



**NIPPON STEEL & SUMITOMO METAL CORPORATION**

# MID-TERM MANAGEMENT PLAN

**March 13, 2013**

**Hiroshi Tomono  
President & COO**

# Agenda

## I. Overview

## II. Improving the competitiveness of the steel business

1. Enhancing our technological superiority
2. Building the world-leading cost competitiveness to win in the global competition
3. Optimizing the production network
4. Promoting the global strategy
5. Strengthening the group companies of the Steelmaking Business

## III. Maximization of combined group strength

## IV. Financial goals and cash dividend policy

## V. Highlights



# I. Overview

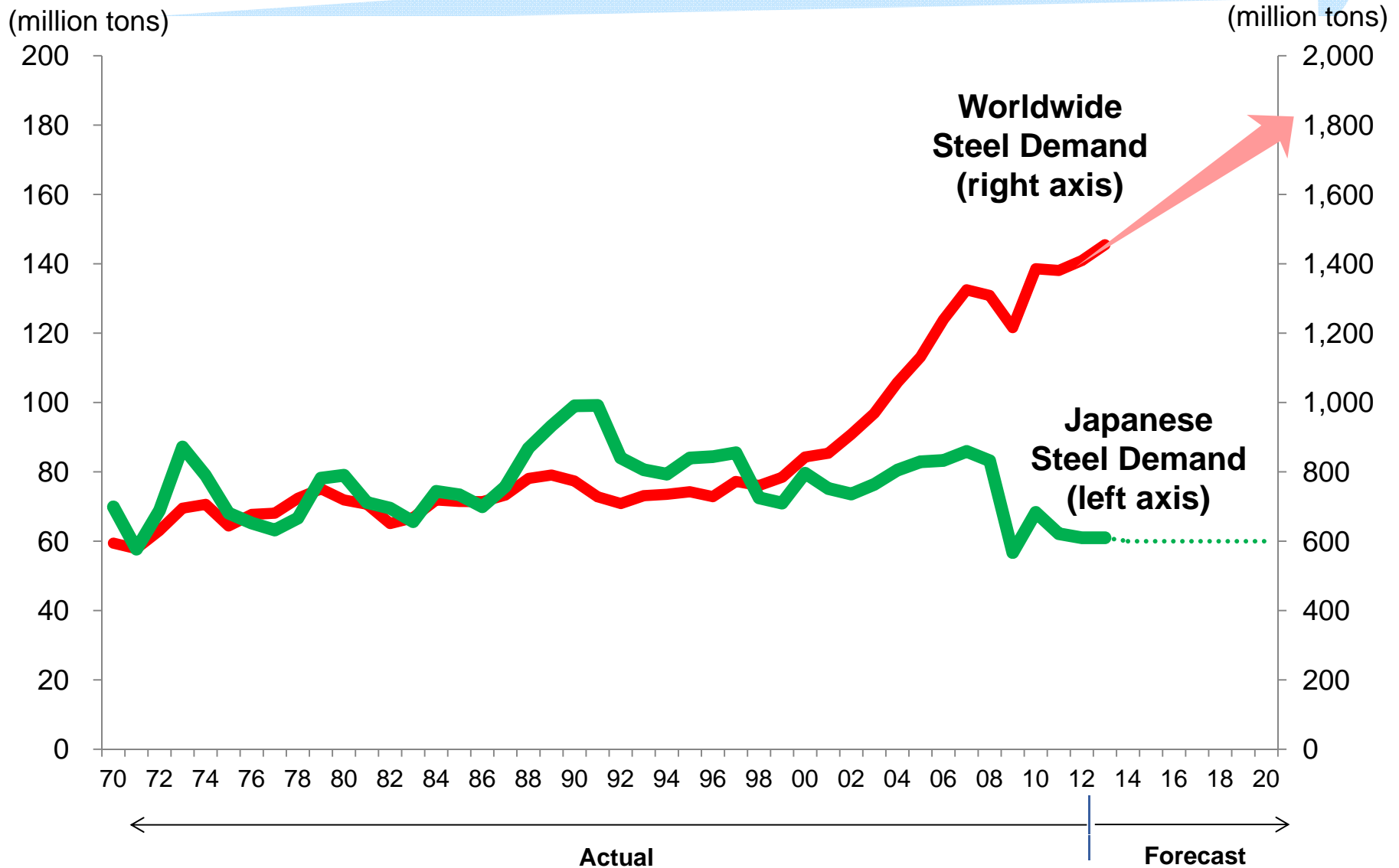


# Creating the Best Steelmaker with World-Leading Capabilities

■ NSSMC Group will pursue world-leading technologies and manufacturing capabilities, and contribute to society by providing excellent products and services.



# Worldwide steel demand is expected to grow steadily



# The supply-demand gap of steel is expected to persist



● In East Asia, the supply-demand gap is expected to expand, as some newly constructed steelworks will start operation.

- <Up to 2015> Main newly-operated steel facilities
- *Dragon Steel : No.2 BF*
  - *Hyundai Steel: No.3 BF*
  - *POSCO : BF expansion*
  - *POSCO : New steel works in Indonesia*
  - *BAO : New steel works in Zhanjiang, China*
  - *Wuhan Steel : New steel works in Fangchenggang, China*
  - *FPG : New steel works in Vietnam*

● Domestic steel demand is expected to remain at around 60 million tons in the medium term, despite a likely pick-up caused by policy effect and other supportive factors in FY2013.

# Building an organization with world-leading competitive strength by 2015

Target ROS of approximately 5% at minimum and further aim at ROS of 10%

Enhance our  
technological superiority

Building an organization  
with world-leading  
competitive strength

Optimize production  
network

Promote the global  
strategy

Strengthen the group  
companies of the  
Steelmaking

# Aiming to become the “Best Steelmaker with World-Leading Capabilities” at an early stage

## Balancing financial improvement and growth investment

- Synergy effects of ¥200bn or more per year
- D/E ratio:  $1.2 \xrightarrow{\text{At present}} \xrightarrow{\text{At an early stage}} 1.0$   
⇒ Rank A by credit rating(around 0.8)
- Asset compression: ¥300bn within about 3 years
- Strategic investment of about ¥100bn per year

## Organizational and operational management

- Establish an efficient operational structure based on business units by products
- Enhance working relationship between steelworks

## Trusted and reliable company

- Act according to our corporate philosophy
- Risk management / Compliance



## II. Improving the competitiveness of the steel business

# 1. Enhancing our technological superiority



# Our technological superiority is a key driver to support all kinds of changes

**Strive to lead the world through integration of manufacturing technology, product technology, and R&D capabilities**

**■ Significant advances in productivity through innovation in production processes**

**■ Developing high-functioning products in growing sectors**

**■ Delivering comprehensive solutions to our customers**

**II . Improving the competitiveness of  
the steel business**

**2. Building the world-leading cost  
competitiveness to win in the  
global competition**



# Realize synergies of ¥200bn yen per year or more in approximately 3 years



## Cost reduction by consolidating technology and R&D

- Use of low-grade raw materials
- Promotion of high efficiency in processes
- Improvement of rolling efficiency
- High-functioning products
- Enhancing development of manufacturing process technologies
- Increase in labor productivity

Approx.  
**¥60bn**

## Establishment of the optimal production network

- Optimization of fixed costs through cessation of operation of facilities
- Highly-efficient low-cost operation
- Optimal allocation of tasks among production lines and Increase in high-functioning products
- Coordination among steelworks
- Avoidance of redundant investment

Approx.  
**¥60bn**

## Reduction in procurement costs

- Raw materials : Improving efficiency in transportation
- Equipment & materials : centralized procurement, bidding, volume discount, etc.

Approx.  
**¥30bn**

## Improvement in efficiency of the head office

- Integration and improvement in efficiency of HO and branches in Japan and overseas
- Reduction in general administrative expenses and system development cost

Approx.  
**¥30bn**

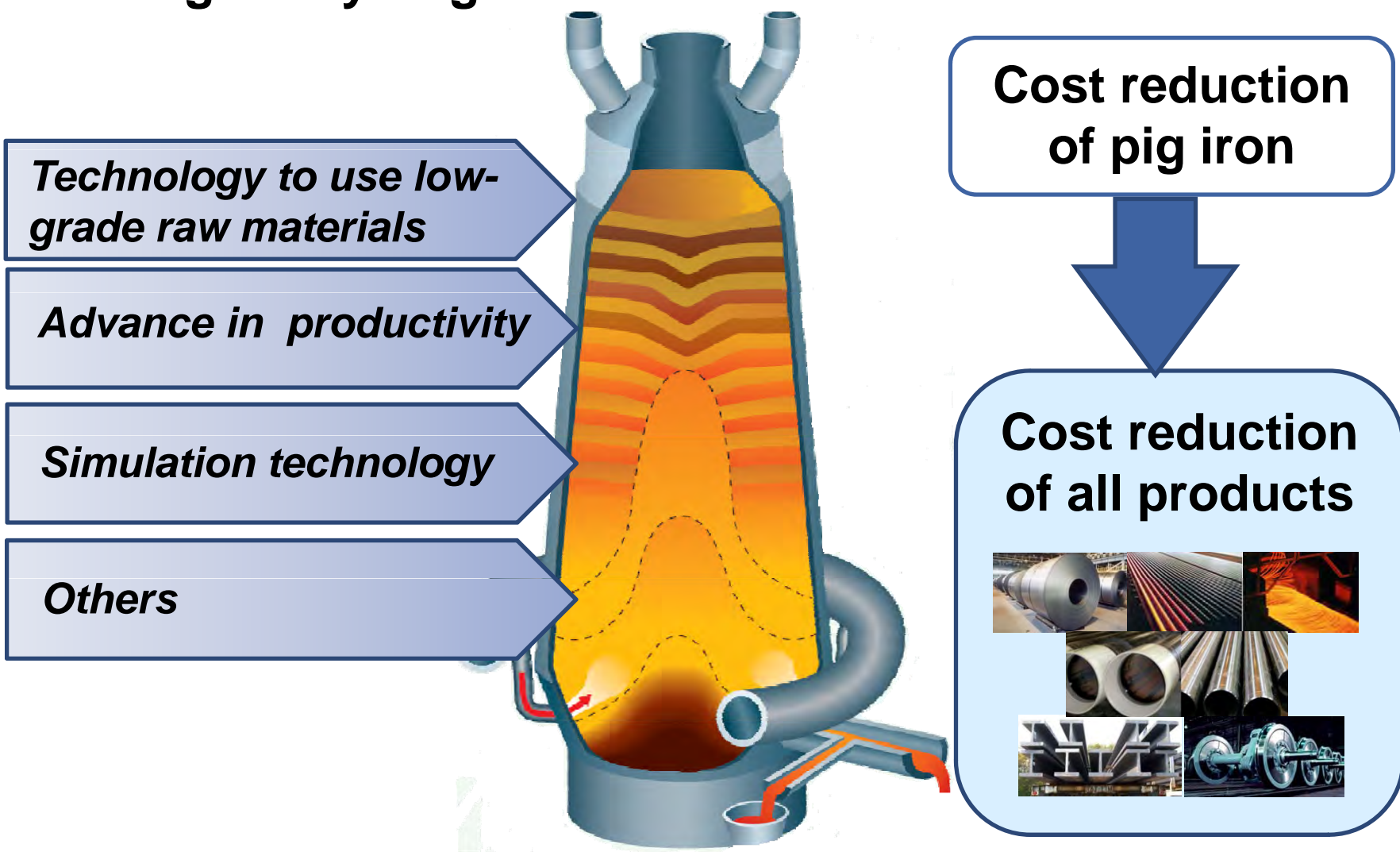
## Integration and reorganization of and alliances among group companies

- Integration and reorganization of group companies
- Expanding alliances within the group (transportation, processing, equipment, analysis, etc.)

Approx.  
**¥20bn**

**Total ¥200bn or more**

# Accelerate cost reduction of pig iron by using technological synergies



## II. Improving the competitiveness of the steel business

# 3. Optimizing the production network



# Optimizing the production network



## Iron- and steelmaking

- With due consideration for measures to be taken with respect to the rolling process,
1. Each steelworks to be fully utilized through each stage of production from pig iron production, steel-making and hot-rolling
  2. High productivity at lower fixed costs through maximum efforts including pursuit of higher pig iron ratio
  3. Low cost operation by use of lower-grade raw materials and other means to reduce variable costs

## Rolling-related equipment (cessation of operation and shift-down)

1. Enhancement of efficiency of production lines with competitiveness by combining technologies of the former companies and establishment of the optimal production network of domestic production bases in each region
2. Expansion of overseas production lines by advancing our global strategy
3. Cessation of operation of production lines which are relatively less competitive  
Aiming to secure our total capacity and at the same time enhance our total competitiveness in terms of cost, quality, timely delivery and other factors

# Cessation of operation of some equipment to optimize fixed costs and realize highly-productive low-cost operation

Upstream process

Kimitsu	<ul style="list-style-type: none"> <li>Shift to two-blast-furnace operation (No. 3 blast furnace to cease operation)</li> </ul>	End of FY2015
	<ul style="list-style-type: none"> <li>Streamlining of No.1 steelmaking plant                             <ul style="list-style-type: none"> <li>No. 5 continuous caster to cease operation</li> <li>Shift to one-basic-oxygen-furnace operation (One basic-oxygen-furnace to cease operation)</li> </ul> </li> </ul>	1H of FY2014 1Q of FY2016
Wakayama	<ul style="list-style-type: none"> <li>Postponement of operation of the new No. 2 blast furnace (Two-blast-furnace operation with No. 1 and No. 5 blast furnaces to continue)</li> </ul>	

Downstream process

Flat Products	Kashima	No. 2 continuous pickling line, No. 1 cold strip mill , No. 1 continuous annealing line, Batch annealing line No. 1 continuous galvanizing line, No. 2 electrolytic galvanizing line	End of the 4Q of FY2014
	Wakayama	No. 3 pickling line, No. 1 cold strip mill, Continuous hot-dip galvanizing line Annealing continuous line (electrical steel sheets) (Production of high-carbon steel sheets will continue.)	End of the 1Q of FY2014
	Nagoya	No. 4 continuous hot-dip galvanizing line	End of the 1Q of FY2013
		Electro-galvanizing line	End of the 4Q of FY2014
	Kimitsu	No. 1 continuous annealing and processing line	End of the 4Q of FY2014
Plates	Kashima	Rolling – Shift-down	2Q of FY 2013
	Kimitsu	Rolling – Shift-down	
Pipes and tubes	Kimitsu	Butt welded pipe line	End of the 4Q of FY2013

(Note) Major cessation of operation and shift-downs before the Business Integration in 2011 and 2012 (implemented at the sole initiative of each of the former companies)

Flat Products	Nagoya	No. 3 continuous hot-dip galvanizing line	March 2012
		No. 2 batch annealing line	March 2011
	Kimitsu	No. 2 continuous hot-dip galvanizing line	March 2012
		No. 1 electro-galvanizing line	
	Kashima	No. 1 electro-galvanizing line	March 2012
Yawata	No. 3 electro-galvanizing line	July 2011	
Plates	Nagoya	Rolling – Shift-down	Since November 2011



## II. Improving the competitiveness of the steel business

# 4. Promoting the global strategy



# The merger has expanded our global supply network of various products

● NSC ● SMI

	Automotive			Construction, packaging	Railway parts	Energy
	Steel sheet	Pipes & tubes, bars & wires	Crankshafts			
China	●	● ●	●	●		●
ASEAN	●	● ●		● ●		●
India	●	●	●			
USA	●	●	●	● ●	●	●
Mexico	●	●				
Brazil	●					●
Middle East, Africa				●		●

<b>Number of sites*1</b>	<b>8</b>	<b>9</b>	<b>4</b>	<b>Construct. 24 Packaging 4</b>	<b>1</b>	<b>9</b>
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\*1 Including projects which will start operation by March 2014

# Accelerating the global strategy

Pursue the best combination of domestic and overseas resources for production and supply for each product type, leveraging our cost competitiveness and product competitiveness

## Establish global network in the three strategic areas

● High-grade steel for the automobile industry

● Resources and energy sector

● Infrastructure-related sector (Railways, construction, civil engineering, etc.)

■ Sustain or expand our market shares by meeting overseas demand for high-grade steel

■ Capture growing local demand

■ Continue to maintain our alliances with overseas major steelmakers

■ Seek to maximize the benefits from the alliances

■ Enhance organizational and operational management arrangement (i.e., regional management, pursuit of thorough low-cost management, development and allocation of human resources, and system development)

# Major projects recently announced



## Major projects for FY2013

Sector	Line or Product	Country	Company	Production capacity	Start-up/ Planned start-up
Automotive	CGL	Mexico	TENIGAL	0.40 MT/year	Jul. 2013
	CGL	Thailand	NSGT	0.36 MT/year	Oct. 2013
	CAPL	India	JV with TATA	0.60 MT/year	Jan. 2014
	Pipe	Mexico	NS Pipe Mexico	0.02 MT/year	Jun. 2013
Packaging	ETL, etc.	China	WINSteel	0.80 MT/year	Sep. 2013
Energy	OCTG	Brazil	VSB	0.60 MT/year	Sep. 2011(*)
	OCTG threading	USA	Southern Tube	0.07 MT/year	End of FY2015
Infrastructure	CGL	ASEAN, USA	NSBS	1.40 MT/year	Mar. 2013
	CDCM, etc	Vietnam	CSVC	1.20 MT/year	Apr. 2013
	Wheel, axle	USA	Standard Steel	0.31M wheels/year	Aug. 2011 * Ramping up

## II. Improving the competitiveness of the steel business

# 5. Strengthening the group companies of the Steelmaking Business



# Strengthening the group companies in steelmaking

- Companies with redundant functions or companies whose competitiveness would be increased by integration will be consolidated or reorganized.
- Promote reinforcement and upgrade of the group management by optimizing various functions within the group, etc.

Integrations and Reorganizations Announced	Date of announcement	Date of integration/ Planned date of integration
Integration of Sumikin Bussan Corporation and Nippon Steel Trading Co., Ltd. (under consideration)*	2013. 2. 7	2013.10. 1
Integration of Nittetsu Shinko Shearing and Shearing Kozyo	2013. 1.18	2013. 4. 1
Business integration of Nippon Steel & Sumikin Precision Forge, Inc. and Nippon Steel & Sumikin Bolten Corporation	2012.11.29	2013. 1. 4
Integration of Nippon Steel Techno Research Co., Ltd. and Sumitomo Metal Technology Co., Ltd.	2012.10.3	2013. 4. 1
Integration of bar & wire processing companies in Thailand	2012.10.2	2013. 1. 2
Integration of Taihei Kogyo Co., Ltd. and Nittetsu Elex Co., Ltd. (Basic agreement regarding the business integration has been executed.)*	2012. 9.28	2013.10. 1
Integration of Nittetsu Transportation Co., Ltd. and Sumitomo Metal Logistics Service Co., Ltd.	2012 .9. 5	2013. 4. 1
Integration of Nippon Steel Pipeline Co., Ltd. and Sumitomo Metal Pipeline and Piping, Ltd.	2012. 6.26	2012.10. 1

\* The merger agreement and other relevant matters are expected to be submitted for approval at the general shareholders' meeting to be held by each company, scheduled for June 2013.





All output figures in this presentation are metric tons.

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## Ⅲ. Maximization of combined Group strength



# Strive to improve profitability of each business

FY2012 forecast (billion yen)	Net sales	Ordinary profit	ROS
 <b>Leading with Determination</b> <b>NIPPON STEEL &amp; SUMIKIN ENGINEERING</b>			
<b>Engineering</b>	<b>300</b>	<b>16.5</b>	<b>5.5%</b>
 <b>NIPPON STEEL &amp; SUMIKIN CHEMICAL</b>			
<b>Chemicals</b>	<b>185</b>	<b>8.0</b>	<b>4.3%</b>
 <b>NIPPON STEEL &amp; SUMIKIN MATERIALS CO., LTD.</b>			
<b>New materials</b>	<b>40</b>	<b>0.5</b>	<b>1.3%</b>
 <b>NS-Solutions</b>			
<b>System solutions</b>	<b>170</b>	<b>12.5</b>	<b>7.4%</b>
<b>Total</b>	<b>695</b>	<b>37.5</b>	<b>5.4%</b>

**Aim at achieving  
“world top-level  
profitability” in  
terms of ROS**



## IV. Financial goals and cash dividend policy



# Asset compression and basic policy of capital spending and business investment

## Balancing financial improvement and growth investments

- At present      At an early stage  
■ **D/E ratio: 1.2 ⇒ 1.0**  
⇒ Rank A by credit rating (around 0.8)
- **Asset divestitures: approx. ¥300bn**  
within about 3 years from the second half of FY12
- **Capital expenditures below depreciation expense: approx. 80% of the depreciation amount**  
Annual average, FY10-FY12  

<b>CAPEX ¥400bn</b>
<b>Depreciation ¥380bn</b>
- **Strategic investment for growth: about ¥100bn/year**

# Cash dividend policy



■ **Factors to be considered regarding returning profit to shareholders include:**

- **Capital requirements for investments that increase corporate value**
- **Our performance forecast**
- **Consolidated and non-consolidated balance sheets**

■ **Consolidated dividend payout ratio target: about 20%**

# V. Highlights



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# NIPPON STEEL & SUMITOMO METAL CORPORATION

## MID-TERM MANAGEMENT PLAN

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March 13, 2013