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**NSSMY: ADR (US)** 



# **NIPPON STEEL & SUMITOMO METAL** CORPORATION

# **Second Quarter FY2018 Earnings Summary**

November 2<sup>nd</sup>, 2018

- 'NIPPON STEEL & SUMITOMO METAL CORPORATION' is abbreviated as 'NSSMC'
- All volume figures are presented in metric tons
  Unless otherwise noted, all financial figures are on a consolidated basis

1. FY2018 1H Results & Full Year Forecast

2. Progress in Mid-Term Management Plan

3. Appendix

1. FY2018 1H Results & Full Year Forecast

#### Overview: FY2018 1H Results & Full Year Forecast

#### **Steel Demand by Region**

■ **Domestic**: Firm, especially in the autos & industrial equipment sectors.

■ Overseas : Increased steadily as a whole.

China: Steel demand remains stable while economic growth showing a slight sign of slowdown,

USA: Solid, Europe & emerging countries: Moderate recovery

#### **Topics**

■ Non-consolidated crude steel production (MMT):

**1H 20.50 (2Q:10.21)**: Decreased due to natural disasters, disruption of distribution & troubles in upstream process **2H(E) 21.60**: Recover stable production by strengthening manufacturing capabilities both in facilities & human resources. Optimize standards of maintenance & operation in an integrated manner, Promote facility diagnosis & preventive maintenance.

■ Natural disasters' impacts (Heavy rainfall, typhoons & earthquake): FY18 ¥(56)bn. in total
Ordinary Profit: 1H ¥(27)bn, 2H ¥(8)bn. (Shipment volume down, Cost deterioration)
Extraordinary loss: 1H ¥(21)bn. (The recovery of in-plant power generation in Nisshin steel's Kure Works etc.)

■ Refurbishment: Blast furnace in Muroran (start operation in 2H, FY2020) & Coke oven in Nagoya (start operation in 1H, FY2021)

■ Essar Steel: ArcelorMittal and NSSMC's joint acquisition has been approved by Essar Steel's CoC\*.

■ Comprehensive material solutions: Establishment of "Nippon Steel Chemical & Material Co., Ltd"

\*Committee of Creditors

Financial Highlights (bn.¥)	1	Н	2H [E]	FY2018 [E]
3 3	[JGAAP]	[IFRS]	[IFRS]	[IFRS]
Ordinary / Business Profit*1	151.5	158.0	192.0	350.0
Net Profit <sup>*2</sup>	141.2	117.0	123.0	240.0
ROS	5.2%	5.4%	5.9%	5.6%
EBITDA*3	344.4	358.0	422.0	780.0

■Interim dividend ¥40.00/share

■Consolidated payout ratio (IFRS basis) 30.2%

(JGAAP basis) 25.0%

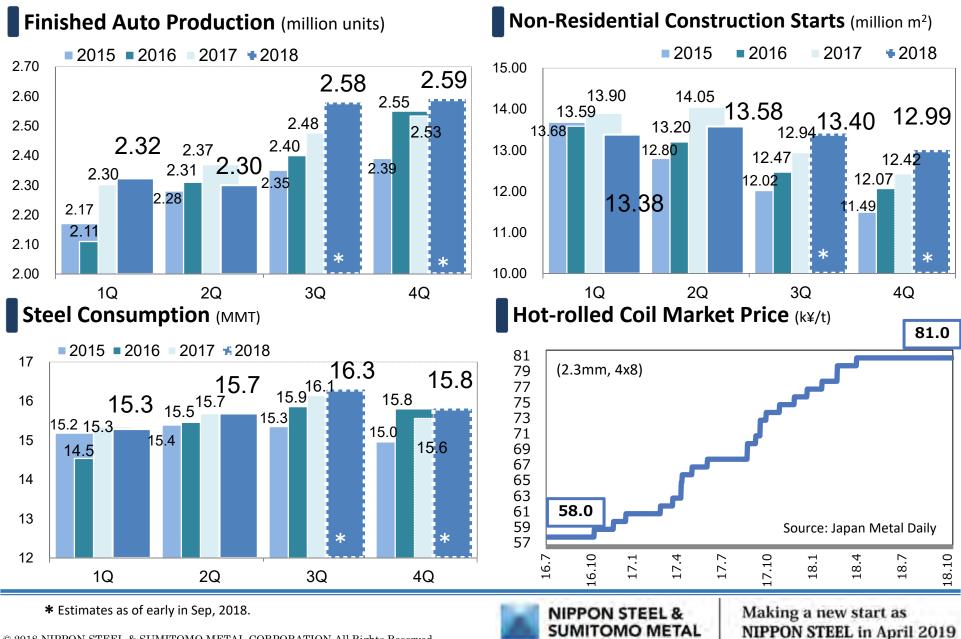
= Revenue - Cost of sales, Selling general & administrative expenses and Other operating expenses + Equity in profit of unconsolidated subsidiaries and affiliates and Other operating income.

Other operating income and expenses is composed mainly of Dividend income, Foreign exchange gains or losses, Loss on disposal of fixed assets.

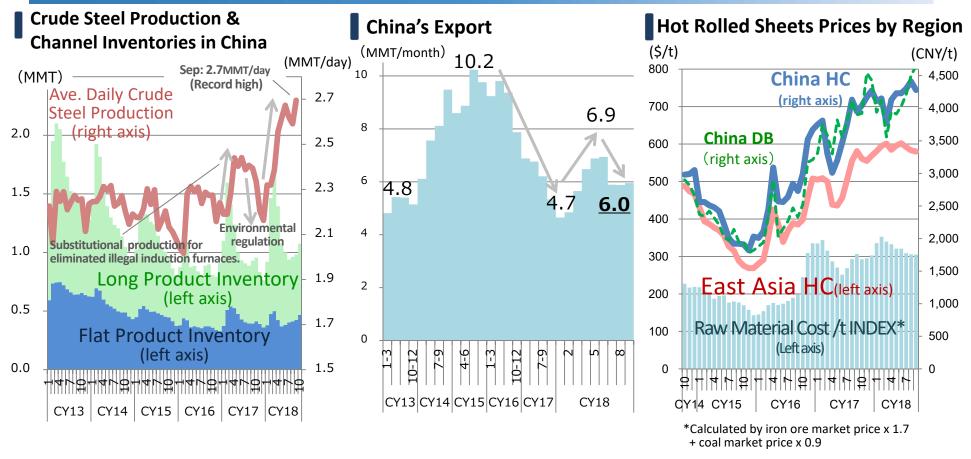
<sup>\*1</sup> Business Profit = Results of sustainable business activities, and an important measure to compare & evaluate NSSMC's consolidated performance continuously.

<sup>\*2</sup> Profit attributable to owners of parent \*3 [JGAAP] Ordinary profit – Net finance costs + Depreciation + Amortization , [IFRS] Business Profit + Depreciation + Amortization

## **Key Indicators of Domestic Steel Demand**



## China's Steel Supply-Demand & Market Trend

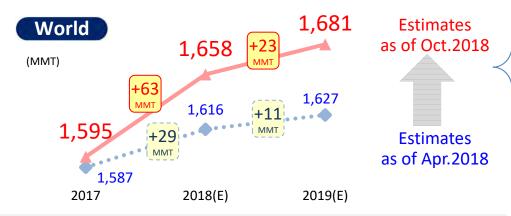


Inventory remains relatively low due to strong demand, and market prices also stay ongoing high level, while crude steel production reached record high in Sep. partly due to rush of production before the winter cut. Need to watch on impacts from trade war & the gov.'s financial policy carefully as some economic indicators has slowed down.

GDP in Jul.-Sep.: +6.5%(YoY), lowest level in 9 & half years
Auto sales in Sep. dropped to 2.39 mil. units(-12% YoY) for the 3 straight months (first 9 months total: +1.5% YoY)

#### **World Steel Demand**

World Steel Demand Short Range Outlook



- World steel demand : Continued to show resilience
  - Recovery in investment activities in developed economies
  - Improved performance of emerging economies
- Chinese steel demand : Remained stable supported by stimulatory fiscal policy & easy monetary policy
- Need to keep a close watch on the trade wars' impacts on global economy and how European & the US's monetary policies affect emerging countries' economy.

Cf. IMF World Economic Outlook Projections (%)

		2	018		2019					
	World	Developed	Emerging	China	World	Developed	Emerging	China		
'18.10	3.7	2.4	4.7	6.6	3.7	2.1	4.7	6.2		
'18. 7	3.9	2.4	4.9	6.6	3.9	2.2	5.1	6.4		
'18. 4	3.9	2.5	4.9	6.6	3.9	2.2	5.1	6.4		

China 781.0 781.0 ±0.0 +44.2 MMT ±0.0 736.8 MMT -14.7722.1 736.8 736.8 MMT 2018(E) 2017 2019(E) **Emerging excl. China** 484.1 465.7 481.9 +14.4 451.3 +20.5 461.4 +21.5 439.9 2017 2018(E) 2019(E) 422.7 Developed 417.9 MMT 410.7 +4.8 416.2 MMT 411.4 +4.2 407.2 MMT 2017 2018(E) 2019(E)

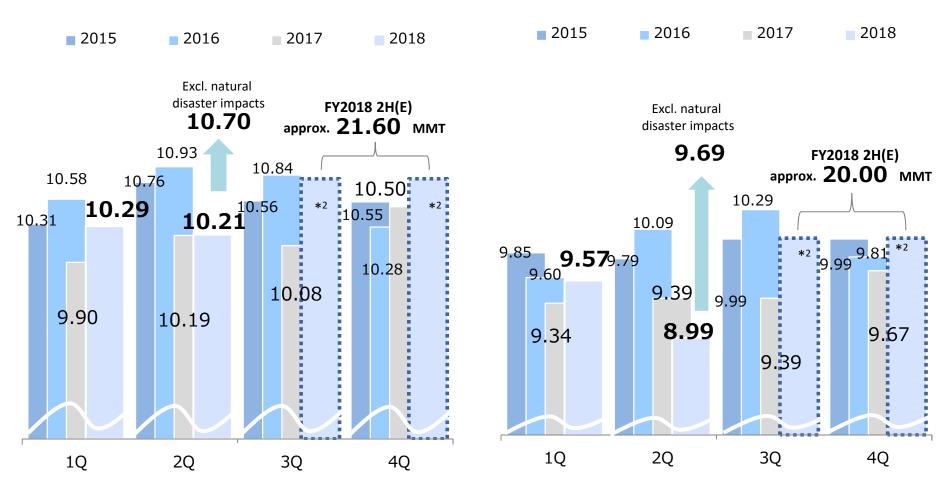
Source: World Steel Association, IMF



#### **Production Volume**

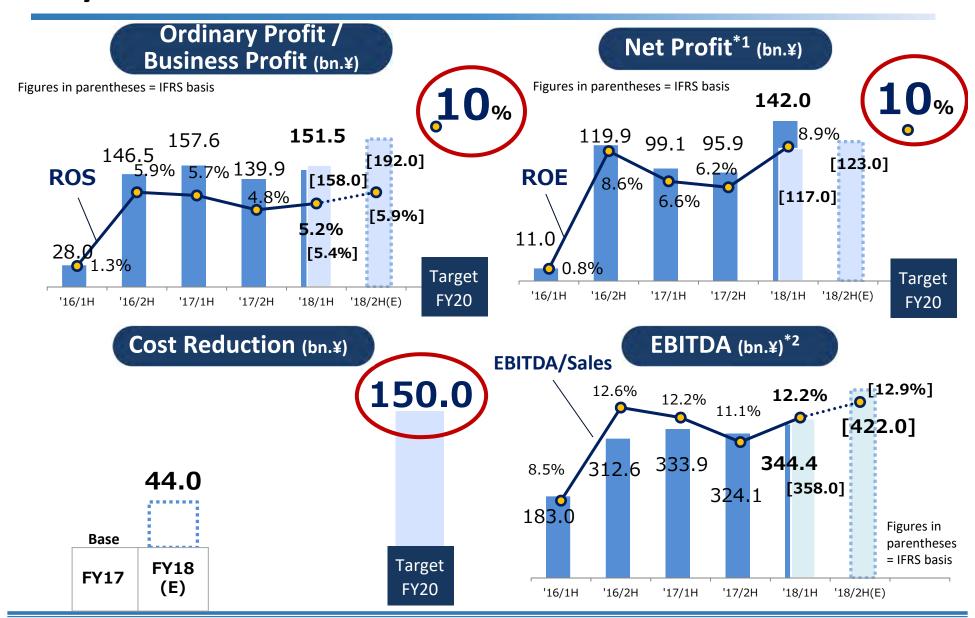


#### **Steel Shipment**



- \*1 Figures of FY2017 Includes pig-iron production of Hokkai Iron & Coke corp. and Nippon Steel & Sumikin Koutetsu Wakayama Co.
- **\*2** FY2018 3Q,4Q bar chart = FY2018 2H (E) / 2

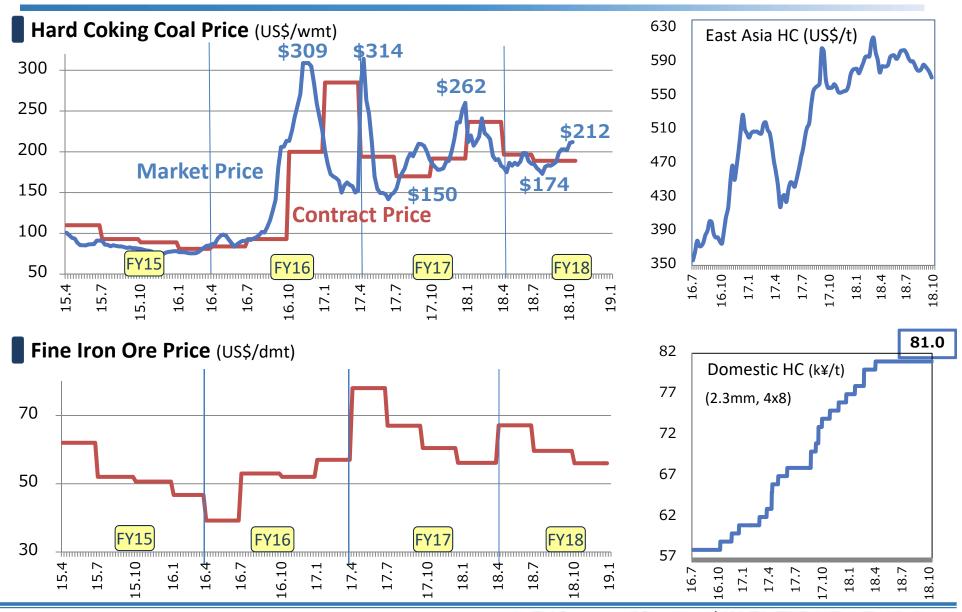
## **Key Indicators**



<sup>\*1</sup> Profit attribute to owners of parent

<sup>\*2 [</sup>JGAAP] Ordinary profit - Net finance costs + Depreciation + Amortization , [IFRS] Business Profit + Depreciation + Amortization

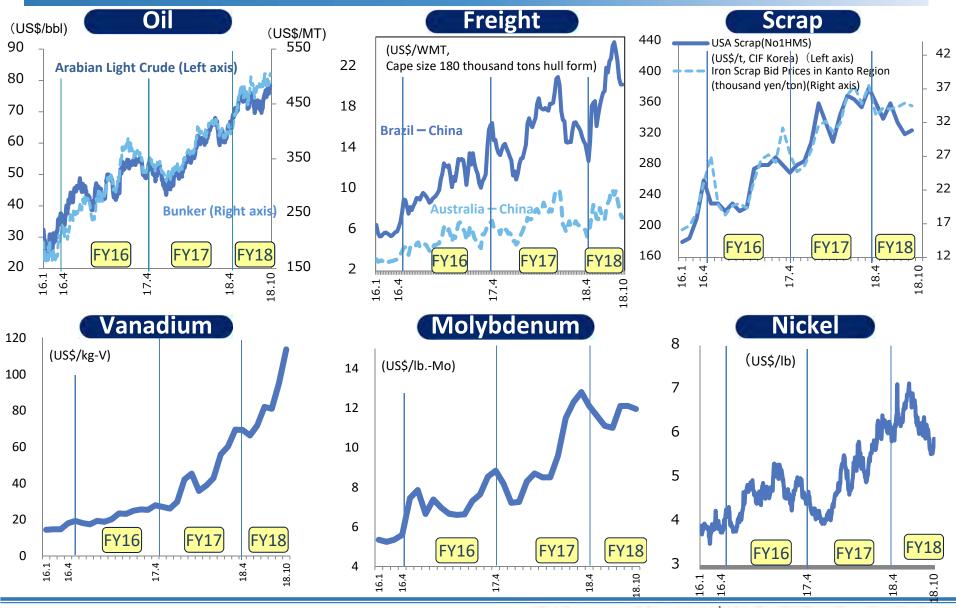
#### **Raw Materials and HC Prices Trend**



(Source: LME, Bloomberg, Japan Metal Daily)



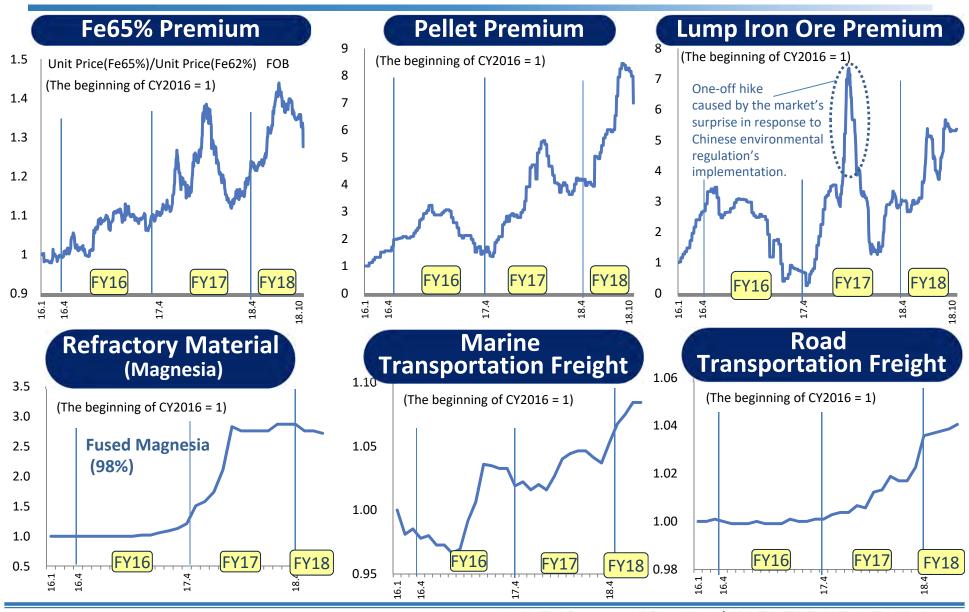
## **Commodity Price Hike (1)**



(Source : LME, Bloomberg, Japan Metal Daily)



## **Commodity Price Hike (2)**



Source : Bank of Japan , NSSMC estimation



## **Operational Highlights**

			FY17					FY	18				Cha	nge	
(MMT)	1Q	2Q	1H	2H		1Q	2Q	*3 1H[E]	1H	2H[E]	[E]	17/1H vs. 18/1H	18/1H[E] vs. * 3 18/1H	18/1H vs. 18/2H[E]	FY17 vs. FY18[E]
*1 Pig-iron production	9.92	10.13	20.05	20.57	40.61	10.25	10.24	<b>21.20</b> approx.	20.49	<b>21.40</b> approx.	<b>41.80</b> approx.	+0.45	<b>-0.71</b> approx.	<b>+0.91</b> approx.	+1.19 approx.
Consolidated Crude Steel Production	11.49	11.74	23.23	23.79	47.02	11.89	11.76	<b>24.40</b> approx.	23.65	<b>25.30</b> approx.	<b>49.00</b> approx.	+0.43	<b>-0.75</b> approx.	<b>+1.65</b> approx.	+1.98 approx.
Non-Consolidated *2 Crude Steel Production	9.90	10.19	20.09	20.58	40.67	10.29	10.21	<b>21.30</b> approx.	20.50	<b>21.60</b> approx.	<b>42.10</b> approx.	+0.41	<b>-0.80</b> approx.	<b>+1.10</b> approx.	+1.43 approx.
Steel Shipments	9.34	9.39	18.72	19.07	37.79	9.57	8.99	<b>19.80</b> approx.	18.56	<b>20.00</b> approx.	<b>38.50</b> approx.	-0.16	<b>-1.24</b> approx.	<b>+1.44</b> approx.	<b>+0.71</b> approx.
Seamless Pipe Shipments	0.24	0.23	0.47	0.49	0.96	0.25	0.22	<b>0.51</b> approx.	0.47	<b>0.56</b> approx.	<b>1.02</b> approx.	+0.00	<b>-0.04</b> approx.	+0.09 approx.	+0.06 approx.
Average Steel Selling Price (k¥/ton)	84.0	83.0	83.5	85.8	84.7	87.2	90.2	<b>88</b> approx.	88.7	90 approx.	<b>89</b> approx.	+5.1	<b>+0.7</b> approx.	<b>+1</b> approx.	<b>+5</b> approx.
Steel Export Ratio (Value basis (%))	41.6	41.5	41.6	40.8	41.2	40.6	41.2	<b>41</b> approx.	40.9	40 approx.	<b>41</b> approx.	-0.6	<b>-0.1</b> approx.	<b>-0.9</b> approx.	<b>-0.2</b> approx.
Forex (\$•¥)	111	111	111	111	111	108	111	110 approx.	109	110 approx.	<b>110</b> approx.	Appreciate <b>2</b>	Appreciate approx. 1	Depreciate approx. 1	Appreciate approx. <b>1</b>

<sup>\*1</sup> Figures of FY2017 Includes pig-iron production of Hokkai Iron & Coke corp. and Nippon Steel & Sumikin Koutetsu Wakayama Co.

<sup>\*2</sup> Figures of FY2017 Includes crude steel production of Nippon Steel & Sumikin Koutetsu Wakayama Co.

**<sup>\*3</sup>** Figures as of Aug. 2, 2018

## FY2018 1H Results [JGAAP]

			FY17				F	Y18		Cha	nge
(bn. ¥)	1Q	2Q	1H	2H		1Q	2Q	*3 1H[E]	1H	17/1H vs. 18/1H	18/1H[E] vs. <sup>* 3</sup> 18/1H
Net Sales	1,355.4	1,389.6	2,745.0	2,923.5	5,668.6	1,440.8	1,462.5	3,000.0	2,903.4	+158.4	-96.6
Operating Profit	66.5	33.4	99.9	82.3	182.3	48.1	38.5		86.7	-13.2	
Ordinary Profit	107.9	49.6	157.6	139.9	297.5	87.7	63.8	150.0	151.5	-6.1	+1.5
ROS	8.0%	3.6%	5.7%	4.8%	5.2%	6.1%	4.4%	5.0%	5.2%	-0.5%	+0.2%
Extraordinary Profit (Loss)	-	(2.9)	(2.9)	(4.7)	(7.6)	10.2	(2.5)		7.7	+10.6	
Net Profit *1	71.3	27.8	99.1	95.9	195.0	96.3	44.9	130.0	141.2	+42.1	+11.2
ROE	9.6%	3.7%	6.6%	6.2%	6.4%	12.2%	5.7%		8.9%	+2.3%	
[ EPS ]	[80.8]	[31.5]	[112.3]	[108.7]	[221.0]	[109.2]	[50.9]	[147.0]	[160.1]	[+47.7]	[+13.1]
EBITDA *2	195.1	138.8	333.9	324.1	658.0	183.5	160.9		344.4	+10.5	
EBITDA / Sales	14.4%	10.0%	12.2%	11.1%	11.6%	12.7%	11.0%		11.9%	-0.3%	
EBITDA / t (k¥/t)	17.1	11.9	14.4	13.7	14.1	15.4	13.7		14.6	+0.2	

<sup>\*1</sup> Profit attribute to owners of parent

**<sup>★2</sup>** Ordinary profit – Net finance costs + Depreciation + Amortization (Change in Definition) © 2018 NIPPON STEEL & SUMITOMO METAL CORPORATION All Rights Reserved.



**<sup>\*3</sup>** Figures as of Aug. 2, 2018

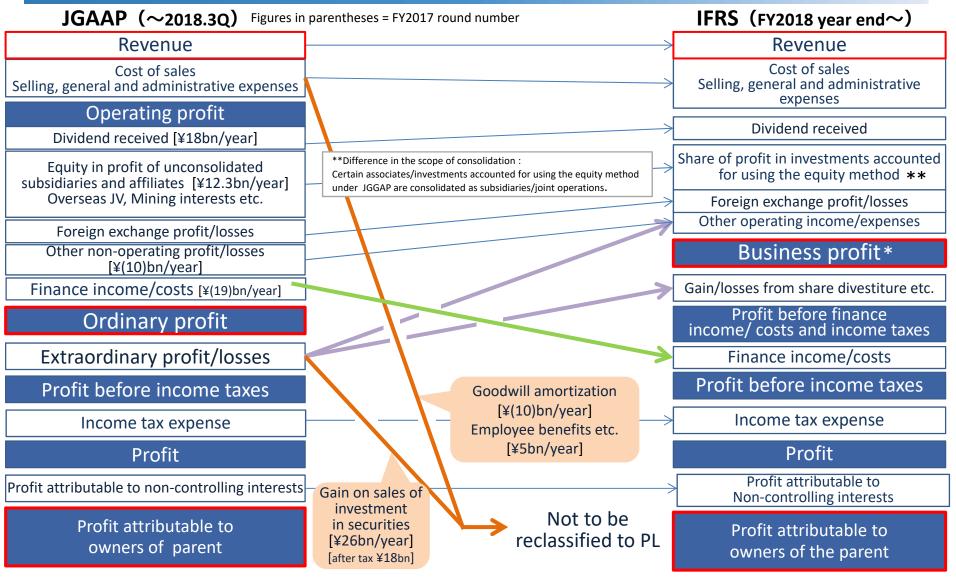
## **Extraordinary Profit & Loss [JGAAP]**

		FY17					FY18		
(bn. ¥)	1Q	2Q	1H	2H		1Q	2Q	1H	
Extraordinary Profit (Loss)	_	(2.9)	(2.9)	(4.7)	(7.6)	10.2	(2.5)	7.7	
Gain on sales of investment securities	_	_	_	25.6	25.6	10.2	18.5	28.7	
Impairment loss	<u>—</u>		_	(15.6)	(15.6)	_	_	_	
Loss on inactive facilities	_	(2.9)	(2.9)	(8.7)	(11.6)	_	_	_	
Loss on disaster	_	_	_	_	_	_	(21.0)	(21.0)	
Restructuring loss				(6.1)	(6.1)		_	_	

#### Impacts from Natural Disaster (Jul. 6: Heavy rainfall, Sep. 4: Typhoon Jebi (#21), Sep 6: Earthquake in Hokkaido, Sep. 30: Typhoon Trami (#24))

	(bn. ¥)	1H	2H(E)	FY18(E)	
To	otal	(48.0)	(8.0)	(56.0)	
	Ordinary Profit	(27.0)	(8.0)	(35.0)	
	NSSMC	(22.0)	(5.0)	(27.0)	
	Shipment	[-0.70 MMT] (18.0)	[-0.15 MMT] (5.0)	[ <u>-0.85 MMT</u> ] (23.0)	Underlined figures = Shipment volume loss
	Cost	(4.0)		(4.0)	
	Nisshin Steel	(5.0)	(3.0)	, ,	
	Extraordinary Profit (Loss)	(21.0)	-	(21.0)	The recovery of in-plant power generation in Nisshin steel's Kure Works etc.

## **Comparative Table of JGAAP & IFRS PL**



- \* Business Profit = Results of sustainable business activities, and an important measure to compare & evaluate NSSMC's consolidated performance continuously
  - = Revenue Cost of sales, Selling general & administrative expenses and Other operating expenses
  - + Equity in profit of unconsolidated subsidiaries and affiliates and Other operating income.

Other operating income and expenses is composed mainly of Dividend income, Foreign exchange gains or losses, Loss on disposal of fixed assets.

## Adjustments between JGAAP and IFRS

	FY2	017	1H FY	2018
(bn. ¥)	Ordinary / Business Profit	Net Profit *2	Ordinary / Business Profit	Net Profit *2
JGAAP	297.5	195.0	151.5	141.2
IFRS <sup>*1</sup>	288.7	180.8	158.0	117.0
change	-8.8	-14.2	+6.0	-25.0
(1) Adjustment to the difference in recognition & measurement	+5.4	-14.2	-2.0	-25.0
Goodwill amortization	+10.5	+10.3	+5.0	+5.0
Employee benefits etc.	-5.1	-6.9	-7.0	-10.0
Investment securities	-	-17.6	_	-20.0
(2) Reclassification	-14.2	_	+8.0	_
Finaicial cost (out of business profit)	+19.2	_	+8.0	_
Extraordinary profit/loss (into business profit)	-33.4	_	_	_

<sup>\*1</sup> NSSMC continues to adopt declining-balance method for tangible fixed assets' depreciation after applying IFRS.

<sup>\*2</sup> Profit attributable to owners of parent

## FY2018 1H Results and Full Year Forecast [IFRS]

	FY2017		FY2018		chai	nge
		1H	2H(E)	(E)	18/1H →18/2H(E)	FY17 → FY18(E)
Revenue (bn.¥)	5,712.9	2,940.0	3,260.0	6,200.0	+320.0	+487.1
Business Profit (bn.¥) *1	288.7	158.0	192.0	350.0	+34.0	+61.3
Steel (bn.¥) *2	236.8	132.0	168.0	300.0	+36.0	+63.2
Net Profit (bn.¥) *3	180.8	117.0	123.0	240.0	+6.0	+59.2
ROS	5.1%	5.4%	5.9%	5.6%	+0.5%	+0.6%
<b>EPS</b> (¥/share)	[204.9]	[132.6]	[136.4]	[269.0]	[+3.9]	[+64.1]
EBITDA *4 (bn.¥)		358.0	422.0	780.0	+64.0	
EBITDA/Sales		12.2%	12.9%	12.4%	+0.7%	
EBITDA/t (k¥/t)		15.1	16.3	15.8	+1.2	

<sup>\*1</sup> Business Profit = Results of sustainable business activities, & the important measure to compare & evaluate NSSMC's consolidated performance continuously.

= Revenue - Cost of sales, Selling general & administrative expenses and Other operating expenses

<sup>+</sup> Equity in profit of unconsolidated subsidiaries and affiliates and Other operating income.

Other operating income and expenses is composed mainly of Dividend income, Foreign exchange gains or losses, Loss on disposal of fixed assets.

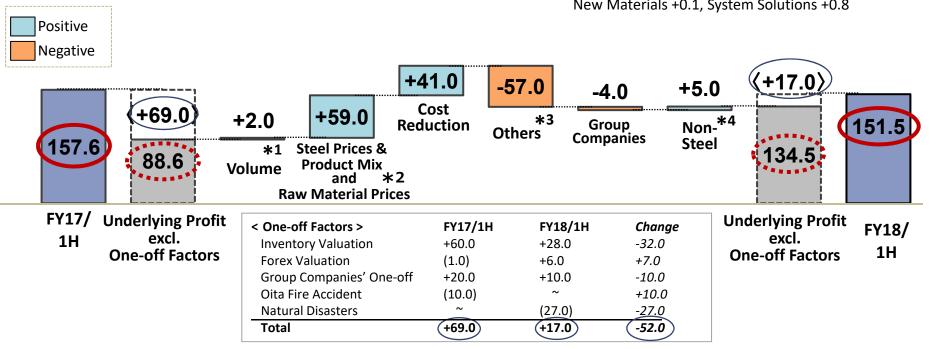
<sup>\*2</sup> Business profit of FY2017 non-steel segment is JGAAP basis , and Business profit of FY2017 steel segment includes the adjustments between JGAAP and IFRS.

<sup>\*3</sup> Profit attributable to owners of parent \*4 Business Profit + Depreciation + Amortization

## Ordinary Profit Variance Analysis [FY17/1H vs. FY18/1H] [JGAAP]

(bn. ¥)	FY17/ 1H [A]	FY18/ 1H [B]		Change [A→B]
Ordinary Profit	157.6	151.5		-6.1
Steel	128.7	126.6		-2.1
Non-Steel	23.2	28.2		+5.0
Adjustment	5.6	(3.3)		-8.9

- **\*1** Crude steel production: +0.41MMT ( $20.09 \rightarrow 20.50$ ) Steel shipment: -0.16MMT ( $18.72 \rightarrow 18.56$ )
  - \* Volume of FY17/1H incl. impacts from Oita Plate Mill fire accident, Volume of FY18/1H incl. impacts from natural disasters, but the bridge analysis chart below does not incl. impacts from the accident & disasters.
- **\*2** Incl. carry over +12.0( 13.0 $\rightarrow$ -1.0)
- \*3 Forex flow: ~, Increase in depreciation, Congested periodic facility maintenances in FY18/1H, Reclassification of long-life machinery parts into fixed assets, etc.
- **\*4** Engineering +1.0, Chemicals +3.2, New Materials +0.1, System Solutions +0.8

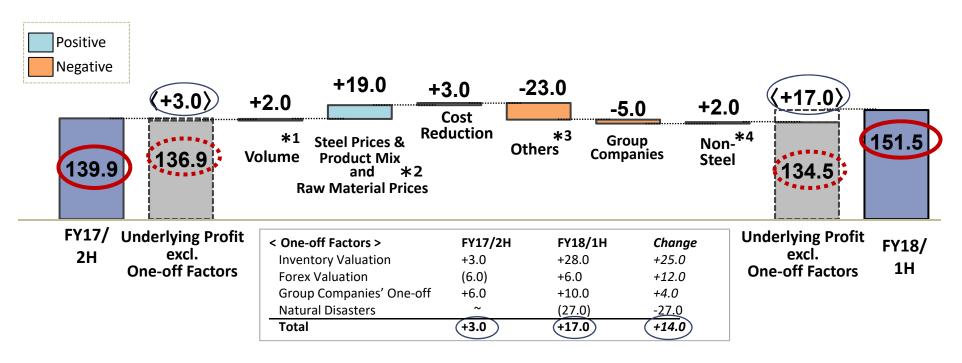




## Ordinary Profit Variance Analysis [FY17/2H vs. FY18/1H] [JGAAP]

(bn. ¥)	FY17/ 2H [A]		FY18/ 1H [B]		Change [A→B]
Ordinary Profit	139.9		151.5		+11.6
Steel	116.9		126.6		+9.7
Non-Steel	26.5		28.2		+1.7
Adjustment	(3.6)		(3.3)		+0.3

- **\*1** Crude steel production: -0.08MMT (20.58 $\rightarrow$ 20.50) Steel shipment: -0.51MMT (19.07 $\rightarrow$ 18.56)
  - \* Volume of FY18/1H incl. impacts from natural disasters, but the bridge analysis chart below does not incl. its impacts.
- **\*2** Incl. carry over -9.0(+8.0 $\rightarrow$ -1.0)
- \*3 Forex flow: ~, Increase in depreciation, Congested periodic facility maintenances in FY18/1H, Reclassification of long-life machinery parts into fixed assets, etc.
- \*4 Engineering -4.2, Chemicals +6.4, New Materials +0.5, System Solutions -1.0





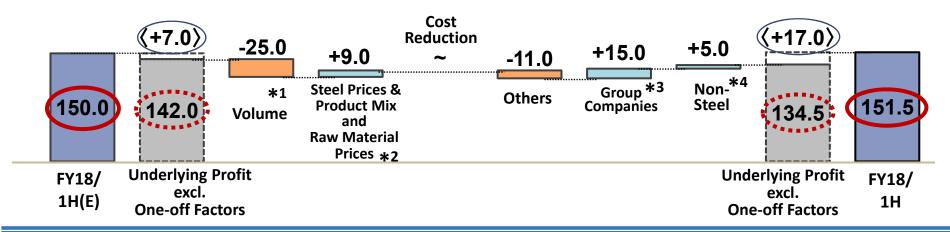
## Ordinary Profit Variance Analysis [FY18/1H(E)\*vs. FY18/1H] [JGAAP]

(bn. ¥)	FY18/ 1H(E) * [A]	FY18/ 1H [B]	Change [A→B]
Ordinary Profit	150.0	151.5	+1.5
Steel	130.0	126.6	-3.4
Non-Steel	23.5	28.2	+4.7
Adjustment	(3.5)	(3.3)	+0.2

- \*1 Crude steel production: approx.-0.80MMT (approx.21.30→20.50) Steel shipment: approx.-1.24MMT (approx.19.80→18.56) \* Volume of FY18/1H incl. impacts from natural disasters, but the bridge analysis chart below does not incl. its impacts.
- **\*2** Incl. carry over -3.0(+2.0 $\rightarrow$ -1.0)
- **\*3** Mining interests, Domestic rerollers etc.
- \*4 Engineering +0.4, Chemicals +3.5, New Materials +0.2, System Solutions +0.5

Positive
Negative

< One-off Factors >	FY18/1H(E) *	FY18/1H	Change
Inventory Valuation	+6.0	+28.0	+22.0
Forex Valuation	+5.0	+6.0	+1.0
Group Companies' One-off	+7.0	+10.0	+3.0
Natural Disasters	(10.0)	(27.0)	-17.0
Total	(+8.0)	(+17.0)	(+9.0)



<sup>\*</sup>FY18/1H(E): As of Aug.2, 2018



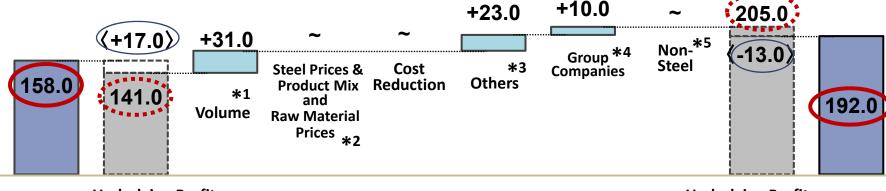
## Business Profit Variance Analysis [FY18/1H vs. FY18/2H(E)] [IFRS]

(bn. ¥)		FY18/ 1H [A]	FY18/ 2H(E) [B]	Change [A→B]
Business Profit		158.0	192.0	+34.0
Steel		132.0	168.0	+36.0
Non-Steel		27.5	27.5	~
Adjustment		(1.5)	(3.5)	-2.0

- **\*1** Crude steel production: approx.+1.10MMT (20.50→approx.21.60) Steel shipment: approx.+1.44MMT (18.56→approx.20.00)
- **\*2** Incl. carry over +5.0(-1.0 $\rightarrow$ +4.0)
- \*3 Forex flow: ~, Elimination of impacts from congested periodic facility maintenances in FY18/1H etc.
- \*4 OVAKO (Newly consolidated) etc.
- **\*5** Engineering +2.5, Chemicals -4.0, New Materials ~, System Solutions +1.5

Positive
Negative

< One-off Factors >	FY18/1H	FY18/2H(E)	Change
Inventory Valuation	+28.0	(5.0)	-33.0
Forex Valuation	+6.0	~	-6.0
Group Companies' One-off	+10.0	~	-10.0
Natural Disasters	(27.0)	(8.0)	+19.0
Total	(+17.0)	(13.0)	-30.0



FY18/ Underlying Profit excl.

1H One-off Factors

Underlying Profit excl.
One-off Factors

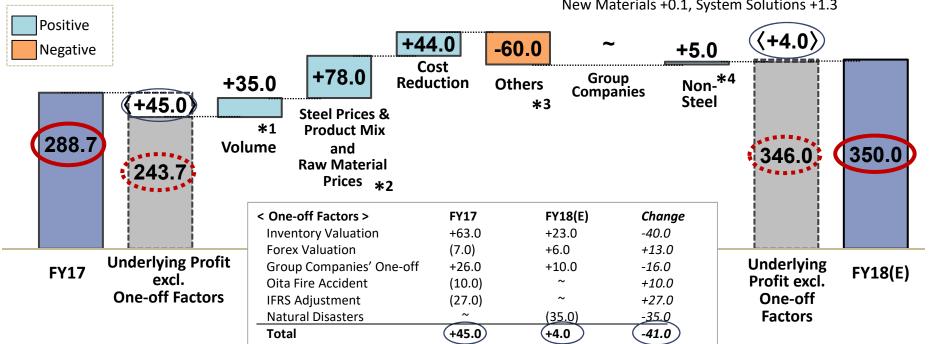
FY18/ 2H(E)



## **Business Profit Variance Analysis [FY17 vs. FY18(E)]** [IFRS]

	(bn. ¥)		FY17 [A]		FY18(E) [B]	Change [A→B]
Вι	Business Profit		288.7		350.0	+61.3
	Steel		236.8 <sup>*</sup>		300.0	+63.1
	Non-Steel		<b>49</b> .8 <sup>*</sup>		55.0	+5.2
	Adjustment		2.0		(5.0)	-7.0

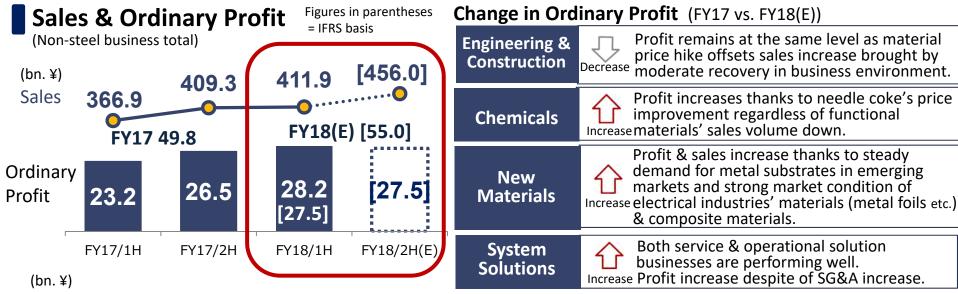
- **\*1** Crude steel production: approx.+1.43MMT (40.67→approx.42.10)
  - Steel shipment: approx.+0.71MMT (37.79→approx.38.50)
  - \* Volume of FY17 incl. impacts from Oita Plate Mill fire accident, Volume of FY18 incl. impacts from natural disasters, but the bridge analysis chart below does not incl. impacts from the accident & disasters.
- **\*2** Incl. carry over +8.0(-5.0 $\rightarrow$ +3.0)
- \*3 Forex flow: +1.0, Increase in depreciation,
  Congested periodic facility maintenances in FY18/1H,
  Reclassification of long-life machinery parts into
  fixed assets etc.
- **\*4** Engineering -0.6, Chemicals +4.6, New Materials +0.1, System Solutions +1.3



<sup>\*</sup> Business profit of FY2017 non-steel segment is JGAAP basis , Business profit of FY2017 steel segment includes the adjustments between JGAAP and IFRS



#### **Non-Steel Business**



Engineering &	20	17	2018		
Construction	1H		1H	(E)*	
Sales	134.1	294.2	161.3	350.0	
Ordinary Profit	1.9	9.1	2.9	* 8.5	

New	20	17	2018		
Materials	1H		1H	(E)*	
Sales	17.9	37.0	20.2	40.0	
Ordinary Profit	1.1	1.9	1.2	2.0*	

Chaminala	20	17	2018		
Chemicals	1H		1H	(E)*	
Sales	98.3	200.7	105.7	220.0	
Ordinary Profit	9.3	15.4	12.5	20.0*	

System	20	17	2018		
Solutions	1H		1H	(E)*	
Sales	116.5	244.2	124.6	258.0	
Ordinary Profit	10.7	23.2	11.5	24.5	

<sup>\*</sup> Figures of FY2018 full year (E) = IFRS basis business profit, which only have minor difference with JGAAP basis.



#### **Balance Sheet**

	(bn. ¥)	End of Mar. 2018	End of Sep.2018
	Current Assets	2,399.5	2,559.6
	Inventories	1,380.0	1,508.3
	Fixed Assets	5,126.8	5,192.3
	Tangible fixed assets	2,874.9	2,950.4
	Investment in securities	871.3	838.7
	Investment	1,069.6	1,025.3
Assets		7,526.3	7,751.9

		(bn. ¥)	End of Mar. 2018	End of Sep. 2018
	Lia	abilities	4,010.8	4,204.2
		Interest-bearing debt	2,068.9	2,347.4
	Net Assets		3,515.5	3,547.6
		Equity capital	3,145.4	3,187.0
		Unrealized gains on available-for-sale securities	313.1	295.9
		Non-controlling Interest in consolidated subsidiaries	370.0	360.6
Liabilities & Net assets		oilities & Net assets	7,526.3	7,751.9



## **CAPEX and Depreciation**

#### **Accounting change (FY2018~)**

No impact on cash flows.

Change in the asset title, account title and the way of periodical cost allocation

#### ■ Reclassification of long-life machinery parts (eg. Mill rolls) into fixed assets

Asset title : Inventory → Tangible fixed asset

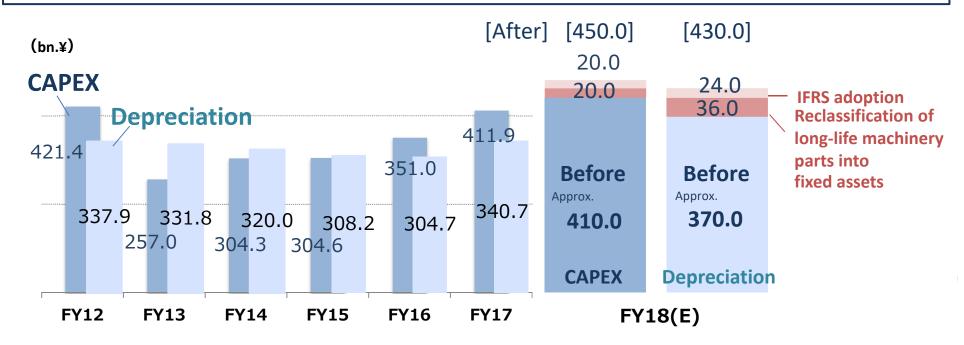
Cost title: Material Cost (depletion based) → Depreciation Cost (Declining balance method) ¥3

¥36.0bn/FY2018(E)

Due to depreciation of the balance at the beginning of FY2018, depreciation cost will be greater than actual purchase for a couple of years.

Cash Flows title: Material cost  $\rightarrow$  CAPEX Purchases of approx. 20.0bn/y

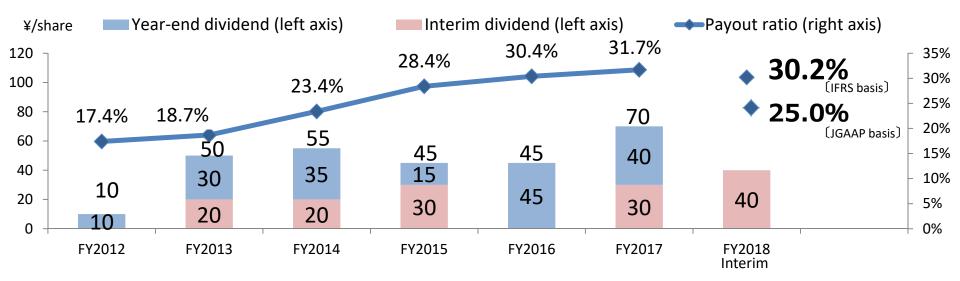
- IFRS Difference in the scope of consolidation: Certain associates/investments accounted for using the equity method under JGGAP are consolidated as subsidiaries/joint operations.
  - > Off-balanced facilities owned by subcontractor company will be accounted as lease assets
  - → Increase in leased assets(fixed assets) which are depreciated by declining-balance method



#### **Interim Dividend**

# Interim dividend: ¥40 per share. (consolidated payout ratio of 30.2% (IFRS basis))

Forecast for the year-end dividend:
Posting at the time of 3Q results announcement (planned)



#### [Basic Profit Distribution Policy]

Allocate profits according to earnings
Factors below need to be considered as well

Reserves for future investment / Earnings forecast / Consolidated and non-consolidated financial structure Annual payout ratio target : Around 30% (consolidated basis)



**Rotational force** 

Rotary press-in force

## **ESG Topics**





Gyro-Press Method ™(Rotary Cutting Press-in Method), Co-development of GIKEN Ltd. & NSSMC, Has Been Adopted in Construction of Sea Embankment against Large-scale Tsunami **Press-in force** 

#### <Advantages of Gyro-Press Method<sup>TM\*</sup>>

- Clean emission: Restricted soil displacement
- Ultra low noise: Reduced skin friction
- Minimum affect on surrounding traffic: Compact operation in sites with narrow access or overhead obstructions
- Realize eco-friendliness, cost reduction & work efficiency
- Many achievements in various different infrastructure project such as river bulkhead & road retaining structure reinforcement since 2004
- Contribution for disaster prevention/reduction & early recovery



FTSE4Good





Support early return of workers from maternity and baby-care leave

4<sup>th</sup> establishment following Oita, Kimitsu & Yawata

in-house nurseries

in Nagoya Works



**FTSE Blossom** Japan

NSSMC Selected for the "FTSE4Good Index Series" and the "FTSE Blossom Japan Index", **Leading Indices for ESG Investment** 

The Government Pension Investment Fund (GPIF) of Japan has adopted "FTSE Blossom Japan Index" for its ESG investment.





Acceralate and enhance cooperation with other steel manufacturers

**MISSHIN STEEL** 

( SANYO SPECIAL STEEL Co., Ltd.

Continue growth in global markets with origins in Japan

Oct. 2012 Business Integration



NIPPON STEEL & SUMITOMO METAL

NIPPON STEEL





2. Progress in Mid-Term Management Plan

## **Developments towards Essar Steel Acquisition**

# Essar Steel's Committee of Creditors declares ArcelorMittal, NSSMC's joint acquisition partner, as the Successful Applicant

\*at JPY1.54/INR1

- ➤ Upfront payment towards Essar Steel's resolution debt : INR 420bn.(approx. JPY 640bn.\*)
- ➤ Capital injection into Essar: INR 80bn. (approx. JPY120bn.\*) to support operational improvement, increase production levels and deliver enhanced level of productivity

The acquisition and JV establishment will be implemented subject to the approvals of Indian National Company Law Tribunal and other relevant authorities.

#### About Essar Steel

- One of the 4 key steel producers in India, JSW, SAIL and Tata, and Essar Steel
- Nominal crude steel production capacity: 10MMT/y (integrated steel mill)
- Revenue (standalone): INR 219.6bn. (FY 2016 ended March 31, 2017)
- Number of employees: 3,988 (as of the end of March, 2017)
- Products: Hot-rolled/cold-rolled/ hot-dip-galvanized sheets, plates and pipes





## Strategic Significance of Acquiring Essar Steel

# **Brown Field Integrated Steel Mill**

Significant benefit from utilizing existing assets and human resources





## Partnership with AM

- Mutual trust backed by long history of cooperation & achievements as JV partner
- AM's expertise in M&A and bringing a turnaround of distressed companies

Contribute to the Indian economy and steel industry and NSSMC group's mid-to-long term corporate value

## **Respond to High Growth** in Steel Demand in India As a member of Indian market realizing "Make in India"

High growth promised by population bonus, demand for infrastructure, & promotion of manufacturing industry development.

#### **Enhance Competitiveness**

through Optimizing production framework, **Reducing cost, Increasing production levels** and Improving quality

<CAPFX Plan>

<Production>

- Addition of iron & steelmaking assets

 $6.5 \to 8.5$ (MMT/Y)

- Enhancing facility soundness

**Environment measures** 



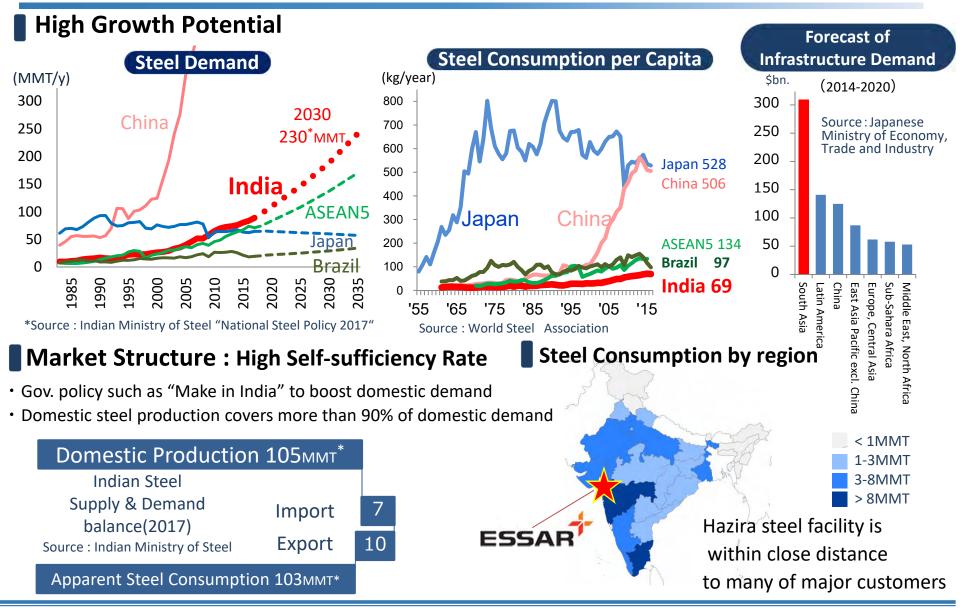
<sup>\*</sup> BF=Blast Furnace

## **Essar Steel's Strategic Location**





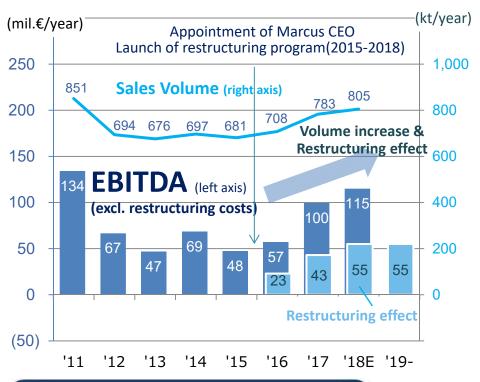
#### **Indian Steel Market**



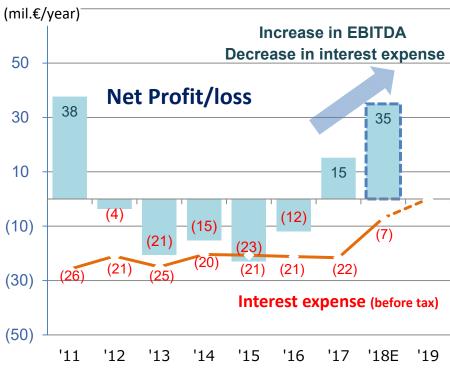


#### **OVAKO Financial Performance**

#### Sales Volume & EBITDA



#### Net Profit & Interest Expense



#### **Wide Ranging Restructuring Program**

- Consolidation/optimization of production & sales structure
- Closure of the production & distribution unit in Forsbacka(2016)
- Closure of the distribution center in Turenki,
   & consolidation of distribution in Finland (2016)
- · Shift reduction in Hofors (2016) etc.

- Reduction of 250 workers
- Cost reduction (Procurement cost, fuel cost etc.)

Cf. Restructuring costs (mil. €) (excluded from EBITDA bar chart)

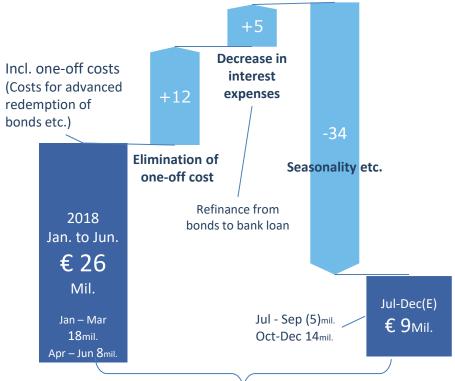
<b>'15</b>	<b>'16</b>	<b>'17</b>	<b>'18</b>	
(4)	(7)	(3)	(0)	

<sup>\*</sup>NSSMC will start taking OVAKO into NSSMC's consolidated PL accounting by taking OVAKO's FY2018.3Q(Jul - Sep) into NSSMC's FY2018.3Q(Oct to Dec).



#### **OVAKO FY2018 Forecast**

#### FY2018 Net Profit Forecast



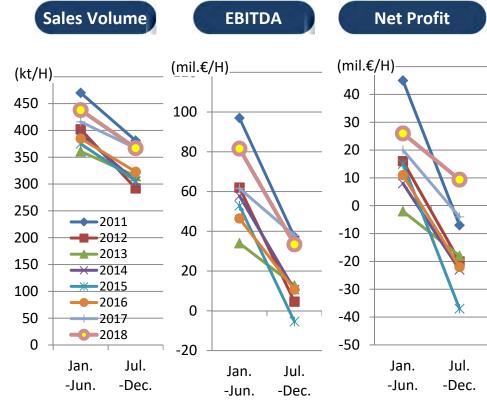
FY2018 Net Profit Forecast : € 35mil.

Underlying Net Profit excl. one-off effect & seasonality
: € 52mil (35+12+5) = ¥6.4bn.

Synergy Effect will be added from FY2019

#### Seasonality

\*Figures of Jul-Dec, 2018 are estimations



Seasonality dents profit in 2H (Jul. to Dec.)

Volume decrease & cost increase
due to periodical maintenance etc.



# 3. Appendix

# **Key Indicators of Demand**

			FY17	,				F	-Y18				Ch	nange	
[ Domestic ]	1Q	2Q	1H	2H		1Q	2Q	1H [E]*2	1H	2H *1 [E]	[E] <sup>*1</sup>	17/1H vs. 18/1H	18/1H[E] vs. *2 18/1H	18/1H vs. <sub>*1</sub> 18/2H[E]	FY17 vs. <sub>*1</sub> FY18[E]
Housing Starts (mil. houses)	0.25	0.25	0.50	0.45	0.95	0.25	0.25	0.48	0.49	0.45	0.94	-0.01	+0.01	-0.04	-0.01
Non-residential Construction Starts (mil. m²)	13.90	14.05	27.95	25.36	53.31	13.38	13.58	27.55	26.97	26.39	53.36	-0.98	-0.58	-0.57	+0.05
Public Works Orders (bn. ¥)	1,920	2,958	4,877	5,631	10,508	1,909	2,991	4,900	4,900	5,860	10,760	+23	+0	+960	+252
Finished Auto Production (mil. units)	2.30	2.37	4.67	5.01	9.68	2.32	2.30	4.75	4.63	5.17	9.80	-0.05	-0.12	+0.55	+0.12
Export of Finished Auto (mil. units)	1.12	1.19	2.31	2.48	4.79	1.20	1.14	2.39	2.34	2.61	4.95	+0.03	-0.05	+0.26	+0.16
Overseas Auto Production (8 Japanese car makers) (mil. units)	4.74	4.74	9.48	9.81	19.29	4.88									
Large & Middle Sized Shovel Production (thousand units)	20	20	40	39	79	20	20	42	40	43	83	-0	-2	+3	+4
Metal Machine Tool Production (thousand tons)	102	113	215	243	458	109	108	222	217	245	462	+2	-5	+28	+4
Keel-laid New Ships (mil. gross tons)	3.18	2.91	6.09	5.97	12.06	3.00	3.00	6.00	6.00	6.10	12.10	-0.09	+0.00	+0.10	+0.04

	Rig Count	CY09	CY10	CY11	CY12	CY13	CY14	CY15	CY16	CY17	Latest	Peak		Bottom	
u	JSA	1,089	1,546	1,875	1,919	1,761	1,862	977	510	875	1,063 (Oct. 18)	2,031	(Sep.'08)	404	(May.'16)
	Deep well (≧15,000ft)	249	249	395	324	326	354	205	126	222	<b>225</b> (Oct.'18)	413	(Nov.'11)	98	(May.'16)
	<b>World Total</b> xcl. N. America, Russia & China	997	1,094	1,167	1,234	1,296	1,337	1,167	955	948	<b>1,004</b> (Sep.'18)	1,382	(Jul.'14)	920	(Oct.'16)

(Source: Baker Hughes, Smith international, NSSMC est.) \*1 Estimates as of early Sep. 2018 \*2 Figures as of Aug, 2<sup>nd</sup>, 2018.



## **Domestic Steel Consumption by Industrial Sector**

			FY17					FY	18			Change			
(MMT)	1Q	2Q	1H	2H		1Q	2Q	*2 1H[E]	1H	2H[E]	*1 [E]	17/1H vs. 18/1H	18/1H[E] vs. *2 18/1H	18/1H vs. <sub>*1</sub> 18/2H[E]	FY17 vs. <sub>*1</sub> FY18[E]
Crude Steel Production	26.09	25.94	52.04	52.80	104.84	26.56	25.65	53.11	52.21			+0.18	-0.90		
Domestic Steel Consumption (A + B)	15.34	15.70	31.03	31.71	62.74	15.29	15.69	31.14	30.97	32.11	63.08	-0.06	-0.17	+1.13	+0.34
% for manufacturing sector	63.9	63.8	63.8	63.9	63.9	64.7	64.0	64.2	64.4	63.8	64.1	+0.6	+0.2	-0.6	+0.2
Ordinary Steel Consumption (A)	12.16	12.41	24.57	25.18	49.75	12.06	12.36	24.58	24.43	25.56	49.98	-0.14	-0.15	+1.13	+0.24
Construction	5.33	5.47	10.79	10.99	21.78	5.18	5.42	10.70	10.60	11.17	21.77	-0.20	-0.10	+0.57	-0.01
Manufacturing	6.83	6.95	13.78	14.19	27.97	6.88	6.95	13.88	13.83	14.39	28.22	+0.05	-0.05	+0.56	+0.25
Shipbuilding	1.04	1.03	2.07	2.01	4.08	1.01	1.01	2.02	2.02	2.07	4.09	-0.05	+0.00	+0.05	+0.01
Automotive	2.71	2.79	5.50	5.75	11.25	2.75	2.80	5.58	5.55	5.86	11.41	+0.04	-0.03	+0.31	+0.16
Industrial Machine	1.22	1.25	2.47	2.53	4.99	1.26	1.26	2.54	2.52	2.53	5.05	+0.06	-0.02	+0.00	+0.06
Electronic Machine	0.74	0.77	1.51	1.59	3.10	0.76	0.78	1.56	1.54	1.59	3.14	+0.04	-0.02	+0.05	+0.04
Specialty Steel Consumption (B)	3.18	3.28	6.46	6.53	13.00	3.22	3.32	6.56	6.55	6.55	13.10	+0.08	-0.01	+0.01	+0.10
Steel Imports	1.72	1.65	3.37	3.18	6.55										
Steel Exports	9.36	9.26	18.62	18.90	37.52										

( Source : NSSMC est.)



**<sup>\*1</sup>** Estimates as of early Sep. 2018

**<sup>\*2</sup>** Figures as of Aug. 2<sup>nd</sup>, 2018

[ ]: Outlook as of Jul, 2018

(	GDP growth rate)	CY08	CY09	CY10	CY11	CY12	CY13	CY14	CY15	CY16	CY17	<b>CY1</b> 8 [E]	8	<b>CY19</b> [E]		<b>CY23</b> [E]
	World Total	3.0	-0.5	5.3	3.9	3.4	3.4	3.4	3.4	3.2	3.8	[3.9]	3.7	[3.9]	3.7	3.6
	Developed Countries	0.5	-3.4	3.2	1.7	1.2	1.4	1.9	2.1	1.7	2.3	[2.4]	2.4	[2.2]	2.1	1.5
	USA	0.4	-2.6	3.0	1.8	2.3	2.2	2.4	2.6	1.5	2.3	[2.9]	2.9	[2.7]	2.5	1.4
	EU27	0.6	-4.1	1.9	1.5	-0.7	-0.4	0.9	2.0	1.8	2.3	[2.2]	2.0	[1.9]	1.9	1.4
	Japan	-1.2	-6.3	4.4	-0.6	1.5	1.6	0.0	1.1	0.9	1.7	[1.0]	1.1	[0.9]	0.9	0.5
	Developing Countries	6.1	2.7	7.5	6.2	5.1	5.0	4.6	4.3	4.4	4.7	[4.9]	4.7	[5.1]	4.7	4.8
	China	9.6	9.2	10.4	9.3	7.7	7.7	7.3	6.9	6.7	6.9	[6.6]	6.6	[6.4]	6.2	5.6
	India	7.3	6.8	10.6	6.3	4.7	6.9	7.2	8.0	7.1	6.7	[7.3]	7.3	[7.5]	7.4	7.7
	Asia excl. China & India			6.8	5.1	6.3	5.2	4.9	5.1	5.1	5.5		5.5		5.4	5.5
	Russia	5.6	-7.8	4.3	4.3	3.4	1.3	0.7	-2.8	-0.2	1.5	[1.7]	1.7	[1.5]	1.8	1.2
	Brazil	5.1	-0.6	7.5	2.7	1.0	2.7	0.1	-3.8	-3.5	1.0	[1.8]	1.4	[2.5]	2.4	2.2

(Source: IMF)



<sup>\*</sup>ASEAN 5 : Thailand, Malaysia, Indonesia, Philippines, Vietnam

#### **World Steel Demand**

< Released on Oct, 2018 by World Steel Association >

[ ]: Previous forecasts as of Apr, 2018

World Total	< CY14 > 1.54	< CY15 > 1.50	→ <0	:Y16 > .58	$\rightarrow$	< CY17 > 1.60	$\rightarrow$	< CY18(E) > 1.66	<b>→</b>	< CY19(E) > 1.68	
IOtal						[1.59]		[1.62]		[1.63]	

<sup>\*</sup>FY16~: including illegal induction furnaces

1.66 (bn. tons) 1.60 China Others ■ Japan/North America/Europe 0.55 76 80 86 88 90 98 08 12 14 16 18E 19E

(Source: World Steel Association, Apparent finished steel consumption)



#### **World Crude Steel Production**

				CY	′18			CY18	Change (A → B)	
(MMT)	CY17 [A]	Jan - Jun [B]	Jul	Aug	Sep	Jul - Sep	Jan - Sep [B]	[C] (B*12/6)		
World *	1,673.1	881.7	154.1	151.3	151.7	457.1	1,347.0	1,796.0	+122.9	
Total [YoY]	[5.4%]	[5.1%]	[5.5%]	[2.3%]	[4.4%]	[4.1%]	[5.4%]		[7.3%]	
Japan	104.7	53.0	8.4	8.8	8.4	25.6	78.6	104.8	+0.2	
[YoY]	[-0.1%]	[1.2%]	[-2.0%]	[0.9%]	[-2.4%]	[-1.1%]	[0.4%]		[0.2%]	
Korea	71.0	36.1	6.2	6.1	5.9	18.1	54.2	72.2	+1.2	
[YoY]	[3.6%]	[3.6%]	[0.0%]	[0.1%]	[-3.4%]	[-1.1%]	[2.0%]		[1.7%]	
USA	81.6	42.1	7.4	7.5	7.3	22.1	64.2	85.6	+3.9	
EU28	168.4	87.4	14.2	12.5	13.9	40.6	128.0	170.7	+2.3	
Russia	71.5	36.0	6.3	6.1	5.9	18.3	54.3	72.4	+0.9	
Brazil	34.4	17.2	3.0	2.8	3.0	8.9	26.1	34.8	+0.4	
India	101.5	53.5	8.8	8.8	8.5	26.1	79.7	106.2	+4.8	
China	831.7	448.8	81.2	80.3	80.8	242.4	699.4	932.6	+100.8	
[YoY]	[5.7%]	[6.3%]	[7.2%]	[2.7%]	[7.5%]	[5.8%]	[7.4%]		[12.1%]	

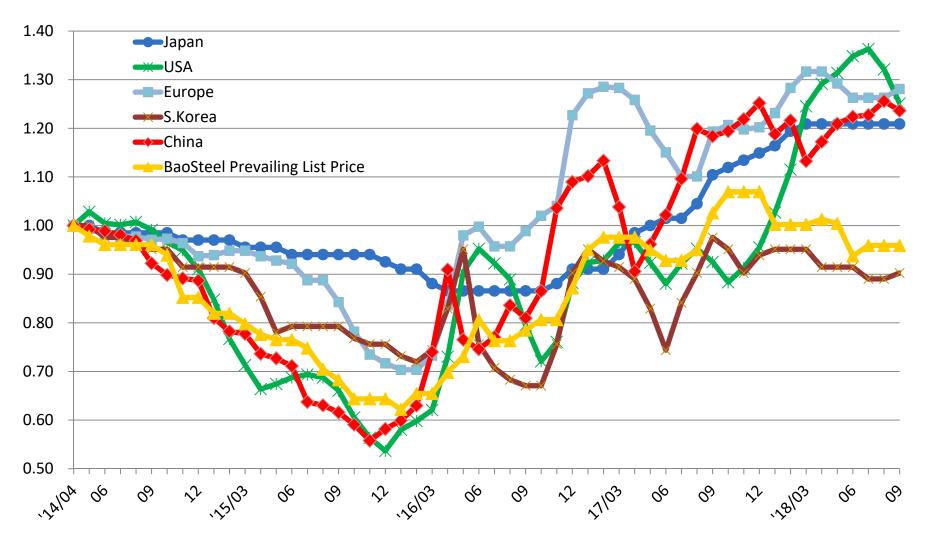
(Source: World Steel Association)

\* Total of 64 countries



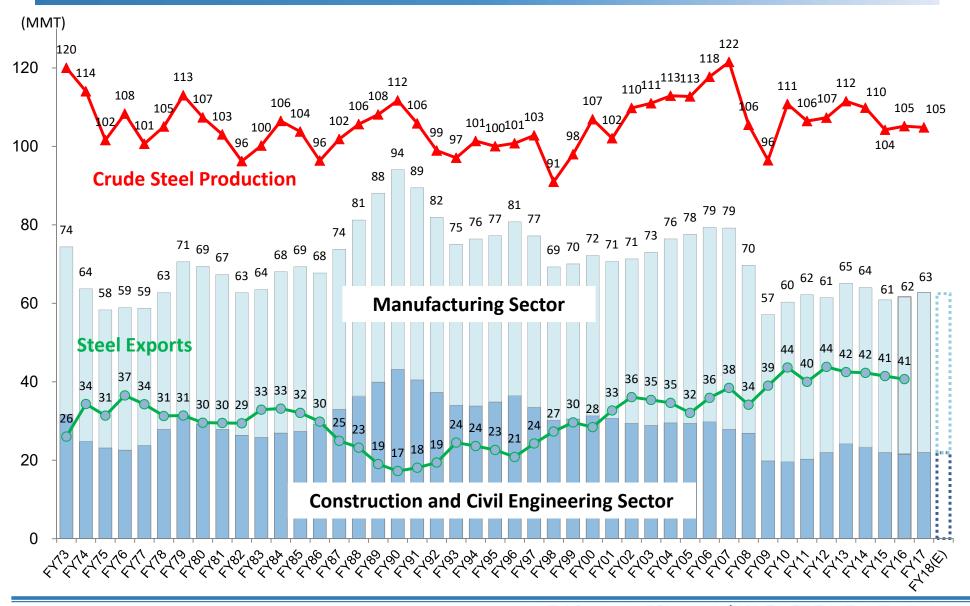
## **Hot Rolled Sheets Prices by Region**

( Prices of Hot Rolled Sheets in Local Currency as of Apr. 2014=1.0 )





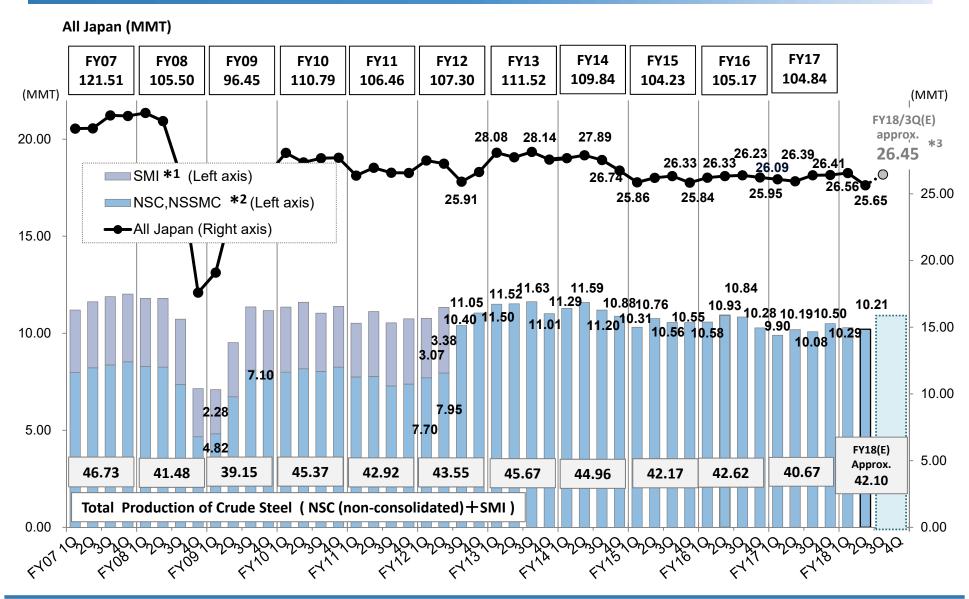
## **Domestic Steel Consumption Trend**



(Source: NSSMC estimation)



#### **Domestic Crude Steel Production**

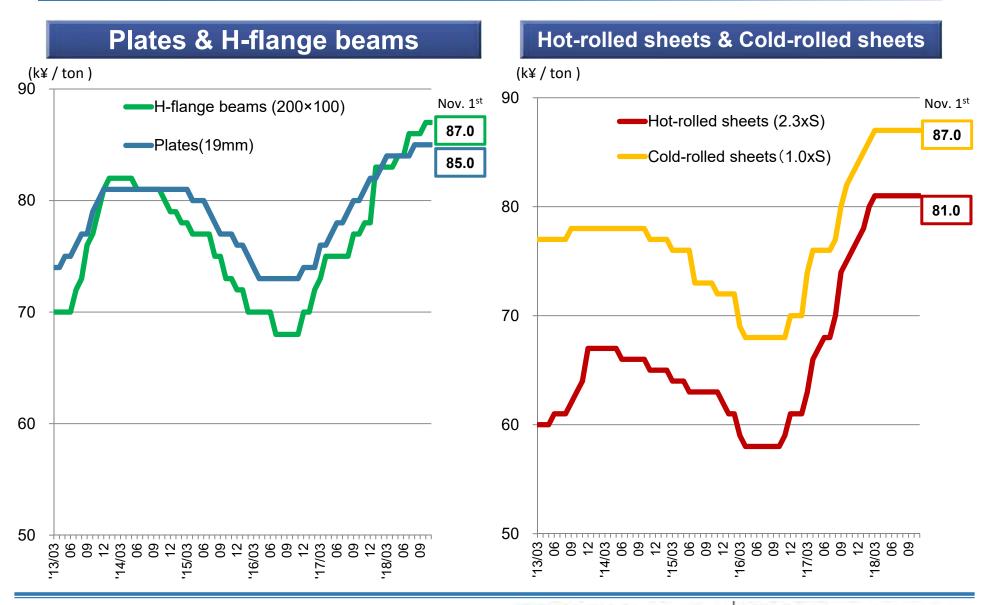


<sup>\*1</sup> Includes Sumitomo Metals(Kokura), Sumitomo Metals(Naoetsu) and Sumikin Iron & Steel Co. \*3 Domestic Crude Steel Production of

<sup>\*2</sup> Includes NIPPON STEEL & SUMIKIN KOUTETSU WAKAYAMA CORP (~FY2017)

<sup>3</sup> Domestic Crude Steel Production of FY18/3Q(E) released by METI

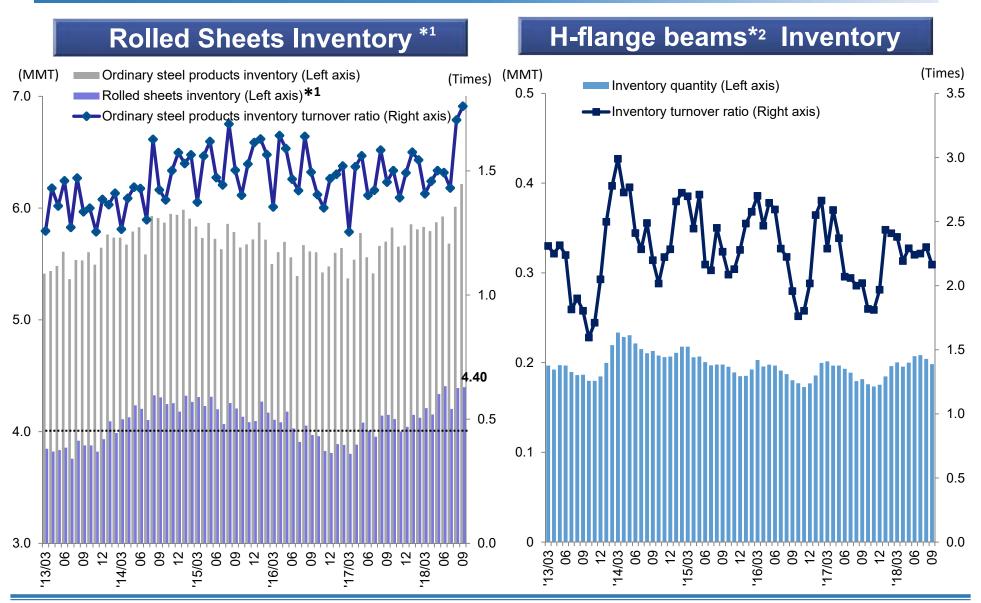
#### **Domestic Steel Products Prices**



(Source: Japan Metal Daily)



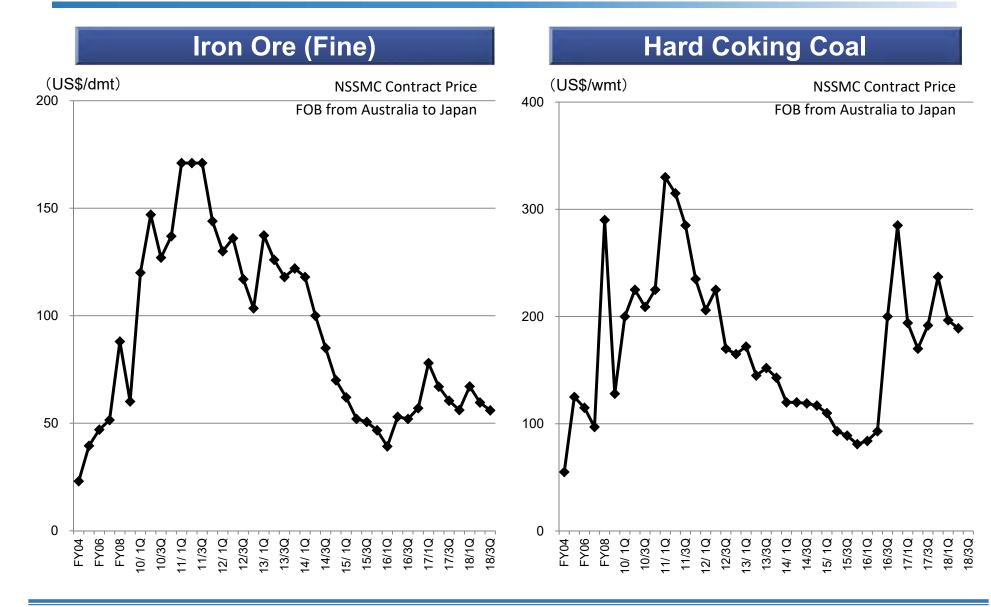
#### **Domestic Steel Inventory**



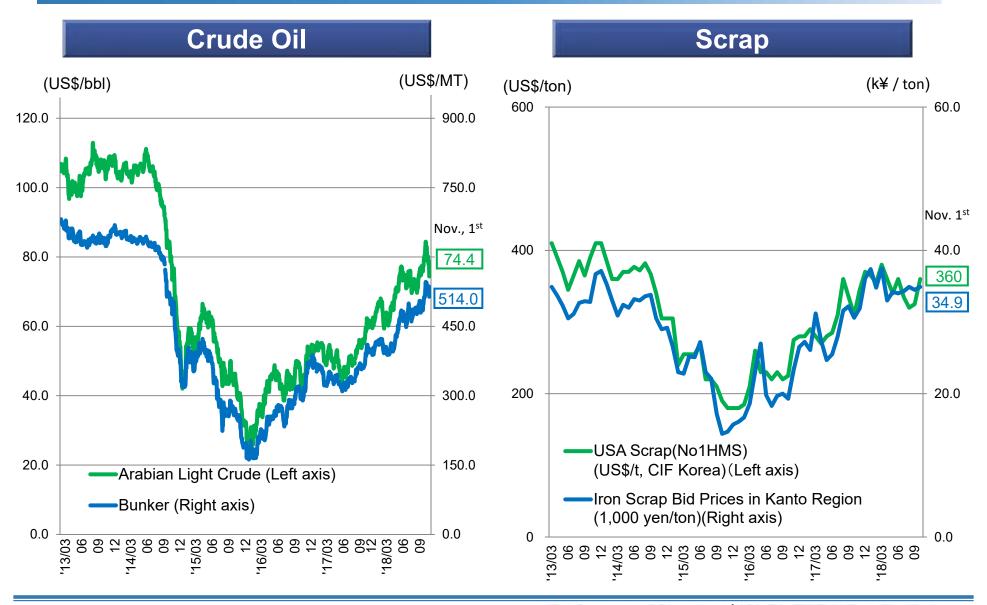
(Source: Japan Iron and Steel Federation) \*1 Hot-rolled, Cold-rolled and Coated sheets

\*2 Inventories of the distributors dealing with H-flange beams manufactured by NSSMC

#### **Iron Ore & Coking Coal Prices**

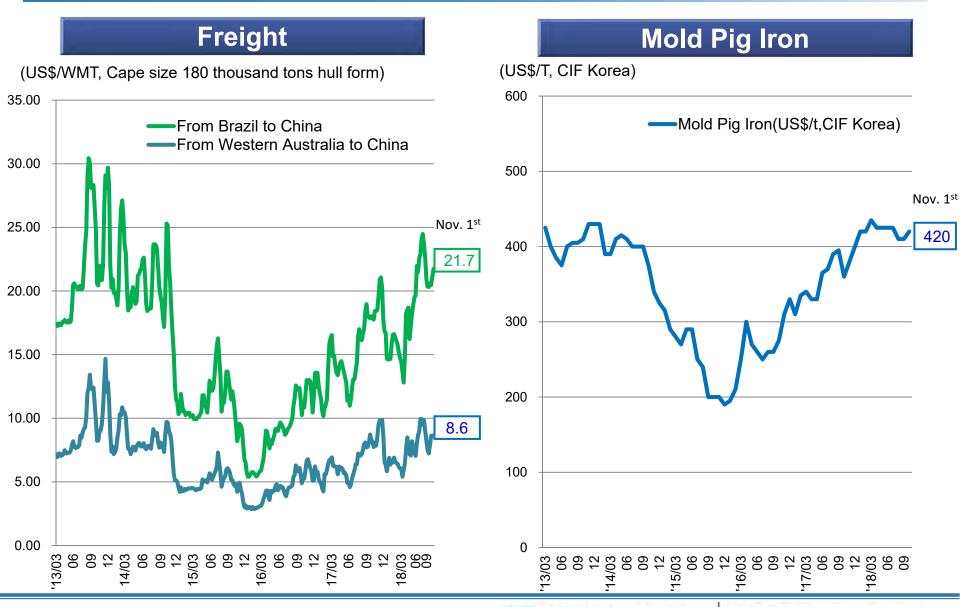


#### Market Trends < Crude Oil & Scrap >



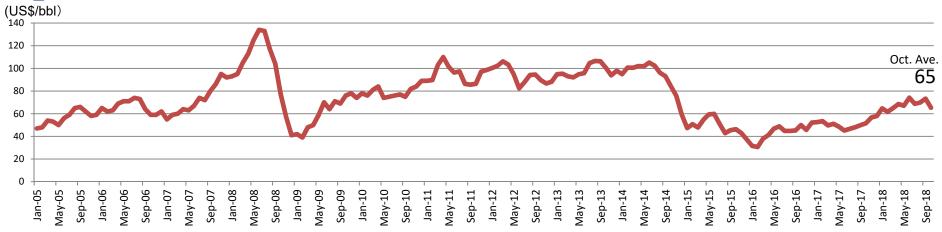


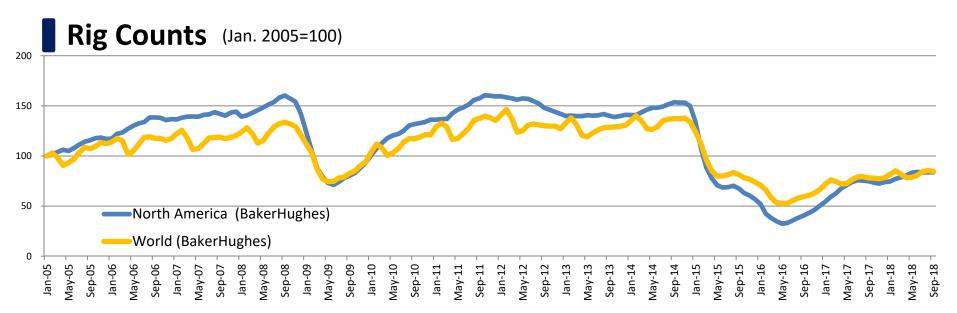
## Market Trends < Freight & Mold Pig Iron >



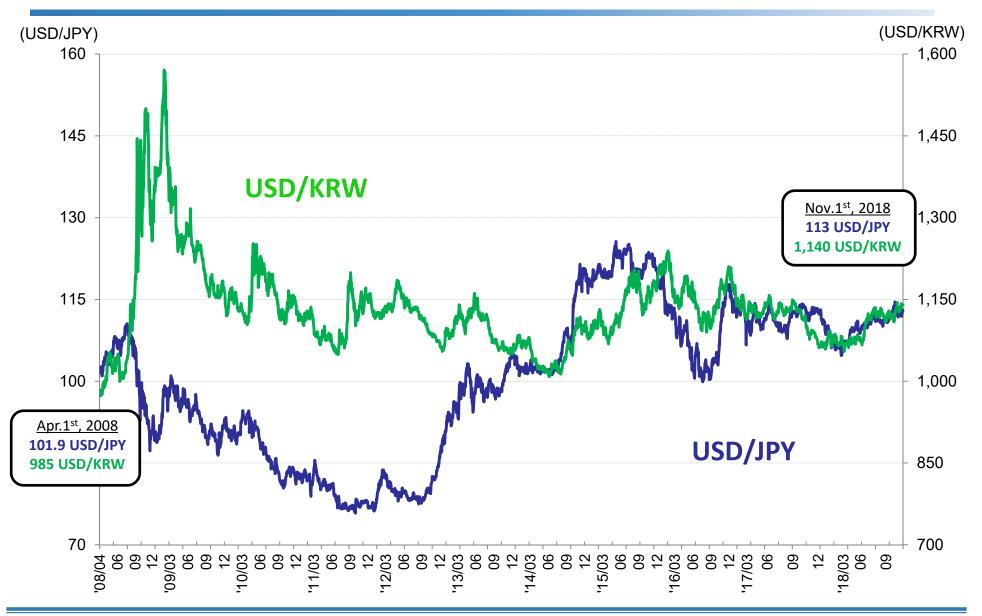
#### **Energy Sector : Oil Price / Rig Count**

## **US Oil Price (WTI Spot)**

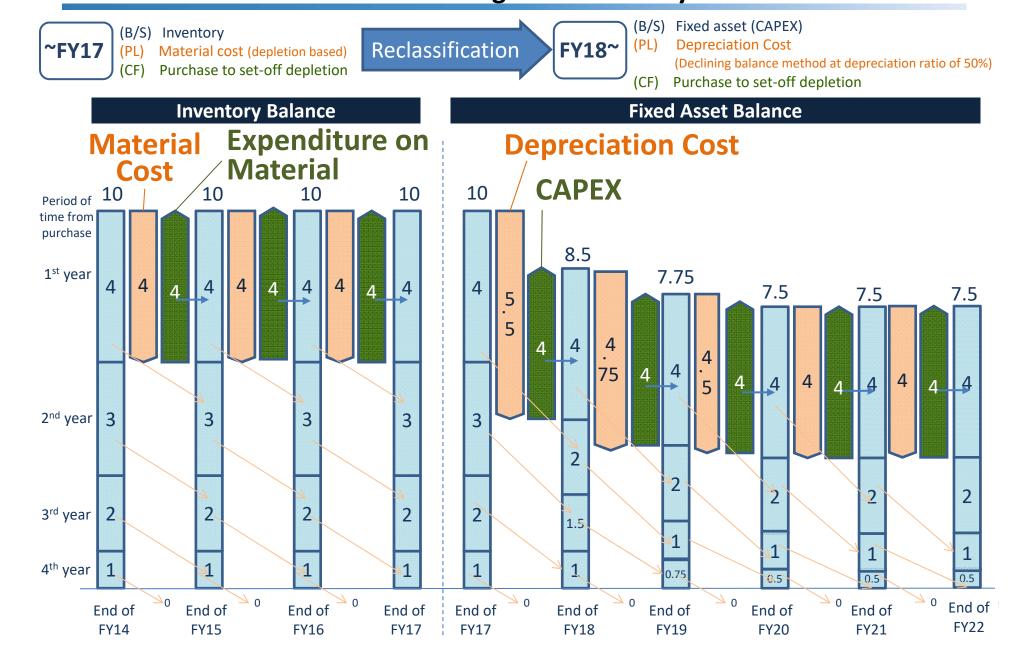




#### **Forex Trend**



# (Ref.) Simulation of the Impacts from <a href="Assumption">Assumption</a> Duration of use=4 years, Legal durable years =4 years Reclassification of Long-life Machinery Parts into Fixed Assets



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