

## Nippon Steel's Medium-Term Consolidated Business Plan (FY2006 through FY2008)

- Striving for sustainable profit growth by reinforcing the competitiveness of its business segments through the enhancement of its technological edge and the reforming of its consolidated management system. -

Under its current medium-term consolidated business plan (FY 2003 through FY 2005), Nippon Steel has been implementing:

- Substantial improvements of its financial structure;
- Completion of selection and concentration of its business segment, and enhancement of overall efficiency; and
- Investment decision aimed at improving both quality and capacity in high value-added market segments that will bring future profit growth in its steel business.

Nippon Steel hereby announces its medium-term consolidated business plan for the period covering FY2006 through FY2008, the main points of which are as outlined below.

### Consolidated Business Plan Targets

#### (1) Consolidated Financial Targets

(Unit: billion yen/year)

	Target for FY2008	Projection for FY2005*1	Current mid-term Plan for FY2005
Net Sales	Approx. ¥4,200	¥4,000	Approx. ¥2,900
Ordinary Profit (ROS)	¥500 or more (12%)	¥440 *2 (11%)	Approx. ¥250 (Approx. 9%)
Net income (EPS)	¥300 or more (44 yen or more per share)	¥260 (38yen per share)	
Interest bearing debt	¥1,000 or less	¥1,110	Approx. ¥1,600
Debt Equity ratio	0.5 or less	0.74	Approx. 1.6

\*1 The projection for the second half of FY2005, disregarding the effects of extraordinary factors, converted to an annual basis.

\*2 1) Consolidated ordinary profit projected for the second half of FY2005(announced on October 31, 2005)    ¥200 billion  
 2) Effects of extraordinary factors    ¥ 20 billion

- Concentrated incurrence of costs of asset disposal/equipment scrapping    ¥15 billion
- Adjustment of domestic inventory of flat steel sheet, etc.    ¥ 5 billion

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1) + 2) Adjusted projection of consolidated ordinary profit for the second half of FY2005    ¥220 billion  
 Annual base FY2005    ¥440 billion

(2) Capital Expenditure and Investing and Financing ( ): Depreciation (Unit: billion yen)

	Plan for FY2006 through FY2008	Estimate for FY2003 through FY2005
Cumulative total	Approx.850 (Approx.630)	Approx.635 (Approx.550)

- With this medium-term plan, Nippon Steel shall aim to achieve both adequate investment for profit growth and further improvement of the overall financial structure.
- Nippon Steel shall maintain its dividend policy based on financial result (Non-consolidated payout ratio: 20% to 30%, Consolidated payout ratio: 15% to 20%).

## I. Profit growth through enhancement of technological edge

### 1. Policy on steel business

Nippon Steel shall reinforce its technological and manufacturing strengths through the continued enhancement of its superior “technological edge”\*with the aim of being the global No. 1 supplier focusing on medium-high grade steels.

\* “Technological edge” means the advanced and differentiated position of our ability to develop new products and processes, manufacturing capability, cost competitiveness, equipment technology, etc.

#### 1) Positively and consistently meeting the demand for steel products with a focus on medium-high grade steels through enhanced capabilities to respond to customer needs

- (1) Amid the polarization of the global steel supply and demand structure (medium-high grade steels vs. general-purpose steels), Nippon Steel shall strive to meet the demand positively and consistently for medium-high grade steels in the industries such as manufacturing and resources/energy where demand for steel products is expected to expand globally. To achieve this objective, the Company shall pursue to produce highly value-added products that respond to customer needs, propose total solutions to the customers, and keep non-price competitiveness such as product quality, delivery period, etc.
- (2) In terms of general-purpose steels, the Company shall strive to supply them on a stable basis to meet increasing demand mainly in Asia while maintaining harmony with the industrial policies of the countries concerned, and thereby strengthen the Company’s presence in the market.

#### 2) Reinforcing and expanding Nippon Steel’s technological and manufacturing strengths to meet the steel demand positively and consistently

- (1) By enhancing its technological edge, Nippon Steel shall strengthen its capability to develop highly value-added products and processes, to manufacture high-quality steel products, to make best use of low-grade raw materials, to take effective environmental measures (e.g., zero emission of pollutants), and to adapt to business environmental changes.
- (2) In terms of capacity enhancement, the Company shall reinforce its competitiveness in the iron and steelmaking process and its integrated manufacturing capability for medium-high grade steels from upstream to the finishing lines, through the relining of extra large-scale blast furnaces, the installation of

new-type coke ovens and other investments mainly at Nagoya, Oita and Kimitsu Works in and after FY2006. In so doing, the Company shall seek to enhance its ability to cope with the fluctuation in demand in terms of its production capacity, product quality and operating cost.

- (3) To cope with the price hike of raw materials, the Company shall strive to further improve its operational technology to utilize low-grade raw materials.

### **3) Reinforcing the business basis to spur further advances**

- (1) Nippon Steel shall continue to enhance its comprehensive cost competitiveness through its technological strengths.

- (2) The Company has been renovating and refreshing its key facilities regularly. The Company shall further renovate and refresh its key facilities extensively in order to gain sustainable profit growth and to secure the soundness and advantages of its facilities.

In so doing, the Company shall introduce the most advanced equipment technology and pursue improvement of capacity, quality, and cost, etc. comprehensively, so as to increase the advantage of its own facilities against other new facilities in Asia.

- (3) Given the tight supply-demand position of raw materials, the Company shall seek to secure stable raw material supply under long-term arrangements, which include investment in mines.
- (4) In addition, the Company shall press on with the rebuilding of its technological and manufacturing strengths at production sites, the improvement and maintenance of its electronic information system, and the implementation of measures of environment protection and disaster prevention.

### **4) Implementation of measures to strengthen our total profitability and financial structure with group companies**

Other group companies in our steel business segment that share the same approach and the same investment strategy especially for medium-high grade steels shall make concerted efforts to strengthen the total profitability and financial structure.

In particular, the overseas group companies shall strive to secure profits by, responding to the market for medium-high grade steel market mainly for automotive use where the demand is expected to expand.

### **5) Strengthening alliance**

Nippon Steel shall strengthen its alliance with companies at home and abroad, specifically Sumitomo Metal Industries, Ltd., Kobe Steel, Ltd., POSCO and Arcelor, with which it has entered into a strategic alliance agreement respectively, and pursue further mutual benefits among these allies by deepening alliance activities.

In other business segments, each business segment subsidiary shall strive to increase the profitability and strengthen the financial structure and establish its presence in the respective markets by developing new products and services based on the technological edge and deploying a customer solution marketing.

## **2. Nippon Steel Engineering Corporation (provisional name)**

- (1) With an emphasis placed on the four business fields where demand is regaining momentum (Steel plants, Environmental engineering, Marine construction / energy facilities, and civil construction / building construction / steel structures), the company, as a comprehensive engineering company which has complex business fields, shall contribute to the development of society, industry, and urban infrastructures.
- (2) The company shall strive to appropriately meet increasingly diverse social needs by refining its original technologies and products, utilizing its technology to differentiate itself from the competition, and deploying a customer solution marketing.
- (3) The company shall manage its public business segment with particular importance on compliance with laws. In terms of bridge and pipeline (for domestic energy and water supply sectors) business, the company shall review its business structure with an emphasis on the characteristics and profitability of the business.

## **3. Nippon Steel City Produce, Inc.**

- (1) Aiming to develop urban areas with due consideration for the environment and localities, the company shall strive for integrated activities from the development of land to the operation, maintenance and management of developed areas. Through these activities, the company shall become the “business enterprise that adds value to areas” which can maximize the value of specific areas.
- (2) The company shall expand and reinforce its asset value regeneration business, including the redevelopment of urban areas and the rebuilding of condominiums, to maximize the value of real estate property.
- (3) The company shall serve to sell and effectively utilize the real estate property owned by Nippon Steel and its subsidiaries and affiliates.

## **4. Nippon Steel Chemical Co., Ltd.**

- (1) Aiming to contribute to society and the environment with its original and advanced chemical technology, the company shall strive to enhance the competitiveness of its core businesses (coal chemicals and carbon materials, aromatic chemicals, electronic materials).
- (2) The company shall strive to further expand its coal-based chemical business, which is already the largest in Japan.
- (3) In addition, the company shall focus on fostering and reinforcing its electronic materials business. Concerning the CCL (adhesive-free Copper Clad Laminate; ‘ESPANEX’) business, in particular, the company shall strive to maintain and further expand its market share, which is the largest in the world.

## **5. Nippon Steel Materials Corporation (provisional name)**

- (1) By supplying original materials and components, mainly to the growing electronics industry, the company shall seek to meet diverse customer needs as a unique manufacturer of materials and components with substantial shares in niche markets.
- (2) With the environment/energy business as one of its strategic fields, the company shall develop the seeds of technology accumulated through R&D activities of Nippon Steel into marketable new products.

## **6. System solution segment (NS Solutions Corporation)**

- (1) Aiming to maintain its profitability – already the highest level in the industry – and to steadily expand its business, the company shall press ahead with its strategy of differentiation with SLC (system life cycle) total solutions at the core.
- (2) Through coordination between its steel-related business and other business, the company shall contribute to the reinforcement of the competitiveness of steel business by means of Information Technology.

## **II. Reforming of the organization to promote consolidated management**

Ever since its foundation, Nippon Steel has continually renovated its organization for consolidated management to successfully respond to changes in the business climate. In the steel business segment, in particular, following the economic recession caused by a marked appreciation of the Japanese yen and the collapse of Japan's "bubble economy", the Company shut down surplus production facilities, undertook a critical review of its production structure and drastically cut costs.

The Company has also consolidated its other business segments into the following five segments to improve the efficiency of its organization for business promotion.

Specifically, three businesses - Urban development, System solutions and Chemicals - have been managed by the separated subsidiaries, while the other two businesses - Engineering and construction and New materials - have been managed by the divisions independently within the Company.

As a result of the above efforts and due to increased global demand, the Company has been able to restore its profitability and improve its financial structure to an appreciable extent and to solidify the foundations for its organization to satisfactorily promote consolidated management.

In view of the ongoing globalization of local economies and the increasingly intense market competition involving increasing M&A activities, in the FY2006-2008 consolidated business plan, the Company shall improve and reform its organization to promote consolidated management as described below in order to make it still more resilient.

With July 2006 as the current deadline, the Company plans to transfer each of Engineering and construction and New materials businesses respectively to what will be a newly established subsidiary. At the same time, the Company will build a new management organization in order to promote six business segments (Steel, Engineering and construction, Urban development, Chemicals, New materials, and System solutions) independently yet concurrently and enable them to achieve self-sustaining development.

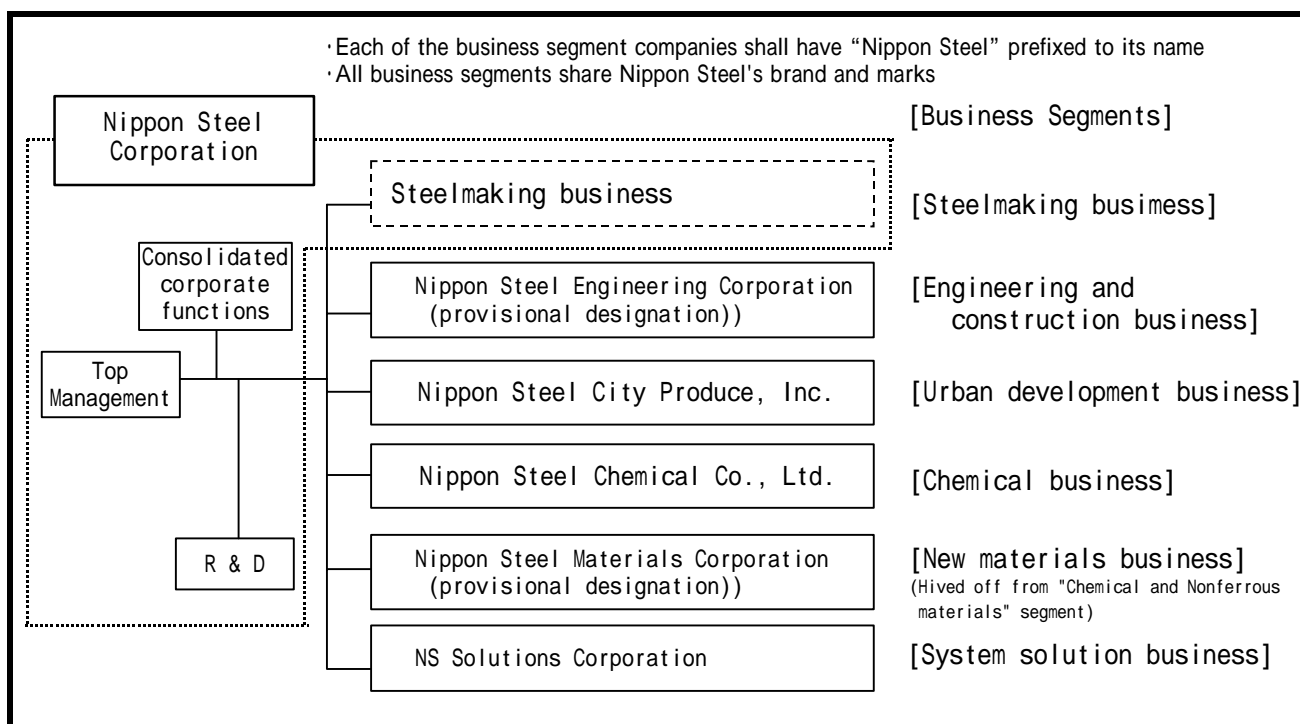
By so doing, the Company intends to enable the respective subsidiaries to implement highly responsive and flexible management adapted to the characteristics of their respective business to meet their customer needs.

Through all above, the respective segments shall achieve profit growth and enhance the value of Nippon Steel as a group.

The consolidated corporate functions, including the top management, will be within Nippon Steel Corporation in order to secure the efficiency and effectiveness of those functions. Nippon Steel Corporation will serve as the holding company of other five business segments which will also continue to operate steel business.

The individual business segments are to share the business strategies of Nippon Steel and are designed to maximize the Group's synergy through joint utilization of the R&D functions, etc. vested in the holding company.

[ Figure of New Management structure ]



### Activities to demonstrate Nippon Steel as a responsible member of society

By implementing the above measures, Nippon Steel shall rebuild the competitiveness of its individual business segments. At the same time, the Company shall contribute to the development of a resource recycling-oriented society through promotion of zero emissions, development of new environment-friendly products, etc., help to curb global warming by saving of energy and reduction of CO<sub>2</sub> emissions, and strictly enforce compliance with laws. All these activities are intended to demonstrate the Company's emergence as a business enterprise trusted absolutely by both society and the markets.

In addition, in accordance with its corporate philosophy, the Company shall strive to further enhance the value of the Nippon Steel brand by having the individual business segments make concerted efforts to attain the Group's objectives while adapting themselves to their own business circumstances.

For more informations, Please contact,

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Reference: Key Financial Targets

1. Consolidated financial targets

(Unit: billion yen)

	Target for FY2008	Projection for FY2005
Net Sales	4,200	4,000
Operating Profit (Sales-to-Operating profit ratio)	540 or more (13%)	460 (12%)
Ordinary profit (Sales-to-Ordinary profit ratio)	500 or more (12%)	440 (11%)
Net income (EPS)	300 or more (44 yen or more per share)	260 (38 yen per share)
Return on Assets (ROA)	12%	11%
Interest bearing debt	1,000 or less	1,110
Shareholder's Equity	2,000 or more	1,500
Debt Equity ratio	0.5 or less	0.74

2. Earnings target by segment

(Unit: billion yen)

	Target for FY2008			Projection for FY2005		
	Net Sales	Operating Profit	Sales to Operating profit ratio	Net Sales	Operating Profit	Sales to Operating profit ratio
Consolidated Total	4,200	540	13%	4,000	460	12%
Steel *3	3,400	480	14%	3,300	410	12%
Engineering & Construction	350	13	4%	300	9	3%
Urban development	100	10	10%	103	10	10%
Chemical *3	290	26	9%	300	21	7%
New materials *3	60	5	8%	50	3	6%
System solution	170	15	9%	150	12	8%

\*3 Changes made to business classification: Concerning "Chemical and nonferrous materials" business, "Chemical" and "New materials" will be made into independent segment, titanium and aluminum business will transfer to Steel business.; "Service and Others" business will transfer to steel business

### 3. Breakdown of operating profit improvement plan for Steel business

(Unit: billion yen)

	Difference	Contents
Consolidated Total	70	FY2005 estimate <u>¥410billion yen</u> FY2008 <u>¥480billion yen</u>
1. High-grade steel	80	Response to increased demand and enhancement of value added
2. General purpose steel	50	Fluctuations of market and demand
3. Cost reductions	90	<ul style="list-style-type: none"> <li>· Improvement of technology for utilizing inexpensive low-grade raw materials</li> <li>· Further energy savings effects</li> <li>· Renewals of production facilities, etc.</li> </ul>
4. Others	50	<ul style="list-style-type: none"> <li>· Cost of reinforcing manufacturing infrastructure (depreciation cost, etc.)</li> <li>· Effect of relining of blast furnaces, etc.</li> </ul>
5. Group companies	~	<ul style="list-style-type: none"> <li>· Effect of start-up of J/V overseas</li> <li>· Supply-demand situations for stainless steel, public civil engineering works, etc.</li> </ul>

It is assumed that even if raw material price rise, these effects on earnings would be offset by increased steel product prices.

### 4. Consolidated Cash Flow Plan (for three years FY2006 through FY2008)

(Unit: billion yen)

	Plan for FY2006 through FY2008	Contents	Estimate for FY2003 through FY2005
Operating Cash Flow (before taxes)	1,700	Depreciation 630	147 (Depreciation 550)
Tax payment, etc.	570		295
Capex, investing & financing	850	Capital expenditure 700	635
Dividends	130	Payout ratio; Non-consolidated 20 ~ 30%, Consolidated 15 ~ 20%	54
Reduction of Interest bearing debt	150		762
Assets reduction	~		276 *4

\*4 including liquidation of housing loans; 116 billion yen