Results of Investigation into the Proposed Merger between Nippon Steel Corporation and Sumitomo Metal Industries, Ltd.

(tentative translation)

December 14, 2011
Japan Fair Trade Commission

Upon the receipt of notification of a plan regarding the merger between Nippon Steel Corporation and Sumitomo Metal Industries, Ltd., the Japan Fair Trade Commission (hereinafter the "JFTC") examined the plan and acknowledged that, given the remedies proposed by the parties concerned, competition in any particular field of trade might not be substantially restrained. Accordingly, the JFTC notified the parties that a cease and desist order would not be issued and completed this investigation.

The call for information on the impact on the merger between Nippon Steel Corporation and Sumitomo Metal Industries, Ltd.*[1] on competition, which commenced on June 1, 2011, will now end.

I. Outline of the case

The case is the merger planned for October 1, 2012 by Nippon Steel Corporation and Sumitomo Metal Industries, Ltd., both engaged in the manufacture and sale of steel products.

II. Process*[2] of the case

On May 31, 2011, receipt of notification of a plan regarding the merger (start of primary review)
On June 30, request for reports, etc. (start of secondary review)
On November 9, receipt of all reports (deadline for prior notice: February 7, 2012)
On December 9, submission of a report on changes in the notification by the parties, in which the remedies were described
On December 14, notification to the effect that a cease and desist order will not be issued

III. Conclusion

Given the remedies relating to non-oriented electrical steel sheets and the high-pressure gas pipeline engineering business (refer to IV-4 and V-4 of the attachment), which the parties submitted to the JFTC, the JFTC has decided that the merger in question may not substantially restrain competition in any particular field of trade (refer to the attachment for the details of the results of the investigation).

*Every announcement is tentative translation. Please refer to the original text written in Japanese.

Foot Note (1)

Nippon Steel Corporation, the biggest steel manufacturer in Japan and Sumitomo Metal Industries, Ltd., the third biggest steel manufacturer in Japan.

Foot Note (2)

The JFTC has the duty to conduct reviews on whether business combination plans may be substantially to restrain competition in particular fields of trade by following procedures prescribed in the Antimonopoly Act. When a notifying corporation submits the notification form to the JFTC and the JFTC receives it, the notifying corporation is prohibited from effecting share acquisition, etc. in question until the expiration of the 30-day waiting period from the date of receipt of the said notification. During the waiting period, concerning the business combination in question, the JFTC will normally either: (1) judge that the said business combination is not problematic in light of the Antimonopoly Act, or (2) judge that more detailed review is necessary and request submission of the necessary reports, information or materials.

In the case of (1) above, to improve transparency of the review of business combination, the JFTC shall give notification to the effect that it will not issue a cease and desist order.

In the case of (2) above, the period when the JFTC may give notice prior to cease and desist order shall be extended until 120 days after the date of receipt of the notification or 90 days after the date of receipt of all reports etc., whichever is later. In case the JFTC judges in this extended period that the business combination plan in question is not problematic in light of the Antimonopoly Act, it shall give notification to the effect that it will not issue a cease and desist order, the same as in the case of (1).

Attachment

Results of the Investigation into the Proposed Merger between Nippon Steel Corporation and Sumitomo Metal Industries, Ltd.

I. The parties

Nippon Steel Corporation (hereinafter "NSC") is a company engaged in the manufacture and sale of steel products, etc. Sumitomo Metal Industries, Ltd. (hereinafter "SMI") is a company engaged in the manufacture and sale of steel products, etc.

II. Outline of the case and provision of applicable laws

NSC and SMI plan to merge on October 1, 2012 (hereinafter referred to as the "Merger"). The provision of applicable laws is Article 15 of the Antimonopoly Act.

III. Process of this investigation and outline of the results of the investigation

1. Process of this investigation

From March 2011, the parties voluntarily submitted a written opinion to the JFTC stating that, with respect to the steel products, titanium products and engineering businesses in which the parties (including companies combined with the parties) compete, the parties consider that the Merger may not substantially restrain competition. The JFTC held several meetings with the parties at the request of the parties. Thereafter, on May 31, 2011, notification of a plan regarding the Merger was submitted. Accordingly, the JFTC received the notification and commenced the primary review and began to collect information from June 1, 2011, indicating the main goods/services (see "Reference" undermentioned) in which the parties (including companies combined with the parties) compete. The JFTC conducted the primary review considering materials including the above notification and written opinions that were submitted by the parties, interviews with users and competitors, and information collected from the general public, etc. As a result, it was determined that more detailed review was necessary. Accordingly, on June 30, 2011, the JFTC requested that the parties submit reports, etc., and commenced the secondary review.

In the secondary review, the JFTC received reports, etc. submitted by the parties one after another. In addition, the JFTC held several meetings with the parties at the request of the parties. The parties made assertions and submitted materials to clear up and resolve the questions raised in the meetings by the JFTC. The JFTC conducted a further investigation of the effects of the Merger on competition considering the assertions and materials submitted by the parties, the results of interviews with users and competitors and the results of investigations undertaken through questionnaires, and the information collected from the general public, etc. In August 2011, the majority of the

reports, etc. that the JFTC requested had been submitted, and the parties requested that explanation about issues. Accordingly, the JFTC explained the current issues. The parties then made additional assertions and submitted additional materials, and the JFTC held several meetings with the parties to investigate their assertions. The JFTC also pointed out that there is a possibility that, with respect to non-oriented electrical steel sheets, which constitute one of the steel products, and the high-pressure gas pipeline engineering business, which is one of the engineering businesses, the Merger may substantially restrain competition. As a result, the parties offered to take measures to solve the problems regarding competition. The JFTC then held several meetings with the parties. The parties offered to take specific remedies thereafter.

2. Outline of the results of the investigation

As to the case, the JFTC examined the goods/services (see "Reference" undermentioned) in which the parties (including companies combined with the parties) compete and determined approximate 30 fields of trade. With respect to non-oriented electrical steel sheets and the high-pressure gas pipeline engineering business, given the remedies that the parties presented to the JFTC, the JFTC has decided that the Merger may not substantially restrain competition. The JFTC also has decided that the Merger may not substantially restrain competition with respect to the other fields of trade.

Among the results of the investigation into the case:
the results of investigation regarding (i) non-oriented electrical steel sheets and the high-pressure gas pipeline engineering business, for which remedies will be implemented; and
(ii) among the fields of trade about which the JFTC has decided that the Merger may not substantially restrain competition, the results of investigation regarding (a) steel sheet piles and spiral welded pipes that the JFTC closely investigated by conducting investigations through questionnaires, and (b) hot-rolled steel sheets and H-section steel, which are representative steel products,
are as shown in IV to IX below.

As to the point that, with respect to the companies in which the parties have a ratio of voting rights that is greater than 10% and 50% or less (Topy Industries Ltd. (NSC is the single largest shareholder holding 20.5% of the voting rights; hereinafter "Topy Industries"), GODO STEEL, Ltd. (NSC is the single largest shareholder holding 15.7% of the voting rights; hereinafter "GODO STEEL"), etc.), the parties alleged that these companies have no joint relationship with the parties because these companies are competitors that are independent of the parties, in this investigation it is recognized that, for example, although Topy Industries and GODO STEEL have a relationship of combination with NSC, there is a certain degree of competitive relationship between such companies and NSC as stated in "IX H-section Steel". The JFTC has decided that the Merger may not substantially restrain competition in consideration of the above circumstances. There are multiple such fields of trade including H-section steel. The JFTC will pay close attention in the future to check whether the parties will acquire the additional voting rights of such companies, or expand the range of interlocking directorates who serve concurrently to strengthen the joint

relationship with such companies, thereby weaken the competitive relationship between the parties and such companies, and may, as a result, substantially restrain competition in the fields of trade concerned.

(Reference)
- Steel Sheets (hot-rolled steel sheets, cold-rolled steel sheets, electro-galvanized steel sheets, hot-dip galvanized steel sheets, etc.)
- Non-oriented Electrical Steel Sheets
- Heavy and Medium Plates
- Sections (steel sheet piles, H-section steel, middle and small-sized sections, etc.)
- Steel Bars and Wire Rods (ordinary steel bars, deformed steel bars, ordinary steel wire rods, special steel bars, special steel wire rods, etc.)
- Steel Pipes (small-diameter seamless steel pipes, small and medium-diameter seamed steel pipes, large-diameter pipes, etc.)
- High-tensile Bolt
- Automobile Wheels
- Titanium Products
- Pipeline Engineering Business

(note) The above classifications of goods/services do not necessarily show the particular fields of trade defined in this case.

IV. Non-oriented electrical steel sheets

1. Particular field of trade

(1) Product range

Non-oriented electrical steel sheets are a type of electrical steel sheets manufactured by adding silicon and other materials to steel. They have small core loss value (the value of the loss of electricity that is consumed as heat energy when a magnetic field is imparted to a core (iron core)), and excel in terms of magnetic properties. Non-oriented electrical steel sheets are punched out to a prescribed shape, laminated, and used for the cores of motors, etc. after press processing. Motors, etc. using non-oriented electrical steel sheets are chiefly used for home electrical appliances such as air-conditioners, refrigerators and washing machines.

Electrical steel sheets include non-oriented electrical steel sheets and grain-oriented electrical steel sheets. Non-oriented electrical steel sheets have uniform magnetic properties for all directions and are primarily used for the cores of motors, etc. as mentioned above. Meanwhile, grain-oriented electrical steel sheets have magnetic properties in a rolling direction, and are chiefly used for the cores of transformers. The manufacturing equipment for non-oriented electrical steel sheets and grain-oriented electrical steel sheets is different. As a result, there is a difference in the use and manufacturing methods of non-oriented electrical steel sheets and grain-oriented electrical steel sheets. They have no substitutability of supply and demand. It is therefore considered that non-oriented electrical steel sheets and grain-oriented electrical steel sheets form separate product ranges.

There are various standards in terms of thickness and core loss value for non-oriented electrical steel sheets. Non-oriented electrical steel sheets with less thickness and a smaller core loss value are high-grade products. Non-oriented electrical steel sheets with greater thickness and a larger core loss value are low-grade products. As to the substitutability of demand between non-oriented electrical steel sheets with the respective standards, according to the results of interviews with Japanese users such as Japanese electric machine makers (hereinafter the “Domestic Users” in IV below), there are many opinions indicating that there is no substitutability between standards. Considering also the results of an investigation through questionnaires that were conducted for the Domestic Users who purchased the products of the parties, the substitutability of demand is acknowledged as being low between standards.

Meanwhile, manufacturing equipment does not differ according to the standards, and the substitutability of supply is recognized.

As mentioned above, the substitutability of demand is low between different standards, but the substitutability of supply is recognized. “Non-oriented electrical steel sheets” are therefore determined as a product range.

(2) Geographical range

The parties assert that the geographical range is East Asia because (i) the Domestic Users promoted the local procurement of non-oriented electrical steel sheets in overseas manufacturing bases, reflecting their overseas business development centered on East Asia, and accelerated the adoption of products (hereinafter "the Overseas Makers' Products" in IV below) manufactured by non-oriented electrical steel sheet makers in East Asia (hereinafter "the Overseas Makers" in IV below) even in domestic bases, (ii) the Domestic Users are well aware of the prices of the Overseas Makers' Products through procurement at overseas bases and the overseas prices are reflected in domestic prices, etc..

However, according to the results of an investigation through questionnaires that were conducted for the Domestic Users, as stated in 2(4) below, the Domestic Users, both at domestic and overseas bases, procured most of the non-oriented electrical steel sheets from domestic makers. The volume of non-oriented electrical steel sheets procured from the Overseas Makers is relatively small. There are numerous opinions showing that no change will be made to the Overseas Maker' Products even if the prices increase by 5% to 10% regarding non-oriented electrical steel sheets that the Domestic Users procure from domestic makers in domestic bases.

According to the results of interviews with the Domestic Users:
market conditions including prices differ between Japan and East Asian countries, and therefore prices traded in East Asia countries are not linked to prices traded in Japan; and
negotiations with domestic makers for procurement prices in domestic bases, referring to the prices of procurement from the Overseas Makers in overseas bases, are not realistic. According to data regarding prices, there is no necessary link between prices in Japan and prices in East Asia.

In addition, the market share of the domestic makers in Japan is high while the market share of the domestic makers in East Asia is low, and the distribution of market share is completely different between Japan and East Asia. Based on the foregoing, we consider that it is not proper to determine the geographic range as East Asia crossing a national boundary.

Meanwhile, there is no constraint on transport within Japan for non-oriented electrical steel sheets from the viewpoint of difficulties with transport and the cost of transport. The parties and competitors conduct sales all over Japan. Circumstances showing a difference in selling prices according to region are not identified.

Accordingly, "all of Japan" is determined as being the geographical range.

2. Investigation into substantial restraint of competition

(1) Change in market structure due to the Merger and where problems exist

The companies that belong to the corporate group concerned, which sells non-oriented electrical steel sheets in the

domestic market, are NSC (market share: around 40%) and SMI (market share: around 15%). The Merger will result in the formation of a new business combination between NSC and SMI. The combined market share of the parties will be around 55%, and they will rank first in the domestic market. After the Merger, HHI will increase by around 1,100 to around 4,600, which will not meet the safe harbor standards for horizontal business combinations.

In the domestic market of non-oriented electrical steel sheets, there is an effective competitor called Company A with a market share of around 40%. With the Merger, the parties will have a total market share of around 55%, and the difference between the market share of Company A and the parties will increase. Accordingly, there is a possibility that, based on the conditions of the excess capacity of Company A, the degree of import pressure and the degree of competitive pressure from the users, etc., a situation may arise in which the corporate group may solely have some latitude to determine prices, etc.

With the Merger, the number of companies in the domestic market of non-oriented electrical steel sheets will reduce from three to two. There is therefore a possibility that, depending on the conditions of the excess capacity of each company, the degree of import pressure and the degree of competitive pressure from the users, etc., if the corporate group concerned conducts business in a coordinated manner with its competitors, a situation may arise in which it may have some latitude to determine prices, etc.

Market share of non-oriented electrical steel sheets in fiscal year 2010

Rank	Company name	Market share
1	NSC	Around 40%
2	Company A	Around 40%
3	SMI	Around 15%
	Import	Around 5%
	Total	100%

(2) Competition in the past

NSC and Company A manufacture grain-oriented electrical steel sheets as well as non-oriented electrical steel sheets, while SMI manufactures only non-oriented electrical steel sheets. The Domestic Users may procure both non-oriented electrical steel sheets and grain-oriented electrical steel sheets at the same time. SMI, which handles only non-oriented electrical steel sheets, may not cope with such a case. In addition, SMI has fewer product lines than NSC and Company A, and a weak production base. As a result, SMI's position differs from those of the other two companies in the non-oriented electrical steel sheet market. In addition, according to information obtained from the Domestic Users and the trend of actual prices, it is recognized that the price strategy of SMI is different from that of the other two companies.

Based on the foregoing, it is recognized that SMI acts differently from the other two companies. However, the company after the Merger (denoting the parties after the Merger; this will apply similarly hereinafter) will become

a company with the same nature as NSC. It is therefore considered that the price strategy adopted by SMI will not be adopted.

(3) Excess capacity of each company concerned

Each company concerned has high capacity utilization of the manufacturing facilities of non-oriented electrical steel sheets.

Each company concerned also exports in large quantities. Most of the exports are directed to the overseas bases of the Domestic Users. It is not easy to freely adjust the volume of supply to the Domestic Users, which seek stable procurement. It is therefore considered that it is difficult to divert export products freely to domestic sale.

Accordingly, it is recognized that each company concerned does not have sufficient excess capacity.

(4) Import pressure

If imports come from neighboring countries in East Asia, the transportation costs required for the imports are minimal, and no customs duties are levied. The ratio of imports in the domestic market has increased slightly in recent years. However, it is considered that low-grade products accounted for most of the imports.

According to the results of investigations undertaken by questionnaires that were conducted for the Domestic Users, the Domestic Users in overseas bases as well as domestic bases procured most non-oriented electrical steel sheets from domestic makers. The volume of non-oriented electrical steel sheets procured from the Overseas Makers is relatively small. We used a questionnaire to ask the Domestic Users about the likelihood that they would change to the Overseas Makers' Products if the prices of non-oriented electrical steel sheets procured from domestic makers rose by 5% to 10%. There were numerous statements to the effect that the Domestic Users would not change to the Overseas Makers' Products. In addition, according to the results of the investigations undertaken by questionnaire, while there were some responses stating that some Overseas Makers' Products have the same quality as domestic makers' products and the Domestic Users evaluate the Overseas Makers' Products positively, there were responses stating that the quality of the Overseas Makers' Products is not sufficient and fails to meet the requirements of the Domestic Users because there is more considerable variation in thickness than in domestic makers' products (so lamination is difficult), there is a problem with stable procurement due to significant changes in prices, and there is no price advantage regarding Overseas Maker's Products which have the same quality as domestic makers' products. According to the results of interviews, there are also uncertainties regarding the prices, quality and delivery time of the Overseas Makers' Products, and a change to the Overseas Makers' Products would be difficult in domestic bases.

As to high-grade products, in particular, according to the results of investigations undertaken by questionnaire, the Overseas Makers do not manufacture products with the high quality required by the Domestic Users. The Domestic Users procure almost all their products from domestic makers. The tendency not to change to the Overseas Makers'

Products, even in the event of a relative rise in domestic prices, was remarkable. As to low-grade products, there were a certain number of Domestic Users that would change to the Overseas Makers' Products if domestic prices rose somewhat. However, it is recognized that it would not necessarily be easy to change to the Overseas Makers' Products from the viewpoint of quality problems and stable supply, etc.

Accordingly, in terms of high-grade products, it is not recognized that import pressure is exerted. It is considered that import pressure on low-grade products is exerted to a certain degree, but it is recognized that the degree is not necessarily strong.

(5) Competitive pressure from users

Even if the standard of non-oriented electrical steel sheets is the same, there are subtle differences depending on the maker. It is not easy to change the maker. According to the results of investigations undertaken by questionnaire, there were many responses to the effect that it is necessary for the Domestic Users to evaluate and test characteristics by standard in order to change a supplier, and it is time consuming and costly. Most of the responses stated that it is difficult to change supplier makers for both high-grade products and low-grade products.

Accordingly, it is not recognized that competitive pressure is being exerted by users.

3. Assessment under the Antimonopoly Act

(1) Substantial restraint of competition by unilateral conduct

With the Merger, the parties will have a total market share of around 55%. There is one effective competitor, however it does not have sufficient excess capacity. It is therefore considered that, when the parties increase their prices, it will be difficult to increase the volume of supply sufficiently.

As to high-grade products, the Overseas Makers do not manufacture products with the high quality required by the Domestic Users at their domestic bases, and import pressure is not recognized. Some low-grade products are imported. There is a certain number of Domestic Users that would change to the Overseas Makers' Products if domestic prices rose. However, the Domestic Users showed concern that, as compared with domestic makers' products, the Overseas Makers' Products do not have sufficient quality that the Domestic Users would require at domestic bases, and there are uncertainties regarding stable procurement due to significant changes in prices. It is therefore acknowledged that import pressure is not necessarily strong.

In addition, it is not easy for the Domestic Users to change supplier makers, and competitive pressure from users is not recognized.

Accordingly, with the Merger, in terms of high-grade products, a situation could easily arise in which the corporate group may solely determine prices, etc. to a certain extent. It is therefore considered that the Merger may

substantially restrain competition.

(2) Substantial restraint of competition through coordinated conduct

With the Merger, the number of companies in the domestic market for non-oriented electrical steel sheets will decline from three to two. It is recognized that it will be easier to conduct business in a coordinated manner than before the Merger.

SMI differs in the handling or non-handling of grain-oriented electrical steel sheets and the strength or weakness of the production base from NSC and Company A. The actual price strategy of SMI is recognized to differ from that of NSC and Company A. After the Merger, two companies with the same nature will divide the market almost in two. It is therefore considered that the behavior of both companies can be predicted with a high degree of probability.

Under such a situation, import pressure on high-grade products is not recognized. Import pressure on low-grade products is not necessarily strong. Competitive pressure from users is not recognized.

Accordingly, after the Merger, in terms of high-grade products, a situation could easily arise in which the corporate group may have some latitude to determine prices, etc. through coordinated conduct with their competitors. It is therefore considered that the Merger may substantially restrain competition.

4. Proposal for remedies by the parties

As stated in 3 above, the Merger may substantially restrain competition. The parties have therefore proposed adopting the following remedies.

(i) The products of all grades that SMI currently sells to the Domestic Users will be supplied to Sumitomo Corporation (hereinafter "Sumitomo") subject to the upper limit of the maximum domestic annual sales volume of SMI in the last five years (from fiscal year 2006 to fiscal year 2010) at a price equivalent to the average production cost (calculated based on the full cost) of non-oriented electrical steel sheets of the company after the Merger for five years after the Merger.

(ii) The commercial rights relating to the sale of non-oriented electrical steel sheets of SMI to the Domestic Users will be transferred to Sumitomo. Specifically, in addition to taking over a list of customers, the relationship of transactions (including the contract relationship and agreed specifications) with the Domestic Users will be transferred. Utmost efforts will be made to obtain the Domestic Users' understanding with regard to the transfer. Technical support for the decision regarding delivery specifications and the handling of complaints will be also provided. In addition, to secure quality after the slit, proper measures such as succession should be implemented so that Sumitomo can use the slit centers located all around Japan where the parties provided technical guidance.

(iii) The status of the implementation of the above measures should be reported to the JFTC once every accounting term for five years after the Merger.

5. Assessment of remedies

(1) Appropriateness of a measure to set trading rights at a price equivalent to the production cost

As stated in 3 above, it is considered as of now that the Merger may substantially restrain competition with regard to non-oriented electrical steel sheets. However, reflecting the movement of the Domestic Users' diversification of procurement channels triggered by the Great East Japan Earthquake and the rapid appreciation of the yen as the recent conditions, it is recognized that import pressure on low-grade products is becoming strong, and a move to adopt the Overseas Makers' Products has commenced with regard to high-grade products. As a result, because it is considered that import pressure will increase considerably after a certain period of time, the conditions of substantial restraint of competition are not reasonably forecasted to continue, and we cannot say that permanent measures will be indispensable as remedies.

Thereafter, we investigated setting trading rights at a price equivalent to the production cost and found that SMI has a weaker production base than NSC and Company A, that it needs to bring in hot-rolled steel sheets, the material from which non-oriented electrical steel sheets are produced, from other steelworks because the operation of the hot-rolled steel sheets product line is suspended in Wakayama Steelworks with the product line, and that it naturally has a high cost structure. Meanwhile, companies for which trading rights are set will be supplied at a price equivalent to the average production cost of the company after the Merger. As a result, the measures proposed by the parties will result in the creation of more effective companies than SMI.

Accordingly, in the case, if trading rights at a price equivalent to the production cost are set based on proper conditions, it is considered that they will be appropriate remedies. Below, we will investigate the appropriateness of specific conditions regarding setting trading rights at a price equivalent to the production cost that are proposed by the parties.

(2) Appropriateness of specific conditions regarding setting trading rights at a price equivalent to the production cost

Sumitomo does not manufacture non-oriented electrical steel sheets by itself. However, as a trading firm, Sumitomo accompanied domestic makers, or acted on behalf of domestic makers, in price negotiations between domestic makers and the Domestic Users, was thus involved in the sales business, and therefore has no difficulties in terms of sales capability, including its commodity knowledge and sales know-how. The ratio of the voting rights of Sumitomo, which will be held by the company after the Merger, and the ratio of the voting rights of the company after the Merger, which will be held by Sumitomo, are planned to be several percent. No person will become a director or a corporate auditor for both Sumitomo and the company concurrently after the Merger. Sumitomo is therefore a company that is independent from the parties from the viewpoint of capital and human relationships,

and can become an effective brake against the parties as a new market entrant.

The cost conditions of Sumitomo and the company after the Merger will become common. However, Sumitomo is not a maker, has original experience as a trading firm, and is different from the company after the Merger in terms of the handling or non-handling of grain-oriented electrical steel sheets and the holding or non-holding of manufacturing facilities. Sumitomo therefore has an incentive to adopt a price strategy that differs from the price strategy of the company after the Merger.

As to the period for setting trading rights, which is five years after the Merger, import pressure especially on high-grade products is not currently recognized. However, at present there are Domestic Users that have begun to use the Overseas Makers' high-grade products in their overseas bases. There are also Domestic Users that obtained samples in their domestic bases and began to undertake evaluations aimed at adoption. Even after considering the time that the Domestic Users need to take before adoption after obtaining samples, it is considered that there is a high possibility that import pressure on those, including high-grade products, will be exerted after five years from the Merger as proposed by the parties.

Accordingly, it is considered that the specific conditions for setting trading rights at a price equivalent to the production cost that are proposed by the parties are appropriate.

6. Conclusion

As investigated above, in view of the remedies proposed by the parties, it is considered that the Merger may not substantially restrain competition in the field of trade of non-oriented electrical steel sheets.

V. High-pressure gas pipeline engineering business

1. Particular field of trade

(1) Service range

The high-pressure gas pipeline engineering business is one type of engineering businesses relating to steel gas pipelines, including work to install or replace steel gas pipelines (hereinafter the "steel gas pipeline engineering business"), and includes work such as design, procurement (procurement of pipe), construction management and construction (civil engineering, pipe laying, welding, coating and inspection).

Steel gas pipelines consist of two types: high-pressure gas pipelines (1.0MPa or more) and medium-pressure gas pipelines (0.1MPa or more and less than 1.0MPa), which are divided according to the gas pressure of pipelines. Accordingly, the steel gas pipeline engineering business is divided into the high-pressure gas pipeline engineering business and the medium-pressure gas pipeline engineering business. High-pressure gas pipelines require pipes with more strength (pressure resistance) than medium-pressure gas pipelines (electric resistance-welded pipes (ERW pipes) are mainly used for medium-pressure gas pipelines and UO pipes (UOE pipes) are mainly used for high-pressure gas pipelines). The welding of pipes and inspections are required to meet higher standards than those required for medium-pressure gas pipelines. Gas companies, etc. have established higher standards for the high-pressure gas pipeline engineering business than for the medium-pressure gas pipeline engineering business. Due to this there is no substitutability of demand between the high-pressure gas pipeline engineering business and the medium-pressure gas pipeline engineering business. It is therefore considered that the high-pressure gas pipeline engineering business forms a service range that differs from that for the medium-pressure gas pipeline engineering business.

Accordingly, the "high-pressure gas pipeline engineering business" is determined as being the service range.

(2) Geographical range

Major companies in the high-pressure gas pipeline engineering business receive orders for the high-pressure gas pipeline engineering business in all areas of the country. When they accept an order in an area in which they have no office, they will dispatch foremen and welders, etc. to the area.

Accordingly, "all of Japan" is determined as being the geographical range.

2. Investigation into substantial restraint of competition

(1) Change in market structure due to the Merger and where problems exist

The companies that belong to the corporate group concerned, which conducts the high-pressure gas pipeline engineering business in the domestic market, are Nippon Steel Pipeline Co., Ltd. (a wholly owned subsidiary with a

market share of around 30% of Nippon Steel Engineering Co., Ltd. which is a wholly owned subsidiary of NSC; hereinafter "NSP") and Sumitomo Metal Pipeline and Piping, Ltd. (a wholly owned subsidiary with a market share of around 30% of SMI; hereinafter "SMP"). The Merger will result in the formation of a new business combination between NSP and SMP. The combined market share of the parties will be around 60%, and they will rank first in the domestic market. After the Merger, HHI will increase by around 1,800 to approximately 4,900, which will not meet the safe harbor standards for horizontal business combinations.

In the domestic market of the high-pressure gas pipeline engineering business, in addition to NSP and SMP, there is an effective competitor called Company B with a market share of around 35%, which belongs to a corporate group of blast furnace steelmakers (these three companies will be hereinafter referred to as the "Blast Furnace-Related Engineering Companies"). With the Merger, the parties will hold a market share of around 60%, which will rank first in the market, surpassing Company B. The gas companies, etc. that are users decide on the parties who will receive each order using a bidding method. The number of Blast Furnace-Related Engineering Companies, which are the major companies that participate in the bids, will decline from three to two. There is therefore a possibility that a situation could arise in which the corporate group concerned may solely determine prices, etc. to a certain extent according to the degree of entry pressure and the degree of competitive pressure from users, etc.

There are also engineering companies affiliated with a gas company (denoting an engineering company that is a subsidiary of a gas company; the same shall apply similarly hereinafter) in the domestic market of the high-pressure gas pipeline engineering business. However, their market share is small. With this Merger, the number of Blast Furnace-Related Engineering Companies, which are the major companies in the high-pressure gas pipeline engineering business, will be reduced from three to two. There is therefore a possibility that a situation could arise in which the corporate group concerned may have some latitude to determine prices, etc. to a certain extent through coordinated conduct with its competitors according to the degree of entry pressure and the degree of competitive pressure from users, etc.

The amount of orders placed in the high-pressure gas pipeline engineering business varies greatly from year to year. As a result, we undertook our investigation based on the market shares calculated from the total amount of orders received in the past five years from fiscal year 2006 to fiscal year 2010.

Market share of high-pressure gas pipeline engineering business for fiscal year 2006 to fiscal year 2010

Rank	Company name	Market share
1	Company B	Around 35%
2	NSP	Around 30%
3	SMP	Around 30%
	Others	0 to 5%
	Total	100%

Reference: Market share of high-pressure gas pipeline engineering business in fiscal year 2010

Rank	Company name	Market share
1	Company B	Around 55%
2	NSP	Around 30%
3	SMP	Around 15%
	Total	100%

(2) Conditions of each company

The companies in the high-pressure gas pipeline engineering business are the Blast Furnace-Related Engineering Companies and engineering companies affiliated with a gas company. In most order placements, engineering companies affiliated with a gas company did not participate in bids, and only the Blast Furnace-Related Engineering Companies competed in bids.

Foremen in the high-pressure gas pipeline engineering business need to be employees of an original contractor (engineering company). However, companies in the high-pressure gas pipeline engineering business do not employ more foremen than required. A foreman cannot work concurrently as a foreman on multiple construction sites. It takes considerable time to develop foremen. As a result, it is recognized that it is difficult to sharply increase the number of orders received because the number of foremen becomes a bottleneck.

Accordingly, it is considered that the excess capacity of each company is not necessarily large.

(3) Entry pressure

To conduct the high-pressure gas pipeline engineering business, approval is required under construction business laws. It is not difficult to obtain approval, and the barrier to entry created by laws and ordinances is not high.

However, no company has newly obtained eligibility for participation in bids from gas companies, etc. during the past five years. According to the results of interviews with gas companies, etc., it is acknowledged that the following barriers to entry exist in the material procurement and welding services of the high-pressure gas pipeline engineering business.

a. Material procurement

All gas companies, etc. need to issue orders for both material procurement and construction work as a package. Accordingly, a company that is able to procure UO pipes, the major material from which high-pressure gas pipelines are produced, from a group company of the company has an advantage in terms of competition in the high-pressure gas pipeline engineering business. In Japan, companies that are able to procure UO pipes from their group company are limited to the Blast Furnace-Related Engineering Companies. It is therefore acknowledged that it is difficult for a company other than the Blast Furnace-Related Engineering Companies to procure UO pipes with the same delivery time and for the same cost as the Blast Furnace-Related Engineering Companies. In actuality, some engineering companies affiliated with a gas company that are in the high-pressure gas pipeline engineering business carry out only work that does not use UO pipes. Accordingly, it is recognized that it is difficult for a company within the corporate group that does not produce UO pipes to enter the high-pressure gas pipeline engineering business on a full-scale basis.

b. Welding

According to the results of interviews with gas companies, etc., in the high-pressure gas pipeline engineering business, particularly in the case of work that uses pipes with a relatively large diameter, automatic welding is more advantageous than manual welding in terms of construction period, cost and quality. It is recognized that it is difficult for a company without an automatic welding machine to newly develop an automatic welding machine. In actuality, some engineering companies affiliated with a gas company that are in the high-pressure gas pipeline engineering business carry out only work that uses pipes with a relatively small outside diameter, for which automatic welding has no advantages. Accordingly, it is recognized that it is difficult for a company without an automatic welding machine to enter the high-pressure gas pipeline engineering business on a full-scale basis.

As mentioned above, the procurement of UO pipes with the same conditions as the Blast Furnace-Related Engineering Companies and the possession of an automatic welding machine are important for entry into the high-pressure gas pipeline engineering business on a full-scale basis. It is recognized that this has become a barrier to entry into the high-pressure gas pipeline engineering business.

Accordingly, entry pressure is not recognized.

(4) Competitive pressure from users

Gas companies, both those for small customers and those for large customers, are exposed to a certain amount of competition from other energy companies, including electric power companies. It is therefore acknowledged that gas companies are interested in reducing costs, including the cost of pipeline construction, to a certain extent. It is easy for a gas company to change the party that receives the order for each gas pipeline construction. Gas companies decide on the party that will receive the order for the high-pressure gas pipeline engineering business through bidding.

Accordingly, it is acknowledged that a certain amount of competitive pressure is exerted by users.

3. Assessment under the Antimonopoly Act

(1) Substantial restraint of competition by unilateral conduct

With the Merger, the parties will have a total market share of around 60% in the domestic market. The companies that participate in bids are basically limited to the Blast Furnace-Related Engineering Companies. After the Merger, the number of companies that will participate in bids will decline from three to two. In addition, entry pressure is not exerted in the high-pressure gas pipeline engineering business. A certain amount of competitive pressure from users is also recognized. However, gas companies, etc. do not necessarily have sufficient measures to bolster competitiveness.

Accordingly, a situation could easily arise in which the group of the parties may have some latitude to solely determine prices, etc. It is therefore considered that the Merger may substantially restrain competition.

(2) Substantial restraint of competition through coordinated conduct

Large orders for the high-pressure gas pipeline engineering business are issued on an irregular basis. However, the excess capacity of each company is not great. If, with the Merger, the number of Blast Furnace-Related Engineering Companies, the major companies in the high-pressure gas pipeline engineering business, declines from three to two, it is considered that the statuses of construction and excess capacity of both companies can be understood very accurately, and that both companies' eagerness to receive orders and bidding behavior, etc. can be predicted with high probability.

In addition, entry pressure is not exerted in the high-pressure gas pipeline engineering business. A certain degree of competitive pressure from users is also recognized. However, gas companies, etc. do not necessarily have sufficient measures to bolster competitiveness.

Accordingly, a situation could easily arise in which the group of the parties may have some latitude to determine prices, etc. through coordinated conduct with their competitors. It is therefore considered that the Merger may substantially restrain competition.

4. Proposal for remedies by the parties

As stated in 3 above, the Merger may substantially restrain competition. The parties have therefore proposed adopting the following remedies.

(1) Stable supply of UO pipes

(i) When a newcomer (including an engineering company affiliated with a gas company already in the high-pressure gas pipeline engineering business; the same shall apply hereinafter) requests that the parties supply UO pipes that will be used for domestic high-pressure gas pipeline engineering business, the parties shall supply the newcomer with UO pipes based on substantially the same and reasonable conditions with regard to the price, volume, delivery time, standard, size, special specifications, delivery and settlement as in the case of supply to the subsidiaries of the parties in the high-pressure gas pipeline engineering business (hereinafter "the Engineering Subsidiaries").

(ii) The parties shall make the above measure, fully known to the public, by the date of the Merger, and shall notify the JFTC thereof. In addition, the parties shall notify the JFTC of the status of the implementation of the above measure once every accounting term for five years after the Merger.

(2) Supply of automatic welding machines and technical guidance regarding their operation

(i) If requested by a newcomer for the purpose of using in work for which it will receive an order, the parties shall transfer new automatic welding machines, or transfer or lease used automatic welding machines, to the newcomer through the Engineering Subsidiaries, etc. based on reasonable conditions with regard to price, delivery and settlement. However, the price shall be equivalent to the actual cost.

(ii) If requested by a newcomer, the parties shall provide the newcomer with the necessary technical guidance through the Engineering Subsidiaries based on reasonable conditions with regard to price, man-hours, details, time and place of guidance and settlement so that the newcomer can operate the automatic welding machines. However, the price shall be equivalent to the actual cost involved in providing the above technical guidance.

(iii) The parties shall make the above measures fully known to the public by the date of the Merger and notify the JFTC thereof. In addition, the parties shall notify the JFTC of the status of the implementation of the above measures once every accounting term for five years after the Merger.

5. Assessment of remedies

(1) Pros and cons of measures other than the transfer of business

The remedies for competition problems shall be structural measures such as the transfer of business, in principle. In terms of the case, the transfer of the high-pressure gas pipeline engineering business could be considered.

However, the market size of the high-pressure gas pipeline engineering business varies significantly depending on the fiscal year. It is difficult to continue the high-pressure gas pipeline engineering business unless it is conducted together with the medium-pressure gas pipeline engineering business. Companies that conduct the medium-pressure gas pipeline engineering business all over Japan are limited to the Blast Furnace-Related Engineering Companies. Therefore, to transfer the business to companies other than the Blast Furnace-Related Engineering Companies, it is necessary to divide the high-pressure gas pipeline engineering business into specified

geographic areas. However, it is not realistic to divide only the high-pressure gas pipeline engineering business from the rest of the steel gas pipeline business. It is not also realistic to divide only the business in specified geographic areas.

Accordingly, with regard to the case, it is difficult to transfer the high-pressure gas pipeline engineering business. However, if the barrier to entry mentioned in 2(3) above can be eliminated through measures other than the transfer of business, we cannot say that the transfer of business is indispensable as a remedy.

(2) Appropriateness of specific conditions of remedies proposed by the parties

First of all, we have considered the stable supply of UO pipes. If the parties supply a newcomer with UO pipes based on substantially the same and reasonable conditions with regard to the price, delivery time, etc. of UO pipes as those for the Engineering Subsidiaries of the parties, the newcomer will be able to actually purchase UO pipes based on the above conditions, and the barrier to entry in terms of material procurement will be eliminated.

As to the supply of automatic welding machines and technical guidance regarding the operation of automatic welding machines, if the parties transfer or lease automatic welding machines through the Engineering Subsidiaries, etc. based on reasonable conditions and provide the necessary technical guidance, a newcomer will be able to easily use automatic welding machines, and the barrier to entry relating to automatic welding machines will be eliminated.

As mentioned above, with the stable supply of UO pipes, the supply of automatic welding machines and technical guidance regarding the operation of automatic welding machines, the barrier to entry to the high-pressure gas pipeline engineering business will be eliminated. Accordingly, if the above measures are made fully known to the public, the probability of new entries will be increased. It is considered that such entry pressure will become an effective means of restraining price increases by the parties.

Accordingly, it is considered that the specific conditions of the remedies proposed by the parties are appropriate.

6. Conclusion

As investigated above, it is considered that the Merger may not substantially restrain competition in the field of trade of the high-pressure gas pipeline engineering business due to the remedies proposed by the parties.

VI. Steel sheet piles

1. Particular field of trade

(1) Product range

Steel sheet piles are a type of shaped steel that is manufactured by rolling slabs or blooms using a rolling machine with a rolling mill roll (a roll with a channel commensurate with the shape of the product). Interlocks are created so that a continuous wall can be formed at both edges of the steel plates after the forming process into an uneven state.

Shaped steel is divided into heavy sections and light sections according to the size of the cross-section, and into steel sheet piles, H-section steel, rails, angle steel, and channel steel, etc. according to the shape of the section. Steel sheet piles, H-section steel and rails are limited to heavy sections. The majority of angle steel and channel steel, etc. are light sections. Steel sheet piles are used for earth retaining and cut-off of water, etc. by connecting the joints. Accordingly, the use of steel sheet piles is different from other shaped steel. It is therefore acknowledged that the product range of steel sheet piles is different from that of other shaped steel.

The use of steel sheet piles is largely divided into temporary use for the purposes of temporary retaining and temporary cofferdam, etc., and permanent use as the construction materials of permanent structures. Steel sheet piles include those with different shapes, such as the U shape and the hat shape, and those with different sizes, such as widths of 400mm and 600mm. Steel sheet piles with a U shape and a width of 400mm are mainly used for temporary use as goods leased after sale to construction materials leasing companies. Other products are mainly used for permanent use. However, there are steel sheet piles with a U shape and a width of 400mm that are used for permanent use. There are other products that are used for temporary use. As above, the substitutability of demand is recognized to a certain extent. Steel sheet piles with different shapes and sizes are manufactured using the same manufacturing facility. The substitutability of supply exists.

Meanwhile, methods of construction that are used as an alternative to a method of construction using steel sheet piles are the concrete wall method, the soil cement wall method and the Berlin wall (braced wall with soldier beam and horizontal board) method, etc. There is a possibility that, in the event of a relative rise in the price of steel sheet piles, the method of construction using steel sheet piles will be changed to the concrete wall method or other methods. Accordingly, the possibility that the product range will be determined as the overall method of earth retaining including these methods of construction will not be denied. In this respect, based on the characteristics of the domestic market whereby the method of construction using steel sheet piles as a means of earth retaining and cut-off water, etc. spreads widely and the Domestic Users' recognition of the substitutability between the method of construction using steel sheets and other methods of construction (2(5) below), the JFTC determines "steel sheet piles" as the product range, and will assess the concrete wall method and other method as competitive pressure from the contiguous market.

(2) Geographical range

There is no restraint on the transport of steel sheet piles within Japan in terms of degree of difficulty and transportation cost. The group of the parties and competitors sell steel sheet piles throughout Japan. Circumstances showing a difference in selling price from region to region are not recognized.

Meanwhile, hardly any of the Overseas Makers' Products were imported into the domestic market. In addition, it is considered that the import volume of the Overseas Makers' Products would hardly increase even if domestic prices rose relatively. As a result, circumstances requiring the determination of a geographical range crossing a national boundary are not recognized.

Accordingly, "all of Japan" is determined as being the geographical range.

(3) Other

As to steel sheet piles, there is a considerable volume of leased goods that a construction materials leasing company will lease to construction companies for temporary use. The parties assert that leased goods are included in the same field of trade. In this respect, steel sheet piles sold by steel makers are sold to either construction companies for permanent use or construction materials leasing companies for temporary use. The use of steel sheet piles sold to construction companies for permanent use is different from the use of leased goods. Steel sheet piles sold to construction materials leasing companies for temporary use will be sold as products used for leased goods, and are different from leased goods in the stage of trade. There is therefore nothing competing with leased goods.

Accordingly, it is considered that it is not appropriate to include leased goods in the same field of trade.

2. Investigation into substantial restraint of competition

(1) Change in market structure due to the Merger and where problems exist

The companies that belong to the corporate group concerned and sell steel sheet piles in the domestic market are NSC (market share: around 40%) and SMI (market share: around 25%). The Merger will result in the formation of a new business combination between NSC and SMI The combined market share of the parties will be around 65%, and they will rank first. After the Merger, HHI will increase by around 1,900 to approximately 5,100. Consequently, the Merger does not meet the safe harbor standards for horizontal business combinations.

In the domestic market for steel sheet piles, there is also an effective competitor called Company C that has a market share of around 30%. As a result of the Merger, the corporate group concerned will hold a market share of around 65%, and the gap between the market share of the corporate group concerned and that of Company C will also widen. Therefore, depending on the supply potential of each of the competitors, the degree of import pressure or entry pressure, the degree of competitive pressure from contiguous markets, the degree of competitive pressure from users, etc., there is a possibility that a situation could arise in which the corporate group concerned has some

latitude to solely determine prices, etc.

With the completion of the Merger, the number of companies in the domestic market for steel sheet piles will be reduced from four to three. For this reason, depending on the supply potential of each company, the degree of import pressure or entry pressure, the degree of competitive pressure from contiguous markets, and the degree of competitive pressure from users, etc., there is a possibility that a situation could arise in which the corporate group concerned and competitors have some latitude to determine prices, etc. through coordinated conduct.

Market share of steel sheet piles in fiscal year 2010

Rank	Company name	Market share
1	NSC	Around 40%
2	Company C	Around 30%
3	SMI	Around 25%
4	Company D	0-5%
	Import	0-5%
	Total	100%

(2) Status of each company

Steel sheet piles are manufactured on heavy section production lines. Due to a decrease in the order quantity of public works, the capacity utilization of these lines at each company has been diminishing. In addition, each company constantly exports a substantial amount of steel sheet piles to increase capacity utilization. If domestic sales become favorable as a result of an improvement in domestic market conditions, a portion of the export volume can be shifted to the domestic market. Accordingly, it is recognized that each company has sufficient supply potential.

An electrical furnace steelmaker, Company D, also operates in the domestic market for steel sheet piles. The results of a questionnaire of users (construction companies and construction materials leasing companies) who purchase steel sheet piles from the parties show that many of the respondents made positive evaluations of the price and quality aspects of the products manufactured by the electrical furnace steelmaker. It is therefore recognized that products manufactured by the electrical furnace steelmaker are also an option for the users.

(3) Import pressure

Transportation costs are marginal for imports of steel sheet piles from East Asian countries, and no customs duties are levied. The import ratio of steel sheet piles is 0%-5%. Results of a questionnaire of users and information obtained from them show that, although there were certain positive respondents, many of the respondents made negative evaluations of the price and quality aspects of imported products.

Accordingly, it is recognized that there is little import pressure.

(4) Entry pressure

There is a company that was once a leading company in the domestic market for steel sheet piles, although it is not currently manufacturing steel sheet piles. This company continues to hold rolling mill rolls in stock, and would be able to enter the market immediately if the price of steel sheet piles rose or if there was stronger demand.

Accordingly, it is recognized that there is entry pressure.

(5) Competitive pressure from contiguous markets

Alternative methods of construction using steel sheet piles include the concrete wall method, the soil cement mixing wall method and the Berlin wall method, etc.

According to the results of questionnaires and information obtained, there is a certain portion where the abovementioned alternative methods would be used in place of the steel sheet pile method, although it is difficult to measure the specific portion quantitatively, if the price of steel sheet piles was to increase by 5%-10%. Additionally, according to estimates made by the parties, the proportion of the steel sheet pile method among the overall method of earth retaining is currently around 20%. There are also some cases where the steel sheet pile method countervails other methods from an economic viewpoint.

Accordingly, it is recognized that there is a certain degree of competitive pressure from contiguous markets.

(6) Competitive pressure from users

Amidst a long-term weak trend in the order quantity of public works, the competition for orders among construction companies has been increasingly tough over the years, and we consider that pricing pressure from the users of steel sheet piles is strong.

Looking at recent price movements, the price of steel sheet piles has been declining as a result of decreasing of demand, due mainly to a decrease in the order quantity of public works, in spite of rising raw material and fuel prices. Under the circumstances, in which the growth of demand remains unlikely in the near future, we consider that pricing pressure will remain strong.

Accordingly, it is recognized that there is competitive pressure from users.

3. Antitrust evaluations

(1) Substantial restraint of competition by unilateral conduct

As a result of the Merger, the corporate group concerned will have a market share of around 65%. However, because (i) there are effective competitors and it is recognized that their supply potential is sufficient, (ii) it is

recognized that there are certain degrees of entry pressure and competitive pressure from alternative methods that form contiguous markets, and (iii) it is recognized that there is competitive pressure from users amidst contracting demand, there is little possibility that a situation could arise in which the corporate group concerned has a certain degree of latitude to solely determine prices, etc. Consequently, we consider that the Merger may not substantially restrain competition.

(2) Substantial restraint of competition through coordinated conduct

With the completion of the Merger, the number of companies in the domestic market for steel sheet piles will be reduced from four to three. However, because (i) it is recognized that each company has sufficient supply potential, (ii) it is recognized that there are certain degrees of entry pressure and competitive pressure from alternative methods that form contiguous markets, and (iii) it is recognized that there is competitive pressure from users amidst contracting demand, there is little possibility that a situation could arise in which the corporate group concerned and competitors have, through coordinated conduct, some latitude to determine prices, etc. Consequently, we consider that the Merger may not substantially restrain competition.

VII. Spiral welded pipes

1. Particular field of trade

(1) Product range

Spiral welded pipes are a type of large-diameter welded steel pipe or tube (meaning steel pipe with an outside diameter generally over 400 millimeters; the same shall apply hereinafter) manufactured by continually unwinding steel strips and bending them spirally using forming mill rolls to form a cylinder shape, and then by welding the seams. Spiral welded pipes are mainly used in steel pipe piles (including steel pipe sheet piles (steel pipes with welded interlocks); the same shall apply hereinafter).

Other than spiral welded pipes, large-diameter welded steel pipes and tubes include UO pipes. Spiral welded pipes have long low-intensity welded seams and are not suitable for pipelines, etc. of which internal pressure is high. For this reason, spiral welded pipes are mainly used in steel pipe piles. The use of spiral welded pipes is different from other large-diameter welded steel pipes and tubes, which are also used for gas pipelines, etc. The substitutability of demand is not recognized between spiral welded pipes and other large-diameter welded steel pipes and tubes, nor is the substitutability of supply recognized, because the manufacturing facilities for spiral welded pipes differ from those for other large-diameter welded steel pipes and tubes.

Where spiral welded pipes are used as steel pipe piles, pre-cast concrete piles and cast-in-place concrete piles may be used in place of steel pipe piles. If the price of spiral welded pipes rose in comparison with these alternatives, there is a possibility that steel pipe piles would be replaced by pre-cast concrete piles, etc. Therefore, the possibility of including the overall foundation piles in the product range, together with these alternatives, is not rejected. Regarding this point, the JFTC determined the product range as being "spiral welded pipes" for the plan in question, based on the understanding (2(3) below) of Japanese users regarding the substitutability between steel pipe piles and other foundation piles, and to evaluate concrete piles, etc. as a competitive pressure from contiguous markets.

(2) Geographical range

There is no restraint on the transport of spiral welded pipes within Japan in terms of the degree of difficulty of transportation and transportation cost. The parties and competitors conduct sales throughout Japan. No differences in selling prices are evident from region to region.

Meanwhile, hardly any of the overseas makers' products are imported into the domestic market. It is considered that the import volume of the overseas makers' products would hardly increase even if the domestic price of spiral welded pipes rose compared to the price of the overseas makers' products. As a result, circumstances requiring the determination of a geographical range crossing a national boundary are not recognized.

Accordingly, "all of Japan" is determined as being the geographical range.

2. Investigation into substantial restraint of competition

(1) Change in market structure due to the Merger and where problems exist

The companies that belong to the corporate group concerned and sell spiral welded pipes in the domestic market are NSC (market share: around 40%) and SMI (market share: around 15%). The Merger will result in the formation of a new business combination between NSC and SMI. The combined market share of the parties will be around 55%, and they will rank first. After the Merger, HHI will increase by around 1,300 to approximately 4,000. Consequently, the Merger does not meet the safe harbor standards for horizontal business combinations.

In the domestic market for spiral welded pipes, there are multiple effective competitors with market shares of over 10%. As a result of the Merger, however, the corporate group concerned will hold a market share of around 55%, and the gap between the market share of the corporate group concerned and the market shares of the second tier companies will also widen. Therefore, depending on the supply potential of competitors, the degree of competitive pressure from contiguous markets, the degree of competitive pressure from users, etc., there is a possibility that a situation could arise in which the corporate group concerned has some latitude to determine prices, etc. unilaterally.

Upon the completion of the Merger, the number of companies that supply spiral welded pipes will be reduced from four to three. For that reason, depending on the supply potential of each company, the degree of competitive pressure from contiguous markets, the degree of competitive pressure from users, etc., there is a possibility that a situation could arise in which the corporate group concerned and competitors have some latitude to determine prices, etc. through coordinated conduct.

Market share for spiral welded pipes in fiscal year 2010

Rank	Company name	Market share
1	NSC	Around 40%
2	Company E	Around 30%
3	SMI	Around 15%
4	Company F	Around 15%
	Total	100%

(2) Status of each company

The capacity utilization of manufacturing facilities for spiral welded pipes within each company is not high, and it is recognized that each company has supply potential.

Of the companies that manufacture spiral welded pipes, some use internally manufactured hot-rolled steel sheets as the base material and some use products manufactured by electrical furnace steelmakers or imported products as the base material. The cost structures vary among these companies.

(3) Competitive pressure from contiguous markets

Where spiral welded pipes are used as steel pipe piles, alternative methods for steel pipe piles include the pre-cast concrete piles and the cast-in-place concrete piles.

According to the results of a questionnaire to users (constructors) who purchase spiral welded pipes from the parties and results of interviews of users, etc., it is recognized that a method that uses other piles may be used in place of the method that uses steel pipe piles to a certain degree, although it would be difficult to quantitatively measure the concrete ratio of use of these methods, if the price of spiral welded pipes was to increase by 5%-10%.

Accordingly, it is recognized that there is a certain degree of competitive pressure from contiguous markets.

(4) Competitive pressure from users

The users of spiral welded pipes are mainly constructors. Amidst a long-term weak trend in the order quantity of public works, the competition for orders among constructors has been increasingly tough over the years, and we consider that pricing pressure is strong. Accordingly, it is recognized that there is competitive pressure from users.

3. Antitrust evaluations

(1) Substantial restraint of competition by unilateral conduct

As a result of the Merger, the parties will have a market share of around 55%, and the gap between the market share of the parties and market shares of the second tier companies will also widen. However, because (i) there are multiple effective competitors with market shares of over 10% and it is recognized that these companies have supply potential, (ii) it is recognized that there is a certain degree of competitive pressure from contiguous markets, and (iii) it is recognized that there is competitive pressure from users, there is no possibility that a situation could arise in which the corporate group concerned has a certain degree of latitude to solely determine prices, etc. Consequently, it is considered that the Merger may not substantially restrain competition.

(2) Substantial restraint of competition through coordinated conduct

Upon completion of the Merger, the number of leading companies that supply spiral welded pipes will be reduced from four to three. However, because (i) it is recognized that each company has supply potential, (ii) it is recognized that there is a certain degree of competitive pressure from contiguous markets, (iii) it is recognized that there is competitive pressure from users, and (iv) some of the companies that manufacture spiral welded pipes have different cost structures, there is no possibility that a situation could arise in which the corporate group concerned and competitors have, through coordinated conduct, some latitude to determine prices, etc. Consequently, it is considered that the Merger may not substantially restrain competition.

VIII. Hot-rolled steel sheets

1. Particular field of trade

(1) Product range

Hot-rolled steel sheets are a type of flat-rolled steel with a thickness of less than approximately three millimeters. Hot-rolled steel sheets are manufactured by continuously rolling out of semi-finished products (slabs), which are manufactured through the processes of pig iron making and steel making, with multiple rolling machines placed in line. Large volumes of hot-rolled steel sheets are used in automobiles. They are also used in electrical products and building materials.

Flat-rolled steel is classified roughly into hot-rolled steel sheets, cold-rolled steel sheets and surface-treated steel sheets (hot-rolled steel sheets or cold-rolled steel sheets whose surface is coated or painted). These flat-rolled steel sheets differ from each other in terms of their characteristics and major uses, and the substitutability of demand is not recognized. In addition, their manufacturing stages are different from each other, and the substitutability of supply is also not recognized. Accordingly, it is considered that each of these three categories of flat-rolled steel sheets constitutes a different product range.

Hot-rolled steel sheets include products with various characteristics depending on their chemical composition, and the heat treatment methods used, etc. Of these products, hot-rolled stainless steel sheets have characteristics such as corrosion resistance, etc., and the substitutability of demand is not recognized. In addition, hot-rolled stainless steel sheets are manufactured using exclusive manufacturing facilities and different technologies, and there is no substitutability of supply. Accordingly, we consider that hot-rolled stainless steel sheets constitute a different product range. On the other hand, a certain degree of substitutability of demand is recognized among products other than hot-rolled stainless steel sheets since it is recognized the fact that users determine which products they will use by considering the balance between various characteristics and economic benefit. These other products are manufactured using the same manufacturing facilities, and there is also substitutability of supply. As a result, it is considered that these other products constitute the same product range.

Accordingly, “hot-rolled steel sheets” (excluding hot-rolled stainless steel sheets; with the same to apply hereinafter) is determined as being the product range.

(2) Geographical range

There is no restraint on the transport of hot-rolled steel sheets within Japan in terms of the difficulty of transportation and transportation cost. The parties and competitors conduct sales throughout Japan. No difference in selling price is evident from region to region.

There are constant inflows into the Japanese market of hot-rolled steel sheets, mainly commodity products manufactured by Korean and Chinese makers. This is because large volumes of Overseas Makers’ Products could flow into the domestic market in a short period of time if the domestic price of hot-rolled steel sheets rises compared to that of Overseas Makers’ Products. So, there is a possibility that a cross-national geographical range may be determined. Regarding this point, the JFTC determined the geographical range as being “all of Japan”,

partly reflecting the fact that the parties submitted data in their written opinions, such as market share data for the Japanese market, based on all of Japan as the geographical range. We decided to evaluate Overseas Makers' Products as import pressure.

2. Investigation into substantial restraint of competition

(1) Change in market structure due to the Merger and where problems exist

The companies that belong to the corporate group concerned and sell hot-rolled steel sheets in the domestic market are NSC (market share: around 30%) and SMI (market share: around 10%). The Merger will result in the formation of a new business combination between NSC and SMI. The combined market share of the parties will be around 40%, and they will rank first. After the Merger, HHI will increase by around 500, to approximately 2,200, which will not meet the safe harbor standards for horizontal business combinations.

In the domestic market for hot-rolled steel sheets, there are also Nakayama Steel Works, Ltd. (hereinafter "Nakayama Steel Works") and Nisshin Steel Co., Ltd. (hereinafter "Nisshin Steel") and Daido Steel Co., Ltd. (hereinafter "Daido Steel"). NSC is the largest shareholder of each of these companies and independently holds more than 10% of the voting rights pertaining to each of these companies. However, NSC's voting rights in each of these companies is only slightly over 10%. Moreover, with respect to Nakayama Steel Works and Nisshin Steel, the gap between the ratio of the voting rights held by NSC in each of these two companies and the ratio of the voting rights held by other second tier shareholders of these two companies is not significant, and there is no interlocking director between NSC and each of these two companies. With respect to Daido Steel, there is an interlocking director with NSC. However, users of the products of Daido Steel have certain numbers of voting rights, and it is considered that such users do not share common interests with NSC, especially in terms of the exercise of voting rights. Accordingly, no business combination is recognized between NSC and Nakayama Steel Works, between NSC and Nisshin Steel, and between NSC and Daido Steel.

In the domestic market for hot-rolled steel sheets, there are multiple effective competitors with market shares of over 10%, and imported products account for approximately 15% of the market. As a result of the Merger, the parties will have a market share of approximately 40%, and the gap between the market share of the parties and market shares of the second tier companies will also widen. Therefore, depending on the supply potential of competitors, the degree of import pressure, and the degree of competitive pressure from users, etc., there is a possibility that a situation could arise in which the corporate group concerned has some latitude to determine prices, etc. unilaterally.

In addition to inflows of imported products that account for approximately 15% of the domestic market for hot-rolled steel sheets, there are multiple electrical furnace steelmakers in the market. However, the market shares of these companies are not necessarily large, and the number of leading blast furnace steelmakers that supply hot-rolled steel sheets will be reduced from four to three as a result of the Merger. Accordingly, depending on the

supply potential of each company, the degree of import pressure, and the degree of competitive pressure from users, etc., there is a possibility that a situation could arise in which the corporate group concerned and competitors have, through coordinated conduct, some latitude to determine prices, etc.

Market share for hot-rolled steel sheets in fiscal year 2010

Rank	Company name	Market share
1	NSC	Around 30%
2	Company G	Around 20%
3	Company H	Around 10%
4	SMI	Around 10%
5	Company I	Around 5%
6	Company J	Around 5%
7	Company K	0-5%
8	Company L	0-5%
9	Company M	0-5%
10	Company N	0-5%
	Imports	Around 15%
	Total	100%

(2) Supply potential of each company

The capacity utilization of manufacturing facilities for hot-rolled steel sheets at each company is not high, and it is recognized that each company has supply potential.

(3) Import pressure

In recent years, there has been a rush of construction in Korea and China of hot-rolled steel sheet production lines that have state-of-the-art facilities and equipment and huge supply capacities. The quality of their products is acceptable to Japanese users. Some of these Japanese users have adopted these products at their overseas bases. Transportation costs are marginal for imports of hot-rolled steel sheets from neighboring countries in East Asia, and no customs duties are levied. Moreover, according to the result of interviews with users, they consider products imported from Korea and China to be less expensive than products manufactured in Japan, which suggests that the price competitiveness of imported hot-rolled steel sheets is high. In addition, overseas manufacturers of hot-rolled steel sheets are selling their products through processors and distributors in Japan, including steel service centers. As a result, there are no problems in Japan in terms of the distribution of hot-rolled steel sheets manufactured in overseas.

As described above, there is no import barrier with respect to hot-rolled steel sheets, and there are constant inflows of hot-rolled steel sheets into the Japanese market, mainly commodity products manufactured in Korea and China. In fact, the import ratio for hot-rolled steel sheets has reached around 15%.

Major users are automobile manufacturers, electrical equipment producers and construction material producers. The results of the investigations into the status of import pressure with respect to each user are as follows:

A. Hot-rolled steel sheets for automobile manufacturers

Among products of steelmakers who have received the approval of automobile manufacturers for materials (meaning approval for materials that satisfy internal quality standards, which is granted based on evaluations of materials for the purpose of procuring only those materials that meet internal quality requirements), there is substitutability between imported products and domestic products. For example, Korean steelmakers have already been supplying their products to Japanese automobile manufacturers after obtaining approval for materials. In addition, according to the results of interviews with automobile manufacturers, they consider the quality and lineup of Korean products to be the same as those of Japanese blast furnace steelmakers, and may increase import volumes in the future.

B. Hot-rolled steel sheets for electrical equipment producers

A large part of hot-rolled steel sheets for electrical equipment producers are commodity products, and substitutability between imported products and domestic products is high. According to the results of interviews with electrical equipment producers, they intend to increase import volumes in the future, because there is little difference in the overall quality of flat-rolled steel products between products manufactured in Japan and those manufactured by Korean and Chinese steelmakers.

C. Hot-rolled steel sheets for construction material producers

Most hot-rolled steel sheets for construction material producers are commodity products, and substitutability between imported products and domestic products is high.

Based on the above, it is recognized that there is substantial import pressure.

(4) Competitive pressure from users

A. Hot-rolled steel sheets for automobile manufacturers

Among products of steelmakers who have received the approval of automobile manufacturers for materials, substitutability is high, and it is easy for automobile manufacturers to change suppliers. In addition, pricing pressure with regard to hot-rolled steel sheets is strong, reflecting intense competition between automobile manufacturers. Moreover, automobile manufacturers procure large volumes of steel products and use centralized purchasing systems (purchasing based on a method where a large user’s purchasing department compiles a list of steel products used by each business division and each manufacturer who supplies components, and conducts collective negotiations with steelmakers to determine the quality, price, volume, etc. of the hot-rolled steel sheets to be purchased; with the same to apply hereinafter).

B. Hot-rolled steel sheets for electrical equipment producers

A large part of hot-rolled steel sheets for electrical equipment producers is commodity products, and switching to imported products, etc. is easy. In addition, electrical equipment producers do not have a proprietary material approval system, which makes it even easier to change suppliers. Furthermore, there is also vigorous competition between electrical equipment producers, and pricing pressure is strong. Moreover, electrical equipment producers also use centralized purchasing systems.

C. Hot-rolled steel sheets for construction materials producers

Most hot-rolled steel sheets for construction materials producers are commodity products. They aggressively use products manufactured by electrical furnace steelmakers and imported products, and switching to less expensive steel products is easy. Due to lackluster demand for construction materials in Japan, there is intense competition between construction materials producers, and pricing pressure is strong.

Based on the above, it is recognized that there is substantial competitive pressure from users.

3. Antitrust evaluations

(1) Substantial restraint of competition by unilateral conduct

As a result of the Merger, the parties will have a market share of around 40% of the entire domestic market, and the gap between the market share of the parties and the market shares of the second tier companies will also widen. However, because (i) there are multiple effective competitors and it is recognized that they have supply potential, and (ii) it is recognized that there is sufficient import pressure and competitive pressure from users, there is little possibility that a situation could arise in which the corporate group concerned has a certain degree of latitude to solely determine prices, etc. Consequently, we consider that the Merger may not substantially restrain competition.

(2) Substantial restraint of competition through coordinated conduct

Upon the completion of the Merger, the number of leading blast furnace steelmakers that supply hot-rolled steel sheets will be reduced from four to three. However, because (i) it is recognized that each company has supply potential, and (ii) it is recognized that there is sufficient import pressure and competitive pressure from users, there is little possibility that a situation could arise in which the corporate group concerned and competitors have, through coordinated conduct, some latitude to determine prices, etc. Consequently, we consider that the Merger may not substantially restrain competition.

IX. H-section steel

1. Particular field of trade

(1) Product range

H-section steel is a type of shaped steel manufactured by rolling out steel to form the cross section of an "H." It is used as the main component of framework in construction and civil engineering works.

H-section steel accounts for the majority of the market for shaped steel. Users recognize H-section steel as an independent product used as the main component of framework in construction and civil engineering works. Accordingly, it is recognized that it belongs to a different product range than other shaped steel products.

H-section steel includes products that meet the Japan Industrial Standards ("JIS") and products that do not meet the JIS (H-section steel with fixed outside dimensions) as a result of improved usability. Users determine which of these products to use by considering the costs and areas of use, and the substitutability of demand is recognized. Different sizes of H-section steel are manufactured using the same manufacturing facilities, and there is also substitutability of supply.

Accordingly, we determined the product range as being "H-section steel".

(2) Geographical range

There is no restraint on the transport of H-section steel within Japan in terms of the difficulty of transportation and transportation costs. The corporate group concerned and competitors conduct sales throughout Japan. No differences in selling prices are evident from region to region.

On the other hand, although there are currently a few inflows of Overseas Makers' Products into the domestic market, it is not denied that there is a possibility that a geographical range which crosses national boundaries may be determined. This is because there could be a certain increase in the inflowing volumes of such Overseas Makers' Products in a short period of time if the domestic price of H-section steel rises compared to that of Overseas Makers' Products. Regarding this point, the JFTC determined the geographical range as being "all of Japan", partly reflecting the fact that the parties submitted data in their written opinions, such as market share data for the Japanese market, based on all of Japan as the geographical range. We decided to evaluate Overseas Makers' Products as import pressure.

2. Investigation into substantial restraint of competition

(1) Change in market structure due to the Merger and where problems exist

The companies that belong to the corporate group concerned and sell H-section steel in the domestic market are NSC, Topy Industries. (ratio of voting rights held by NSC: 20.5%, the largest and independent holder), GODO STEEL. (ratio of voting rights held by NSC: 15.7%, the largest and independent holder) (combined market share of the three companies described above: around 30%), and SMI and SUMIKIN STEEL & SHAPES, Inc. (a wholly owned subsidiary of SMI.; hereinafter, "SUMIKIN STEEL"; combined market share of these two companies:

around 15%). The Merger will result in the formation of a new business combination between Nippon Steel Group and Sumitomo Metal Group. The combined market share of the corporate groups concerned will be around 40%, and they will rank first. After the Merger, HHI will increase by around 1,100, to approximately 2,800. Consequently, the Merger does not meet the safe harbor standards for horizontal business combinations.

It is acknowledged that there are business combinations between NSC and Topy Industries because NSC is the largest shareholder of Topy Industries and independently holds more than 20% of the voting rights pertaining thereto, and between NSC and GODO STEEL because (i) NSC is the largest shareholder of GODO STEEL and independently holds more than 10% of the voting rights pertaining thereto, (ii) employee of NSC also hold the roles of officer at GODO STEEL, and (iii) there are business alliances between NSC and GODO STEEL, including the manufacturing consignment of some products.

In the domestic market for H-section steel, there are effective competitors, including Company O and Company Q, which are independent electrical furnace steelmakers, and Company P, which is a blast furnace steelmaker. In light of the market share of the corporate group concerned after the Merger, depending on the status of the competitors' supply potential, the degree of import pressure, and the degree of competitive pressure from users, etc., there is a possibility that a situation could arise in which the corporate group concerned has a certain degree of latitude to solely determine prices, etc.

Meanwhile, although the number of leading blast furnace steelmakers that supply H-section steel will be reduced from three to two as a result of the Merger, the two independent electrical furnace steelmakers will continue to exist after the Merger. Accordingly, there is a slight possibility that a situation could arise in which the corporate group concerned and competitors have, through coordinated conduct, some latitude to determine prices, etc.

Market share for H-section steel in fiscal year 2010

Rank	Company name	Market share
1	NSC *[1]	Around 30%
2	Company O	Around 20%
3	Company P	Around 20%
4	Company Q	Around 15%
5	SMI *[2]	Around 15%
	Imports	0 - 5%
	Total	100%

* Including Topy Industries and GODO STEEL.

* Including SUMIKIN STEEL

(2) Competitive nature of the market in the past

In the domestic market for H-section steel, there is an effective competitor, Company O. There has always been intense competition between NSC and Company O, and this has not changed up until now. We consider that there will also be intense competition between the parties and Company O after the Merger.

Topy Industries and GODO STEEL have been determining their prices to cope with competition with other electrical furnace steelmakers. We consider that these two companies do not share common pricing strategies with NSC. Competition for customers is seen between NSC and Topy Industries, and between NSC and GODO STEEL . As a result, we consider that the business combinations between NSC and Topy Industries and between NSC and GODO STEEL are loose and not strong enough for the relevant parties to conduct business activities together as a completely integrated business, and that certain levels of competitive relationships are maintained. Certain levels of competitive relationships are likely to be maintained after the Merger between the merging companies and Topy Industries and between the merging companies and GODO STEEL

(3) Supply potential of each company

H-section steel is manufactured on heavy section product lines. Due to a decrease in the order quantity of public works, the capacity utilization of the heavy section product lines at each company has been diminishing. In addition, each company constantly exports a substantial amount of H-section steel to increase capacity utilization. If domestic sales become favorable as a result of an improvement in the domestic market conditions, a portion of the export volumes can be shifted to the domestic market.

Accordingly, it is recognized that each company has sufficient supply potential.

(4) Import pressure

Transportation costs are marginal for imports of H-section steel from East Asian countries, and no customs duties are levied. The import ratio of H-section steel is 0% - 5%. Some of the manufacturers in Korea and China have obtained JIS Certificates, and it is not difficult for a foreign manufacturer of H-section steel to obtain a JIS Certificate. In addition, the results of interviews with users suggests that they may import certain volumes of products if there are price advantages in importing.

Accordingly, it is recognized that there is a certain amount of import pressure.

(5) Competitive pressure from contiguous markets

Products used for the same purposes as H-section steel include Built-up H-section steel, which is manufactured by welding steel plates and building a structure that has the same shape as H-section steel. Built-up H-section steel is used in large and high-rise buildings, and has a certain level of substitutability with H-section steel. Roll columns, which are manufactured by shaping flat-rolled steels into squares using roll forming machines, are sometimes used as post material for small to medium-sized buildings. Press columns, which are manufactured by shaping steel plates into squares using press forming machines, are sometimes used as post material for large and high-rise buildings. Roll columns and press columns have substitutability with H-section steel, although to limited degrees.

Accordingly, it is recognized that there is a certain amount of competitive pressure from contiguous markets.

(6) Competitive pressure from users

The major users of H-section steel are construction companies and fabricators (steel frame processors).

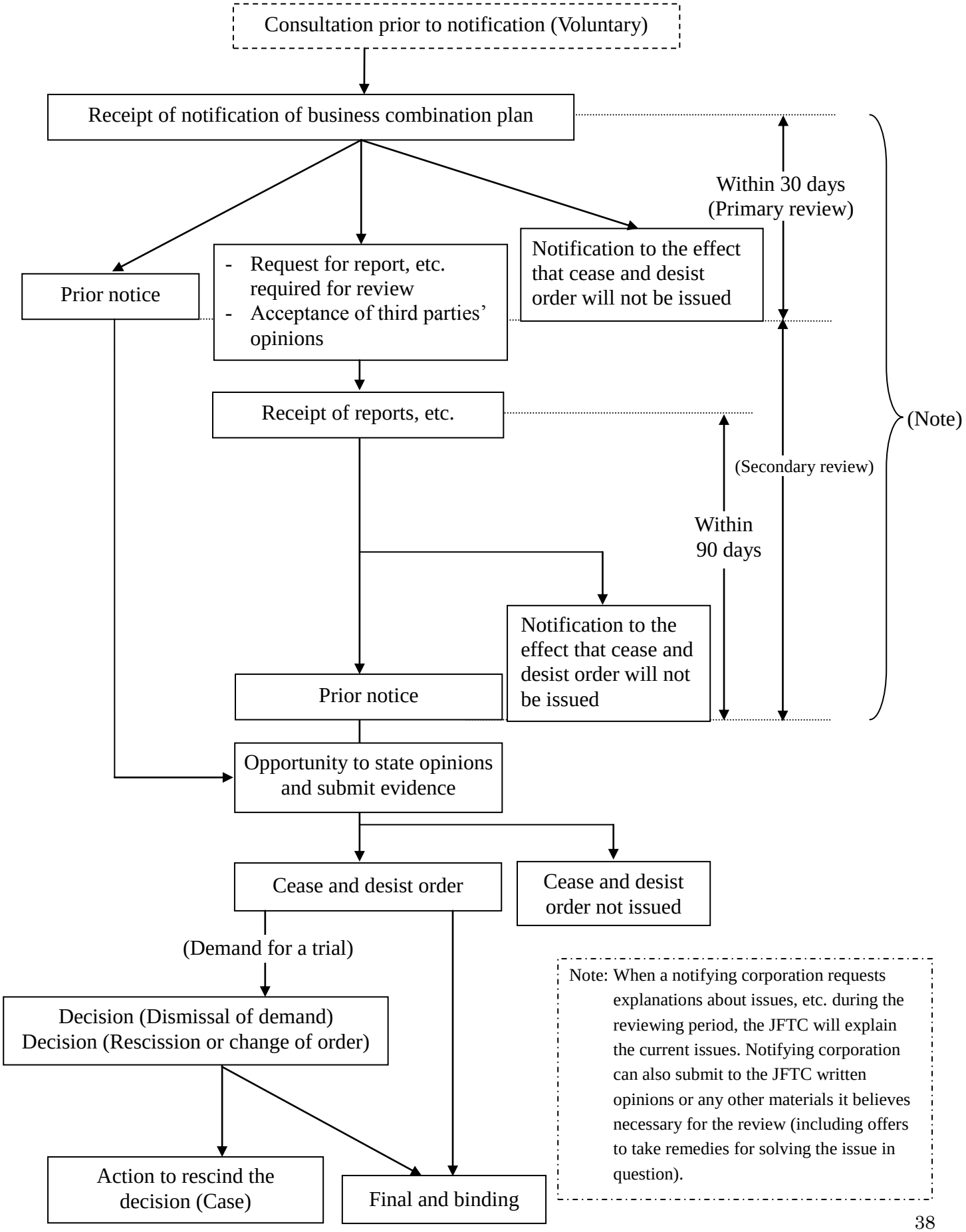
Construction companies who procure H-section steel from steelmakers are large general contractors who have a certain amount of purchasing power. Many of the fabricators who procure H-section steel directly from steelmakers are relatively large companies who have a certain amount of purchasing power. The costs of steel materials account for the majority of the costs involved in steel frame processing, so fabricators are considered to be sensitive to the price of H-section steel.
Accordingly, it is recognized that there is a certain amount of competitive pressure from users.

3. Antitrust evaluations

(1) Substantial restraint of competition by unilateral conduct
As a result of the Merger, the corporate groups concerned will have a combined market share of around 40%. However, because (i) there are multiple effective competitors and it is recognized that these companies have sufficient supply potential, (ii) there has always been intense competition between NSC and Company O and it is considered that this pattern will not change after the Merger, (iii) it is considered that there will be a certain level of competitive relationship between the merging companies, Topy Industries and GODO STEEL after the Merger, and (iv) it is recognized that there is a certain amount of import pressure, competitive pressure from contiguous markets and competitive pressure from users, there is little possibility that a situation could arise in which the corporate group concerned has a certain degree of latitude to solely determine prices, etc. Consequently, we consider that the Merger may not substantially restrain competition.

(2) Substantial restraint of competition through coordinated conduct
Although the number of leading blast furnace steelmakers that supply H-section steel will be reduced from three to two as a result of the Merger, the two independent electrical furnace steelmakers will continue to exist after the Merger. It is acknowledged that intense competition between NSC and these leading independent electrical furnace steelmakers will continue to be maintained after the Merger. As a result, there is a slight possibility that a situation could arise in which the corporate group concerned and competitors have, through coordinated conduct, some latitude to determine prices, etc. The results of an investigation to confirm this conclusion show that in addition to the circumstances described above, it is recognized that there is a certain amount of import pressure, competitive pressure from contiguous markets and competitive pressure from users. Consequently, we consider that the Merger may not substantially restrain competition.

Flowchart of Business Combination Review (reference)



Note: When a notifying corporation requests explanations about issues, etc. during the reviewing period, the JFTC will explain the current issues. Notifying corporation can also submit to the JFTC written opinions or any other materials it believes necessary for the review (including offers to take remedies for solving the issue in question).