

# **FY2015 Performance (for year ended March 31, 2016) and Progress of Mid-term Business Plan**

May 25, 2016  
President Kenji Hiwatari



**NIPPON STEEL & SUMIKIN BUSSAN  
CORPORATION**

# Agenda

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- **FY2015 Results and FY2016 Forecast**
- **Progress of Mid-term Business Plan 2017**
- **Appendix**

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# **FY2015 Results and FY2016 Forecast**

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# FY2015 Performance and FY2016 Forecast Highlights

## Market Env.

### **Challenging Environment**

- Growth lacked resilience overall due to weakening emerging economies
- Steel demand in Japan decreased in both Construction and Manufacturing sectors
- Asian steel market price depressed by China's over-export
- Long slump in Japanese personal consumption

## Our Efforts

### **Action Program from Mid-term Business Plan 2017**

- Steel: Sales volume increased in ASEAN countries by the sales expansion efforts.
  - : Expand steel service centers in growing regions such as Mexico
- Textiles: Cost cutting through improving productivity
  - : Shift manufacturing base from China to ASEAN

## FY2015 Results

**Sales** ¥1,930 billion (-8%): primarily impacted by low steel prices

**Ordinary Profit** ¥29 billion (-5%): Textiles improved by equity method income

**Net Profit** ¥17 billion: Remained almost unchanged due to adjustment of tax

**Dividend** ¥15 (+25%): Payout ratio increased from 20% to 27%

## FY2016 Forecast

### **Sales and Profits Grow**

Asian steel market has already hit bottom but remains uncertain

Japanese steel market will recover following the recovery in the Asian market

- Sales ¥1,970 billion
- Ordinary Profit ¥30 billion
- Net Profit ¥17 billion
- Dividend ¥15

# FY2015 Consolidated Results Highlights

- Sales and profits declined due to sluggish Asian steel market
- Dividend increased by ¥3.0 per share in line with the Mid-term Business Plan

\ billion	FY14		FY15		[Figures as of Jan. 2016] FY15		Change	
	2H		1H	2H			FY15 vs FY14	15/2H vs 14/2H
Net Sales	1,076.9	2,104.6	991.7	939.1	[1,950.0]	1,930.8	-173.7	-137.8
Operating Profit	14.9	28.6	13.5	14.3	[27.5]	27.8	-0.7	-0.5
Equity Method Income	1.2	0.9	1.9	0.3		2.3	1.3	-0.8
Ordinary Profit	17.1	30.5	15.4	13.6	[29.0]	29.0	-1.5	-3.4
Special Profit (Loss)	(1.8)	(1.8)	(1.1)	(0.8)		(1.9)	-0.1	0.9
Net Income	9.0	17.4	9.8	7.4	[17.0]	17.3	-0.1	-1.6
ROE	11.5%	11.2%	11.6%	8.6%		10.2%	-1.0%	-2.8%
EPS (¥)	29.39	56.39	31.86	24.19		56.05	-0.34	-5.20
Dividend (¥)	6.0	12.0	7.5	7.5	[15.0]	15.0	3.0	1.5

# Segment Results

## Sales

¥ billion	FY14		FY15		Change	
<b>Steel</b>	1,679.6	78%	1,511.1	-10%	-168.5	
<b>I &amp; I</b>	92.4	5%	93.2	1%	0.7	
<b>Textiles</b>	178.1	9%	176.1	-1%	-2.0	
<b>Foodstuffs</b>	152.9	8%	149.0	-3%	-3.9	
<b>Total</b>	2,104.6	100%	1,930.8	-8%	-173.7	

## Ordinary Profit

¥ billion	FY14		FY15		Change	
<b>Steel</b>	20.6	64%	18.4	-11%	-2.2	
<b>I &amp; I</b>	3.1	11%	3.2	6%	0.1	
<b>Textiles</b>	3.6	15%	4.3	17%	0.7	
<b>Foodstuffs</b>	2.9	10%	2.8	-5%	-0.1	
<b>Total</b>	30.5	100%	29.0	-5%	-1.5	

## Steel

Trading of Steel, Raw Materials and Steel service centers

- Sales declined: Sluggish Asian steel market
- Profit declined: FX losses of Chinese subsidiaries caused by the weak Yuan

## Industrial supply & Infrastructure

Industrial machinery and machine tools, automotive parts, railway car parts, aluminum products and infrastructure business

- Sales increased: Stable capital investment in Japan
- Profit increased: Transitory profits related to the entity's merger in Thailand

## Textiles

OEM & ODM production for apparel & retail, solution business (logistics, etc.)

- Sales declined: Mild winter weather in Japan
- Profit increased: Liquidation of group company in the red

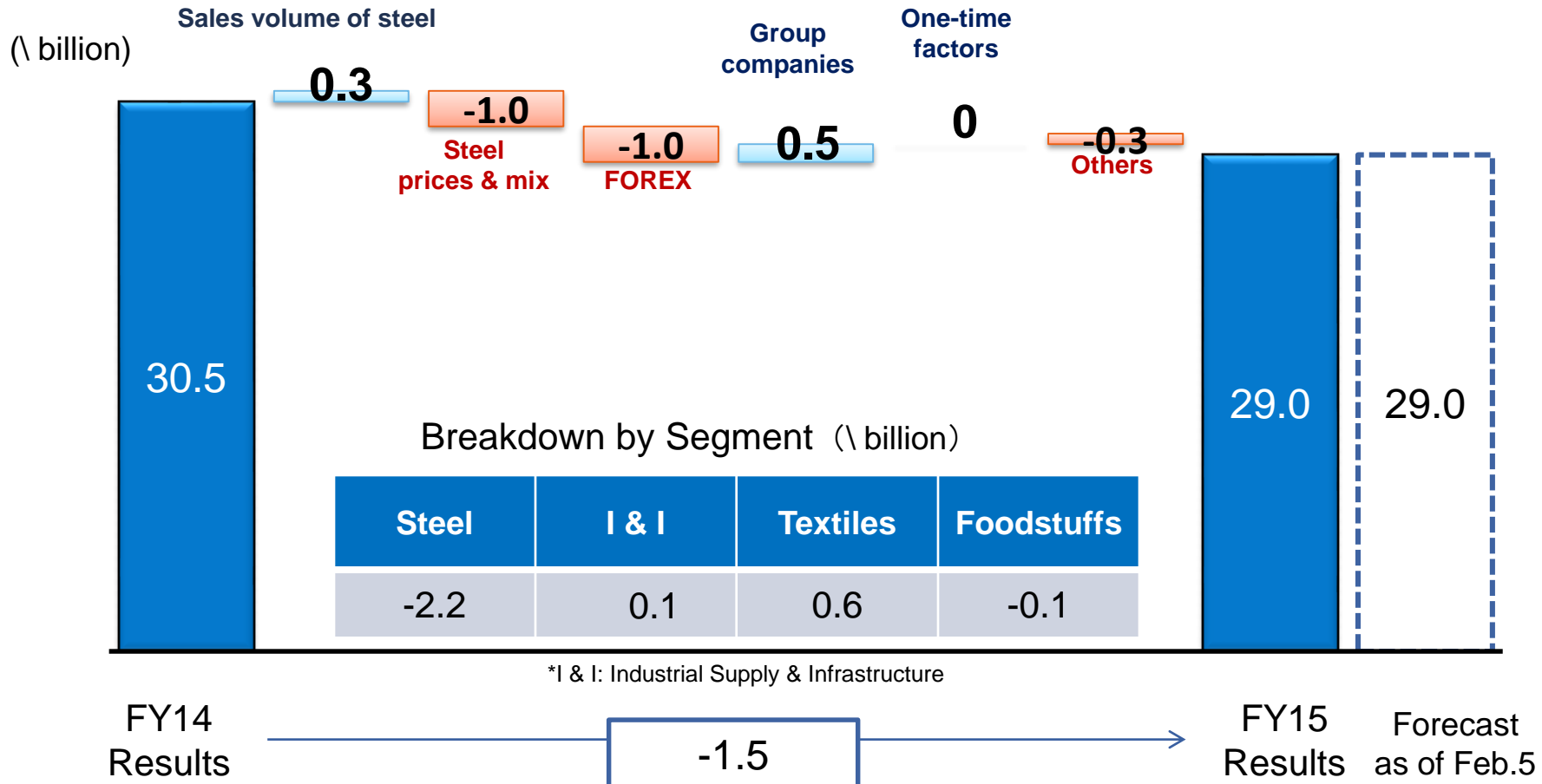
## Foodstuffs

Import of meat and processed foods and chain restaurant business

- Sales declined: Low prices of Japanese food markets
- Profit declined: Slump in market price of imported chicken

# Ordinary Profit Variance Analysis [FY2014 vs. FY2015]

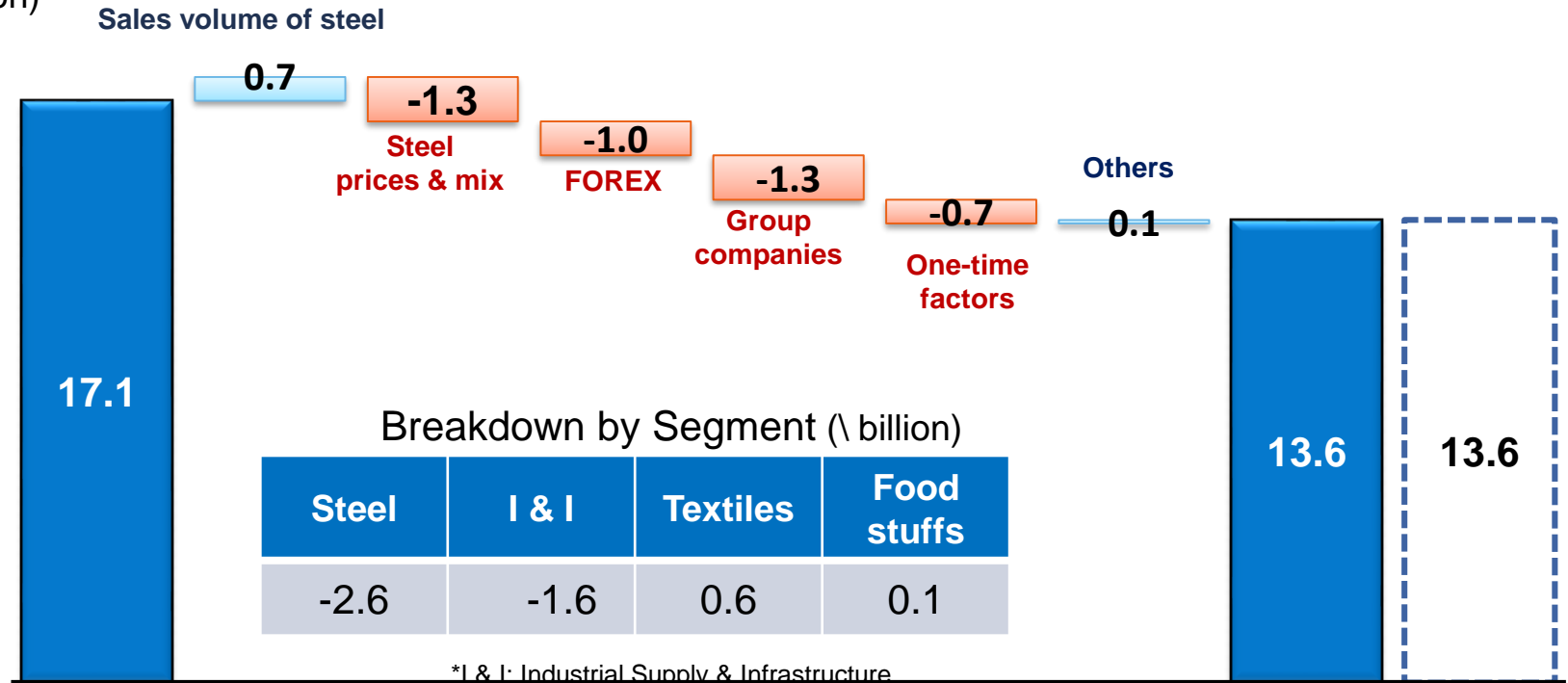
- Positive: Sales volume of steel <+0.3 million tons>  
Group companies <Liquidation of group company in the red>
- × Negative: ASP of Steel <-12%>  
FOREX <Stock evaluation by weak RMB in group company>



# Ordinary Profit Variance Analysis (2H/FY2014 vs. 2H/FY2015)

- Positive: Sales volume of steel <+0.5 million tons>
- × Negative: ASP of Steel <-19%>
- FOREX <Stock evaluation by weak RMB>
- Group companies <Steel>
- One-time factors <I & I: Bad debt reserves for Russian Business>

(\ billion)



2H/FY14  
Results

-3.5

2H/FY15 Forecast  
Results as of Feb.5

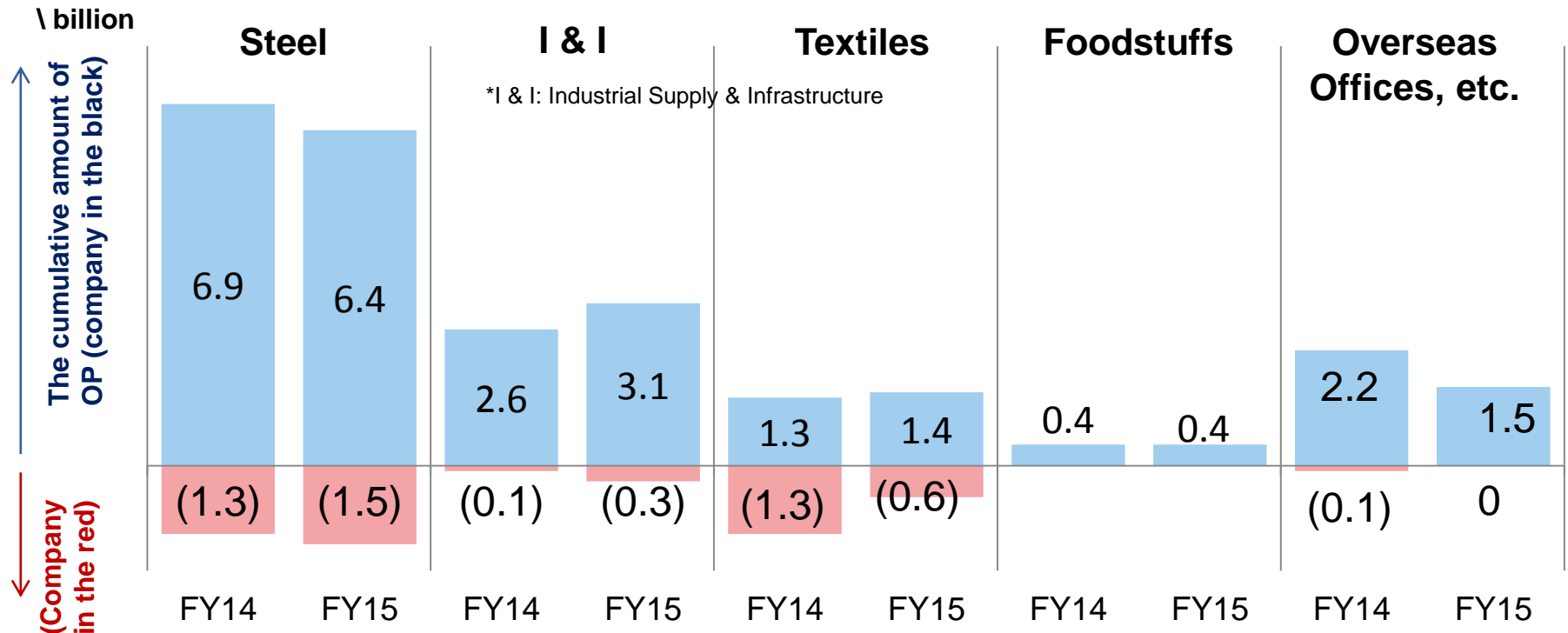


# Group Performance

**Ordinary profit of group companies increased +\0.5 billion excluding effects of FOREX (-\1.0 billion)**

- × Steel: Weak demand in Japan and Asia
- I & I: Transitory profits (Rojana)
- Textiles: Liquidation of group company in the red

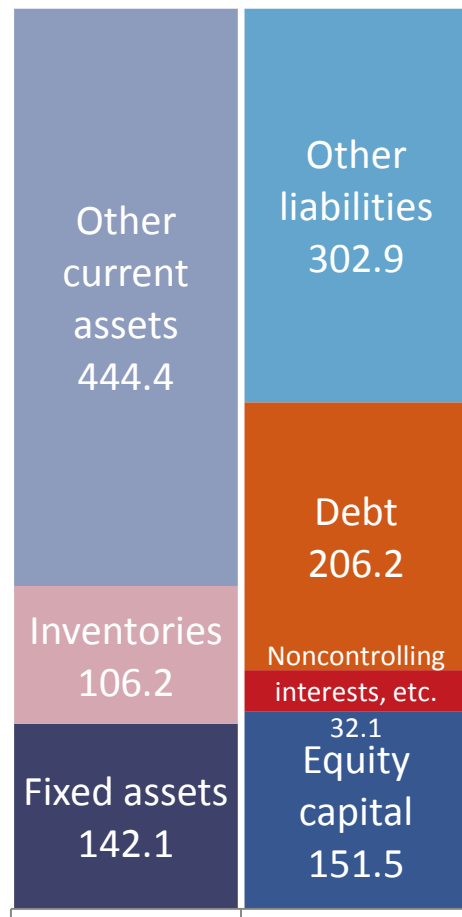
(YoY) Number	In the Black	In the Red	Total
Steel	(-) 56	(-2) 16	(-2) 72
I & I	(+1) 19	(+1) 2	(+2) 21
Textiles	(-1) 10	(-) 6	(-1) 16
Foodstuffs	(-) 2	(-) 0	(-) 2
Overseas office	(-1) 8	(-) 3	(-1) 11
<b>The number of company</b>	<b>(-1) 95</b>	<b>(-1) 27</b>	<b>(-2) 122</b>



# Balance Sheets

- Keeping healthy B/S through reductions in inventory and working capital

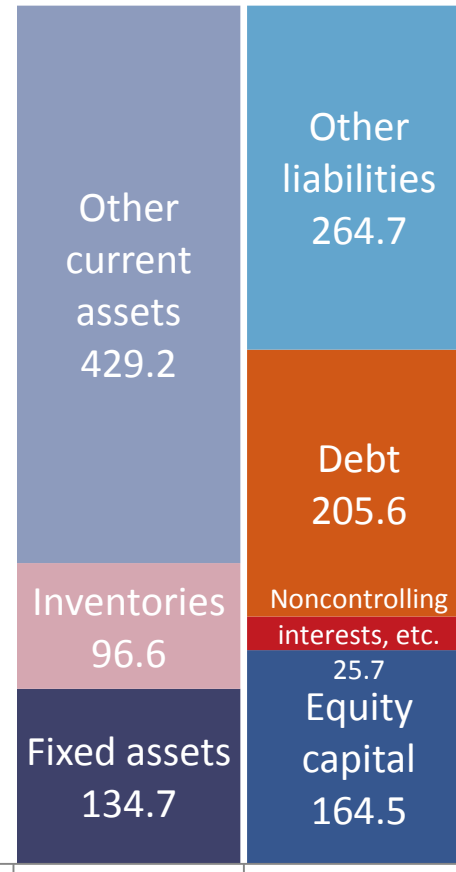
Total assets ¥692.8 billion



End of FY14

-32.2

Total assets ¥660.6 billion



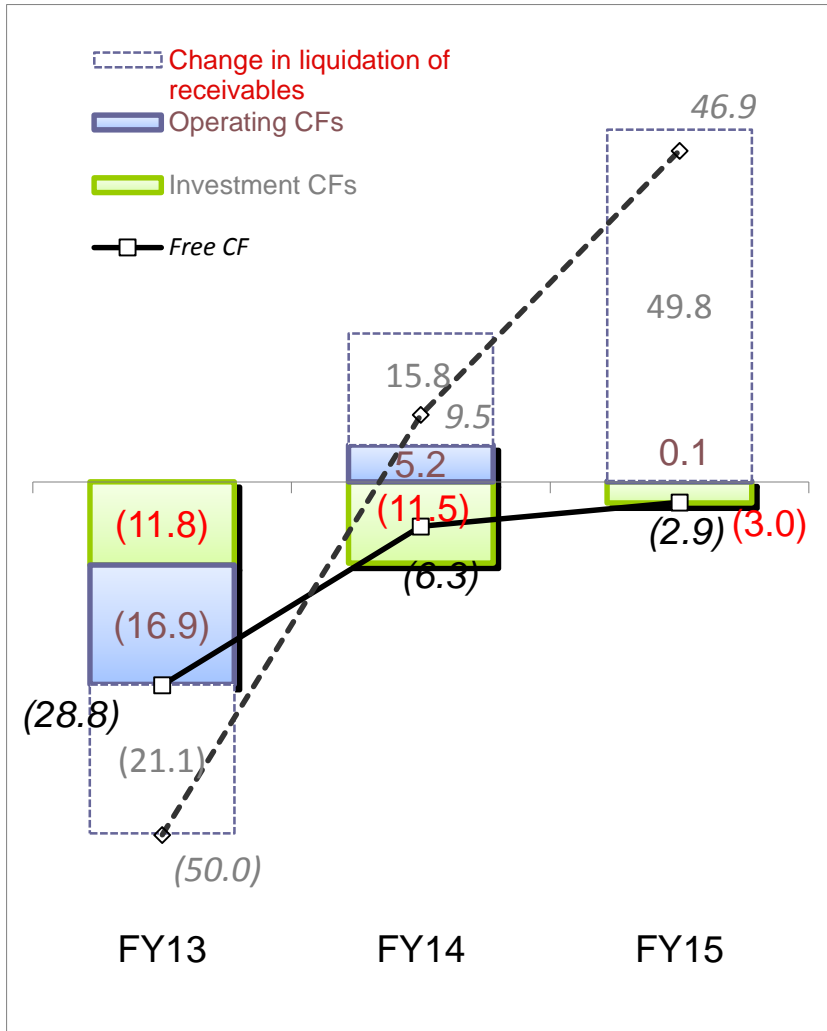
End of FY15

	FY14	FY15	Change
Equity ratio	24.1%	<b>26.3%</b>	+2.2%
Net - DER	1.1 times	<b>1.1 times</b>	—

	FY14	FY15	Change
ROE	11.2%	<b>10.2%</b>	-1.0%

# Cash Flow Management

\ billion



## Operating cash flows

- ◆ Pro-forma operating CFs increased by reductions of working capital and inventory
- ◆ Operating CFs decreased by decreasing liquidation of receivables

## Investment cash flows

- ◆ CAPEX \4.1 billion
- ◆ Other investment \1.7 billion
- ◆ Controlling investment under challenging business environment

## Free cash flow

- Negative \2.9 billion  
(Free CF before change in liquidation of receivables: positive \46.9 billion )

- Change in liquidation of receivables: + means decrease
- FY13: NS+SB

# Returns to Shareholders

## Policy of cash dividend

- ◆ NSSB's most important management goal is to improve profit returns to our shareholders
- ◆ Our basic dividend policy is to realize dividends that are in line with business results while balancing profit trends and financial condition
- ◆ Targeting payout ratio in this mid-term business plan is 25%-30%.

## Targeting financial condition

ROE **over 10%**  
Equity **over ¥200 billion**  
Net DER **under 1.0 times**

## Results for FY2015

ROE **10.2%**  
Equity **¥164.5 billion**  
Net DER **1.1 times**

## Dividend for FY15

**¥15.0** (payout ratio 27%)  
interim ¥7.5  
year-end ¥7.5

## Dividend forecast for FY16

**¥15.0** (payout ratio 27%)  
interim ¥7.5  
year-end ¥7.5

\* Based on before share consolidation

## ● Change of the number of shares in share unit and share consolidation

Number of shares / share trading unit 1,000 shares / unit → 100 shares / unit

Share consolidation 10 shares → 1 share

Effective date Oct. 1/2016 Submitting a request for approval in the GMS

# Guidance for FY2016

Steel market outlook

- Overseas: Prices have already recovered from unsustainable levels
- Demand in Japan: Construction market will recover gradually

## Our initiative

**Boosting both sales and profits**

**Steel: Recovering export margin / Capturing demand for construction**

**Textiles: Expanding profits by cost reduction**

\ billion	FY15 results	FY16 forecast		Change 16 – 15
		1H forecast		
Sales	1,930.8	920.0	<b>1,970.0</b>	39.2
Operating Profit	27.8	12.5	<b>29.0</b>	1.2
Ordinary Profit	29.0	12.5	<b>30.0</b>	1.0
Net Profit	17.3	7.5	<b>17.5</b>	0.2
EPS (¥)	56.05	24.26	<b>56.61</b>	0.55
Dividend (¥)	15.0	7.5	<b>15.0</b>	-

\* Based on before share consolidation

Ordinary Profit forecast by segment

¥ billion	FY16 forecast	Change 16-15
Steel	<b>19.0</b>	0.5
I & I	<b>2.7</b>	-0.5
Textiles	<b>5.3</b>	0.9
Food stuffs	<b>3.0</b>	0.1
Total	<b>30.0</b>	1.0

FY16 CAPEX & investment forecast

**¥15.0 billion**  
(increase ¥9.2 billion)

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# Progress of Mid-term Business Plan 2017

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## Key measures

### Accelerating NSSB's Distinctiveness

*Steel*

Expanding Market Share  
with NSSMC

*Textiles*

Strengthening ODM and  
Solution Businesses

Developing Auto-parts  
Business and Industrial  
Park

Expanding "Out to Out"  
Business in Asian Market

*I & I*

*Foodstuffs*

Investment Target **¥45 billion (+25%)**

### Progressing NSSB's Competitiveness

Pursue customer safety, reliability and quality

Improve productivity and operational efficiency

Integrate Management System

Utilize Merger Synergies

## P/L Targets

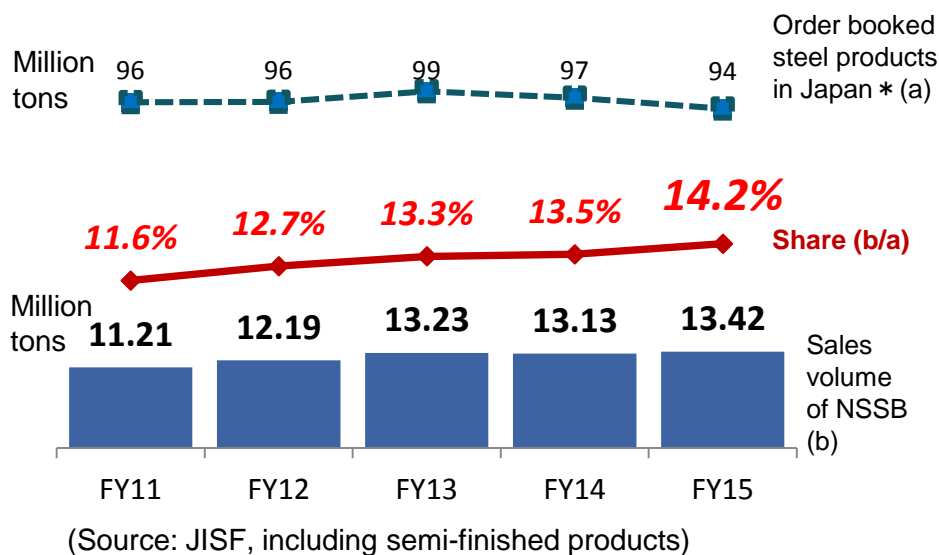
	FY17 target	(vs. FY14)
Net Sales	<b>¥2,300 billion</b>	(+9%)
Overseas Sales	<b>¥680 billion</b>	(+23%)
Ordinary Profit	<b>¥36 billion</b>	(+18%)
Net Profit	<b>¥36 billion</b>	(+18%)

## Financial Goal

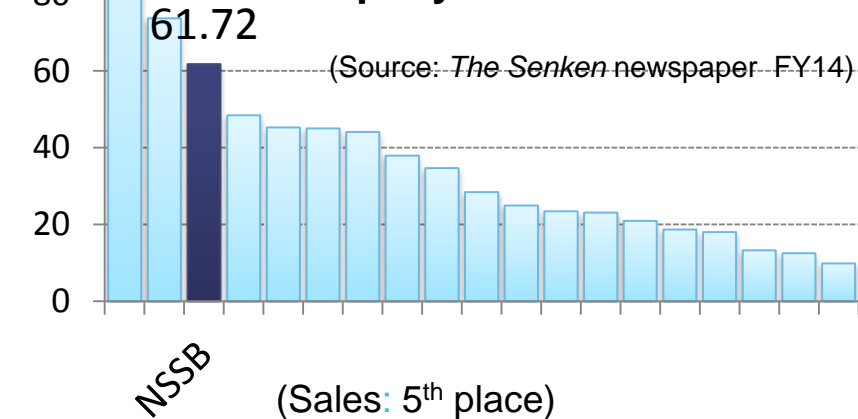
ROE	over <b>10%</b>
Capital Equity	over <b>¥200 billion</b>
Net DER	below <b>1.0</b> times
Payout Ratio	<b>25%–30%</b>

# Strong position in each business area

## ◆ Sales volume of steel



## ◆ Gross profit per employee in Japanese textiles trading company



## ◆ Railway wheels and axle

2<sup>nd</sup> biggest trader in Japan



## ◆ Headrest stays for automobiles

Global share approx. 13%



(Source: NSSB)

## ◆ NSSB's import share of meats

	CY2013	CY2014	CY2015
Beef	4.3%	5.2%	5.0%
Pork	6.7%	8.4%	9.3%
Chicken	8.7%	8.3%	*6.9%

(Source: Customs statistics)

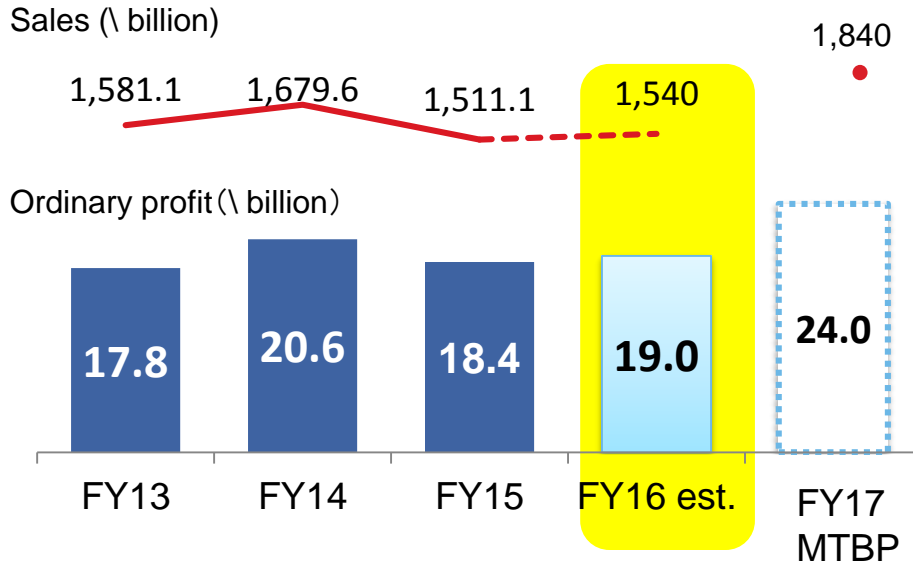
\*We controlled import volume to avoid a surplus in import chicken market



# Progress of MTBP (1): Steel

FY15 (YoY)

Sales: ↘ Profit: ↘



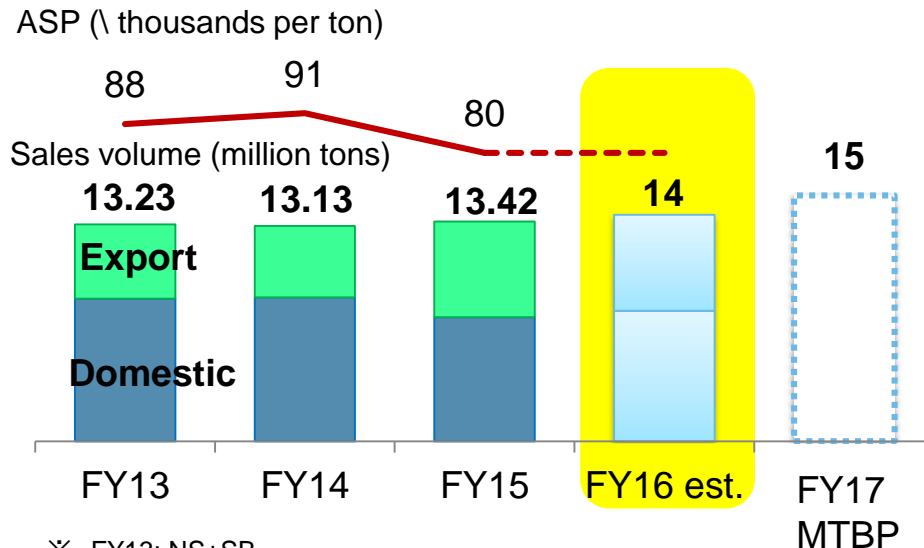
## Business Environment

- ◆ Low demand and price pressure will continue to be affected by China.
- ◆ Recovery of steel demand in Japan will be also sluggish.

## Major Initiatives

### Share business strategies with NSSMC

- ◆ Raising Market Share
- ◆ Expanding Global Bases
- ◆ Strengthening Competitiveness in Japan



## Forecast for FY16

□ Sales: ↗ Profit: ↗

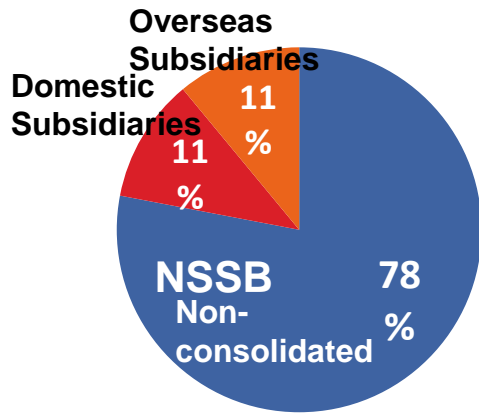
- Removal of negative one-time factor (RMB)
- Improving steel margin towards 2<sup>nd</sup> half

※ FY13: NS+SB

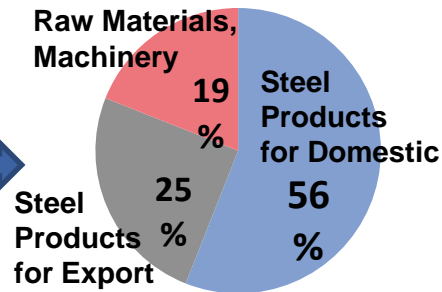
Sales volume: Includes semi-finished products, ASP; excludes semi-finished products

# Outlook of Steel Division

## Sales Breakdown



## NSSB Sales Breakdown



※before eliminations



Steel Products for domestic

- Recovering moderately due to demand from construction sector

Steel Products for overseas

- Improving steel spread and increasing sales volume

Raw materials, Machinery

- Decreasing sales of raw materials, meanwhile increasing sales of machinery due to strong CAPEX in steel producers.

Domestic Subsidiaries

- Standardized building business is extremely strong due to shortage of construction workers

Overseas Subsidiaries

- Getting robust orders of steel products for automobile in USA and Mexico

# Topics of Steel Division

## Orders for standardized building business has recorded highs for five straight years

Background: Chronic shortage of construction workers in Japan  
Our Strength: Fully standardized / Shorter construction period /  
Low cost / Multilevel floors  
FY15 results: Orders: \19.6 billion, sales: \19.7 billion  
FY16 forecast: Orders / Sales over \20 billion

Example of standardized building



## Expansion of Steel Service Center in Mexico

Background: Strengthening the production in Mexico of automotive manufacturers  
Company name: Aguascalientes Steel Coil Center S.A. de C.V.



## Establishment of the Manila office

Background: Expect a further increase of development of infrastructure through ODA from Japan  
Intention: To broaden our firsthand information gathering capacity, and to secure a business base for providing sales support and technical services for steel demand in the Philippines

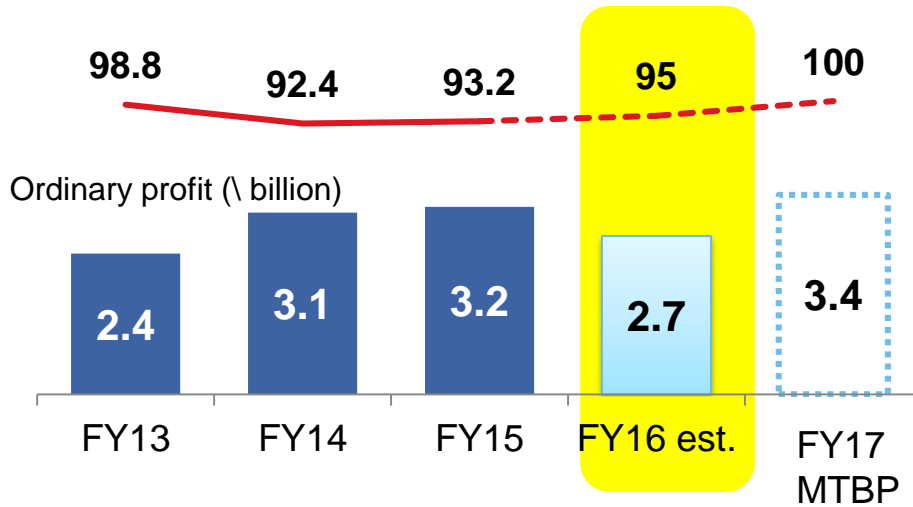


# Progress of MTBP (2): Industrial supply & Infrastructure

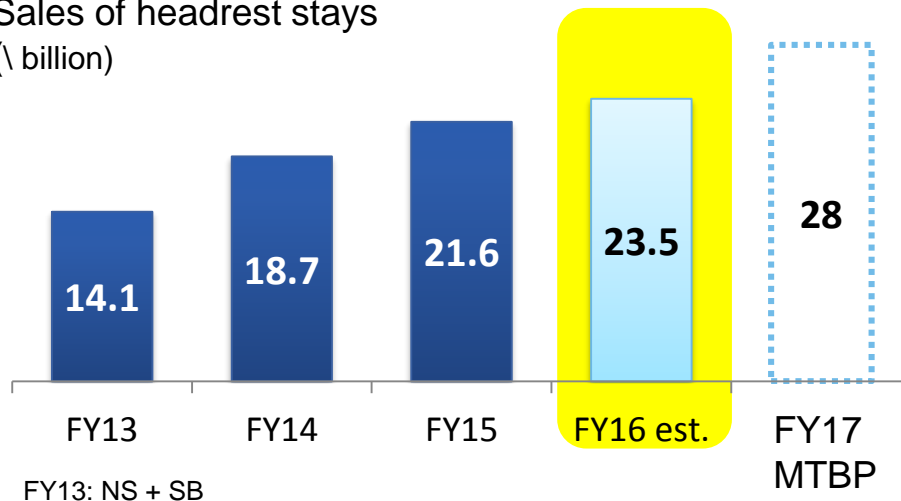
FY15 (YoY)

Sales: ↗ Profit: ↗

Sales (\ billion)



Sales of headrest stays (\ billion)



FY13: NS + SB

## Business Environment

- ◆ Slump in emerging economies (Russia, Thailand, etc.)
- ◆ Temporary production cutback of the Japanese car manufacture

## Major Initiatives

### Preparation for the recovery period

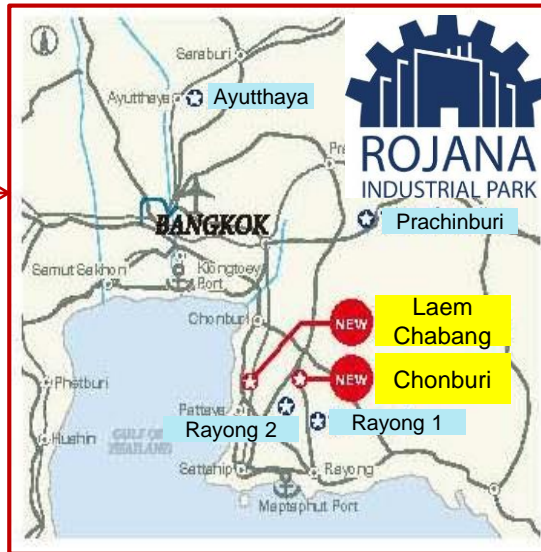
- ◆ Expansion of industrial park in Thailand
- ◆ Increase production capacity for headrest stays in Mexico

## Forecast for FY16

□ Sales: ↗ Profit: ↘

- Removal of positive one-time factor (Rojana)
- Keep underlying profit

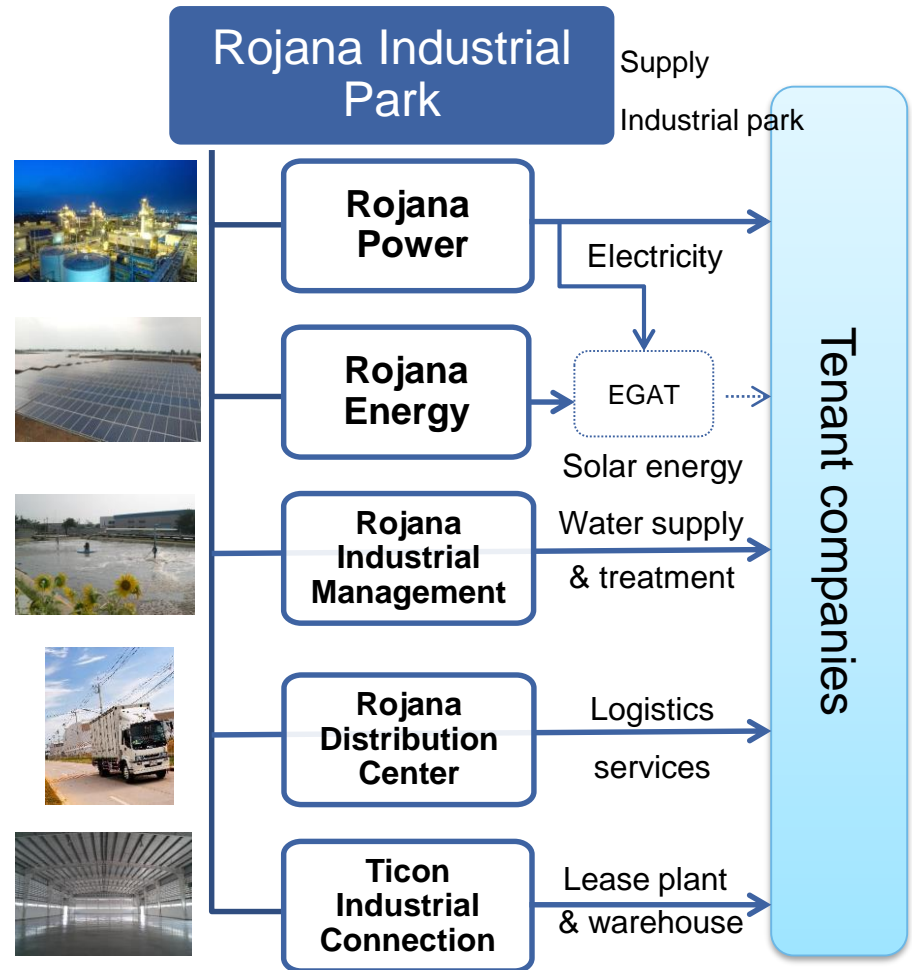
# Expansion of Industrial Park in Thailand



Development area	*3,424ha
Ayutthaya	1,580ha
Rayong 1	380ha
Rayong 2	202ha
Prachinburi	862ha
<b>Chonburi</b>	<b>224ha</b>
<b>Laem Chabang</b>	<b>176ha</b>

Under Dev.

NSSB's share : 21.2%



## Business model

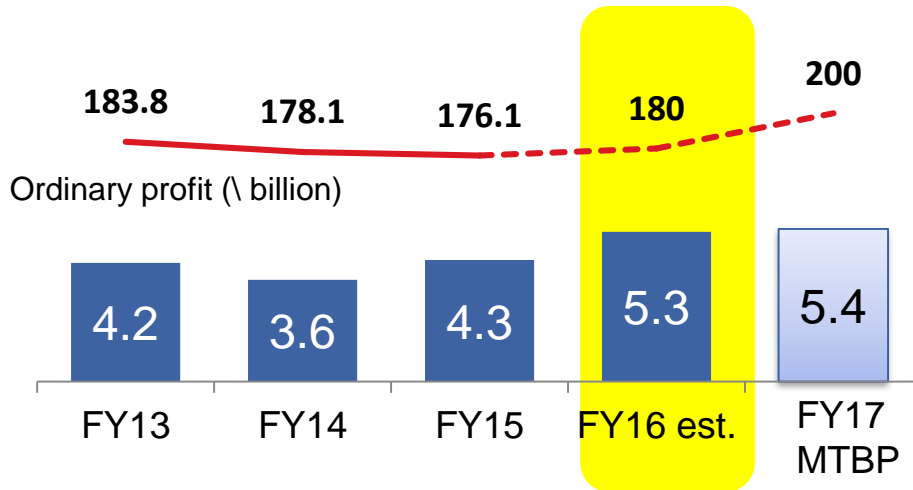
Equity method income + Marketing margin  
+ Sales machines, etc.

# Progress of MTBP (3): Textiles

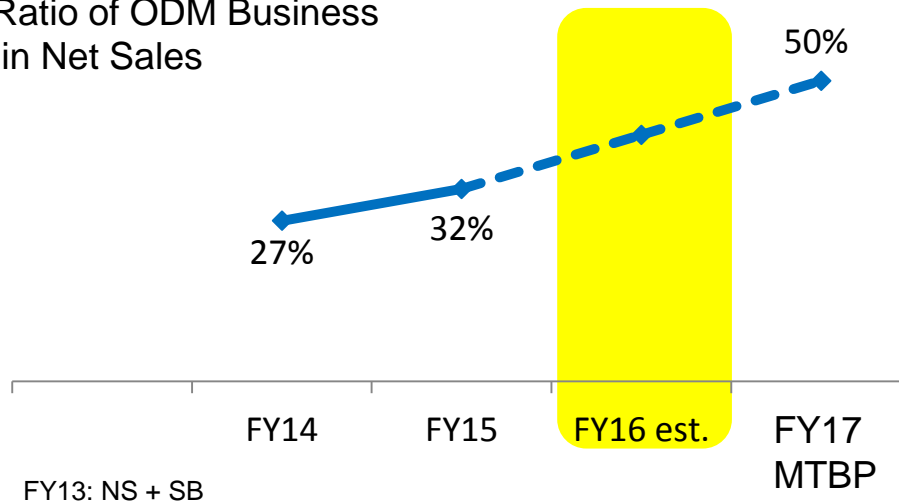
FY15 (YoY)

Sales: → Profit: ↗

Sales (\ billion)



Ratio of ODM Business in Net Sales



FY13: NS + SB

## Business Environment

- ◆ Long depressed market for apparel in Japan

## Major Initiatives

Expand new business domain utilizing our capability

- ◆ Evolve OEM to ODM (Original Design Manufacturing)
- ◆ Increase overseas sales
- ◆ Develop solution business

## Forecast for FY16

□ Sales: ↗ Profit: ↗

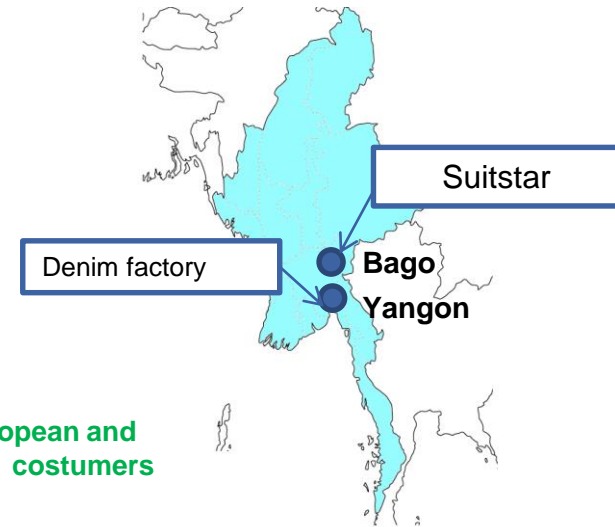
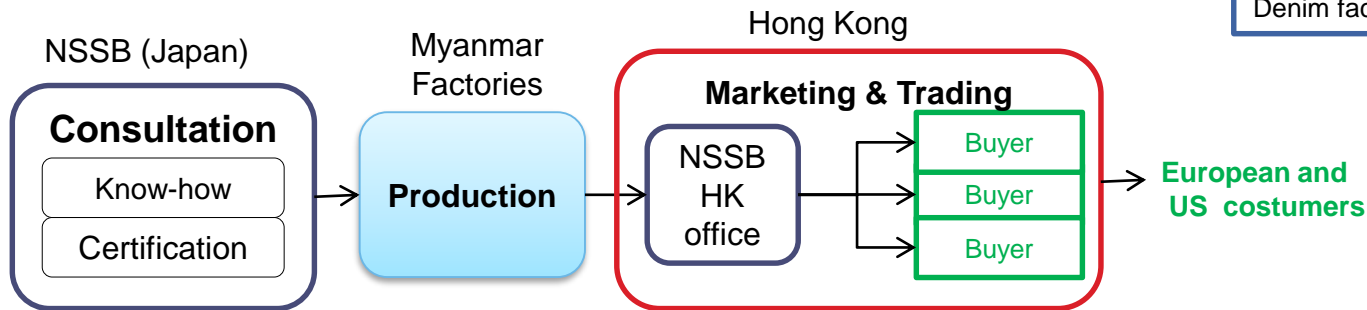
- Cost reduction
- Improving the productivity of ASEAN plant.
- Improving the efficiency of back office



# Tripartite trade in Textiles Division

## Strengthening the manufacturing base in Myanmar for European and US customers

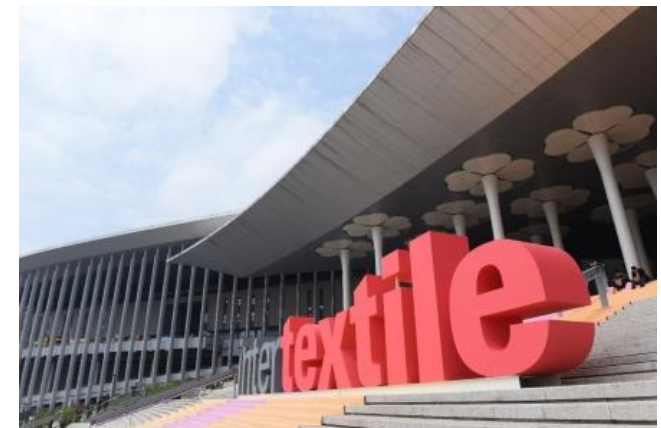
- ◆ 2013 Acquisition of sewing factory (Suitstar Garment Co.)
- ◆ 2015 Alliance to the denim factory



## Exhibiting at Intertextile in Shanghai

Intertextile Shanghai Apparel is one of the world's leading apparel fabrics and accessories fairs.

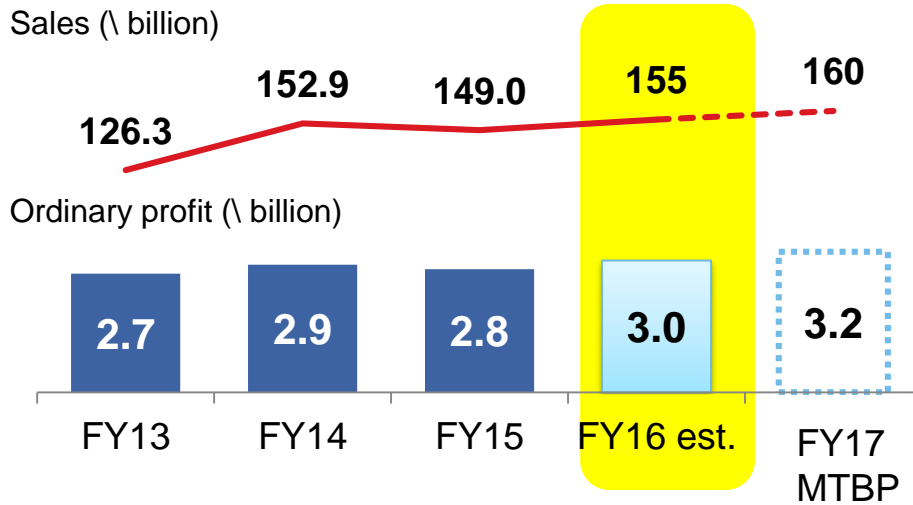
Since its inception has continually expanded, with both spring and autumn editions together now covering around 200,000 sqm. It plays an important role in generating new business leads in Greater China.



# Progress of MTBP (3): Foodstuffs

FY15 (YoY)

Sales: ↘ Profit: ↗



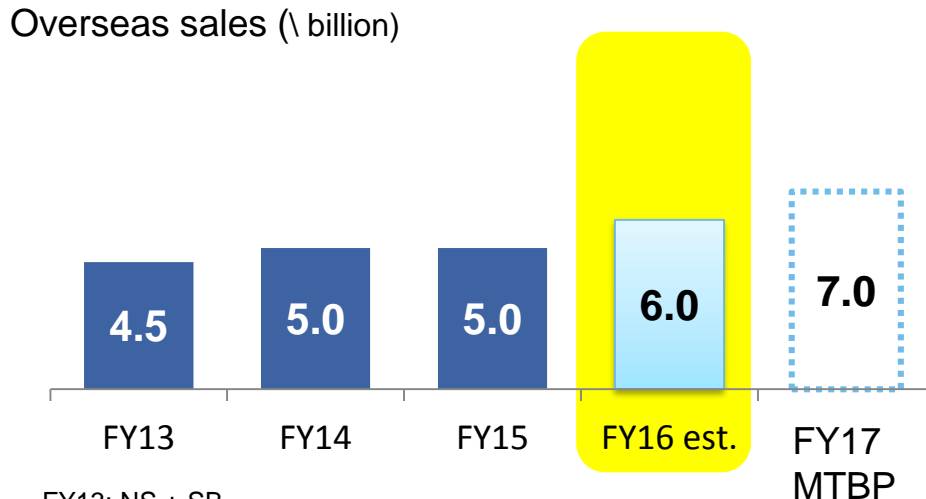
## Business Environment

- ◆ Gradual contraction of the domestic market
- ◆ Strong yen

## Major Initiatives

### Expand tri-nation trade transactions

- ◆ Beef / pork to China and ASEAN region
- ◆ Chicken to China
- ◆ Expand export of *wagyu* beef
- ◆ Developing the restaurant chain business in ASEAN region and Taiwan



FY13: NS + SB

## Forecast for FY16

□ Sales: ↗ Profit: ↗

- Stabilizing domestic market prices
- Improving procurement costs



# Developing the Restaurant Chain Business in the Asian Region

## Alliance with Taiwanese restaurant chain “Kanpai”



The Kanpai group operates a restaurant chain in the *yakiniku* (barbeque) category which focuses on *wagyu* (Japanese beef). The current number of stores is about 39 in Taiwan and Shanghai.

In Dec. 2015, NSSB underwrote an increase in capitalization of Kanpai group to raise its share to about 15% to expand its beef business.

## Expand overseas stores of “Tsubohachi” restaurant chain

Numbers of overseas “Tsubohachi” stores

FY2014: 8 stores → FY2015: 13 stores  
→ FY2016 target: 15 stores



Singapore Changi Airport Terminal 2



“Tsubohachi Jakarta” is the first in Indonesia

# The Integration Goes to the Next Stage

	1H/FY13	2H	1H/FY14	2H	1H/15	2H	1H/FY16
Corporate Governance	● Merger		● Employee Code of Conduct		● MTBP	● Acceptance CG code	● Outside directors
Personal System			● Integration for mgt-level workers		● Integration for non-mgt workers		
IT System					● HR & Payroll		● New Integrated Enterprise System

## Merger synergies

- Contribution to OP FY2015: ¥1.7 billion (Sales increase 0.7 / Cost reduction 1.0)

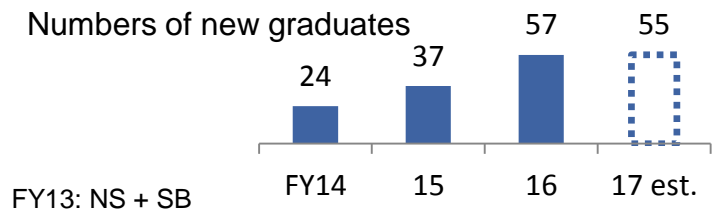
## Start of New Integrated Enterprise System (“COMPASS”) from Apr. 2016

- ◆ Strengthen efficiency / Standardize and visualize operations
- ◆ End to duplicate cost structure, such as data centers, maintenance fees, etc.

## Increasing numbers of new graduates

FY2016: 57 (4 foreigners)

FY2017 (planned): 55 (4 foreigners)



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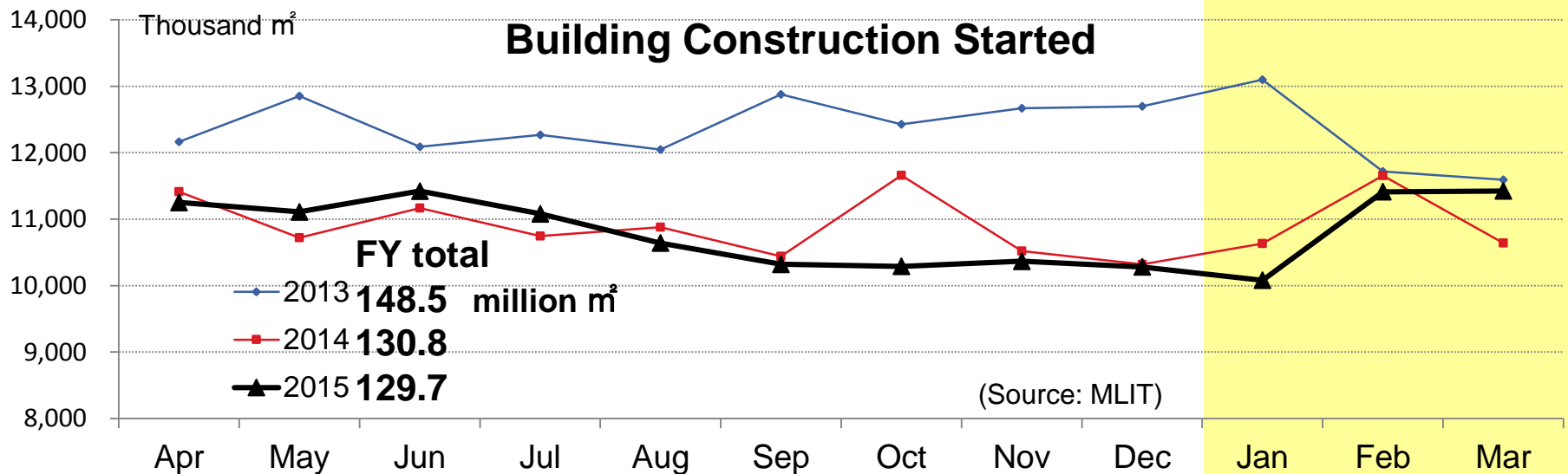
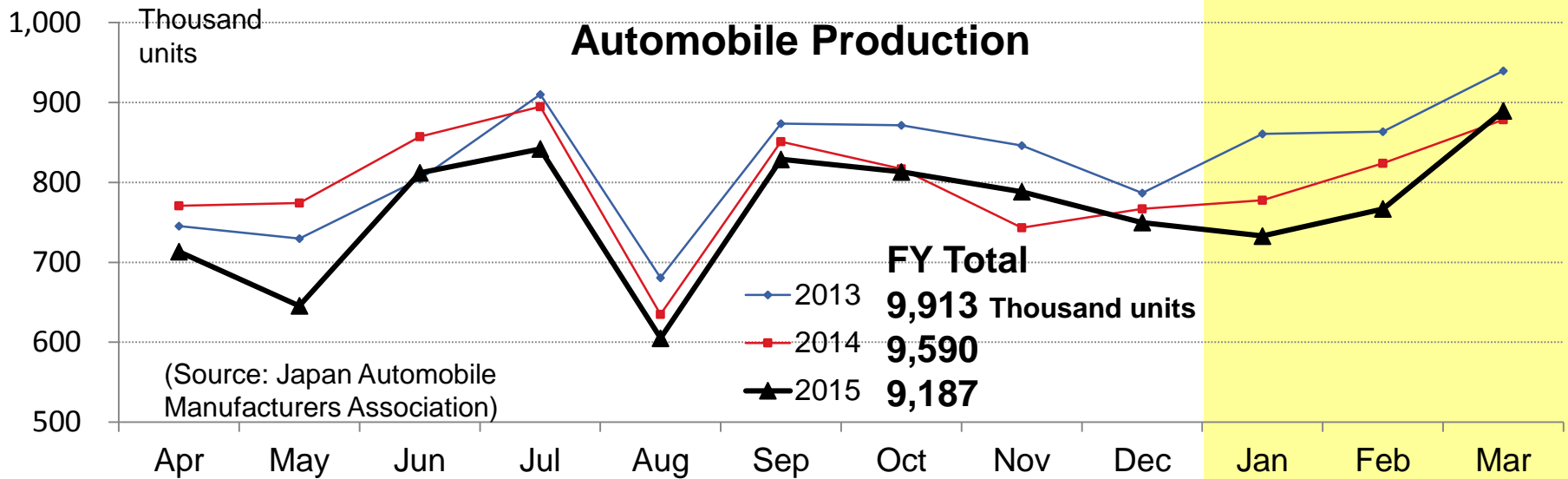
# Appendix

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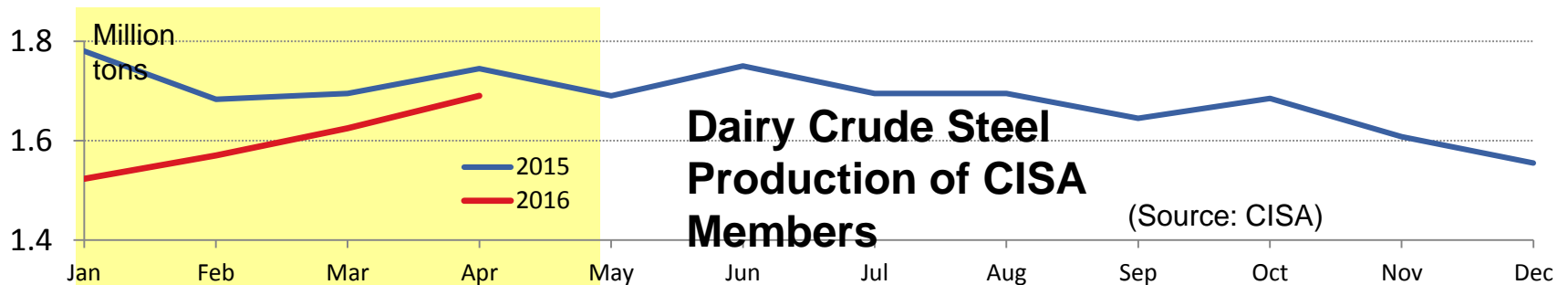
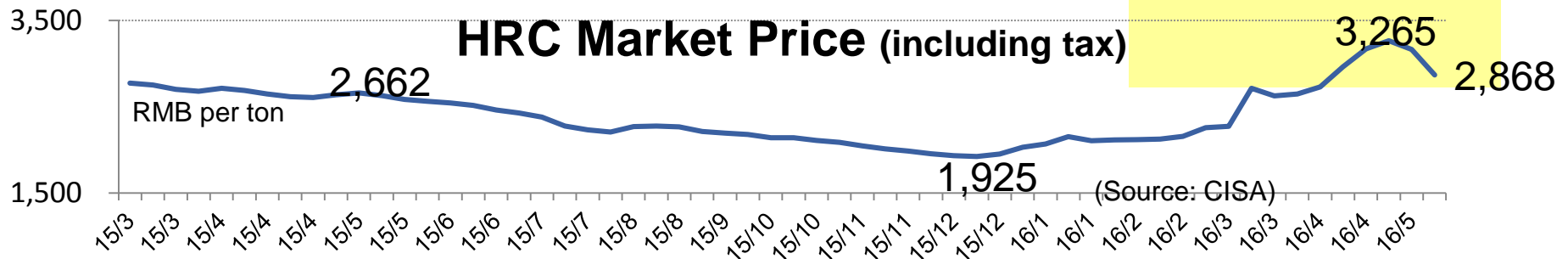
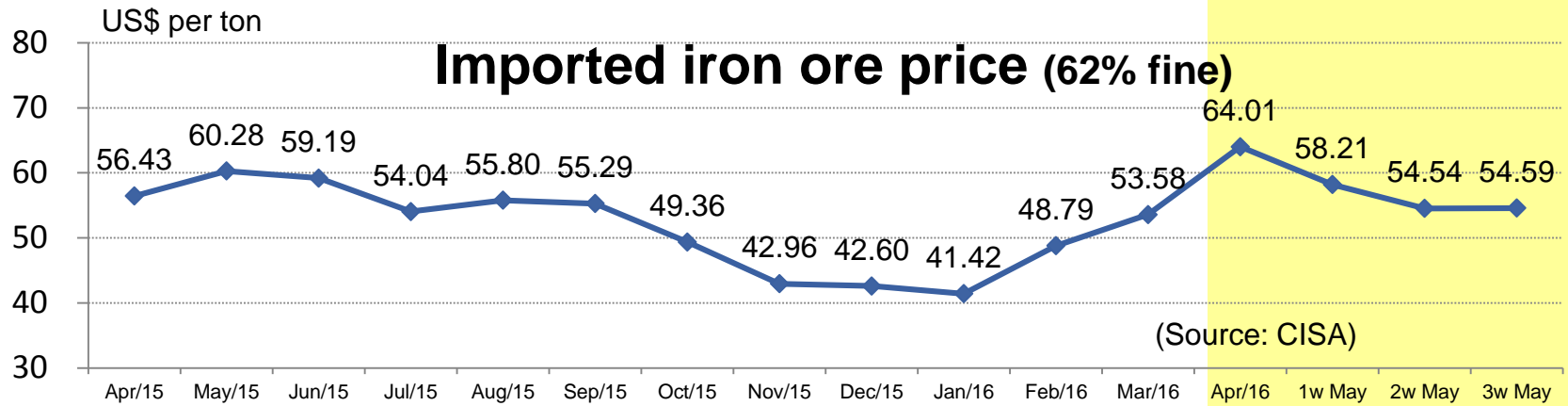
# Sales and Ordinary Profit by Quarter

\ billion	FY2014					FY2015				
	1Q	2Q	3Q	4Q	合計	1Q	2Q	3Q	4Q	合計
<b>Steel</b>	396.2	426.2	428.6	428.6	<b>1,679.6</b>	385.3	397.3	365.4	362.9	<b>1,511.1</b>
<b>I &amp; I</b>	20.7	22.2	25.9	23.6	<b>92.4</b>	23.5	25.9	20.5	23.2	<b>93.2</b>
<b>Textiles</b>	41.7	42.5	45.4	48.4	<b>178.1</b>	39.0	42.9	46.7	47.3	<b>176.1</b>
<b>Foodstuffs</b>	37.5	39.6	41.3	34.3	<b>152.9</b>	37.8	38.6	38.0	34.4	<b>149.0</b>
<b>Others</b>	0.3	0.3	0.2	0.3	<b>1.2</b>	0.3	0.6	0.0	0.3	<b>1.3</b>
<b>Sales</b>	<b>496.6</b>	<b>530.9</b>	<b>541.5</b>	<b>535.3</b>	<b>2,104.6</b>	<b>486.0</b>	<b>505.6</b>	<b>470.8</b>	<b>468.2</b>	<b>1,930.8</b>
<b>Steel</b>	4.2	5.2	5.4	5.7	<b>20.6</b>	5.4	4.4	3.8	4.6	<b>18.4</b>
<b>I &amp; I</b>	0.5	0.3	1.1	1.1	<b>3.1</b>	1.9	0.7	0.4	0.1	<b>3.2</b>
<b>Textiles</b>	1.1	0.1	0.3	2.0	<b>3.6</b>	0.7	0.5	1.0	1.9	<b>4.3</b>
<b>Foodstuffs</b>	0.9	0.7	0.8	0.4	<b>2.9</b>	0.7	0.6	0.8	0.6	<b>2.8</b>
<b>Others</b>	0.0	0.0	0.0	0.0	<b>0.1</b>	0.0	0.0	0.0	0.0	<b>0.1</b>
<b>Ordinary Profit</b>	<b>6.9</b>	<b>6.5</b>	<b>7.7</b>	<b>9.4</b>	<b>30.5</b>	<b>8.8</b>	<b>6.5</b>	<b>6.2</b>	<b>7.4</b>	<b>29.0</b>

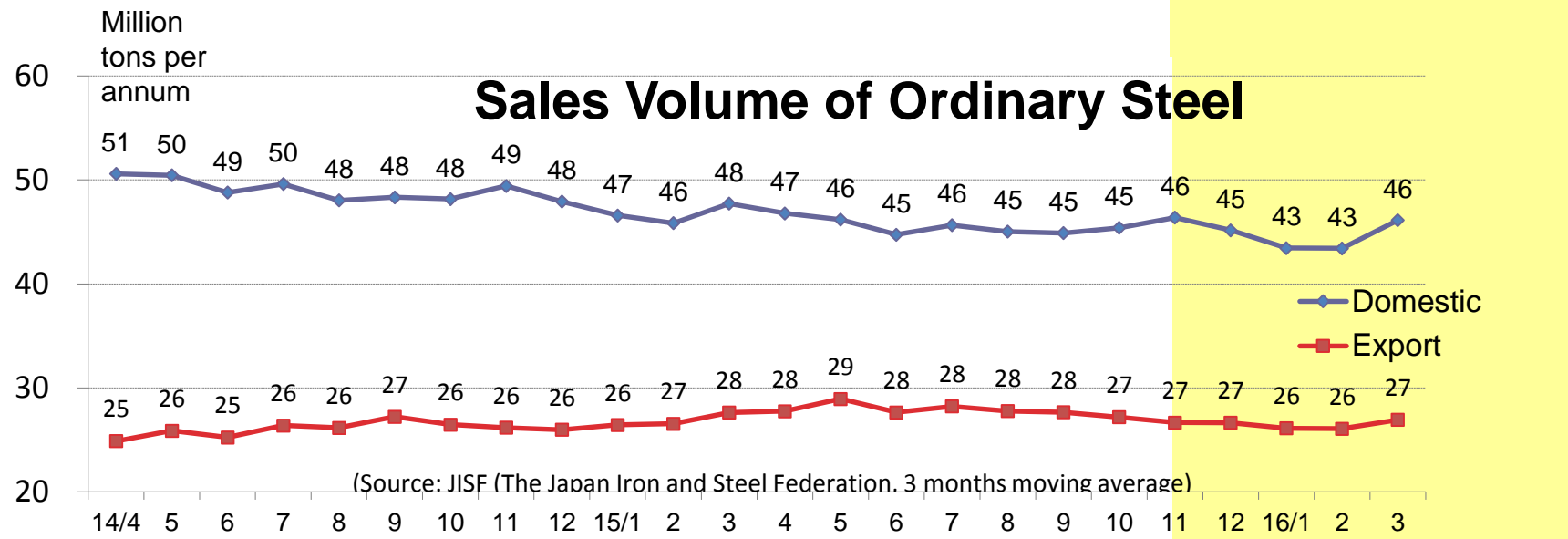
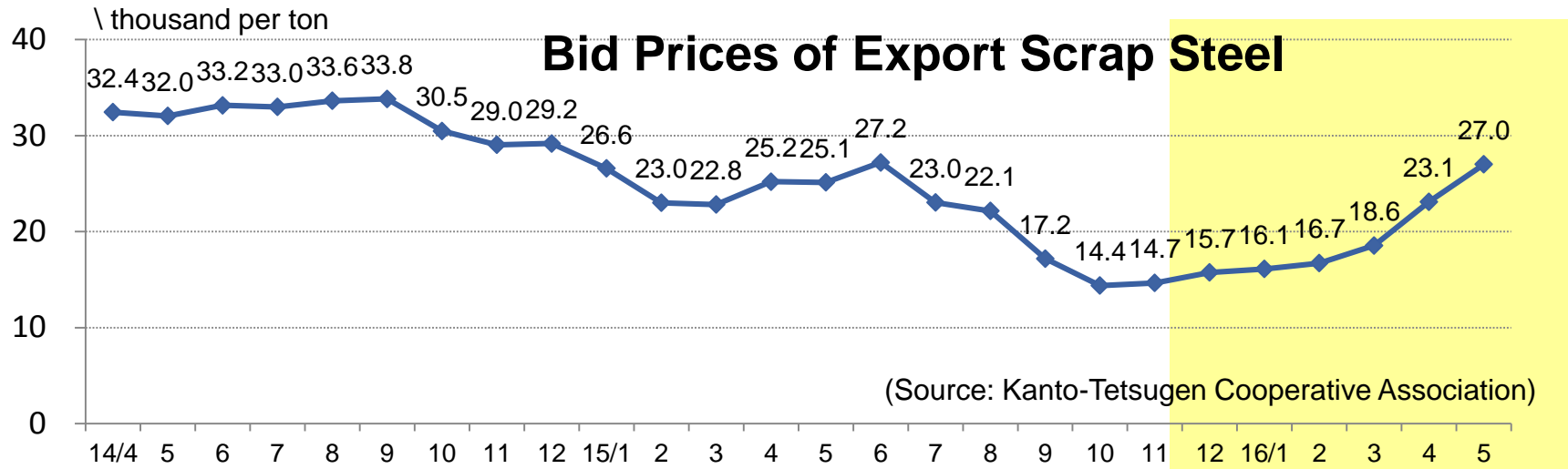
# Domestic Demand Trend for Steel



# Steel Market in China

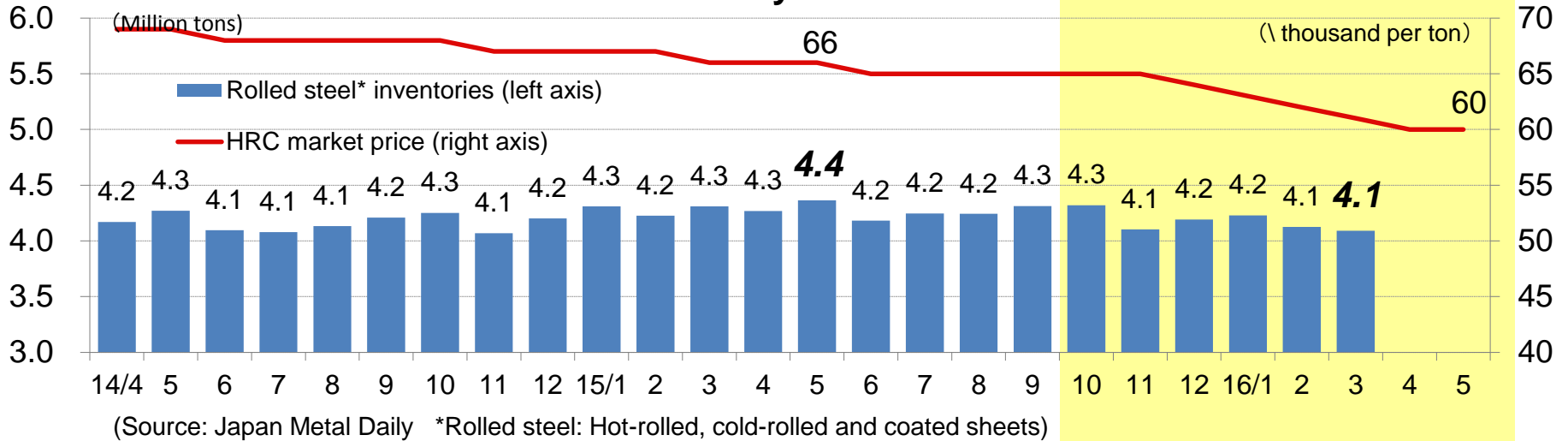


# Steel Demand in Japan

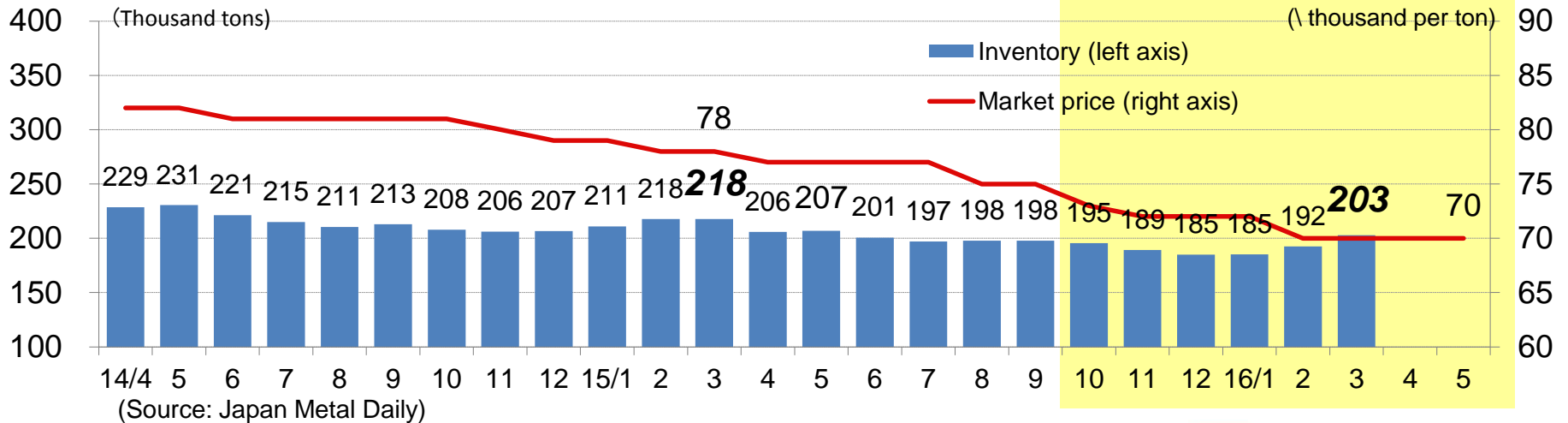


# Steel Market in Japan

## Rolled Sheets Inventory and HRC Market Price



## H-beam Inventory and Market Price



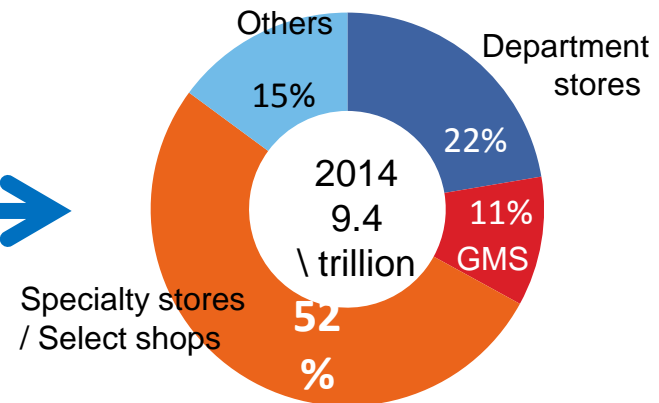
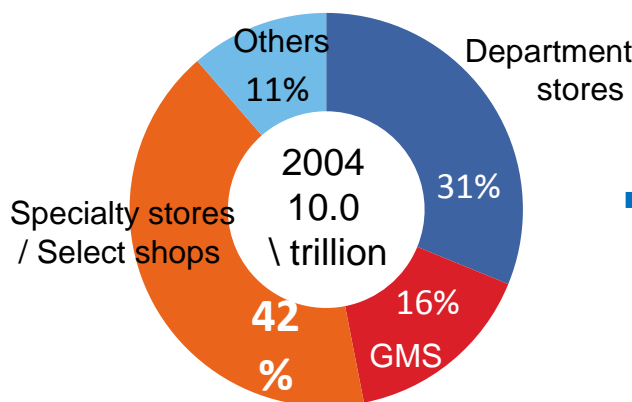
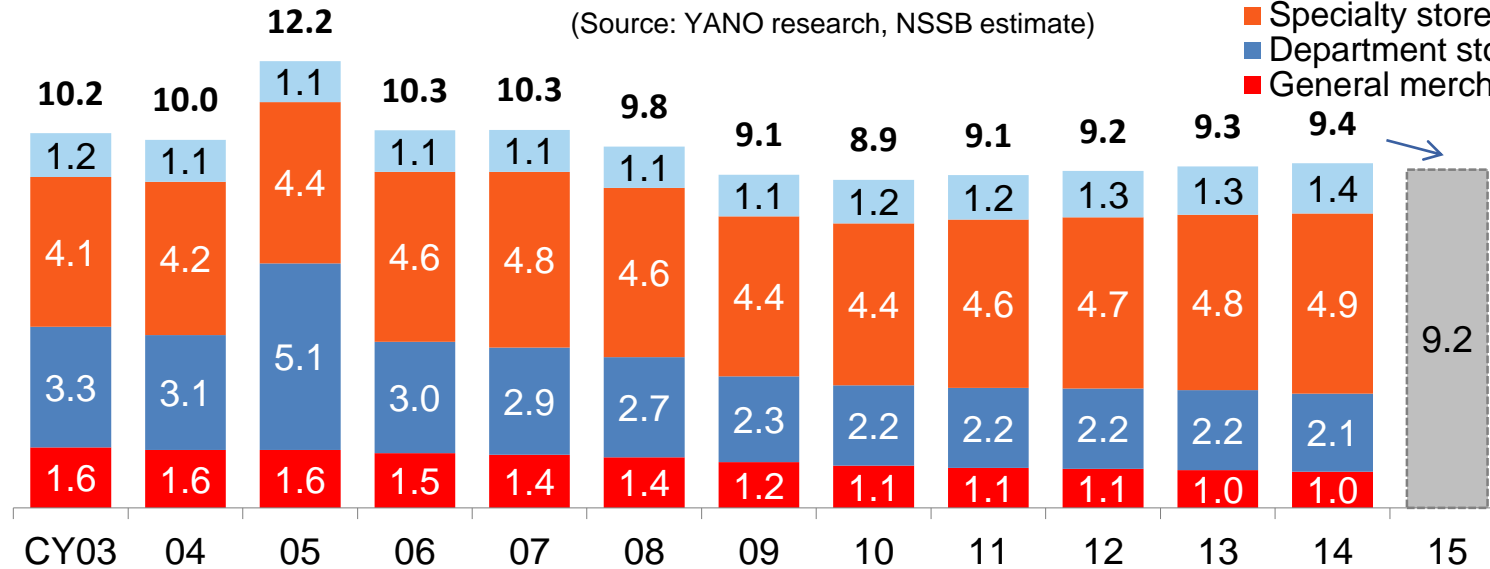


# Domestic Market Trend of Apparel Retail Industries

(\ trillion)

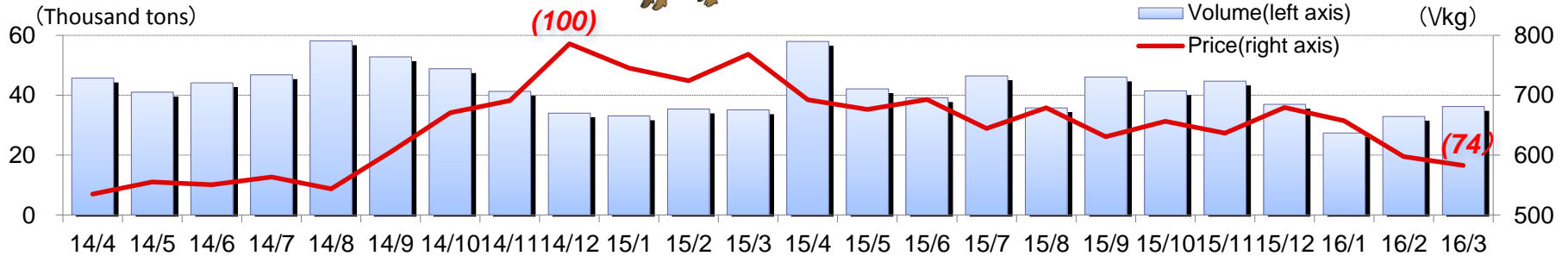
(Source: YANO research, NSSB estimate)

- Others
- Specialty stores/ Select shops
- Department stores
- General merchandising stores

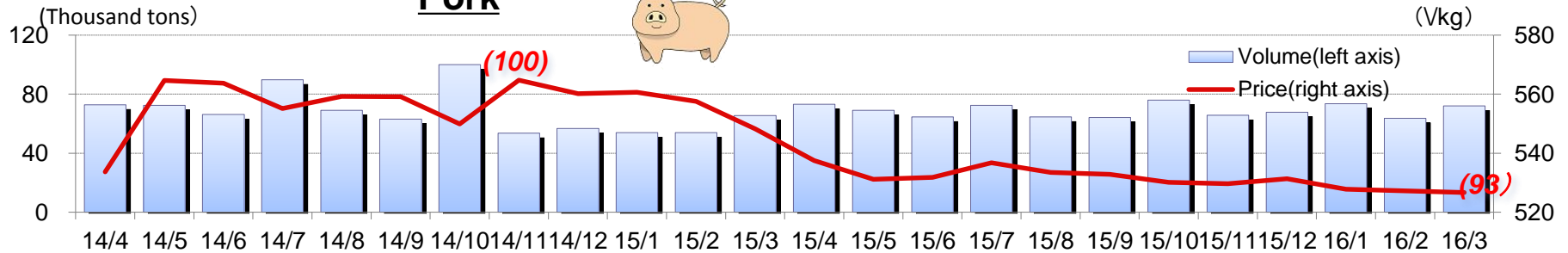


# Import Price and Volume Trend of Meats

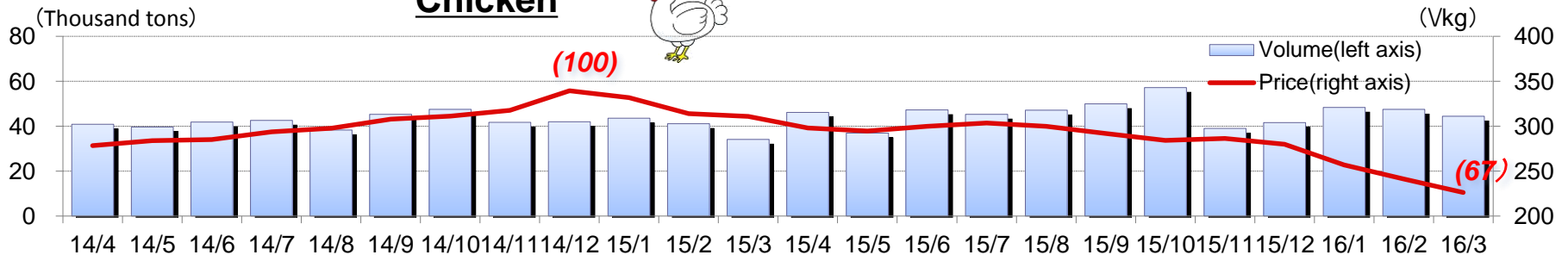
## Beef



## Pork

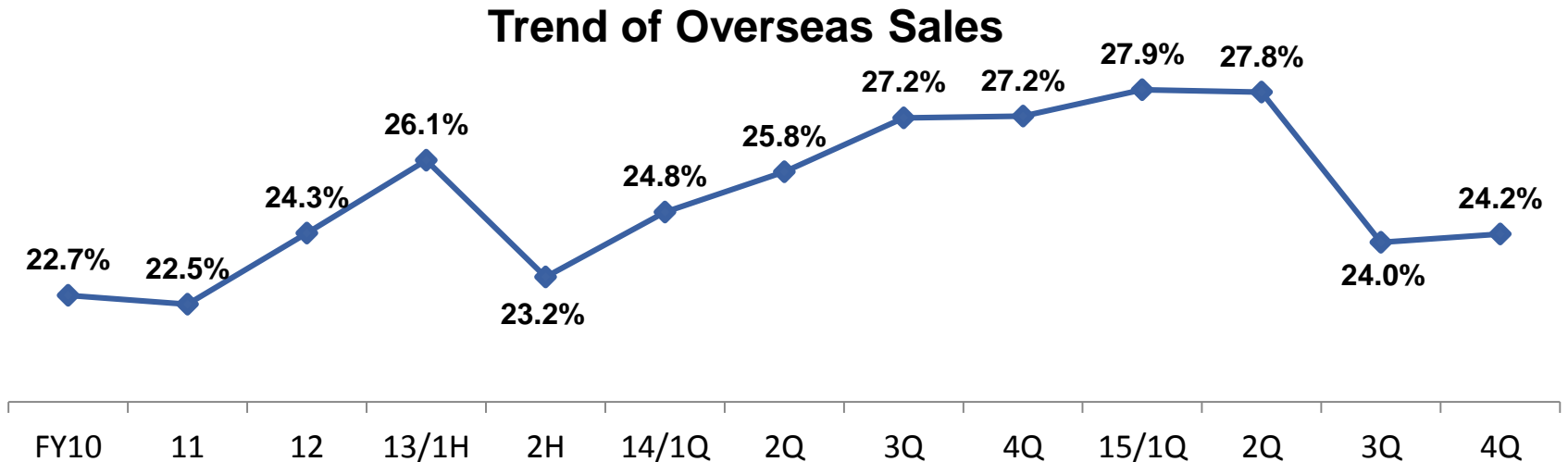
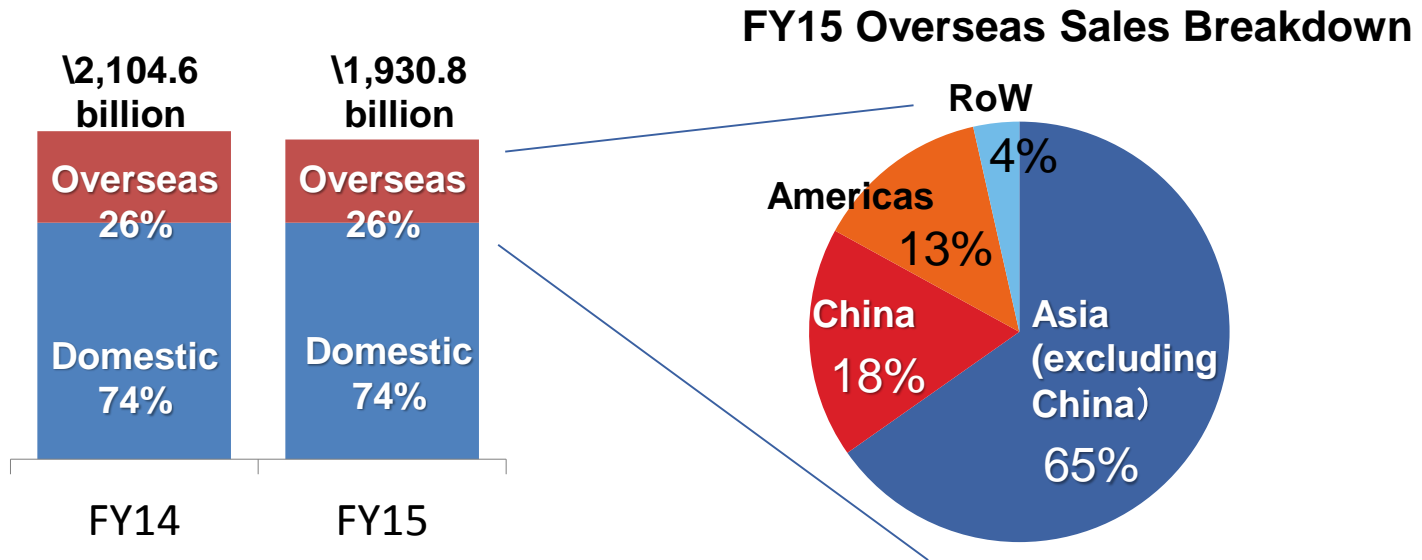


## Chicken



( ) Index: 2 years latest high = 100

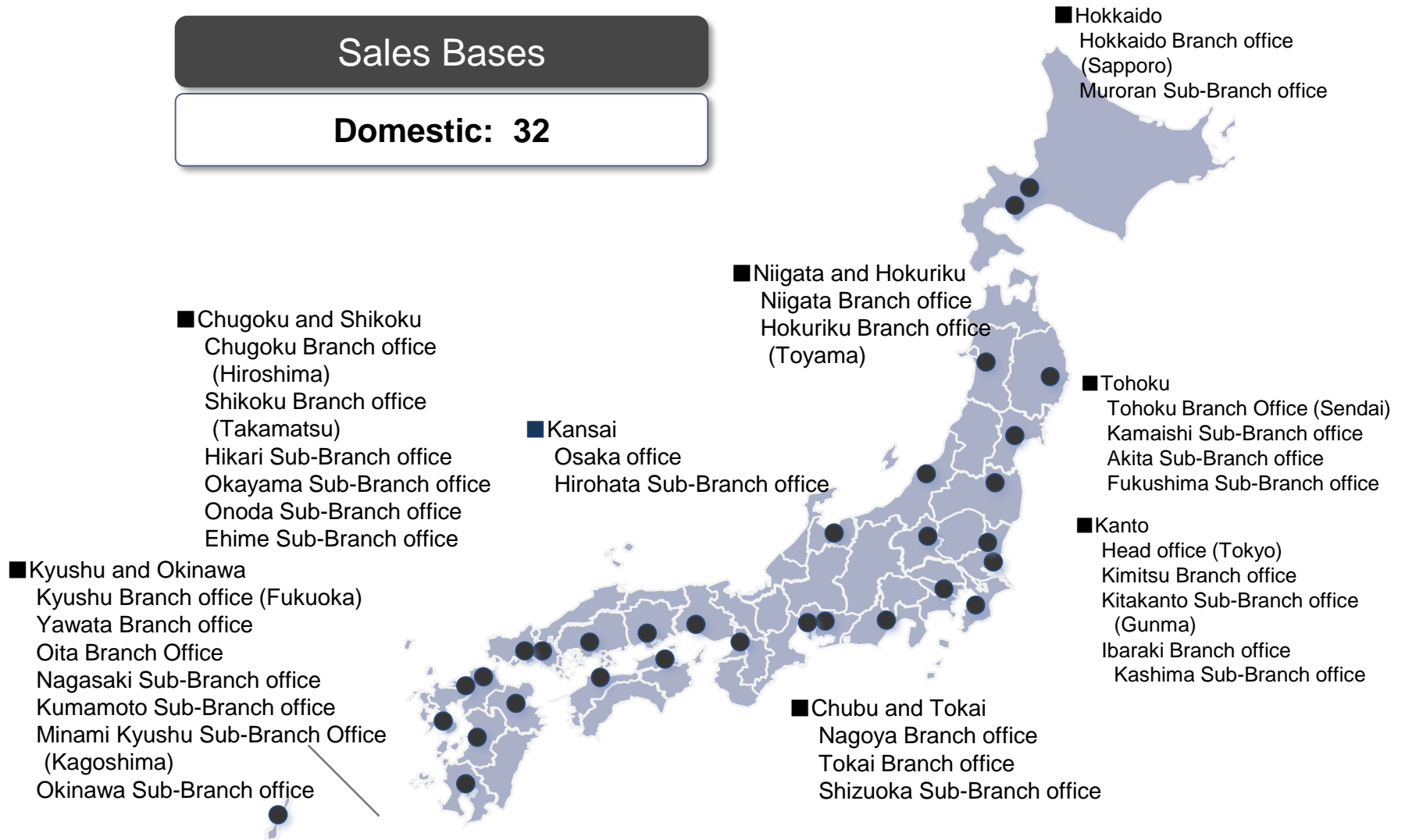
# Sales Breakdown by Region



# Domestic Sales Bases

## Sales Bases






**Domestic: 32**



# Overseas Sales Bases



# Some glossaries

<p>Core trading company</p>		<p>Nippon Steel &amp; Sumikin Bussan Corporation was born in October 2013 as a core trading company of NSSMC group. The Steel Division sells many types of steel products made by NSSMC, the second largest steel manufacturer in the world, and its group companies. We provide many customers with these products by making use of the domestic and global sales network built through the long-term business partnership.</p>
<p>Rojana industrial park</p>		<p>Rojana Industrial Park Public Co., Ltd. was established in 1988 by a joint venture between NSSB and Thai (Vinichbutr Group) companies for the purpose of development and operation of industrial parks in Ayutthaya Province, Rayong Province and Prachinburi Province. With over two decades of experience in developing high-quality industrial parks, Rojana becomes a leader of industrial park developing companies in Thailand.</p>
<p>Headrest business</p>		<p>Headrest (restraints) are an automotive safety feature, attached or integrated into the top of each seat. NSSB manufactures and supplies automobile headrests and its parts at 9 plants in Japan, Korea, USA, Mexico, Vietnam, China, and Poland with approx. 13% of the global market share.</p>
<p>ODM in apparel</p>		<p>The Textiles Division has evolved as a global OEM manufacturer, not as a traditional trading company, in its functions. Outside Japan it has established and maintains production centers and a distribution network across China and ASEAN countries. In Japan it is attempting to rebuild its domestic production system. The division aims to expand the business domain by developing the ODM (Original Design Manufacturing) style.</p>
<p>Imported meats</p>		<p>In the field of imported meats including beef, pork, and chicken, which the Foodstuffs Division pioneered, the division conducts stable importing in partnership with prominent overseas packers and production centers that provide integrated services from stock raising to processing. In this way the division has always maintained a top share of the market.</p>

## Corporate Philosophy

1. Continuing to be a corporate group driven by the aspiration of providing goods and services that offer new value to the larger society.
2. Putting trust and reliability first, and by doing so developing together with our customers.
3. Aiming to become the kind of organization that increasingly cultivates, utilizes, and values human resources and their talents.

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**NIPPON STEEL & SUMIKIN BUSSAN  
CORPORATION**