GROWTH STRATEGY

Contents
10 NSSMC’s Growth Strategy
12 Enhance Global Production Capabilities
14 Utilize Advanced Technologies
16 Realize World-Leading Cost Competitiveness
18 FOCUS Overseas Expansion of Automotive Steel Sheet Businesses
20 Financial and Investment Strategies
NSSMC’s Growth Strategy

BECOMING THE WORLD’S LEADING STEELMAKER WITH COMPREHENSIVE STRENGTHS

In March 2013 we formulated our Mid-Term Management Plan. In the midst of the challenging business environment surrounding global supply and demand for steel, we strive to rapidly exploit integration synergies and to become “the world's leading steelmaker with comprehensive strengths” in all areas, including “technology,” “cost,” and “being global.”

Mid-Term Management Plan

By 2015, when new capacity at competing steelworks in East Asia becomes operative

Realizing world-leading competitiveness

ROS (Ordinary profit to net sales)
Of approximately 5% at minimum
With upward potential of 10%

How will the Company expand sales and earnings overseas?
We will focus on automobiles, energy resources, and infrastructure, which are the sectors with high growth potential.

- We focus on the areas where further growth is anticipated: automobiles, energy resources, and infrastructure sectors.
- Our main target is high-grade markets but we will also build a solid earnings base by capturing demand in the middle-grade market, or volume zones, on the back of our enhanced cost competitiveness acquired through integration effects and other factors.
- We will continue to seek opportunities such as building supply capability of iron and hot coils in the ASEAN countries.

How does the Company strengthen business infrastructure in Japan?
We will improve our manufacturing capability and enhance our business infrastructure, with our advanced technologies.

- Using the technological advances that we have refined in the Japanese market, where standards are exceptionally high, we will promote the development of processing technology that will in the future help attain high productivity and realize next-generation, leading-edge technology. This, we believe, will greatly strengthen our domestic businesses.
- By acting as mother plants for our global supply organization, our domestic facilities, where we have developed manufacturing skills and capabilities, will support NSSMC’s global expansion.

How will the Company strengthen business infrastructure overseas?
We will complete our Mid-Term Management Plan. By building an optimal production system and steadily reorganizing the integration of Group companies, we aim at realizing our targets.

- We will complete a true integration by integrating elements, such as the mindset of employees and how to proceed with work.
- We will continue to seek opportunities such as building supply capability of iron and hot coils in the ASEAN countries.

What are the issues management is facing?
Domestic businesses and overseas businesses are like the two wheels of a cart of a truly global company.

- In our domestic businesses, we seek to enhance our manufacturing capability and attain cost competitiveness as strategy to increase sales and earnings.
- In our overseas businesses, we focus on growing areas where our accumulated manufacturing capability provides outstanding potential to increase sales and earnings.

Below are explanations of several FAQs regarding key points of our growth strategy.
**GLOBAL PRODUCTION CAPABILITIES**

NSSMC will accelerate business expansion in overseas growth markets, where its accumulated manufacturing capability provides outstanding potential to increase sales and earnings. Automobiles, energy and resources, and infrastructure sectors are our three strategic areas with high growth potential.

**Automobiles**
The global automotive market is anticipated to grow and its demand for steel products is projected to remain strong. High-grade steel materials are increasingly required to satisfy the contracting requirements of ensuring safety, at the time of a collision and reducing weight to improve fuel efficiency. Besides offering high-quality products, NSSMC's advantages are its most-advanced global supply network that nimby responds to needs of customers as shown by the increase in overseas production, and its capability to propose solutions, including application and processing technologies.

**Energy and resources**
While energy demand is forecast to continue to increase, sites where it is relatively easy to drill for oil and natural gas are becoming depleted and there has been a shift toward recovery in more severe environments, such as the deep sea and very cold regions. Our leading-edge technology has put us in an advantageous position as we can provide steel products meeting demanding specifications and that can withstand harsh environments.

**Infrastructure**
Civil engineering and construction
Infrastructure development is of urgent importance in emerging countries. In tandem with the urbanization and the increasing scale of physical infrastructure, the requirements made of structures and construction methods necessarily become increasingly sophisticated and complex. NSSMC's strengths are its strong technological capabilities and product appeal which were fostered in Japan's challenging market. NSSMC is in turn further contributing to the development of overseas infrastructure using its engineering methods and products that excel in terms of earthquake resistance and measures to control environmental problems, such as noise and vibration, while also shortening construction work time and reducing costs.

**Railway**
Expansion of railway systems is expected, for reasons including preservation of the environment. With increases in the speed of passenger railways, requirements for low vibration and low noise, to ensure a pleasant ride, become greater, in addition to requirements for safety. In the case of freight cars, there is a high demand for high-strength, long-life, high-end products that can handle increased loading capacity per car. NSSMC has an advantage in its technological capabilities to satisfy these market needs. We command a 100% share in railway wheels and over 60% share in rails in the Japanese market and our products are highly evaluated by our overseas customers.

**Major overseas manufacturing facilities**
- **Automobiles**
  - Steel sheets
  - Bars and wire rods
  - Pipes and tubes
  - Crankshafts
- **Energy and resources**
  - Steel plates
  - Pipes and tubes
  - Civil engineering and construction
  - Power
- **Infrastructure**
  - Quality improvement
  - Investment
  - Start commercial operation

**Annual production capacity of major overseas manufacturing facilities**
- March 31, 2013
  - Approximately 9 million tons*
- March 31, 2014
  - Approximately 19 million tons*

* Total capacity of major JVs. Taken no account of NSSMC's investment ratio and excluding USIMINAS in Brazil
Advanced technologies are a source of our competitiveness. We will expand our earning base by distinguishing ourselves from our competitors. At the same time, we aim at achieving cost competitiveness through innovation in manufacturing technology.

In addition to developing materials and highly functional products in growth sectors, we strive to provide customers with comprehensive solutions that include processing technologies, and to develop next-generation materials. These efforts are expected to expand our profit base. At the same time, we aim at reducing costs by use of advanced manufacturing technology, to make high-grade products from inexpensive low-grade raw materials and technologies, to reduce alloy content, and to enhance productivity in manufacturing processes. These initiatives are being undertaken by our R&D organization, which we believe to be in the world-leading class in quality and scale.

**Developing highly functional products in growth sectors**
Our focus is on developing unrivaled highly functional products in order to more solidly establish our competitiveness. In particular, we are promoting development in three strategic areas—automobiles, energy and resources, and infrastructure.

**Research on next-generation materials**
We are promoting research on developing next-generation materials for hydrogen and other clean energy sectors.

**Improving productivity in manufacturing processes**
We aim to reduce costs by improving productivity in manufacturing processes, such as by optimizing upstream operating conditions and enhancing rolling efficiency. For example, in blast furnace operation, we continually work at improving efficiency by optimizing operating conditions, and making use of simulation technology. This will induce reduction of manufacturing costs for all product types.

**Technology that facilitates the use of low-grade raw materials**
We strive to reduce costs by developing technology that facilitates the use of low-grade raw materials, such as non- or slightly-caking coal, which represent over 70% of coal reserves, and limonite ore, of which there is an abundance of reserves but contains impure substances.

**Technology to reduce alloy content**
NSSMC develops materials that maintain high performance even when there is to be a reduction in the amount of rare metals to be added to enhance strength, anti-corrosion, and other properties of the steel. This is another means to reduce costs.
We aim to realize synergies from the merger of at least ¥200 billion a year and world-leading cost competitiveness within approximately three years from the announcement of the plan.

**Establishment of an optimal production system**

In upstream processes, while reducing fixed costs by shifting to an optimal production system, which includes taking the No. 3 blast furnace in the Kimitsu Works out of operation, we aim to raise capacity utilization and maintain shipment volume. In downstream processes, we will further bolster and optimally allocate competitive production lines, expand overseas production lines, and shut down lines that are not competitive enough. Through these measures, we seek to develop a more competitive production system.

**Cost reduction by consolidating technology and R&D achievements**

We will pursue best practices in operational and manufacturing technologies that contribute to cost reduction, such as technologies to make good use of low-grade raw materials, maintaining optimal operational conditions of upstream processes, and raising efficiency in the rolling processes and yield.

**Streamlining the head office and branches**

Integration and improvement in efficiency of the head office and domestic and overseas branches, and reduction in general administrative expenses and system development cost.

**Integration and reorganization of and alliances among Group companies**

We will promote integration and reorganization among Group companies that have duplicated functions as well as Group companies whose business competitiveness will be strengthened by integration. By sharing functions in an optimal way across the entire Group, we aim to raise competitiveness of the Group in aggregate to a higher level.
Acquisition of the U.S. steel sheet manufacturing facility

Overseas Expansion of Automotive Steel Sheet Businesses

Overseas expansion of automotive steel sheet businesses is part of the core of NSSMC’s global strategy. We have already built a highly advanced global supply network of steel sheet for supply to respond to growing overseas production by Japanese and other automakers who demand high-grade steel sheets. We will further strengthen our network and satisfy the needs of our customers, ensuring a more solid base of earnings in the overseas growth markets.

Overseas deployment of advanced technologies accumulated in Japan

By deploying advanced technologies accumulated in Japan at overseas operations, we are building capability to manufacture high-tensile steel sheets of 590MPa class and even ultra-high-tensile steel sheets of 980MPa class – in local markets. This enables us to satisfy requirements of automakers as they expand overseas production.

In the North American automotive market, which is generally strong at present, we acquired a manufacturing facility for automotive steel products jointly with Aorolux Mittal (AMI) and began operation as AM/NNS Calvert in Alabama, U.S. The Calvert plant has leading-edge hot rolling, cold rolling, and coating and finishing lines with a total steel processing capacity of approximately 5 million tons a year including capacity of 2 million tons for automotive steel products. In order to produce high-grade steel sheets, an important factor is to maintain close control of temperature in the hot rolling processes, in addition to controlling cold rolling and coating and finishing. This is our first overseas hot-rolling line mainly for automobiles, which has enabled us to do an integrated manufacturing from hot-rolling to advanced processing locally. NSSMC has a history of over 20 years of supplying cold-rolled steel sheet and surface-treated steel sheet from two plants in India. The acquisition of Calvert has dramatically strengthened our automotive steel sheet supply network in the U.S. In Mexico, an important location for manufacturing compact and sub-compact cars in North America, in August 2013 we began operation of our joint venture TENIGAL for manufacture and sale of automotive hot-dip galvanized and galvannealed steel sheets, with the state-of-the-art equipment equivalent to that of NSSMC’s latest facility in Japan. Japanese and other automakers are expanding in the Mexican market, where demand for high-grade steel sheets is expected to be robust.

Development of world-leading high-strength, highly-functional steel sheet

Responding to automakers’ requests, NSSMC is developing various high-strength steel sheets for different parts of an automobile. In Japan, we have succeeded in manufacturing ultra-high-strength steel sheet of the 1,180MPa class. Without losing that strength, in 2011 we were the first in the world to develop cold-rolled steel sheet with twice the formability, and in 2013 were the first to develop hot-dip galvanized & galvannealed steel sheets with a high anti-corrosion property. Our high-formability cold-rolled steel sheets of the 1,180MPa class have been adopted for the chassis of Nissan cars and the hot-dip galvanized & galvannealed steel sheets with twice the formability of 1,180MPa class have been adopted for the chassis of Suzuki cars. We are now developing even higher-strength highly-functional steel sheets.

High-strength steel sheets satisfy demand for both safety at a time of collision and weight reduction

A typical car weighs one ton and steel accounts for about 70% of its total weight. It is said that reduction in vehicle body weight of 100kg, or about 10% of its total weight, could enable reduction of CO2 emissions by about 10g during a drive of one kilometer. Weight reduction could be realized by making steel sheets thinner. However, the steel sheet must simultaneously satisfy a conflicting need to ensure safety at a time of collision. This has meant steady growth of demand for thin, strong, and easy to form high-tensile steel sheets that satisfy demand for both collision-safety and weight-reduction requirements. At present, the usage ratio of high-strength steel sheets* has reached about 60%.

Usage ratios of high-strength steel sheets by Japanese automakers

* Usage ratio of high-strength steel sheets with a maximum tensile strength of 360MPa or higher [Magnus, 1995]

The superiority of steel

For many products, steel is superior to other materials in terms of strength per unit price. Steel is said to have theoretical strength of 10.4GPa, that endows it with great potential. By further refining our technological prowess, developing highly-functional products, and deploying them globally, we will contribute to the prevention of global warming and advancements in safety at a time of collision.

Various materials’ potential strength and the current commercially-viable level

<table>
<thead>
<tr>
<th>Material</th>
<th>Ideal strength*</th>
<th>Current commercially-viable strength</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aluminum and its alloys</td>
<td>3GPa</td>
<td>0.5GPa</td>
</tr>
<tr>
<td>Copper and its alloys</td>
<td>8GPa</td>
<td>0.5GPa</td>
</tr>
<tr>
<td>Concrete (strength in compression)</td>
<td>4GPa</td>
<td>0.5GPa</td>
</tr>
<tr>
<td>Engineering plastics</td>
<td>6GPa</td>
<td>0.5GPa</td>
</tr>
<tr>
<td>Carbon fiber</td>
<td>5GPa</td>
<td>0.5GPa</td>
</tr>
</tbody>
</table>

* Ideal strength is said to lie from 10 to 15% of modulus of rigidity. The above data is based on 1/7.5 of modulus of rigidity.

When the U.S. base operates on a full scale, NSSMC’s overseas manufacturing capacity of automotive steel sheet will increase to about 9 million tons, surpassing our capacity of about 8 million tons in Japan.

For many products, steel is superior to other materials in terms of strength per unit price. Steel is said to have theoretical strength of 10.4GPa, that endows it with great potential. By further refining our technological prowess, developing highly-functional products, and deploying them globally, we will contribute to the prevention of global warming and advancements in safety at a time of collision.

Various materials’ potential strength and the current commercially-viable level

<table>
<thead>
<tr>
<th>Material</th>
<th>Strength (GPa)</th>
<th>Tensile strength (GPa)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steel</td>
<td>10.4</td>
<td>3.0</td>
</tr>
<tr>
<td>Aluminum and its alloys</td>
<td>3</td>
<td>0.5</td>
</tr>
<tr>
<td>Copper and its alloys</td>
<td>8</td>
<td>0.5</td>
</tr>
<tr>
<td>Concrete (strength in compression)</td>
<td>4</td>
<td>0.5</td>
</tr>
<tr>
<td>Engineering plastics</td>
<td>6</td>
<td>0.5</td>
</tr>
<tr>
<td>Carbon fiber</td>
<td>5</td>
<td>0.5</td>
</tr>
</tbody>
</table>
Financial and Investment Strategies

In addition to cash generated through growth strategies, we will cut costs through synergies by at least ¥200 billion a year, by optimization of our production system including the shutdown of certain facilities, and by reducing assets by approximately ¥300 billion on a cumulative basis in three years’ time. As a result, we will secure the resources needed for investments for growth while working to improve the Company’s financial position.

Major management targets

- **Return on sales (ROS)**
  - 5% at minimum
  - With upward potential of 10%

- **Synergy effects**
  - At least ¥200 billion a year
  - (Approximately ¥70 billion p.a. in the second half of fiscal 2013)

- **Asset reduction**
  - Approximately ¥300 billion
  - in about 3 years

- **D/E ratio**
  - Less than 1.0
  - Quickly toward 0.8

Report on progress

- **Return on sales (ROS)**
  - Achieve 6.5%
  - Target 10%

- **Asset reduction**
  - Achieved the target in fiscal 2013

- **D/E ratio**
  - Achieved 0.86
  - Target 0.8

*1 First half of fiscal 2012: Combined bases of the two former companies
*2 End of the third quarter of fiscal 2012: Actual result

**Strategic growth investment** Approximately ¥100 billion a year

- **Major investments in overseas businesses**
  - Automotive steel sheet, etc.
    - AM/NS Calvert (U.S.A.)
      - February 2014
    - TENIGAL (Mexico)
      - August 2013
    - JCAPOL (India)
      - May 2014
    - NSGT (Thailand)
      - October 2013
    - BNA (China) * Increase capacity
      - Fiscal 2015 (plan)
    - IC (U.S.A.) * Increase capacity
      - Fiscal 2015 (plan)

- **Construction**
  - NSBS (Singapore, etc.)
    - March 2013
  - CSVVC (Vietnam)
    - April 2013

- **Container**
  - WINSteel (China)
    - September 2013

- **Pipe & Tube**
  - VSB (Brazil)
    - Ramping up

**Capital expenditure** within depreciation

- Investment to replace existing equipment for continuing high-level stable production
- Investment on safety, environmental, and disaster-prevention measures
- Investment to improve product quality and to reduce costs

**Fiscal 2013 results**

- Capital expenditures (Construction base): ¥257.0 billion
- (Depreciation and amortization of ¥331.8 billion)

**Recent major investment projects**

- Yawata Steelworks
  - Repair of the No. 4 blast furnace: Approximately ¥34 billion
  - (Began operation in April 2014)

- Kimitzu Steelworks
  - Repair of the No. 4 coke oven: Approximately ¥29 billion
  - (To be completed by December 2016 (plan))

**Profit distribution to shareholders**

NSSMC’s basic profit distribution policy is to pay dividends from distributable funds of the fiscal year after taking into account operating results and such factors as ensuring capital requirements for investment and other activities aimed at raising corporate value and performance prospects, while also considering the Company’s financial strength. We have set a consolidated payout ratio target of approximately 20% for use as an indicator for the distribution of profits. In fiscal 2013, we paid dividend of ¥5 per share and attained a consolidated payout ratio of 18.7%.