

# Metal Products Business Unit



**Makoto Horie**

General Manager,  
Metal Products  
Business Unit

### Main Fields

- Steel Sheet-related
- Tubular Products
- Non-Ferrous Products & Metals Field, etc.

### Organization

- Planning & Administration Dept., Metal Products Business Unit
- Steel Sheet & Construction Steel Products Division
- Metal Products for Automotive & Railway Industry Division
- Light Metals & Specialty Steel Sheet Division
- Tubular Products Division

## Message from the General Manager

### “What We Aim to Be”

We aim to realize growth strategies by anticipating changes in conditions and further strengthening relationships with our global partners.

### Growth Strategies for Becoming What We Aim to Be

We will further strengthen value chains centered on such products as steel sheets, tubular products, and aluminum to achieve further growth. Within the steel sheet-related field, we aim to be a leading supplier in the automobile-related field that provides a product lineup ranging from steel sheets through to components. As well as managing tubular product supply chains, in the tubular product field we will provide oilfield equipment, materials, and services to heighten added value. Also, aluminum businesses aim to build value chains in global markets by accelerating the development of production bases in areas from smelting operations upstream to rolling mills midstream.

**Q Please give us a review of BBBO2014.**

**A We steadily implemented value chain strategies in accordance with plans.**

In the steel sheet-related field, we sought to expand businesses that supply electrical steel sheets, which are indispensable for the improvement of automotive fuel efficiency. To this end, we advanced initiatives to step up the growth of Kienle + Spiess GmbH (K+S), one of Europe’s largest manufacturers and marketers of motor cores. We acquired K+S in 2013. In the tubular products field, we expanded synergies between our existing businesses and Edgen Group Inc., which we made a wholly owned subsidiary in November 2013 with a view to strengthening tubular products value chains, particularly in midstream and downstream areas. Regarding the non-ferrous metal products field, we started the implementation of the third-phase expansion of Press Metal Berhad’s aluminum smelting business in Malaysia, which will bring total production capacity to 760,000 tons per year upon completion.



Specialized vessel for transporting long rails

### Fiscal 2014 Results

Profit for the year rose ¥5.9 billion year on year, to ¥32.5 billion, because North American tubular products businesses and steel service center businesses continued to perform robustly.

**Q Please tell us about the measures you are taking in BBBO2017.**

**A We will deepen and enhance value chains in each field.**

The effect of recent falls in crude oil and gas prices is unavoidable in the short term. However, oil and gas development is expected to increase in tandem with

## Performance Highlights

	FY2013	FY2014	FY2015 Forecast
Gross profit	97.2	103.5	96.0
Operating profit	34.6	37.4	–
Share of profit of investments accounted for using the equity method	5.6	9.1	–
Profit for the year (attributable to owners of the parent)	26.6	32.5	23.0
Basic profit	26.0	33.7	–
Total assets	884.4	877.6	–

(Billions of yen)

the growth of energy demand over the medium-to-long term. Therefore, demand for tubular products and oilfield equipment and materials is likely to increase. Further, demand for transport materials and equipment is also expected to rise due to the development of railway infrastructure in emerging countries and modal shift initiatives in developed countries. Rising demand for electrical steel sheets is expected to contribute to improved automotive fuel efficiency. Increases in automotive unit production and vehicle-lightening needs will stimulate demand for aluminum-related products.

In the steel sheet-related field, we aim to build a system that encompasses steel sheet businesses through to automotive component businesses based on our steel service center businesses. With respect to transport equipment and materials businesses, plans call for establishing an unrivaled position by extending operations from delivery to include the maintenance area. In the tubular products field, our goal is to establish a system that can provide one-stop services based on a lineup of materials and equipment that is centered on tubular products. With this goal in mind, we will strengthen the industry-leading global operational foundations of our oil country tubular goods businesses even further. Furthermore, we will develop the oilfield equipment, materials, and services field while realizing synergies with Edgen Group to build distribution networks for line pipes and specialty tubular products. Through these efforts, we will strengthen our ability to provide a one-stop range of equipment and materials centered on tubular products. Regarding the non-ferrous metal products field, we will expand our aluminum smelting business through the third-phase expansion of our aluminum smelting business in Malaysia.

### **Q** Could you please explain about CSR initiatives that you pursue through business activities?

#### **A** We view managing health, safety, security, and the environment (HSSE) as an extremely important aspect of business activities.

In the Tubular Products Division, we have built a global HSSE management system in accordance with our basic policy of giving priority to compliance and HSSE in all businesses. Aiming to eliminate industrial disasters and environmental accidents, we are strengthening organizational capabilities, educating personnel, conducting risk assessment, and sharing know-how through global HSSE network meetings. As a result of these efforts, the number of accidents is decreasing steadily. In fiscal 2014, we set out “Beyond Zero Harm” as a new slogan, which reflects our determination to inculcate and entrench HSSE as part of our corporate culture and make the absence of disasters and accidents a matter of course.



Emphasizing rigorously safe behavior appropriate to each employee's workplace environment

## Metal Products Business Unit

### Summary of Main Fields

#### Steel Sheet-related Field

**“What We Aim to Be”**

We aim to become a leading supplier that offers a product lineup extending from steel sheets through to components by using our track record of handling many different types of steel sheets as a foundation.

**Business Conditions**

Burgeoning consumer spending in emerging countries is spurring growth in demand for automobiles, motorcycles, home appliances, construction materials, and other goods. Also, demand for steel-sheet products promises to rise even further given that developed countries are transferring to railway transport and emerging countries are developing railway infrastructure.

**Strengths and Strategies**

We will increase earnings through efficient management and realize higher added value by using as a foundation the sales capabilities of our steel service center businesses, which comprise 32 companies operating in 13 countries worldwide. Most of these are emerging countries. In addition, we will grow our share of markets for such transport equipment as train wheels and axles and automotive crank shafts by developing manufacturing and sales bases in regions worldwide.

**Current Initiatives**

In the automobile-related field, we will continue initiatives focused on becoming a global supplier that provides a product lineup covering steel sheets through to components. As part of these efforts, we aim to expand the businesses of K+S, acquired in 2013, to become the world’s No.1 manufacturer in this area. To this end, we will advance motor core businesses, which are likely to see increasing demand for the use of their products in such vehicles as electric cars and hybrid cars due to the effect of environmental policies and energy costs.



Outside view of the Y-Tec Keylex Mexico automotive parts manufacturing facility

#### Tubular Products Field

**“What We Aim to Be”**

We aim to extend tubular product value chains to cater to medium-to-long-term increases in energy demand.

**Business Conditions**

In the medium-to-long term, demand for oil country tubular goods for use in crude oil and gas development projects and line pipes for transport use is expected to grow in response to heightening demand for energy centered on emerging countries.

**Strengths and Strategies**

Our tubular product businesses boast a solid customer base, network, and product lineup that are among the largest in the world. We have achieved this by drawing on our diverse capabilities to develop businesses globally. For example, in 15 countries worldwide we offer supply chain management that provides integrated services encompassing ordering and inventory management through to processing, inspection, transport, and repair. Going forward, we will continue strengthening the tubular product value chain that we have built and expand earnings foundations.

**Current Initiatives**

A global distributor of tubular products and metal for the energy industry, Edgen Group became a wholly owned subsidiary in November 2013. In this way, we are further strengthening businesses in the oilfield equipment, materials, and services field, which is adjacent to our core businesses in the tubular product field. By creating synergies with existing businesses, we will expand value chains steadily.



Manufacture of oil well equipment at Howco Group plc.

## Non-Ferrous Products & Metals Field

### “What We Aim to Be”

We will bolster our cost-competitive value chains by strengthening our relationships with global partners.

### Business Conditions

Applications for such non-ferrous metals as aluminum and titanium are increasing. The market for these metals is likely to continue growing given the strong focus on improving the fuel efficiency of automobiles, aircraft, and other vehicles by lightening them.

### Strengths and Strategies

Our aluminum trading activities have dominated the Japanese market. In order to enlarge our presence in the global market, we will accelerate further development of the value chain of the aluminum industry overseas, from upstream to midstream.

### Current Initiatives

In our aluminum smelting business with Press Metal in Malaysia, with the establishment of stable operations following the second-phase expansion, we are undertaking third-phase expansion, which will bring our total production capacity to 760,000 tons per year. The completion of this expansion will enable us to enhance our aluminum value chain.



Our aluminum smelting joint venture with Press Metal, in Malaysia

## Project Overview

# Increasing Equity Interest in Aluminum Smelting and Enlarging Ingot Trading



Aluminum ingots produced by Press Metal

Press Metal is the largest aluminum manufacturer in Malaysia and is currently operating two aluminum smelting businesses in the state of Sarawak. We have participated in two phases of expansion in this project through a joint venture with Press Metal. The total existing capacity of aluminum ingots is 440,000 tons per year, comprising 120,000 tons in the first-phase expansion and 320,000 tons in the second. We obtained a 20% equity interest in the first and second phases of the project in 2010 and 2014, respectively. Further, the construction of a plant in the third-phase expansion has begun; the plant is expected to commence operation in early 2016. Total capacity on completion of the third-phase expansion will be 760,000 tons per year, and we will have obtained a 20% equity interest in each phase of the project.

Together with our equity, metal supplied through our Australian smelting activities is also expanding. Particularly in Asia, as we expect more overseas forays among Japanese manufacturers and the localization of automotive manufacturing to grow demand for aluminum globally, we will concentrate efforts on further developing the global aluminum trading business through our partnership with Press Metal.