
*Management Goals and Medium-Term
Strategies/Business Plan*

June 2003
Nippon Steel Corporation

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* Names of companies appearing in this presentation have been abbreviated

I. Steel Business

Nippon Steel: Progressing Into A New Phase of Earnings Growth

Business Environment

Global demand supported by brisk growth in Southeast Asia, especially China

Capacity limitations leading to favorable demand for high value-added products

Stable and firm steel prices due to tight supply caused by industry consolidation

Global steel commodity price convergence favorable for Japanese steel makers

Strategies & Goals

Expand sales of high value-added products in growing markets, especially China

Capitalize on strong relationships with key Japanese customers

Establish global alliances with foreign steel manufacturers (e.g., Arcelor)

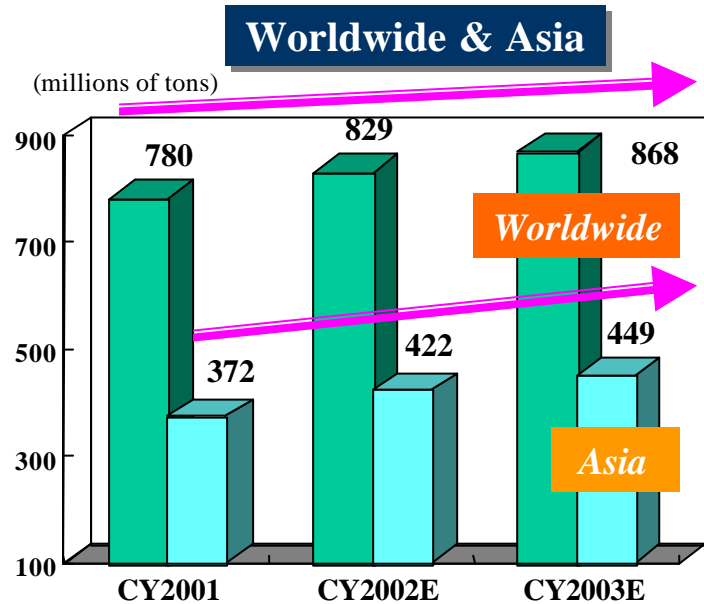
Increase efficiencies of domestic mills by expanding blast furnace volume

Invest in downstream production facilities in Asia (e.g., JV with Bao Steel in China)

Goal: achieve record high recurring profit of ¥250bn (\$2.1bn) in FY2005

I. - Business Environment

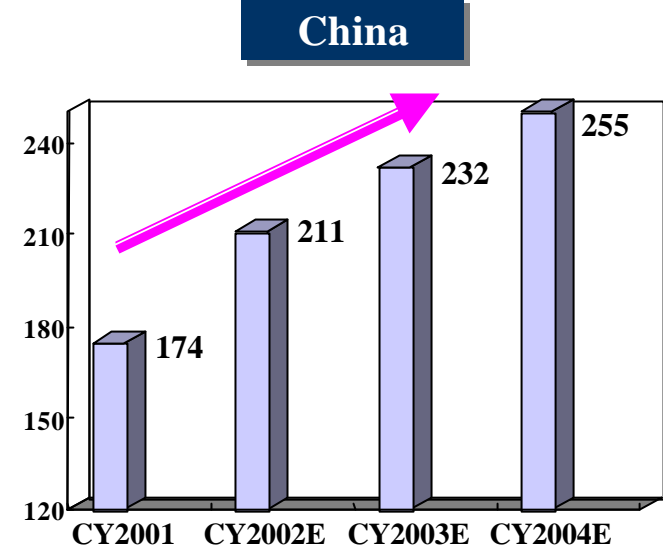
Worldwide Demand for Crude Steel: Asian Market as a Significant Growth Driver



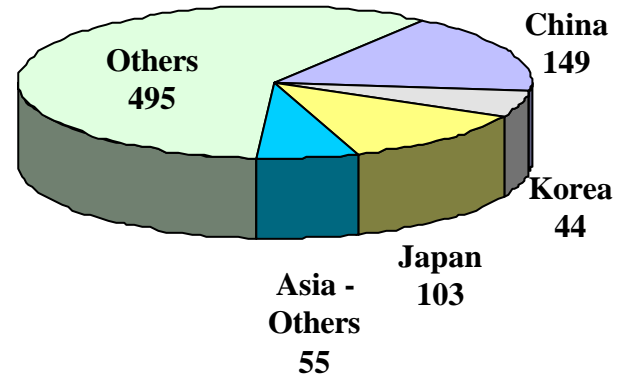
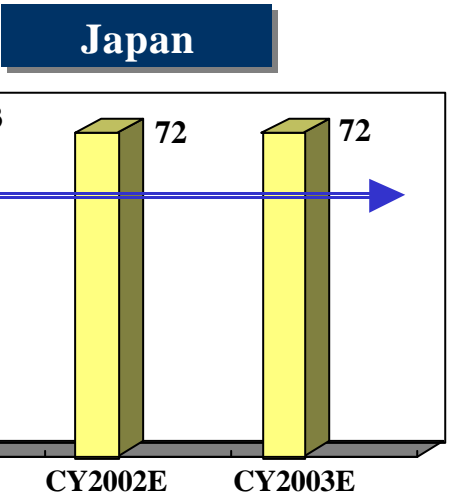
2001 2003E
 Worldwide +11%
 Asia +20%
 Worldwide ex-Asia +3%

Global Crude Steel Production (CY2001)

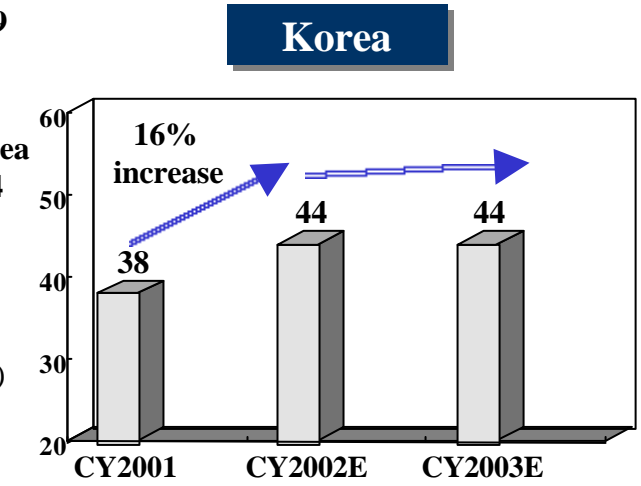
Worldwide 846m tons
 Asia 351m tons



2001 2003(E)
 China +33%



(Source: International Iron and Steel Institute)



Global Consolidation Has Helped Recover Pricing Powers

CY1995			CY2002		
Crude Steel Output Ranking (millions of tons)			Crude Steel Output Ranking (millions of tons)		
1	Nippon Steel (Japan)	26.8	1	Arcelor (EU)	44.0
2	POSCO (Korea)	23.4	2	Nippon Steel (Japan)	30.9
3	British Steel (EU)	15.7	3	JFE (Japan)	30.3
4	Usinor Sacilor (EU)	15.5	4	POSCO (Korea)	28.9
5	Riva (EU)	14.4	5	LNM Gr (Ispat) (EU)	27.5
6	Arbed Grp. (EU)	11.5	6	Shanghai Baosteel (China)	19.5
7	NKK (Japan)	11.3	7	Thyssen Krupp (EU)	17.0
8	US Steel (US)	11.0	8	Corus(EU)	16.8
9	Kawasaki Steel (Japan)	10.4	9	Riva (EU)	15.2
9	Sumitomo Metals (Japan)	10.4	10	US Steel (US)	14.5

Footnote: Blue represents Nippon Steel alliance partners
 Crude steel based on group output volume
 currently under negotiations

Crude Steel Output (growing market share of top ten steel makers)

	CY1995		CY2002	
	Production Volume	Market share	Production Volume	Market share
Top 5	9,591	13%	16,150	18%
Top 10	15,058	20%	24,447	27%
Total (Worldwide)	75,226	100%	90,279	100%

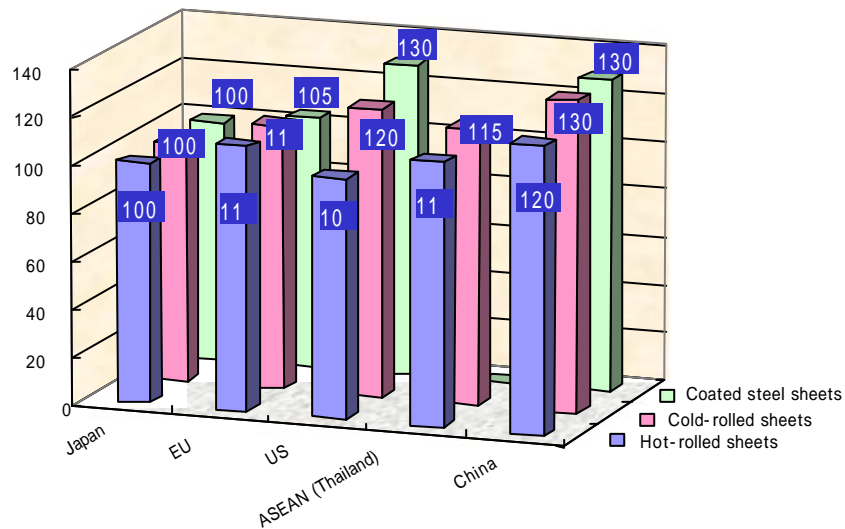


Prices in Japan, The Lowest Worldwide, Have Recovered Significantly

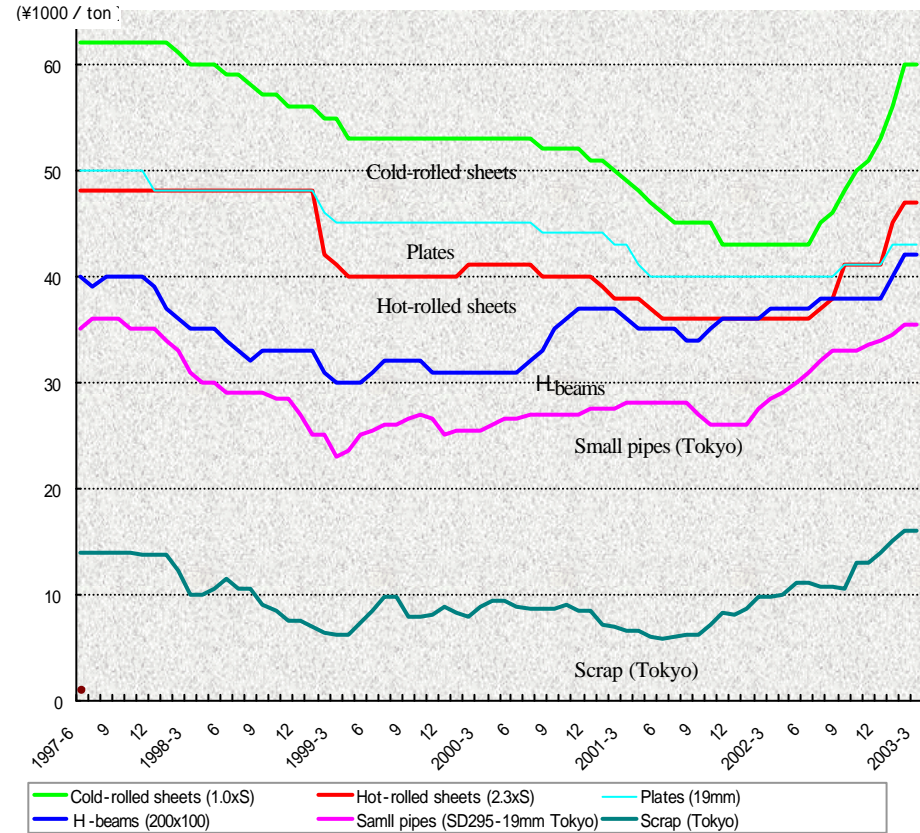
Steel Sheet Products Price Index (Nippon Steel estimates as of FY2002-3Q)

	Japan	EU	US	ASEAN (Thailand)	China
Hot-rolled sheets	10	11	10	11	120
Cold-rolled sheets	10	11	12	11	130
Coated steel sheets	10	10	13	-	130

(Index based on Japan as 100)



Price Trends of Steel Products in Japan



(Source: Japan Metal Daily, Nihon Keizai Shimbun)

I. - Nippon Steel's Competitive Advantages

Our Competitive Advantages

Solid customer base in the domestic market

Top market share for high value-added products

Strong capacity for delivering total steel product solution to globalizing customer base

Cost competitiveness through production facility enhancement

Established supply network for stable and speedy delivery

Strategic business alliances with leading overseas steel makers for capturing growth opportunities as well as delivering technology innovation

A Solid Domestic Base

Relationship with Leading Domestic Customers

(Nippon Steel figures are based on non-consolidated accounts)

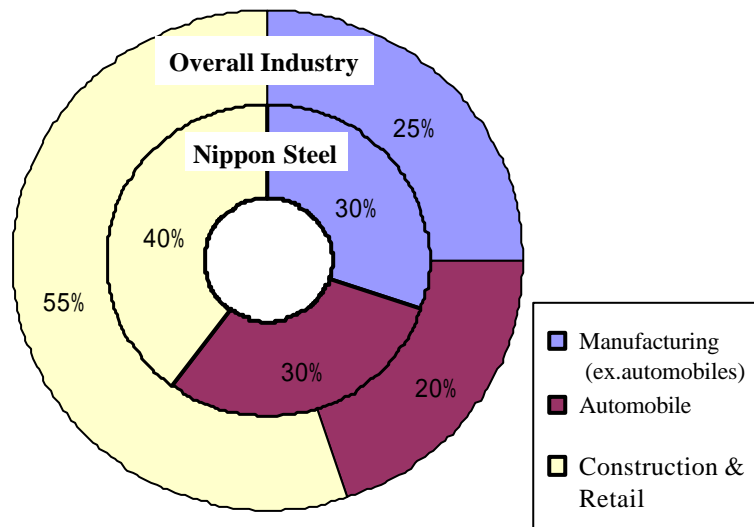
• Steel Product Shipments

Domestic shipments 66%, Export ratio 34%

• Composition of Domestic

High weighting to long-term contracts with manufacturing industry (especially automobiles)

Breakdown by User Demand (FY01)

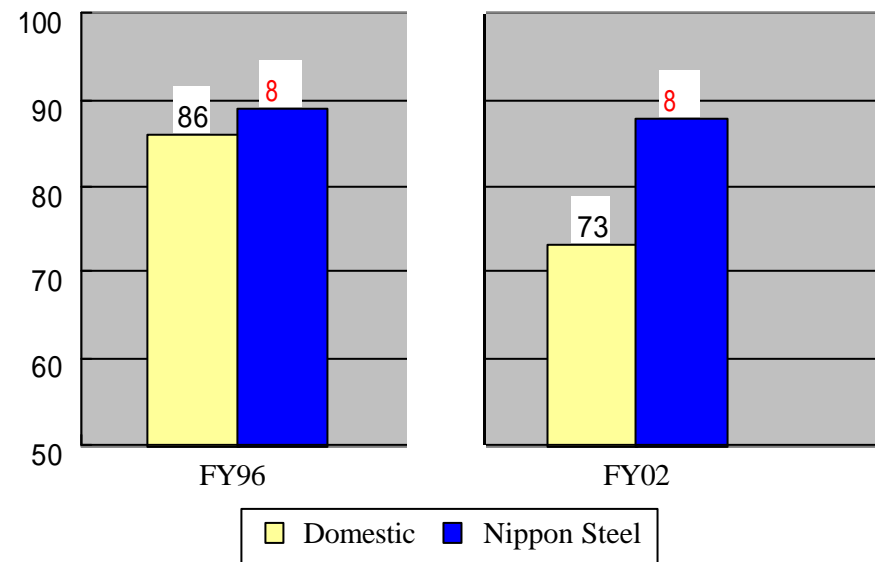


Source: Japan Iron and Steel Federation monthly statistics



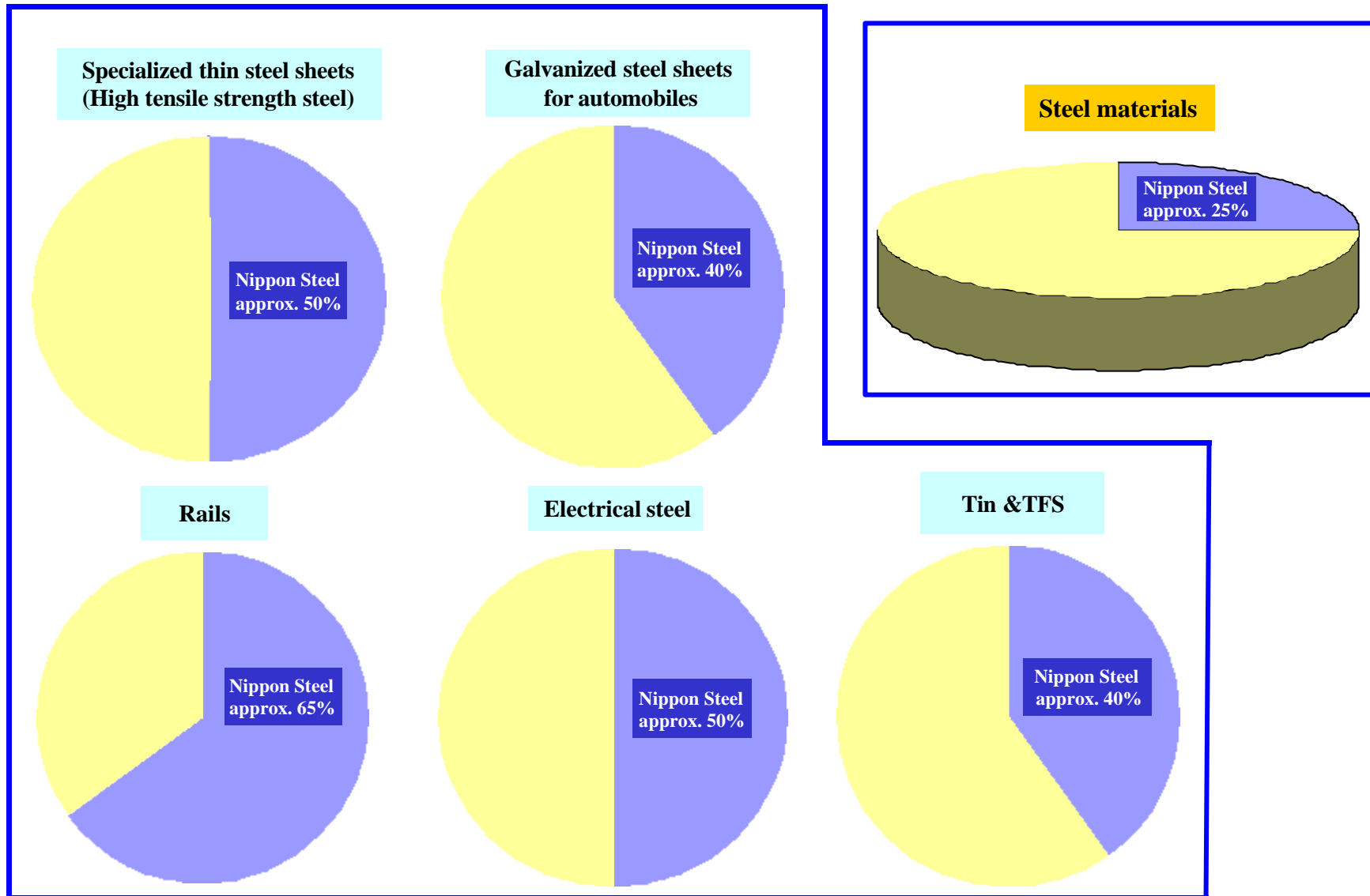
Domestic Consumption and Nippon Steel Shipments of Steel Products

(Indexed based on FY1990 as 100)

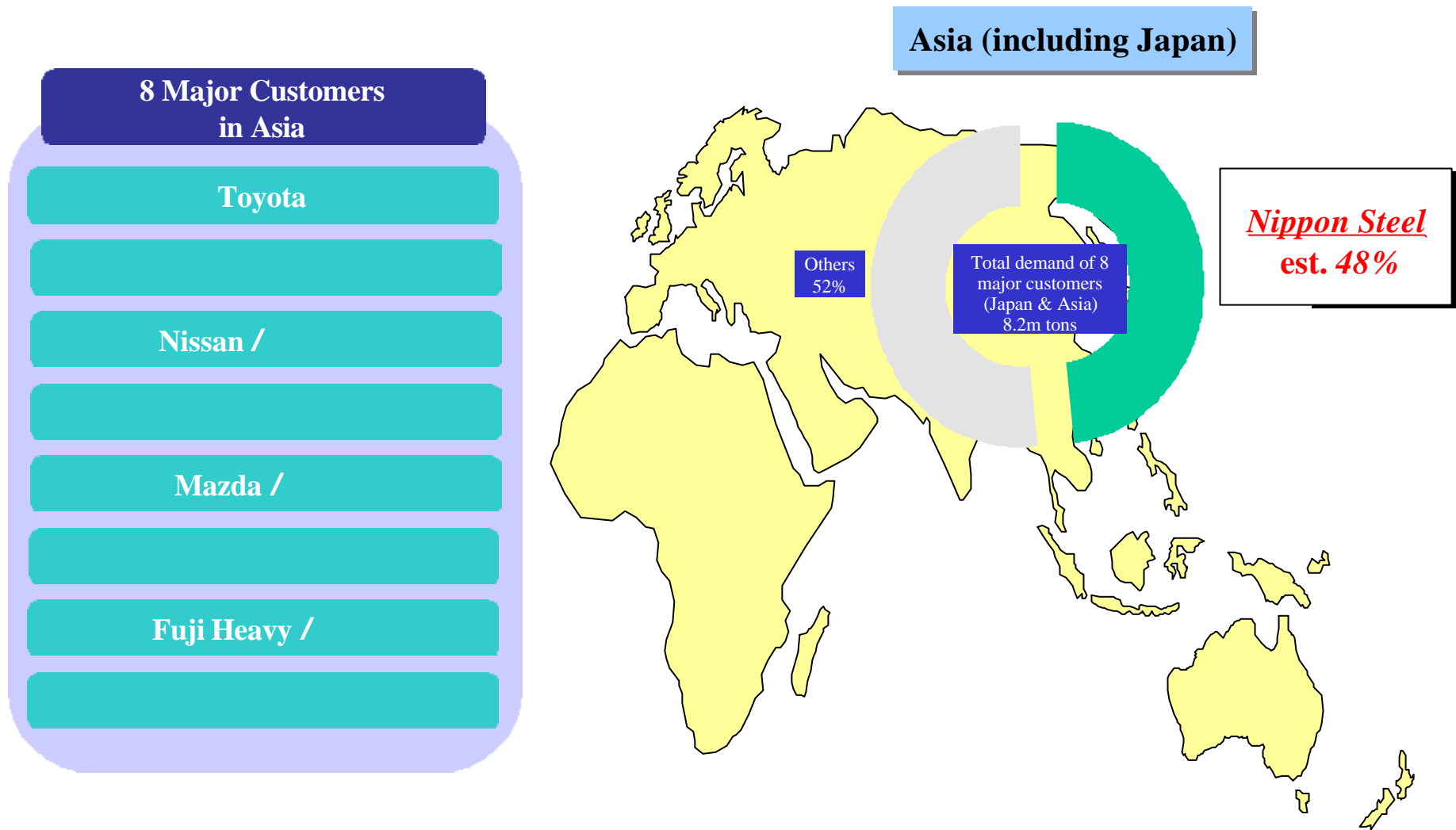


Source: Japan Iron and Steel Federation steel statistics, Nippon Steel estimates

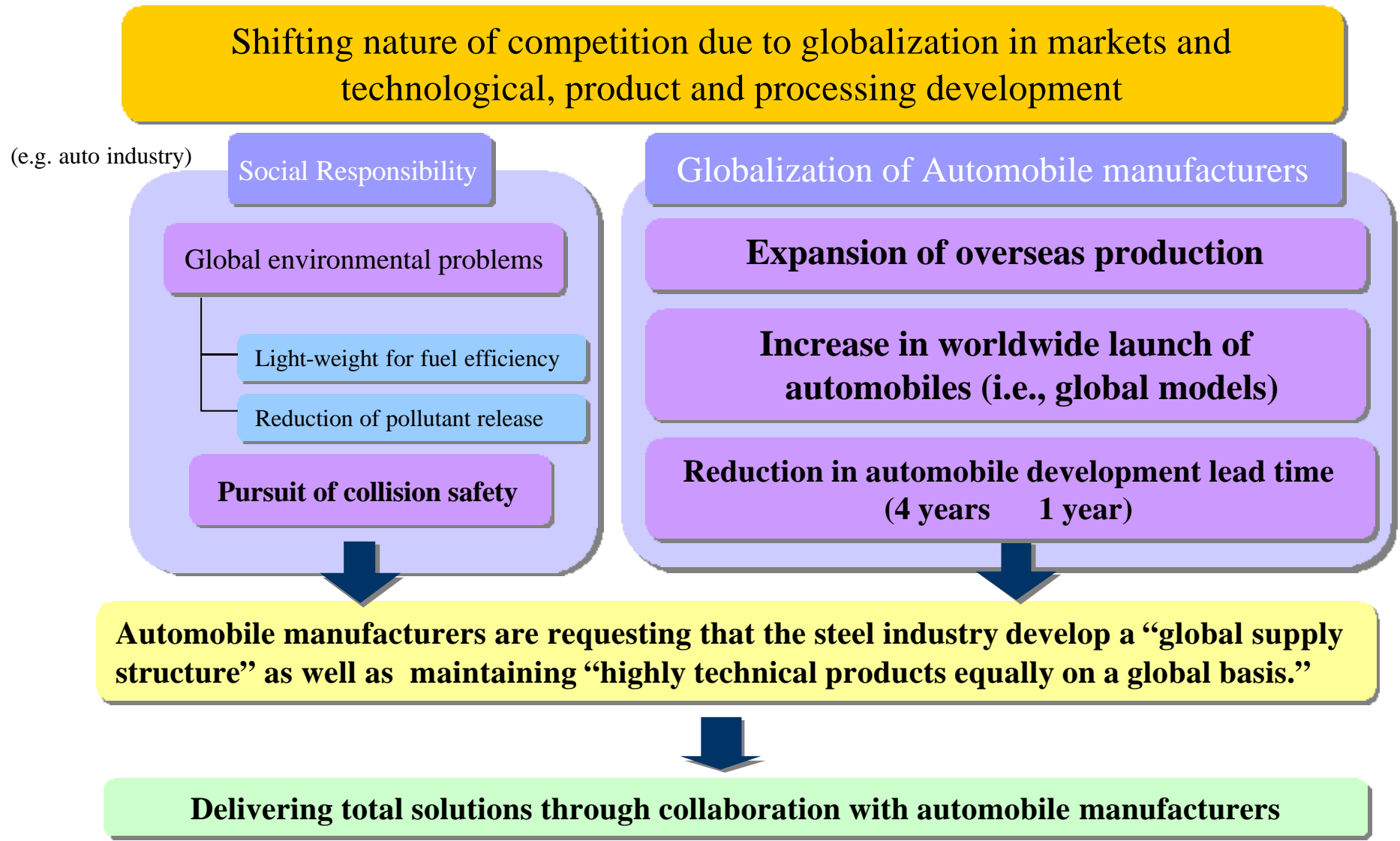
Top Market Share for High Value-added Products



Nippon Steel's Market Share for Automotive Flat Steel in Asia



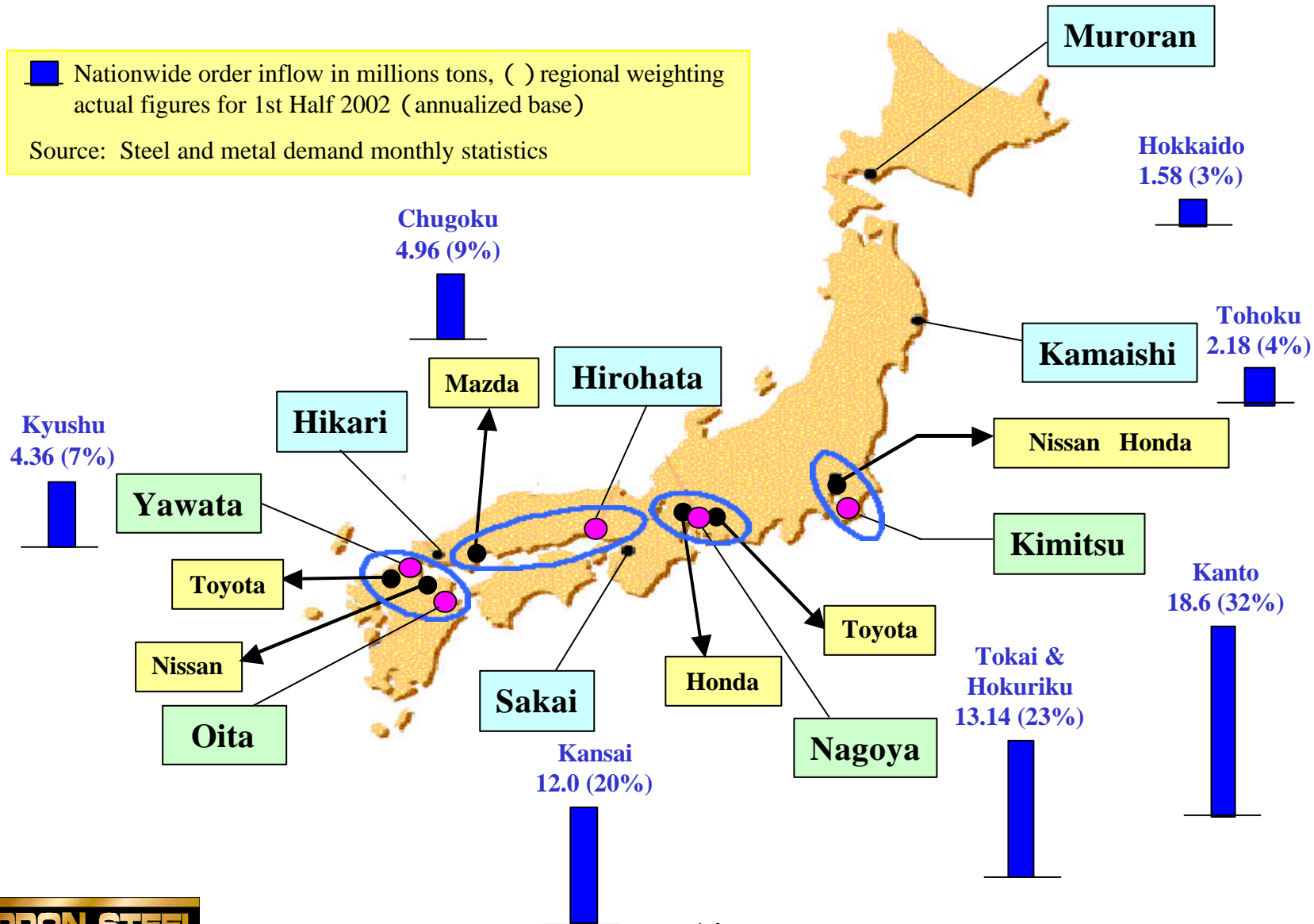
Meeting the Needs of an Ever Changing Competitive Environment/Customer Requirements



“Close-to-Customer” Capacities Promptly Responding to Needs such as “Just-in-Time” Production

■ Nationwide order inflow in millions tons, () regional weighting actual figures for 1st Half 2002 (annualized base)

Source: Steel and metal demand monthly statistics



I. - Key Issues and Strategies

Key Issues & Strategies for Nippon Steel

Issues

Domestic

- **Improvement of market condition**
 - Optimal utilization of each alliance partners' facilities
- **Reorganizing cost structure**
 - Enhancing operating cashflow / blast furnace capacity
- **Meeting the increasingly demanding customer needs**

Overseas

- **Supporting overseas operations of major domestic customers**
- **Capitalizing on the growing Chinese market**
- **Improving international cost competitiveness**

Strategies

Alliance

Domestic: Sumitomo Metals Industries, Kobe Steel, Aichi Steel, Mitsubishi Muroran Steel, Nakayama Steel Works, Sumitomo Electric Industries

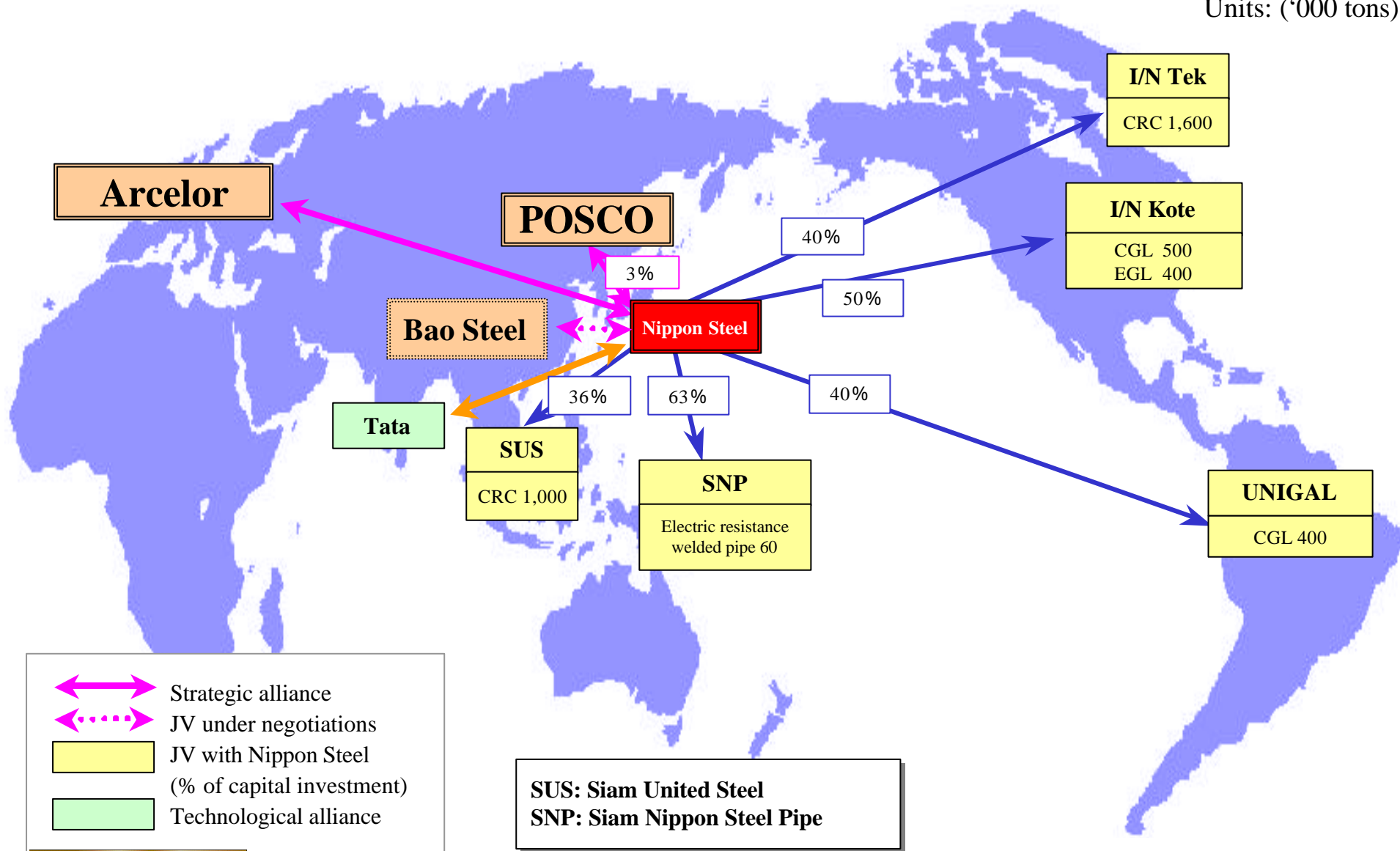
Overseas: Arcelor, POSCO

Nippon Steel

- **Improvement in Profitability**
 - Alleviate capacity constraints at blast furnaces by introduction of thin walls
 - Product mix improvement due to higher value-added products and cost reduction of commodity products
- **Responding to Customer Needs**
 - Prompt response by having mills close to customer locations
 - Joint product development with customers
- **Harnessing growth momentum of the Asian market**
 - Investing in local companies and expanding exports

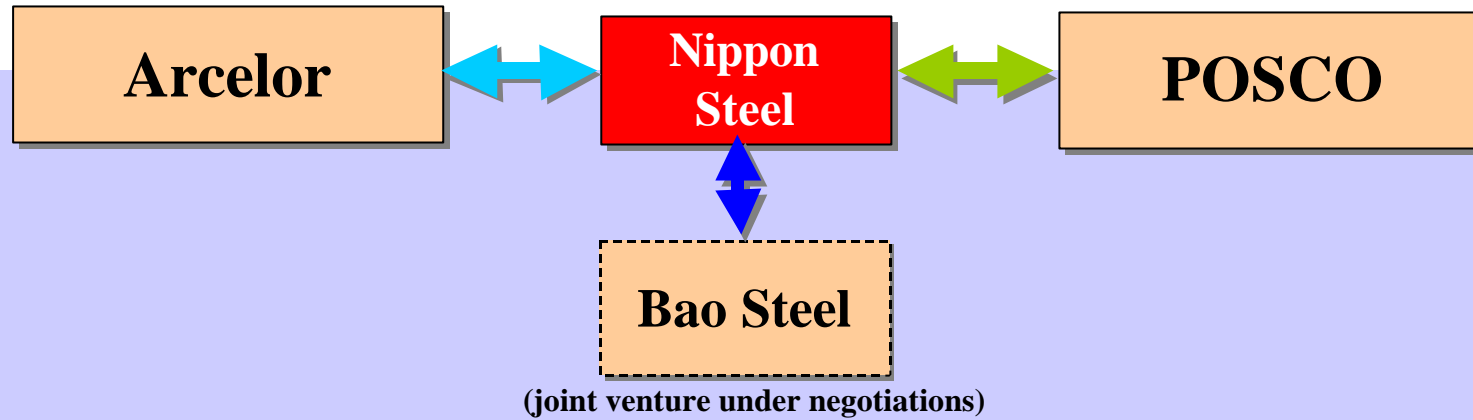
Global Alliance Network: Overseas Alliance Partners

Units: ('000 tons)



Note: Thin steel sheets for automobile use

Objectives of Strategic Alliances with Overseas Partners



• Global Standardization of Technology

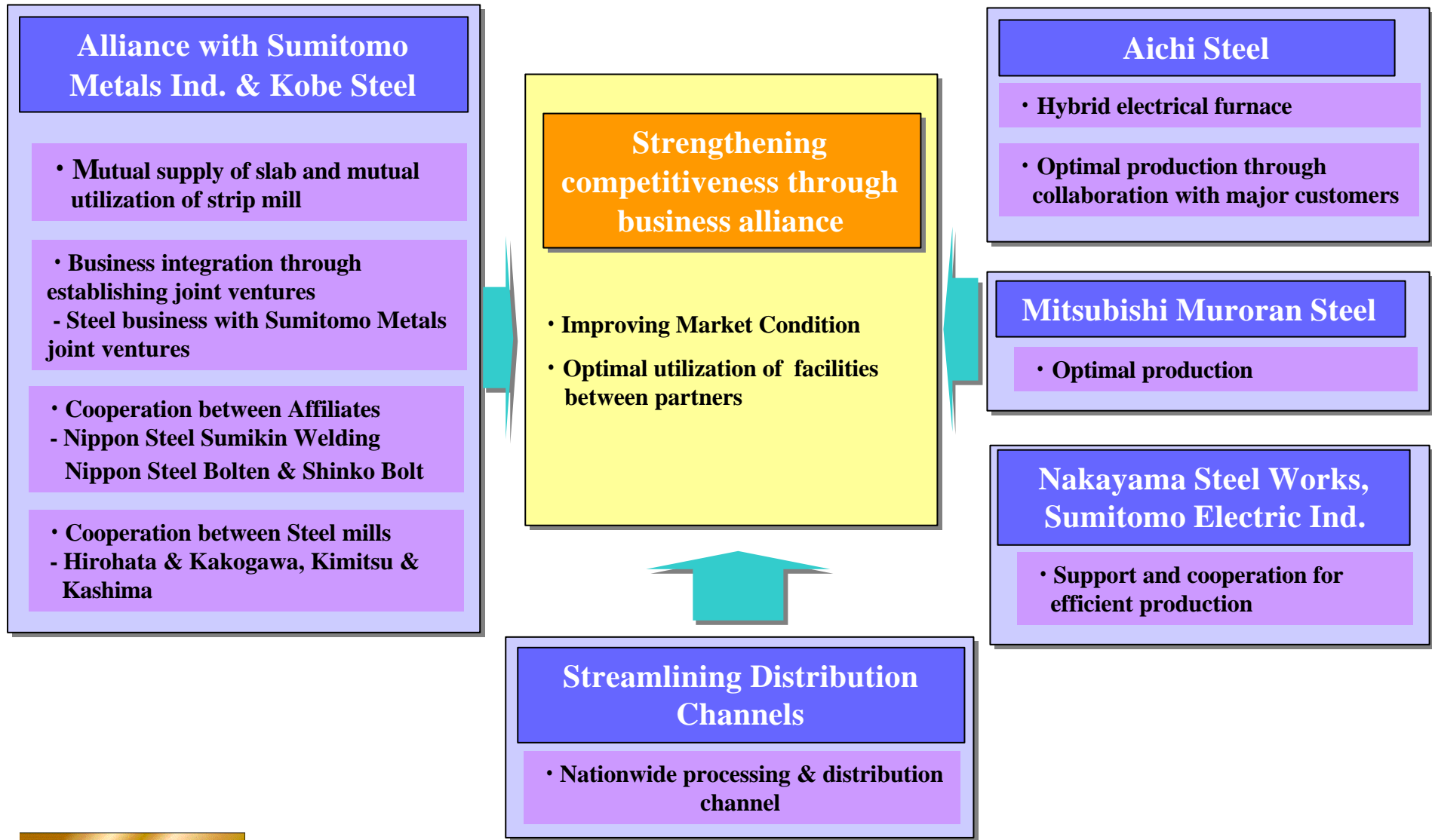
- Supporting overseas operations of domestic automobile makers

- Joint Research Arcelor: steel sheets for automobiles
 POSCO: technology for steel processing




• Establishing close relationships with leading overseas steel makers

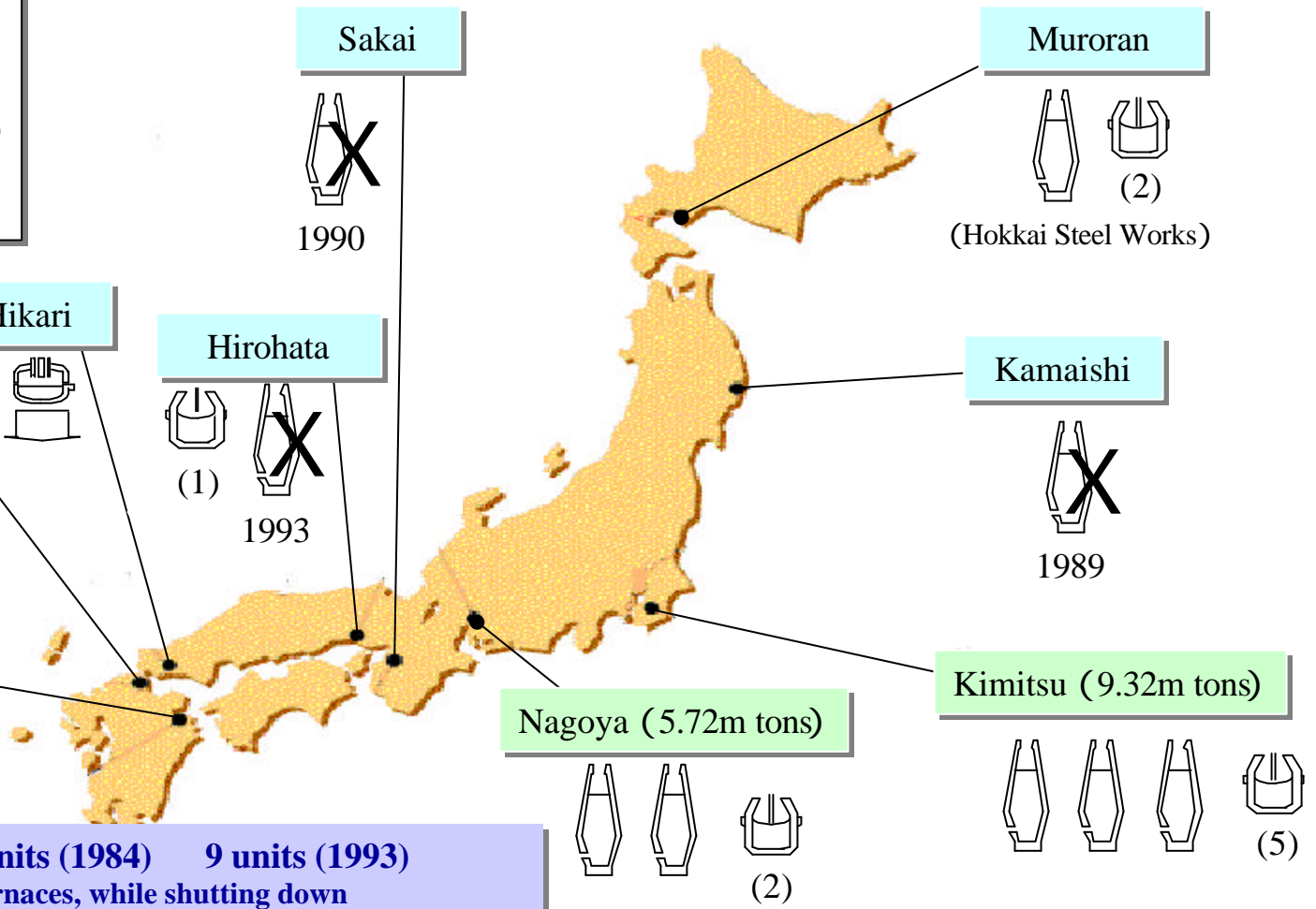
• Harnessing growth momentum of the Asian (China) market

Strategic Alliance with Domestic Partners



Domestic Steelmaking Facilities: History of Rationalization

 Blast furnace
 Basic oxygen furnace
 (number of furnaces)
 Electric furnace



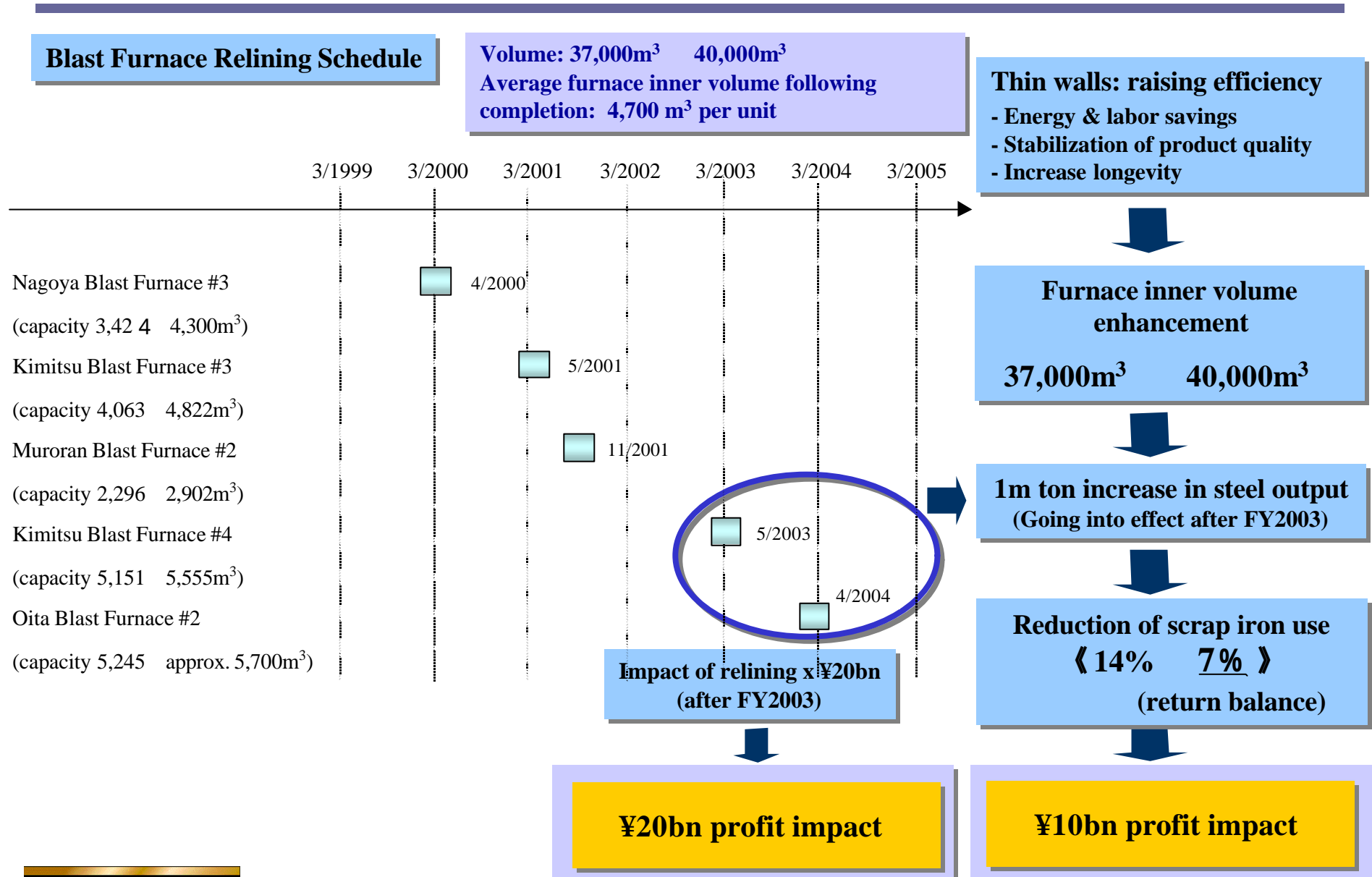
Total blast furnaces: 13 units (1984) 9 units (1993)
 - shifting to large-volume furnaces, while shutting down small-volume furnaces

Total blast furnace volume: 44,000m³ 37,000m³
Average inner volume: 4,400m³ per unit

() () crude steel output as of 1st Half FY2002 (annualized)
 × scrapped blast furnace and year



Expansion of Blast Furnace Inner Volume Contributing to High Efficiency



II. Medium-Term Financial Goals (FY2003 - FY2005)

Medium-Term Financial Goals: Key Highlights

- Increase overall recurring profit mainly from improvements in steel business

- From ¥68bn in FY2002 to ¥250bn in FY2005 (improvements in steel business : ¥180bn)

- Reduce overall assets and leverage while strengthening equity base

- Reducing total interest-bearing debt from ¥1,871bn in FY2002 to ¥1,600bn in FY2005
- Resulting in decreasing debt/equity ratio from 2.4x in FY2002 to 1.6x in FY2005
- Reducing total assets from ¥3,757bn in FY2002 to ¥3,700bn in FY2005

- Thus, increasing Return-On-Sales (ROS) and Return-On-Assets (ROA)

- Tight control over capital expenditure vis-à-vis depreciation

Medium-Term Financial Goals: Assumptions & Financial Targets

< Consolidated >	FY2002	FY2005(E)	Change	FY2003(E)
Recurring Profit	¥68bn	¥250bn	+ ¥181bn	¥140bn
Return on Sales (RP/Sales)	2.5%	9%	+6.5% points	
Return on Assets ¹	2.6%	9%	+6.4% points	
Total Assets	¥3,757bn	¥3,700bn	- ¥57bn	
Total Interest-bearing Debt	¥1,871bn	¥1,600bn	- ¥271bn	¥1,800bn
Shareholders' Equity	¥789bn	¥1,000bn	+ ¥211bn	
Number of Employees	47,200	44,600	- 2,600	
< Assumptions >				
Crude Steel Output (²)	29.9m tons	29 m tons		
Sales	¥2,749bn	¥2,900bn		
Export Ratio (²)	32%	34%		
Foreign Exchange Rate	¥122 / \$	¥ 110 / \$		
Interest Rate (TIBOR)	0.1 %	2 %		

Medium-Term Financial Goals: Details of Profit Improvement

Key profit improvement driver: steel business



Improvement in Steel Business : ¥180bn (excludes alliance effects)

Impact on Ordinary Profit

Pricing & product mix	+ ¥30bn	<ul style="list-style-type: none"> Improved pricing Better product mix - shifting to more value-added products
Foreign exchange rate	- ¥10bn	
Cost reductions*	+ ¥130bn	<ul style="list-style-type: none"> Effects of relining of blast furnaces: ¥30bn (reduction of scrap usage: ¥10bn) (elimination of temporary suspension problems i.e. HMR & inventories: ¥20bn) Procurement cost (e.g., raw materials) : ¥30bn Labor productivity (10% improvement) : ¥20bn Depreciation: ¥15bn Others (improved yield rates and unit productivity) : ¥35bn
Group companies	+ ¥30bn	<ul style="list-style-type: none"> Integration effects (Nippon Steel Sumikin Stainless Steel, etc.) Operational improvements (overseas subsidiaries, etc.)

*¥220bn in actual total cost reductions achieved in 3 years (¥60bn in FY2000, ¥80bn in FY 2001 & ¥80bn in FY2002)

Medium-Term Financial Goals: Cash Flow Target

Generating FCF for enhancing balance sheet and international competitiveness

Cash Flow Target	3-year cumulative total
Recurring Profit	¥580bn
Capital expenditure (cash out)	- ¥430bn
Depreciation	¥560bn
Net proceeds from capital outlay	¥130bn
Investing & financing activities	- ¥80bn
Effects of asset reduction	¥80bn
Corporate taxes, dividends & others	- ¥350bn
Consolidated Cash Flow	¥360bn