Flash Report Consolidated Basis

Results for the First Quarter of Fiscal 2018 (April 1, 2018—June 30, 2018)

<under Japanese GAAP>

August 2, 2018

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

Code number: 5401

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

Representative: Kosei Shindo, Representative Director and President
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Telephone: +81-3-6867-2130 **Scheduled date to submit Securities Report:** August 9, 2018

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 2018 (April 1, 2018—June 30, 2018)

(1) Consolidated Operating Results (Accumulated)

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

	Net sales	3	Operating pr	ofit	Ordinary p	rofit	Profit attributa owners of pa	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First quarter of Fiscal 2018	1,440,883	6.3	48,195	(27.6)	87,745	(18.8)	96,354	35.0
First quarter of Fiscal 2017	1,355,466	29.0	66,536	_	107,999	_	71,352	_

(For reference) Comprehensive income:

First quarter of Fiscal 2018

¥ 37,934 million (51.3)%

First quarter of Fiscal 2017

7 ¥ 77,902 million —%

	Earnings per share	Earnings per share after full dilution
	Yen	Yen
First quarter of Fiscal 2018	109.17	_
First quarter of Fiscal 2017	80.84	_

(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 2018	7,639,992	3,514,078	41.2
Fiscal 2017	7,526,351	3,515,501	41.8

(For reference) Shareholders' equity:

First quarter of Fiscal 2018

¥ 3,148,466 million

Fiscal 2017

¥ 3,145,450 million

2. Dividends

						
	Dividends per share					
	End of first quarter	End of second quarter	End of third quarter	End of fiscal year	Full fiscal year	
	Yen	Yen	Yen	Yen	Yen	
Fiscal 2017	_	30.00	_	40.00	70.00	
Fiscal 2018	_					
Fiscal 2018 (Forecasts)		40.00	_	_	_	

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

3. Consolidated Financial Forecasts for Fiscal 2018 (April 1, 2018—March 31, 2019)

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

	Net sales		Ordinary p	rofit	Profit attributa owners of pa		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half of Fiscal 2018 (JGAAP)	3,000,000	9.3	150,000	(4.8)	130,000	31.1	147.0

	Net sales		Business profit (*)		Profit attributable to owners of parent		Earnings per share	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen	
First half of Fiscal 2018 (IFRS)	3,000,000	_	160,000	_	110,000	_	125.0	
Fiscal 2018 (IFRS)	6,300,000	_	350,000	_	240,000	_	269.0	

Notes: Whether the consolidated financial forecasts for fiscal 2018 under review have been revised: Yes

For further details, please refer to page 4, "1. Qualitative Information for the First Quarter of Fiscal 2018 (2) Explanation of Information on Future Estimates, Including Consolidated Earnings Forecasts."

As for the consolidated financial forecasts for fiscal 2018 (April 1, 2018—March 31, 2019), Nippon Steel & Sumitomo Metal Corporation (NSSMC or the Company) calculates the figures based on International Financial Reporting Standards(IFRS), as the Company has decided to apply IFRS voluntarily from the consolidated financial statements in the fiscal 2018. The company also prepares the forecast for the first half of fiscal 2018 based on IFRS as well as JGAAP in order to enhance investors' understanding.

- (*)Business Profit excludes net financial cost and additional line items from Profit before income taxes. The Company discloses it as an important benchmark of consolidated operating performance.
 - Additional line items refer to the items that are not recurrent and are remotely related to operational activities of the NSSMC Group, but have a material impact in terms of amount.

* 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: Yes
 - (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 2018 950,321,402 shares Fiscal 2017 950,321,402 shares

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

First quarter of Fiscal 2018 67,715,620 shares Fiscal 2017 67,710,915 shares

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

First quarter of Fiscal 2018 882,608,431 shares First quarter of Fiscal 2017 882,644,175 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.

^{*} This quarterly flash report is exempt from the audit procedures.

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

Index of Attached Documents

1. Qualitative Information for the First Quarter of Fiscal 2018	2
(1) Explanation of Operating Results	
(2) Explanation of Information on Future Estimates, Including Consolidated Earnings Forecasts	
2. Quarterly Consolidated Financial Statements and Main Notes	6
(1) Quarterly Consolidated Balance Sheets	6
(2) Quarterly Consolidated Statements of Operations and	
Quarterly Consolidated Statements of Comprehensive Income	8
(3) Notes on Quarterly Consolidated Financial Statements	9
(Notes on Going Concern Assumption)	9
(Notes in Case of Significant Changes to Shareholders' Equity)	9
(Adoption of Special Accounting Methods for Preparation of Quarterly Consolidated Financial Statements)	9
(Changes in Accounting Principles, Changes in Accounting Estimates, and Retrospective Restatements)	9

1. Qualitative Information for the First Quarter of Fiscal 2018

(1) Explanation of Operating Results

Global and Domestic Economic Conditions in the First Quarter of Fiscal 2018

The global economy as a whole showed a solid performance, with the economies of the United States and China holding strong. The economies of Europe and emerging countries reported a further gradual recovery.

The Japanese economy continued to recover moderately, evidenced by such factors as continuing improvements in the employment and income environments and a recovery in corporate production activities

Operating Results by Business Segment in the First Quarter of Fiscal 2018

Business segment of the Nippon Steel & Sumitomo Metal Corporation Group (the NSSMC Group) 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 FY2018 1Q FY2017		1Q FY2018	1Q FY2017
Steelmaking and steel fabrication	1,283.4	1,208.8	81.6	98.7
Engineering and construction	70.2	60.8	(0.2)	(0.6)
Chemicals	49.2	46.5	5.7	2.5
New materials	10.7	9.0	0.7	0.4
System solutions	58.4	58.1	5.2	5.0
Total	1,472.0	1,383.5	93.1	106.1
Adjustment	(31.2)	(28.0)	(5.3)	1.8
Consolidated total	1,440.8	1,355.4	87.7	107.9

Steelmaking and Steel Fabrication

In the Steelmaking and Steel Fabrication segment, domestic steel demand remained firm, especially shipments to the automotive and industrial machinery sectors. Overseas steel demand as a whole was on a rising trend. In the domestic and overseas steel markets, prices were at a generally high level against a background of solid demand.

In such an environment, the segment increased sales compared to the previous year but recorded a decline in profit due to a difference in inventory devaluation and despite NSSMC's efforts to improve costs and to secure appropriate sales prices for continuous supply; this includes adjusting steel product prices, given surges in prices of some auxiliary materials such as scrap and alloy, other material procurement costs, and distribution costs.

The Steelmaking and Steel Fabrication segment recorded net sales of ¥1,283.4 billion and ordinary profit of ¥81.6 billion.

Engineering and Construction

Nippon Steel & Sumikin Engineering Co., Ltd. experienced gradually improving business conditions as oil prices rose and overseas steel manufacturers resumed their capital investments. In addition, the business environment in Japan for construction remained favorable, and steady progress toward project completions was made thanks to strict control of project execution. As a result, both sales and profit recovered but were affected by rising procurement prices and other factors. The Engineering and Construction segment posted net sales of ¥70.2 billion and ordinary loss of ¥0.2 billion.

Chemicals

Nippon Steel & Sumikin Chemical Co., Ltd. reported increases in both sales and profit. In the coal tar chemicals business, a significant improvement in supply and demand conditions led to an increase in the price of needle coke. The chemicals business experienced favorable supply and demand conditions for styrene monomer. The functional materials business continued to record strong sales of resists for LCDs, while the epoxy business also extended firm sales of epoxy for electronic materials. As a result, the Chemicals segment recorded net sales of ¥49.2 billion and ordinary profit of ¥5.7 billion.

New Materials

Nippon Steel & Sumikin Materials Co., Ltd. within its semiconductor and electronics industrial materials business, sustained favorable performance in sales of metal foils for suspension and other materials. Moreover, in the environmental and energy field, sales of metal substrates expanded as the company steadily captured demand in the emerging countries. Although overall performance was affected by severer market competition, an increase in sales raised both net sales and profit. The New Materials segment posted net sales of \mathbb{\fmathbb{\text{10.7}}} billion and ordinary profit of \mathbb{\fmathbb{\text{40.7}}} billion.

System Solutions

NS Solutions Corporation provides advanced solution services and other comprehensive solutions in the planning, configuration, operation, and maintenance of IT systems for clients in a wide range of business fields. During the first quarter, against the backdrop of robust system investments stemming mainly from customers' advanced operational needs, the company's business environment continued to be favorable. In addition, NS Solutions proceeded with the preparation of systems associated with the NSSMC Group's reorganization, including Nisshin Steel, which is scheduled to become a fully-owned subsidiary of NSSMC. As a result, the company reported increases in both net sales and profit. The System Solutions segment recorded net sales of ¥58.4 billion and ordinary profit of ¥5.2 billion.

Sales and Profit for the First Quarter of Fiscal 2018

Compared to the same quarter of the previous year NSSMC posted an increase in consolidated net sales to \\ \xi\$1,440.8 billion, a decline in operating profit to \\ \xi\$48.1 billion, a decline in ordinary profit to \\ \xi\$87.7 billion, and an increase in profit attributable to owners of parent to \\ \xi\$96.3 billion for the first quarter of fiscal 2018 under review.

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

The global economy as a whole is expected to be firm and the United States and China are likely to experience stable economic conditions while Europe and emerging countries will continue to see a moderate economic recovery. The Japanese economy is also anticipated to record an extended gradual recovery, supported by improvements in the employment and income environments.

Domestic steel demand is expected to remain strong, especially in the automotive and industrial machinery sectors. Overseas steel demand is forecast to remain on an uptrend against the background of strength in the global economy.

In addition, steel markets in Japan and overseas are likely to remain at their current high levels against the background of firm demand. However, protectionist policies in the United States and other developments have led to more uncertainty concerning the outlook for the global economy and developments will require close monitoring.

Amid such operating conditions, NSSMC is projectingordinary profit of \(\pm\)150.0 billion for the first half of the fiscal year ending March 31, 2019, based on JGAAP. This forecast takes into account mainly the following positive impacts on profit: (a) prevention of the recurrence of equipment issues through focused injection of refurbishment expenditures; (b) continued corporate-wide promotion of measures to ensure more stable operation; (c) initiatives to secure appropriate sales prices for continuous supply, which includes adjusting steel product prices, given surges in prices of some auxiliary materials such as scrap and alloy, other material procurement costs, and distribution costs; and (d) cost improvement. In addition to these positive factors, the Company is also incorporating a temporary decline in profit and loss of Group companies in the forecast. Further, NSSMC is voluntarily adopting International Financial Reporting Standards (IFRS) from this fiscal year. Based on IFRS, business profit for the first half is estimated to be \(\pm\)160.0 billion.

Consolidated business profit for the full fiscal year ending March 31, 2019 is forecast to be ¥350.0 billion. Factors contributing to this will be a rise in production and shipments starting in the first half of the fiscal year stemming from continuing stable production, further progress in cost reduction, and an improvement in the performance of Group companies, including overseas businesses.

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 consolidated and non-consolidated bases. The Company has adopted a consolidated payout ratio target of around 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.

Regarding the dividend from retained earnings for the end of the second quarter (interim), in accordance with the policy described above, the Company is planning to pay a dividend of ¥40 per share (representing a consolidated dividend payout ratio of 32% (based on IFRS)).

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheets

		Millions of yen
ASSETS	March 31, 2018	June 30, 2018
Current assets :		
Cash and bank deposits	108,782	136,645
Notes and accounts receivable	678,579	617,074
Inventories	1,380,003	1,436,756
Other	233,902	252,138
Less: Allowance for doubtful accounts	(1,766)	(1,649)
Total current assets	2,399,500	2,440,964
Fixed assets:		
Tangible fixed assets:		
Buildings and structures	759,716	766,261
Machinery, equipment and vehicles	1,131,993	1,212,751
Other	983,250	977,552
	2,874,959	2,956,565
Intangible assets:	84,972	120,736
Investments and others:		
Investments in securities	871,399	848,592
Shares of subsidiaries and affiliates	1,069,688	1,017,874
Net defined benefit assets	116,573	113,323
Other	112,982	145,768
Less: Allowance for doubtful accounts	(3,726)	(3,832)
	2,166,917	2,121,725
Total fixed assets	5,126,850	5,199,028
Total assets	7,526,351	7,639,992

LIABILITIES	March 31, 2018	June 30, 2018
	Water 31, 2010	June 30, 2010
Current liabilities:		
Notes and accounts payable	775,126	770,234
Short-term loans payable	300,632	398,482
Commercial paper	76,000	130,000
Bonds due within one year	85,700	75,700
Income taxes payable	43,916	37,373
Provision for loss on construction contracts	1,508	2,941
Other	803,197	724,685
Total current liabilities	2,086,080	2,139,418
Long-term liabilities :		
Bonds and notes	209,996	229,997
Long-term loans payable	1,380,660	1,429,221
Allowance and reserve	4,991	4,536
Net defined benefit liabilities	166,152	168,568
Other	162,967	154,171
Total long-term liabilities	1,924,768	1,986,495
Total liabilities	4,010,849	4,125,914
NET ASSETS		
Shareholders' equity:		
Common stock	419,524	419,524
Capital surplus	386,865	387,654
Retained earnings	2,076,769	2,137,804
Less: Treasury stock, at cost	(132,162)	(132,175)
	2,750,997	2,812,808
Accumulated other comprehensive income:		
Unrealized gains on available-for-sale securities	313,116	299,016
Deferred hedge income (loss)	(2,107)	(106)
Unrealized gains on revaluation of land	3,001	2,966
Foreign currency translation adjustments	(4,898)	(52,323)
Remeasurements of defined benefit plans	85,341	86,105
	394,453	335,658
Non-controlling interests in consolidated subsidiaries	370,050	365,611

3,515,501

7,526,351

3,514,078

7,639,992

Total net assets

Total liabilities and net assets

(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 2017	Fiscal 2018
Operating revenues :		
Net sales	1,355,466	1,440,883
Cost of sales	1,164,929	1,256,790
Gross profit	190,537	184,092
Selling, general and administrative expenses	124,000	135,897
Operating profit	66,536	48,195
Non-operating profit and loss :		
Non-operating profit :		
Interest income	1,348	1,375
Dividend income	7,952	9,093
Equity in profit of unconsolidated	35,708	25 120
subsidiaries and affiliates	33,708	35,139
Other	11,142	9,082
	56,153	54,690
Non-operating loss:		
Interest expense	5,345	4,561
Other	9,344	10,580
	14,690	15,141
Ordinary profit	107,999	87,745
Extraordinary profit :		
Gain on sales of investment in securities	-	10,296
	-	10,296
Profit before income taxes	107,999	98,042
Income taxes - current and deferred	29,419	(1,755)
Profit	78,580	99,797
Profit attributable to non-controlling interests	7,228	3,442
Profit attributable to owners of parent	71,352	96,354

Quarterly Consolidated Statements of Comprehensive Income		Millions of yen
	First quarter of Fiscal 2017	First quarter of Fiscal 2018
Profit	78,580	99,797
Other comprehensive income		
Unrealized gains on available-for-sale securities	1,168	(12,615)
Deferred hedge income (loss)	(655)	1,649
Foreign currency translation adjustments	(5,906)	(37,657)
Remeasurements of defined benefit plans	5,748	425
Share of other comprehensive income of affiliates accounted for using equity method	(1,032)	(13,665)
Total other comprehensive income	(678)	(61,862)
Comprehensive income	77,902	37,934
(breakdown)		
Comprehensive income attributable to owners of parent	71,993	37,594
Comprehensive income attributable to non-controlling interests	5,908	339

(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)

At the beginning of the first quarter of fiscal 2018, the Company adopted the "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No.28, February 16, 2018) and "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No.26, February 16, 2018)

The application of this practical solution had no effect on the quarterly consolidated financial statements for the first quarter of fiscal 2018.

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 2018

Japanese Steel Industry

1. Crude Steel Production

(million tons)

	1st quarter	2nd quarter	1st half	3rd quarter	4th quarter	2nd half	total
2017FY	26.09	25.94	52.04	26.39	26.41	52.80	104.84
2018FY	26.57	(*)Approx.26.54	Approx.53.11				

(*)METI forecast

2. Inventory Volume

	end of:	Inventory at manufacturers and distributors (million tons)	Inventory /shipment ratio (%)	Rolled sheets *1 (million tons)	H-flange beams *2 (million tons)
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	5.64	(151.9)	3.88	0.200
Mar.	2017	5.37	(124.8)	3.80	0.201
Apr.	2017	5.54	(151.7)	3.88	0.197
May	2017	5.78	(155.9)	4.09	0.197
June	2017	5.56	(139.9)	4.01	0.193
July	2017	5.42	(142.0)	3.95	0.189
Aug.	2017	5.66	(158.4)	4.14	0.179
Sep.	2017	5.70	(145.4)	4.16	0.182
Oct.	2017	5.83	(150.1)	4.11	0.176
Nov.	2017	5.66	(139.2)	4.00	0.173
Dec.	2017	5.67	(149.2)	4.04	0.175
Jan.	2018	5.86	(157.5)	4.15	0.185
Feb.	2018	5.81	(154.4)	4.12	0.196
Mar.	2018	5.83	(140.8)	4.21	0.200
Apr.	2018	5.79	(145.8)	4.15	0.196
May.	2018	5.87	(150.1)	4.34	0.200
June. *3	2018	5.81	(141.8)	4.30	0.207

^{*1} Hot-rolled, cold-rolled and coated sheets

^{*2} Inventories of distributors dealing with H-flange beams manufactured by Nippon Steel & Sumitomo Metal Corporation

^{*3} Preliminary report

NSSMC

3. Pig Iron Production

(million tons)

	1st quarter	2nd quarter	1st half	3rd quarter	4th quarter	2nd half	total
2017FY	9.92	10.13	20.05	10.08	10.49	20.57	40.61
2018FY	10.25	Approx.11.00	Approx.21.20				

Including Hokkai Iron & Coke Co., Ltd. and Nippon Steel & Sumikin Koutetsu Wakayama Corporation *1

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
2017FY	11.44	11.69	23.12	11.68	12.02	23.70	46.82
2018FY	11.84	Approx.12.50	Approx.24.40			Approx.25.10	Approx.49.50

(Non-consolidated basis)

(million tons)

	1st quarter	2nd quarter	1st half	3rd quarter	4th quarter	2nd half	total
2017FY	9.90	10.19	20.09	10.08	10.50	20.58	40.67
2018FY	10.29	Approx.11.00	Approx.21.30			Approx.22.00	Approx.43.30

Including Nippon Steel & Sumikin Koutetsu Wakayama Corporation *1

5. Steel Products Shipment

(million tons)

	1st quarter	2nd quarter	1st half	3rd quarter	4th quarter	2nd half	total
2017FY	9.34	9.39	18.72	9.39	9.67	19.07	37.79
2018FY	9.57	Approx.10.20	Approx.19.80				

Including Nippon Steel & Sumikin Koutetsu Wakayama Corporation *1

6. Average Price of Steel Products

(thousands of yen / ton)

	1st quarter	2nd quarter	1st half	3rd quarter	4th quarter	2nd half	total
2017FY	84.0	83.0	83.5	86.0	85.7	85.8	84.7
2018FY	87.2	Approx.88	Approx.88				

Weighted average of the Company and Nippon Steel & Sumikin Koutetsu Wakayama Corporation *1

7. Export Ratio of Steel Products (Value basis)

(%)

						Ī	
	1st quarter	2nd quarter	1st half	3rd quarter	4th quarter	2nd half	total
2017FY	42	41	42	41	41	41	41
2018FY	41	Approx.42	Approx.41				

Weighted average of the Company and Nippon Steel & Sumikin Koutetsu Wakayama Corporation *1

8. Foreign Exchange Rate

(¥/\$)

	1st quarter	2nd quarter	1st half	3rd quarter	4th quarter	2nd half	total
2017FY	111	111	111	113	110	111	111
2018FY	108	Approx.110	Approx.110				

9. Amount of Capital Expenditure and Depreciation

(Consolidated basis)

(billions of yen)

	Capital Expenditure	Depreciation
2017FY	411.9	340.7
2018FY *2	Approx.440.0	Approx.370.0

^{*1} Nippon Steel & Sumikin Koutetsu Wakayama Corporation was merged into NSSMC on April 1, 2018.

^{*2} except for impacts of transition to IFRS and other impacts