASEAN region and in the energy and offshore structure fields.
- Promote welding solution development.



The Most Trusted Welding Solution Company



Aluminum & Copper Business

- Consider a global supply network for automotive aluminum panel material.
- Strengthen the Japan-U.S.-China supply network by increasing North American production capacity of aluminum forgings.
- Expand sales of alloys for automotive terminals.



One of the Most Profitable Companies in the Industry



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Machinery Business

- Promote global expansion of the compressor business.
- Strengthen “monozukuri-ryoku” (manufacturing capabilities) across the entire Machinery Group.



Accelerating Globalization with Japan at the Core



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Engineering Business

- Strengthen the competitiveness of the MIDREX[®] Process and maximize orders.
- Contribute to earthquake reconstruction work.
- Achieve early stable operation of the Minnesota ITmk3[®] plant. Plan for future projects.



Becoming a High-profit Business Utilizing Original Technology



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Kobelco Eco-Solutions

- Strengthen the domestic business foundation.
- Take the initiative in project-making for the water treatment business in the growing ASEAN region.



A global Company with a Presence in Environmental and Energy Fields Offering Distinctive Process Hardware and Services



Kobelco Construction Machinery

- Reenter the European and North American markets (previously CNH's territories) and establish a global brand.
- Establish a well-balanced, strong business structure that is unaffected by demand trends in China
- Strengthen design and development capabilities of the Global Engineering Center in Itsukaichi, Hiroshima, “monozukuri-ryoku” (manufacturing capabilities), and the supply chain.



Building a Business that has Flexibility and Resilience to Deal with the Changing Business Environment



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Kobelco Cranes

- Carry out cost reductions and eliminate inefficiency by innovation in production.
- Contribute to domestic earthquake reconstruction work, and maximize unit sales in North America and Southeast Asia.



The Top Manufacturer of Lattice-Boom Crawler Cranes in the World



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THE KOBE STEEL GROUP'S CORPORATE PHILOSOPHY

- 1. We provide reliable and advanced technologies, products and services that satisfy customers.**
- 2. We support each employee in developing his or her abilities, while respecting mutual cooperation within the Kobe Steel Group.**
- 3. Through continuous efforts for innovative change, we aim to enhance our corporate values.**



Cautionary Statement

- **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