

## Notice of the Signing of an Agreement toward the Establishment of a Joint Venture Company in China

With the objective of establishing a production and sales network that further strengthens our high performance alloy\* business in China, the Nippon Yakin Kogyo Board of Directors decided on February 27, 2017, to sign an agreement with Nanjin Iron and Steel Co., Ltd., (NISCO), a major Chinese iron and steel manufacturer, toward the formation of a joint venture company. The details are provided below.

### 1. Background and purpose

China is a major market for Nippon Yakin Kogyo's high performance alloys, and the industrial equipment and machinery industry is a major end-user of such materials. Due to the country's environmental and energy policies and the government's focus on advancing industry, the market is expected to continue growing rapidly. In addition to this potential for growth, there has been a demand in recent years for larger machinery and efficiency improvements to better compete against foreign manufacturers.

With respect to the high performance alloys supplied by Nippon Yakin Kogyo, we are observing a higher demand for short lead times, heavier unit weight and wider dimensions, and meeting these needs is a priority given the competition from peer suppliers in the US and Europe. Production in China, especially of wider materials, would be an advantage because of the time and costs required to ship products from Japan.

To address the market needs in China, Nippon Yakin Kogyo decided to consider outsourcing the manufacturing process of plate materials to NISCO, a major blast furnace steel manufacturer headquartered in Nanjing, Jiangsu Province, China. NISCO possesses global cutting-edge equipment, such as a 5,000-mm width hot roller and a 3,500-mm Steckel mill, capable of producing high-performance thick materials, and we believe that the latest market needs could be satisfied by using raw materials that we supply.

NISCO has established strong customer relationships in China including but not limited to large state-owned oil companies. With the distribution channels that NISCO has on top of our existing sales force of Nippon Yakin Shanghai Co., Ltd., our local Chinese subsidiary, we will be able to capture even a larger share in the Chinese market.

We believe this joint venture will further strengthen our business in the high performance alloy market

in China in terms of both production and marketing.

2. Joint venture profile

- (1) Name: To be decided
- (2) Location: Jiangsu Province, China
- (3) Capital: RMB 10 million
- (4) Equity stake: Nippon Yakin Kogyo – 60%, Nanjing Iron and Steel – 40%
- (5) Director: To be designated by Nippon Yakin Kogyo
- (6) Scope of business: Purchase and sales of high performance alloys, consignment rolling and other manufacturing processes, technological and quality assurance services
- (7) Commencement of operations: Around December 2017

This matter will have no impact on the consolidated performance for the March 2017 fiscal period.

\*The term “high performance alloy” refers primarily to high-nickel alloys with at least 20 percent nickel content.