

## Medium-Term Consolidated Business Plan (for FY 2003 through FY 2005)

Nippon Steel Group has formulated a medium-term consolidated business plan to be implemented during the FY 2003-2005 terms.

From now on, the Group will strive to improve its international competitiveness and profitability in its core business of steelmaking as well as in other business sectors in which the Group is engaged, in accordance with this Plan, which will lead to an early realization of a stronger financial structure, while cooperative efforts will be made with customers to boost the competitiveness of the products produced by the Group and of products manufactured by clients utilizing materials made by the Nippon Steel Group.

Major contents of the Plan are outlined below.

### I. Consolidated Financial Targets

#### 1. Consolidated Financial Targets

	Target for FY 2005	FY 2002 (Projected)
Ordinary profit	Around ¥250 billion	¥75 billion
Return on sales (ROS)	Around 9%	3%
Return on asset (ROA)	Around 9%	3%
Outstanding liabilities with interest	Around ¥1,600 billion	¥1,940 billion
Shareholders' equity	Around ¥1,000 billion	¥810 billion

○ Net Sales

Around ¥2,900 billion

¥2,700 billion

## 2. Earnings goal by segment

	Target for FY 2005			FY 2002 (Projected)		
		ROS	ROA		ROS	ROA
<b>Total for Nippon Steel Group</b>						
Net sales	Around ¥2,900 billion			¥2,700 billion		
Ordinary profit	Around ¥250 billion	9%	9%	¥75 billion	3%	3%
<b>Steelmaking and Steel Fabrication</b>						
Net sales	Around ¥2,050 billion			¥1,965 billion		
Ordinary profit	Around ¥230 billion	11%	11%	¥50 billion	3%	3%
<b>Engineering and Construction</b>						
Net sales	Around ¥400 billion			¥280 billion		
Ordinary profit	Around ¥10 billion	3%	5%	¥1 billion	0%	1%
<b>Urban Development</b>						
Net sales	Around ¥110 billion			¥105 billion		
Ordinary profit	Around ¥5 billion	5%	5%	¥2 billion	2%	2%
<b>System Solutions</b>						
Net sales	Around ¥200 billion			¥150 billion		
Ordinary profit	Around ¥20 billion	10%	17%	¥11 billion	7%	12%
<b>Chemicals and Nonferrous Materials</b>						
Net sales	Around ¥330 billion			¥340 billion		
Ordinary profit	Around ¥10 billion	3%	9%	¥7 billion	2%	5%

## 3. Itemized details of improvements in the Plan

### (1) Itemized details of improvements in the Plan designed to boost ordinary profits from steel business

	Impact on ordinary profit	Remark
Prices and product mix, etc.	○Around ¥30 billion	Improved pricing Product mix to be improved with more value added products, etc.
Foreign exchange rate	×Around ¥10 billion	
Cost reduction*	○Around ¥130 billion	Effects of realignments of blast furnaces ○¥30 billion <ul style="list-style-type: none"> <li>• Reductions of scrap as a result of an increase in output of iron : ○¥10 billion</li> <li>• Elimination of demerits attributable to realignments of blast furnaces: ○¥20 billion</li> </ul> Procurement costs (raw materials and other materials, logistics, etc.) ○¥30 billion Labor productivity (an improvement of 10%), etc. ○¥20 billion Depreciation ○¥15 billion Others (yield rate and productivity unit, etc.) ○¥35 billion
Group companies	○Around ¥30 billion	Improved competitiveness to be realized through effects of business integration (Nippon Steel Sumikin Stainless Steel Corporation, Nittetsu Steel Sheet Corporation), consolidation of plants (Nippon Steel Metal Products Co., Ltd., etc.) and improved profitability in overseas subsidiaries (Siam United Steel in Thailand, I/N TEK and I/N KOTE of the United States, etc.).
<b>Total for steel-making and steel fabrication</b>	<b>○Around ¥180 billion</b>	

\* Actual cost reductions achieved: ¥60 billion in FY 2000, ¥80 billion in FY 2001 and ¥80 billion in FY 2002, totaling ¥220 billion.

(2) Cash flows

		3-year cumulative amount
	Ordinary profit	Around ¥580 billion
	Facilities investment (cash out)	Around ¥430 billion
	Depreciation	Around ¥560 billion
	Net proceeds from capital outlay	Around ¥130 billion
	Investments (other than facilities) and loans	Around ¥80 billion
	Asset retrenchment	Around ¥80 billion
	Income taxes, dividends, etc.	Around 350 billion
	Total for Nippon Steel Group	Around ¥360 billion

(3) Balance sheets

	Target for FY 2005	FY 2002 (Projected)	FY 1997 (Actual)
Total assets	Around ¥3,700 billion	¥3,850 billion	¥4,670 billion
Outstanding liabilities with interest	Around ¥1,600 billion	¥1,940 billion	¥2,640 billion
Shareholders' equity	Around ¥1,000 billion	¥800 billion	¥878 billion
Debt/equity ratio	1.60	2.40	3.01

(Reference) Assumptions used in the formulation of the Plan

	Assumption for FY2005	FY 2002 (Projected)
Foreign Exchange Rate	¥110/US\$	¥122/US\$
Interest Rate (TIBOR)	2%	0.1%

○ Steelmaking and Steel Fabrication Sector:

- Production output of crude steel:      Around 29 million tons      29.5 million tons
- Export ratio (as % of net sales):      34%      34%

○ Effects on profitability of strategic alliances with domestic and overseas steel manufacturers are not taken into account for the periods subsequent to FY 2003.

## **II. Fundamental Strategy and Principal Measures**

Nippon Steel Group, with steelmaking and steel fabrication at its core, strives to secure steady profits in Engineering and Construction, Urban Development, System Solutions, and Chemicals and Nonferrous Materials sectors, among others, by seeking synergies with the steelmaking business, while parallel efforts are also made to further reinforce its business foundations by securing consolidated surpluses and reducing liabilities with interest, among other measures.

### **1. Steelmaking and the Steel Fabrication Sector**

The Group will further strengthen the world's premier technology and R&D capabilities and improve competitiveness in terms of quality and costs. It will also step up efforts to ensure the competitiveness of not only the steel materials and products produced by the Group but also the final products produced by the Group's customers, through attempting to accurately meet the needs of customers.

At the same time, the Group will carry out measures to strengthen and deepen strategic alliances and to forge partnerships with steel manufacturers at home and abroad, and will contribute to the growth of the Chinese and Asian markets, which are expected for strong growth potential.

#### (1) Sales aspect

- ① Our steel prices to be improved ;
- ② Product mix to be improved through concentrating on value added products such as high tensile strength steel for automobiles and Super Dyma, among others;
- ③ Attention to minute details of customers' needs, by taking full advantage of the organizational network composed of four integrated steel works and five specialized steel works, both supported by neighboring processing bases;
- ④ Implementation of measures to optimize the procedures from the steel works to distribution and processing segments and from distribution and processing segments to customers' operations;
- ⑤ Strengthening of competitiveness and comprehensive marketing capabilities in cooperative action with Nippon Steel Metal Products, Nittetsu Steel Sheet, Nittetsu Steel Pipe, and other controlled subsidiaries;
- ⑥ Further strengthening of partnerships with trading companies and distribution/logistics companies; and,
- ⑦ Appropriate responses to expanding demand in China, Asia and other markets, among others.

#### (2) R&D aspect

- ① Technological development (at the Research & Engineering Center) on a seamless basis ranging from basic to cutting edge technological research, development and engineering, to be combined with the development of products and solution technologies (at technological research divisions at steel works) with the goal of boosting competitiveness in close collaboration with clients for the

Group's products and for products made using the Group's materials;

- ② Collaboration with strategic alliance partners, Arcelor (the field of automotive steel sheets) and POSCO (the field of steelmaking technology), in the area of joint research for improved efficiency and quicker results; and,
- ③ Strengthening of R&D in environment, energy and recycling fields to be built on the basis of technological expertise the Group has accumulated through steelmaking operations to encourage the creation of a recycling-based society and measures against global warming.

(3) Production and cost aspects

- ① Reduced costs for iron and steel making to be achieved by an optimized ratio of scrap content, taking advantage of pig iron upon the completion of realignments of blast furnaces (No.4 blast furnaces in Kimitsu in FY2002, No.2 blast furnaces in Oita in FY 2002);
- ② Further improvements in labor productivity;
- ③ Further reductions in costs of goods purchased (raw materials, machinery and materials, repairs and transport, etc.); and,
- ④ Continuation of efforts to achieve further operational improvements in terms of yields and unit consumption, among others.

(4) Consolidated subsidiaries

- ① Further progress in the consolidation of group management through further unification of strategies, strengthening of consolidated PDCA (Plan-Do-Check-Act), and the implementation of consolidated cash management, among others;
- ② Realization of full benefits of merger and plants integration involving Nittetsu Steel Sheet, Nippon Steel and Sumikin Welding, and Nippon Steel Metal Products, among others; and,
- ③ Improved profitability of overseas subsidiaries (Siam United Steel in Thailand, I/N TEK and I/N KOTE in the United States, etc.).

(5) Realization of mutual benefits of strategic alliances with domestic and foreign partners

(Effects of new initiatives taken subsequent to FY 2003 are not accounted for in this Medium-Term Plan)

① Sumitomo Metal Industries, Ltd.

- Cooperation in the supply of hot-rolled coils in conjunction with the shut-down of hot rolling mills at Sumitomo Metals' Wakayama Works scheduled for the end of March 2005;
- Cooperation between Nippon Steel's Kimitsu Works and Sumitomo Metals' Kashima Works towards cost reductions;
- Improved profitability for Nippon Steel Sumikin Stainless Steel Corporation (Nippon Steel and Sumitomo Metals holding 80% and 20% of the concern respectively), etc.

② Kobe Steel, Ltd.

- Cooperation between Nippon Steel's Hirohata Works and Kobe Steel's Kakogawa Works in the

area of cost reductions; and.

- Collaboration for improved efficiency on the affiliate company level in the areas of steel processing (production and operational systems to be optimized for each region) and logistics (sharing of transport and relaying points), among others.

(Note) In addition to the above, the following objectives have been set forth for both of the alliances:

- Supplementary cooperation on a mutual basis in the area of steelmaking as well as in down-stream processes at times of emergencies and during repairs or renovations of blast furnaces; and,
- Cooperation in the procurement of raw materials and equipment and other materials, among others.

### ③ Arcelor

- Common products offer in the field of automotive steel sheets in response to customers' requests (common solutions for the "worldwide car projects" of the major customers), joint R&D endeavors (20 plus patents were applied), and cooperative technical approach to the customers; and,
- Combined shipping of raw materials; and,
- Feasibility study on possible joint projects in a third region, among others.

### ④ POSCO

- Promotion of joint R&D (10 plus patents will be jointly applied) and mutual technical exchanges;
- The use of an electronic settlement system for imports of raw materials; joint support provided by Nippon Steel and POSCO together with Bao Steel for a coal exploration project in China;
- Collaboration extended to the joint venture in a third country (increased stakes of Nippon Steel and POSCO in Siam United Steel of Thailand); and,
- Mutual holding of shares, among others.

## **2. Sectors Other than Steelmaking and Steel Fabrication**

Nippon Steel will leverage its wealth of corporate resources, including technological, human and physical resources accumulated through the operations of its core steelmaking business, in its efforts to consistently capture profitable opportunities in non-steelmaking sectors, and will seek synergies with the steelmaking sector to secure and boost consolidated earnings.

### (1) Engineering and Construction

- ① An increase in contracts amount and sales relating to overseas projects (oil and gas explorations and steelmaking plants)

Examples: Sakhalin Gas Pipeline; steelmaking plants in China

- ② Initiatives in making inroads into new lines of business and new business schemes including environmental and energy solution businesses.

(Note) A broader scope of business development activities that go beyond the traditional realm of “engineering, procurement and construction (EPC)” will be explored in an attempt to address a more extensive range of challenges from project planning to management of operations.”

#### (2) Urban Development

- ① Improved profitability in the condominium business;
- ② Initiatives in making inroads into new lines of business and new business fields, including the property value enhancement business.

(Note) Redevelopment and value enhancement targeting former sites of factories, employee housing and little utilized land in urban areas

#### (3) System Solutions

- ① Delivery of all inclusive solutions primarily designed for manufacturing industries and based on unparalleled technological strengths and business expertise;
- ② Realization of sustainable growth through the capturing of growth markets to which cutting-edge solutions will be delivered.

#### (4) Chemicals

- ① Further encouragement of “selection and concentration” through the transformation of concerns into wholly owned subsidiaries and strengthening of financial structure;
- ② Improved competitiveness in the core areas of chemicals and coal chemicals;
- ③ Strengthening and expansion of the electronic materials business, e.g., materials for substrates such as Espanex CCL.

### **3. Through enforcement of environmental management as common measures**

- (1) Promotion of initiatives to halt global warming, including the implementation of voluntary action plans established by the steel industry;
- (2) Active participation in the establishment of a recycling-based society through recycling of internally and externally produced by-products utilizing the infrastructure of steel works; and,
- (3) Delivery of environmental and energy solutions, among others.

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