

The Kobe Steel Group's Medium- to Long-Term Business Vision: KOBELCO VISION "G" Creating New Value, Aiming for Global Growth

Basic Policy of the Medium- to Long-Term Business Vision

1. Thorough pursuit of high-end "Only One" products, technologies and services

- (1) As its starting off point Kobe Steel's Only One strategy raises the bar in terms of the technologies and products cultivated in each business. The strategy adapts to the changing times through the integration of the Group's diverse knowledge and technologies, pursuing the development of new Only One products that only the Kobe Steel Group can offer.
- (2) Kobe Steel aims to improve customer satisfaction by providing better after-sales services, identify and meet customers' changing needs, and provide better products and technologies.
- (3) Keeping in step with the needs of customers and society, Kobe Steel will actively pursue business development, not only with existing businesses, but also going further to downstream and upstream domains, such as with new-generation ironmaking, aiming to dramatically raise the level of added value.

2. Further improve manufacturing strengths

- (1) The Kobe Steel Group's corporate philosophy states "we provide reliable and advanced technologies, products and services that satisfy customers." To achieve this, Kobe Steel's efforts need to go beyond just the factory floor. What is required is the comprehensive approach known as *monozukuri*—a total range of activities extending from sales and marketing to design and development and from procurement to manufacturing and production.
- (2) Kobe Steel's growth engine is *monozukuri-ryoku*, the ability to consistently provide reliable technologies, products and services. To strengthen Groupwide *monozukuri-ryoku* efforts, the source of the Group's competitive strength, Kobe Steel established the MONODZUKURI (Production System Innovation) Planning and Promotion Department, a new organization at headquarters in April 2010. This department will support *monozukuri*-related efforts across the Group, together with sharing information on results and guidance on a Group basis, as well as identifying medium- and long-term issues to be addressed. In addition to this, Kobe Steel aims for an enhanced and innovative *monozukuri-ryoku* through the cross-functional development of the Group and strengthened functions that are the source of synergies by making proposals and promoting diverse initiatives.

3. Growth and business expansion

Taking a view of growth markets from the dual perspectives of growth regions and growth fields, the following efforts are being made.

- (1) While growth regions are primarily considered to be emerging markets, Kobe Steel pursues regions of expanding growth and conducts development that suits respective characteristics.

- (2) With its Only One technologies and services, Kobe Steel will accelerate its efforts in growth fields, both in Japan and overseas, such as the environment, resources and energy.

4. Demonstrating the comprehensive capabilities of the Group

- (1) Within each business in the Kobe Steel Group exists the vigor of know-how and technologies cultivated in the Group's other businesses. Positioned as a major theme of the Medium- to Long-Term Business Vision is the demonstration of overall Group capabilities that arise from the fusion of the Group's diverse knowledge and skill. Kobe Steel will spread "barrier-free thinking" within the Group by promoting cross-functional activities, and will pursue new Only One product generation, integrating the Group's technologies, human resources, information and knowledge.
- (2) As one concrete measure to promote barrier-free thinking within the Group, Kobe Steel abolished the internal company system and introduced a business unit system from April 2010. In 1999, Kobe Steel adopted an internal company system where each of its businesses pursued maximum profits in their respective domains, which, as a result, was tied to the expansion of profits for the entire Group. Moving forward, starting with the maximization of profits in each individual business unit, Kobe Steel will also pursue expanded earnings through the demonstration of overall Group capabilities. For this reason Kobe Steel will to the extent possible lower barriers between business units, and headquarters will act as a "Group headquarters" that supports the entire Group. Specifically, it will perform functions that support the sharing of information and the training and mobility of human resources in the Group. In this way Kobe Steel aims for a structure that considers overall Group earnings a priority.
- (3) Amid a volatile business environment, Kobe Steel will methodically give its employees opportunities to develop their skills so that they can strengthen and transform the Group's business foundation and respond to the needs of global business development.

5. Make contributions to society

Together with creating a corporate culture across the entire Group that continues to be highly sensitive to issues of compliance, Kobe Steel will fulfill its corporate social responsibility, primarily contributing efforts toward local communities, environmental protection and the problem of global warming.

Note: Global strategies are presented for each new segment classification applied from fiscal 2010. Please refer to page 10 for details of the business segment classification changes.

Global Strategies for Individual Business Units

Iron and Steel Business

Only One offerings in the Iron and Steel Business are represented by high-strength steel sheet and specialty steel. High-strength steel sheet is known not only for its strength but also has received much praise from customers for its high formability.

Our ideal global strategy for high-strength steel sheet is first to obtain base sheet from our partners in the United States, where future needs for environmentally friendly vehicles are anticipated to steadily rise, as well as China, India and other emerging markets. We will then use our technologies to process the material into high-grade steel. For specialty steel, more than just the quality of the base material, we are proud of Kobe Steel's total system—including handling during the shipping phase and the care taken to avoid corrosion and scratches—and the recognition we receive for our Only One value.

As the lot sizes for specialty steel are not particularly large, the underlying process of sequential overseas development will become the norm, namely producing the base material in Japan and conducting secondary processing in countries where the actual demand lies. However, in the event that Japan's production capacity becomes insufficient, we must think about steelmaking and rolling at these locations as well. When that happens, we will also consider using our new ironmaking technology, the ITmk3[®] Process, in the upstream phase.

Welding Business

Starting in Japan, Kobe Steel's Welding Business has now secured a No. 1 position in Asia. In the domestic market, it is difficult to predict any significant growth over the medium to long term, and with the center of gravity for future growth making a major shift out of Japan to overseas locations, we will need to succeed in world markets. To do this, the Welding Business will combine every element of its accumulated welding-related technologies—including welding consumables, welding robot systems, equipment and process methods—to realize welding solutions that lead to providing customers with answers and proposals. Quick off the mark in establishing an overseas presence, 40 years have already passed since the Welding Business entered the ASEAN market. Furthermore, business is being developed across the world through its 11 manufacturing and sales bases and technology license holders, including two manufacturing and sales bases in China. The Welding Business will review development in markets where it has yet to establish a presence—such as India, where expansion in demand is expected—as it works toward becoming the world's top comprehensive welding company.

Aluminum and Copper Business

The focus of Kobe Steel's Aluminum and Copper Business has been the automobile and IT fields, and this fundamental strategy will continue. If more hybrid cars and electric vehicles are produced, there will certainly be a greater need to make vehicles lighter. Moreover, with the attention given to China for its huge growth potential, Kobe Steel will respond to this demand with exports that take advantage of the technology and equipment of the Moka Plant, a domestic manufacturing base for aluminum panel materials. On the other hand, production of forgings for automobile suspensions is already firmly established in the United States, and in April 2010 we announced that a manufacturing base would be set up in China.

Machinery Business

With an overseas sales ratio already at approximately 60%, the Machinery Business has made great strides in its global development. The energy and chemical fields have traditionally shown significant growth, and looking ahead there is also increas-

ing interest in the environmental field. Demand for energy can be expected to rise further, not only in emerging markets but also in the Americas where energy demand is expected to climb in parallel with population growth. To support these markets the basic strategy will be to supply products mainly from the Takasago Works, our manufacturing base in Japan. We will also consider increasing local production as the situation warrants.

In addition to increasing the production capability of large-capacity compressors in the United States, which was decided upon in 2009, we would like to move forward on considering production bases in China and Europe. Furthermore, for industrial machinery, we are considering new expansion plans in growth markets such as China and India.

Natural Resources and Engineering Business

Overseas development in this business is centered on the existing MIDREX[®] Direct Reduction Process and the ITmk3[®] ironmaking process. More than simply an ironmaking process, ITmk3[®] is groundbreaking in that it effectively utilizes untapped natural resources. This process holds great potential as it enables the production of iron nuggets with the same purity level as pig iron but utilizes hard-to-use, low-grade iron ore and steaming coal as the reductant. In addition, as steel production increases worldwide, the MIDREX[®] Process also holds enormous potential, depending on location. Demand for direct reduced iron is anticipated to double, going from the just under 70 million tons in 2008 to approximately 140 million tons in 2020. With a view to effectively utilizing natural resources, without doubt there is a great need for Kobe Steel's iron unit processes. We would like to see greater growth in the iron unit business, leveraging not only our machinery and engineering businesses, but also using the technology and know-how cultivated in our Iron and Steel Business.

Kobelco Eco-Solutions

Kobelco Eco-Solutions is now establishing offices in Vietnam and Europe and has commenced deliberations on future business development.

Kobelco Construction Machinery

Globalization at Kobelco Construction Machinery is advancing, as demonstrated by its sale of approximately 7,700 excavators in China, out of about 11,000 excavator units sold in total in fiscal 2009. Kobelco Construction Machinery's production capacity in China stood at 12,000 units with the launch of the new plant in Chengdu at the end of 2009. However, to meet rising demand we are working to expand capacity, to 14,400 units. For fiscal 2010, we are planning to set production capacity at the manufacturing base in Thailand at over 2,000 units. In addition, in February 2010, Kobelco held a ceremony to mark the start of construction of a manufacturing base in India, with production scheduled to commence in January 2011. We would like to expand flexibly, while closely monitoring market trends with regard to units produced in each region.

Kobelco Cranes

Currently, all units sold by Kobelco Cranes are produced at our plant in Japan. However, globalization is progressing, with 70% to 80% of the mainstay crawler cranes being exported. In the medium to long term, we believe that domestic production capacity will be insufficient to satisfy increasing demand. Given this, in July 2010, we announced that we would commence construction of a plant in India, while we would also like to consider production in China.