

# The 93rd Term Interim Report

April 1, 2017 to September 30, 2017

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# To Our Shareholders

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Representative Director and President,

**Kosei Shindo**

We would like to thank you for your continued understanding and support.

Nippon Steel & Sumitomo Metal Corporation (“NSSMC” or “the Company”) celebrated the fifth anniversary of its inauguration in October 2017. During this period, NSSMC has pursued growth both in Japan and overseas, building on its competitive advantages in “technology,” “cost,” and “being global.” Although the competitive environment in the global steel business has been changing rapidly, NSSMC will continue to steadily advance various measures in order to raise its corporate value.

## **(Overview of Business Operations and Performance for the First Half of Fiscal 2017)**

We would like to present the overview of business operations during the first half of fiscal 2017 (April 1, 2017 to September 30, 2017).

During the first half of fiscal 2017, the global economy overall continued to recover moderately. The U.S. economy continued to recover steadily, led by consumer spending, and the economy of Europe maintained a steady undertone, while the economy of China remained stable thanks to the effects of various government policies despite signs of slower growth in some indicators, and a moderate recovery trend continued in developing countries. However, uncertainties stemming from political and other conditions in some countries persisted.

The Japanese economy continued to recover moderately, evidenced by factors such as a pick-up in private consumption and capital investment and improvement in corporate production activities.

Domestic demand for steel was firm, centered on shipments to the automotive sector.

Overseas steel demand in general remained solid in the United States and Europe as well as other countries, and the high level of demand continued in China. In the global market, temporary signs of weakness emerged at the beginning of the fiscal year due to inventory adjustments; however, in the second quarter, conditions improved, especially on the back of firm domestic demand in China.

Under such conditions, NSSMC posted consolidated net sales for the first half of fiscal 2017 of ¥2,745.0 billion, with operating profit of ¥99.9 billion, ordinary profit of ¥157.6 billion, and profit attributable to owners of parent of ¥99.1 billion.

### **(Distribution of Dividend at End of First Half of Fiscal 2017)**

In accordance with the basic profit distribution policy described in page 3 of this report, the Company has decided to increase the per-share dividend at the end of the first half (interim) by ¥5 from ¥25, as previously disclosed, to ¥30 (consolidated payout ratio of 26.7%), in light of an increase in profit from the level announced at the time of the release of results for the first quarter (on July 28, 2017).

### **(Future Outlook)**

NSSMC anticipates that, despite lingering uncertainty over political and other conditions in some countries, overall moderate conditions in the global economy will continue. This will be supported by continued steady economic recovery in the United States, favorable business conditions in Europe, sustained stable conditions in China thanks to the effects of various government policies, and ongoing gradual economic recovery in developing countries.

The Japanese economy is expected to maintain a moderate recovery, supported by stable private consumption and capital investment, despite some restraint in business activities caused by labor shortages in some areas.

The Company expects that demand for steel will stay firm in Japan, led principally by demand in the automotive sector and demand from the construction and civil engineering sectors. Overseas steel demand in general is also projected to remain robust. However, with regard to China where demand remained at a high level, close attention to future trends will be necessary.

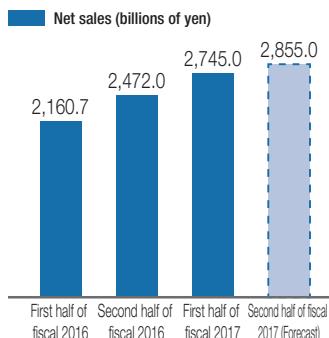
In this environment, for the full fiscal year 2017, which will be the final year of the 2017 Mid-Term Management Plan, the Company will continue to exert maximum management efforts to capture strong steel demand through continued stable production, steadily implement measures to reduce costs, and make further improvements in the earnings of Group companies, including those involved in overseas business. Concerning the revision of steel product prices, the Company will continue to carefully respond to customers and seek their understanding in order to secure an appropriate reproducible margin. Through the implementation of these and other initiatives, the Company is targeting consolidated ordinary profit of ¥300 billion or more, as we announced at the time of the release of results for the first quarter.

The Company plans to determine the forecast for the year-end dividend distribution amount, with due consideration of the full-year outlook for profit attributable to owners of parent, and announce it at the time of its third-quarter results announcement.

NSSMC wishes to take this opportunity to ask its shareholders for their understanding of the aforementioned circumstances and for their continued support.

# Changes in Consolidated Operating Results

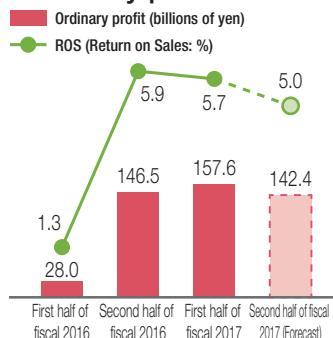
## Net sales



Fiscal 2016	Fiscal 2017 (Forecast)
¥4,632.8 billion	¥5,600.0 billion [+¥967.2 billion (+21%) from the previous fiscal year]

Net sales increased (+21% from the previous fiscal year) due to the rise in steel product prices and consolidation of Nisshin Steel Co., Ltd. in March 2017.

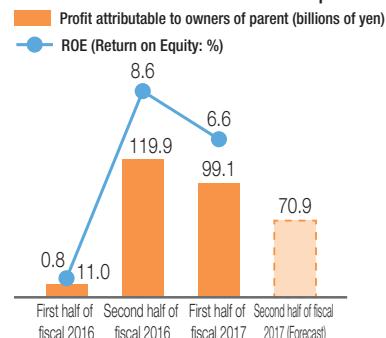
## Ordinary profit · ROS



Fiscal 2016	Fiscal 2017 (Forecast)
Ordinary profit: ¥174.5 billion	Ordinary profit: ¥300.0 billion [+¥125.5 billion (+72%) from the previous fiscal year]
ROS: 3.8%	ROS: 5.4%

NSSMC forecasts a significant increase of ¥125.5 billion (+72%) from the previous fiscal year on the back of cost reductions, recovery in margin and improvements in the earnings of Group companies including the consolidation of Nisshin Steel Co., Ltd. ROS is forecast to be approximately 5.4%.

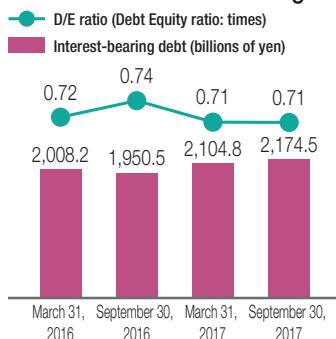
## Profit attributable to owners of parent · ROE



Fiscal 2016	Fiscal 2017 (Forecast)
¥130.9 billion	¥170.0 billion [+¥39.1 billion (+30%) from the previous fiscal year]

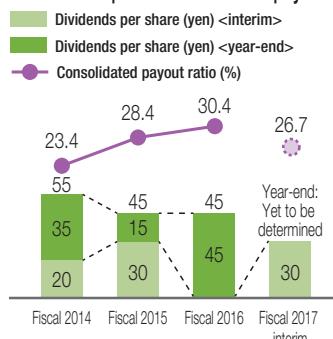
Profit attributable to owners of parent is forecast to increase ¥39.1 billion (+30%) from the previous fiscal year, reflecting increase in ordinary profit. NSSMC will continue to make efforts to further improve capital efficiency.

## D/E ratio · Interest-bearing debt



Although interest-bearing debt increased (+¥261.8 billion as of March 31, 2017) due to the consolidation of Nisshin Steel Co., Ltd., the financial structure (ex. D/E ratio) has steadily been improved.

## Dividends per share · Dividend payout ratio



(Note) On October 1, 2015, NSSMC performed the share consolidation at the ratio of 10 shares to 1 share. Consequently, NSSMC estimates the dividends per share assuming that the share consolidation occurred at the start of fiscal 2014.

## <Operating results forecasts for full year of fiscal 2017>

With regard to full year of fiscal 2017, we are forecasting consolidated net sales of ¥5,600.0 billion, ordinary profit of ¥300.0 billion, and profit attributable to owners of parent of ¥170.0 billion.

## <Basic Dividend Policy>

NSSMC's basic policy regarding profit distribution is to pay dividends from distributable funds at the end of the first half (interim) and second half (year-end) of the fiscal year, after taking into account consolidated operating results and such factors as capital requirements for investment and other activities aimed at raising corporate value and performance prospects while also considering the financial structure of the Company on consolidated and non-consolidated bases. The Company has adopted a consolidated payout ratio of approximately 20%-30% as the benchmark for the "payment of dividends from distributable funds in consideration of the consolidated operating results." The level of the first half dividend is determined based on consideration of interim performance figures and forecasts for the full fiscal year performance.

# Summary of Consolidated Financial Statements

## Consolidated Balance Sheets (Billions of yen)

Items	September 30, 2017
<b>ASSETS</b>	
Current assets	2,372.7
Fixed assets	5,104.2
<b>Total assets</b>	<b>7,477.0</b>
<b>LIABILITIES</b>	
Current liabilities	2,121.2
Long-term liabilities	1,944.4
<b>Total liabilities</b>	<b>4,065.7</b>
<b>NET ASSETS</b>	
Shareholders' equity	2,681.6
Accumulated other comprehensive income	374.1
Non-controlling interests in consolidated subsidiaries	355.4
<b>Total net assets</b>	<b>3,411.3</b>
<b>Total liabilities and net assets</b>	<b>7,477.0</b>

## Consolidated Statements of Operations (Billions of yen)

Items	First half of fiscal 2017 (April 1, 2017 to September 30, 2017)
<b>Net sales</b>	<b>2,745.0</b>
Cost of sales	2,396.9
<b>Gross profit</b>	<b>348.1</b>
Selling, general and administrative expenses	248.1
<b>Operating profit</b>	<b>99.9</b>
Non-operating profit	94.4
Non-operating loss	36.8
<b>Ordinary profit</b>	<b>157.6</b>
<b>Extraordinary loss</b>	<b>2.9</b>
<b>Profit before income taxes</b>	<b>154.6</b>
Income taxes – current and deferred	40.0
<b>Profit</b>	<b>114.5</b>
Profit attributable to non-controlling interests	15.4
Profit attributable to owners of parent	99.1

## Consolidated Segment Information (April 1, 2017 to September 30, 2017)

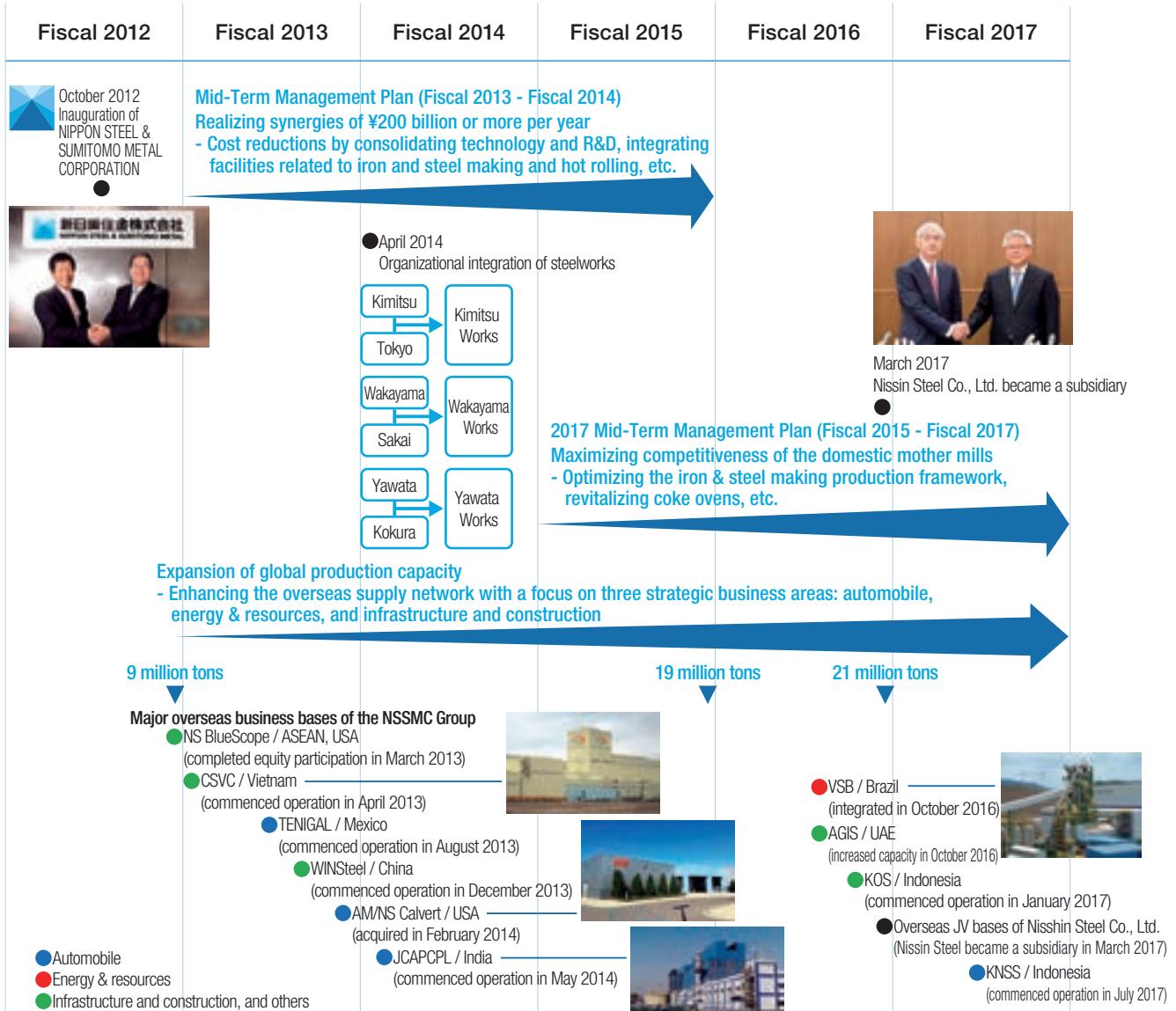
(Billions of yen)

	Reportable segment					Total	Adjustments	Consolidated total
	Steelmaking and steel fabrication	Engineering and construction	Chemicals	New materials	System solutions			
Net sales	2,438.0	134.1	98.3	17.9	116.5	2,804.9	(59.8)	2,745.0
Segment profit <Ordinary profit>	128.7	1.9	9.3	1.1	10.7	151.9	5.6	157.6

\* Figures less than ¥0.1 billion are rounded down to the nearest ¥0.1 billion.

# Feature: Five-Year History after the Inauguration of NIPPON STEEL & SUMITOMO METAL

## Accelerating towards Becoming the “Best Steelmaker with World-Leading Capabilities”



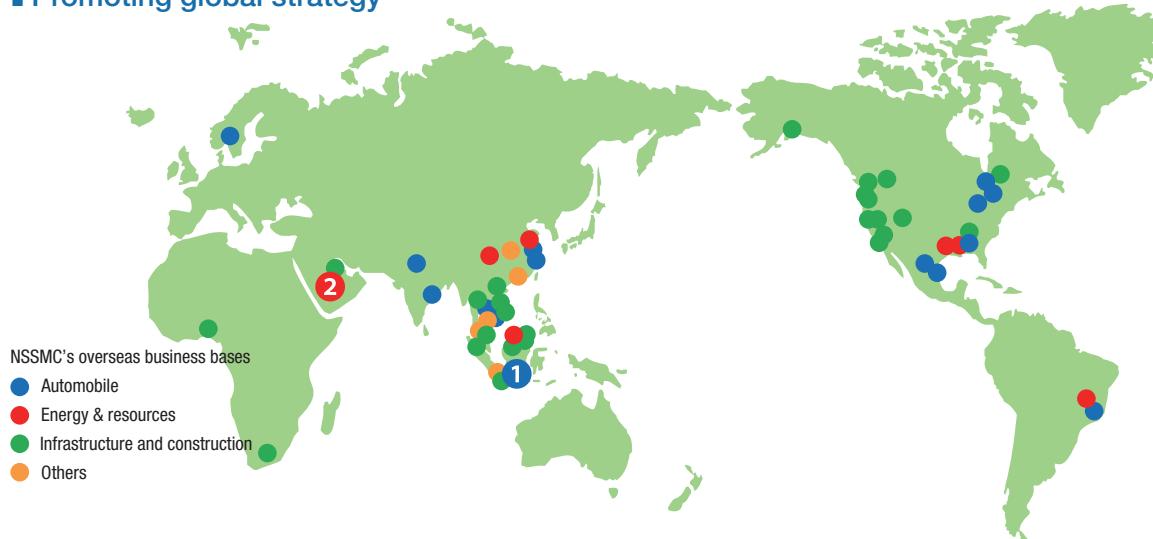
# Topics

In this section, we introduce activities by the NSSMC Group in the first half of fiscal 2017.

## Steelmaking and Steel Fabrication

We report on the progress of the measures set out in our “2017 Mid-Term Management Plan.”

### Promoting global strategy



#### 1 PT KRAKATAU NIPPON STEEL SUMIKIN (KNSS), a joint venture manufacturing and selling automotive flat steel products in Indonesia, started commercial operation

NSSMC and PT Krakatau Steel (Persero) Tbk (PTKS) established a joint venture KNSS in Indonesia for the manufacture and sale of automotive flat steel products. After constructing a plant, KNSS has started commercial production on July 24, 2017. Through local production of high-grade, high-quality steel sheets at KNSS, NSSMC and PTKS intend to contribute to the further development of the Indonesian automotive industry.



PT KRAKATAU NIPPON STEEL SUMIKIN (KNSS)

#### 2 NSSMC's pipe manufacturing and sales subsidiary, National Pipe Company Limited (NPC), has passed 5-million-ton level of shipments

NPC, a pipe manufacturing/sales joint venture of NSSMC and a local company in the Kingdom of Saudi Arabia, has reached the total of 5 million tons in its shipment since it started operation in 1980, 37 years ago. To commemorate this achievement, the ceremony was held at its site. NPC has been manufacturing and selling large-diameter helical steel pipes for oil and gas to the national petroleum company Saudi Aramco and other customers for many years.



The commemoration ceremony

## ■ Enhancing technological superiority

### Evolution of NS Super Frame Method®

NSSMC is working to expand applications of “high-strength load bearing wall” which was developed for four-storied houses built using steel frame construction method (NS Super Frame Method®). Use of the “high-strength load bearing wall” enables unprecedentedly large open spaces for one-storied houses and greater design flexibility for three-storied houses which results in cost reductions. The NS Super Frame Method® is evolving further.



Example of application: Kazusa Midori-no-Mori Nursery (Kimitsu Works)

### NSSMC's proprietary titanium product TranTixxii® adopted for cladding of a theater in Jiangsu Province, China

NSSMC is promoting a wider use of titanium in roof coverings and exterior cladding of buildings. TranTixxii®, NSSMC's proprietary-design titanium product, is used for a titanium composite panel of Mitsubishi Chemical Corporation, and the panel has been adopted for construction of the Jiangsu Grand Theater in Jiangsu Province, China.



Jiangsu Grand Theater (Jiangsu Province, China)

## Engineering and Construction

Nippon Steel & Sumikin Engineering Co., Ltd. began construction of a facility of high efficiency power generation from waste disposal, the agreement of which was concluded with Hiroshima Central Environment Sanitation Association. This facility enables high recycling rate to realize zero final disposal system, and will serve as a response center in the event of a disaster and as an environmental learning center.



Conceptual drawing of Hiroshima Central Eco Park

## Chemicals

Nippon Steel & Sumikin Chemical Co., Ltd. has received the 49th Ichimura Industrial Award (Contribution Prize) for development of ESFINE, black photoresist ink for high-definition LCD display.



The presentation ceremony

## New Materials

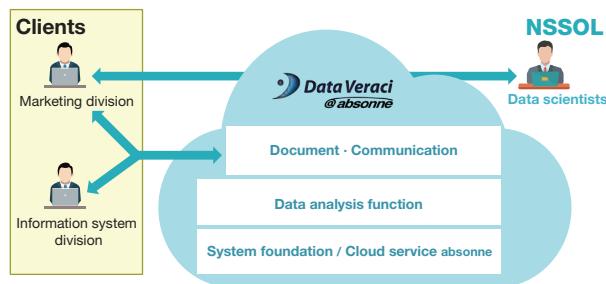
Nippon Steel & Sumikin Materials Co., Ltd. provides ferrous materials in the form of world top-class ultrathin foils. The company offers its mainstay ultrathin stainless steel foils for hard disk drive suspension products and other products such as high-strength stainless steel foils for springs incorporated in smartphones.



Hard disk drive suspension  
(provided by Hutchinson Technology, Inc.)

## System Solutions

NS Solutions Corporation (NSSOL) has been developing solutions in order to help clients effectively utilize AI (Artificial Intelligence) and machine learning in work to sophisticate marketing, credit control, etc.



Data analysis integration environment Data Veraci@absonne

## Environmental and Social Initiatives

### Issue of “Sustainability Report - In Step with Progress toward SDGs”

The report states the NSSMC Group's various efforts to achieve the Sustainable Development Goals (SDGs) adopted at the United Nations Summit in 2015.

We will work to build a sustainable society by developing two-way communication with all stakeholders.



<http://www.nssmc.com/en/csr/index.html>

### Implementation of training programs for educators at private companies

Every year, NSSMC hosts primary and junior high school teachers through the Japan Institute for Social and Economic Affairs, a related organization of Keidanren (Japan Business Federation). This year, a total of 55 teachers, the highest number ever, participated in the programs at our seven steelworks and manufacturing sites for tours of our facilities to better understand NSSMC's corporate management policy and practice, initiatives of human development and safety, environment and disaster prevention, CSR activities, etc.



Training program (Kashima Works)

# Information about NSSMC Shares

## Shareholder Benefits

We have a shareholder benefit program to express our gratitude to shareholders and to facilitate their understanding of our Group activities. The Company will send to applicable shareholders about the details of such events.

### Plant Tours and Business Briefings

Events	Summary of program	Period of implementation	Applicable shareholders
<b>Plant tours (by lottery)</b>	Shareholders are invited to a tour of our steelworks and manufacturing sites.	Twice a year ( March-April and October-November )	Shareholders who own <b>1,000 or more shares</b> as of the end of September and March
<b>Business briefings (by lottery)</b>	Business briefings are conducted in Tokyo, Osaka and other locations.	Twice a year ( February-March and July-September )	

### Other Shareholder Benefit Programs

Events	Summary of program	Period of implementation	Applicable shareholders
<b>Company calendar</b>	NSSMC's calendar is distributed to shareholders.	Once a year ( Late November to early December )	Shareholders who own <b>500 or more shares</b> as of the end of September
<b>Invitation to football games of Kashima Antlers (by lottery)</b>	Shareholders are invited to J1-League football games (home or away).	Twice a year ( April-August and August-December )	Shareholders who own <b>5,000 or more shares</b> as of the end of September and March
<b>Invitation to concerts at Kioi Hall (by lottery)</b>	Shareholders are invited to periodic Kioi Hall Chamber Orchestra Tokyo concerts and other concerts.	Twice a year ( April-July and September-February )	

## Information on the “Social Security and Tax Number System” with regard to shares

Since January 2016, the use of the Social Security and Tax Number has started for administrative procedures related to social security, taxation, and disaster response. The Social Security and Tax Number will be required in taxation procedures relating to shares, etc. Therefore, shareholders are requested to notify their securities firm, etc. of their Social Security and Tax Number.

Contact for inquiries about the notification of the Social Security and Tax Number

(Shareholders whose shares are managed in securities accounts): Please contact your securities firm.

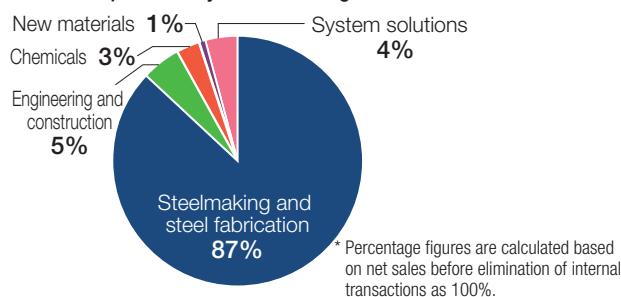
(Shareholders with no transactions with securities firms) Sumitomo Mitsui Trust Bank, Limited, Stock Transfer Agency Business Planning Department  
0120-785-401 (toll free within Japan)

# Corporate Profile and Status of Shares

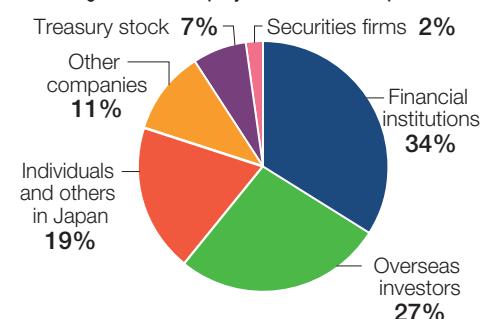
## Corporate Profile

Company name	Nippon Steel & Sumitomo Metal Corporation
Head office	6-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8071, Japan
Paid-in capital	¥419.5 billion
Business	Steelmaking and steel fabrication / Engineering and construction / Chemicals / New materials / System solutions
Number of employees (consolidated)	92,309 (as of March 31, 2017)
Stock listings	Tokyo, Nagoya, Fukuoka, Sapporo
Securities code	5401
Total number of shares authorized to be issued	2,000,000,000 shares
Total number of shares issued	950,321,402 shares (as of September 30, 2017)
Number of shareholders	449,109 (as of September 30, 2017)

### Sales composition by business segment (for the first half of fiscal 2017)



### Percentage of ownership by shareholder composition (as of September 30, 2017)



### Principal shareholders (as of September 30, 2017)

Name of shareholder	Shares held (Thousand shares)	Percentage of ownership (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	42,701	4.5
The Master Trust Bank of Japan, Ltd. (Trust Account)	35,739	3.8
Nippon Life Insurance Company	24,532	2.6
Sumitomo Corporation	18,269	1.9
Japan Trustee Services Bank, Ltd. (Trust Account 5)	16,711	1.8
Mizuho Bank, Ltd.	16,299	1.7
Sumitomo Mitsui Banking Corporation	14,647	1.5
Meiji Yasuda Life Insurance Company	13,960	1.5
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	13,655	1.4
Japan Trustee Services Bank, Ltd. (Trust Account 1)	12,973	1.4
Total	209,490	22.0

# NSSMC Group's Guiding Principles

## Corporate Philosophy

Nippon Steel & Sumitomo Metal Corporation Group will pursue world-leading technologies and manufacturing capabilities, and contribute to society by providing excellent products and services.

## Management Principles

1. We continue to emphasize the importance of integrity and reliability in our actions.
2. We provide products and services that benefit society, and grow in partnership with our customers.
3. We pursue world-leading technologies and manufacturing capabilities.
4. We continually anticipate and address future changes, innovative from within, and pursue unending progress.
5. We develop and bring out the best in our people to make our Group rich with energy and enthusiasm.

## Shareholder Reference Information

Fiscal year	April 1 to March 31
General Meeting of Shareholders	Latter part of June
Record date for the General Meeting of Shareholders	March 31
Record date for dividends	March 31, September 30 and such other date as determined by the Board of Directors
Number of shares in a unit of shares of the Company	100 shares (revised on October 1, 2015)
Website for electronic public notices	<a href="http://www.nssmc.com/en/index.html/">http://www.nssmc.com/en/index.html/</a>
Articles of Incorporation and Regulations Relating to Shares	Articles of Incorporation and Regulations Relating to Shares are posted on NSSMC's website under "Investor Relations."
Registration agent	Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan
Place of business of registration agent (Mailing address and telephone enquiries)	Sumitomo Mitsui Trust Bank, Limited, Stock Transfer Agency Business Planning Department 8-4, Izumi 2-chome, Suginami-ku, Tokyo, 168-0063, Japan Telephone number designated for NSSMC's shareholders: 0120-785-401 (toll free within Japan) Main number of transfer agent: 0120-782-031 (toll free within Japan)

### ●Change of address, and request for sale and purchase of shares less than one unit

Please contact and consult with the securities firm in where you have an account.

Shareholders for whom special accounts have been opened due to their lack of an account in a securities firm should contact Sumitomo Mitsui Trust Bank, Limited, our administrator of the special accounts.

### ●Payment of accrued dividends

Please contact Sumitomo Mitsui Trust Bank, Limited, our registration agent.

### ●Fees concerning sale and purchase of less than one unit of shares

Charged at the amount specified separately (please refer to "Investor Relations" on NSSMC's website).

## NIPPON STEEL & SUMITOMO METAL CORPORATION

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Tel.: +81-3-6867-4111

<http://www.nssmc.com/en/index.html/>