The Kobe Steel Group's Fiscal 2013–2015 Medium-Term Business Plan

—Rebuilding the Business Foundation for Stability and Growth—

To Achieve KOBELCO VISION "G" Targets

We have positioned the three-year period of the current medium-term business plan beginning from fiscal 2013 as a period for rebuilding the Group's business foundation to achieve KOBELCO VISION "G." Specifically, we will tackle the following four issues:

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

At the same time, the next three years are seen as the time to lay the foundation for stable profits and business growth, looking ahead to the medium- to long-term future of fiscal 2016 and beyond. Specifically, we will address the following three issues:

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

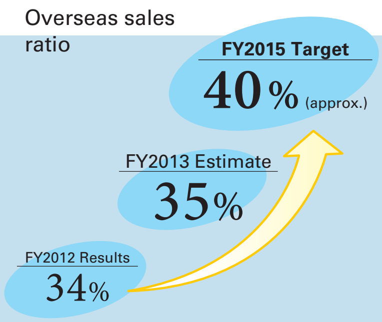
Rebuilding the Business Foundation

1. Strengthening the Profitability of the Steel Business

Measures to Strengthen the Profitability of the Steel Business* * Includes ¥15.0 billion effect from improving Company competitiveness.	FY2013 estimated figures (Compared with FY2012)	FY2015 estimated figures (Compared with FY2013)	Total (Compared with FY2012)
Capital investment effects	¥ 4.0 billion	¥19.0 billion	¥23.0 billion
Cost reduction at manufacturing level	¥12.0 billion	¥10.0 billion	¥22.0 billion
Raw material cost improvement (procurement of low-priced products)	¥ 8.0 billion	—	¥ 8.0 billion
Fixed costs reduction	¥ 6.0 billion	¥ 1.0 billion	¥ 7.0 billion
Total	¥30.0 billion	¥30.0 billion	¥60.0 billion

2. Securing Sales Volume in Growth Sectors and Regions

Overseas sales ratio



Materials Business	Iron & Steel	Maximize profitability in high-strength steel sheet for automobiles in the U.S. and secondary steel wire rod processing
	Aluminum & Copper	Increase sales by reinforcing aluminum forgings manufacturing bases
Machinery business	Machinery	Increase sales volume by utilizing the Chinese compressor manufacturer in which we have equity stake
	Kobelco Construction Machinery	Secure sales volume in China, Southeast Asia, and India and expand sales in Europe and North America, which we reentered
	Engineering	Great East Japan Earthquake disaster relief activities

3. Improving the Competitiveness of the Company

Initiatives to improve the competitiveness of the Company	FY2015 Estimate (Compared with FY2012)
Reduce labor costs and improve efficiency	¥ 1.0 billion
Reduce fixed costs	¥10.0 billion
Cut procurement costs	¥15.0 billion
Strengthen manufacturing capabilities *(monozukuri-ryoku)*	¥ 4.0 billion
Total	¥30.0 billion

Initiatives

Reduce labor costs and improve efficiency	Reduce remuneration of directors and officers Increase efficiency of staff
Reduce fixed costs	Cut maintenance costs, reduce expenses
Cut procurement costs	Procurement by tendering, centralized procurement, promote overseas procurement
Strengthen manufacturing capabilities *(monozukuri-ryoku)*	Reduce quality defect costs and promote energy savings

• The Committee for Cost Reduction and Cash Generation was established in October 2012. Its activities are intended to reduce costs in four areas: 1) personnel/labor, 2) fixed costs, 3) procurement costs, and 4) plant/*monozukuri* (manufacturing).

4. Improving Financial Performance

D/E ratio Maintain financial discipline to achieve a D/E ratio **target of 1.0 times** in fiscal 2016 and onwards

- Rigorously manage financial indices
- Allocate funds to growth fields
- Match financing method to business characteristics

Measures to generate cash	Amount to be generated
Reduce inventory	¥ 40.0 billion
Securitization of accounts receivable	¥ 15.0 billion
Sell assets	¥ 65.0 billion
Cash to be generated through our own efforts	Total ¥120.0 billion (approx.)

Carefully select investments

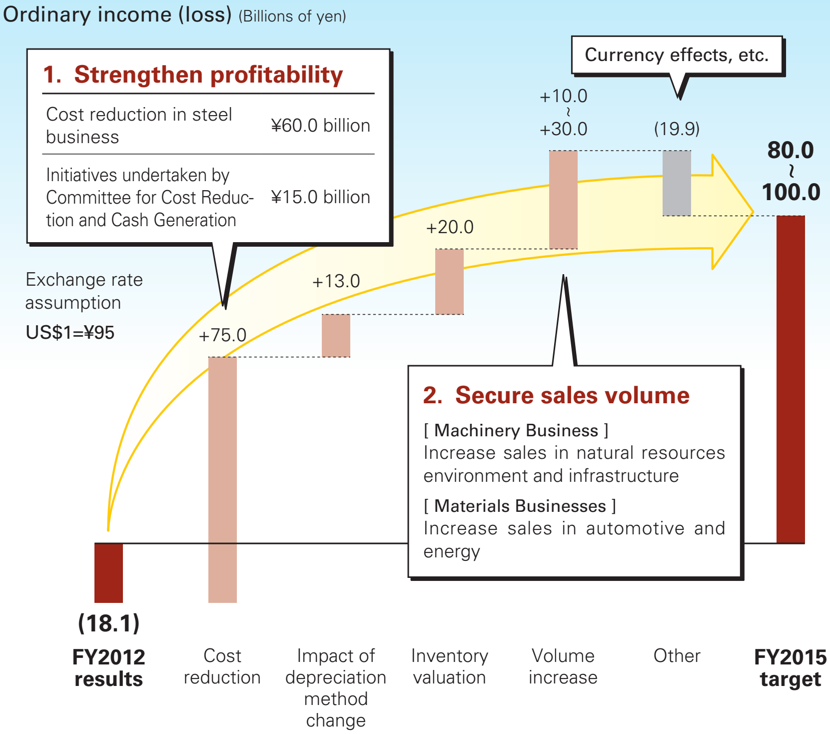
D/E ratio FY2015 target 1.3 times (approx.)

• Due to worsening profitability, the debt/equity ratio at March 31, 2013 had deteriorated to 1.75 times and must be improved as quickly as possible.

• We will create cash of ¥120 billion in three years by reducing inventory and selling accounts receivable and assets.

• Achieve a debt/equity ratio of about 1.3 times by March 31, 2016 through the generation of cash and careful selection of investments.

Toward FY2015 Targets (based on FY2012 results)



- Through the aforementioned initiatives, we will add ¥75.0 billion in profits by reducing costs in the steel business and working to become more competitive, ¥33.0 billion by changing depreciation method and inventory valuation effects, and an additional ¥10.0 billion to ¥30.0 billion by securing sales volumes in growth fields and regions.
- Even if we experience some negative effects, such as an appreciating yen, through these initiatives we will achieve ordinary income of ¥80.0 billion to ¥100.0 billion on a consolidated basis.

Foundation for Stable Profits and Business Growth

1. Reforming the Structure of the Steel Business (1)

- Medium- to long-term business environment

Japan	East Asia
Steel demand is expected to be on downward trend due to overseas relocation of manufacturing industries and declining population.	Steel supply is expected to increase as new steel mills are slated to begin operation in East Asia in 2015.

Competition, will further intensify and cost competitiveness will play a significant role in the continuity of our business

Considering medium- to long-term demand trends in Japan and abroad, additional cost competitiveness is essential

Consolidate Kobe Works' upstream processes at Kakogawa Works to improve cost competitiveness in iron making and steel making by fiscal 2017

Reforming the Structure of the Steel Business (2)

Kobe Works

- Upstream production equipment ➡ **Shut down**

  Equipment to be shut down: Blast furnace, basic oxygen furnace, continuous casting equipment, blooming mill, etc.

- Downstream equipment ➡ Continue operation

  Wire rod and steel bar mills

Kakogawa Works

- Upstream operations ➡ **Improve operating rate**

  Cover Kobe Works' upstream processes

- Increase production of semi-finished products for Kobe Works

  Add new, continuous casting equipment, increase capacity of blooming mill, enhance transfer capability for semi-finished products, etc.

  Capital investments: ¥50.0 billion (approx.)

Benefits of consolidation and equipment investments (2017 and after):

¥15.0 billion or more per year

- Strengthen cost competitiveness by consolidating upstream operations to Kakogawa works
- Raise cost competitiveness and strengthen delivery responsiveness by installing state-of-the-art equipment
- Expand sales and raise profits through total cost reductions
- Expand sales of "Only One" products

  Special steel wire rod, steel bar, high-strength steel sheet for automobiles, heavy plate for energy-related applications

From "surviving" to "winning"

2. Strategically Expand the Machinery Business

Compressor business

Grow to become a global business across Asia, the United States and Europe

- Capture demand in energy field with non-standard compressor production bases in Japan, the United States and China
- Proactively expand compressor business with the aim of global development leveraging M&A and partnerships

Kobelco Construction Machinery

From Asia advance into the world as a truly global company

- Globally (Japan, China, Thailand and India) optimize production system with GEC
- Reenter Europe and North America (former CNH Global N.V. sales territory) and recapture market share

DRI production process

Respond to growing opportunities triggered by the shale gas revolution

- Increase competitiveness of the MIDREX® Process and maximize orders (North America and Russia)

3. Expand the Power Supply Business

Expand the power supply business using know-how accumulated over many years

- Experience in using various energy sources (coal, gas, etc.) and know-how throughout the entire power generation business including multiple power generation methods (steam turbines, boilers, GTCC, etc.) and power plant construction.

KOBELCO's power generation plant

	Capacity	Energy sources	Facilities
Shinko Kobe Power Inc.	1,400,000kW	Coal	Steam turbines and boilers
In-house power generation plant (Kakogawa and Kobe Works)	Approx. 600,000kW	Byproduct gases produced at Works, heavy oil, LPG, LNG, etc.	Steam turbine, boiler and combined cycle gas turbine

- Over 50 years of in-house power generation plant operation experience through its Iron & Steel Business
- GTCC power generation facility that uses blast furnace gas is now operating at Kakogawa Works
- Successfully operating IPP business at Shinko Kobe Power Inc.

Plan to construct the first full-scale power station located inland in Moka (Tochigi Prefecture, Japan)

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

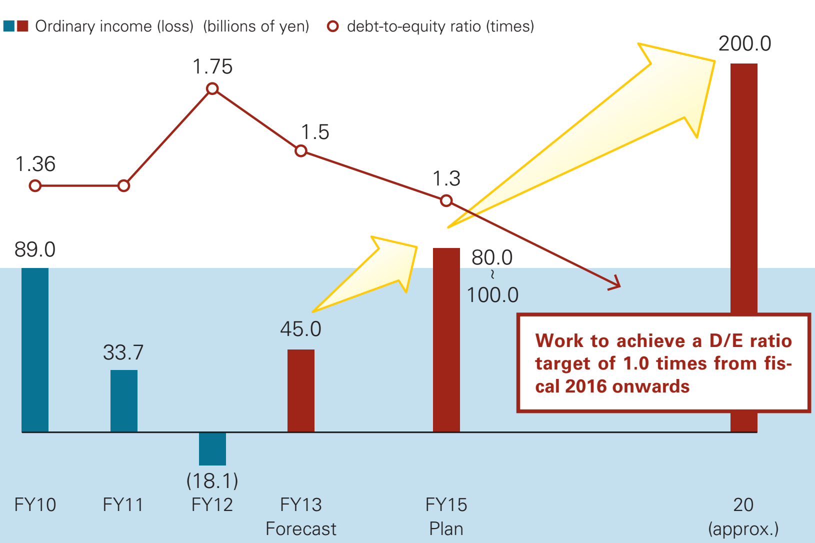
Capacity	Power generation method	Energy source
Approx. 1,400,000 kW	GTCC	City gas

- Thanks to U.S. government approval of gas exports including shale gas to Japan, power generation fuel cost is expected to decrease.
- The project is envisaged to contribute to society's need for an inland location to aid the dispersion of power generation and bolster regional economic development.
- The plant will generate as much as 40% of Tochigi Prefecture's maximum electric power demand.

Kobe Steel will also study the feasibility of using the land made available after the relocation of Kobe Works' upstream blast furnace operations for the power supply business.

10-Year Target

Ordinary income (loss) and debt-to-equity ratio



- Through these measures, Kobe Steel intends to strengthen the Group's diversified business operations in order to build a stable profit base. As envisaged in KOBELCO VISION "G," our goal is to become a company that can generate ordinary income of ¥200.0 billion.
- From 2016, we aim to improve the debt/equity ratio to 1.0 times or less as soon as we possibly can.