Q In FY2017, you explained that profits were pushed down by a scale of ¥100 billion, when combining the ¥70 billion impact of a decline in production caused by facility trouble and the cost deterioration impact arising from this trouble. This fiscal year, to what extent are you assuming that this decline in profits will be restored?

A For the current fiscal year, we are assuming consolidated business profit of ¥350.0 billion (IFRS basis) compared to ¥297.5 billion (ordinary profit, JGAAP basis) last fiscal year. In regard to volume, we are projecting approximately 43.30 million tons this fiscal year compared to 40.67 million tons last fiscal year. This represents an effective production increase of more than 2 million tons and will push up profits by around ¥60 billion. As for the margin, we are assuming an improvement of about ¥50 billion, which is the sum of an improvement from the second half of FY2017 to the first half of FY2018 and the amount of improvement from the first half of FY2017 to the second half that will be displayed throughout the fiscal year. In addition, cost improvements will be based on the results of our own efforts, and we will steadily build them up to a level of ¥50 billion, in line with the Mid-Term Management Plan. With these three measures, we expect to boost profits by about ¥160 billion.

As I explained, profits were pushed down last fiscal year by around ¥100 billion due to a drop in production of 2 million tons as well as the decline in volume and the cost impact. This fiscal year, however, volume will recover and most of the cost impact arising from production trouble will also decrease. As there was some trouble in Nagoya in the 1Q and there was also a cost impact and so forth from the recent heavy rain, the
full amount of ¥100 billion will not be restored but most of it will be.

On the other hand, in terms of factors that will reduce profits, firstly an increase in depreciation expenses will lead to a reduction of about ¥30 billion, and depreciation expenses associated to the capitalization of long-term suppliers, such as mill rolls, will also increase by about ¥20 billion a year, although this is the impact from accounting treatment. We also expect group companies to record a certain degree of profit decline due in part to the impact of heavy rain at Nisshin Steel and other factors. Furthermore, in FY2017, temporary profit-boosting factors like inventory valuation gains on a scale of ¥70 billion, were included but, in FY2018, these will decrease to around ¥20 billion, so profits will be pushed down by nearly ¥50 billion.

Q Regarding the plan to achieve crude steel production of 11 million tons per quarter from the 2Q onward, I believe that NSSMC factored higher production into the plan because there was some kind of basis to raise the degree of confidence on this, but what was this basis? Moreover, the scale of the production increase from the 1Q will be about 700,000 tons but only ¥10 billion has been recorded as the effect of the improvement in earnings. This seems to be a small amount so could you explain the reason for this?

A I previously explained we were aiming for crude steel production of 10.5 million tons or more in the 1Q but owing primarily to the impact of a molten steel spill at Nagoya, production amounted to only 10.29 million tons.

As regards our initiatives to ensure stable production, firstly we are increasing maintenance expenses. We are introducing a new system related to maintenance and we are progressively incorporating a mechanism that will enable us to grasp signs of trouble. We have put together a team of experts across the entire company and they are providing assistance by putting priority on steelworks and processes that have issues. We sense that trouble has decreased compared to previously. In the 1Q, the impact of the trouble at Nagoya was comparatively large but we believe that the level of production will recover steadily from 2Q onward.

We see the impact of higher production on earnings as ¥10 billion but as you pointed out, this is a slightly conservative figure. We are taking a slightly conservative stance when estimating profits and losses, and this also includes the question of whether increased production leads to higher shipments.
I would like to ask you about steel supply and demand in China and the rest of Asia. Recently, the possibility of increasing public spending in China has become a topic. If public spending is increased, do you believe that steel demand in China will increase, steel supply and demand conditions in Asia will improve, steel market prices will also improve and this will have a positive impact on NSSMC’s earnings? Alternatively, do you think that amid concerns about an economic downturn due in part to trade friction, an increase in public spending in China will cause depreciation of the renminbi (RMB) and inflation and, as a result, not lead to much of an increase in steel demand or an improvement in steel supply and demand conditions in Asia?

As you pointed out, China has trading problems with the United States. We are watching various indicators but we have seen a few signs of change. The Chinese government has moved swiftly in changing a little from a tightening monetary stance to an accommodative direction and has declared it will also increase infrastructure investment. We have not actually seen any specific moves but if the government carries out infrastructure investment and public investment, I think this will be positive because steel demand should increase considerably. Recently, crude steel production in China has risen to an all-time high level but I believe that both inventories and exports have not increased and market prices have been strong because solid domestic demand has absorbed supply. At any rate, as there are risk factors such as trading problems, we will continue to monitor the situation carefully via our local joint-venture companies and expatriates, and others.

Regarding the seamless pipe business, what are your expectations concerning prices and volume in the second half of FY2018 and in FY2019 specifically? Have you factored an improvement in the product mix into your profit and loss targets for the second half of FY2018?

In the explanation I just provided, I stated that we expected a slight recovery in volume but as the seamless pipe business includes many long-term contracts, prices in the second half have generally been fixed already. There is likely to be a slight improvement but we are not actually expecting a large improvement in both volume and prices through the second half. From next fiscal year onward, we hope to see a recovery in demand and profitability.
Q I would like to know what you expect regarding approvals from competition authorities related to the deal between Sanyo Special Steel Co., Ltd. ("Sanyo Special Steel") and Ovako AB ("Ovako"). In addition, approval at an extraordinary general meeting of shareholders also seems to be assumed but is there a risk that this will be rejected in view of the substantial dilution that is planned? Is there a risk that this deal will not eventuate?

A We notified the competition authorities on July 20 and we will provide notification from here on in regard to countries that will not accept notification until after the contract has been concluded. We intend to seek understanding by precisely explaining the deal. As for share dilution, in structural terms, EPS is likely to increase even just by combining the profits of Sanyo Special Steel with the profits of Ovako, and as an increase in profits resulting from synergies will be added, a further increase in EPS will be possible. By providing such an explanation precisely, we believe that we will be able to gain the understanding of shareholders.

Q Could you explain in a little more detail the grounds for projecting more synergies in the case where Sanyo Special Steel owns 100% of Ovako rather than the case where NSSMC owns 100% of Ovako?

A The product with the greatest strength at both Ovako and Sanyo Special Steel is bearing steel. As regards NSSMC’s special steel products, we also produce bearing steel but our main product is mechanical structural steel. Furthermore, regarding manufacturing processes as well, NSSMC produces special steel using the blast furnace method while Ovako and Sanyo Special Steel manufacture products with the electric furnace method. The quality of bearing steel depends on how low the level of oxygen in the steel can be reduced to and, among the special steel manufacturers of the world, it is Ovako and Sanyo Special Steel that have the manufacturing methods that produce the lowest density of oxygen in steel. Therefore, Ovako and Sanyo Special Steel are very similar and we believe that many synergies will be produced in terms of manufacturing.

In the case of sales, Sanyo Special Steel is mainly selling products in Japan and Asia while Ovako is mainly selling products in Europe, but Sanyo Special Steel sells some products to Europe while Ovako sells some to Asia. We believe that replacing these orders will also be possible because products are similar.
Naturally, NSSMC will also be able to generate synergies with Ovako. Ovako has two manufacturing sites in Sweden and one in Finland, making a total of three, and the Finnish site is similar to NSSMC’s special steel business. Although there are differences between the blast furnace method and the electric furnace method, it manufactures products that are not in the ultra-high-grade segment but belong to the high-grade segment, which also include automotive products. We believe that we can transfer our efficient manufacturing method here.

Combining Sanyo Special Steel and Ovako will generate more synergies in the areas of sales, R&D and manufacturing, and as Ovako will become a subsidiary of Sanyo Special Steel and conduct integrated operation, we will be able to maximize synergies. Furthermore, we hold the view that by integrating Sanyo Special Steel and Ovako and making them a subsidiary of NSSMC, we will be able to maximize the merits for the entire NSSMC Group.