## Flash Report Consolidated Basis

## Results for the First Quarter of Fiscal 2017 (April 1, 2017—June 30, 2017)

<under Japanese GAAP>

July 28, 2017

Company name: Nippon Steel & Sumitomo Metal Corporation
Stock listing: Tokyo, Nagoya, Sapporo, Fukuoka stock exchanges

Code number: 540

URL: http://www.nssmc.com/en/index.html

**Representative:**Kosei Shindo, Representative Director and President
Contact:
Fumiaki Ohnishi, General Manager, Public Relations Center

**Telephone:** +81-3-6867-2130 **Scheduled date to submit Securities Report:** August 8, 2017

Scheduled date to pay dividends:

**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 2017

(April 1, 2017—June 30, 2017)

### (1) Consolidated Operating Results (Accumulated)

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

	Net sales Operating profit		Ordinary profit		Profit attributable to owners of parent			
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First quarter of Fiscal 2017	1,355,466	29.0	66,536	_	107,999	_	71,352	_
First quarter of Fiscal 2016	1,051,141	(16.9)	(7,392)	_	(12,050)	_	(14,638)	_

(For reference) Comprehensive income: First qu

First quarter of Fiscal 2017 ¥

¥ 77,902 million —%

First quarter of Fiscal 2016

¥ (113,065) million —%

	Earnings per share	Earnings per share after full dilution
	Yen	Yen
First quarter of Fiscal 2017	80.84	_
First quarter of Fiscal 2016	(16.44)	_

#### (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 2017	7,312,624	3,323,616	40.7
Fiscal 2016	7,261,923	3,291,015	40.6

(For reference) Shareholders' equity: First quarter of Fiscal 2017 ¥ 2,978,733 million

Fiscal 2016 ¥ 2,948,232 million

#### 2. Dividends

	Dividends per share						
	End of first quarter	End of first quarter					
	Yen	Yen	Yen	Yen	Yen		
Fiscal 2016	_	0.00	_	45.00	45.00		
Fiscal 2017	_						
Fiscal 2017 (Forecasts)		25.00	_	_	_		

Notes: Whether the dividends forecasts under review have been revised: Yes

#### 3. Consolidated Financial Forecasts for Fiscal 2017 (April 1, 2017—March 31, 2018)

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

	Net sales		Ordinary profit		Profit attributable to owners of parent		Earnings per share	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen	
First half of Fiscal 2017	2,700,000	25.0	150,000	435.5	85,000	672.1	96.00	
Fiscal 2017	_	_	300,000	71.9	_	_	_	

Notes: 1. Whether the consolidated financial forecasts for fiscal 2017 under review have been revised: Yes

2. For further details, please refer to page 4, "1. Qualitative Information for the First Quarter of Fiscal 2017 (2) Explanation of Information on Future Estimates, Including Consolidated Earnings Forecasts."

#### \* Notes

- (1) Changes in significant subsidiaries during the period: None
- (2) Adoption of special accounting methods for preparation of quarterly consolidated financial statements: Yes

Note: For further details, please refer to page 9, "2. Quarterly Consolidated Financial Statements and Main Notes (3) Notes on Quarterly Consolidated Financial Statements (Adoption of Special Accounting Methods for 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: None
  - (b) Changes other than those in (a) above: None
  - (c) Changes in accounting estimates: None
  - (d) Retrospective restatements: None
- (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 2017 950,321,402 shares Fiscal 2016 950,321,402 shares

(b) Number of treasury stock at the end of the period

First quarter of Fiscal 2017 67,680,683 shares Fiscal 2016 67,674,097 shares

(c) Average number of shares issued during the term (accumulated)

First quarter of Fiscal 2017 882,644,175 shares First quarter of Fiscal 2016 890,229,326 shares

(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.

<sup>\*</sup> This quarterly flash report is exempt from the audit procedures.

<sup>\*</sup> Explanation of the appropriate use of performance forecasts and other related items

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#### 1. Qualitative Information for the First Quarter of Fiscal 2017

#### (1) Explanation of Operating Results

#### Global and Domestic Economic Conditions in the First Quarter of Fiscal 2017

The global economy remained firm overall during the period under review. The economies of the United States and Europe maintained a steady undertone and the recovery in the economies of China and developing countries continued at a moderate pace.

The Japanese economy continued to recover moderately. While the employment environment began to tighten, the government's economic stimulus measures provided a boost and corporate production activities improved.

#### Operating Results by Business Segment in the First Quarter of Fiscal 2017

The Nippon Steel & Sumitomo Metal Corporation Group's business segments strived to respond to the changing business environment and to improve sales and earnings. An overview of operating results by business segment is shown below.

			()	Billions of yen)
	Net Sales		Ordinary	Profit
	1Q FY17	1Q FY16	1Q FY17	1Q FY16
Steelmaking and steel fabrication	1,208.8	927.0	98.7	(16.1)
Engineering and construction	60.8	55.4	(0.6)	1.2
Chemicals	46.5	39.2	2.5	(1.2)
New materials	9.0	8.6	0.4	0.4
System solutions	58.1	50.0	5.0	4.9
Total	1,383.5	1,080.4	106.1	(10.7)
Adjustments	(28.0)	(29.2)	1.8	(1.3)
Consolidated total	1,355.4	1,051.1	107.9	(12.0)

<sup>\*</sup>The first quarter (1Q) is the three-month period from April 1 to June 30.

#### **Steelmaking and Steel Fabrication**

In the Steelmaking and Steel Fabrication segment, domestic demand was firm, centered on shipments to the manufacturing industry, especially the automotive sector. Overseas steel demand remained solid in the United States, Europe, and the ASEAN countries and was also firm in China. The global market showed signs of weakness at the beginning of the fiscal year due to inventory adjustments, but prices are generally bottoming out and beginning to improve. However, the problem of excess steelmaking capacity in China is still in the process of being resolved and close attention to future trends will be necessary.

The Steelmaking and Steel Fabrication segment recorded net sales of ¥1,208.8 billion and ordinary profit of ¥98.7 billion.

#### **Engineering and Construction**

Nippon Steel & Sumikin Engineering Co., Ltd. continued to face severe operating conditions, including stagnant oil prices and restrained investment by overseas steel manufacturers. Sales increased marginally from the same period last year, supported mainly by steady progress with projects in the domestic construction industry. Although the company made every effort to maximize earnings by strictly controlling project execution, the severe operating conditions ultimately led to a decline in profits. The Engineering and Construction segment posted net sales of \$60.8 billion and ordinary loss of \$0.6 billion.

#### Chemicals

Nippon Steel & Sumikin Chemical Co., Ltd. secured profit growth on continuing strong sales of functional materials, mainly used in electronic devices, accompanied by strong demand for styrene monomer and improving sales related to electronic materials in the epoxy business. In addition, the coal chemicals business was on a recovery trend in both sales volume and prices, due to an increase in demand for needle coke used in graphite electrodes, its core application. The Chemicals segment recorded net sales of ¥46.5 billion and ordinary profit of ¥2.5 billion.

#### **New Materials**

Nippon Steel & Sumikin Materials Co., Ltd., within its industrial electronic materials business, continued to post strong sales of surface-treated copper wire and increased sales of metal foils for suspension and other materials. In the carbon fiber field, both demand and sales grew for pitch-based carbon fiber, which offers high elasticity and high thermal conductivity characteristics. The company also boosted sales of metal substrates in the environmental and energy field by capturing demand in developing countries. The New Materials segment posted net sales of ¥9.0 billion and ordinary profit of ¥0.4 billion.

#### **System Solutions**

NS Solutions Corporation provides comprehensive solutions in the planning, configuration, operation, and maintenance of IT systems for clients in a wide range of business fields and develops leading-edge solutions services that respond to the changing business conditions of its clients. During the term, the company promoted the reinforcement of its Desktop as a Service (DaaS), including the addition of a web-based conferencing function, and the development of solutions to effectively use AI and machine learning to enhance the sophistication of business operations. The System Solutions segment recorded net sales of ¥58.1 billion and ordinary profit of ¥5.0 billion.

#### Sales and Profit for the First Quarter of Fiscal 2017

Nippon Steel & Sumitomo Metal Corporation (NSSMC or the Company) posted consolidated net sales of \(\xi\)1,355.4 billion, operating profit of \(\xi\)66.5 billion, ordinary profit of \(\xi\)107.9 billion, and profit attributable to owners of parent of \(\xi\)71.3 billion for the first quarter of fiscal 2017.

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

NSSMC anticipates an overall moderate recovery in the global economy supported by firm business conditions in the United States and Europe and ongoing gradual economic recovery in China and developing countries. However, uncertainty lingers over political and other conditions in various countries.

The Japanese economy is expected to maintain a moderate recovery, supported by stable private consumption and capital investment, despite emerging signs of labor shortages in some areas indicated by a rise in the jobs-to-applicants ratio.

The Company expects strong demand for steel in Japan, led by demand in the automotive sector. Demand from the construction and civil engineering sectors is also likely to gain momentum, partly due to preparations for the 2020 Tokyo Olympics. Overseas steel demand in general is also projected to stay robust. The international steel market showed signs of weakness at the beginning of the fiscal year due to inventory adjustments, but progress in inventory adjustment, on the back of strong demand in China, has led to an improvement in the overseas market. However, the problem of excess steelmaking capacity in China is still in the process of being resolved and close attention to future trends will be necessary.

In this environment, there will be some negative impacts from weakness in overseas steel prices and an increase in submaterial costs in markets at the start of the fiscal year. However, NSSMC's Group companies, including those operating overseas businesses, are improving their earnings and the steelmaking business is making progress in cost improvement. In addition, a strong one-time boost caused by an inventory valuation difference is projected to have a significant impact on earnings. Based on this outlook, the Company is forecasting ¥150.0 billion in ordinary profit and ¥85.0 billion in profit attributable to owners of parent in the first half of fiscal 2017.

For full-year fiscal 2017, the final year of the 2017 Mid-Term Management Plan, the Company will steadily implement measures to reduce costs by ¥50.0 billion, the portion remaining to meet the cost reduction target in the mid-term plan, and further improve the earnings of Group companies, including those involved in overseas businesses. 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. Based on these factors, the Company is targeting consolidated ordinary profit of ¥300.0 billion or more.

#### Basic Profit Distribution Policy and the Interim Dividend Distribution

NSSMC's basic profit distribution policy is to pay dividends from distributable funds at the end of the first half (interim) and second half (year-end) of the fiscal year in consideration of the 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 both a consolidated and non-consolidated bases. The Company has adopted a consolidated payout ratio target of around 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 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 dividends at the end of the second quarter (interim) of ¥25 per share (consolidated payout ratio of approximately 26%).

## 2. Quarterly Consolidated Financial Statements and Main Notes

## (1) Quarterly Consolidated Balance Sheets

		Millions of yen
ASSETS	March 31, 2017	June 30, 2017
Current assets :		
Cash and bank deposits	88,111	114,515
Notes and accounts receivable	624,089	556,361
Inventories	1,215,649	1,329,752
Other	318,766	307,436
Less: Allowance for doubtful accounts	(2,179)	(1,991)
Total current assets	2,244,436	2,306,075
Fixed assets:		
Tangible fixed assets:		
Buildings and structures	753,697	753,538
Machinery, equipment and vehicles	1,114,851	1,108,395
Other	972,288	979,781
	2,840,838	2,841,715
Intangible assets:	91,287	87,992
Investments and others:		
Investments in securities	816,389	820,466
Shares of subsidiaries and affiliates	1,041,397	1,022,630
Net defined benefit assets	92,948	99,805
Other	138,194	137,164
Less: Allowance for doubtful accounts	(3,569)	(3,225)
	2,085,361	2,076,841
Total fixed assets	5,017,487	5,006,549
Total assets	7,261,923	7,312,624

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TAL DAY YEAR	26 1 24 2245	Millions of yen
LIABILITIES	March 31, 2017	June 30, 2017
Current liabilities :		
Notes and accounts payable	728,300	740,393
Short-term loans payable	316,115	305,821
Commercial paper	20,000	117,000
Bonds due within one year	140,000	160,000
Income taxes payable	31,909	23,011
Provision	2,297	1,920
Other	716,511	657,257
Total current liabilities	1,955,134	2,005,404
Long-term liabilities :		
Bonds and notes	255,690	225,692
Long-term loans payable	1,360,025	1,354,775
Allowance and reserve	4,799	4,436
Net defined benefit liabilities	188,016	185,522
Other	207,241	213,176
Total long-term liabilities	2,015,774	1,983,603
Total liabilities	3,970,908	3,989,008
NET ASSETS		
Shareholders' equity:		
Common stock	419,524	419,524
Capital surplus	386,873	386,850
Retained earnings	1,949,960	1,979,576
Less: Treasury stock, at cost	(132,063)	(132,080)
,	2,624,294	2,653,872
Accumulated other comprehensive income:		
Unrealized gains on available-for-sale securities	269,282	271,200
Deferred hedge income (loss)	(2,370)	(2,780)
Unrealized gains on revaluation of land	3,002	3,002
Foreign currency translation adjustments	(9,339)	(16,600)
Remeasurements of defined benefit plans	63,363	70,039
•	323,938	324,861
Non-controlling interests in consolidated subsidiaries	342,782	344,882
Total net assets	3,291,015	3,323,616
Total liabilities and net assets	7,261,923	7,312,624
		<u> </u>

## (2) Quarterly Consolidated Statements of Operations and Quarterly Consolidated Statements of Comprehensive Income

Quarterly Consolidated Statements of Operations		Millions of yen
	First quarter of	First quarter of
	Fiscal 2016	Fiscal 2017
Operating revenues :		
Net sales	1,051,141	1,355,466
Cost of sales	946,494	1,164,929
Gross profit	104,646	190,537
Selling, general and administrative expenses	112,039	124,000
Operating profit(loss)	(7,392)	66,536
Non-operating profit and loss:		
Non-operating profit:		
Interest income	1,403	1,348
Dividend income	6,408	7,952
Equity in profit of unconsolidated	11,942	35,708
subsidiaries and affiliates	11,942	35,700
Other	9,222	11,142
	28,977	56,153
Non-operating loss:		
Interest expense	4,822	5,345
Other	28,812	9,344
	33,634	14,690
Ordinary profit(loss)	(12,050)	107,999
Extraordinary loss :		
Restructuring loss	6,200	-
	6,200	-
Profit(loss) before income taxes	(18,250)	107,999
Income taxes - current and deferred	(5,954)	29,419
Profit(loss)	(12,295)	78,580
Profit attributable to non-controlling interests	2,342	7,228
Profit(loss) attributable to owners of parent	(14,638)	71,352

Quarterly Consolidated Statements of Comprehensive Income		Millions of yer
	First quarter of Fiscal 2016	First quarter of Fiscal 2017
Profit(loss)	(12,295)	78,580
Other comprehensive income		
Unrealized gains on available-for-sale securities	(54,978)	1,168
Deferred hedge income (loss)	1,564	(655)
Foreign currency translation adjustments	(32,554)	(5,906)
Remeasurements of defined benefit plans	(7,448)	5,748
Share of other comprehensive income of affiliates accounted for using equity method	(7,353)	(1,032)
Total other comprehensive income	(100,769)	(678)
Comprehensive income	(113,065)	77,902
(breakdown)		
Comprehensive income attributable to owners of parent	(111,875)	71,993
Comprehensive income attributable to non-controlling interests	(1,190)	5,908

(3) Notes on Quarterly Consolidated Financial Statements (Notes on Going Concern Assumption)

None

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

None

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

The Company reasonably estimated the effective tax rate following application of tax-effect accounting on profit before income taxes for the consolidated fiscal year, which includes the quarterly period under review, and applied this percentage to quarterly profit before income taxes to determine income taxes.

(Changes in Accounting Principles, Changes in Accounting Estimates, and Retrospective Restatements)
None

Nippon Steel & Sumitomo Metal Corporation

Code Number: 5401

Listings: Tokyo, Nagoya, Sapporo and Fukuoka Stock Exchanges

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# **Supplementary Information on the Financial Results** for the First Quarter of Fiscal 2017

#### **Japanese Steel Industry**

#### 1. Crude Steel Production

(million tons)

	1st quarter	2nd quarter	1st half	3rd quarter	4th quarter	2nd half	total
2016FY	26.21	26.33	52.54	26.39	26.23	52.62	105.17
2017FY	26.08	(*)Approx.26.29	Approx.52.37				

(\*)METI forecast

#### 2. Inventory Volume

At the	e end of:	Inventory at manufacturers and distributors (million tons)	Inventory /shipment ratio (%)	Rolled sheets *1 (million tons)	H-flange beams *2 (million tons)
June	2015	5.73	(147.3)	4.20	0.201
July	2015	5.64	(144.4)	4.07	0.197
Aug.	2015	5.86	(169.1)	4.26	0.198
Sep.	2015	5.79	(150.4)	4.21	0.198
Oct.	2015	5.65	(140.1)	4.13	0.195
Nov.	2015	5.68	(153.0)	4.08	0.189
Dec.	2015	5.72	(161.4)	4.09	0.185
Jan.	2016	5.87	(162.8)	4.27	0.185
Feb.	2016	5.72	(156.5)	4.17	0.192
Mar.	2016	5.50	(135.5)	4.11	0.203
Apr.	2016	5.61	(164.2)	4.08	0.196
May	2016	5.70	(160.8)	4.18	0.198
June	2016	5.56	(146.6)	4.03	0.197
July	2016	5.39	(141.8)	3.91	0.191
Aug.	2016	5.67	(164.7)	4.05	0.187
Sep.	2016	5.61	(149.4)	3.97	0.180
Oct.	2016	5.61	(140.4)	3.96	0.177
Nov.	2016	5.43	(135.3)	3.83	0.173
Dec.	2016	5.48	(146.8)	3.81	0.177
Jan.	2017	5.60	(148.6)	3.89	0.186
Feb.	2017	5.66	(153.4)	3.88	0.200
Mar.	2017	5.42	(127.1)	3.80	0.201
Apr.	2017	5.60	(154.5)	3.88	0.197
May	2017	5.87	(159.7)	4.08	0.197

<sup>\*1</sup> Hot-rolled, cold-rolled and coated sheets

<sup>\*2</sup> Inventories of distributors dealing with H-flange beams manufactured by Nippon Steel & Sumitomo Metal Corporation

#### **NSSMC**

#### 3. Pig Iron Production

(million tons)

	1st quarter	2nd quarter	1st half	3rd quarter	4th quarter	2nd half	total
2016FY	10.49	10.76	21.26	10.66	10.24	20.89	42.15
2017FY	9.92	Approx. 10.30	Approx.20.20				

<sup>\*</sup>Including Hokkai Iron & Coke Co., Ltd. and Nippon Steel & Sumikin Koutetsu Wakayama Corporation

#### 4. Crude Steel Production

(Consolidated basis (The Company and its domestic consolidated subsidiaries))

(million tons)

	1st quarter	2nd quarter	1st half	3rd quarter	4th quarter	2nd half	total
2016FY(*1)	11.16	11.53	22.70	11.52	10.95	22.47	45.17
2017FY(*2)	11.44	Approx.12.10	Approx.23.50				

<sup>\*1</sup> Not Including Nisshin Steel Co., Ltd.

#### (Non-consolidated basis)

(million tons)

						i	
	1st quarter	2nd quarter	1st half	3rd quarter	4th quarter	2nd half	total
2016FY	10.58	10.93	21.51	10.84	10.28	21.11	42.62
2017FY	9.90	Approx.10.50	Approx.20.40				

<sup>\*</sup>Including Nippon Steel & Sumikin Koutetsu Wakayama Corporation

## 5. Steel Products Shipment

(million tons)

	1st quarter	2nd quarter	1st half	3rd quarter	4th quarter	2nd half	total
2016FY	9.60	10.09	19.68	10.29	9.81	20.09	39.78
2017FY	9.34	Approx.10.10	Approx.19.40				

<sup>\*</sup>Including Nippon Steel & Sumikin Koutetsu Wakayama Corporation

#### 6. Average Price of Steel Products

(thousands of yen / ton)

	1st quarter	2nd quarter	1st half	3rd quarter	4th quarter	2nd half	total
2016FY	68.1	67.9	68.0	70.9	83.6	77.1	72.6
2017FY	84.0	Approx.82	Approx.83				

<sup>\*</sup>Including Nippon Steel & Sumikin Koutetsu Wakayama Corporation

<sup>\*2</sup> Including Nisshin Steel Co., Ltd.

## 7. Export Ratio of Steel Products (Value basis)

(%)

							` ′
	1st quarter	2nd quarter	1st half	3rd quarter	4th quarter	2nd half	total
2016FY	43	43	43	42	41	42	42
2017FY	42	Approx.41	Approx.41				

<sup>\*</sup>Including Nippon Steel & Sumikin Koutetsu Wakayama Corporation

## 8. Foreign Exchange Rate

(Y/\$)

	1st quarter	2nd quarter	1st half	3rd quarter	4th quarter	2nd half	total
2016FY	111	103	107	106	114	110	109
2017FY	111	Approx.110	Approx.110				

## 9. Amount of Capital Expenditure and Depreciation

(Consolidated basis)

(billions of yen)

	Capital Expenditure	Depreciation
2016FY	351.0	304.7
2017FY	Approx.450.0	Approx.350.0