



**Nippon Steel & Sumitomo Metal Corporation FY2016 IR Briefing**  
**April 28, 2017**  
**Summary of Q&A**

Note: Based on information available as of the date of the IR Briefing

Representative from NSSMC

Toshiharu Sakae, Representative Director and Executive Vice President (CFO)

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**Q What is the logic behind the negotiations for the steel price rise of ¥5,000 per ton in the first half of fiscal 2017, which is aimed at realizing appropriate pricing and margins that are reproducible?**

A We aim that our customers recognize the value of our products and that we can reflect the value of our products in prices. It might also be useful to look at our prices in comparison with prices of products made in South Korea, China, or Europe. We may also need to try various measures so that the added value of our products can be better understood by our customers. We will make persistent efforts to explain this to our customers, as we would like our products to be evaluated based on their features and value.

**Q The profit gap between NSSMC and POSCO appears to be widening. One of the factors might be the difference in the pricing method, as steel product prices are determined after raw material prices have been determined in Japan. Nowadays, the markets for raw materials and steel products are becoming volatile. Do you think your pricing determination cycle may not suit current markets?**

In addition, price negotiations with contract-based customers seem to be conducted in a manner that resembles the raw material surcharge method. Don't you think that a new scheme to reflect various costs in the base price is needed? These various costs should include investments in maintaining the

**capability of reproduction and the cost of establishing a global supply framework. I believe the price rise of ¥5,000 per ton at this time should be regarded as a challenge to raise the base price. Will you tell us how determined you are regarding the price hike?**

A It is correct that our profits are lower than POSCO's and the differences has expanded. We regret this and are taking measures to improve the situation. From the very start, we are handicapped due to the differences between the systems in Japan and South Korea, such as higher fixed asset tax and a higher unit price for electricity in Japan. In addition, we are affected by sluggish sales in the energy sector. We also have a higher depreciation burden and higher repair expenses, as the facilities in Japan's steel industry need to be renewed. There was also a difference in the speed of pricing improvement in the first half of fiscal 2016, and I regret that we were a bit late in raising prices, although we were able to catch up in the second half.

At present, raw material prices are becoming volatile. We recognize that normalizing raw material prices is a big challenge. We must try to synchronize raw material prices and steel product prices as much as possible. We will carefully and thoroughly explain to our customers what we intend to do. Concerning the price rise of ¥5,000 per ton, we are very determined to achieve it.

**Q Will you give us an update on your seamless pipe business?**

A In the energy area, the level of activities has recovered and has grown in volume in the U.S. but has remained low in the Middle East, Europe, and Asia. Due to remaining export shipments based on previous contract prices, we are anticipating that export prices for seamless pipes will not recover until the second half of fiscal 2017 or thereafter.

**Q How is the partnership with Vallourec going?**

A Vallourec is rationalizing its mills in Europe, in order to reduce production capacity and fixed cost burden mainly in Europe. In Brazil, while Petrobras has finally started to show a recovery in its business, VSB has been rationalizing and idling some production capacity, and reducing variable costs with the aim to become more cost

competitive. The U.S. market is showing signs of a slight improvement and some people are anticipating a shortage of heat treatment capacity. We will carefully monitor the market, cooperate with Vallourec, and hope to benefit from the positive effects of our seamless pipe business.

**Q The turnaround in operating profit on an unconsolidated basis would require both price improvement and internal efforts. With regard to internal efforts, such as the enhancement of domestic mother mills and cost reduction, how are you planning to address these issues on a medium- to long-term basis? In addition, your overseas group companies are increasing their profit and are at the stage of profiting from the outcome. How do you see the overseas business going forward?**

A We will continue to work on the issues of enhancing facilities and personnel at domestic mother mills, as stated in the 2015-2017 Mid-Term Management Plan. We intend to produce the next management plan, which starts in fiscal 2018, within the current fiscal year. The basic strategies will remain the same.

Our overseas business has begun to improve significantly since fiscal 2015. However, we will bolster support for some operations which have not yet achieved full potential. In aggregate, we are now at the stage of harvesting the crops we planted. At the moment, we do not actually have new projects for the next stage.

Let me share my personal thoughts on the significant potential changes in the business structure of the steel business from a long-term perspective.

On the production side, as every country is promoting domestic production, we must consider further enhancing overseas production, in view of aging domestic facilities.

The supply side is also undergoing structural changes. For example, we will steadily see more formidable challenges from aluminum and carbon fibers as materials for automobiles, from the perspective of energy conservation and automobile weight reduction to reduce CO<sub>2</sub> emissions. However, steel, as a material, has some advantages economically and from the perspective of life cycle assessment (LCA). We therefore intend to fight with other materials and to consider combining steel with other materials by utilizing the distinctive features of steel. While automatic driving and electric cars are on the next agenda, car sharing and ride sharing are already

happening. This means that automobile production in the developed world is unlikely to keep growing at the same pace as in the past. For NSSMC, the key point here is what to do in the volume zone of middle-grade in semi-developed countries, where demand is growing, in addition to our focus on high-grade products.

In order to respond to such longer-term challenges, we intend to start planting new seeds in the next mid-term management plan.

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