Q During the next three years, it appears that in the first half cash outflow will occur in advance and the depreciation burden will increase, while the effects of cost improvements such as those of capital investment will be displayed in the second half. NSSMC is targeting ROS of 10% but based on my standpoint of trading shares — for example, assuming next year’s income and trading shares — it seems that a rapid recovery cannot be expected. As in the case of the current mid-term plan, I am concerned it may be difficult to achieve targets if there is a change in the environment, such as a steep rise in raw material coal prices. To achieve the earnings targets of ROS and ROE of 10%, won’t it be necessary to adopt the strategy of attempting to raise steel product prices, restoring volume by taking steps to counter the equipment trouble, and expanding sales?

A In the 2017 Mid-Term Management Plan as well, we were targeting ROS of 10% and ROE of 10%. However, we were unable to achieve these targets. This was because of changes in the environment. Market conditions deteriorated due to China’s excessive production and excessive exports, and seamless pipe prices were weak due to sluggish oil prices. In addition, the production trouble at NSSMC itself caused a decline in production.

Looking at the current environment, although crude oil prices are still at a low level, steel supply and demand conditions in China have improved. Next, if our own production volume rises, I believe that earnings will be able to recover to a considerable extent. To that end, we will resolutely endeavor to eliminate the trouble concerning
production and operation. In the expression regarding the two arrows on page 8, this represents the first arrow, namely, "Continue to strengthen our basic competence."

On the other hand, the world will not wait for this initiative to be completed. Nobody is waiting for the opportunity of overseas M&A or responses to IoT and AI, and so forth. As a major trend, we will firmly strive to “strengthen our basic competence” in order to eliminate our production problems. At the same time, we will have to inject resources to "evolve our 3 strengths to seize the opportunities to address future change; "Technological superiority," "Cost competitiveness," and "Global strategy," which is the second arrow. As we will implement this two-sided strategy, it will be difficult to realize our targets of ROS and ROE of 10% immediately in FY2018. It will take a little more time during the three years of the mid-term plan.

Q When there was equipment trouble at Nagoya Works in 2014, the president showed strong determination in saying that the company saw this as a management problem and would deal with it thoroughly. In fact, I feel that NSSMC has taken serious steps so far. However, it seems that production is still unstable, and the results have not appeared yet. What kind of issues are you aware of regarding this problem and what measures do you intend to adopt during the next three years?

A When the fires broke out at Nagoya Works in 2014, we set up the Fire Prevention Promotion Department, increased the number of members, and strengthened our initiatives aimed at fire prevention and countering fires. The initiatives break down into both hard and soft countermeasures. For the hard measures, it takes time for engineers to plan, design, and construct equipment. We are firmly moving forward systematically but it is taking time. In terms of soft measures, we can implement them immediately. However, when expanding specific measures across the entire company, it is not easy to make them thoroughly spread to the outer boundaries of the organization. This is an area where I certainly sense the difficulty of management and we are making strong efforts.

When analyzing the operational trouble that has occurred recently, we can see that there are cases where mutual understanding was insufficient between us and partner
companies and between operation departments and equipment departments that conduct inspections and maintenance. We do not intend to take three years to resolve these kinds of issues but rather respond to them immediately. At the least, we will make sure that the kind of production trouble and operational trouble that occurred during the 2017 Mid-Term Management Plan will not happen again.

Q In terms of the assumptions behind the ROS target of 10%, what are you assuming about the state of seamless pipes? Are you assuming that the profitability of seamless pipes will recover to the previous kind of level in three years, or are you targeting ROS of 10% based on the assumption that profitability will not improve greatly?

A It is very difficult to estimate oil prices. When the price of oil fell to a level of less than $30 per barrel from $100-120 per barrel, people were saying that the oil price would definitely recover in two to three years, but recently nobody has been saying that. It is hard to forecast the future trend, but we do not have any confidence at all that prices will rise to $100 or about $80. I believe it is appropriate to expect prices to remain at around the current level of $60-65 per barrel.

Based on this assumption, for the company as a whole to achieve ROS and ROE of 10%, we are engaged in discussion within the framework of what degree of profitability we expect for our seamless pipe business. I cannot comment on this in detail but we are considering measures to ensure firstly that cash flow does not become negative at least. Then, we are considering measures to ensure that earnings do not fall into the red and to expand profitability. We will now strengthen the role of directors in the Pipe & Tube Unit. There are many overseas joint ventures that the Pipe & Tube Unit is overseeing and we will implement various measures to improve earnings, which includes strengthening the cost competitiveness of these overseas joint ventures. By moving forward with this kind of response, we are assuming that the seamless pipe business will be able to solidly generate earnings even if oil prices are at $60-65, as at present, and we are considering the overall framework.

Q I would like to know about measures to expand sales. In the case of prices, there is a long time lag for Japanese steelmakers to pass on fluctuations in raw
material prices to steel product prices, and during the past three years, only Japan moved in the opposite direction when the earnings of steelmakers around the world were improving. Have you come up with any initiatives that are different from previous ones such as a way to reduce the time lag in passing the fluctuation in raw material prices on to steel product sales prices?

Furthermore, it is difficult for the stock market to see whether or not you can obtain appropriate margins even in the case of high-value-added products. You previously endeavored to increase the margin by ¥5,000 per ton to realize an "appropriate reproducible margin" and I believe this has been successful to a certain extent but I am skeptical about the term "appropriate reproducible margin." Rather than making a request for investment that will enable reproduction, it should naturally be possible to obtain a margin that corresponds to value in the case of high-value-added steel products, so shouldn't you consider trying to develop such a kind of price system? Can you explain whether you have factored in some kind of challenge in your price policy?

In the case of volume, you provided a detailed breakdown of 21 million tons for downstream process capacity but in terms of future potential, what degree of sales volume did you assume when you established the amount of business investment in the mid-term management plan?

A During the period of the 2017 Mid-Term Management Plan, selling prices fell in the first half and raw material costs rose by about ¥20,000 mainly for coking coal in the second half. Therefore, we spent considerable efforts on achieving a recovery by raising prices and managed to achieve a recovery to some extent. However, as this alone is still not sustainable, we have endeavored to expand the margin by ¥5,000 per ton.

Overseas, if supply and demand conditions become tight, market prices for steel products should rise immediately and if we ask for price increases, it seems that customers will also accept that. In Japan, however, that will not be the case because we place great value on long-term relationships with customers. In the face of this situation, we are currently internally discussing "strengthening marketing capability" and the "reform of marketing methods" as a way to expand margins. Instead of just having
customers buy steel materials for a certain amount per ton, we are considering another step forward in terms of how to market them in locations that are close to customers’ products. For example, high-tensile steel plates are hard and difficult to process. We are therefore considering measures to raise margins by processing them ourselves or getting a step closer to places where they are processed.

Now, we will integrate Nippon Steel & Sumikin Chemical and Nippon Steel & Sumikin Materials. Nippon Steel & Sumikin Chemical started out in the coal chemistry business, while Nippon Steel & Sumikin Materials started out by developing products with non-steel technologies at our R&D Laboratories. However, while they each continued to develop business individually, they both entered the automotive material, electronic material and battery material sectors and the personnel of the customers in the steel, chemical and new material businesses ultimately became the same. Moreover, each business has a slightly different kind of technology. If we integrate chemicals and materials, it will be easier to collaborate with the steel business as well. Therefore, we believe that we should propose multimaterial solutions to produce these kinds of products and produce good properties in this way by adding materials other than steel while ultimately focusing on steel. We will sell new products with a new marketing system while associating with customers such as venture companies that are being newly created. "Reform of marketing methods" means that we have to engage in discussions as part of marketing strategy in a broad sense, which includes such a product strategy and relationships with customers. We are now engaged in such discussions.

Let me now talk about volume. Our annual crude steel production is currently about 41 million tons but we are aiming for around 45 million tons in 2020. If we include electric furnaces at group companies, our domestic capacity is roughly 50 million tons. Downstream processing overseas amounts to 21 million tons. So, our total capacity is on a scale of around 70 million tons. If we add on Essar Steel India, for example, the company is producing about 7.5 million tons at present, so the question of how to consider our interest in the company remains but this will be an addition to our capacity.

Q During the period of the 2020 Mid-Term Management Plan, are you expecting
steel demand in India to expand rapidly as in China at the start of the 2000s? Or are you assuming that such an expansion will occur from 2021 onward?

What kind of future potential do you foresee for Essar? So far, your overseas expansion has been mainly in downstream processing, and I believe you have restrained investment in upstream processing because the risk is high. However, what is the reason for embarking on investment in a company that has overseas upstream processes on this occasion?

A The Indian economy is growing at around 7% annually and steel demand in India is currently just below 100 million tons. Some argue that demand will reach about 300 million tons in the future, while we conservatively assume demand will grow to around 200 million tons at the least. Based on this assumption, we moved forward with the acquisition of Essar, expecting significant profit contribution in the future. It does not mean that steel demand in India will grow to 200 million tons in three years. We are anticipating gradual growth in profit.

As you pointed out, we have so far avoided increasing excess capacity by investing in overseas upstream processing, as we believe that iron source capacity is excessive on a worldwide basis and our strategy was to expand overseas in downstream processing. However, as China has taken a firm step to deal with the problem of excess capacity, the situation has changed. On the other hand, India has a steel industry with a long history and has met around 90% of domestic steel demand with production in the country, so its domestic production ratio is high. It is difficult for us to start exporting to the Indian market and to capture demand in India, so we need to become a so-called insider. We had been aware of this problem for some time, and just when a new law called the Insolvency and Bankruptcy Code was introduced in India, there was talk about 12 companies including five steel companies soliciting new investors. We expect this to trigger the reorganization of the steel industry in India. If we did not enter the Indian market as an insider at this point of time, it would probably be difficult to enter the Indian market in the future.

The fact that this project is a brownfield project is also an important point. Increasing new production capacity will not necessarily destroy the world's supply and demand
environment. Moreover, even though Essar has become insolvent, it is currently still engaged in production and generating cash day by day. If we participate in management and improve the company, we will be able to obtain cash immediately.

When we submitted the EOI, ArcelorMittal also submitted an EOI. Owing partly to the fact that the scale of investment will be considerable, we talked about a joint acquisition and joint management. However, this is still at the stage where the group of creditors is evaluating the reconstruction plan so we do not know yet if we will ultimately be able to acquire the company.

Q Steel is an excellent material but as aluminum and carbon fiber are also rapidly increasing their presence, I believe it will be necessary to co-exist with such materials. As regards the development of welding technology, what is NSSMC’s stance in relation to multimaterials?

A The subheading of the release we put out states "Creating the Value of Steel." Accordingly, we believe that our core material is steel. We view materials like aluminum, plastic, and similarly thin foil made from steel as multimaterials based on the stance of how we can create synergies with steel.

Once Nippon Steel & Sumikin Chemical's coating technologies and Nippon Steel & Sumikin Materials' technology to manufacture very thin foil become integrated, interesting products will appear. As this foil is made from stainless, it is a type of steel. Therefore, if three companies combine their respective technologies, we believe it will be possible to do various things. Furthermore, as we have been involved in the business of steel for a long time, we have a variety of knowledge regarding customers. This is considerably deeper and broader than the knowledge which Nippon Steel & Sumikin Chemical and Nippon Steel & Sumikin Materials have. With steel, chemical and new material customers becoming overlapped, we believe it will be possible to develop new products by making use of our knowledge regarding customers’ needs and combining the three companies’ technologies.

Nippon Steel & Sumikin Chemical has about 200 research staff. Nippon Steel & Sumikin Materials does not have any research staff but there is a relationship in that Nippon
Steel & Sumikin Materials will use the results of R&D conducted by some of NSSMC’s 800 research staff as a pilot business. With this integration, the 200 research staff at Nippon Steel & Sumikin Chemical will be combined with the researchers that were conducting research on materials at NSSMC’s R&D Laboratories, and they will conduct research at the new company.

With respect to NSSMC as well, in the case of the automobile industry, we will not be limited to steel as a material for automobiles and we will create a specialist organization to conduct planning and investigation. We will investigate over the long term how automobile bodies can be designed with multimaterials and unearth needs for R&D. As the places where R&D needs are produced will be brought together as one and people who conduct research will also become integrated, we believe it will be possible to do many things.

Q President Trump has announced a policy to impose a steel import tariff of 25% based on Section 232 of the 1962 Trade Expansion Act. Is this likely to have a direct impact on NSSMC and will you have to change the contents that you were considering in the strategy of the Mid-Term Management Plan?

A At present, the US imports about 38 million tons of steel products annually but imports from Japan amount to 1.9 million tons, which is equivalent to 5% of that amount, and NSSMC exports rails and other products to the US.

The impact on NSSMC will change depending on how customers in the US react based on the fact that a tariff of 25% will be imposed. If our customers find it impossible to replace our products with products of other companies and difficult to do business without buying from NSSMC (our steel products being sold), even if prices rise due to the tariffs, the direct impact is unlikely to be that great. However, if our competitors in the US have mounted a sales offensive with products that are priced lower than ours, and our products are replaced, we are likely to be affected.

Japan is the eighth largest exporter to the US, but if countries that rank higher than seventh are no longer able to export to the US because of the 25% tariff, and subsequently cease production of that portion, there will be no impact. However, if they
increase exports to Asia instead of to the US and sell at lower prices in order to newly enter the market, there will be a major change in steel distribution as there was two to three years ago, and worldwide market prices will inevitably plummet. How large this impact will be involves various factors and we will have to make various assumptions, so I cannot simply answer this question.

If the US casts doubt on the free trade system itself, which is represented by the WTO, I am very concerned that this will become a major political problem that involves even other industries.