



## **Implementation of Production Facility Structural Measures and Management Reform Measures**

Nippon Steel Corporation Group has been facing unprecedented harsh conditions in which steel demand from the manufacturing industry has decreased and steel prices have stagnated, prompted by the U.S.-China trade disputes. At the same time, Chinese steelmakers have increased production for domestic infrastructure demand, which has caused prices of raw materials for steel to remain at a high level. As a result, we are expecting to incur a substantial non-consolidated operating loss of 130 billion yen (excluding an inventory valuation difference) and to record impairment losses on some operating assets as well as for consolidated subsidiaries, which have led to a forecast of a loss of 490 billion yen.

In addition to this immediate situation, we have to expect, in the medium- to long-term, a decline in construction demand, caused by Japan's declining and aging population, a decline in demand associated with expanded overseas production by our Japanese customers, and intensified competition in the overseas market. In the meantime, Nippon Steel Group's major steelworks have been operating for over 50 years since construction and are in need of large-scale investment for renewal in order to maintain their current production capacity.

In light of such a difficult operating environment, we have decided today to implement new production facility structural measures and management reform measures as follows.

### **I. Production facility structural measures: New measures aimed at establishing an optimal production structure for the domestic steelmaking business**

#### **1. Strengthening of competitiveness in upstream integrated production**

From the perspective of increasing competitiveness in upstream integrated production, and by comprehensively considering the competitiveness of each steelworks, from the aspect of integrated production and shipment capacity, cost competitiveness, and product strength, all the facilities of Kure Works of Nippon Steel Nisshin Co., Ltd. and No. 1 blast furnace and related equipment of Wakayama Works of Nippon Steel will be closed.

Relevant Works	Relevant Facilities	Time of Closure
Kure Works of Nippon Steel Nisshin	Upstream facilities (blast furnace, sintering, and steelmaking)	By around the end of the first half of fiscal 2021
	All other facilities, including hot strip mill and pickling line	By around the end of the first half of fiscal 2023
Wakayama Works	No. 1 blast furnace, No.4 and No. 5 coke ovens, No. 5-1 sintering machine, and part of No. 3 continuous caster	By around the first half of fiscal 2022

## 2. Strengthening of competitiveness concerning product making processes

### (1) Strengthening of the steel plate business

From the perspective of improving the capacity utilization rate and productivity in order to strengthen the steel plate business, and by comprehensively taking into account the competitiveness of the entire manufacturing process, the steel plate mill of Nagoya Works will be closed and its production will be integrated into the steel plate mills in the Kashima, Kimitsu, and Oita Works.

Relevant Works	Relevant Facilities	Time of Closure
Nagoya Works	Steel plate mill	By around the second half of fiscal 2022

### (2) Efficiency enhancement of the steel sheet production system

An electro-galvanizing line, a continuous annealing and processing line, and No. 1 continuous aluminizing line of Sakai Works of Nippon Steel Nisshin will be closed, and their production will be integrated into the manufacturing lines of Kimitsu Works, Nagoya Works and other lines of Nippon Steel, in order to consolidate orders to more competitive manufacturing lines and from the perspective of producing more at the point of demand.

Relevant Works	Relevant Facilities	Time of Closure
Sakai Works of Nippon Steel Nisshin	Electro-galvanizing line Continuous annealing and processing line No. 1 continuous aluminizing line	By around the end of fiscal 2020

### (3) Withdrawal from the titanium round bar and welded pipe business

Nippon Steel will withdraw from the titanium round bar business mainly for aircraft engines and the titanium welded pipe business mainly for nuclear and thermal power plants, in view of their business environments and profit situation.

Relevant Works	Relevant Facilities	Time of Closure
Osaka Steel Works	Titanium round bar manufacturing special facility	By around the end of fiscal 2022
Oita Works (Hikari Area)	Titanium welded pipe manufacturing line	By around the end of the first half of fiscal 2021

### (4) Strengthening of the stainless steel business

From the perspective of strengthening the stainless steel business, the hot-rolling mill of Kinuura Works of Nippon Steel Stainless Steel Corporation will be closed and its production will be integrated

into Nippon Steel, while the dedicated manufacturing facility for precision products will be closed and its production will be integrated into Yamaguchi Works and other facilities.

Relevant Works	Relevant Facilities	Time of Closure
Kinuura Works of Nippon Steel Stainless Steel	Hot strip mill	By around the end of December 2020
	Dedicated manufacturing facility for precision products (a precision hot-rolling machine, a bright annealing line, and a rewinding line)	By around the end of the first half of fiscal 2020

### 3. Previously announced measures the implementation of which will partly be pushed forward or changed

\* Change in the time of execution is underlined.

Relevant Works	Relevant Facilities	Time of Closure
Hirohata Works	Tinplate Mill	<u>By around the end of fiscal 2020</u> (previously by around the second half of fiscal 2021)
Yawata Works (Kokura Area)	Upstream facility (blast furnace and steelmaking)	<u>By around the end of the first half of fiscal 2020</u> (previously by around the end of fiscal 2020)
Nippon Steel Structural Shapes Corporation	Steelmaking facility	<u>Operation to continue</u> (previously by around the end of fiscal 2019)

#### Other previously announced measures

Kashima Works	UO mill	October 2019 (done)
Kimitsu Works (Tokyo Area)	Small-diameter seamless pipe mill	By around May 2020
Hirohata Works	Melting furnace and basic oxygen furnace (Installation of an electric furnace by around the first half of fiscal 2022)	By around the first half of fiscal 2023

The above measures are projected to reduce our annual crude steel production capacity by around 5 million tons while the impact on profit from closure of production facilities is expected to be approximately 100 billion yen. Based on the production facility structure decided at this time, we will build up synergy effects from steelworks integration and effects of improvement in labor productivity

and variable cost through rationalization. Moreover, regarding the new production facility structure as the first step, we will continue to consider establishing a more competitive optimal production structure, and at the same time carry out the selection and concentration in capital spending, ascertain factors such as future supply-demand balance in Japan and overseas and our potential profit trend under that balance, and implement measures according to changing business environment.

At the same time, Nippon Steel will make strategic investments in growing business fields and regions. This includes investments in the enhancement of the supply network for ultra-high-tensile steel sheets, the expansion of production capacity and enhancement of the quality of electrical steel sheet, and the acquisition of Essar Steel India Limited. We also intend to accelerate the reorganization of or withdrawal from unprofitable overseas businesses with no prospects of a future profit recovery. These are some of the various measures to enhance the profit base which we are determined to implement.

## **II. Management reform measures: Measures aimed at achieving speedy decision-making and more efficient operational management**

In order to respond appropriately to greater fluctuation in the business environment and an acceleration in the speed of change, Nippon Steel will realize speedy managerial decision-making and more efficient corporate operational management by reforming the management.

### **1. Revised corporate governance structure and more streamlined and efficient management structure**

#### **(1) Change to a “Company with an Audit & Supervisory Committee”**

Nippon Steel has today decided to make a transition to a “Company with an Audit & Supervisory Committee” from a “Company with an Audit & Supervisory Board” for the purpose of, among others, expediting management decision-making, enhancing discussions by the Board of Directors relating to matters such as the formulation of management policies and strategies by limiting the number of items for deliberation, and enhancing the supervisory function of the Board of Directors over management.

The transition to a Company with an Audit & Supervisory Committee is scheduled to take place following the approval of a proposal for requisite amendments to the Articles of Incorporation at the 96th General Meeting of Shareholders to be held in June 2020.

#### **(2) More streamlined and efficient management structure**

In addition to the revision of the corporate governance structure above, we will also work on increasing the efficiency of the management structure. While specific details will be announced after they are decided, we intend to streamline our management structure by taking into account our

integration with Nippon Steel Nisshin on April 1, and to promptly and efficiently make managerial decisions.

## **2. Increasing efficiency of the entire corporate organization and operations**

Nippon Steel will integrate and reorganize the current 16 steelworks (including that of Nippon Steel Nisshin) into an organization of six steelworks (Muroran, East Nippon, Nagoya, Kansai, Setouchi, and Kyushu) as of April 1, 2020. The organization of each steelworks will also be substantially restructured and the number of divisions will be reduced by over 30%, in order to eliminate organizational redundancy and establish an efficient management structure. The headquarters will also reduce the number of departments by 30% through bundling of the current organization while the entire-company control function of each division will be maintained. Similar streamlining efforts to integrate and reorganize divisions and departments will be carried out in domestic office and branches, R&D Laboratories, and other organizations.

By streamlining the entire organization in such a way, we aim to enhance management capability, speed up the resolution of problems, and make operations more efficient.

## **3. Enhanced response to digital transformation**

With the aim at proactively using data and digital technology to strengthen our business competitiveness, Nippon Steel's organization that is engaged in digital transformation will be reorganized and its function will be reestablished. This includes setting up a "Digital Innovation Div." as of April 1, 2020. The new organization will accelerate implementation of business and production process reform by centrally responding to corporate-wide issues concerning manufacturing and maintenance workplaces, sales/production plans, and profit management; and by strengthening our underlying data management.

Specifically, the new organization will have an overview of the Business Process Innovation Division, the Systems & Control Engineering Div. (Plant Engineering and Facility Management Center), IA3 Center and Instruments and Control Research Lab. (Process Research Laboratories), NS Solutions, Nippon Steel Texeng and other parts of the Company, which are the Nippon Steel Group's digital technology resources. In addition, the new organization will be responsible for developing a longer-term strategy for business/production process reform that uses digital technology and for the planning and promotion of the major challenges mentioned above. It will also be engaged in unifying corporate-wide resource injection functions concerning digital investments in order to strengthen and increase the efficiency of management; in evaluating digital technology to be adopted in investment projects and coordinating matters among concerned departments; and conducting research on the latest digital technologies, considering their adoption, and promoting their application.

Through proactive use of data and digital technology, we will streamline our organization, raise our operational efficiency, speed up our decision-making, and implement operational and production process reforms to enhance our business competitiveness.

### **III. Toward further enhancing the Nippon Steel Group's business base**

In addition to measures I and II above, which were decided today, Nippon Steel will continue to work on considering various measures from the following perspectives and will implement measures as they are decided one by one.

1. Further pursuing the optimal production structure of the steelmaking business;
2. Thoroughly making decisions on the selection and concentration of domestic and overseas businesses, including those of Group companies;
3. Promoting strategic investment concerning priority business segments, regions, and products;
4. Responding to the aging, declining population and diversity issues, and
5. Growing harmoniously with the global environment.

By reestablishing the domestic production system for a more resilient and agile steelmaking business and through business expansion in priority areas and regions in Japan and overseas, our ultimate aim is to become the No. 1 steelmaker in terms of market capitalization with world-leading capabilities.

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