

May 15, 2019
Kobe Steel, Ltd.

Rolling of the Fiscal 2016–2020 Group Medium-Term Management Plan

Kobe Steel, Ltd. announces that its Board of Directors today approved the rolling of the Medium-Term Management Plan to address key issues for the remaining two years and beyond of the Fiscal 2016–2020 Group Medium-Term Management Plan launched in April 2016.

Current Status

As an outcome of the three years ending in fiscal 2018, profitability improved in the steel business beginning with the consolidation of upstream operations. In addition to the restructuring of the construction machinery business in China, Kobe Steel has made progress in two new projects in the electric power business, as planned. At the same time, Kobe Steel decided to invest approximately 160 billion yen to promote strategies for automotive weight reduction.

On the other hand, looking back at its business performance, Kobe Steel posted a large allowance for doubtful accounts in its excavator business in China in fiscal 2016, leading to ordinary loss.

Since fiscal 2017, Kobe Steel has returned to profit on the back of the strong market environment. However, issues became apparent on the production side in the materials businesses, including low production efficiency in the aluminum and copper businesses and production trouble in the steel business in fiscal 2018. Other issues were delays in the profitability of strategic investment projects in the steel, aluminum, copper and titanium businesses, and achieving appropriate sales prices for products, while facing higher costs for main raw materials, distribution and energy.

In addition, with regard to the quality misconduct, customer compensation expenses, expert costs and other expenses led to an impact of over 20 billion yen (cumulative total covering fiscal years 2017 and 2018). At this time, litigations and other unresolved issues overseas still remain.

Future Initiatives

The Kobe Steel Group firmly maintains its basic policy to establish the three core business areas of materials, machinery and electric power in the future. To that end, for the two fiscal years of 2019 and 2020, Kobe Steel plans to focus on strengthening the business base and making efficient use of management resources as urgent issues, in addition to strengthening profitability centered on materials and undertaking initiatives to restore trust. Consequently, it plans to carry out the following points below:

1. Strengthen profitability with a focus on materials
 - ✓ Achieve early profits from strategic investment projects
 - ✓ Strengthen *monozukuri* capabilities and increase sales prices
 - ✓ Make further contributions to customers by reorganizing the steel, aluminum and copper businesses
2. Make efficient use of management resources and strengthen the business base
 - ✓ Revise the evaluation method for each business
 - ✓ Strengthen Group governance, including the reorganizing of Group companies
 - ✓ Improve fund and asset efficiency

In addition, Kobe Steel has set its sights on business strategies for the medium term, while concurrently promoting continuing themes for the next medium-term plan from fiscal 2021 onward. These themes are:

1. Steadily implement automotive weight reduction strategies
2. Continuously strengthen corporate governance
3. Expand various programs for securing and cultivating human resources
4. Strengthen IT strategies
5. Promote sustainability management that leverages the distinctive features of the Kobe Steel Group
(Contribute to the environment and society through business activities and pursue sustainable growth)

These initiatives contribute to the environment and society, and the Kobe Steel Group sincerely aims to restore trust as an essential entity that continues to support society.

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