Q    I would assume that NSSMC's profit in the first half was less spectacular compared to overseas peers', due to volume and pricing. Let me ask mainly about the pricing.

    As you changed coal pricing to the index method, contract coal prices in the first half must have been set at a low level, reflecting a weak trend during the period for reference. Based on that low price, steel product prices must also been set at a low level. Subsequently, however, prices such as coal and various alloys have risen. As a result, I suspect that steel prices in the first half must have been favorable for your customers, less so for you.

    You appear to prioritize delivery to domestic customers, even in a very tight demand and supply situation. I understand your focus on a long-term relationship with customers but I think the level of steel product prices in the first half was short of my expectation. As you supply high-grade products to customers, don’t you think you should sell them at the desirable price to the value you offer?

A     It is said that overseas steelmakers essentially tend to raise product prices when supply is tight and the market is rising. I think the business culture here in Japan is a bit different.

    Regarding the relationship of coal price fluctuations and steel prices, this is merely an issue of a time lag and we don’t consider this as a big issue.

    The most significant problem in the first half was the facility troubles, which impeded us to provide sufficient volume. This was NSSMC’s internal problem.
As our top priority was to ensure delivery to contract-based customers, we couldn’t grow sales in the resilient export spot market. In the second half, we will resolve our internal problem, bring up output, and capture sales in the export spot market, where prices are improving.

Concerning pricing to contract-based customers, we are asking our customers to understand our initiatives to ensure steady delivery of high-grade steel products and to allow us to improve sales prices and to increase our margin by ¥5,000 per ton with the aim to secure "margin for sustainable reproduction."

Q You have been talking about a base price increase of ¥5,000 per ton since last year. What is the current status of progress? How much increase has been accepted?

A In the second half of fiscal 2017, we are expecting margin improvement of ¥55 billion, or ¥3,000 per ton on average, compared to the first half. At present, the market is solid. Therefore, what we need to focus on in the second half is to how closer to ¥5,000 per ton we can make a rise in price from about ¥3,000 per ton.

Q During the previous IR briefing for the first quarter results at the end of July, you already mentioned to target ordinary profit forecast of ¥300 billion or more for fiscal 2017. This time, your full-year forecast remains unchanged. Given improvement in steel demand and the market since July, let me ask you again. Is your level of confidence higher now than three months ago?

A As the present market is extremely tight, we have to make sure to carry out smooth production, without causing any production trouble. As our volume plan for fiscal 2017 is not so ambitious, if we carry out smooth production and securely capture robust demand, I believe that ordinary profit of ¥300 billion or more can be achieved. So, I now have a higher conviction than three months ago.

Q How to lead a pick-up in the steel market to our profit growth is critically important. The biggest contribution is anticipated from the export spot market. As for contract-based business, we are asking for margin improvement and a certain level of
improvement is incorporated in the forecast. The degree of improvement toward ¥5,000 per ton should have an impact on the forecast. The ongoing overall solid demand seems to suggest high probability of further margin improvement.

Q You are expecting Group companies' profit to decrease by ¥39 billion in the second half compared to the first half. In the meantime, it is reported that the U.S. steel market is softening from the start of the second half and that Nucor in the U.S. has lowered prices. Will you talk about AM/NS Calvert's shipment and outlook for spread?

A AM/NS Calvert, our JV company in the United States, is smoothly operating in general and their situation has basically been the same from the first half toward the second half. The reason for forecasting profit deterioration in the second half is inventory evaluation losses caused by lower steel prices. The underlying profit generation remains unchanged at a high level.

Q Will you give us some hints on how to estimate NSSMC's underlying profit for the first half and the second half of fiscal 2017 as well as profit for fiscal 2018?

A Ordinary profit in the first half of fiscal 2017 was ¥157.6 billion. Excluding around ¥69 billion that stemmed from inventory evaluation gains and one-off factors, including the impact of the Oita Works fire accident, the underlying profit is roughly ¥88-89 billion for the first half, or around ¥170 billion on an annualized basis. For the second half, we disclosed ordinary forecast of ¥142.4 billion. Excluding around ¥20 billion losses for inventory evaluation loss and one-off factors, the underlying profit is expected to be roughly ¥160 billion for the second half, or around ¥320 billion when annualized. You can see our operating performance is significantly changing between the first half and the second half. Let me remind you again, that the biggest issue in the first half was insufficient production and shipment and that this problem has been taken care of. As for forecast for the next year, the situation in the second half of this year should be used as a base.

Q Will you elaborate the overall impact of the production problem for the first half? Did you fully investigate the causes and have you implement sufficient measures for solving them?
As I mentioned during the previous IR meeting for the first quarter, in addition to the Oita Works fire accident, other works had troubles in the upstream process, resulting to be a significant factor for profit decrease. However, we clearly identified the causes, injected money for maintenance and capital expenditures, and took appropriate measures for those troubles. Up to now, we put significant capital to coke ovens. We are currently making a thorough check-up of other processes, implementing measures across the organization, and enhancing our facility base. I am expecting that the trouble-related issues will work out.

Q You have been spending significant money in the facility's base enhancement, but troubles continue to occur. Some investors are concerned that you may continue not to profit from a huge capital injection. How are you changing use of cash in the next medium-term business plan? Any thoughts can you share with us?

A We are in the midst of developing the next mid-term management plan and I cannot talk about it yet. I could only say that significant cash generation will be possible during the next mid-term management plan period and that cash can be sufficiently allocated to growth investment as well as to ongoing investment for production base. In other words, we will proactively take up a challenge in various opportunities, both greenfield and brown field, in Japan and abroad.

As for investment to enhance our facility base, we have invested for many years and the investment is now peaking and returning to the normal level. We now have to show the outcome. We are then looking forward to capturing growth opportunities, while avoiding decrease in output as it happened in the first half.

Q Kobe Steel is suffering from fake data scandal and the quality control issue. Does it have any impact to you? For example, any concern that Kobe's scandal may affect your initiative to improve margin by ¥5,000 per ton?

A There has not been any impact so far.

While the similar quality problems have also been emerging at some other Japanese companies, I think it is important to maintain an extremely high level of quality of products made in Japan. NSSMC has been appropriately handling quality issues, in line with the guideline to enhance quality assurance system, issued by the

Nippon Steel & Sumitomo Metal Corporation
Japan Iron and Steel Foundation. If a case of non-conformity to contract specifications occurs, we are adamant to discuss it candidly with the customer and others involved and to appropriately deal with the case.