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Nippon Steel & Sumitomo Metal Corporation

NSSMC Announces Mid-Term Management Plan
Aiming to Become the "Best Steelmaker with World-Leading Capabilities"

Competition in the East Asian market, where Nippon Steel & Sumitomo Metal Corporation ("NSSMC") mainly operates, is expected to intensify. While the global steel demand is forecast to grow at a modest rate, newly constructed steelworks are scheduled to begin operation in South China and the ASEAN region in the first half of 2015, and Japan's domestic steel demand is likely to stay at around 60 million tons per year.

To respond to the business environment as described above and to become at an early stage the "Best Steelmaker with World-Leading Capabilities", a company with higher standards in all areas including scale, cost, technology and customer service, the NSSMC Group has developed the Mid-Term Management Plan (the "Plan"). The Plan sets forth the NSSMC Group's management policy from fiscal year 2013 for a period of approximately three years.

The Plan is aimed at **building an organization with world-leading competitive strength by 2015**, when newly emerging steel mills in East Asia are expected to go into full-scale operation, through the early realization of maximum synergies made available uniquely to NSSMC by the business integration of the former Nippon Steel Corporation and the former Sumitomo Metal Industries, Ltd. (the "Business Integration") in terms of technology and cost and on a global basis. **We will aim to win the intensifying competition and achieve sustained growth in profits**.

The outline of the Plan is as follows:

Outline of the Mid-Term Management Plan

We are determined to mobilize the resources of the Group to aggressively implement initiatives to become the "Best Steelmaker with World-Leading Capabilities" at an early stage.

1. Steel Business: Five key initiatives

(1) Enhancing our technological superiority

Through integration of manufacturing technology, product technology, and R&D capabilities

by way of the Business Integration, we will further enhance our industry-leading technologies with the world's largest team of 800 skilled researchers. We will strive to lead the world through our actions, including (i) achieving significant advances in productivity through innovation in production processes, (ii) developing high-functioning products in growing sectors such as the automotive, resource and energy and overseas infrastructure-related sectors, and (iii) delivering comprehensive solutions to our customers.

Moreover, we will respond to the evolving needs of customers and the society through proactive efforts in research on next-generation materials for hydrogen and other clean energy sectors as well as in the research on elemental and basic technologies using advanced analysis and mathematical techniques.

Utilization of such technological leadership will be the key driver supporting all the initiatives in the Plan, including cost improvement, the business strategy of each product unit, the global strategy and the unity of the Group's strengths.

(2) Building the world-leading cost competitiveness to win the global competition

We will aim to realize synergies of 200 billion yen per year or more in approximately three years. Following the Business Integration in October 2012, we have initiated concrete measures toward that end, with positive results. We plan to implement further measures at an early stage to realize maximum effect and at the same time strive to recognize further incremental efficiencies. We will also continue to make efforts at cost reduction, with a view to building the world-leading cost competitiveness to win the global competition.
(Please refer to Exhibit for the details of the targeted synergies.)

(3) Optimizing production network by rationalization of iron-making, steelmaking and rolling facilities

With a view to drastically strengthening cost competitiveness on a global basis by establishing the optimal production network through efficient combination of the manufacturing capacities and advanced operational technology capabilities of the former companies, the following will be implemented:

1) Iron- and steelmaking

With due consideration for measures to be taken with respect to the rolling process, we aim to achieve the following: i) each steelworks to be fully utilized through each stage of production from pig iron production, steel-making and hot-rolling; ii) high productivity at

lower fixed costs through maximum efforts including pursuit of higher pig iron ratio; and iii) low cost operation by use of lower-grade raw materials and other means to reduce variable costs.

(A) Kimitsu Works

(a) Shift to two-blast-furnace operation (No. 3 blast furnace to cease operation) (around the end of fiscal year 2015)

(b) Streamlining of No.1 steelmaking plant

a) No. 5 continuous caster to cease operation (around the first half of fiscal year 2014)

b) Shift to one-basic-oxygen-furnace operation (one basic-oxygen-furnace to cease operation) (around the first quarter of fiscal year 2016)

(B) Wakayama Works

Postponement of operation of the new No. 2 blast furnace (two-blast-furnace operation with No. l and No. 5 blast furnaces to continue)

2) Rolling-related equipment (cessation of operation and shift-down)

We aim to secure our total capacity and at the same time enhance our total competitiveness in terms of cost, quality, timely delivery and other factors by taking the following measures: i) enhancement of efficiency of production lines with competitiveness by combining technologies of the former companies and establishment of the optimal production network of domestic production bases in each region, ii) expansion of overseas production lines by advancing our global strategy, and iii) cessation of operation of production lines which are relatively less competitive.

Rolling-related equipment to cease operation or shift down

Type of product	Steelworks	Line	Approximate schedule
Flat Products	Kashima	No. 2 continuous pickling line	End of the 4th quarter of fiscal year 2014
		No. 1 cold strip mill	
		No. 1 continuous annealing line	
		Batch annealing line	
		No. 1 continuous galvanizing line	
		No. 2 electrolytic galvanizing line	
	Wakayama	No. 3 pickling line	End of the 1st quarter

		No. 1 cold strip mill	of fiscal year 2014
		Continuous hot-dip galvanizing line	
		Annealing continuous line (electrical steel sheets) (Production of high-carbon steel sheets will continue.)	
	Nagoya	No. 4 continuous hot-dip galvanizing line	End of the 1st quarter of fiscal year 2013
		Electro-galvanizing line	End of the 4th quarter of fiscal year 2014
	Kimitsu	No. 1 continuous annealing and processing line	End of the 4th quarter of fiscal year 2014
Plates	Kashima	Rolling – Shift-down	2nd quarter of fiscal year 2013
	Kimitsu	Rolling – Shift-down	2nd quarter of fiscal year 2013
Pipes and tubes	Kimitsu	Butt welded pipe line	End of the 4th quarter of fiscal year 2013

(Note) Major cessation of operation and shift-downs before the Business Integration in 2011 and 2012 (implemented at the sole initiative of each of the former companies)

Type of product	Steelworks	Line	Timing
Flat Products	Nagoya	No. 3 continuous hot-dip galvanizing line	March 2012
		No. 2 batch annealing line	March 2011
	Kimitsu	No. 2 continuous hot-dip galvanizing line	March 2012
		No. 1 electro-galvanizing line	March 2012
	Kashima	No. 1 electro-galvanizing line	March 2012
	Yawata	No. 3 electro-galvanizing line	July 2011
Plates	Nagoya	Rolling – Shift-down	Since November 2011

(4) Promoting the global strategy

We will pursue the best combination of domestic and overseas resources for production and supply for each product type, leveraging our cost competitiveness and product

competitiveness.

1) In response to increasing worldwide demand for steel, we will focus on expanding and enhancing our supply chain, including overseas manufacturing and processing bases, in order to establish a global network to supply a wide range of products, including flat products, pipes and tubes, construction products, bars and wire rods, and railway, automotive and machinery parts, in particular with respect to the following three strategic sectors:

i) High-grade steel sector including the automotive industry
ii) Resources and energy sector
iii) Infrastructure-related sector including railway, construction and civil engineering

(Note) Major projects recently announced

	Country	**Sector**	**Production capacity (thousand tons per year)**	**Start-up/ Planned start-up**
TENIGAL, S. de R. L. de C. V.	Mexico	Automotive	400	July 2013
Nippon Steel Galvanizing (Thailand) Co., Ltd	Thailand	Automotive	360	October 2013
Jamshedpur Continuous Annealing & Processing Company Private Limited	India	Automotive	600	January 2014
NIPPON STEEL PIPE MEXICO, S. A. DE C. V.	Mexico	Automotive	20	June 2013
WISCO-NIPPONSTEEL Tinplate Co., Ltd.	China	Tinplate	800	September 2013
Vallourec & Sumitomo Tubos do Brasil Ltda.	Brazil	Energy	600	September 2011
Southern Tube LLC	U.S.A.	Energy	70	Fiscal year 2015 (target)
NS BlueScope Coated Products	ASEAN/ U.S.A.	Infrastructure	1,400	March 2013
China Steel Sumikin Vietnam Joint Stock Company	Vietnam	Infrastructure	1,200	April 2013

Standard Steel, LLC	U.S.A.	Infrastructure	300 wheels/year	(Acquired in August 2011)

2) By executing the above initiatives, we will sustain or expand our market shares by meeting demand for high-grade steel and at the same time capture growing local demand.

In order to capture local demand, we will take measures including the utilization of the distribution network of the coated products joint venture with BlueScope Steel in Southeast Asia and the U.S.A.

3) We will study measures to promote the establishment of a supply base of steelmaking and hot-rolling steel products in the ASEAN region, with the aim of capturing local demand for middle-grade products and preparing preemptively against the formation of a regional economic bloc.

4) We will continue to maintain our alliances with overseas major steelmakers including ArcelorMittal and POSCO and seek to maximize the benefits from such alliances.

5) We will establish organizational and business management adequate for the globalization of our business, including management of overseas business companies (i.e., regional management, pursuit of thorough low-cost management, etc.), development and allocation of human resources and system development.

(5) Strengthening the group companies of the Steelmaking Business

With a view to realizing synergies from the Business Integration at an early stage, forming a group of companies with a competitive edge and streamlining the management resources on a consolidated basis, companies with redundant functions or companies whose competitiveness would be increased by integration will be consolidated or reorganized. The business integration of group companies in the trading and transportation businesses have already been announced (please refer to the table below). Integration will be considered in other businesses as well.

In addition, we will promote reinforcement and upgrade of the group management by taking measures such as optimization of various functions (i.e., rolling, processing, transportation, etc.) within the Group.

(Note) Major integrations and reorganizations announced to date

	Date of announcement	**Date of integration/ Planned date of integration**
Integration of Sumikin Bussan Corporation and Nippon Steel Trading Co., Ltd. (under consideration)*	February 7, 2013	October 1, 2013
Integration of Nittetsu Shinko Shearing Corporation and Shearing Kozyo, Ltd.	January 18, 2013	April 1, 2013
Business integration of Nippon Steel & Sumikin Precision Forge, Inc. and Nippon Steel & Sumikin Bolten Corporation	November 29, 2012	January 4, 2013
Integration of Nippon Steel Techno Research Co., Ltd. and Sumitomo Metal Technology Co., Ltd.	October 3, 2012	April 1, 2013
Integration of bar & wire processing companies in Thailand	October 2, 2012	January 2, 2013
Integration of Taihei Kogyo Co., Ltd. and Nittetsu Elex Co., Ltd. (Basic agreement regarding the business integration has been executed.)*	September 28, 2012	October 1, 2013
Integration of Nippon Steel Logistics, Ltd. and Sumitomo Metal Logistics Service Co., Ltd.	September 5, 2012	April 1, 2013
Integration of Nippon Steel Pipeline Co., Ltd. and Sumitomo Metal Pipeline and Piping, Ltd.	June 26, 2012	October 1, 2012

* The merger agreement and other relevant matters are expected to be submitted for approval at the general shareholders' meeting to be held by each company, scheduled for June 2013.

2. Policies for the non-steel business segments and maximization of combined Group strength

Each business segment will strive to improve its competitiveness and aim to achieve industry-leading profitability in its operations.

Further, efforts will be made to maximize the synergies of the NSSMC Group by enhancing world-leading products and technologies of the Steelmaking Business and the other four business segments and by strengthening R&D alliances and capability for delivering comprehensive solutions to the customers.

(1) Engineering Business

i) We will aim to maintain and increase our customer orders through reinforced responses to overseas projects and growth sectors, including expanding the energy facilities and environmental solutions businesses (i.e., overseas on-site energy supply business, construction of offshore wind-power generation installations) and enhancing vibration-control and base-isolation devices.

ii) We will move forward with strengthening our capabilities and improving the structure of our business through measures including the reinforcement of technological capability and cost competitiveness and a thorough selective and carefully targeted approach to the marine engineering and construction business.

(2) Chemicals Business

i) We will strive to establish a world-class steelmaking chemicals business by strengthening our manufacturing capabilities and profitability, with a particular focus on high-end carbon materials (e.g. needle coke for graphite electrodes, special carbon materials, etc.).

ii) In the area of functional materials such as printer wiring board (PWB) materials (epoxy resin), circuit substrate materials (ESPANEX), optical and display materials (SILPLUS and others) and organic device materials (organic EL materials, LumiAce), we will thoroughly evaluate the competitiveness of our products and market trends in determining our business policy in order to strengthen profitability by focusing on promising businesses.

(3) New Material Business

Mainly in the electronic materials area (including surface lining EX wire), industrial material area (including carbon fiber) and environmental area (metal carriers used in emission gas purification), we will promote growth strategy by reinforcing overseas production bases (in Indonesia, India and Thailand), utilizing the domestic resource for productivity improvement

and product development, and developing and launching new products including developing applications of materials such as silicon carbide wafers.

(4) System Solution Business

We will aim to achieve industry-leading profitability and sustained business growth by expanding our cloud computing services by use of the advanced data center, and our comprehensive IT outsourcing services, providing global supply chain management system for manufacturing industries and enhancing our capability to service financial institutions, Internet-related companies and other customers for their overseas business development.

3. Balancing financial strengths and growth investments

By building a stable revenue base through implementation of the measures described above and proceeding with the ongoing asset divestitures (targeting approximately 300 billion yen within about three years from the second half of fiscal year 2012), we plan to continue investments (capital expenditures, investments in companies, R&D, etc.) to promote growth strategies and at the same time improve our financial strengths.

We will keep capital expenditures below depreciation expense (approximately 80% of the depreciation amount), inclusive of a framework for strategic investments estimated to be approximately 100 billion yen on an annual basis. However, implementation with respect to particular investments will be evaluated on a case-by-case basis with due consideration for relevant factors including return on investment.

We plan to achieve a debt-to-equity ratio of around 1.0 at an early stage and further target the level sufficient for an international “A” rating status (around 0.8).

4. Promoting organizational and business management

With the aim of becoming a corporate group that continually innovates from within, we will improve organizational and business management in order to be able to respond to the changing business environment more quickly than before through such measures as establishing an efficient business management structure where we will operate primarily through product based units and enhancing coordination among steelworks (Yawata–Kokura, Nagoya–Hirohata, Wakayama–Sakai/Hirohata, etc.).

5. Continuing to be a company with integrity and reliability

(1) We will continue to practice our Corporate Philosophy* and strive to further contribute to

society.

(2) We will continually strive to be a company with integrity and reliability through compliance with laws, regulations and rules and implementation of appropriate risk management in safety, environment and disaster prevention.

* Our Values: “Nippon Steel & Sumitomo Metal Corporation Group will pursue world-leading technologies and manufacturing capabilities, and contribute to society by providing excellent products and services.”

6. Paths toward new growth

Through implementation of the measures outlined above, we will aim to strengthen our competitive position and secure increased profits from our overseas businesses. In so doing, we aim to achieve in the medium- to long-term an increase in cash flows and growth in profitability, with the targeted return on sales (ROS) of approximately 5% at minimum and the further goal of establishing an organization with capability to achieve an ROS of 10%.

Exhibit – Targeted synergies from the Business Integration

Main measures	Approximate annual synergies amount
1. Cost reduction by consolidating technology and R&D of the former companies 1) Pursuit of the best practices for operation and manufacturing technologies (top-runner technologies/know-how) ● Use of lower-grade raw materials, promotion of high efficiency in processes, such as blast furnace and coke oven processes, improvement of rolling efficiency and yield, etc. 2) Enhancement in the quality and speed of R&D outcomes ● Strengthening development of high-functioning products in growth sectors and other sectors ● Cost reduction by enhancing development of manufacturing process technologies 3) Increase in labor productivity	60 billion yen
2. Establishment of the optimal production network 1) Optimization of fixed costs through cessation of operation of facilities and achievement of highly-efficient low-cost operation through each stage of production from pig iron production, steel-making to hot-rolling ● Establishment of a highly efficient operation in the iron- and steel-making process Kimitsu: Two-blast-furnace operation (No. 3 blast furnace to cease operation) and streamlining of No. 1 steelmaking plant (including cessation of operation of No. 5 continuous caster) ● Establishment of a highly efficient operation in the rolling processes for flat products and other products (flat product cold-rolling and galvanizing lines at steelworks including Kashima Works, Wakayama Works and Nagoya Works to cease operation) 2) Optimal allocation of tasks among production lines and increase in volume of high-functioning products ● Enhancement of the optimal production network through combination of domestic and overseas resources for	60 billion yen

production and supply 3) Coordination among steelworks (including raw materials, energy and maintenance) 4) Avoidance of redundant investments	
3. Reduction in procurement costs (including raw material, equipment and material, and repair costs) 1) Raw materials: improvement of efficiency in transportation (utilization of larger vessels, optimization of scheduling ocean shipments) 2) Equipment and materials: centralized procurement, bidding, volume discounts	30 billion yen
4. Improvement in efficiency of the head office 1) Integration and improvement in efficiency of the head office and domestic and overseas branches, and re-allocation of human resources for global business development and other related activities 2) Reduction in general administrative expenses 3) Reduction in system development cost (including avoidance of redundant investments)	30 billion yen
5. Integration and reorganization of and alliances among group companies 1) Integration and reorganization of group companies 2) Expansion of alliances within the Group (transportation, processing, equipment, analysis, etc.) 3) Strengthening of overseas production and sales bases	20 billion yen
Total	200 billion yen or more

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