Kobe Steel Group
Medium-to Long-Term business Vision

KOBEVISION "G+

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

May 15, 2019

Kobe Steel, Ltd.
Contents

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
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
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.

**KOBELCO VISION “G+”**

(Major progress and results up to fiscal 2018)

**Business expansion in growth areas**

**Materials**
- Steel: Consolidated upstream operations and increased profits
- Steel & aluminum: Decided on investment strategies for automotive weight reduction, etc.

**Machinery**
- Construction machinery: Finished restructuring excavator business in China
- Compressors: Entered market for large-capacity centrifugal compressors

**Electric power**
- Promoted new power generation projects in Moka and Kobe

**Strengthening the business base**

- Reinforced corporate governance (reviewed composition of directors, etc.)
- Next 100 Project (activities to instill our corporate philosophy)
- Generated about 110 billion yen in cash

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2016</td>
<td></td>
</tr>
<tr>
<td></td>
<td>FY2018</td>
</tr>
</tbody>
</table>

Establish a business enterprise in three core business areas
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

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>28.9</td>
<td>(19.1)</td>
<td>71.1</td>
<td>34.6</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Category</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating cash flow</td>
<td>126.7</td>
<td>191.8</td>
<td>72.3</td>
</tr>
<tr>
<td>Investing cash flow</td>
<td>(131.9)</td>
<td>(160.7)</td>
<td>(10.9)</td>
</tr>
<tr>
<td>Free cash flow*</td>
<td>(5.2)</td>
<td>31.1</td>
<td>61.4</td>
</tr>
</tbody>
</table>

*Excludes project financing

<table>
<thead>
<tr>
<th>D/E ratio</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excludes early procurement of borrowings</td>
<td>1.17</td>
<td>0.98</td>
<td>0.98</td>
</tr>
<tr>
<td>(Excludes early procurement of borrowings)</td>
<td>1.00</td>
<td>-</td>
<td>0.85</td>
</tr>
</tbody>
</table>

### Segment Breakdown

<table>
<thead>
<tr>
<th>Segment</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Materials</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Iron &amp; Steel</td>
<td>(29.5)</td>
<td>17.3</td>
<td>4.7</td>
</tr>
<tr>
<td>Welding</td>
<td>6.8</td>
<td>4.9</td>
<td>3.6</td>
</tr>
<tr>
<td>Aluminum &amp; Copper</td>
<td>12.0</td>
<td>11.8</td>
<td>(1.5)</td>
</tr>
<tr>
<td>Subtotal</td>
<td>(10.7)</td>
<td>34.0</td>
<td>6.8</td>
</tr>
<tr>
<td><strong>Machinery</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Machinery</td>
<td>5.8</td>
<td>2.3</td>
<td>1.2</td>
</tr>
<tr>
<td>Engineering</td>
<td>2.8</td>
<td>6.9</td>
<td>6.5</td>
</tr>
<tr>
<td>Construction Machinery</td>
<td>(31.3)</td>
<td>21.9</td>
<td>25.5</td>
</tr>
<tr>
<td>Subtotal</td>
<td>(22.7)</td>
<td>31.1</td>
<td>33.2</td>
</tr>
<tr>
<td><strong>Electric power</strong></td>
<td>13.0</td>
<td>7.9</td>
<td>(0.3)</td>
</tr>
<tr>
<td>Other Businesses</td>
<td>7.6</td>
<td>5.4</td>
<td>2.3</td>
</tr>
<tr>
<td>Adjustment</td>
<td>(6.4)</td>
<td>(7.5)</td>
<td>(7.5)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(19.1)</td>
<td>71.1</td>
<td>34.6</td>
</tr>
</tbody>
</table>

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.

- **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 Make Efficient Use of Management Resources and Strengthen the Business Base

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   ② Continued Strengthening of Corporate Governance

6. Summary: Future Vision

7. Reference Materials
# 2. Earnings Forecast for Fiscal 2019 (Consolidated Basis)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net sales</strong></td>
<td>1,695.8 billion yen</td>
<td>1,881.1 billion yen</td>
<td>1,971.8 billion yen</td>
<td>2,070.0 billion yen</td>
</tr>
<tr>
<td><strong>Ordinary income</strong></td>
<td>(19.1) billion yen</td>
<td>71.1 billion yen</td>
<td>34.6 billion yen</td>
<td>30.0 billion yen</td>
</tr>
<tr>
<td><strong>Net income/loss</strong></td>
<td>(23.0) billion yen</td>
<td>63.1 billion yen</td>
<td>35.9 billion yen</td>
<td>25.0 billion yen</td>
</tr>
<tr>
<td><strong>D/E Ratio</strong></td>
<td>1.17 times</td>
<td>0.98 times</td>
<td>0.98 times</td>
<td>Around 0.9 times</td>
</tr>
<tr>
<td><strong>ROA</strong></td>
<td>(0.8%)</td>
<td>3.1%</td>
<td>1.5%</td>
<td>1.2%</td>
</tr>
<tr>
<td><strong>ROE</strong></td>
<td>(3.4%)</td>
<td>8.9%</td>
<td>4.8%</td>
<td>3.3%</td>
</tr>
</tbody>
</table>

*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

### Fiscal 2018 Results

- Materials: +16.0
- Machinery: +17.0
- Electric Power: +28.3
- Other Factors: -28.3

### Fiscal 2019 Forecasts

- Materials: +34.6
- Machinery: +35.0
- Electric Power: +30.0
- Other Factors: +0.8

### Key Factors in Earnings Improvement

- Product mix and improved prices
- Cost cuts in steel business, etc.

### Earnings Improvement

- Inventory valuation: (3.5)
- Earnings: +17.0

### Materials

- Rebound from temporary expenses (a): +34.6

### Machinery

- Rebound from one-time expenses (b): (3.5)
- Foreign exchange rates: (1.0)
- Project composition, higher costs, etc.: (2.2)
- Others: +6.0

### Electric Power

- Rebound from one-time expenses (c): +0.8

### Other Factors

- Depreciation, maintenance costs and other fixed costs
- Main raw material and energy costs
- Titanium business, subsidiaries, etc.

### Rebound from One-Time Expenses, etc. in FY2018 (a+b+c)

- Materials: Production trouble +10.0
- Impact of natural disasters +2.0
- Impact of quality misconduct +4.0
- Machinery: Reversal of allowance for doubtful accounts in China excavator business (5.0)
- Crane collapse accident +1.5
- Electric power: Fund procurement costs +6.0

**Total:** +18.5 billion yen
2. Earnings Forecasts for Fiscal 2019: Ordinary Income (Loss) by Segment

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
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<tbody>
<tr>
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<td>6.5</td>
<td>6.0</td>
<td>(0.5)</td>
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<td>(9.5)</td>
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<td>5.4</td>
<td>2.3</td>
<td>3.5</td>
<td>1.2</td>
</tr>
<tr>
<td>Adjustment</td>
<td>(6.4)</td>
<td>(7.5)</td>
<td>(7.5)</td>
<td>(14.5)</td>
<td>(7.0)</td>
</tr>
<tr>
<td>Total</td>
<td>(19.1)</td>
<td>71.1</td>
<td>34.6</td>
<td>30.0</td>
<td>(4.6)</td>
</tr>
</tbody>
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※See Page 31 for fiscal 2019 earnings forecast on a half-year basis.
Contents

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
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

<table>
<thead>
<tr>
<th>Key themes for fiscal years 2019–2020</th>
<th>Ongoing themes for next medium-term plan</th>
</tr>
</thead>
</table>
| **(1) Strengthen profitability with a focus on materials** | ➢ 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) |
| ➢ Strengthen *monozukuri* 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 Businesses |
Contents

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
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6. Summary: Future Vision
7. Reference Materials
## Strengthen Profitability with a Focus on Materials

### 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, steel for automotive high-strength bolts, 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.
4. Strengthen Profitability with a Focus on Materials

Obtain Returns from Strategic Investment Projects

<table>
<thead>
<tr>
<th>Strategic Investment Projects and Kobe Steel’s Advantages</th>
<th>Initiatives for Fiscal 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Automotive field</strong></td>
<td><strong>Thailand / KMS</strong></td>
</tr>
<tr>
<td>Special steel wire rods: Thailand / KMS</td>
<td>Finish verification procedures for special steel</td>
</tr>
<tr>
<td>• Global supply network for high-quality special steel</td>
<td><strong>China / Tianjin</strong></td>
</tr>
<tr>
<td>Aluminum sheets for auto closure panels: China / Tianjin</td>
<td>Strengthen solution proposals</td>
</tr>
<tr>
<td>• Expanding supply capacity in Japan and China (base metal from Korean JV)</td>
<td><strong>U.S. / KAAP</strong></td>
</tr>
<tr>
<td>Aluminum forged suspensions: U.S. / KAAP</td>
<td>Strengthen equipment maintenance system</td>
</tr>
<tr>
<td>• 3-country structure: Japan, U.S., China</td>
<td><strong>U.S. / KPEX</strong></td>
</tr>
<tr>
<td>• Expanded capacity in U.S. 7 times</td>
<td>Increase sales</td>
</tr>
<tr>
<td>Aluminum extrusions: U.S. / KPEX</td>
<td><strong>Japan / Japan Aeroforge</strong></td>
</tr>
<tr>
<td>• Strong technological edge in 7xxx series alloy</td>
<td>Improve productivity and cut costs in melting to forging and machining processes</td>
</tr>
<tr>
<td>• U.S. production base after Japan</td>
<td><strong>Japan / Takasago Works</strong></td>
</tr>
<tr>
<td>Titanium: Japan / Takasago Works, Japan Aeroforge</td>
<td>Cut costs and improve performance</td>
</tr>
<tr>
<td>• Promote a complete domestic supply chain (large forgings for airframes and landing gears)</td>
<td><strong>Energy</strong></td>
</tr>
<tr>
<td>Machinery: Large-capacity centrifugal compressors</td>
<td></td>
</tr>
<tr>
<td>• One of world’s largest testing facilities</td>
<td></td>
</tr>
</tbody>
</table>

Thailand / KMS
- Finish verification procedures for special steel

China / Tianjin
- Strengthen solution proposals

U.S. / KAAP
- Strengthen equipment maintenance system

U.S. / KPEX
- Increase sales

Japan / Japan Aeroforge
- Improve productivity and cut costs in melting to forging and machining processes

Japan / Takasago Works
- Cut costs and improve performance
① Strengthen Profitability with a Focus on Materials

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

<table>
<thead>
<tr>
<th>Now</th>
<th>April 2020 Onward</th>
<th>Objectives of the Reorganization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iron &amp; Steel Business</td>
<td>Iron, Steel and Aluminum Business (tentative name)</td>
<td>Strengthen Strategies for Each Demand Field</td>
</tr>
<tr>
<td>Steel wire rods and bars</td>
<td>Steel wire rods and bars</td>
<td>✓ Reorganize along materials (steel products, aluminum sheets) and parts (automotive/ aluminum castings and forgings and extrusions, aircraft/titanium and aluminum castings and forgings)</td>
</tr>
<tr>
<td>Steel plates</td>
<td>Steel plates</td>
<td>✓ Consider integrating automotive steel sheet sales and aluminum sheet sales departments and product technology-related departments</td>
</tr>
<tr>
<td>Steel sheets</td>
<td>Steel sheets</td>
<td>⇨ Strengthen automotive weight reduction strategies</td>
</tr>
<tr>
<td>Steel castings and forgings</td>
<td>Aluminum sheets</td>
<td>✓ Expand sales through solution proposals</td>
</tr>
<tr>
<td>Titanium</td>
<td>Metal and Processed Materials Business (tentative name)</td>
<td></td>
</tr>
<tr>
<td>Steel powder</td>
<td>Steel castings and forgings</td>
<td></td>
</tr>
<tr>
<td>Steel tubes</td>
<td>Titanium</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Steel powder</td>
<td></td>
</tr>
<tr>
<td>Aluminum &amp; Copper Business</td>
<td>Steel tubes</td>
<td></td>
</tr>
<tr>
<td>Aluminum sheets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aluminum castings and forgings</td>
<td></td>
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<tr>
<td>Aluminum extrusions</td>
<td></td>
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<tr>
<td>Copper strips</td>
<td></td>
<td></td>
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<tr>
<td>Copper tubes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Welding Business</td>
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</tr>
</tbody>
</table>

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.
Contents

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   ① Strengthen Profitability with a Focus on Materials
   ② Make Efficient Use of Management Resources and Strengthen the Business Base
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6. Summary: Future Vision
7. Reference Materials
Make Efficient Use of Management Resources and Strengthen the Business Base with attention to capital costs

Initiatives to be Completed by Fiscal 2020

- **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**

- **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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   ② Continued Strengthening of Corporate Governance
6. Summary: Future Vision
7. Reference Materials
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)】

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

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

- **Hoods, fenders, doors, roofs, etc.**
  - Aluminum: Aluminum sheets for automotive closure panels

- **Bumpers, door impact beams**
  - Steel: Ultra high-strength steel
  - Aluminum: Aluminum extrusions

- **Joining and analysis**
  - Joining: Welding materials, dissimilar material joining technology
  - Analysis: Structure, processing, joining analysis

- **Body frame**
  - Steel: Ultra high-strength steel
  - Aluminum: Aluminum extrusions

- **Chassis components**
  - Aluminum: Aluminum forged suspensions

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
Contents

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
## 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.

<table>
<thead>
<tr>
<th>Governance</th>
<th>Up to Fiscal 2018</th>
<th>Fiscal 2019–2020</th>
<th>From Fiscal 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Penetration of the Group’s corporate philosophy</td>
<td>Next 100 Project</td>
<td>Continue dialogues with the president and dialogue platforms at department level</td>
<td></td>
</tr>
<tr>
<td>2. Desirable state of the Board of Directors</td>
<td>Continue review of structure, including composition of the Board of Directors</td>
<td>Strengthen governance at Group companies</td>
<td></td>
</tr>
<tr>
<td>3. Restructuring of risk management system</td>
<td>Continue review of structure, including composition of the Board of Directors</td>
<td>Strengthen governance at Group companies</td>
<td></td>
</tr>
<tr>
<td>4. Reforming the insular nature of organizations</td>
<td>Rotate personnel among business divisions</td>
<td>Reorganize Iron &amp; Steel Business and Aluminum &amp; Copper Business</td>
<td></td>
</tr>
<tr>
<td>5. Restructuring of quality assurance system</td>
<td>Create Quality Charter, invite outside quality experts, set up Quality Management Department, etc.</td>
<td>Create and start using seven management indicators, including ROIC, etc.</td>
<td></td>
</tr>
<tr>
<td>6. Restructuring of management indicators</td>
<td>Continue quality audits and the Quality Caravan Team</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Management

- Continue quality audits and the Quality Caravan Team

### Process

- Automate key inspection equipment, finished visualization of process capacity

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*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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23
1. Review of Fiscal 2016–2018
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   ② Continued Strengthening of Corporate Governance
6. **Summary: Future Vision**
7. Reference Materials
# 6. Summary: Future Vision

**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

**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**

**Medium- to long-term business vision**

**KOBELECO VISION “G+”**

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

**Ordinary income**

- FY2018: 34.6 billion yen
- FY2019: 30.0 billion yen

**Rolling of Medium-Term Management Plan**

**Next medium-term management plan**

**Business enterprise established in three core business areas**

*image of composition by business

*Material 40-50%*

*Machinery 30-40%*

*Electric power 20-30%*
1. Review of Fiscal 2016–2018
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6. Summary: Future Vision
7. Reference Materials
(Reference)
Automotive Weight Reduction Strategies: Expand Global Supply Network

Ultra-high-strength steel
Kobelco Angang Auto Steel Co., Ltd.

Aluminum sheets for automotive closure panels
Kobelco Automotive Aluminum Rolled Products (China) Co., Ltd.

Aluminum forged suspensions
Kobe Aluminum Automotive Products (China) Co., Ltd.

Special steel wire rods
Kobelco Millcon Steel Co., Ltd.

Ultra-high-strength steel
PRO-TEC Coating Company, LLC

Aluminum sheets for automotive closure panels
Moka Plant

Aluminum base material for aluminum sheets used in automotive closure panels
Ulsan Aluminum, Ltd.

Aluminum base material for aluminum base material for automotive closure panels
Kakogawa Works

Aluminum extrusions and fabricated products
Kobelco Aluminum Products & Extrusions Inc.

Status of Investments

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

Total investments
About ¥160 billion

* Financing arranged by PRO-TEC
## Medium- and Long-Term Initiatives: SDG Examples

<table>
<thead>
<tr>
<th>Business segment</th>
<th>SDG examples</th>
<th>Business segment</th>
<th>SDG examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Materials</strong> (steel, welding, aluminum)</td>
<td>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.)</td>
<td>Engineering</td>
<td>Start of operations on North-South Line of the Jakarta Mass Rapid Transit system, Indonesia’s first subway line</td>
</tr>
<tr>
<td><strong>Iron &amp; Steel</strong></td>
<td>Supply of steel slag products (steel slag hydrated matrix that helps restore coastal environments) for coastal projects in Hyogo Prefecture</td>
<td>Engineering</td>
<td>Delivery of MIDREX® Direct Reduction Steel Plant in Algeria</td>
</tr>
<tr>
<td><strong>Technical Development</strong></td>
<td>Sale of materials for hydroponics that use KENIFINE, an antibacterial coating</td>
<td>Engineering</td>
<td>Operation of wood biomass power generation facility using timber from forest thinning (Fukui Green Power Co., Ltd.)</td>
</tr>
<tr>
<td><strong>Welding</strong></td>
<td>Joint international industry–academia research in welding technology in Vietnam</td>
<td>Engineering</td>
<td>Order received for water purification facility in Cambodia, entry into waterworks business</td>
</tr>
<tr>
<td><strong>Machinery</strong></td>
<td>Start of long-term operational tests with Kawasaki Kisen on a binary cycle power generation system installed on an actual ship</td>
<td>Machinery, Engineering, Electric power</td>
<td>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)</td>
</tr>
</tbody>
</table>
**Iron & Steel**

- **Metal spread and product mix**
  - Production & shipments: +34.5
  - Raw material prices: (25.5)
  - Foreign exchange rates: ±0.0

<table>
<thead>
<tr>
<th>Fiscal 2018 Results</th>
<th>Fiscal 2019 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory valuation</td>
<td>+0.5</td>
</tr>
<tr>
<td>Overall cost reduction</td>
<td>+5.5</td>
</tr>
<tr>
<td>(9.0)</td>
<td>(11.7)</td>
</tr>
</tbody>
</table>

**Aluminum & Copper**

- **Roll margin and product mix**
  - Production & shipments: +4.5
  - Raw material prices: +0.5
  - Foreign exchange rates: ±0.0

<table>
<thead>
<tr>
<th>Fiscal 2018 Results</th>
<th>Fiscal 2019 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory valuation</td>
<td>+5.0</td>
</tr>
<tr>
<td>Overall costs</td>
<td>(4.0)</td>
</tr>
<tr>
<td>(1.5)</td>
<td>(4.0)</td>
</tr>
<tr>
<td>Others</td>
<td>+1.0</td>
</tr>
</tbody>
</table>

**Fiscal 2019 Ordinary Income Forecast: Change Factors by Segment**

- Iron & Steel: +5.0
- Aluminum & Copper: -4.5
### Fiscal 2019 Ordinary Income Forecast: Change Factors by Segment

#### Construction Machinery

**Fiscal 2018 Results**
- Rebound from crane collapse accident: +1.5 (Billions of yen)
- China excavator business: (5.0)
- Reversal of allowance for doubtful accounts: (5.0)
- Foreign exchange rates: (1.0)
- Fixed costs, higher costs: 25.5

**Fiscal 2019 Forecast**
- Start of operations at Moka Power Plant: +0.8
- Maintenance costs, etc.: 6.5
- Rebound from one-time expenses involving fund procurement: +6.0
- (Billions of yen)

#### Electric Power

**Fiscal 2018 Results**
- Reversal of allowance for doubtful accounts: (5.0)
- Fixed costs, higher costs: (1.0)
- 16.0

**Fiscal 2019 Forecast**
- Start of operations at Moka Power Plant: +0.8
- Maintenance costs, etc.: 6.5
- Rebound from one-time expenses involving fund procurement: +6.0
- (Billions of yen)
## (Reference) Earnings Forecast for Fiscal 2019

### Consolidated Basis

<table>
<thead>
<tr>
<th></th>
<th>1H</th>
<th>2H</th>
<th>Full Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>1,010.0</td>
<td>1,060.0</td>
<td>2,070.0</td>
</tr>
<tr>
<td>Ordinary Income</td>
<td>0.0</td>
<td>30.0</td>
<td>30.0</td>
</tr>
<tr>
<td>Net income/loss</td>
<td>0.0</td>
<td>25.0</td>
<td>25.0</td>
</tr>
<tr>
<td>attributable to</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>owners of the parent</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Ordinary Income (Loss) by Segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>1H</th>
<th>2H</th>
<th>Full Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iron &amp; Steel</td>
<td>(2.0)</td>
<td>10.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Welding</td>
<td>1.5</td>
<td>2.5</td>
<td>4.0</td>
</tr>
<tr>
<td>Aluminum &amp; Copper</td>
<td>(4.5)</td>
<td>0.5</td>
<td>(4.0)</td>
</tr>
<tr>
<td>Machinery</td>
<td>0.5</td>
<td>4.0</td>
<td>4.5</td>
</tr>
<tr>
<td>Engineering</td>
<td>2.0</td>
<td>4.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Construction Machinery</td>
<td>9.0</td>
<td>7.0</td>
<td>16.0</td>
</tr>
<tr>
<td>Electric Power</td>
<td>(0.5)</td>
<td>7.0</td>
<td>6.5</td>
</tr>
<tr>
<td>Other businesses</td>
<td>0.0</td>
<td>3.5</td>
<td>3.5</td>
</tr>
<tr>
<td>Adjustment</td>
<td>(6.0)</td>
<td>(8.5)</td>
<td>(14.5)</td>
</tr>
<tr>
<td>Total</td>
<td>0.0</td>
<td>30.0</td>
<td>30.0</td>
</tr>
</tbody>
</table>

(Billions of yen)
(Reference) Free Cash Flow, Capital Investment

### Free Cash Flow

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating cash flow</td>
<td>126.7</td>
<td>191.8</td>
<td>72.3</td>
<td>60.0</td>
</tr>
<tr>
<td>Investing cash flow</td>
<td>(131.9)</td>
<td>(160.7)</td>
<td>(10.9)</td>
<td>(155.0)</td>
</tr>
<tr>
<td>Excluding project finance</td>
<td>(5.2)</td>
<td>31.1</td>
<td>61.4</td>
<td>(95.0)</td>
</tr>
<tr>
<td>Free cash flow</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Including project finance</td>
<td>3.9</td>
<td>29.2</td>
<td>38.5</td>
<td>(210.0)</td>
</tr>
<tr>
<td>Excluding project finance</td>
<td>197.0</td>
<td>158.2</td>
<td>192.6</td>
<td>70.0</td>
</tr>
<tr>
<td>Cash balance</td>
<td>197.0</td>
<td>158.2</td>
<td>192.6</td>
<td>70.0</td>
</tr>
</tbody>
</table>

### Capital Investment

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital investment (accrual basis)</td>
<td>160.2</td>
<td>128.6</td>
<td>133.4</td>
<td>300.0</td>
</tr>
<tr>
<td>Depreciation</td>
<td>167%</td>
<td>126%</td>
<td>130%</td>
<td>273%</td>
</tr>
<tr>
<td>Capital investment (payment)</td>
<td>138.9</td>
<td>136.6</td>
<td>132.5</td>
<td>290.0</td>
</tr>
<tr>
<td>Depreciation</td>
<td>144%</td>
<td>134%</td>
<td>129%</td>
<td>264%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>96.2</td>
<td>102.0</td>
<td>102.5</td>
<td>110.0</td>
</tr>
</tbody>
</table>
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.

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

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Dividends per share (¥)</th>
<th>Dividend payout ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal 2014</td>
<td>2.0</td>
<td>16.8%</td>
</tr>
<tr>
<td>Fiscal 2015</td>
<td>2.0</td>
<td>–</td>
</tr>
<tr>
<td>Fiscal 2016</td>
<td>2.0</td>
<td>–</td>
</tr>
<tr>
<td>Fiscal 2017</td>
<td>30.0</td>
<td>17.2%</td>
</tr>
<tr>
<td>Fiscal 2018</td>
<td>30.0</td>
<td>20.2%</td>
</tr>
</tbody>
</table>

* The Company carried out a 1-for-10 reverse stock split of its shares on October 1, 2016.
## (Reference) Production, Sales and Orders

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

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 KOBELECO 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