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Nippon Steel & Sumitomo Metal Corporation

# NSSMC Announces Mid-Term Management Plan
## Accelerating towards Becoming the "Best Steelmaker with World-Leading Capabilities"

Nippon Steel & Sumitomo Metal Corporation Group ("NSSMC") has developed the 2017 Mid-Term Management Plan, for fiscal 2015-2017. This plan responds to the present and anticipated business environment and to the challenges that the Group is facing. It also reflects its determination to further raise competitiveness by improving its "technology," "cost," and "being global," to become the "best steelmaker with world-leading capabilities." With this plan, NSSMC aims at prevailing in an intensifying competitive landscape and achieving sustainable profit growth. The main contents of this plan are outlined below.

### The Steel Business Environment

The steel business environment in which the plan will be executed has projected expansion of global steel demand at a moderate rate, particularly in emerging countries where economic growth is creating increased demand for high-grade steel, and for energy saving and environmental responsiveness in various countries. In China, a significant gap in supply and demand is likely to remain for a considerable period. In Japan, while demand related to the 2020 Tokyo Olympic Games is projected to be temporary, steel demand is expected to be firm, supported by increasing domestic production by manufacturing sectors and replacement demand for urban infrastructure, which is intended to make the country less susceptible to disasters and more competitive in global markets as site location.

Anticipated changes in the environment, including fluctuation of oil and raw material prices, and of exchange rates, as well as geopolitical risks, are among the factors considered in developing and adjusting the plan.

### Major Features of the 2015-2017 Management Plan

#### 1. Steel business:

NSSMC's business model is based on the objective of enhancing the company's global business development: (1) "mother mills in Japan as a manufacturing and development base for producing and supplying to customers the world's leading steel-making and high-grade steel," and (2) "overseas downstream bases, in growth markets, are to utilize the mother mills' materials and technologies."

#### (1) Enhancing mother mills' competitiveness

#### 1) Improvement of domestic steelworks

Domestic manufacturing bases will continue to contribute to the Group through development and improvement of technology, cost managements, and productivity improvement, as well as stable production of iron and steel. They will also provide middle to high-end product for use in Japan and overseas, and technical assistance to overseas bases.

The 2017 Mid-Term Management Plan targets, as a basic and critical management issue, operational improvement and reinforcement of the major facilities which have been in use for over 40 years.

**2) Optimizing the iron-making production framework**

NSSMC intends to raise productivity of the entire iron-making network of the company by achieving a higher pig iron ratio. By optimizing the entire production network, the company aims to become more competitive and advantageous relative to its peers in a harsh competitive landscape.

(A) At Kimitsu Works, a shift to two-blast-furnace operation (operation of No. 3 blast furnace to be ceased) will be completed by around the end of fiscal 2015, as called for by the 2013 Mid-Term Management Plan.

(B) Yawata Works, which consists of three areas, Yawata, Tobata, and Kokura, will take the following measures to optimize production framework.

Molten iron will be transported from the Tobata to the Kokura Area as Tobata raise No. 4 blast furnace and installation of private railway between the two areas will be installed.

NSSMC's other steelworks will supply billet to the Kokura Area for its production of special steel bars and wire rods.

Although the Kokura No. 2 blast furnace will cease operation, the Kokura Area will raise steelmaking production efficiency, achieve optimal production of bars and wire rods, and enhance competitiveness.

Kokura's production of special steel bars and wire rods will be maintained at the present level.

Meanwhile, Wakayama Works will start preparing for a switch from the No. 5 blast furnace to the new No. 2 blast furnace, which is on standby. The switch will be executed on a timely basis, depending on the demand outlook.

| | | |
|---|---|---|
| (A) Kimitsu Works (previously disclosed) | Shift to two-blast furnace operation (operation of the No. 3 blast furnace to be ceased) | Around the end of fiscal 2015 |
| (B) Yawata Works | (a) Increase output of the Tobata No. 4 blast furnace and install a private railway and a tunnel for transportation of molten iron to provide Tobata's molten iron to the Kokura Area within Yawata Works | Around fiscal 2018 |
| | (b) Cease operation of the Kokura No. 2 blast furnace | Around the end of fiscal 2018 |
| | (c) Streamlining of a steelmaking plant<br><br>Kokura's No.4 continuous caster, which performs better in terms of quality management and productivity, in the steelmaking plant will raise capacity utilization, and operation of Kokura's No.3 continuous caster to be ceased. | Around the end of fiscal 2018 |

### (2) Promoting global strategy

NSSMC seeks to maintain and expand its position in the global high-grade steel market, leveraging its technologies in order to achieve objectives in terms of product competitiveness, cost competitiveness, and supply network functions.

1) NSSMC is determined to steadily capture demand for high-grade steel in major business areas (automotive, energy and resources, infrastructure-related such as railway, construction and civil engineering) in the global market. This objective will be attained by providing to customers comprehensive solutions related to their issues on materials, parts design and manufacturing processes, and by further utilization of overseas manufacturing bases to support customers. In the Japanese and global markets, the company will also strive to maintain and expand its position by further differentiating products and demonstrating the NSSMC Group's comprehensive power on distribution and processing.
2) While capturing the demand in overseas growing markets, particularly in the North American and ASEAN markets, where automakers and other major customers have manufacturing bases, NSSMC will ensure its presence and prominence by a combination of exports of high-grade steel products and local production.
3) NSSMC will make best efforts to ensure smooth start-up and raise competitiveness of the overseas projects. Major overseas investment projects are as follows.

**(Reference) Major overseas investment projects**

| Company | Country/region | Sector | Production capacity (1,000 tons per year) | Start-up / planned start-up |
|---|---|---|---|---|
| AM/NS Calvert (JV with Arcelor Mittal) | U.S.A. | Automotive (Hot-rolling, cold-rolling, CGL) | 5,300 | Feb. 2014 |
| TENIGAL (JV with Ternium) | Mexico | Automotive (CGL) | 400 | Aug. 2013 |
| NSGT | Thailand | Automotive (CGL) | 360 | Oct. 2013 |
| JCAPCPL (JV with TATA) | India | Automotive (CAPL) | 600 | May 2014 |
| KNSS (JV with PTKS) | Indonesia | Automotive (GAPL) | 480 | By fiscal 2017 |
| BNA (JV with Baosteel) | China | Automotive (No.4 CGL newly built) | 420 | By fiscal 2015 |
| VSB (JV with Vallourec) | Brazil | Energy (OCTG) | 600 | Sep. 2011 |
| VAM® BRN (JV with Sumitomo Corp.) | Brunei | Energy (Threading line) | 20 | By fiscal 2016 |
| NSBS (JV with BlueScope) | ASEAN, U.S.A. | Infrastructure (CGL, etc.) | 1,400 | Mar. 2013 |
| CSVC (JV with CSC) | Vietnam | Infrastructure (CDCM, etc.) | 1,200 | Apr. 2013 |

4) NSSMC will strengthen organizational and management basis to support the above-mentioned global business development, including reinforcement of regional business supervision, development of personnel for global business development, and setting up of systems for operation and management.

### (3) Enhancing technological superiority

Technological leadership greatly contributes to enhance NSSMC's global manufacturing capabilities and supports its business strategy, by taking the following measures.

1) NSSMC aims to further enhance its world-leading technologies by having the largest team of researchers (about 800) in the global steel industry. The company will also strive to lead the world market through its intensive activities including, (i) developing high-end products with excellent functions (e.g. high-tensile steel sheet, corrosion-resistance high-alloy seamless steel tubes) in sectors of growing demand such as automotive, energy and resources, and infrastructure-related sectors, (ii) delivering comprehensive solutions to its customers, ranging from process design to material selection and processing, and (iii) achieving significant improvement in productivity through production process innovation.

2) To accelerate technological development NSSMC plans to increase its R&D spending by about 10 % from the current level. NSSMC will also adequately prepare for the expected future needs of customers and society by engaging in the next generation research on advanced steel products such as those required for the broad utilization of hydrogen, as well as in research on basic and element technologies utilizing advanced analytical and mathematical approaches.

### (4) Establishing world-leading cost competitiveness

NSSMC aims to realize cost competitiveness equivalent to 150 billion yen a year or more (unconsolidated basis), in approximately three years. This target will be attained, by maximizing the synergy effect from consolidating the production network and other means, effects from refurbishment of coke ovens, and intensive improvement in operation skills to enable improvement in yields. Combining the effects of all those measures with those of the above measures to strengthen mother mills, NSSMC will establish world-leading cost competitiveness to win in the global competition.

| Measures | Amount | Major items |
|---|---|---|
| 1) Maximize synergy effects | ¥60bn | ● Optimal production network (raising capacity utilization of the entire iron-making, consolidation of downstream processing, etc.)<br>● Adoption of best technological practices of the former two companies<br>● Synergies from integration of group companies<br>● Slim-down of the head office; etc. |
| 2) Realize effects of investments to improve operation | ¥90bn | ● Measures to refresh coke ovens<br>● Improvement in yield; etc. |

### (5) Strengthening group companies of the Steel business

The group companies already integrated during the 2013 Mid-Term Plan will seek far greater synergies. At the same time, NSSMC will seek group-wide synergies, such as those of NSSMC and group companies, and those among group companies.

In addition to the above, to optimize group structure, NSSMC will undertake further reorganization within the group and concentration on core business operations in light of assessment of each group company's domain business.

## 2. Policies for the non-steel business segments and maximization of combined Group strength

Each of the non-steel business segments pursues synergies with NSSMC's core business of steelmaking. All of the four segments will strive to improve its competitiveness and aim to achieve top-class profitability in their respective business sectors.

Moreover, the entire Group's maximal synergies will be pursued by combining world-leading products and technologies of the five business segments including the Steel Business segment, making alliances in R&D, and delivering comprehensive solutions to worldwide customers.

### (1) Engineering Business

The Engineering Business segment will pursue further profit growth in each business sector. The steelmaking plant business sectors, as the core business sector in this business segment, support the Steel Business to manufacture distinctive products. In the steel structure business sector, business opportunities will be maximized in the disaster prevention and national resilience measures undertaken in Japan, and also in the infrastructure construction towards the 2020 Tokyo Olympic Games. The energy and environment sector will aggressively expand its business into overseas growing markets mainly in Asia.

### (2) Chemical Business

The Chemical Business segment executes chemical product businesses using tar, generated as by-product from coke oven in steelmaking, as raw material. Stable profit is being pursued with its main business sectors including carbon materials (e.g. needle coke, carbon black), chemical products (e.g. styrene monomer), PWB materials (ESPANEX®) and epoxy resin products. Furthermore the segment will aim to create next-generation business, especially in automotive and infrastructure-related markets, with its core technologies in carbon and resin.

### (3) New Material Business

The New Material Business segment promotes material business with technological origin and basic support from R&D division in NSSMC, including the electronic industry materials (e.g. surface-coated bonding wire: EX®), infrastructure-related sector (e.g. carbon fiber composites), and environmental sector (e.g. metal catalyst carriers for exhaust purification). To promote its growth strategy, the segment will advance further improvement in differentiated products and technologies, reinforce overseas production bases, and develop technologies and business for future.

### (4) System Solutions Business

The System Solutions Business segment supports efficient production of the Steel Business with its inter-group system solutions function. In addition the segment targets to achieve sustainable growth with leading-edge profitability in the industry by providing competitive system solutions which can satisfy enhancing IT needs in industrial customers, IT outsourcing mainly in operation and maintenance, IT services including cloud computing.

## 3. Investing management resources for growth

With the objective in enhancing competitiveness of mother mills, capital expenditures in Japan are projected to be around 450 billion yen per year (an increase of around 100 billion yen compared to the 2013 Mid-Term Management Plan). They will include spending for renovation of coke ovens and other large facilities, measures to maintain and improve soundness of facilities, and measures for profit improvement that contributes to greater cost competitiveness. In addition, business investments are projected to be around 100 billion yen per year and growth investment is determined on a timely basis. NSSMC also plans to hire about 1,300 persons per year (an increase of around 600 persons compared to the 2013 Mid-Term Management Plan) in order to enhance its human resources capacity.

In addition, the company will further advance concentration on core business operation on a group-wide basis and proceed with asset compression (targeting approximately 200 billion yen within about three years), which will partially fund growth investment and help improve its financial strengths.

| | Fiscal 2015-2017 | (Reference) Forecasts for fiscal 2013-14 |
|---|---|---|
| Capital expenditures in Japan | Approx. ¥1,350bn for 3 years | Approx. ¥700bn in 2 years |
| Business investment | Approx. ¥300bn for 3 years | Approx. ¥260bn in 2 years |
| R&D spending | Approx. ¥210bn for 3 years | Approx. ¥130bn in 2 years |
| Number to be newly employed (unconsolidated basis) | Approx. 1,300 persons per year | Approx. 700 persons per year |

## 4. Continuing to be a company with integrity and reliability

NSSMC will strive to be a trusted company in society by taking the following measures.

(1) The company will continue to practice its Corporate Philosophy* and strive to further contribute to society.

(2) It will comply with laws, regulations, and rules and implement appropriate measures for risk

management in environment, safety, and disaster prevention. In particular, bearing in mind the Nagoya Works' accidents of last year, the company will continue to make concerted efforts in measures to prevent accidents

* NSSMC's Corporate Philosophy: "Nippon Steel & Sumitomo Metal Corporation Group will pursue world-leading technologies and manufacturing capabilities, and contribute to society by providing excellent products and services."

## 5. Accelerating towards becoming the "best steelmaker with world-leading capabilities"

(1) Through implementation of the measures outlined above, NSSMC will aim to strengthen its competitive base (steel production of 50 million tons) in Japan and secure increased profits and competitiveness in its overseas businesses (overseas sales volume growth of 20% compared to that of fiscal 2014). In so doing, NSSMC aims to achieve in the medium- to long-term an increase in cash flows and growth in profitability, with the targeted return on sales (ROS) of 10% or more and return on equity (ROE) of 10% or more.

(2) After incorporating such investments for growth, NSSMC aims to achieve a debt-to-equity ratio of around 0.5, which is equivalent to the average level of an international "A" rating status, by the end of fiscal 2017 and attain robust financial position.

(3) Regarding return to shareholders the company will raise its targeted payout ratio from the present base of "approximately 20%" to "around 20-30%" on a consolidated basis(applying from fiscal 2015).

(4) By taking those measures, the company will endeavor to become the "best steelmaker with world-leading capabilities."

**2017 Mid-Term Management Plan targets**

| | Targets for fiscal 2017 | (Reference) Forecasts for fiscal 2014 |
|---|---|---|
| Return on sales (ROS) | 10% or more | 7.3% |
| Return on equity (ROE) | 10% or more | About 6 -7% |
| D/E ratio | About 0.5 | About 0.7 |

**[Reference: Update on the 2013 Mid-Term Management Plan]**

NSSMC has made steady progress in implementing the 2013 Mid-Term Management Plan (announced in March 2013), with the aim of achieving sustained growth in profits through the early realization of maximum synergies by integration. In the past two years, the Group promoted cost reduction by consolidating technology of the two former companies and enhancing efficiency, consolidation of facilities, investment in overseas downstream operations, and integration and reorganization of group companies.

**Status of the achievement of the 2013 Mid-Term Management Plan**

| | Estimates for FY2014 | Targets of the 2013 Mid-Term Plan |
|---|---|---|
| Return on sales (ROS) | 7.3% | 5% at minimum; 10% after that |
| Synergy effects | ¥140bn per year<br>(¥200bn is expected for fiscal 2015) | ¥200bn per year |
| D/E ratio | About 0.7 | 1.0 at an early stage; 0.8 after that |

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