

# To Our Shareholders

# The 95th Term **Interim Report**

April 1, 2019 to September 30, 2019

## Index

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Message from the President .....	1
Topics .....	5
Initiatives Towards ESG .....	9

**NIPPON STEEL CORPORATION**

Securities Code 5401

## Message from the President



Representative Director and President,  
**Eiji Hashimoto**

We would like to thank you for your continued understanding and support. Regarding financial results for the first half of fiscal 2019, profit declined compared with the first half of the previous fiscal year due to the global economic slowdown and reduced demand for steel products resulting from the prolonged conflict between the United States and China, the manifestation of “Another China Risk” in the form of rising prices of raw materials due to measures by China to support its economy in the midst of falling steel product prices, and the impact from natural disasters such as typhoons. Full-year consolidated business profit is also expected to not exceed ¥100 billion.

Nearly 50 years have passed since Nippon Steel’s main steelworks commenced their operation, and a generation change is also rapidly underway in our workforce. The Company expects the outlook for the business environment to remain uncertain, but is implementing major structural reform, which may be described as its second foundation stage, and is working to restore its profit base with the aim of becoming the world’s best steelmaker on the basis of market-assessed corporate value.

At present, while our manufacturing capabilities are showing a certain level of recovery toward the achievement of stable production, the Company is diligently working to shift its management focus to further “profitability-oriented production” pursuing optimal scale in production and shipment in response to declining demand for steel products, and to revising long-term contractual prices to bolster its underlying revenue.

### **NIPPON STEEL CORPORATION GROUP Corporate Philosophy**

#### **Our Values**

Nippon Steel 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.

## Overview of Business Operations and Performance for the First Half of Fiscal 2019

We would like to present the overview of business operations during the first half of fiscal 2019 (April 1, 2019 to September 30, 2019).

During the first half of fiscal 2019, the global economy was characterized by ongoing improvement in private consumption in the United States while the trade friction between the United States and China led to slower private consumption and overall economic growth in China, where the government continued to invest in infrastructure to buoy the economy.

Japanese economic conditions continued to recover moderately with improving employment and income conditions, but economic sentiment was subdued amid ongoing weakness mainly in exports.

Domestic steel demand experienced a decline for indirect exports, caused by slower consumption in Asia. Overseas steel demand lacked strength, particularly for flat steel products, as production of consumer goods declined due to concern about deteriorating economic conditions in China. Steel prices in Japan remained generally firm, while prices in overseas markets fell in the second half of the previous fiscal year and have since been stagnant.

### Future Outlook

Nippon Steel expects the global economy to continue slowing amid the prolonged trade friction between the United States and China. The Company also anticipates conditions in the Japanese economy to continue reflecting strong concern about future uncertainty stemming from the potential impact of global economic conditions.

Domestic steel demand and market conditions are experiencing heightened downside risk in all fields along with an uncertain outlook. Global steel demand and prices also continue to require monitoring because of the further downside risk that could stem from the prolonged US-China trade friction and other factors.

Nippon Steel is projecting full-year consolidated business profit to be limited to ¥100 billion in fiscal 2019. The Company

expects profit to benefit from the recovery of impacts of torrential rains, typhoons, and earthquakes in the previous fiscal year, and is committed to promoting measures to enhance the overall stability of its facilities and operations, and ensure steady improvements in cost and long-term contractual prices. At the same time, the Company anticipates profit will be influenced by factors including significantly narrower margins, particularly in export markets, which is based on the assumption that current high prices for raw materials and low prices for steel products will persist, and a deteriorating product mix caused by declining demand for indirect exports. The Company also expects greater-than-expected fluctuation from the impacts of disasters in the present fiscal year as well as impacts from a smaller gain on inventory valuation and other factors.

In these conditions, profit declined year-on-year in the first half of fiscal 2019. While the recovery from the impacts of torrential rains, typhoons, and earthquakes in the previous fiscal year and improving costs and long-term contractual prices were factors that boosted profit, business profit was adversely affected by higher raw material prices, falling prices for steel products in overseas markets, disasters (a power outage at the Kimitsu Works due to lightning strikes in Chiba, a fire at the Nippon Steel Nisshin Kure Works No. 1 steelmaking plant, and the impact of Typhoon 15 (Faxai) on the Kimitsu Works again and other facilities), an inventory valuation difference, and other factors.

Under such circumstances, in the first half of fiscal 2019, Nippon Steel recorded consolidated revenue of ¥3,047.1 billion (¥2,941.5 billion in the same period of the previous fiscal year), business profit of ¥73.1 billion (¥157.9 billion), and profit attributable to owners of the parent of ¥38.7 billion (¥116.7 billion in the same period of the previous fiscal year).

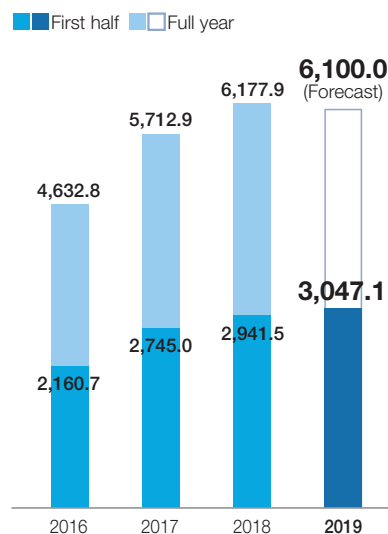
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The Company is responding to these conditions by advancing initiatives to shift its management focus to reconstruction of its manufacturing capabilities, to further “profitability-oriented production” pursuing optimal scale in production and shipment, and to revising long-term contractual prices to bolster its underlying revenue. Efforts are also made to implement strategies to generate medium- and long-term growth. Specifically, the Company intends to maximize the integration synergies from the merger with Nippon Steel Nisshin Co., Ltd. and from the reorganization of the specialty steel business (Sanyo Special Steel Co., Ltd. and Ovako AB). At the same time, the Company will promote investment in business fields and regions where it anticipates growing demand and where it will be able to fully leverage its technical advantages. These include investment in expanding the production capacity and enhancing the quality of electrical steel sheet, renovating the

Scrap Melting Process at the Hirohata Works, and acquiring Essar Steel India Ltd. Moreover, the Company continues to emphasize financial discipline in its cash management through asset compression, more efficient capital expenditures, and large-scale financing by issuing subordinated bonds. Far-reaching measures to fortify the business foundation for the future have also begun to be considered. In addition to building an optimal production structure by taking measures such as to strengthen the UO steel pipe business and the tinplate business, the integration and reorganization of the structure of steelworks has been decided as a part of the organizational and operational review for ensuring reconstruction of manufacturing capabilities with enhanced autonomy and efficiency of manufacturing workplaces. Plans will be announced one by one as they are put into concrete shape.

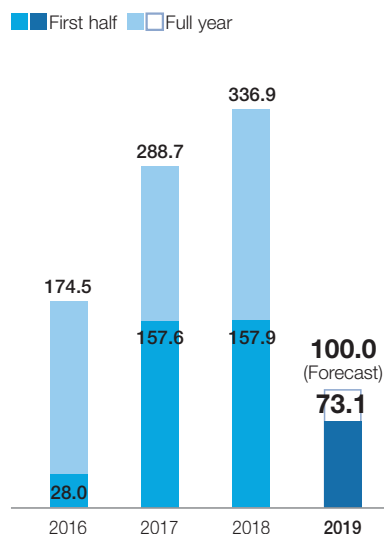
### Net sales/Revenue

(Billions of yen)



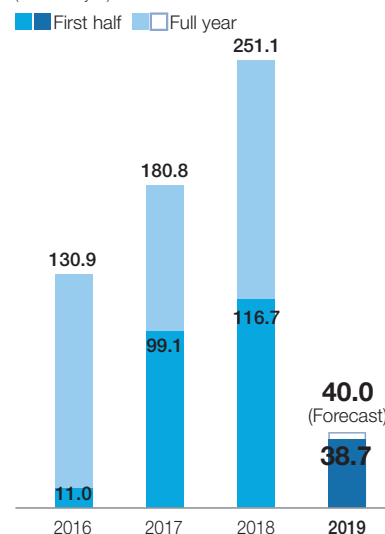
### Ordinary profit/Business profit

(Billions of yen)



### Profit attributable to owners of parent/ Profit attributable to owners of the parent

(Billions of yen)



\* Figures for the full year of fiscal 2016 and the first half of fiscal 2017 are based on Japanese GAAP.

## Basic Dividend Policy

Nippon Steel'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 annual 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.

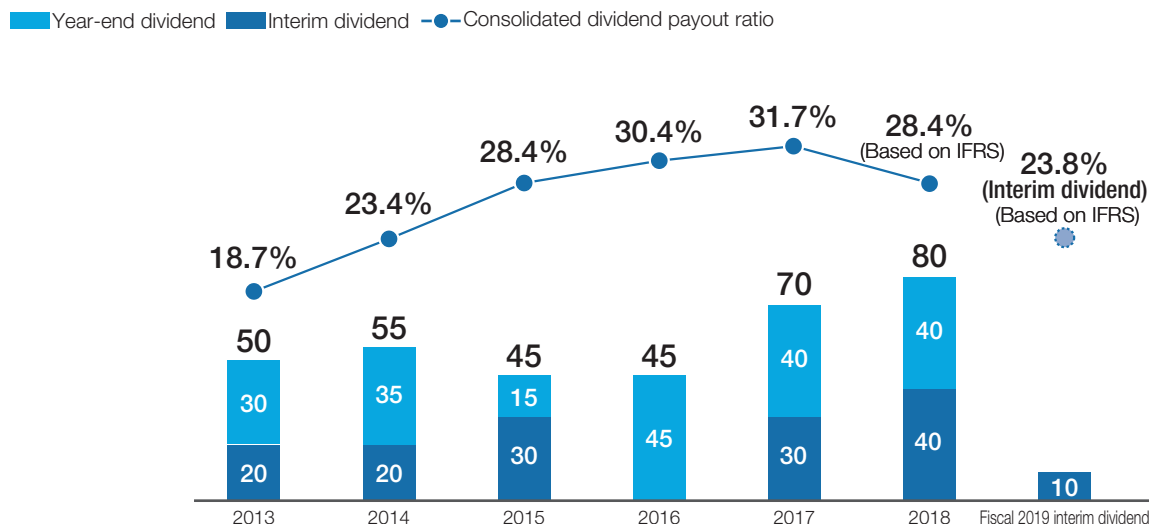
## Distribution of Dividend at End of First Half of Fiscal 2019

Regarding the dividend from retained earnings for the end of the second quarter (interim), in accordance with the basic dividend policy described above, the Company has decided to pay a dividend of ¥10 per share (representing a consolidated dividend payout ratio of 23.8%), as announced on August 1, 2019 at the

time of the announcement of results for the first quarter.

The Company plans to determine the forecast for the year-end dividend distribution amount, with due consideration of forecasts for the full fiscal year performance, and announce it at the time of the third-quarter results announcement.

### Dividends per share (Yen/share), Consolidated dividend payout ratio (%)



(Note) On October 1, 2015, Nippon Steel performed the share consolidation at the ratio of 10 shares to 1 share. Consequently, Nippon Steel estimates the dividends per share assuming that the share consolidation occurred at the start of fiscal 2013.

### ●Notes regarding forecasts

The descriptions of future performance and such stated in this document include predictions made based on assumptions, forecasts and plans regarding the future as of the results announcement on November 1, 2019. Actual performance may differ significantly from the descriptions due to various factors.

# Topics



## Steelmaking and Steel Fabrication

### Products & technology

## Electrical Steel Sheets – Investments for Capacity & Quality Improvement

Nippon Steel is promoting investments for capacity and quality improvements in electrical steel sheets manufacturing facilities to address increasing demand for high energy efficiency for transformers and eco-cars.

We have decided on investment of approximately ¥14.0 billion in facilities at the Hirohata Works as the second step. (The investment of approximately ¥46.0 billion in facilities at the Yawata Works as the first step has already been released on August 1, 2019.)

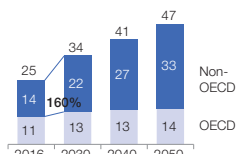
Going forward, we will continue to consider enhancing our capability to supply electrical steel sheets.



### Demand Increase

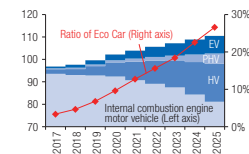
#### World Generated Electricity Outlook (Pwh)

Source: The Institute of Energy Economics, Japan



#### World Finished Auto Production Outlook

(million units/year, Nippon Steel's estimate)



### Quality Sophistication

#### Tightening of Electric Transformer Efficiency Regulation

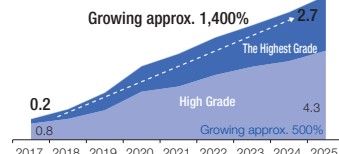
High-grade GO is essential to improve electrical transformer's efficiency → Demand for high-grade GO is expected to grow.

Figures in parenthesis : Regulatory requirement for energy loss (iron loss) ratio improvement. Nippon Steel's estimate.

Area	Regulation	As is	To Be
Japan	Top Runner	Tier 2 [vs. level 1 Reg. +7%]	Tier 3 [vs. level 2 Reg. +10%]
		Tier 1	Tier 2
EU	Eco -design	Tier 1 [vs. before regulation +40%]	Tier 2 [vs. level 1 Reg. +10%]

#### World Demand Outlook for Electrical Steel Sheets for Cars

(Nippon Steel's estimate, The beginning of FY2017 = 1)

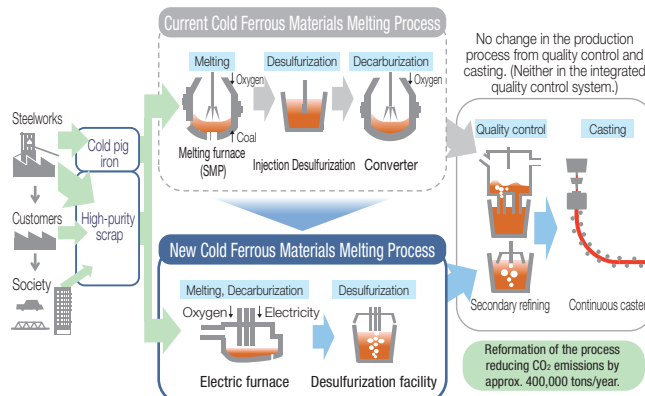


### Products & technology

## Reformation of the Scrap Melting Process in the Hirohata Works

The Company decided to reform the scrap melting process at the Hirohata Works from the current process with melting furnace and converter to a new process with an EAF by which steel production can be made with low energy and high flexibility. (Capex: approximately ¥28.0 billion; planned date of starting the operation: from FY2022 1H)

With such our strength as sophisticated refining technology and easy accessibility to high-purity scrap, Nippon Steel produces high-quality flat steel including electrical steel sheets in the state-of-the-art EAF.



Strengthen total competitiveness by reformation of upstream process and investments for capacity & quality improvement in downstream process.

**Products & technology** Reinforcement of the Tinplate Business

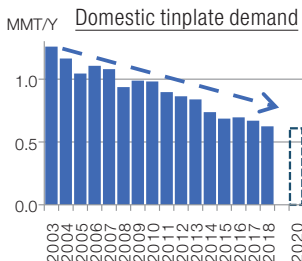
Nippon Steel decided to integrate tinplate mills to the Yawata Works and the Nagoya Works, and close the tinplate mill at the Hirohata Works in the second half of FY2021.

By these measures, as well as seeking to improve the efficiency of our production structure, we aim to optimize the composition of orders and strengthen the revenue base of the tinplate business by concentrating on the customers and sectors to which we can offer unique products and services with our advanced technology, quality control, and quick delivery on the overseas market while maintaining and expanding order volume on the domestic market.

**Tinplate Business Environment**

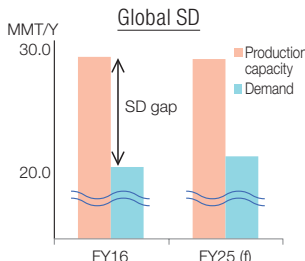
**Japan**

Demand gradually declining due to the expansion of aluminium and PET as material for cans.



**Overseas**

Although global demand for tinplate is expected to grow in the future due to population increase and dietary industries growth, the SD gap is expected to last for long periods.



**Our Tinplate Business**

- Domestic production capacity 1.20MMT/Y level (Yawata, Nagoya, Hirohata)
- Export ratio 70-80% (incl. semi-product shipped to overseas mills)
- Strength in high-quality products with characteristics such as easy-processing, oxidation resistance, super-thin, laminated, etc.

**Products & technology** The Group's Products Addressing "Building National Resistance" Measures

In view of the intensification of natural disasters in recent years, the Company has published three types of pamphlets and leaflets addressing the "Building National Resistance" measures being promoted by the national and local governments.

By working on the development of high-quality, reliable infrastructure in conformance with the Sustainable Development Goals (SDGs) adopted by the United Nations, the Group will further strengthen activities that make a contribution to building national resistance, which in turn contributes to ensuring the safety and security of the people and the conservation of national land.

**Landslide countermeasures (examples)**

**Non-frame method** Balancing conservation of the natural environment and landscape with slope disaster prevention

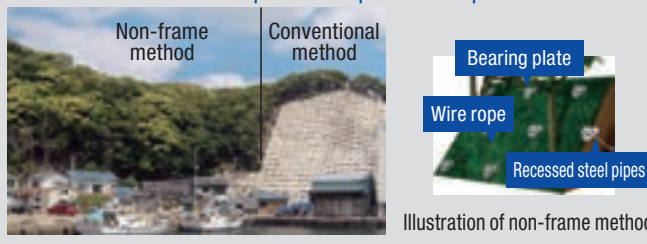


Illustration of non-frame method

## Management

# Merger of Nippon Steel and Nippon Steel Nisshin Co., Ltd.

In March 2017, Nippon Steel Corporation (NSC) made Nisshin Steel Co., Ltd. (present Nippon Steel Nisshin Co., Ltd.) (NSN) into its subsidiary, and in January 2019, NSC converted NSN into its wholly owned subsidiary, thereby establishing a structure oriented toward integrated operations that allow for swifter and more flexible responses in implementing intercompany measures, including those for pursuit of an optimized production system and business restructuring of group companies.

In the current fiscal year, however, the environment surrounding the steel making industry is rapidly deteriorating. In addition to a significant deterioration in NSC's own business conditions, NSN, which is in the same industry as NSC (blast furnace steelmaking and steel sheet business), is likewise experiencing harsh business conditions. In order to overcome this situation, it was deemed necessary for the Nippon Steel Group to proceed with the urgent consideration and implementation of measures to pursue even greater total optimization, as well as an even greater level of integrated operations with NSC (including restructuring and reorganizing facilities and the organization including the headquarters, marketing branches, steelworks, and R&D laboratories), and the decision was therefore made that NSC will merge with NSN on April 1, 2020.

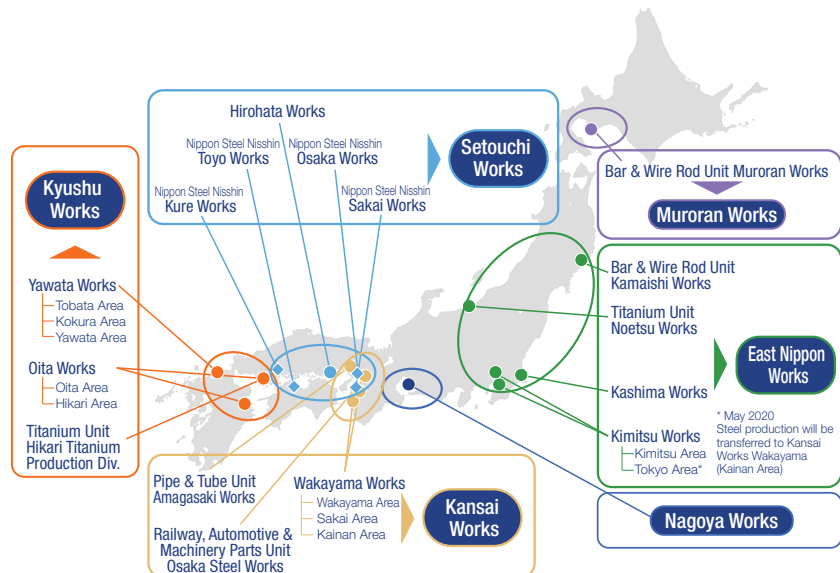
## Management

# Integration and Reorganization of Steelworks

The Company has promoted integration and reorganization of some steelworks and adoption of measures for collaboration among steelworks in order to enhance competitiveness. In light of the merger with Nippon Steel Nisshin Co., Ltd. planned in April 2020, the Company has now decided to make these changes spanning all steelworks as of April 1, 2020 as a part of an organizational and operational review. The restructuring will ensure advances in manufacturing capabilities and enhanced autonomy and efficiency of manufacturing workplaces.

In light of the ongoing work standardization and progress in applying advanced ICT, which is enabling operational management which spans across remote locations, a newly formed six-works structure will be integrated from the viewpoints of geographical relationships of steelworks, their production, quality, and logistical relationships (such as product mix, manufacturing line composition, and common iron sources), human resources, technologies, skills, knowhow, and other factors.

Through the organizational and operational changes, Nippon Steel will make utmost efforts to realize restructuring of manufacturing capabilities, enhance competitiveness of the steelmaking business, and continue to earn trust of customers, people in the communities, and other stakeholders.







## Engineering and Construction

Nippon Steel Engineering Co., Ltd. completed and delivered steam production and hydrothermal reinjection systems for the Wasabizawa Geothermal Power Plant being developed by Yuzawa Geothermal Power Generation Corporation in Yuzawa City, Akita Prefecture.

Nippon Steel Engineering has been working on the construction of geothermal-related facilities for many years. Geothermal power generation, with its abundant resources in Japan, is seen as a form of renewable energy that will play a role in long-term, stable supply of electric power, and the Company will continue to contribute to the even greater use of geothermal power by utilizing Nippon Steel Engineering's technology.



Yuzawa Geothermal Power Generation Corporation, Wasabizawa Geothermal Power Plant



## Chemicals and Materials

Nippon Steel Chemical & Material Co., Ltd. has developed the ESPANEX® F Series, copper-clad laminate for flexible printed wiring boards compatible with the next-generation high-speed communication standard known as "5G," and the Z Series to meet the need for thick-film insulating layers. We will continue to respond to the demand associated with the switch to 5G of various electronic equipment and components, such as smartphones, small base stations and antennas.

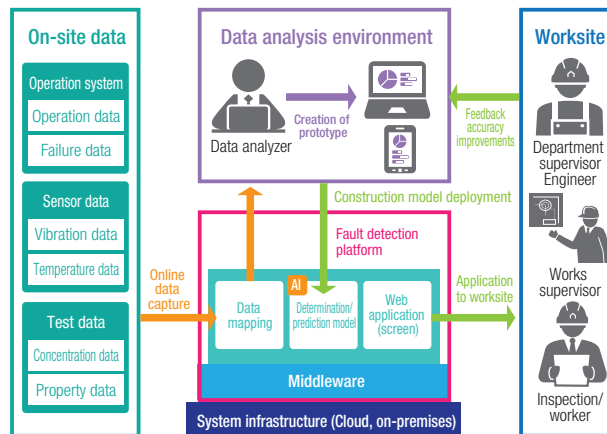


5G-compatible ESPANEX®



## System Solutions

Nippon Steel Solutions Co., Ltd. is broadening its product line-up of IoT solutions (safety monitoring of on-site workers, support for remote operations, detection of faulty equipment, etc.) to meet customer needs in the area of DX (digital transformation).



Overview of fault detection platform system

## Initiatives Towards ESG

### ■ Nippon Steel supports recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

In May 2019, Nippon Steel expressed its support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which was established by the Financial Stability Board at the request of the G20.

We regard environmental and other sustainability issues as one of our fundamental management issues and conduct business activities based on the viewpoint of environmental preservation in local communities. The activities include the maintenance and improvement of good living environments and the promotion of waste reduction and recycling of resources. Concerning the climate change issues, we have steadily been promoting the Japan Iron and Steel Federation's commitment to a low carbon society through implementation of what our company describes as the "three eco-friendly initiatives and innovative technology development." The three initiatives are: the way we manufacture is "Eco-friendly" (Eco Process); what we produce is "Eco-friendly" (Eco Products®); and sharing of our "Eco-solutions" (Eco Solution).

We will promote disclosure of information concerning business impacts caused by climate change, based on the TCFD recommendations.

### ■ Publication of Integrated Report and Sustainability Report

Nippon Steel has published an Integrated Report and a Sustainability Report.

In addition to providing financial information, the Integrated Report covers the Company's corporate philosophy and values, the inherent appeal of steel as a material, and important issues from the perspective of ESG, which serves as the foundation supporting the Company's sustainable growth, and explains what strategies (value creation story) the Company will adopt for future risks and opportunities so as to contribute to the sustainable growth of society (achievement of SDGs).

The Sustainability Report is a companion report to the Integrated Report, providing detailed explanations of environmental and social initiatives within ESG, as well as outlining the status of materiality initiatives and the KPIs that evaluate those results, and disclosing information in accordance with TCFD recommendations.



The Integrated Report and the Sustainability Report can be viewed on the Company's website.  
[https://www.nipponsteel.com/en/ir/library/annual\\_report.html](https://www.nipponsteel.com/en/ir/library/annual_report.html)  
<https://www.nipponsteel.com/en/csr/report/index.html>

## Inclusion in the composition of “FTSE4Good Index Series” and “FTSE Blossom Japan Index” stock price indices for ESG investments two years in a row

The Company has been included in the composition of the “FTSE4Good Index Series” and the “FTSE Blossom Japan Index” stock price indices for ESG investments two years in a row since 2018.

These stock price indices are developed by FTSE Russell, a subsidiary of the London Stock Exchange. The indices are composed using FTSE Russell’s ESG evaluation model, based on existing international ESG standards, and include SDGs of the United Nations. Accordingly, companies that have conducted outstanding ESG initiatives are selected. These indices are widely utilized by global investors as an important part of their decision criteria. The “FTSE Blossom Japan Index” is used by the Government Pension Investment Fund (GPIF) as a selection index for conducting investments based on ESG initiatives.



## Producing videos focusing on technology and the environment and posting them on YouTube

The Company is conducting various public relations activities to extensively increase awareness of both the Company’s new name, Nippon Steel Corporation, and the appeal of steel. We have produced four types of 30-second videos focusing on technology and the environment, and posted them on Nippon Steel’s official YouTube channel. There are two categories of videos about technology: “Tetsu no Star (Haiten) Hen” (The Star That is Steel (High-Tensile) Edition), which is about high-tensile steel used in automobiles, and “Tsunageru Tetsu (Pipe) Hen” (Connecting Steel (Pipes) Edition), which deals with pipes that play an active role in infrastructure. The two categories relating to the environment are: “Yasashii Tetsu (LCA) Hen” (Gentle Steel (LCA) Edition), which depicts the low environmental impact of steel when seen in terms of its overall life cycle; and “Sodateru Tetsu (Blue Carbon) Hen” (The Nurturing Nature of Steel (Blue Carbon) Edition), introducing blue carbon which aids the absorption and stabilization of CO<sub>2</sub> in the ocean as a result of the supply of iron.



Search on YouTube



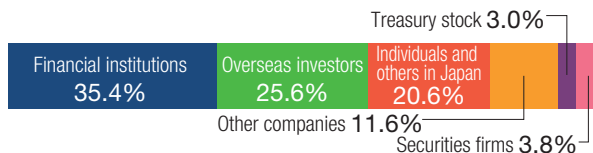

## Corporate Profile

<b>Company name</b>	NIPPON STEEL CORPORATION
<b>Head office</b>	6-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8071, Japan
<b>Paid-in capital</b>	¥419.5 billion
<b>Business</b>	Steelmaking and steel fabrication / Engineering and construction / Chemicals and materials / System solutions
<b>Number of employees (consolidated)</b>	105,796 (as of March 31, 2019)
<b>Stock listings</b>	Tokyo, Nagoya, Fukuoka, Sapporo

## Overview of Shares (as of September 30, 2019)

Total number of shares authorized to be issued	2,000,000,000 shares
Total number of shares issued	950,321,402 shares
Number of shareholders	450,361

## Percentage of ownership by shareholder composition (as of September 30, 2019)



## Principal shareholders (as of September 30, 2019)

Name of shareholder	Shares held (Thousand shares)	Percentage of ownership (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	49,477	5.2
Japan Trustee Services Bank, Ltd. (Trust Account)	47,497	5.0
Nippon Life Insurance Company	24,532	2.6
Japan Trustee Services Bank, Ltd. (Trust Account 5)	17,970	1.9
Japan Trustee Services Bank, Ltd. (Trust Account 9)	15,836	1.7
Sumitomo Mitsui Banking Corporation	14,647	1.5
Sumitomo Corporation	14,209	1.5
Meiji Yasuda Life Insurance Company	14,064	1.5
JP MORGAN CHASE BANK 385151	13,078	1.4
Mizuho Bank, Ltd.	12,199	1.3
Total	223,513	23.5

## NIPPON STEEL CORPORATION

6-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8071  
 Tel.: +81-3-6867-4111  
<https://www.nipponsteel.com/en/>

## Shareholder Benefits

Summary of benefits	Applicable shareholders
<b>Company calendar</b>	Shareholders who own 500 or more shares as of the end of September
<b>Plant tours (by lottery)</b>	Shareholders who own 1,000 or more shares as of the end of September and March
<b>Business briefings (by lottery)</b>	
Invitation to football games of Kashima Antlers (by lottery)	Shareholders who own 5,000 or more shares as of the end of September and March
<b>Invitation to concerts at Kioi Hall (by lottery)</b>	

## Shareholder Reference Information

<b>Fiscal year</b>	April 1 to March 31
<b>General Meeting of Shareholders</b>	Latter part of June
<b>Record date for the General Meeting of Shareholders</b>	March 31
<b>Record date for dividends</b>	March 31, September 30 and such other date as determined by the Board of Directors
<b>Number of shares in a unit of shares of the Company</b>	100 shares
<b>Website for electronic public notices</b>	<a href="https://www.nipponsteel.com/en/">https://www.nipponsteel.com/en/</a>
<b>Articles of Incorporation and Regulations Relating to Shares</b>	Articles of Incorporation and Regulations Relating to Shares are posted on NIPPON STEEL's website under "Investors."
<b>Registration agent</b>	Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan
<b>Place of business of registration agent</b>	Sumitomo Mitsui Trust Bank, Limited, Stock Transfer Agency Business Planning Department (Mailing address) 8-4, Izumi 2-chome, Suginami-ku, Tokyo, 168-0063, Japan (Telephone enquiries) Toll free within Japan: 9 am-5 pm Telephone number designated for NIPPON STEEL's shareholders: 0120-785-401 Main number of transfer agent: 0120-782-031
<b>Change of address, and request for sale and purchase of shares less than one unit</b>	Please contact and consult with the securities firm in which 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.
<b>Information on payment of accrued dividends</b>	Please contact Sumitomo Mitsui Trust Bank, Limited, our registration agent.