

**Nippon Steel Corporation, First Quarter FY2019 IR Briefing
(Held on August 1, 2019)
Summary of Q&A**

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

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Q Please explain how you incorporated your assumptions on raw material prices.

A We have incorporated the assumption that fine iron ore will remain at the current level of US\$100 per ton over the second half of the fiscal year ending March 31, 2020 (FY2019). We also assume that the market price of hard coking coal, while it is currently declining, is likely to be higher in the second half compared to the first half, due to weather factors, etc. and given the past pattern.

Q As regards reflecting the raw material price hike in your product prices, I believe that you can pass on the material price rises to automotive customers, albeit with some time lag, while it will probably be difficult to do so to customers in the construction sector, due to competition with imports and electric furnace products. Will you explain how the expected cost increase has been incorporated in your product prices of FY2019 forecasts?

A With regard to prices for products with long-term contracts, we anticipate that we will be able to reflect the increased cost caused by higher raw material prices in some sectors, with some time lag, and that we will have to negotiate with customers for other sectors. Ultimately, the increased cost resulting from higher raw material prices will be reflected in sales prices but in the case of our forecasts for FY2019, we are incorporating only the price rises which we believe will be reflected within FY2019 as of this moment. Concerning spot products for distributors, our current assumption is based on the current spot market.

Q Your forecast for non-consolidated crude steel production of 41 million tons for FY2019, which you called “profitability oriented production,” seems to suggest your strong determination to raise prices. However, if you attempt to raise sales prices while prices are declining in the international market, more imported steel and more electric furnace steel will flow into the market, which may lead to the risk of a decline in your market share. What do you think about this?

A Electric furnace steelmakers tend to be engaged in different markets and we do not think we will greatly compete with them. We are resolutely determined to explain to our contracted customers the value we provide, including delivery, quality, solution proposals, and a strong response overseas, and ask them for a fair appraisal.

Q **According to your forecast for FY2019 vs. FY2018, raw material market prices are projected to decrease business profit by ¥190 billion, or roughly ¥5,000 per ton, while steel prices and the product mix are set to increase the profit by only ¥35 billion, or roughly ¥1,000 per ton. Is it therefore correct to assume that your margin will deteriorate by ¥4,000 per ton?**

A In FY2019, domestic shipment is expected to decrease because of decline in indirect export demand, which we plan to offset by increasing shipments of spot sales for exports. This is likely to cause deterioration in the product mix. In fact, steel product prices alone, excluding the impact of the product mix, are expected to improve by more than ¥1,000 per ton on a net basis.

Q **Let me ask about your price assumption for spot sales for exports. The price of hot rolled coils (HRC) has been around the level of US\$500 per ton in East Asia. Are you expecting this price level to continue in the second half?**

A Given the rise in raw material prices, the HRC market may slightly rise in the future but we are factoring in the assumption that the current level will continue in the overseas steel market for FY2019.

Q **I understand that your plan was to reflect cost increases in alloys, commodities and transportation, in addition to the cost increase in raw material prices, in product prices. How have these increases been incorporated in your forecasts on this occasion?**

A Costs for commodities and other items, excluding raw material prices, have increased by about ¥5,000 per ton in the past two years. We have strived to reflect this in sales prices in the past two years, but have not fully done so. Moreover, the cost of freight and other items is also increasing. We are asking our customers with contracted business to understand our value proposition and allow us to reflect cost increases in commodities, transportation, freight, and other factors. However, we have not fully incorporated the potential cost increase that we think is necessary to be reflected in our forecasts for FY2019.

Q **You expect non-consolidated crude steel production in the second half to be flattish**

compared to the first half. However, the consumption tax rate is scheduled to increase in October and the level of inventory remains at a high level. Do you see any risk of a decline in domestic steel demand in the second half?

A Concerning the impact of the consumption tax hike, owing partly to various measures implemented by the government, the impact is likely to be less than at the time of the previous hike. However, we will carefully watch the impact. While many people appear to believe that current economic conditions in Japan will be a little more firm than we expect, we believe that steel demand will be affected by a decline in indirect exports, particularly due to a slowdown in overseas automobile sales, and a decline in exports of industrial machinery, machine tools, and factory automation (FA) equipment among others to China. We have incorporated such impacts in our forecasts for the second half.

Q The level of steel shipments was at a low level in the first quarter. Is there any delay into the second quarter?

A Mainly due to the weather, shipments of about 280,000 tons have been delayed into the second quarter.

Q Please explain the trend in sales prices by sectors, spanning the first quarter and the second quarter to the second half.

A Sales prices for domestic long-term contracted products rose from the first half of FY2018 to the second half and are projected to rise from the first quarter of FY2019 to the second quarter. Sales prices for exports were at a high level in the first half of FY2018 and remained firm in the second half of FY2018 but plummeted at the end of FY2018. They then declined again in the first quarter of FY2019 and are expected to decline more in the second quarter. Toward the second half of FY2019, we intend to continue raising sales prices for domestic contracted products. As for exports, the overseas spot markets are expected to be soft, mainly for flat steel products, and we have incorporated flattish markets. At the same time, we are assuming a significant deterioration in the margin stemming from an increase in raw material prices.

Q Why are you expecting a business profit decline of ¥8 billion from group companies in steelmaking in your forecast for FY2019 vs. FY2018? I would imagine that your interest in the iron ore mine must be contributing to profit.

A Our interest in the iron ore mine is contributing to an increase in profit, and so are Sanyo Special Steel Co., Ltd. and Ovako AB, which became our subsidiaries. Despite their positive impact, we forecast a profit decline of ¥8 billion from overall group companies due to a

significant profit decline in the stainless steel business and at Nippon Steel Nisshin, mainly owing to a decrease in volume. Moreover, domestic rerollers are being affected by the changing business environment. The amount of decline in profit is not that significant for each company but significant in aggregate.

Domestic demand for stainless steel is expected to decline for kitchen, and gas and oil equipment, due to a decline in housing starts, and for semiconductor-related industrial machinery. The supply-demand balance for exports of stainless products is projected to weaken because of continued excess capacity and excess supply, and the worsening trade protectionism. While the margin is not deteriorating much, the impact of production cuts will be significant.

Q Steelworks in Japan have posted significant impairment losses in the past. Given your forecast of a ¥65 billion ordinary loss (non-consolidated), is there a risk of generating impairment losses?

A Because operating profit (non-consolidated) excluding inventory evaluation loss has been in the red for three consecutive years since fiscal 2017, there is a possibility that some segments may indicate warning signs of impairment losses but we intend to make an assessment with due consideration to future profit assumptions.

Q Concerning cool deliberation, including the possibility of integrating production bases or withdrawing from loss-making businesses, in considering “initiatives to secure and strengthen the profit base toward the future,” are you working with a sense of speed that may allow you to demonstrate concrete results during the current medium-term management plan? Will you tell me how high your sense of crisis is?

A We intend to consider options as quickly as possible and to sequentially and speedily implement concrete plans as soon as they are finalized. As for overseas businesses, we have set up KPIs and regularly update their status. We make judgments whenever a business ends up having diminished significance or has no prospect of getting out of the red, and we speedily execute the final judgment.

Q I would like to know your views on cash flow management. When your operating cash flow is revised downward, do you adjust your capital expenditures and business investments accordingly? As for dividends, you indicated a plan to pay an interim dividend of 10 yen per share based on your target payout ratio. Does this mean that the target payout ratio is simply applied and the amount of dividend payment may fluctuate significantly depending on your business performance?

A Concerning the additional amount of asset compression, we have responded early in light of the current changing business environment and have prepared the concrete plan. As for dividends, we keep in mind our policy of targeting a consolidated payout ratio of around 30% and believe it is important to generate good earnings, which are the basis for paying dividends, as quickly as possible. We will deal flexibly with business investment and capital expenditures but we will invest as appropriate. Additional asset compression of “¥200 billion or so,” which is stated in the briefing material, means that we think it is important to control cash flow while promptly responding to the changing environment.

Q You explained “higher raw material prices and weaker steel product prices” caused by “Another China Risk.” Do you think this environment may improve moving ahead? If so, when do you think this could happen?

A China is actively making public investments in roads, railways, subways, etc. It has already budgeted for this year and the budget for next year is already in sight. We think that China will continue public investment to support the economy in 2019 and 2020 at least. It is hard to foresee what will happen next and we believe that a big challenge will be the direction of China’s steel production capacity when the support for the economy disappears.

Q How much cash will be spent on the acquisition of Essar Steel?

A Of the total amount of INR 500 billion (INR 420 billion for the repayment of Essar Steel’s debts to creditors and INR 80 billion for the initial capital injection), Nippon Steel will pay 40% and ArcelorMittal 60%. Part of the INR 500 billion will be capital invested in the joint venture, while the remaining amount will be borrowed by the JV. We are likely to guarantee the portion to be borrowed, but have not finalized details, including the investment scheme.

End

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