

**IR Briefing on Joint Acquisition of Essar Steel
(Held on December 17, 2019)
Summary of Q&A**

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

Presenter: Hidetake Ishihara, Managing Executive Officer

Q In order to achieve the medium-term plan target of 8.5 million tons/year in steel production capacity, what facility will you need to expand? Are you planning to continue using MIDREX, Essar Steel's main upstream facility?

A In our pursuit to boost production capacity to 8.5 million tons/year, we plan to make investments in bottleneck processes and change the upstream structure so that it is centered on the blast furnace method. In the meantime, MIDREX is in the midst of recovering a certain degree of economic efficiency, thanks to the recent decline in LNG prices. We intend to fully assess economic efficiency and make an appropriate decision on when and what type of capital expenditure to allocate.

Q In case you plan to produce automotive steel sheets at AM/NS India in the future, will you need significant capital investment?

A AM/NS India will mainly manufacture commodity-grade products for the time being. We will consider additional investment when the need for higher-grade products rises in the future. Immediate capital expenditure will be invested in improving productivity and expanding production volume to establish annual production capacity of 8.5 million tons. We believe we can adequately handle this as part of approximately 300 billion yen in investment, which is to be funded by a cash injection of INR 80 billion (approximately 120 billion yen) at this time and cash flow generated by AM/NS India.

Q You have a joint venture with Tata Steel in the production of automotive steel sheets. What will happen to your relationship with Tata Steel?

A JCAPCPL, a joint venture with Tata Steel, produces cold-rolled products for automobiles through continuous annealing and processing. Steel products Essar Steel supplies to automakers represent a very small portion of its production volume, and mostly are hot-rolled steel sheets, which are different from JCAPCPL's products. We therefore believe that our relationship with Tata Steel will not be affected. We intend to continue supplying automotive cold-rolled steel sheets from JCAPCPL.

Q Flat steel products represent a large portion of Essar Steel's product mix. Given that India's steel demand is expected to be mainly for the infrastructure & construction sector, shaped steel products and steel bars are likely to grow the most. Isn't there therefore a mismatch between market demand and Essar's product mix?

A Flat steel products are used for roofs and walls in civil engineering and construction. Essar Steel also produces pipes & tubes as well as color coated steel sheets, which are also used in construction and other areas. The infrastructure & construction sector represents over half of total domestic steel demand in India at present and is expected to continue to do so even in 2030, along with the entire market expansion. We therefore believe that AM/NS India will be able to capture sufficient growth in demand.

Q Essar Steel's current consolidated interest-bearing debt has probably changed from the level of INR 642.7bn at the end of fiscal 2017 but must be higher than the INR 420 billion that you plan to use to repay Essar's existing debt, out of the overall acquisition amount. Will the remaining balance remain as interest-bearing debt? If so, will Essar's average interest rate of around 14% continue to be adopted? Or, will the interest rate be lower, thanks to the credit backing of the parent companies?

A Essar's current debt will be repaid by INR 420 billion of the acquisition amount and the remaining balance will be haircut to clear its entire existing debt. Out of the total cash injection of INR 500 billion, which also includes INR 80 billion for initial working capital, one-third will be allocated to capital and two-thirds to new debt for AM/NS India. Given that we and ArcelorMittal have much stronger credit ratings, the interest rate is expected to be significantly lower than Essar's average rate of 14% as of the end of fiscal 2017.

Q We would like to know Essar's current profit level and the forecast for AM/NS India.

A Essar's EBIT has not changed much from the level of INR 10.3 billion recorded in fiscal 2017, when Essar disclosed its financial results most recently. As Essar's heavy interest burden will be cleared away, it is anticipated to be profitable going forward. The new company, AM/NS India, is expected to start contributing to Nippon Steel's consolidated profit from next fiscal year, although the amount will not be huge, given Nippon Steel's equity stake of 40%.

Q Do you plan to switch your supply of exports to Southeast Asia from Japan to India? Will you thereby consolidate your domestic steel production capacity?

A The potential production capacity of 8.5 million tons/year will be used only to satisfy domestic demand in India, without assuming any exports from India for the time being. Our optimal production framework in Japan is a separate matter we are working on.

Q Do you foresee any governance risk in the structure of having the same number of directors as ArcelorMittal?

A Nippon Steel and ArcelorMittal will have the same number of directors and the same voting rights of 4 vs. 4. We have established a good joint-venture partnership with ArcelorMittal in AM/NS Calvert in the U.S. and other ventures. We are confident that both companies are capable of conducting mutual discussions and managing the new company under an equal partnership.

End

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