

Flash Report
Consolidated Basis
Results for the First Quarter of Fiscal 2014
(April 1, 2014—June 30, 2014)

July 31, 2014

Company name: Nippon Steel & Sumitomo Metal Corporation
Stock listing: Tokyo, Nagoya, Sapporo, Fukuoka stock exchanges
Code number: 5401
URL: <http://www.nssmc.com/en/index.html>
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Scheduled date to submit Securities Report: August 7, 2014
Preparation of supplemental explanatory materials: Yes
Holding of quarterly financial results meeting: Yes (for investment analysts)

(Figures of less than ¥1 million have been omitted.)

1. Consolidated Financial and Operating Results through the First Quarter of Fiscal 2014

(April 1, 2014—June 30, 2014)

(1) Consolidated Operating Results (Accumulated)

(Percentage figures are changes from the same period of the previous fiscal year.)

	Net sales		Operating profit		Ordinary profit		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First quarter of Fiscal 2014	1,361,401	5.8	59,631	6.4	74,319	(14.0)	48,340	(23.8)
First quarter of Fiscal 2013	1,286,864	34.0	56,067	—	86,455	831.2	63,398	—

(For reference) Comprehensive income: First quarter of Fiscal 2014 ¥ 87,975 million 22.6%

First quarter of Fiscal 2013 ¥ 71,735 million —%

	Net income per share	Net income per share after full dilution
	Yen	Yen
First quarter of Fiscal 2014	5.30	—
First quarter of Fiscal 2013	6.99	—

(2) Consolidated Financial Results

	Total assets	Net assets	Ratio of shareholders' equity to total assets
	Millions of yen	Millions of yen	%
First quarter of Fiscal 2014	7,032,191	3,270,545	38.6
Fiscal 2013	7,082,288	3,237,995	37.9

(For reference) Shareholders' equity: First quarter of Fiscal 2014 ¥ 2,713,194 million

Fiscal 2013 ¥ 2,683,659 million

2. Dividends

Base date	Dividends per share				
	End of the first quarter	End of the first half	End of the third quarter	End of the second half	Full-year
	Yen	Yen	Yen	Yen	Yen
Fiscal 2013	—	2.00	—	3.00	5.00
Fiscal 2014	—				
Fiscal 2014 (Forecasts)		2.00	—	—	—

Note: Whether the dividend forecasts under review have been revised: Yes

3. Consolidated Financial Forecasts for Fiscal 2014(April 1, 2014—March 31, 2015)

The Company's consolidated financial forecasts for the first half of fiscal 2014 are for net sales of ¥2,750 billion, ordinary profit of ¥150 billion, and net income of ¥85 billion (¥9.32 net income per share). The Company's consolidated financial forecasts for fiscal 2014 are for ordinary profit of approximately ¥400 billion.

For further details, please refer to page 4, "1. Qualitative Information for the First Quarter of Fiscal 2014 (2) Explanation of Information on Future Estimates, Including Consolidated Earnings Forecasts."

Note: Whether the consolidated financial forecasts for fiscal 2014 under review have been revised: Yes

* Notes

(1) Changes in the state of material subsidiaries during the Period: None

(2) Adoption of special accounting Methods for the preparation of quarterly consolidated financial statements: Yes

Note: For further details, please refer to page 5, "2. Matters Concerning Summary Information (Notes to Financial Statements) (2) Adoption of Special Accounting Methods for the Preparation of Quarterly Consolidated Financial Statements."

(3) Changes in accounting principles, changes in accounting estimates, and retrospective restatements

(a) Changes in accounting principles accompanying revisions in accounting standards: Yes

(b) Changes other than those in (a) above: None

(c) Changes in accounting estimates: None

(d) Retrospective restatements: None

Note: For further details, please refer to page 5, "2. Matters Concerning Summary Information (Notes to Financial Statements) (3) Changes in Accounting Principles, Changes in Accounting Estimates, and Retrospective Restatements."

(4) Number of shares issued (common shares)

(a) Number of shares issued at the end of the period (including treasury stock)

First quarter of Fiscal 2014	9,503,214,022 shares
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Fiscal 2013	9,503,214,022 shares
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(b) Number of treasury stock at the end of the period

First quarter of Fiscal 2014	378,575,416 shares
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Fiscal 2013	378,513,168 shares
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(c) Average number of shares issued during the term

First quarter of Fiscal 2014	9,124,672,528 shares
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First quarter of Fiscal 2013	9,074,573,697 shares
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* Status of Performance of Quarterly Review Procedures

This quarterly flash report is exempt from the quarterly review procedures based on Japan's Financial Instruments and Exchange Law. At the time when this quarterly flash report was disclosed, the quarterly review procedures based on the Financial Instruments and Exchange Law had not been completed.

* Explanation of the appropriate use of performance forecasts and other related items

(Explanation of the appropriate use of performance forecasts)

The forward-looking statements included in this flash report are based on the assumptions, forecasts, and plans of the Company as of the date on which this document is made public. The Company's actual results may differ substantially from such statements due to various risks and uncertainties.

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1. Qualitative Information for the First Quarter of Fiscal 2014

(1) Explanation of Operating Results

Global and Domestic Economic Conditions in the First Quarter of Fiscal 2014

The overall global economy continued to expand gradually, supported by a steady recovery in corporate profits and consumer spending, mainly in the United States, although growth in China and the ASEAN countries slowed.

With regard to Japan, the economy moved mildly toward a recovery, despite a downturn caused by a reaction to the consumption tax hike, on the back of improving corporate profits stemming from a recovery in production.

Operating Results by Business Segment in the First Quarter of Fiscal 2014

The Nippon Steel & Sumitomo Metal Corporation Group's business segments continued efforts to improve their revenues and earnings by responding to the changing operating environment of each of their business segments. An overview of operating results by business segment is shown below.

(Billions of Yen)				
	Net Sales		Ordinary Profit	
	1Q FY14	1Q FY13	1Q FY14	1Q FY13
Steelmaking and steel fabrication	1,218.9	1,142.7	71.0	75.7
Engineering and construction	75.4	60.8	1.9	3.6
Chemicals	52.1	54.6	0.8	4.4
New materials	9.0	9.4	0.4	0.1
System solutions	44.7	39.8	3.2	1.9
Total	1,400.3	1,307.6	77.5	85.9
Adjustments	(38.9)	(20.7)	(3.1)	0.5
Consolidated Total	1,361.4	1,286.8	74.3	86.4

Steelmaking and Steel Fabrication

Steel demand in Japan was generally robust when seasonal factors and an extraordinary factor were excluded. While steel demand from the civil engineering and construction fields decreased partly due to seasonal factors, there were signs of improvement in demand from manufacturing industries on the back of a recovery in capital expenditure and business confidence, despite a certain downturn caused by a reaction to the consumption tax hike.

Exports steadily recovered, mainly due to a mild recovery in the global economy but global markets remained severe as Chinese steel makers continued production at high volumes. The steelmaking and steel fabrication segment recorded net sales of ¥1,218.9 billion and ordinary profit of ¥71.0 billion.

On June 22 and July 27, 2014, a power failure occurred at Nagoya Works. We deeply regret any inconvenience and anxiety that may have been experienced by all concerned, including neighborhood residents. We are exerting our utmost efforts to prevent any recurrence of this situation.

Engineering and Construction

Nippon Steel & Sumikin Engineering Co., Ltd. undertook aggressive overseas strategic initiatives, which included full-scale operation at overseas facilities and M&A activities with a leading European waste disposal design and construction company. The segment has also worked on enhancing the competitiveness and profitability of its existing businesses. The engineering and construction segment posted net sales of ¥75.4 billion and ordinary profit of ¥1.9 billion.

Chemicals

Nippon Steel & Sumikin Chemical Co., Ltd. recorded solid sales in the functional materials business in circuit board materials, display materials and organic EL materials. However, profits in the chemicals business decreased markedly over the previous fiscal year due to large periodic repair and the impacts of a decrease in demand in the styrene monomer market. In addition, demand for needle coke, a core product of the segment, continued to be sluggish. The chemicals segment recorded net sales of ¥52.1 billion and ordinary profit of ¥0.8 billion.

New Materials

Nippon Steel & Sumikin Materials Co., Ltd. benefited from robust demand in the electronic materials field for products that include surface-treated copper wire, a material alternative to gold bonding wire. Demand increased in the basic industrial materials and components field for social infrastructure maintenance and reinforcement materials, and demand from developing countries was also stronger for metal carriers in the environmental and energy field. The new materials segment posted net sales of ¥9.0 billion and ordinary profit of ¥0.4 billion.

System Solutions

NS Solutions Corporation worked on various measures aimed at strengthening sales and marketing and improving profitability, and promoted the reinforcement and expansion of its cloud computing and other service businesses. In addition, it strived to expand business in Thailand and other Asian countries. The system solutions segment recorded net sales of ¥44.7 billion and ordinary profit of ¥3.2 billion.

Sales and Profit for the First Quarter of Fiscal 2014

Nippon Steel & Sumitomo Metal Corporation (NSSMC or the Company) posted first-quarter consolidated net sales of ¥1,361.4 billion, operating profit of ¥59.6 billion, ordinary profit of ¥74.3 billion, and net income of ¥48.3 billion.

(2) Explanation of Information on Future Estimates, Including Consolidated Earnings Forecasts

Consolidated Earnings Forecasts

The Company expects the overall global economy to continue its gradual expansion. Slowing growth in China and the ASEAN region is expected to continue; however, conditions in the United States are on track to continue to recover thanks to strong corporate profits. The Japanese economy is expected to keep moving toward a recovery, albeit mildly, as the consumption tax hike is likely to have limited effects, and corporate profits should improve due to a production recovery.

With regard to the domestic steel market, the Company projects an effective increase in demand, anticipating full-fledged progress in reconstruction demand, a pick-up in capital expenditure, and an upturn in business confidence. In export markets, demand appears to remain firm thanks to steady global economic growth. However, steel supply continues to be a concern, with Chinese steel makers continuing to produce at high volumes. Therefore, supply and demand conditions as well as conditions in Asian markets must be watched carefully.

Amid these conditions, NSSMC forecasts fiscal 2014 first-half consolidated net sales of ¥2,750.0 billion, ordinary profit of ¥150.0 billion, and net income of ¥85.0 billion.

In full fiscal 2014, while the outlook for China's economy is unclear, the business outlook for the United States will remain firm and the Japanese economy is also expected to be robust. In this environment, the Company will continue to make great efforts to undertake various measures outlined in its Mid-Term Management Plan. Negotiations for raw materials pricing and NSSMC product pricing for the second half are upcoming. Besides making utmost efforts in the area of management, the Company intends to deal thoroughly with the negotiations while asking for the understanding of customers, in order to maintain appropriate product pricing levels.

In the second half of fiscal 2014, NSSMC expects the impact of the consumption tax hike to have run its course. By continuing to engage in cost improvement and other initiatives, the Company aims to increase full fiscal 2014 consolidated ordinary profit by around 10% to ¥400.0 billion.

Basic Profit Distribution Policy and the First-Half Dividend Distribution

NSSMC's basic profit distribution policy is to pay dividends from distributable funds at the end of the first half and the second half of the fiscal year. The Company does so in consideration of consolidated operating results and such factors as capital requirements for investment and other activities aimed at raising corporate value and performance prospects. The Company also considers the financial structure of the Company on consolidated and non-consolidated bases. The Company has set a consolidated payout ratio target of approximately 20% for use as an indicator for the distribution of profits based on due consideration of consolidated operating results. The level of the first-half dividend is set based on consideration of interim performance figures and forecasts for the full fiscal year performance.

In accordance with the basic profit distribution policy described above, the Company intends to distribute a dividend of ¥2.0 per share at the end of the first half, representing a consolidated dividend payout ratio of 21%.

2. Matters Concerning Summary Information (Notes to Financial Statements)

(1) Changes in the State of Material Subsidiaries During the Period:

None

(2) Adoption of Special Accounting Methods for the Preparation of Quarterly Consolidated Financial Statements:

Income taxes were computed by multiplying consolidated quarterly income before income taxes and minority interests by a rational estimate of the effective tax rate on consolidated income before income taxes and minority interests for the fiscal year including the quarterly period under review after adjustments for the application of tax-effect accounting.

(3) Changes in Accounting Principles, Changes in Accounting Estimates, and Retrospective Restatements:

Provisions stated in Section 35 of the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, hereinafter referred to as the “Retirement Benefits Accounting Standard”) and Section 67 of the “Guidance on the Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, hereinafter “Guidance on Retirement Benefits”) have been applied from the first quarter of fiscal 2014. With this application, calculation methods for retirement benefit obligations and service cost have been changed. Under this change, the calculation method for annual allocation expenses for projected benefit obligations is changed from the straight-line attribution standard pro-rated on employees’ years of service to benefit formula standard pro-rated on employees’ salaries. The method for determining the time period over which the discount rate is imputed is changed from the average remaining years of service for employees to mainly the expected period length of benefits payments and weighted average discount rate reflecting the amount to be paid in each period under the expected length of benefits payments for all employees under the plan.

In accordance with the transitional treatment prescribed in Section 37 of the Retirement Benefits Accounting Standard, the Company applied the Accounting Standard for Retirement Benefits at the beginning of the first quarter of fiscal 2014, and the effect of the accounting change in retirement benefit obligations and service cost was reflected in retained earnings.

As a result, net defined benefit assets decreased by ¥27,904 million, net defined benefit liabilities increased by ¥14,506 million and retained earnings decreased by ¥27,824 million at the beginning of the first quarter of fiscal 2014. The impact of this change on consolidated income for the first quarter of fiscal 2014 is immaterial.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

ASSETS	Millions of yen	
	March 31, 2014	June 30, 2014
Current assets :		
Cash and bank deposits	105,303	91,042
Notes and accounts receivable	589,802	520,509
Inventories	1,225,014	1,262,542
Other	354,791	333,165
Less: Allowance for doubtful accounts	(1,540)	(1,637)
Total current assets	2,273,371	2,205,622
Fixed assets :		
Tangible fixed assets :		
Buildings and structures	725,473	721,071
Machinery, equipment and vehicles	1,078,995	1,082,578
Other	807,810	801,060
	2,612,280	2,604,709
Intangible fixed assets	94,079	105,465
Investments and others :		
Investments in securities	1,836,196	1,874,334
Net defined benefit assets	111,958	89,262
Other	157,727	156,021
Less: Allowance for doubtful accounts	(3,324)	(3,224)
	2,102,557	2,116,393
Total fixed assets	4,808,916	4,826,568
Total assets	7,082,288	7,032,191

	Millions of yen	
LIABILITIES	March 31, 2014	June 30, 2014
Current liabilities :		
Notes and accounts payable	661,267	647,877
Short-term loans payable	435,357	409,658
Commercial paper	32,000	-
Bonds due within one year	65,000	30,000
Income taxes payable	36,894	10,944
Provision	3,078	3,302
Other	577,539	622,713
Total current liabilities	<u>1,811,137</u>	<u>1,724,497</u>
Long-term liabilities :		
Bonds and notes	425,668	415,670
Long-term loans payable	1,313,248	1,301,473
Allowance and reserve	13,739	8,297
Net defined benefit liabilities	157,373	171,930
Other	123,125	139,776
Total long-term liabilities	<u>2,033,155</u>	<u>2,037,148</u>
Total liabilities	<u>3,844,293</u>	<u>3,761,645</u>
NET ASSETS		
Shareholders' equity :		
Common stock	419,524	419,524
Capital surplus	371,465	371,467
Retained earnings	1,652,054	1,645,041
Less: Treasury stock, at cost	<u>(62,882)</u>	<u>(62,902)</u>
	2,380,162	2,373,131
Accumulated other comprehensive income:		
Unrealized gains on available-for-sale securities	189,831	220,366
Deferred hedge income (loss)	<u>(3,099)</u>	<u>(3,763)</u>
Unrealized gains on revaluation of land	2,554	2,554
Foreign currency translation adjustments	71,565	73,672
Remeasurements of defined benefit plans	42,644	47,233
	<u>303,496</u>	<u>340,062</u>
Minority interests in consolidated subsidiaries	<u>554,335</u>	<u>557,351</u>
Total net assets	<u>3,237,995</u>	<u>3,270,545</u>
Total liabilities and net assets	<u>7,082,288</u>	<u>7,032,191</u>

**(2) Quarterly Consolidated Statements of Income
and Quarterly Consolidated Statements of Comprehensive Income**

Quarterly Consolidated Statements of Operations	Millions of yen	
	First quarter of fiscal 2013	First quarter of fiscal 2014
Operating revenues :		
Net sales	1,286,864	1,361,401
Cost of sales	1,121,652	1,187,009
Gross margin	165,212	174,392
Selling, general and administrative expenses	109,144	114,760
Operating profit	56,067	59,631
Non-operating profit and loss :		
Non-operating profit :		
Interest	1,089	1,237
Dividend income	6,968	7,699
Equity in net income of unconsolidated subsidiaries and affiliates	13,189	19,405
Other	24,494	4,153
	45,742	32,496
Non-operating loss :		
Interest expense	6,821	5,440
Other	8,532	12,367
	15,354	17,808
Ordinary profit	86,455	74,319
Special profit :		
Gain on sales of investment securities	15,621	-
	15,621	-
Income before income taxes and minority interests	102,077	74,319
Income taxes - current and deferred	35,268	22,381
Income before minority interests	66,808	51,938
Minority interests in net income of consolidated subsidiaries	3,409	3,597
Net income	63,398	48,340

Quarterly Consolidated Statements of Comprehensive Income	Millions of yen	
	First quarter of fiscal 2013	First quarter of fiscal 2014
Income before minority interests	66,808	51,938
Other comprehensive income		
Unrealized gains on available-for-sale securities	9,211	29,914
Deferred hedge income (loss)	(3,684)	(485)
Foreign currency translation adjustments	(2,884)	2,378
Remeasurements of defined benefit plans	-	4,597
Share of other comprehensive income of associates accounted for using equity method	2,284	(367)
Total other comprehensive income	4,927	36,037
Comprehensive income	71,735	87,975
attributable to		
Comprehensive income attributable to owners of the parent	68,290	84,906
Comprehensive income attributable to minority interests	3,445	3,069

(3) Notes on Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

None

(Notes in Case of Significant Changes to Shareholders' Equity)

None

(Segment Information)

(Information about segment sales, profit (loss))

First quarter of Fiscal 2013 (April 1, 2013—June 30, 2013)

(Millions of yen)

	Reportable segment					Total	Adjustments	Consolidated
	Steelmaking and steel fabrication	Engineering and construction	Chemicals	New materials	System solutions			
Net sales	1,142,797	60,810	54,690	9,463	39,850	1,307,611	(20,746)	1,286,864
Segment profit <Ordinary Profit>	75,716	3,650	4,424	136	1,982	85,909	546	86,455

First quarter of Fiscal 2014 (April 1, 2014—June 30, 2014)

(Millions of yen)

	Reportable segment					Total	Adjustments	Consolidated
	Steelmaking and steel fabrication	Engineering and construction	Chemicals	New materials	System solutions			
Net sales	1,218,976	75,475	52,104	9,024	44,757	1,400,338	(38,937)	1,361,401
Segment profit <Ordinary Profit>	71,026	1,979	815	461	3,236	77,519	(3,199)	74,319

(Depreciation Information)

The Company does not prepare a cumulative Quarterly Consolidated Statement of Cash Flows for the first quarter of the fiscal year. Depreciation and amortization (including intangible fixed assets amortization other than goodwill) are as follows:

(Millions of yen)

	For the first quarter of fiscal 2013	For the first quarter of fiscal 2014
Depreciation and amortization	78,953	76,242