Q The business environment is very harsh. Do you think that the measures you announced today, such as the shut-down of some downstream processes and investment in electrical steel sheets, will be enough to overcome the current situation? Or do you think that you may need to adopt restructuring measures, including the shut-down of upstream process facilities, the downsizing of personnel, and the posting of an impairment loss?

A We don’t think that we can overcome the current harsh situation only by implementing the measures announced today, such as the integration and reorganization of steelworks. We believe we need to consider optimizing the scale of fixed costs, based on the concept of selection and concentration, among other plans, and implement them at an accelerated speed.

With regard to impairment loss, we examine whether impairment loss should be booked based on the accounting standard every year. While some steelworks currently show signs of being subject to impairment loss, this will be assessed with due consideration of their outlook and based on the accounting standard.

Q What are the levels of your assumptions for margins in the second half?

A Current market prices are about US$90 for fine iron ore and US$150 for hard coking coal, while hot coil is trading in the lower 400 dollar range in the overseas market. The margin for the commodity steel export area in the second half is expected to stay at the margin level based on current spot market prices.

With regard to prices for products with long-term contracts, we are moving forward with improving sales prices. In addition to the increase in raw material costs, costs for alloys, commodities and transportation have increased by about ¥5,000 per ton since the first half of fiscal 2016. Going forward, the cost of shipping fuel oil will also rise due to tighter SOx regulations. We are therefore asking our customers to reflect such cost increases, excluding raw material prices, in product sales prices, and furthermore allow us to improve the real profit margin. We have incorporated price improvement in our second half forecast to a degree we can anticipate.

Q Please explain the background behind projecting ¥40 billion in profit attributable to owners of the parent for fiscal 2019 as well as the dividend forecast.

A The forecast of ¥40 billion in profit attributable to owners of the parent comprises ¥38.7 billion
in the first half and ¥1.3 billion in the second half. These figures are calculated by subtracting financial expenses, corporate income tax, and net profit attributable to non-controlling interests from business profit.

As for dividends, the interim dividend is ¥10 per share, which represents an interim payout ratio of 23.8%. Given the forecast of ¥1.3 billion in profit attributable to owners of the parent for the second half, we have decided this interim dividend per share of ¥10, as announced during the first quarter result briefing on August 1.

Q Will you be able to turn fixed costs downward by reorganizing steelworks?
I assume that, in devising measures for the optimal allocation of costs and personnel, and the arrangement of facilities for each steelworks, you would need to set a specific timeline and targets, including the timing of a change to profitability. Can you tell us about such a specific timeline and targets?
A We believe it is important to optimize the scale of fixed costs and we intend to consider and implement diverse measures.

We will reorganize the steelworks on April 1, 2020. We plan to promptly implement measures on the abstract side of things, such as enhancing the workforce by integrating personnel spread across multiple locations into one larger unit; raising the efficiency of business operation and personnel allocation; strengthening the human resources base in terms of hiring, allocation, and personnel development; sharing technologies, skills, and know-how to enhance the level of management and operations; and accelerating the speed of decision making.

As for measures on the physical side, we are separately considering an optimal production framework, and measures will be announced and implemented as they are finalized one by one.

We naturally expect to make each and every steelworks profitable. Otherwise, our non-consolidated profit will not move into the black. We have a sense of crisis and think that all possible measures must be speedily implemented.

Q What do you think Nippon Steel's level of profit will be like next fiscal year, assuming no significant improvement in the business environment?
A Our underlying profit, excluding the impact of natural disasters and other one-off factors, for the current fiscal year is estimated to be around ¥150 billion.

As for next fiscal year, we don't expect a significant improvement in the business environment. In our view, the key points for a recovery in profit are the implementation of the measures we explained today, the optimization of the scale of fixed costs, and how quickly increases in costs, other than those for main raw materials, can be reflected in the sales prices of our products, which are still at the halfway stage.

Q EPS at your subsidiary Sanyo Special Steel is declining due to share dilution caused by a third-party share issuance and goodwill amortization at OVAKO AB, in addition to the deteriorating business environment. Please explain your standpoint on the listed parent/subsidiary.
A Sanyo Special Steel made OVAKO a subsidiary and has also been negatively affected by OVAKO's profit level, which is currently lower than initially expected, due to a prolonged inventory adjustment in the special steel market and the sluggish economy in Europe. In light of this situation, Sanyo Special Steel is buying back its own shares at its own discretion. As the largest shareholder of Sanyo Special Steel, Nippon Steel continues to cooperate with Sanyo Special Steel in various aspects towards maximizing corporate value, taking mutual benefits with its minority shareholders into consideration.

Q How much do you think that the impact of one-off factors, such as natural disasters, should be incorporated when estimating your future earnings?
A So far, we have incorporated a certain degree of impact from rains and typhoons in our production plans, based on past experiences. However, the lightning strike which hit the Kimitsu Works this May was extremely strong, an event that is likely to happen once in 350-400 years, and Typhoon Faxai (#15) brought powerful wind storm which recorded 60 m/s, far exceeding our assumptions. Such disasters which far exceed conventional rules of thumb are not incorporated in our production plans or earnings forecasts.