

# To Our Shareholders

## Introducing President Hiroya Kawasaki

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My name is Hiroya Kawasaki and I assumed the office of President and CEO on April 1, 2013. As the Kobe Steel Group faces an adverse business environment, I strongly feel a deep sense of responsibility and will do everything I possibly can to facilitate the advancement of the Kobe Steel Group. Therefore, I ask for your continued support as we work toward rebuilding our business foundation for stability and growth.

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### Fiscal 2012 Overview

With demand for reconstruction after the earthquake disaster growing, the Japanese economy was on a modest path to recovery in the first half of fiscal 2012. However, despite a downward correction in the yen's high value, the economy as a whole remained weak due to various factors including the end of eco-car subsidies. Overseas, even though the U.S. economy remained on a modest upswing, financial uncertainty in Europe and the economic slowdown in China continued.

Under these economic conditions, the Kobe Steel Group's sales volumes of steel, aluminum, and copper rolled products dropped below those of the previous fiscal year due to slowing auto demand in Japan, sluggish market conditions overseas,

lower exports due to an appreciating yen, slack demand in IT-related fields and other factors. Despite higher unit sales of hydraulic excavators in Japan and Southeast Asia, unit sales declined substantially in China and, as a whole, were below those of fiscal 2011.

As a result, consolidated net sales in fiscal 2012 decreased ¥179.1 billion year on year to ¥1,685.5 billion and ordinary income fell ¥51.9 billion, resulting in an ordinary loss of ¥18.1 billion.

### Outlook for Fiscal 2013

While continued modest economic recovery is expected in Japan and overseas, financial instability in Europe and other

factors make for global economic uncertainty in fiscal 2013. The environment surrounding the Kobe Steel Group is not expected to improve rapidly, despite signs of a partial turnaround such as the recent downward correction in the yen's high value.

Ever since an ordinary loss was forecast in fiscal 2012, the Kobe Steel Group has been taking steps to improve profitability and has established the Committee for Cost Reduction and Cash Generation with the goal of turning a profit in fiscal 2013.

As a result, we expect the cumulative effect of reducing total costs will reverse last year's ordinary loss and lead to achieving ordinary income in fiscal 2013.

### Outline of the Kobe Steel Group's 2013–2015 Medium-Term Business Plan

In May 2013, the Kobe Steel Group announced its Fiscal 2013–2015 Medium-Term Business Plan.

During the period from April 2010, when we launched our medium- to long-term business vision, KOBELCO VISION "G," to the present, the business environment became extremely adverse, worsening more than expected and resulting in our first ordinary loss in 11 years in fiscal 2012.

In light of these circumstances, we have positioned the three-year period of the Medium-Term Business Plan beginning from 2013 as a period for "rebuilding the Group's business foundation" so that we can achieve the goals of KOBELCO VISION "G." Specifically, we plan to carry out the following four measures.

#### Rebuilding the Business Foundation

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

Through these initiatives, we will add ¥75.0 billion in profits by reducing costs in the steel business and working to become more competitive. By securing sales volumes in growth fields and regions, we aim to raise an additional ¥10.0 billion to ¥30.0 billion in profits. Even if we experience some negative effects, such as an appreciating yen, we aim to achieve ordinary income of ¥80.0 billion to ¥100.0 billion on a consolidated basis.

The Medium-Term Business Plan is seen as both a time to rebuild the business base and to lay the foundation for stable profits and business growth, looking ahead to the medium- to long-term future of fiscal 2016 and beyond. For this purpose, we will implement three initiatives.

### Laying the Foundation for Stable Profits and Business Growth

1. Reforming the Structure of the Steel Business
2. Strategically Expanding the Machinery Business
3. Expanding the Power Supply Business

As stated above, our goal is to become a company that can generate ordinary income of ¥200.0 billion, or at least ¥100.0 billion during bad economic times, by around 2020. To accomplish this, we will strengthen the profitability of the steel business, improve our competitiveness, and rebuild the business foundation by bolstering our financial performance. Looking ahead to the medium- to long-term future of fiscal 2016 and beyond, we will lay the foundation for stable profits and business growth. In addition, from 2016, just as soon as we possibly can, we will improve the D/E ratio to 1.0 times or less.

#### In Conclusion

The Kobe Steel Group views the returning of profits to shareholders as one of its most important management issues. The Group aims to pay dividends on a stable and continuous basis. The actual amount of the dividend is decided after taking into full account the Company's performance during each period, dividend payout ratio, investment capital needs for future growth, relative improvement in financial position and other factors. The dividend payout ratio we are targeting is 15% to 25% of consolidated net income.

In fiscal 2012, even though we did everything we possibly could to improve profitability, with much regret, we could not pay a dividend because of the net loss we recorded, the second year in a row following a net loss in fiscal 2011.

We ask our shareholders to understand that once we recover profitability and forge a steady path to growth through the execution of the Medium-Term Business Plan, we in the Kobe Steel Group will work together in unity to quickly resume dividend payments.

We will continue to contribute to society by providing original technologies, products and services. Rebuilding our tomorrow, I would like to ask for your continued understanding and support.

August 2013

*Hiroya Kawasaki*

President, CEO and Representative Director