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NIPPON STEEL & SUMITOMO METAL CORPORATION

Annual Report 2016



 NIPPON STEEL & SUMITOMO METAL

ANNUAL REPORT 2016

Year ended March 31, 2016



#### Other Communication Tools

Please use our corporate website, Sustainability Report 2016, and Basic Facts About Nippon Steel & Sumitomo Metal 2016 to gain an overall understanding of the NSSMC Group.

#### Corporate Website

As well as general information about the NSSMC Group's business, this includes an overview of the Group and information on investor relations (IR), employment opportunities, and corporate social responsibility (CSR).  
<http://www.nssmc.com/en/>



#### Sustainability Report 2016

We produce detailed reports on environmental and CSR activities.  
<http://www.nssmc.com/en/csr/>



#### Basic Facts About Nippon Steel & Sumitomo Metal 2016

Basic Facts About Nippon Steel & Sumitomo Metal 2016 is a data book which provides readers with access to more detailed information on the Company and its operations.  
<http://www.nssmc.com/en/ir/library/guide.html>



## CORPORATE PHILOSOPHY

### Our Values

**NIPPON STEEL & SUMITOMO METAL CORPORATION GROUP WILL PURSUE WORLD-LEADING TECHNOLOGIES AND MANUFACTURING CAPABILITIES, AND CONTRIBUTE TO SOCIETY BY PROVIDING EXCELLENT PRODUCTS AND SERVICES.**

### Management Principles

1. We continue to emphasize the importance of integrity and reliability in our actions.
2. We provide products and services that benefit society, and grow in partnership with our customers.
3. We pursue world-leading technologies and manufacturing capabilities.
4. We continually anticipate and address future changes, innovate 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.



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# PERFORMANCE HIGHLIGHTS

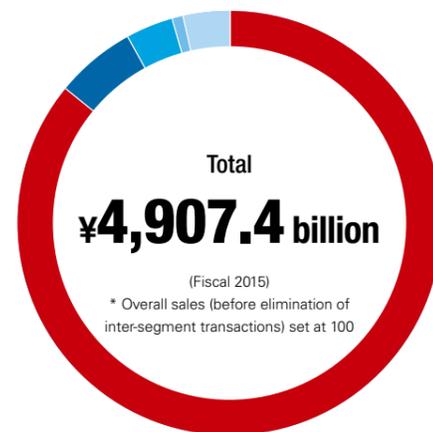
## CONSOLIDATED PERFORMANCE HIGHLIGHTS

### Fiscal 2015 key points

Net sales **¥4,907.4 billion**

Ordinary profit **¥200.9 billion**

### Sales composition by business segment



● Steelmaking and steel fabrication	<b>¥4,283.9 billion</b>
● Engineering and construction	<b>¥315.7 billion</b>
● Chemicals	<b>¥181.8 billion</b>
● New materials	<b>¥36.2 billion</b>
● System solutions	<b>¥218.9 billion</b>

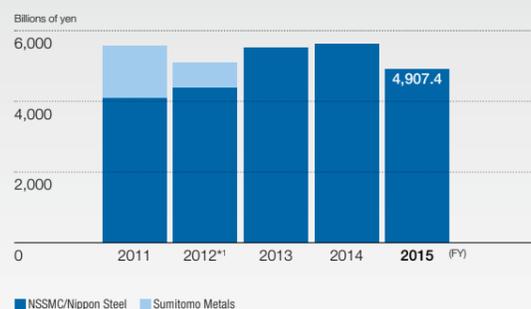
(Adjustment: Elimination of ¥129.2 billion)

Please refer to pages 46–49 “11-Year Financial Performance” for details.

- \*1 Sumitomo Metals' amount for fiscal 2012 is Sumitomo Metals' amount for the first half (April 1 to September 30) of fiscal 2012. NSSMC's amount for fiscal 2012 is the sum of Nippon Steel's amount for the first half (April 1 to September 30) of fiscal 2012 and NSSMC's amount for the second half (October 1 to March 31) of fiscal 2012.
- \*2 The amount for fiscal 2012 is the sum of Nippon Steel's first-half amount, Sumitomo Metals' first-half amount, and NSSMC's second-half amount.
- \*3 “Non-consolidated crude steel production” of Sumitomo Metals includes those of Sumitomo Metals (Kokura), Ltd. (merged with Sumitomo Metals on January 1, 2012) and of Sumikin Iron & Steel Corporation (present Nippon Steel & Sumikin Koutetsu Wakayama Corporation).
- \*4 “Average steel selling price” of Sumitomo Metals includes those of Sumitomo Metals (Kokura), Ltd. (merged with Sumitomo Metals on January 1, 2012), Sumitomo Metals (Naoetsu), Ltd. (merged with Sumitomo Metals on January 1, 2012), and Sumikin Iron & Steel Corporation (present Nippon Steel & Sumikin Koutetsu Wakayama Corporation).
- \*5 Interest-bearing debt and the debt-to-equity (D/E) ratio of Nippon Steel and Sumitomo Metals for fiscal 2011 are calculated based on their respective methods.

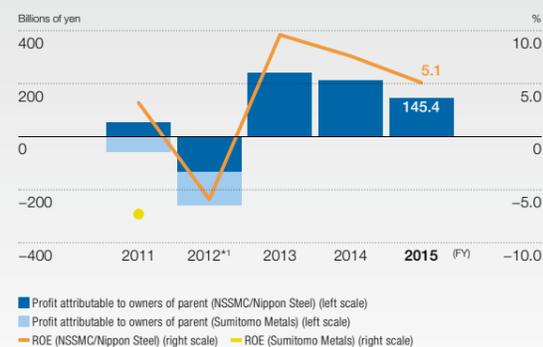
### Net sales

A decrease in volume due to a delayed recovery in domestic steel demand and inventory adjustment, and a decline in steel product prices caused by lower raw material prices and the falling overseas steel market, resulted in a decrease of ¥702.6 billion in net sales from the previous fiscal year.



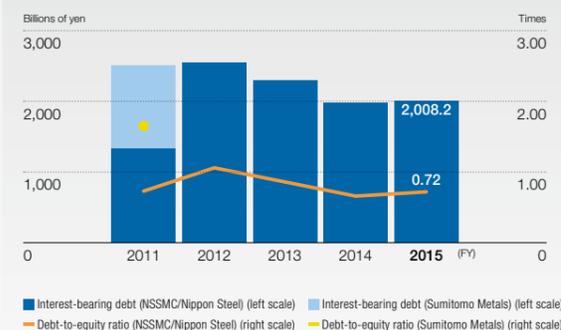
### Profit attributable to owners of parent, ROE (Return on equity)

Profit attributable to owners of parent decreased ¥68.8 billion from the previous fiscal year, in spite of extraordinary profit such as gain on sales of shares of subsidiaries and affiliates, and payments received for settlement.



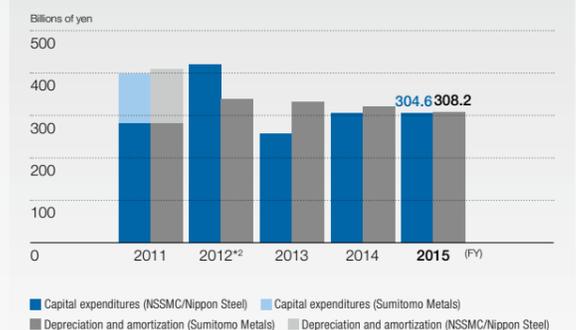
### Interest-bearing debt, Debt-to-equity ratio\*5

Cash from operating activities and cash generated from asset compression led to an approximate ¥270 billion reduction in interest-bearing debt, while investment was carried out within the amount of depreciation and amortization. However, refinancing of ¥300.0 billion of hybrid securities made apparent interest-bearing debt increase on the balance sheet.



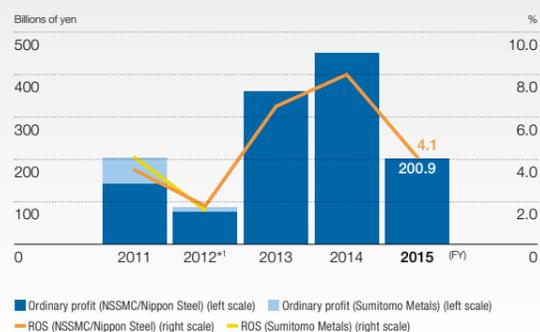
### Capital expenditures, Depreciation and amortization

Based on the 2017 Mid-Term Management Plan, more capital expenditures have been decided but the amount of capital expenditures based on construction completion was similar to the amount for the previous fiscal year and within the amount of depreciation and amortization.



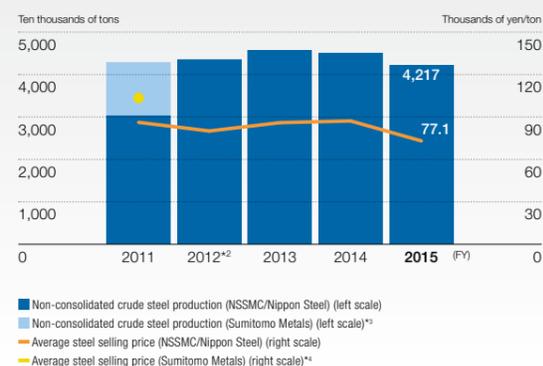
### Ordinary profit, ROS (Return on sales)

In the midst of a delayed recovery in domestic steel demand, a rapid margin contraction of export sales, depressed sales to the energy sector on the back of oil price weakness, and other factors, ordinary profit decreased ¥250.8 billion from the previous fiscal year, despite our earnest efforts at cost improvement.



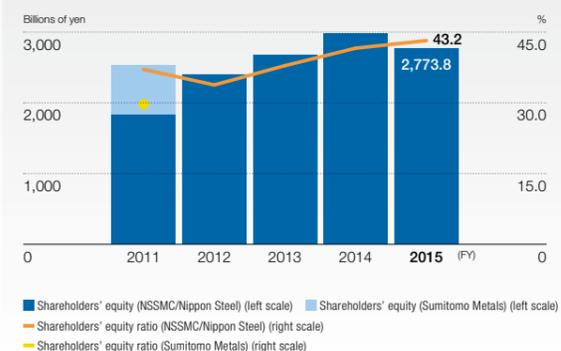
### Non-consolidated crude steel production, Average steel selling price

Crude steel production decreased 2.79 million tons from the previous fiscal year, due to a production cutback stemming from a delayed recovery in domestic steel demand and inventory adjustment. The average steel selling price declined ¥10,000 per ton, partly due to lower raw material prices and a sharp drop in overseas markets.



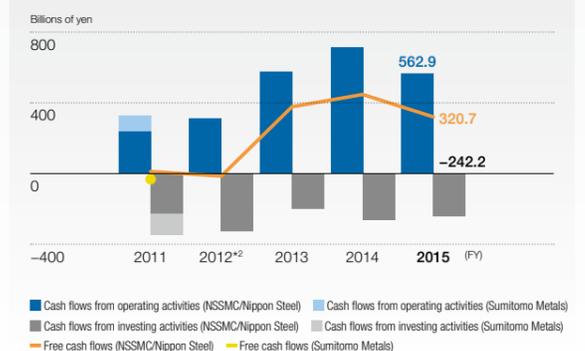
### Shareholders' equity, Shareholders' equity ratio

Retained earnings increased due to profit attributable to owners of parent but unrealized gains on available-for-sale securities, foreign currency translation adjustments, and other items decreased significantly, resulting in a ¥204.8 billion decrease in shareholders' equity from the previous fiscal year.



### Cash flows

Free cash flows decreased ¥126.6 billion from the previous fiscal year, to ¥320.7 billion, due to a decrease in profit attributable to owners of parent.



# MESSAGE FROM TOP MANAGEMENT

I am Kosei Shindo, the President of Nippon Steel & Sumitomo Metal Corporation (NSSMC).

Steel supports people's lives and supports society. NSSMC plays the important role of broadly supporting the foundation of society through steelmaking. However, the business of steelmaking is deeply rooted in society, and so the business environment has a tendency to fluctuate greatly in connection with economic and industrial trends. Based on this recognition, we have endeavored to establish a strong earnings base centered on high-end products and a corporate structure that can overcome even a severe environment through various measures based on a long-term viewpoint.

The 2017 Mid-Term Management Plan that we are currently implementing is the materialization of our intention to maintain growth in any environment. Recently, the environment surrounding us has become increasingly severe, with excess production capacity in China and declining demand depressing global steel prices and the drop in oil prices rapidly reducing demand for energy-related steel products. In particular, with regard to deterioration in the environment originating in China, although the Chinese government has steered in the direction of changing policy in order to reduce capacity, a full-fledged improvement is likely to take some time. Despite facing such a severe environment, I believe that we should focus all our efforts on implementing the 2017 Mid-Term Management Plan without any hesitation or deviation.

In the current Mid-Term Management Plan, our basic strategy is to achieve growth by placing particular emphasis on "technology," "cost," and "being global" as the pillars of our competitive superiority, with domestic businesses and overseas businesses acting as the two halves of the whole. In other words, we will strengthen our domestic manufacturing

bases by prioritizing investment in facilities and human resources, acquire unsurpassable technological capabilities and cost competitiveness, and expand earnings in overseas markets by developing the best practices we have cultivated in Japan in overseas businesses and enhancing the strength of our overseas manufacturing bases. More specifically, by consolidating upstream processes including the cessation of blast furnaces and renovating facilities such as coke furnaces in Japan, we will refine our cost competitiveness. Moreover, in addition to maintaining and bolstering our technological superiority by ensuring a high level of investment in R&D, we will also expand recruitment and foster human resources that will support NSSMC in the future. Overseas, while increasing our production capacity to 19 million tons, we will focus on the three strategic areas in which growth is projected in the medium to long term—automotive, energy and resources, and infrastructure-related. At the same time, we will establish an organization that can deliver high-quality, high-performance steel products to customers that are expanding their business operations overseas and thereby expand overseas earnings.

In addition to this series of initiatives, we adopted several measures that will lay the groundwork for our future growth at the start of 2016. In terms of measures in Japan, we commenced studies into making Nisshin Steel Co., Ltd., the fourth largest blast furnace steelmaker in Japan, a subsidiary of NSSMC and constantly supplying steel slabs to the company. In terms of overseas measures, we deepened the strategic partnership with the French firm Vallourec S.A., a manufacturer of steel pipes and tubes for the energy and resources sector, by increasing our equity investment in the company and expanding cooperation in R&D and customer service. Furthermore, we underwrote a capital increase by Usinas Siderúrgicas de Minas Gerais S.A. (Usiminas), an equity-method affiliate in Brazil of NSSMC that is one of our

most important bases overseas. All these investments were based on a long-term perspective and determined by focusing on technology, cost, and being global. Another measure we undertook to enable the implementation of flexible capital policy to support our growth strategy was the repurchase of 40 million shares of NSSMC's common stock. I believe this share buyback will enhance the corporate value of NSSMC and, in turn, provide profits to our shareholders and other stakeholders.

Despite the current harsh environment, the economies of emerging nations especially are developing and people's lives are becoming more affluent. Therefore, I am convinced that needs for steel will expand more and more, and I have not changed my view that the steel industry will grow over the long term. At NSSMC, we bear a heavy responsibility to supply high-quality steel that supports people's lives and supports society. Based on safety, the environment, disaster prevention, and compliance, we will steadily implement the measures I have described to realize sustainable growth. In this way, NSSMC will firmly establish its position as the best steelmaker with world-leading capabilities and fulfill the expectations of all stakeholders. I look forward to your continued support and cooperation in this regard.

June 2016



Kosei Shindo  
Representative Director and President



# Advancing toward firmly establishing its position as the best steelmaker with world-leading capabilities —NSSMC's growth strategies—

In the current Mid-Term Management Plan, which ends in fiscal 2017, NSSMC aims to enhance the competitiveness of domestic manufacturing bases as "mother mills," which are the source of the Company's competitiveness, and to expand the profit of overseas bases by transplanting the best practices nourished in Japan and by raising operating rates and maximizing productivity. These strategies have as keywords "technology," "cost," and "being global," and our goal is to firmly establish our position as the best steelmaker with world-leading capabilities. In 2016, we also announced new plans to reinforce the Mid-Term Management Plan. Here, we explain the main features of the plan, including the additions.

## Enhance the manufacturing

Our intention is to impart our domestic manufacturing bases and strengthened in the quality-driven Japanese market. technology, productivity, cost competitiveness, and stability

### Build an optimal production system by consolidating major domestic facilities

In Japan, the planned consolidation of downstream process facilities has been completed, while the consolidation of upstream process facilities is still ongoing. As steps to raise efficiency, one blast furnace in the Kimitsu Works has been taken out of operation, to be followed by the cessation of operations of one in the Yawata Works by the end of fiscal 2020. In the Yawata Works, three continuous casters (CCs) will cease operation during the period from the end of fiscal 2018 to the end of fiscal 2020, while a new state-of-the-art bloom CC will be installed by the end of fiscal 2018. The new CC will be used for railway rails and for bars and rods for the automotive and other sectors, which are anticipating long-term growth. By implementing those measures, production of steel billets and slabs will be integrated and productivity will be raised. At the same time, the new CC will enable us to improve both product quality and production capacity, contributing to the building of domestic manufacturing bases that can achieve sustainable growth even in a harsh business environment.

### Consolidation of major domestic facilities

	Before integration*	At the time of integration	End of FY2015	End of FY2020	
Blast furnace	14	14	13	12	-2
Upstream processes					
Converter	32	32	32	28	-4
Continuous casting	30	30	29	27	-3
Down-stream processes					
Cold rolling	17	17	15	15	-2
Galvanizing line	25	20	15	15	-10
Forged welding tubes and pipes	2	2	1	1	-1

\* Cessation of production lines before integration was complete based on the judgment of each of the former companies

### Enhance investment in facilities and human resources

We are enhancing investment in facilities and human resources to improve manufacturing capacity. We are in the midst of investing approximately ¥1,350 billion in domestic facilities over the three years from fiscal 2015 to fiscal 2017. Major investments include the relining of four coke ovens at the Kashima Works and Kimitsu Works by fiscal 2018. Many of our coke ovens have been operating for over 40 years and their systematic replacement helps improve energy efficiency, while technology for stable operation and extending their use can be introduced. Our ultimate goal is to achieve competitive advantages by raising efficiency in upstream processes, which include the abovementioned consolidation of facilities.

In addition to investment in facilities, we are enhancing investment in human resources. We have been increasing the number of new hires (parent-based) since fiscal 2015 and those new hires will be fostered to support NSSMC's technological superiority and earnings expansion.

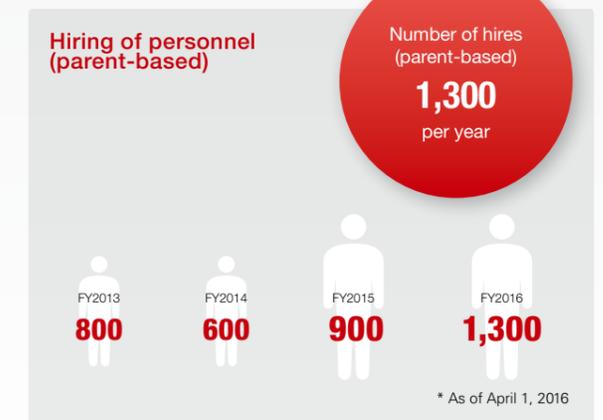
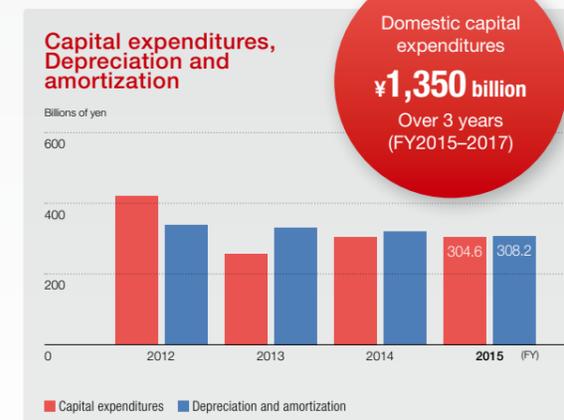
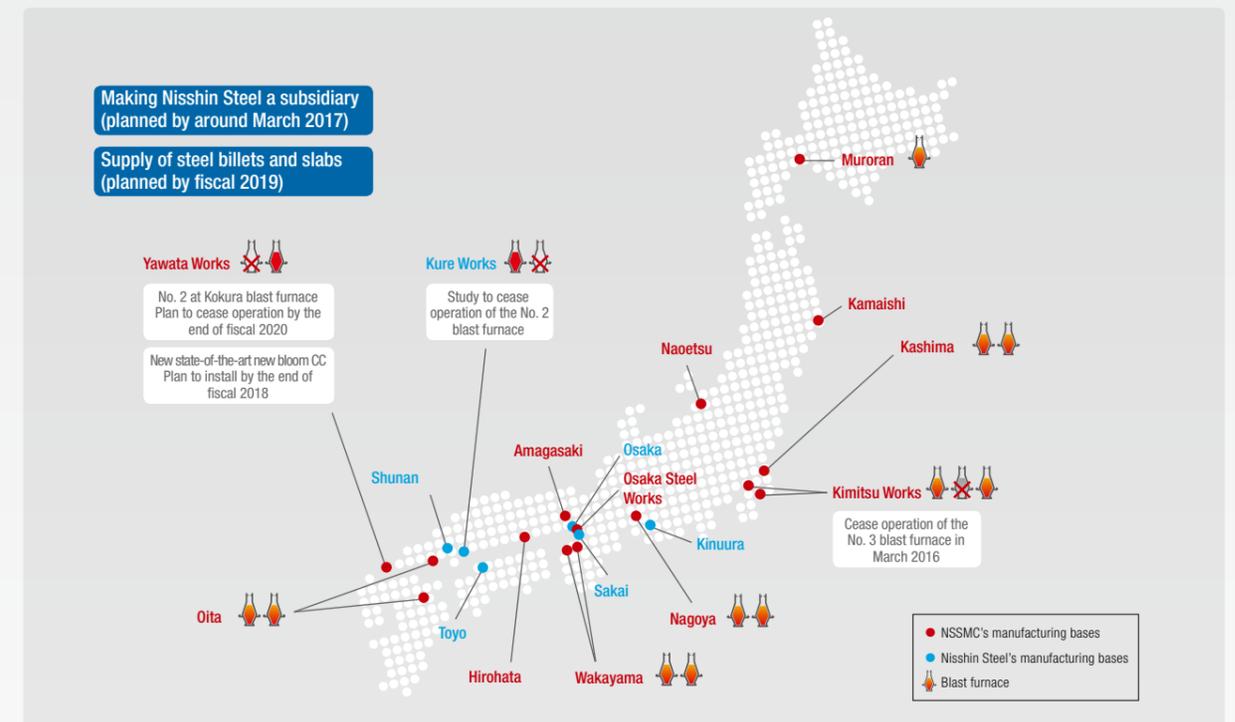
## competitiveness of domestic bases

with overwhelming competitive advantages by reinforcing manufacturing capabilities that have already been proven. Through investments in facilities and human resources, the best practices of Japanese manufacturing in terms of of production systems will be introduced to overseas production bases and support the growth of overseas profit.

### Making Nisshin Steel a subsidiary of NSSMC

In addition to making progress in carrying out the plan to build an optimal production system, Nisshin Steel Co., Ltd., which has traditionally been a partner with us, and NSSMC have reached the view that in order to raise competitiveness and achieve sustainable growth in a harsh business environment, it is essential to more strongly integrate management

resources and to create synergies. As such, Nisshin Steel will implement the planned cessation of its No. 2 blast furnace at its Kure Works to reduce fixed costs of upstream processes, while NSSMC will supply and fulfill needs for steel billets and slabs, and raise the operating rate of upstream processes to improve cost competitiveness.



# Expand the profit of overseas bases

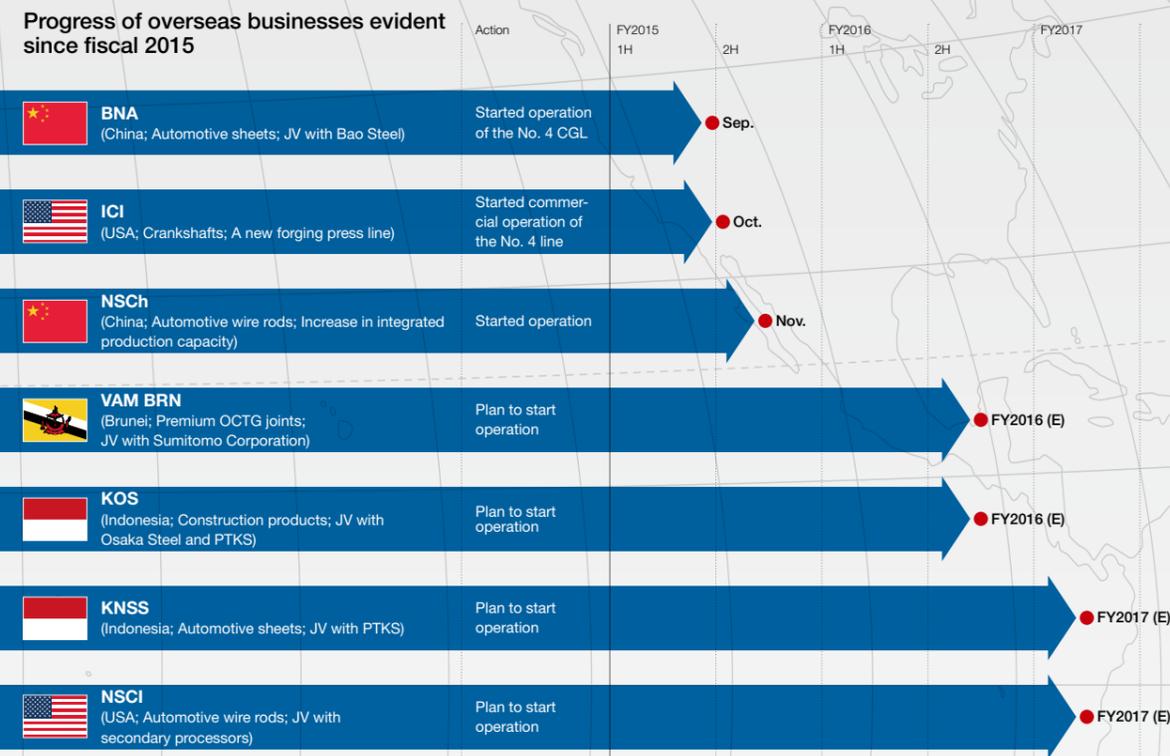
**Production capacity**  
**19 million tons**  
 (at present)  
 9 million tons  
 (end of FY2012)

**3 Strategic areas**

Automotive; energy and resources; infrastructure

**Business investment**  
**¥300 billion**  
 (Over 3 years;  
 FY2015–2017)

NSSMC aims to expand profit in overseas markets, primarily in emerging countries having medium- to long-term growth potential. Three key strategic areas are the overseas automotive, energy and resources, and infrastructure-related sectors, in which we are doubling overseas production capacity from 9 million tons at the end of fiscal 2012 to 19 million tons. In addition, we have allocated ¥300 billion for business investment over the three years up to fiscal 2017. We are establishing an organization that facilitates timely investments in prime opportunities, such as our investment in Vallourec in France, which we announced this year, to make a stepping stone for future growth.



## Vallourec

### Enhancement of strategic partnership with Vallourec

As a stepping stone for overseas profit growth, NSSMC raised its shareholding ratio in France's Vallourec to 15%. At present, Vallourec's business domain of high-end steel tubes for the energy industry faces a challenging market, caused by depressed oil prices. However, we believe in the long-term growth potential of this business. NSSMC and Vallourec have benefited from a partnership for VAM® premium connectors, a partnership which has served as a source of added value for NSSMC's pipes and tubes owing to its excellent properties such as high air tightness under high-temperature and high-pressure conditions, and high load bearing. We therefore want to expand our present limited scope of cooperation to a more comprehensive partnership, including product development processes and customer services. By doing so, we aim at further growing the VAM® brand. At the same time, we will enhance our jointly operated seamless pipe manufacturing business in Brazil to make it remain profitable even in a difficult business environment.

**Develop to Comprehensive Partnership**

- Raise NSSMC's shareholding of Vallourec
- Enhance the business of VAM® premium connectors for oil tubes
- Enhance the joint seamless pipe business in Brazil

## Usiminas

### Usiminas in Brazil increases capital and improves its financial strength

Usiminas, an integrated blast furnace steelmaker, is NSSMC's equity-method affiliated company in Brazil. NSSMC responded by making a maximum effort and partially subscribed to Usiminas' 1 billion reais offering of ordinary shares. From the time of its founding up to the present, Usiminas has been an important base for NSSMC's global strategy and has been quick to implement profit enhancement measures, including cessation of operation of some equipment and other structural measures, in Brazil's difficult business environment and depressed economy. We believe that the capital increase will improve the financial strength of Usiminas and enable it to steadily capture demand for high-grade steel, which is their strong product. NSSMC is determined to actively participate in its management and continue its support to Usiminas, so that Usiminas will be able to further develop its competitiveness in technology, manpower, and other aspects, and raise its corporate value.

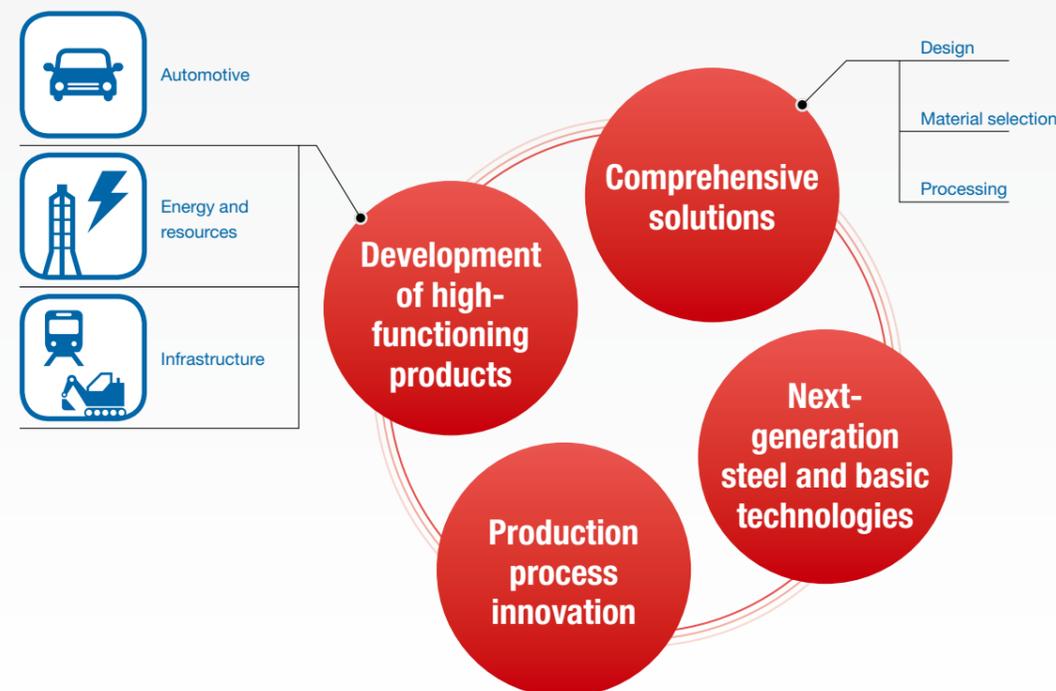
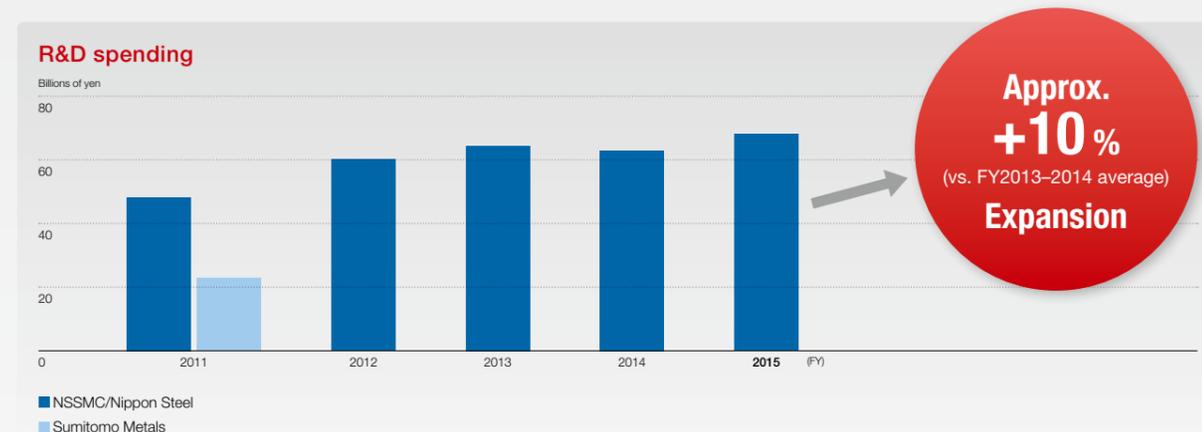
# Enhance technological superiority

Technological leadership greatly contributes to enhancing NSSMC's global manufacturing capabilities and supports its business strategy, by taking the following measures.

1) NSSMC aims to further enhance its world-leading technologies by having the largest team of researchers (about 800) in the global steel industry. The Company will also strive to lead the global market through its intensive activities including (i) developing high-end products with excellent functions (e.g., high-tensile steel sheets, corrosion-resistance high-alloy seamless steel tubes) in sectors of growing demand such as automotive, energy and resources, and infrastructure-related, (ii) delivering comprehensive solutions to its customers, ranging from process design to material selection and processing, and (iii) achieving significant improvement in productivity through production process innovation.

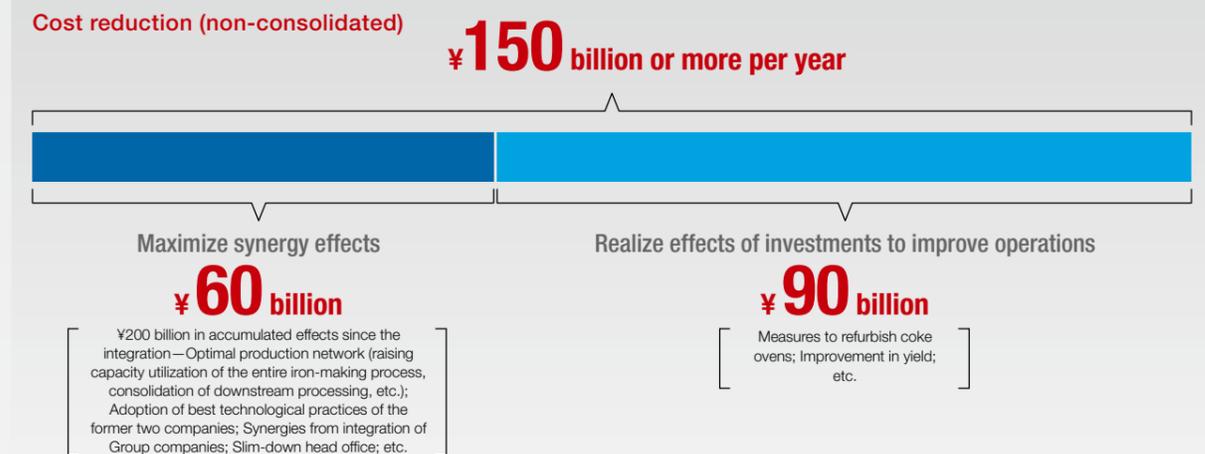
2) To accelerate technological development, NSSMC is expanding its R&D spending by about 10%. NSSMC will also adequately prepare for the expected future needs of customers and society by engaging in next-generation research on advanced steel products such as those required for the broad utilization of hydrogen, as well as in research on basic and element technologies utilizing advanced analytical and mathematical approaches.

For details regarding our technological superiority, please refer to "Innovation of Technologies" on pages 20–23.



# Realize world-leading cost competitiveness

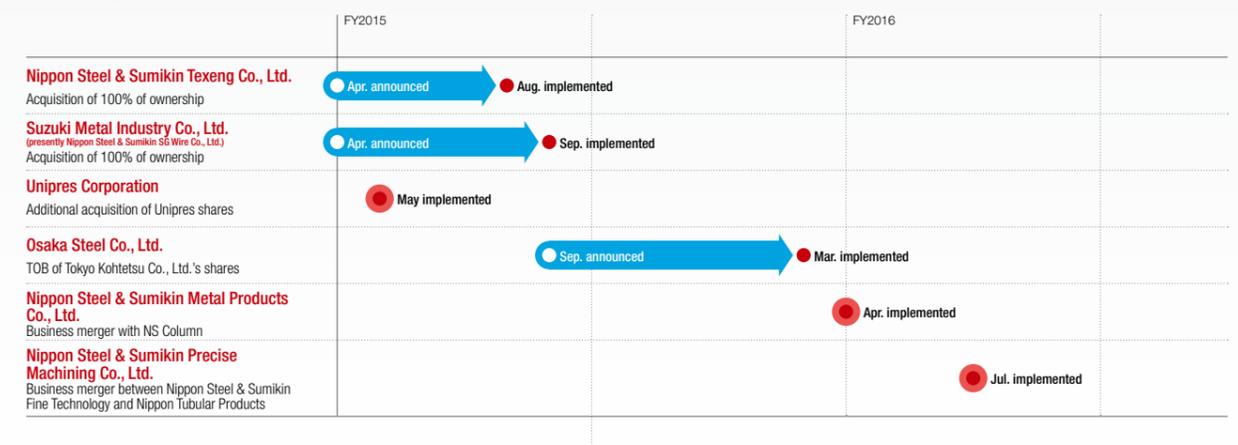
NSSMC aims to realize cost reduction equivalent to ¥150 billion or more per year (non-consolidated basis) in approximately three years. This target will be attained by maximizing the synergy effect from consolidating the production network and other means and realizing the effects from refurbishment of coke ovens and intensive improvement in operational skills to enable improvement in yields. Combining the effects of all those measures with those of the earlier measures to strengthen "mother mills," NSSMC will establish world-leading cost competitiveness to win against the global competition.



# Strengthen Group companies of the steelmaking business

The Group companies already integrated during the 2013 Mid-Term Management Plan will seek far greater synergies. At the same time, NSSMC will seek Groupwide synergies, such as those between NSSMC and Group companies, and those among Group companies. In addition to the above, to optimize group structure, NSSMC will undertake further reorganization within the Group and concentrate on core business operations in light of assessment of each Group company's business domains.

- Maximize synergies among integrated Group companies
- Expand Groupwide synergies
- Concentrate on core Group companies



# Financial strategy and shareholder return policy

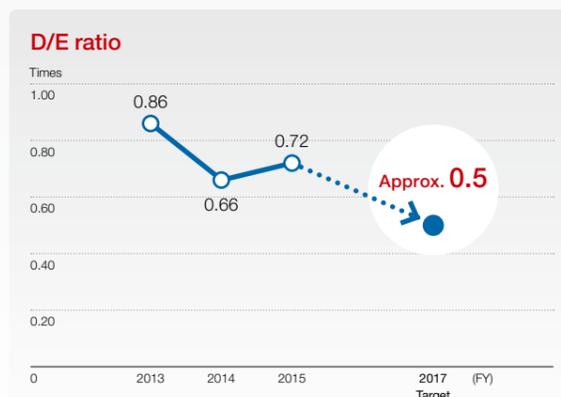
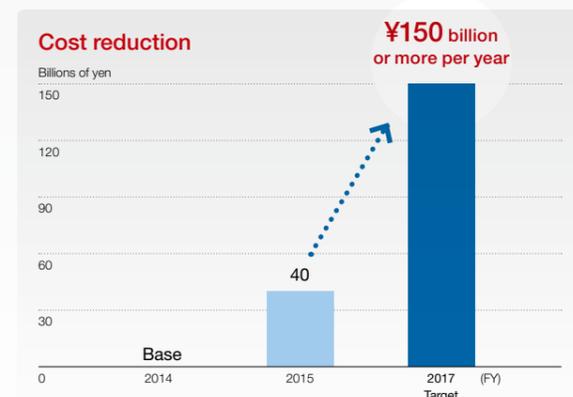
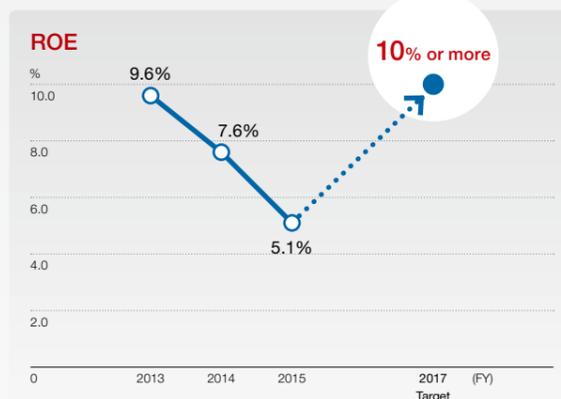
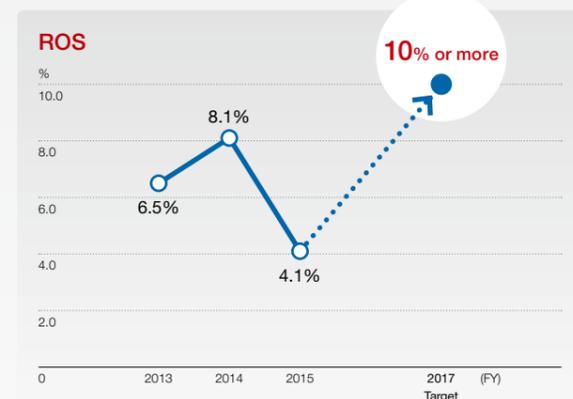
## Progress of the 2017 Mid-Term Management Plan

In fiscal 2015, when many major steelmakers throughout the world suffered from rapid deterioration of the market environment and had to report losses, NSSMC managed to stay in the black. However, return on sales (ROS) of 4.1% and return on equity (ROE) of 5.1% were less than the figures achieved in fiscal 2014. Although the difficult business environment is expected to persist, we will steadily implement measures to enhance our domestic manufacturing bases and expand profits in overseas markets, as stated in the Mid-Term Management Plan. We intend to thereby grow earnings and cash flows in the medium to long term and have targeted ROS and ROE of 10% or more.

Regarding our cost reduction target of ¥150 billion or more per year up to the end of fiscal 2017, annual costs were reduced by approximately ¥40 billion in fiscal 2015—the first fiscal year of the Mid-Term Management Plan. The amount of reduction was less than the approximate ¥60 billion in fiscal 2014, as we brought forward the priority spending in maintenance expenses in order to enhance our “mother mills.” In and after fiscal 2016, we are aiming to benefit from the effects of this forward spending in the form of stable equipment operation and other ways.

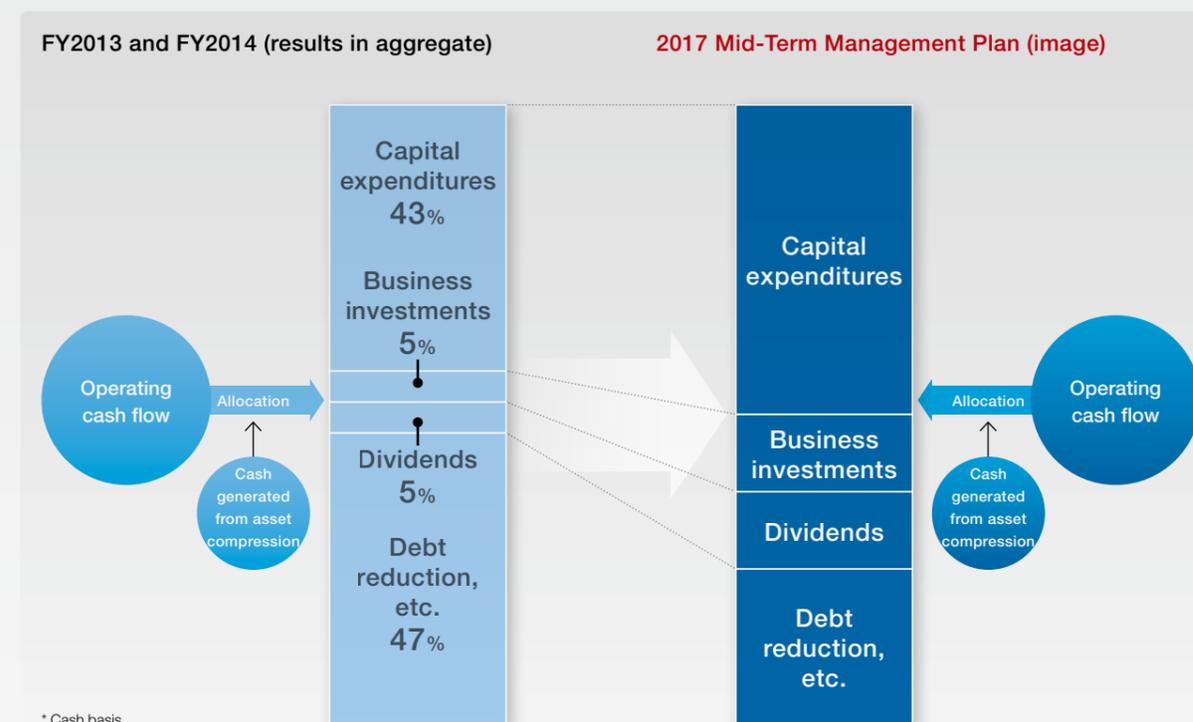
The debt-to-equity (D/E) ratio deteriorated in fiscal 2015 to 0.72 compared to 0.66 at the end of fiscal 2014. However, excluding the impact of some on-balance-sheet liability, which stemmed from refinancing of subordinated debts in July 2015, the D/E ratio has essentially improved. We will continue to target a D/E ratio of around 0.5, which is equivalent to the average level for international “A” rating status, and attainment of a robust financial position.

### Targets



## Use of operating cash flow and cash generated from asset compression

Compared to the cash allocation during the previous Mid-Term Management Plan, in the current plan more cash generated by businesses and asset compression is to be allocated to capital expenditures to strengthen “mother mills” and to investments for growing our global operation. In addition to aiming for sustainable growth, we also strive to increase the dividend payout ratio and enhance shareholder return.

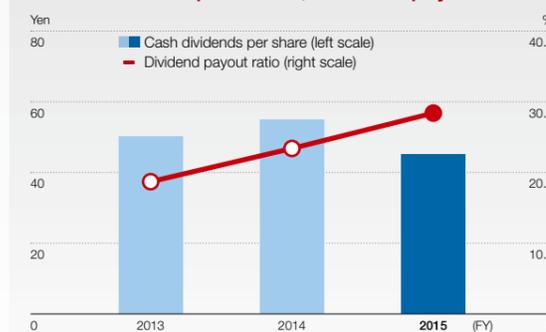


## Shareholder return policy

Regarding return to shareholders, the Company raised its targeted payout ratio from “approximately 20%” to “around 20–30%” on a consolidated basis from fiscal 2015.

Dividend payout ratio  
Around **20–30%**

### Cash dividends per share\*, Dividend payout ratio



\* On October 1, 2015, NSSMC performed a 1-for-10 share consolidation. Annual dividends for fiscal 2014 and earlier are converted based on this share consolidation. The interim dividend for fiscal 2015 would be converted into ¥30 based on this share consolidation, and after adding the fiscal 2015 year-end dividend of ¥15 the full-year dividend for fiscal 2015 works out to be ¥45 per share.

# STEELMAKING and STEEL FABRICATION

NSSMC has product-based units, and operates through these units to swiftly formulate and implement strategies for each unit, where cooperation among manufacturing, sales, and technology forces is essential.

## 1 PLATE UNIT



NSSMC contributes to enhancing the safety of structures and the development of society by delivering high-performance steel plates for large industrial/social structures such as ships, bridges, and high-rise buildings; marine structures for oil and gas extraction; and high-performance steel plates used for tanks and other energy-related products.

## 2 FLAT PRODUCTS UNIT



NSSMC supports various industries and people's lives by delivering steel sheet used to make automobiles, electrical appliances, housing, beverage cans, transformers, and other goods. Having production and processing bases worldwide, this unit provides high-quality, high-performance products and services in Japan and overseas.

## 3 BAR & WIRE ROD UNIT

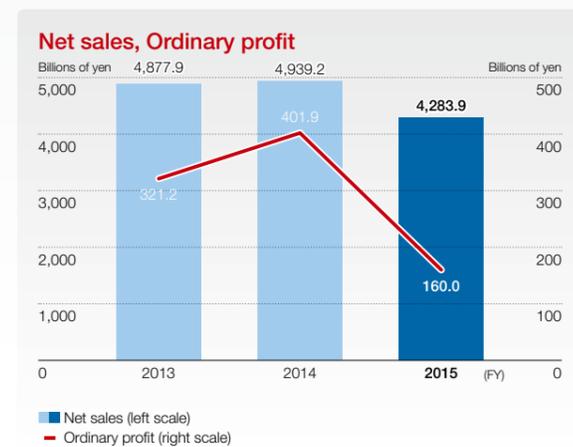
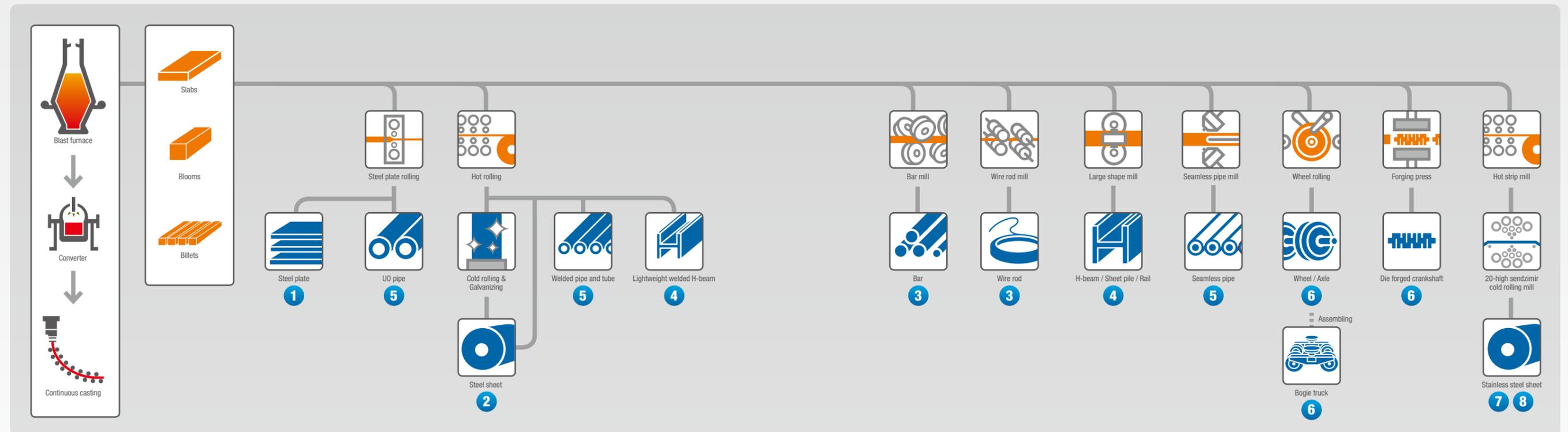


NSSMC delivers high-quality, high-performance bars and rods to a wide range of industries including the automotive, construction, and industrial machinery industries. In the automotive business, this unit focuses on high-end products used in important automotive components such as engines, drive trains, and suspensions.

## 4 CONSTRUCTION PRODUCTS UNIT



NSSMC delivers H-beams, steel sheet piles, steel pipe piles, rails, and other steel materials used in the civil engineering and construction sectors in Japan and overseas. By responding to diverse needs, this unit contributes to the development of the infrastructure that supports people's lives.



## 5 PIPE & TUBE UNIT



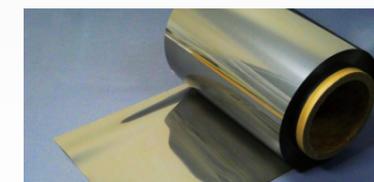
NSSMC is a world leader in high-end seamless pipes used in oil and gas development and other energy areas. Large-diameter tubes for pipelines and steel tubes for automobiles and construction/industrial machinery are also areas of strength.

## 6 RAILWAY, AUTOMOTIVE & MACHINERY PARTS UNIT



NSSMC is the only manufacturer of railway steel wheels and axles in Japan. Our major products in this unit are railway rolling stock components and forged crankshafts for automobiles. Global expansion is also progressing, and there are now two manufacturing bases for railway wheels and axles, and four bases for crankshafts in the world.

## 7 TITANIUM & SPECIALTY STAINLESS STEEL UNIT



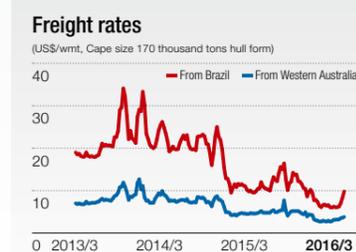
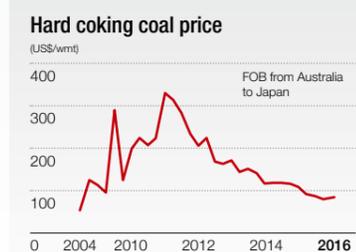
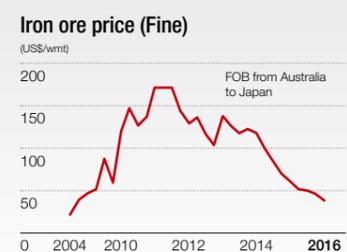
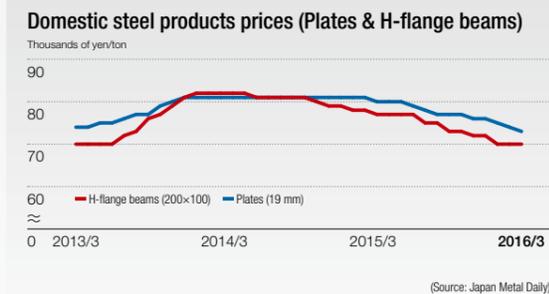
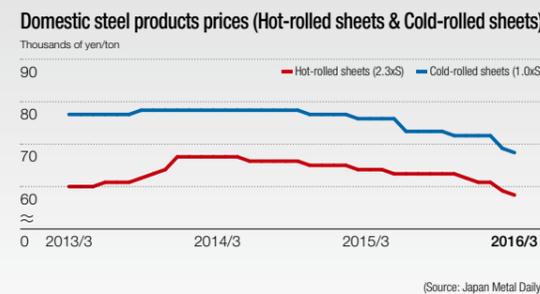
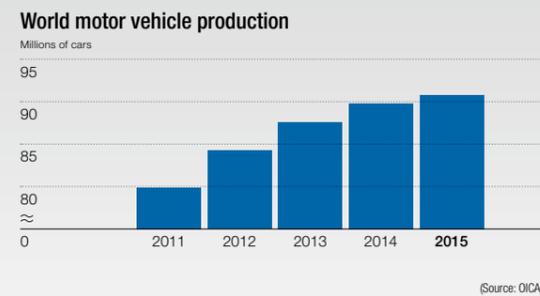
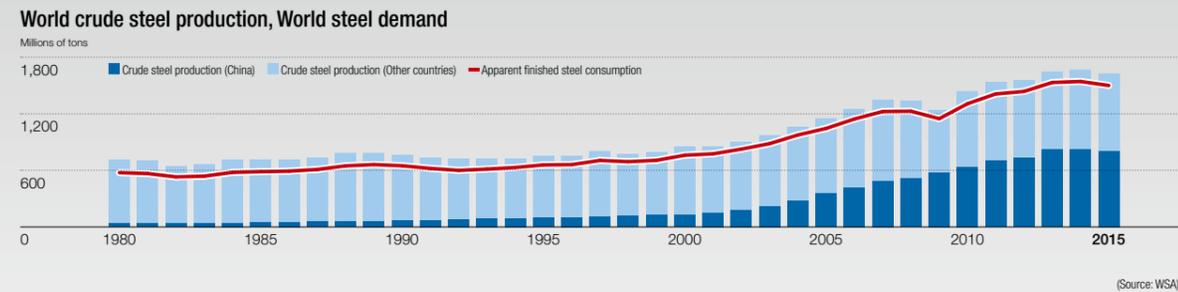
Utilizing titanium's lighter, high-strength, and corrosion-resistant properties, NSSMC is a world leader in titanium products for construction, aviation, general industrial, and consumer-related applications. The unit also provides products with excellent heat resistance, corrosion resistance, and formability made of specialty stainless steel that are used in the automotive, IT, environmental, and energy sectors.

## 8 STAINLESS STEEL UNIT



Nippon Steel & Sumikin Stainless Steel Corporation (NSSC) provides a wide range of high-quality stainless steel products that includes steel plates, sheets, bars, and wire rods by leveraging its most advanced technologies in the world. NSSC has developed the world's first Sn-added low-interstitial ferritic steel grade "FW (forward) series" and a new type of duplex stainless steel.

Steelmaking-related key indicators

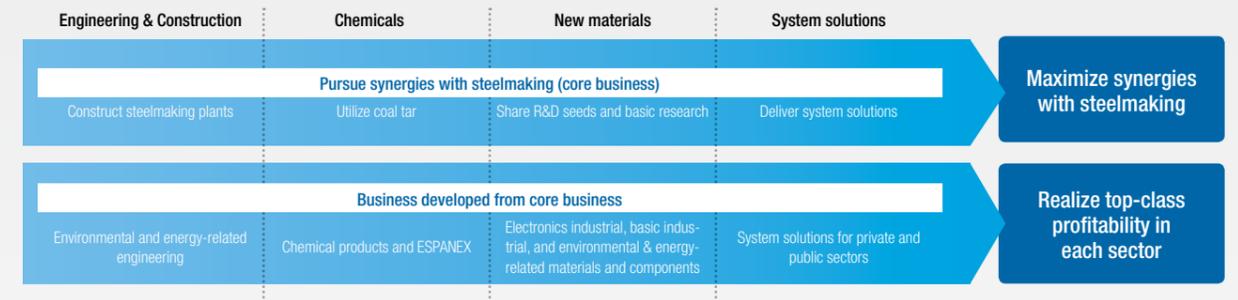


Two missions for profit expansion "Maximize synergies with steelmaking" and "Reach top-class profitability in each sector"

The first objective of the non-steel business segments for profit expansion is to maximize synergies with the steelmaking business, and all four segments are closely linked with this business. The Engineering and construction segment designs and builds steelmaking plants; the Chemicals segment uses tar, a by-product from coke ovens; the New materials segment utilizes the innovations and basic technology of NSSMC's R&D divisions; and the System solutions segment creates IT solutions to support efficient production in the steelmaking business. These are the business domains that can pursue synergies with NSSMC's core business of steelmaking.

The second objective of the non-steel business segments is to realize top-class profitability in businesses that evolved from the

above businesses. The Engineering and construction segment works in the environmental and energy-related engineering field; the Chemicals segment undertakes the development of chemicals, such as styrene monomer, and materials such as circuit board materials; the New materials segment has electronics industrial, basic industrial, and environmental and energy-related materials and components in its product portfolio; and the System solutions segment is engaged in business solutions for non-steel industries including the financial and government sectors. By achieving the above two objectives, the four non-steel business segments aim to increase the aggregate amount of ordinary profit by 50% from fiscal 2014 by fiscal 2017.



Business overview for fiscal 2015

Engineering & Construction	Chemicals	New materials	System solutions
<p><b>Sales by business field</b></p> <ul style="list-style-type: none"> <li>Steelmaking 17%</li> <li>Environmental and energy-related 35%</li> <li>Marine construction 16%</li> <li>Building construction and steel structures 18%</li> <li>Pipelines 14%</li> </ul>	<p><b>Sales by business field</b></p> <ul style="list-style-type: none"> <li>Coal tar chemicals 19%</li> <li>Chemicals 59%</li> <li>Functional materials 22%</li> </ul>	<p><b>Sales by business field</b></p> <ul style="list-style-type: none"> <li>Semiconductor and electronics industrial materials and components 71%</li> <li>Basic industrial materials and components 16%</li> <li>Environmental and energy-related materials and components 13%</li> </ul>	<p><b>Sales by business field</b></p> <ul style="list-style-type: none"> <li>Business solutions 65%</li> <li>Service Solutions 35%</li> </ul>
<p><b>Business results</b></p> <ul style="list-style-type: none"> <li>Net sales (Billions of yen): 314.1 (2013), 348.6 (2014), 315.7 (2015)</li> <li>Ordinary profit (Billions of yen): 17.7 (2013), 18.7 (2014), 12.1 (2015)</li> </ul>	<p><b>Business results</b></p> <ul style="list-style-type: none"> <li>Net sales (Billions of yen): 230.1 (2013), 212.7 (2014), 181.8 (2015)</li> <li>Ordinary profit (Billions of yen): 10.0 (2013), 6.8 (2014), 1.0 (2015)</li> </ul>	<p><b>Business results</b></p> <ul style="list-style-type: none"> <li>Net sales (Billions of yen): 37.2 (2013), 36.4 (2014), 36.2 (2015)</li> <li>Ordinary profit (Billions of yen): 1.9 (2013), 2.4 (2014), 3.0 (2015)</li> </ul>	<p><b>Business results</b></p> <ul style="list-style-type: none"> <li>Net sales (Billions of yen): 12.7 (2013), 206.0 (2014), 218.9 (2015)</li> <li>Ordinary profit (Billions of yen): 179.8 (2013), 16.5 (2014), 19.4 (2015)</li> </ul>
<p>Profit decreased due to yen appreciation and decline in oil prices and in customers' motivation to invest.</p>	<p>Despite strong sales in chemical and PWB materials, severe conditions for needle coke decreased profit.</p>	<p>Profit increased due to strong sales in coated copper wires and carbon products fiber composite products.</p>	<p>SG&amp;A increased, but strong gross margin rate and solution business contributed to profit increase.</p>

## ENGINEERING & CONSTRUCTION (Nippon Steel & Sumikin Engineering Co., Ltd.)

### Business Outline

Nippon Steel & Sumikin Engineering Co., Ltd. (NSSE) has engineering capabilities based on steelmaking technology, process and fabrication technology, and element technology that spans heat management, corrosion prevention, welding, and steel materials. The company also has strong capability in solutions proposals and project management, which are used to provide optimal engineering solutions to customers in Japan and abroad.

### Business Segments

Steel plants; environmental and energy solutions; marine engineering and construction; building construction and steel structures; pipelines; and business development and technical development

### Business Strategy

In the steelmaking plant field, NSSE is in pursuit of quality in steelmaking processes and is supporting the steel business in its manufacturing of distinctive products. The company is also promoting the enhancement of overseas business bases in India and other countries. In the environmental solutions field, NSSE is proposing engineering solutions to respond to various needs in Japan and abroad for the forming of a recycling-oriented society, by promoting shaft-type gasification and melting furnaces, as well as stoker-type incinerators using technology

adopted from a German manufacturer. Regarding shaft-type furnaces, NSSE has an operating track record of over 35 years as well as the highest domestic share, delivering approximately 40 furnaces.

In the energy field, the "one-stop energy service" business is being promoted in Japan and abroad, targeting energy conservation and cost reduction at customers' plants. This service integrates installment and operation of an energy system, including co-generation facilities, with fuel procurement, and power demand/supply management, which includes the purchase of excess power by combining NSSE's new power distribution business.

In the marine field, NSSE is making steady progress in long-term marine construction projects in Thailand. In the steel structure field, the company has a track record in construction of an area totaling approximately 2.1 million m<sup>2</sup> for large distribution centers over the past 10 years. It plans to take advantage of continued robust construction demand mainly for such large distribution facilities.

In the pipeline field, NSSE is responding to infrastructure-related demand created by Japan's electricity and gas deregulation. For profit growth, NSSE thus continues to develop businesses in overseas growth markets and enhance the engineering solutions business by expanding its value chain.

## CHEMICALS (Nippon Steel & Sumikin Chemical Co., Ltd.)

### Business Outline

Combining coal chemicals and petrochemicals originated from steelmaking processes (tar, coke oven gas), Nippon Steel & Sumikin Chemical Co., Ltd. operates a wide range of businesses which include carbon materials, functional materials, resin materials, and other chemicals. On the back of its strength in long-accumulated aromatic chemical technology, the company is developing materials used in small, high-performance electronic equipment as well as high-performance carbon materials.

### Business Segments

Carbon materials; functional materials; resin materials; and other chemicals

### Business Review

Nippon Steel & Sumikin Chemical is implementing the 2017 Mid-Term Management Plan, in which an enhanced business base is pursued by establishing a stable profit structure and working to achieve sustainable growth. In order to achieve the

segment's numerical targets of ¥180.0 billion in net sales and ¥8.0 billion in ordinary profit, the company must strengthen its business base mainly by cost improvement, as stated in the basic policy of the Mid-Term Management Plan, and swiftly establish a stable profit structure centering on its four main business sectors—coal chemicals, chemical products, functional products, and epoxy resin products. Furthermore, in addition to electronic materials, the company intends to create new businesses centering on the automotive and infrastructure areas by utilizing its core technologies in carbon and resins.

Nippon Steel & Sumikin Chemical's mid- and long-term objectives are to be recognized as the world's best steelmaking chemical business and to develop functional materials using its unique material technologies. Under the company's slogan "For Your Dream & Happiness, Guiding Chemical Technology towards a Brighter Future," it will strive to develop and accumulate advanced chemical technology and realize advanced, highly efficient use of materials, contribute to the global environment, and provide products and services that enrich people's lives.

## NEW MATERIALS (Nippon Steel & Sumikin Materials Co., Ltd.)

### Business Outline

Nippon Steel & Sumikin Materials Co., Ltd. provides various material solutions to global customers by using such diverse advanced materials as metals, inorganic materials, and carbon fibers and by manufacturing foils, thin wires, and particles with dimensions measured in microns.

### Business Segments

Semiconductor and electronics industrial materials and components; basic industrial materials and components; environmental and energy-related materials and components

### Business Strategies

In the electronic materials field, Nippon Steel & Sumikin Materials intends to develop new products and expand its sales so as to be a leading company in the industry, despite the harsh competitive environment. In the basic industrial materials field, the company has recorded robust business in carbon fibers and their reinforced plastic products for repair and reinforcement for tunnels and bridges. Taking advantage of the high rigidity and high thermal conductivity of carbon fibers, the company plans to develop new applications and expand sales. In the environmental and energy field, sales of metal substrates have been

benefiting from solid demand following the adoption and revision of emission gas regulations in various countries. In addition to mainstay substrates for motorbikes and vehicles, stationary types such as substrates for power generators are also under development.

In addition, Nippon Steel & Sumikin Materials has three strategies, whereby it aims to become a world-leading company in each business area by acquiring distinctive technologies and through international cost competitiveness.

### Contribute to the creation of value for customers

By effectively approaching customers and identifying their true needs, we will contribute to value creation for our customers.

### Promote global business development

To meet increasing global demand, we have production and sales bases in Japan and seven other countries (Malaysia, the Philippines, China, Indonesia, India, Thailand, and the United States) and thereby enhance the level of service for global customers as well as our cost competitiveness.

### Domestic bases to fulfill the role of mother plant

We will promote the development of original new products and thoroughly pursue higher productivity and cost reduction at our domestic bases, and expand similar efforts at our overseas bases.

## SYSTEM SOLUTIONS (NS Solutions Corporation)

### Business Outline

By applying the extensive insights and advanced IT capabilities acquired in the steel manufacturing industry, NS Solutions Corporation is able to provide client-oriented IT business solutions to a wide range of sectors including the manufacturing and consumer products, retailing and services, telecommunications, financial, and social and public sectors. Through management- and IT-oriented consultation concerning client information systems, the company provides comprehensive services starting from planning, proposal, design, and configuration services of a specific system to its management and services in support of its functioning. Clients are served through NS Solutions' two segments, Business Solutions and Service Solutions.

### Business Segments

Business Solutions; Service Solutions

### Business Strategies

The Business Solutions segment responds to the needs of clients based on its rich operational insights on various sectors, while the Service Solutions segment provides cloud services and system infrastructure management services to meet clients' mission-critical requirements. The company supports Japanese

clients' global business activities and helps raise their competitive edge from offices in Japan and six overseas countries (the United States, the United Kingdom, China, Singapore, Thailand, and Indonesia).

Based on know-how acquired in various business sectors, NS Solutions has been taking on the challenge of creating value in growing domains that cut across sector barriers, such as financial technology (FinTech) and the Internet of Things (IoT).

In April 2016, the company established the loX Solution Business Promotion Department. loX is a coined term created by NS Solutions to indicate a combined concept of the Internet of Things (IoT) and the Internet of Humans (IoH). It is a trademark registered by the company as part of activities in response to rising IT support needs at the worksite level, which stem from such challenges as the shrinking and aging labor population and retirement of skilled workers in Japan, as well as the early quit rate of workers overseas. For clients in the manufacturing and retail sectors in particular, loX solutions are provided by utilizing technologically advancing fields of Augmented Reality, smart glass, positioning technology, and other innovations. By offering such IT-related support, the company aims to help enhance *monozukuri* or the Japanese way of manufacturing.

# Aiming for a further advancement in technology

NSSMC will expand the frontiers of steel and create the future

The NSSMC Group's crude steel production in fiscal 2015 amounts to approximately 45 million tons, which is equivalent to roughly 40% of the total annual production volume of North America. In order to manufacture this huge quantity of steel in an efficient and stable manner without resting and to produce varied performances corresponding to increasingly sophisticated customer needs, we perform precise craftsmanship that controls ingredients to the nano (10<sup>-9</sup>m) level. What supports such a high level of manufacturing that combines huge scale and precision is maximizing the potential of steel as a material, that is, the challenge of "expanding the frontiers of steel."

## R&D organization

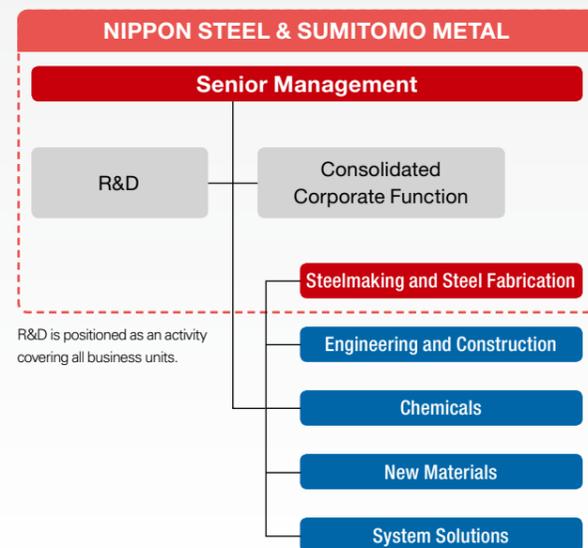
NSSMC's approximately 800 R&D employees work in three core research centers—Futtsu in Chiba Prefecture, Amagasaki in Hyogo Prefecture, and Hasaki in Ibaraki Prefecture—as well as in the Plant Engineering and Facility Management Center (Head Office) and R&D Laboratories at steelworks across Japan. They make collaborative efforts to ensure integrated R&D activities that encompass basic and fundamental research and application development and engineering.

Our R&D capabilities feature six strengths: (1) comprehensiveness and speed of development, facilitated by the integration of R&D and engineering; (2) an R&D network having locations in customer locations; (3) integrated solutions enhanced by Group companies'

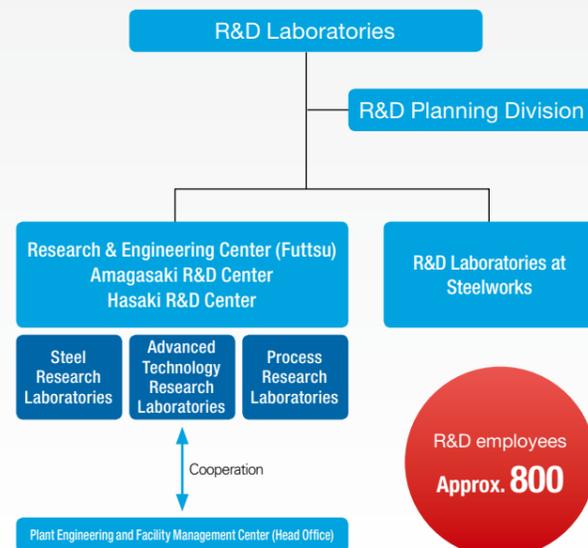
products and technologies; (4) the ability to address environmental and energy-related concerns with solutions maximizing steelmaking process technology; (5) collaboration between industry and academic institutions, overseas alliances, and joint research with customers; and (6) an extensive portfolio of fundamental and platform technologies.

Since the integration and establishment of NSSMC in October 2012, we have consolidated research teams working in the same research field but at various sites. We have also clarified their roles and functions as well as those of R&D Laboratories in each of the steelworks in Muroran, Kashima, Kimitsu, Nagoya, Hirohata, Yawata, and Oita. Work in a given research field is now done at a single location. By taking such measures, we have established an optimal R&D organization to maximize synergies.

## Positioning of R&D



## R&D organization



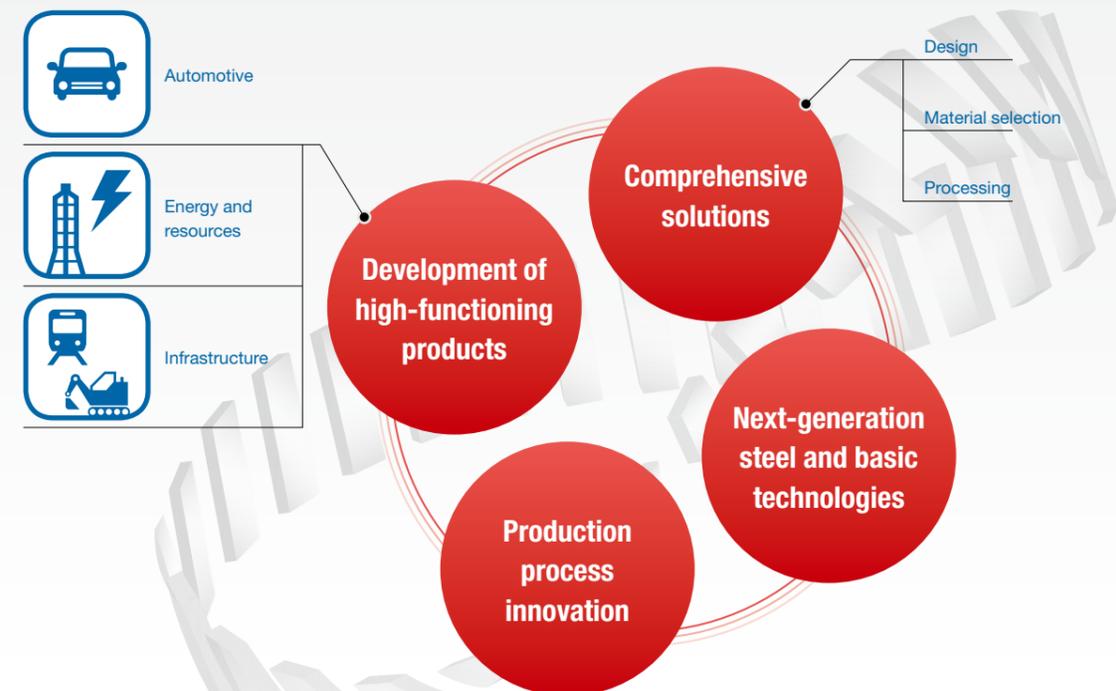
## Expanding the frontiers of steel

Under the Mid-Term Management Plan that we are currently implementing, we aim to strengthen our domestic manufacturing bases and transfer the best practices we have cultivated in Japan to overseas businesses while focusing on "technology," "cost," and "being global." NSSMC's R&D organization supports "technology," which is one of the three pillars mentioned above and is the source of our competitiveness. It also supports the execution of the plan through the development of high-performance products, process innovation, the proposal of comprehensive solutions, element and fundamental technology research, and research on next-generation steel products. The development of high-performance products, including research on next-generation steel products, means pursuing advances and

greater efficiency in steelmaking processes by mastering steelmaking; the proposal of comprehensive solutions means enabling customers to make thorough use of steel by exploring ways to use steel; and element and fundamental technology research means thoroughly investigating the principles that support the foundation of all research and development.

Each of these research fields is organically linked like a Mobius strip and what we are aiming for in our R&D activities is to develop unlimited possibilities by displaying their comprehensive strengths.

Let us present some of our initiatives in "expanding the frontiers of steel" on the following pages.



Development of high-functioning products

The 47th (FY2014) Ichimura Award, Main Prize\* \* Awarded for the first time in the steel industry  
National Invention Award, FY2016 Nippon Keidanren Chairman's Invention Award

Environmental impact reduction-type high-tensile steel wire rods for bridge cables

In emerging nations, transportation infrastructure is being rapidly developed, and at the same time numerous very long bridge projects are being planned. Steel wire rods that are used in the main cables of these bridges need to have even greater strength, from the perspective of building longer bridges and increasing the freedom of design, while the highly productive development of wire rods that have low environmental impact and can be easily heat treated and processed is also required. To meet these needs, NSSMC was the first company in the world to develop lead-free, high-strength steel wire rods for use in bridges that were intensively water cooled immediately after being hot rolled and immersed in molten salt. The manufacturing method that is based on cooling the material in a coil form immediately after hot rolling is more productive than the current mainstream manufacturing method, but there was a problem caused by the occurrence of dispersed strength and metallic structure. NSSMC overcame this issue, and realized the enhancement of wire strength accompanied by high productivity. At the same time, we reduced the number of cable wires used and thereby enabled the shortening of construction time while also substantially cutting CO<sub>2</sub> emissions in the manufacturing process and realizing a product free of lead, which has a high environmental impact. This technology has been applied not only to bridges but is also used in other fields where high strength and high quality are required, such as tension bars for concrete structures, high-strength rope for hanging structures, and the core material of power transmission lines.



High-tensile steel wire rods, for the main cables of bridges

The 61st (FY2014) Okochi Production Award  
Prize for Science and Technology (Development Category), FY2016 the Commendation for Science and Technology by the Minister of Education, Culture, Sports, Science, and Technology

Development of steelmaking process using multifunctional integrated converter furnace method

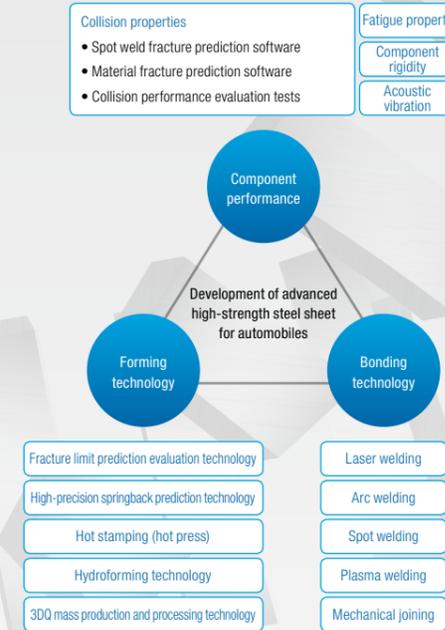
To manufacture high-quality steel products with high productivity, it is necessary to develop a new steelmaking process that enables more efficient and lower-cost processes to remove impurities such as phosphorous and melting of a large quantity of scrap. Originally, we carried out the process of preliminary dephosphorization of molten iron by using a torpedo car and a hot-metal ladle, in which the quantity was small and the reaction efficiency was low. However, as efficiency and the large quantity of scrap used were issues, we developed a preliminary dephosphorization process based on the divided furnace method utilizing two converters (a dephosphorization converter and a decarburization converter) with large capacity. Now, we have developed groundbreaking technology that enables preliminary dephosphorization and decarburization of molten iron in a single converter to reduce costs further. As we were the first in the world to develop this process, we enabled the steady supply of low-phosphorous steel grades for high-quality automotive steel sheets, and steel tubes and plates by means of energy-saving and low-cost manufacturing. The processing rate based on this process at NSSMC has reached 50% of total production volume, and when combined with the conventional process of using two converters, the molten iron dephosphorization processing rate has reached almost 90%, thereby greatly contributing to the production of high-quality steel products.



Preliminary dephosphorization and decarburization can be done in a single converter

Comprehensive solutions

Various kinds of fundamental technologies that support solutions for automotive steel sheets



High-tensile automotive steel sheets, which are required to have light weight to enhance fuel efficiency and high strength for collision safety combined with contradictory performance requirements, are products that are difficult for customers to process because of their characteristics of thinness and hardness. To extract these properties without compromising high-tensile capability, advanced processing technologies and product performance evaluation in areas such as forming and welding are indispensable. By accurately modeling material properties, NSSMC has created Computer Aided Engineering (CAE) technology based on advanced numerical analysis that enables fabrication such as press working and hydroforming as well as evaluation of various kinds of performance under conditions where steel is used. In addition, we possess experimental techniques that evaluate performance at the component level. Instead of just providing materials, we simultaneously develop materials and application technologies related to the ways materials are used and develop various kinds of evaluation technologies as well. As a result, by proposing total solutions to customers, we contribute to vehicle safety and the alleviation of environmental impact.

Steel product analysis technology that supports structure control at the nano level

As a method to accelerate the development of high-performance steel products, the approach of elucidating the roles expressed in the properties of steel products by added alloy elements and impurity atoms is indispensable. NSSMC is leading its competitors in structural analysis technology that utilizes advanced devices. Such devices include transmission electron microscopes (TEM), scanning electron microscopes (SEM), and electron probe micro-analyzers (EPMA), which analyze the micro-metallographic structures, textures and non-metallic inclusions that govern the material properties of steel products, as well as three-dimensional atom probes (3DAP), which can analyze the positions of all alloy elements with a spatial resolution on a lattice spacing level by measuring every single atom that constitutes a steel material. For example, in the case of steel materials, high strength can be realized by increasing the quantity of carbon, in general, but at the same time ductility decreases and the material becomes brittle. By using analysis technologies, NSSMC has developed steel products that combine strength and ductility with contradictory performance. At present, what requires the greatest strength among steel industrial products is steel wire, which is known as steel cord. It is embedded in the tires of automobiles and contributes to performance enhancement by improving the durability of tires and reducing their rolling resistance. It is required to have tensile strength that is far higher than that of steel products for construction and steel for the body framework of automobiles, and even higher than that of bridge cables. By using leading-edge analysis technologies, we have improved inclusion control technology (microscopic technology for inclusions) in steelmaking processes and succeeded in developing steel cord that has 4GPa-class tensile strength while possessing high ductility. We aim to achieve even greater strength.



Steel cord is used as reinforcement material. Steel tire cord, 0.2-0.3 mm in diameter, is embedded in rubber for a tire.

Next-generation steel and basic technologies

# Pursuing global utilization of intellectual property

One of NSSMC's Management Principles is to "pursue world-leading technologies and manufacturing capabilities." The basis of our intellectual property (IP) activity is to secure the most advanced newly created technologies and other ones as IP and then to utilize the IP to meet our medium- and long-term IP strategy in line with our business strategies.

## Priorities

The IP Division collaborates with the Business Divisions and the R&D Divisions to support the Company's global strategies. We have been focusing on enriching and accumulating IP as "an effective leverage to compete in the world, and with the world" both in terms of quality and quantity and have also been reinforcing the strategic utilization of our IP.

## Specific activities

### Enhanced IP protection

#### I. Support the creation of new IP

- 1) Build the IP portfolio and plan its strategy
- 2) Enrich the function of establishing rights for inventions, discoveries, and IP (specifically, enhance the function of Nippon Steel & Sumikin Research Institute Corporation)

#### II. Enhance the protection and utilization of IP

- 1) Apply for patents of high technical levels in Japan and overseas, and actively utilize overseas-registered patents
- 2) Increase overseas relocation of personnel in charge of IP and establish a strategic public relations (PR) organization
- 3) Establish brand strategies

### Address the enhanced protection of trade secrets

Japan's Unfair Competition Prevention Act was enforced starting on January 1, 2016. While striving to prevent leakage of our internal technological information, we intend to advance our information management activities, with the aim of paying more attention to the acquisition of external technological information. At the same time, we engage in active sharing and utilization of technological information that ought to be shared. We also continue to strictly deal with counterfeit products as well as any illegal use of our corporate name, brands, IP, and other properties.

### Address the issue of employee invention inherently belonging to the employer company

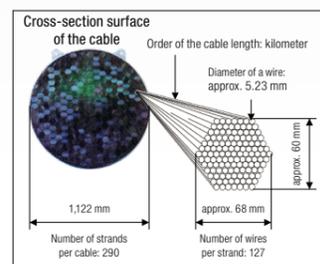
The Amendment of the Japanese Patent Act was enforced starting on April 1, 2016. This states that the right to obtain a patent for an employee invention can be determined as belonging to the employee or to the employer company. We will revise our internal rules to state that such a right inherently belongs to the employer company, and will address this issue.

### Strategic establishment of brand families

We have launched SteelLinC™ as a brand of the Bar & Wire Rod Unit of the NSSMC Group and engage in activities to promote and enhance the brand value of its products and services. We plan to look into strategically establishing brand families for other businesses and products. In the future, we will promote activities to communicate and share the value of our company to our many stakeholders.



The high-tensile steel wire rods for bridge cables, which appear on page 22, belong to the high-end XSTEELIA™ brand in the Bar & Wire Rod Unit's brand family. We will continue to pursue advanced technologies and manufacturing capabilities, and make breakthrough innovations, which can be beneficial to our customers as well as contribute to our business performance.



## The base that supports growth

### NSSMC's Environmental, Social, and Governance (ESG) Initiatives

NSSMC's base that supports growth includes strong relationships of trust with customers, a corporate culture that develops and brings out the best in people, close bonds with people in local communities, various measures that make use of advanced environmental preservation technology, and adoption of a management structure oriented toward enhancing long-term corporate value. These measures or outcomes do not appear on the financial statements but all are examples of our strengths. We will further enhance this base that supports growth, hand it down to the next generation, and aim to realize sustainable growth in doing so.

### NSSMC strives to enhance corporate governance so as to retain society's trust and realize corporate value improvement.

In keeping with the corporate philosophy to “pursue world-leading technologies and manufacturing capabilities, and to contribute to society by providing excellent products and services,” the NSSMC Group aims to respond to the confidence and trust extended by shareholders, business partners, and all other stakeholders, and to achieve healthy sustainable growth and medium- to long-term improvement in corporate value. For these purposes, the Group has established a corporate governance structure appropriate for its businesses.

#### Corporate governance structure

NSSMC, with its core business being steel-making, has adopted a structure in which a Board of Directors, mainly comprised of Directors with a thorough understanding of NSSMC's business, makes decisions on basic management policy and important business activities, while Audit and Supervisory Board Members, who hold strong legal authority, oversee from independent positions the execution of duties by Directors. Believing that this structure ensures efficiency and fairness in management and is effective for the Company, NSSMC has adopted the company system form of organization with an audit and supervisory board. At present, NSSMC's Articles of Incorporation stipulate that that Company shall have a Board of Directors with no more than 20 Directors, an Audit & Supervisory Board with no more than 7 Audit & Supervisory Board Members, and accounting auditors.

To ensure fairness in management, Audit & Supervisory Board Members, each having a thorough understanding of NSSMC's business, and Outside Audit & Supervisory Board Members, with deep insight, oversee the execution of duties by Directors and the status of the Company's assets on a daily basis, in cooperation with accounting auditors, and the Internal Control & Audit Division. In addition, the Company has Outside Directors, who have vast experience in fields such as corporate management, to enhance decision making from diverse perspectives at the Board of Directors' meetings and through oversight of management. In order for all Outside Directors and Outside Audit & Supervisory Board Members to obtain the necessary information and fully execute their role, they regularly meet with the Chairman, the President, and other persons to share management issues and exchange opinions. In addition, to clarify responsibilities for the results of each business unit and division, the Company has introduced an executive officer system under which Executive Officers strive to ensure the proper execution of business activities.

#### Prompt and appropriate execution of business strategies

The execution of business strategies mandated by the Board of Directors and other executive structures is promptly addressed by the Directors responsible for these businesses, Executive Officers, and the General

Managers of relevant units and divisions, under the direction of the Representative Director and Chairman, and the Representative Director and President. These actions are accomplished by stipulating in writing the ordering authority, oversight responsibility, and procedures required to implement such strategies.

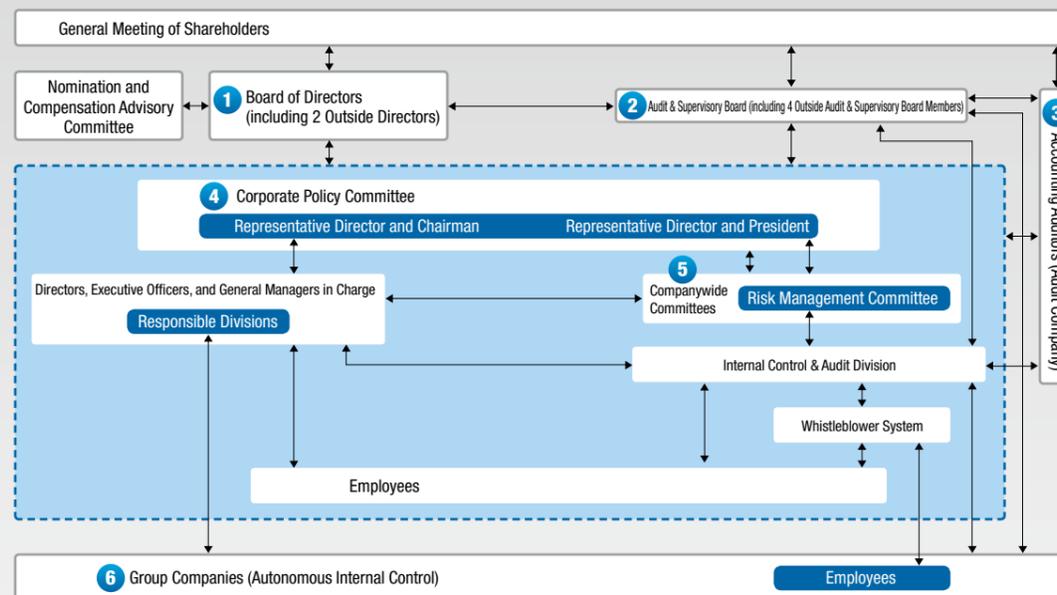
#### Corporate organization and internal control system

##### 1 Directors and the Board of Directors

Based on internal rules, executive decisions on key issues that may affect the activities of NSSMC or the NSSMC Group are determined by the Board of Directors, which convenes once or twice a month, after such matters have been discussed by the Corporate Policy Committee.

As advisory bodies prior to the Corporate Policy Committee and Board of Directors' meetings, NSSMC has 21 companywide committees, each with its own objectives. NSSMC's Board of Directors consists of 12 Executive Directors, as well as 2 Outside Directors, who are not involved with business execution, and 7 Audit & Supervisory Board Members (of whom 4 are Outside Audit & Supervisory Board Members). This ensures full, multifaceted deliberations, and objective decision-making. Outside Directors, who have vast experience and deep insight in fields such as corporate management, international affairs, and the economy, contribute to decision making from their diverse perspectives on NSSMC, thereby enhancing the overseeing function of management by providing their opinions and exercising voting power from their independent status at the Board of Directors' and other meetings.

NSSMC determines the independence of Outside Directors in harmony with the Independence Criteria for Outside Directors and Outside Audit & Supervisory Board Members set by stock exchanges in Japan, and with due consideration to their personal, capital, transactional, and other relationships with the Company. NSSMC decides the independence of Outside Directors in accordance with the independence standards set by the financial instruments exchanges in Japan (e.g., Tokyo Stock Exchange), considering each individual's personal relationship, capital relationship, business relationship, and other interests with NSSMC. As stated above, since NSSMC believes that each of the Outside Directors is independent, NSSMC has reported all of them as Independent Directors to each financial instruments exchange in Japan (e.g., Tokyo Stock Exchange).



##### 2 Audit & Supervisory Board Members and the Audit & Supervisory Board

The present Audit & Supervisory Board comprises 3 full-time Audit & Supervisory Board Members and 4 Outside Audit & Supervisory Board Members. The Outside Audit & Supervisory Board Members contribute to NSSMC's sound and fair management, by, among other tasks, expressing their respective opinions independently at the Board of Directors, the Audit & Supervisory Board, and other opportunities, and performing supervisory activities, including auditing the business and affairs and the status of assets, based on their vast experience in, and deep insights into, such areas as corporate management, laws, public administration, public finances and corporate accounting. They also perform auditing activities including research on corporate operations and the status of assets. They thus contribute to NSSMC's sound and fair management.

NSSMC determines the independence of Outside Audit & Supervisory Board Members in harmony

with the Independence Criteria for Outside Directors and Outside Audit & Supervisory Board Members set by stock exchanges in Japan, and with due consideration to their personal, capital, transactional, and other relationships with the Company. NSSMC decides the independence of Outside Audit & Supervisory Board members in accordance with the independence standards set by the financial instruments exchanges in Japan (e.g., Tokyo Stock Exchange), considering each individual's personal relationship, capital relationship, business relationship, and other interests with NSSMC. As stated above, since NSSMC believes that each of the Outside Audit & Supervisory Board Members is independent, NSSMC has reported all of them as Independent Audit & Supervisory Board Members to each financial instruments exchange in Japan (e.g., Tokyo Stock Exchange).

##### 3 Accounting auditors

Accounting auditors execute the accounting audit activities at NSSMC under the Companies Act and the Financial Instruments and Exchange Act.

##### 4 Corporate Policy Committee

The Corporate Policy Committee, comprised of the Representative Director and Chairman, the Representative Director and President, the Executive Vice Presidents, and other members, normally meets once a week.

##### 5 Companywide Committees

As advisory bodies, NSSMC has 21 companywide committees that meet prior to the Corporate Policy Committee and Board of Directors' meetings. They are charged with the review and discussion of subjects such as ordinary budget, capital expenditure budget, investment and loans, fund management, technology development, environmental management, and risk management.

##### 6 Group companies

NSSMC Group companies have established and maintained an internal control system for which NSSMC's divisions in charge assist them as needed. In addition, NSSMC's General Manager of the Internal Control & Audit Division understands and evaluates the internal control status of the entire Group, and gives guidance or advice to each division and Group company.

#### Corporate governance system

Type of system	Company with an audit & supervisory board
Number of Directors	14
Of which, number of Outside Directors	2
Term of office for Directors	1 year
Number of Audit & Supervisory Board Members	7
Of which, Outside Audit & Supervisory Board Members	4
Number of Independent Directors and Audit & Supervisory Board Members	6 (2 Outside Directors and 4 Outside Audit & Supervisory Board Members)
Accounting Auditor	KPMG AZSA LLC
Adoption of Executive Officer System	Yes

**Policy regarding cross-shareholdings and basic policy regarding the exercise of voting rights associated with those shares**

NSSMC holds the shares of companies other than the Company's related companies as cross-shareholdings. This is mainly to maintain and enhance business relationships, maintain and develop alliances, and promote smooth business operation, with the ultimate aim of enhancing NSSMC's mid- to long-term corporate value. The rationale on holding those shares is regularly examined by the Board of Directors every year, by evaluating the issuing companies' operating

performance, financial position, and other factors in addition to the prevailing reasons of holding them.

NSSMC exercises voting rights of those cross-shareholdings after each responsible division examines the details of the issuing company's proposals for the General Meeting of Shareholders and makes comprehensive judgements of whether they can contribute to improve the corporate value of NSSMC and the issuing company.

**Outside Directors****Reason for appointment of Outside Directors and Outside Audit & Supervisory Board Members and their attendance of meetings of the Board of Directors and the Audit & Supervisory Board in FY2015**

Outside Directors	Present position	Reason for appointment	Attendance at meetings
Mutsutake Otsuka	Executive Advisor to the Board of East Japan Railway Company	Deep insight and knowledge of and extensive experience in management of a company	13/14
Ichiro Fujisaki	Distinguished Professor, Chairman of International Strategies, Sophia University	Deep insight and knowledge on international affairs, the economy, and cultures, nurtured as a diplomat, and extensive experience as an ambassador and in other important posts	14/14

Outside Audit & Supervisory Board Members	Present position	Reason for appointment	Attendance at meetings	
			Board of Directors	Audit & Supervisory Board
Katsunori Nagayasu	Senior Advisor, The Bank of Tokyo-Mitsubishi UFJ, Ltd.	Deep insight and knowledge of and extensive experience in management of a bank	12/14	14/16
Hiroshi Obayashi	Attorney, Obayashi Law Office	Deep insight and knowledge as an attorney at law and extensive experience as prosecutor-general and in other important posts	12/14	15/16
Jiro Makino	Vice Chairman, The General Insurance Association of Japan	Deep insight and knowledge of fiscal matters, based on years at the Ministry of Finance, and extensive experience as the Director General of the National Tax Administration Agency and in other important posts	14/14	16/16
Seiichiro Azuma	Certified Public Accountant, Certified Public Accountant Seiichiro Azuma Office	Deep insight and knowledge of corporate accounting, and extensive experience as a certified public accountant	—	—

**Support of Outside Directors and Outside Audit & Supervisory Board Members**

Personnel of the NSSMC General Administration Division and Audit & Supervisory Board Members' Office support Outside Directors and Outside Audit & Supervisory Board Members by providing timely and appropriate corporate information, which includes preliminary explanation of agenda items or items reported to the Board of Directors' meetings and other important meetings. In order to ensure the independence of Directors, the Audit & Supervisory Board Members' Office has designated staff who are dedicated to audit administration works, such as to assist auditing activities under instruction by all Audit & Supervisory Board Members, including Outside Members.

**Determination of remuneration, etc., for Directors and Audit & Supervisory Board Members****1. Policies**

NSSMC's policies on determining remuneration and other amounts for Directors and Audit & Supervisory Board Members are as follows:

**(1) Directors**

The amount of base remuneration for individual ranks that are deemed to measure up to each Director's required skills and responsibilities. This base remuneration varies within a certain range on the Company's consolidated performance. The Company then allocates monthly remuneration for each Director within the limits approved by the General Meeting of Shareholders.

**(2) Audit & Supervisory Board Members**

The Company allocates monthly remuneration for each Audit & Supervisory Board Member, within the limits approved by the General Meeting of Shareholders, taking into consideration the Audit & Supervisory Board Member's duties depending on rank and whether the Audit & Supervisory Board Member is full-time or part-time.

Under the above policies, the remuneration of Directors is limited to a monthly remuneration, and entirely performance-linked so as to grant incentives for the NSSMC Group's sustainable growth and improvement in corporate value. Changes in line with the consolidated performance are

determined based on the Company's consolidated net performance and the Steelmaking and steel fabrication segment's ordinary income, and by taking into account the relationship with the Mid-Term Management Plan.

**2. Method of determining policies**

The policy for monthly remuneration for Directors is determined by a Board of Directors' resolution, and the policy on monthly remunerations for Audit & Supervisory Board Members is determined in consultation with the Audit & Supervisory Board Members.

**3. Procedures regarding the determination of the amount of remuneration, etc.**

The amount of monthly remuneration for each Director is determined by a Board of Directors' resolution after a proposal has been examined by the Nomination and Remuneration Advisory Committee, which comprises the Chairman, the President, and three outside officers who are nominated by the President.

The amount of monthly remunerations for each Audit & Supervisory Board Member is determined in consultation with the Audit & Supervisory Board Members.

**Remuneration of Directors and Audit & Supervisory Board Members**

Category	Aggregate amount of remuneration (Millions of yen)
Directors (16)	1,071
Of which, Outside Directors (2)	28
Audit & Supervisory Board Members (8)	200
Of which, Outside Audit & Supervisory Board Members (4)	57
Total (24)	1,271

Note: The above number of recipients includes 2 Directors and 1 Audit & Supervisory Board Member who resigned at the conclusion of the 91st General Meeting of Shareholders held on June 24, 2015.

**Internal controls and risk management system**

NSSMC resolved the Basic Policy concerning Internal Control System at a Board of Directors' meeting and stipulated its Basic Rules for Internal Control for establishing a system for internal controls and risk management.

- NSSMC establishes an annual plan on internal controls and risk management and acts accordingly.
- It regularly confirms the status of internal controls and the risk management system through the Risk Management Committee, chaired by the Executive Vice President in charge of Internal Control & Audit.
- Each division of the Company designates a person in charge of risk management, while each Group company designates a person responsible for risk management. This is to encourage each division and company to take the initiative and share information about risk management among the Company and Group companies through regular meetings and other means.
- NSSMC regularly checks the Groupwide status of internal controls by establishing measures to check and supervise matters related to internal controls and risk management.
- NSSMC has set up a whistleblower system—namely, the Compliance Consulting Room within the Company and the Compliance Hotline run by the Company's attorney—as a conduit for communication, to handle risk-related concerns among Group employees, staff of purchase agreement companies, and other Group employees

regarding the execution of operations. This helps prevent accidents and the violation of laws and regulations preemptively and also improves operations.

**Compliance education**

"We continue to emphasize the importance of integrity and reliability in our actions." This is the first principle we stated in the Management Principles. Through messages from top management, periodic legal training programs, and other activities, we make certain that all employees fully understand NSSMC's basic policy of ensuring fair management. In particular, in order to ensure full compliance with the Antimonopoly Act, the Company has designated every December as "Antimonopoly Act Compliance Campaign Month." Specific activities conducted in December include: to hold seminars for all sales and marketing personnel who receive a strict order from the President to prevent the recurrence of violations; to thoroughly inform and implement the "Guidelines to Prohibit Contact with Competitors"; and to regularly check the status of implementation of the guideline every year.

In addition, we have prepared "30 Don'ts of Business Behavior," a set of compliance guidelines that include simple examples of violations of the Antimonopoly Law and other laws governing business activities, "Guidelines to Prevent Sexual and Power Harassment in the Workplace," and "Anti-Bribery Guidelines" to prevent bribery of government officials. These original materials are designed so that our employees can conduct fair and appropriate business. We also conduct educational programs and e-learning programs for each rank, to cultivate a strong awareness of these guidelines and the importance of complying with laws and regulations among everyone at the NSSMC Group.

**Quality management**

NSSMC's long-term efforts to assure quality have resulted in obtaining the trust of customers and what we perceive as unrivaled competitiveness and have contributed to the sustaining and further raising of our corporate value. In addition to complying with laws and regulations, all of our employees engaged in manufacturing and services are also involved in enhancing quality assurance measures such as adhering closely to those specifications of products related to quality assurance.

**Specific initiatives for quality assurance**

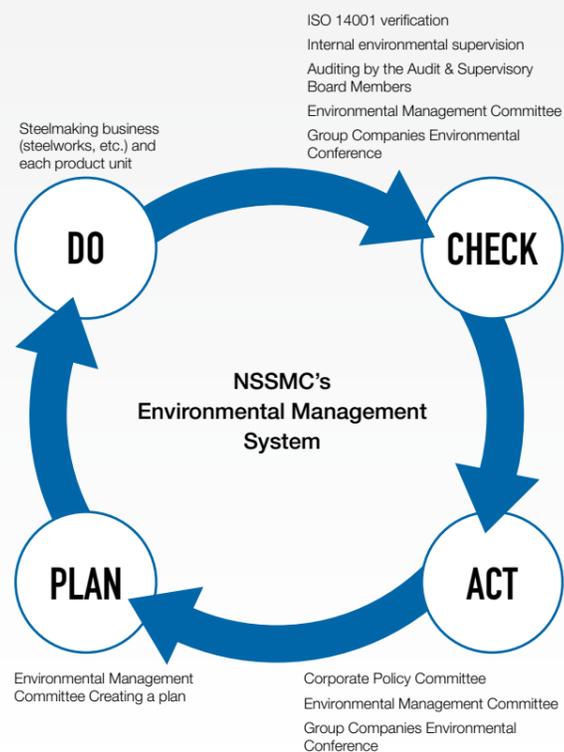
A team has been set up for all Group companies including those overseas to undertake quality monitoring with the aim of discovering and eliminating potential risks. At the same time, autonomous quality enhancement activities are conducted at our manufacturing sites. Anecdotal information is promptly and widely shared within the Group, and we make sure to address the identified issues by standardizing or systemizing ways to enhance and assure quality and to carry out needed capital spending. We also provide quality management education programs at all Group companies and steelworks to raise the awareness and knowledge of all Group employees. Furthermore, we have received certifications from external institutions such as for ISO 9001 and Japanese Industrial Standards (JIS), which helps to further boost credibility of our quality assurance system. Based on this solid, world-class quality management structure, we are making efforts every day to raise our customer satisfaction level as well as the credibility of our brand.

**Environmental management**

While NSSMC has supported Japan's industrial development, we realize that we also have a significant impact on the environment through our business activities, as we account for approximately 5% of Japan's overall energy consumption. NSSMC and all its Group companies are tackling environmental management based on its "Environmental Basic Policy," which has Groupwide comprehensive environmental management as its core.

**Environmental management system  
Constructing a Groupwide system for environmental preservation activities**

NSSMC's Environmental Management Committee convenes every half year and spearheads environmental management. Air, wastewater, and industrial waste are emphasized as important environmental risks to manage, and a Groupwide periodic conference for each of those risks is held for further improvement. In addition, the Group Companies Environmental Conference convenes twice per year so that information is shared with Group companies. We have established a system to focus on a specific environmental risk and strive to ensure environmental preservation. Through internal environmental supervision, internal control interviews with Group companies in Japan and overseas, and other measures, we check and follow up on the environmental status effectively using the plan-do-check-act (PDCA) system.



**Information security**

**Compliance with information management rules**  
NSSMC has rules governing information management and several implementation rules for the purpose of controlling and managing information as valuable assets. Among their functions, those rules provide protection to prevent infringement of third-party confidential information.

**Measures to prevent leakage of confidential information**

- NSSMC constantly strives to enhance the security level of the IT systems it uses, and to take effective measures against unauthorized access and computer viruses.
- Technical presentations and technology licenses are required to undergo prior internal review to prevent unintentional disclosure of confidential information.
- NSSMC classifies its facilities based on level of criticality and limits entry to those facilities according to that classification.

**Protection of personal information**  
NSSMC has rules for the proper handling of personal information.

**Education on information management**

- NSSMC provides the "Manual for Protection of Confidential Information" to all employees.
- NSSMC uses appropriate opportunities to inform employees of the importance of protecting confidential information, rules, and practical matters for management of information.

**Protection of intellectual property**

**Intellectual property risk management**  
We aim to implement intellectual property (IP) activities organizationally, respect other companies' technologies, and maximize the values of our proprietary technologies. For those purposes, we constantly promote proper information management, prevent violation of IP-related laws and regulations, manage IP risks by expanding the scope of Groupwide IP activities, and reduce risks associated with our overall IP activities by enforcing our internal rules.

**Efforts for the protection of IP**  
We continuously acquire and utilize IP rights on technologies sustaining our technological edge, and eliminate counterfeits that infringe on our IP rights. At the same time, we respect the IP rights of other companies, and conduct necessary investigations to avoid any infringement. We also carry out IP training each year to enhance the understanding and awareness of our employees.

**Dialogue with shareholders and investors**

**Basic policy on dialogues**  
NSSMC is taking various initiatives to promote constructive dialogues with shareholders from the perspective of a target for sustainable growth and raising mid- to long-term corporate value. In general, dialogues with shareholders and investors, and coordination for these dialogues, are carried out by the General Administration Division, the Accounting & Finance Division, and other divisions in coordination, under the supervision of Directors in charge of General Administration and Accounting & Finance.

**Measures to enhance dialogues**  
For shareholders, NSSMC strives to proactively provide information and cooperatively respond to questions raised by shareholders at the General Meeting of Shareholders. In addition, the Company regularly holds corporate briefings and plant tours, and publishes information brochures to promote shareholders' understanding and enhance communication with them. For institutional investors and

analysts, through quarterly results briefings, Mid-Term Management Plan presentation meetings, visits to steelworks and research centers, and other events, NSSMC discusses its strategies, businesses, operating performance, and other issues. Small meetings with investors, various conferences, and visits to overseas institutional investors are other means for enhancing communication.

**Feedback to the Board of Directors and others**  
Opinions and comments received from shareholders and investors through the above occasions are regularly reported at Board of Directors' meetings and on other occasions.

**Measures regarding insider information control**  
Insider information (undisclosed important facts) is appropriately managed by compliance with the Company's Rules on Insider Information Control and Insider Trading Regulation.

**IR activities [Fiscal 2015 results in parentheses]**

Event	Summary of program
For institutional investors and analysts	<ul style="list-style-type: none"> <li>• Quarterly results briefings, presented by the director in charge of IR [4 times]</li> <li>• Briefings or telephone conferences on important matters concerning business strategy [4 times]</li> <li>• One-on-one meetings at NSSMC [Approx. 300 investors in total]</li> <li>• Visits to major overseas institutional investors and face-to-face meetings at investment conferences [Approx. 100 investors in total]</li> </ul>
For shareholders	<ul style="list-style-type: none"> <li>• Results briefings [4 times] *</li> <li>• Plant tours [8 times] *</li> </ul>
IR library on the Web	<ul style="list-style-type: none"> <li>• Financial Results • IR Briefing • Security Reports (quarterly; only in Japanese) • Annual Reports • Fact Books</li> <li>• Mid-Term Management Plan Press Release and IR Briefing • Reports for Shareholders</li> </ul>

\* Only for shareholders with a certain amount of shares owned / By lottery

**Status of initiatives for invigorating the General Meeting of Shareholders and facilitating the exercise of voting rights**

	Supplementary explanation
Early delivery of Notice of Convocation for the General Meeting of Shareholders	NSSMC mails a Notice of Convocation three weeks prior to the General Meeting of Shareholders (compared to one week in advance as required by law). To promote early disclosure, the Notice is published on NSSMC's website and is registered with the Tokyo Stock Exchange for four weeks before the meeting.
Setting the date for the General Meeting of Shareholders on a date that avoids the day when general meetings tend to be held	NSSMC holds its General Meeting of Shareholders on a day other than the day when general meetings tend to be held.
Exercise of voting rights via electronic means	Has been introduced.
Participation in a platform for the electronic exercise of voting rights and other initiatives to enhance the environment for the exercise of voting rights by institutional investors	NSSMC registered a platform for the electronic exercise of voting rights, operated by Investor Communications Japan Inc.
Provision of a Notice of Convocation (Summary) in English	The English-language Notice of Convocation (Summary) is published on NSSMC's website and is registered with the Tokyo Stock Exchange.

**Selected as a 2016 Competitive IT Strategy Company**

In June 2016, NSSMC was selected as one of the 26 Competitive IT Strategy Company in a joint program hosted by Japan's Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange (TSE). Companies which are actively and strategically using IT to achieve business innovation and improve earnings and productivity, as a means of increasing medium- to long-term corporate value and strengthening competitiveness, were chosen from among 3,500 TSE-listed companies. Now that rapid advances in IT are transforming industrial structures and business models at an unprecedented pace, NSSMC intends to make further use of advanced IT to win against global competition and firmly establish its position as the best steelmaker with world-leading capabilities.



**Executive team** (As of June 24, 2016)



**Shoji Muneoka**  
Representative Director and Chairman



**Kosei Shindo**  
Representative Director and President

**REPRESENTATIVE DIRECTORS AND EXECUTIVE VICE PRESIDENTS**



**Soichiro Sakuma**  
• General Administration; Legal; Internal Control & Audit; Business Process Innovation; Human Resources; Environment



**Yasumitsu Saeki**  
• Marketing Administration & Planning; Transportation & Logistics; Project Development; Machinery & Materials Procurement; Steel Products Units; Domestic Office and Branches  
• Cooperating with Executive Vice President E. Hashimoto on Overseas Offices



**Shinji Fujino**  
• Intellectual Property; Safety; Plant Safety; Technical Administration & Planning; Quality Management; Plant Engineering and Facility Management; Ironmaking Technology; Steelmaking Technology; Energy Technology; Slag & Cement  
• Cooperating with Executive Vice President S. Sakuma on Environment



**Eiji Hashimoto**  
• Head of Global Business Development  
• Overseas Offices



**Kenji Takahashi**  
• Head of Research and Development



**Toshiharu Sakae**  
• Corporate Planning; Group Companies Planning; Accounting & Finance; Raw Materials

**MANAGING DIRECTORS, MEMBERS OF THE BOARD**



**Ritsuya Iwai**  
• Head of Unit, Pipe & Tube Unit; Project Leader, VSB Project, Global Business Development Sector



**Machi Nakata**  
• Head of Unit, Railway, Automotive & Machinery Parts Unit



**Shinji Tanimoto**  
• Head of Center, Plant Engineering and Facility Management Center  
• Intellectual Property; Safety; Plant Safety; Technical Administration & Planning; Quality Management; Ironmaking Technology; Steelmaking Technology; Energy Technology; Slag & Cement  
• Rendering Assistance to Executive Vice President Y. Saeki on Steel Products Units



**Shinichi Nakamura**  
• Head of Unit, Flat Products Unit; Project Leader, Shanghai-Baoshan Cold-rolled & Coated Sheet Products Project, Global Business Development Sector; Project Leader, India Continuous Annealing & Processing Line Project, Global Business Development Sector  
• Marketing Administration & Planning; Transportation & Logistics

**DIRECTORS, MEMBERS OF THE BOARD**



**Mutsutake Otsuka**<sup>\*1</sup>  
• Executive Advisor to the Board of East Japan Railway Company



**Ichiro Fujisaki**<sup>\*1</sup>  
• Distinguished Professor of Sophia University

**SENIOR AUDIT & SUPERVISORY BOARD MEMBERS**



**Yutaka Takeuchi**



**Atsuhiko Yoshie**

**AUDIT & SUPERVISORY BOARD MEMBERS**



**Masato Tsuribe**



**Katsunori Nagayasu**<sup>\*2</sup>  
• Senior Advisor, The Bank of Tokyo-Mitsubishi UFJ, Ltd.



**Hiroshi Obayashi**<sup>\*2</sup>  
• Attorney, Obayashi Law Office



**Jiro Makino**<sup>\*2</sup>  
• Vice Chairman, The General Insurance Association of Japan



**Seiichiro Azuma**<sup>\*2</sup>  
• Certified Public Accountant, Certified Public Accountant Seiichiro Azuma Office

**ENVIRONMENTAL INITIATIVES**

The NSSMC Group contributes to building a society with less environmental burden by positioning “environmental management” as one of its core objectives.

The NSSMC Group is committed to “contribute to society by providing excellent products and services” as stated in its Corporate Philosophy. By implementing our Three Eco-Friendly Initiatives and developing innovative technologies, we strive earnestly to reduce waste in production activities and manufacturing processes, promote recycling, and reduce environmental burden. We are also determined to take actions for solving global environmental issues such as global warming and effective utilization of energy resources.



In June 2016 NSSMC received the highest rating on “DBJ Environmentally Rated Loan Program” of Development Bank of Japan Inc. (DBJ) and was recognized as “particularly innovative in its environmental efforts.”

**NSSMC's Three Eco-Friendly Initiatives**



**eco PROCESS**

**ECO PROCESS**  
THE WAY WE MANUFACTURE IS “ECO-FRIENDLY”

NSSMC uses world-leading resources and world-leading energy efficiency to manufacture steel products, and is aiming to develop eco-friendly steel-making processes by further improving efficiency.



**eco PRODUCTS**

**ECO PRODUCTS™**  
WHAT WE PRODUCE IS “ECO-FRIENDLY”

We produce and offer eco-friendly “eco products™” using our world-leading technological capabilities, thus conserving resources and energy and thereby contributing towards building a sustainable society.



**eco SOLUTION**

**ECO SOLUTION**  
SHARING OUR “ECO-SOLUTIONS”

We contribute to the reduction of CO<sub>2</sub> emissions and other environmental burdens on a global scale by diffusing our Group's world-class environmental and energy-saving technologies in Japan and overseas.



**DEVELOPMENT OF INNOVATIVE TECHNOLOGIES**

Based on the objective of offering to society technologies and products that contribute to the saving of resources and energy and the reduction in environmental burden, we are developing innovative advanced technologies from a medium- to long-term perspective.

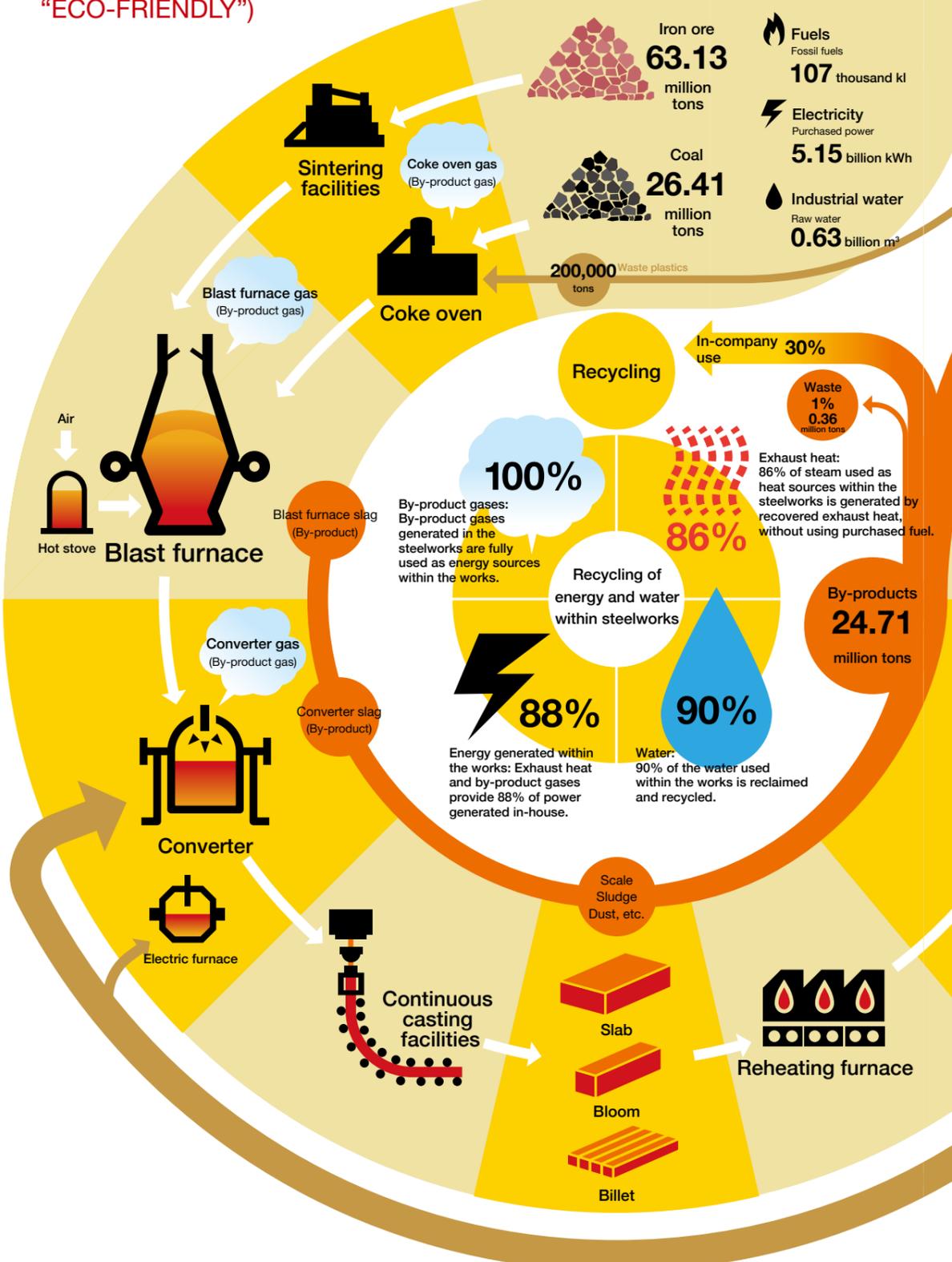
<sup>\*1</sup> Meets the requirements of an outside director as set forth in Article 2, Item 15 of the Companies Act  
<sup>\*2</sup> Meets the requirements of an outside company auditor as set forth in Article 2, Item 16 of the Companies Act



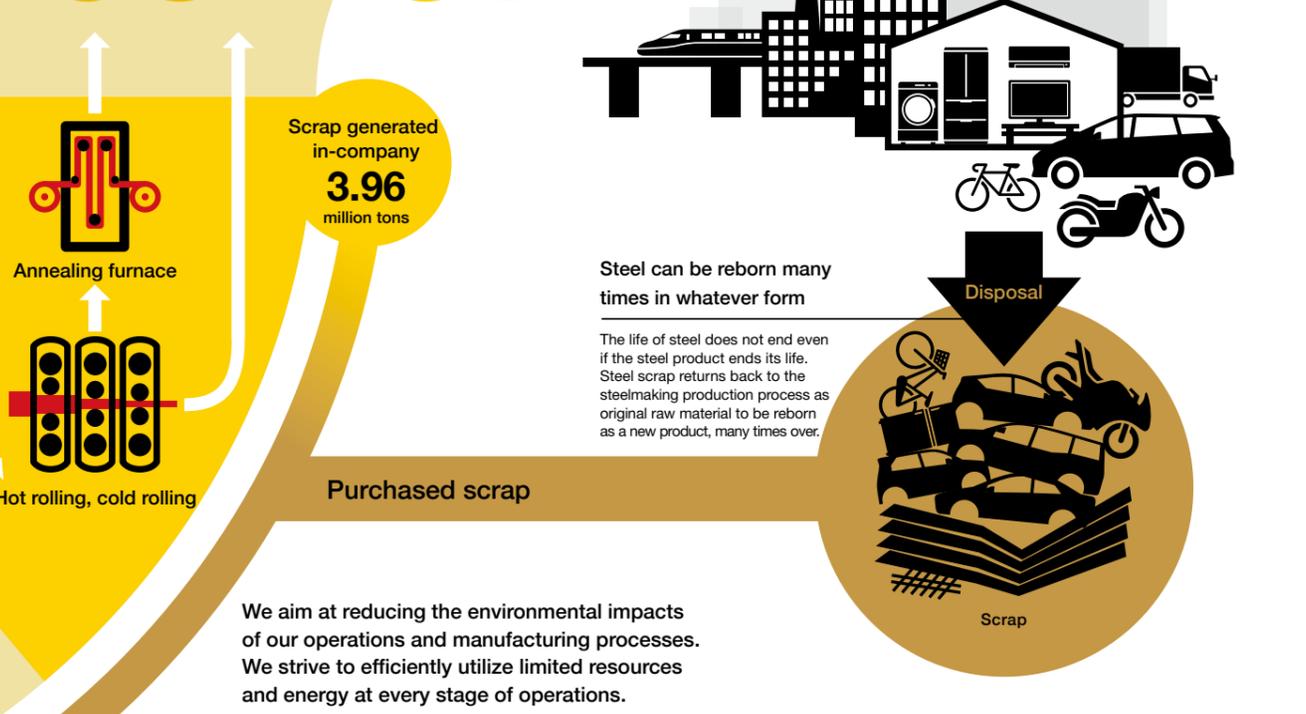
# ECO PROCESS

(THE WAY WE MANUFACTURE IS "ECO-FRIENDLY")

## INPUT



## OUTPUT



We aim at reducing the environmental impacts of our operations and manufacturing processes. We strive to efficiently utilize limited resources and energy at every stage of operations.

NSSMC's manufacturing bases are working rigorously to save energy in all manufacturing processes with the aim of reducing CO<sub>2</sub> emissions. For example, we try to achieve efficient use of equipment, higher combustion efficiency, and electricity savings. Water for cooling or washing products and production facilities is recycled and reused, while by-products generated in manufacturing processes are actively recycled and reused. In addition, steel used in society returns to the steelmaking production process as steel scraps and can be reborn as a new product many times over. Our long-accumulated know-how and technologies have enabled us to use resources and energy thoroughly and efficiently.

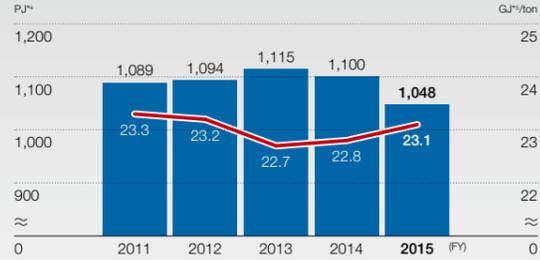
Promoting global warming countermeasures

From the time of the first oil crisis to around 1990, NSSMC has intensively promoted continuous processing, exhaust heat recovery, and other measures, all to enable significant energy conservation. This has led to NSSMC and Japan's steel industry as a whole achieving the world's top-class energy efficiency.

The most effective measure against global warming is energy conservation, and therefore NSSMC is striving to reduce CO<sub>2</sub> emissions by using energy generated in steel-making processes, including power generation, through use of by-product gas or exhaust heat recovery, or by reusing waste plastics and discarded tires. As a result of these efforts, NSSMC and affiliated electric furnace and other companies\*<sup>1</sup> consumed 1,048 PJ of energy and emitted 91 million tons (preliminary figure)\*<sup>2</sup> of CO<sub>2</sub> in FY2015.

\*1 Affiliated electric furnace and other companies: Osaka Steel Co., Ltd.; Godo Steel, Ltd.; Nippon Steel & Sumikin Stainless Corporation; Nippon Coke & Engineering Co., Ltd.;

NSSMC's changes in energy consumption



\*4 PJ indicates peta-joules (10<sup>15</sup> joules). A joule is a unit of energy, or amount of heat.  
\*5 GJ indicates giga-joules (10<sup>9</sup> joules)

■ Energy consumption (left scale)  
— Energy consumption per ton of crude steel (right scale)

five Cooperative Thermal Power Companies; and two Sanso Centers, etc.  
\*2 Preliminary: A provisional value based on the assumption that the CO<sub>2</sub> level in a unit of purchased electricity in FY2015 is the same as in FY2014.

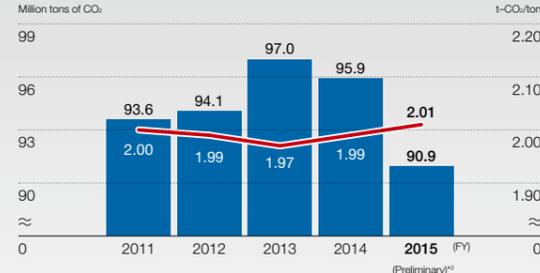
Japan Iron and Steel Federation's action plans for a low-carbon society ("Three ecos and innovative technology development")

	Eco process	Eco products	Eco solution
CO <sub>2</sub> emission reduction plans	Aim at improving energy efficiency	Contribute to emission reduction when steel materials are used in final products	Contribute to worldwide energy reduction by technology transfer and diffusion
Phase I Fiscal 2020	5 million tons* <sup>3</sup>	34 million tons	70 million tons
Phase II Fiscal 2030	9 million tons* <sup>3</sup>	42 million tons	80 million tons

Environmentally harmonized steelmaking process technology development (COURSE50)

\*3 The target reductions in CO<sub>2</sub> emission volume are based on a certain crude steel production assumption.

NSSMC's energy-derived CO<sub>2</sub> emissions



Crude steel production: 4,675, 4,725, 4,922, 4,825, 4,534 (Ten thousands of tons)

■ CO<sub>2</sub> emissions related to energy sources (left scale)  
— CO<sub>2</sub> emissions per ton of crude steel (right scale)

Contributing to the creation of a recycling-oriented society

Through recycling of in-house by-products, in its steelmaking process, NSSMC works for the realization of zero emissions, and is also actively engaged in the recycling of waste generated by other industries or in society.

In the iron-making process, approximately 600 kg of byproducts are generated for every ton of iron produced. In fiscal 2015, NSSMC produced 42.17 million tons of crude steel and generated 24.71 million tons of by-products. The majority of these by-products were recycled inside and outside the company, resulting in a high recycling ratio of 99%, but the final disposal amount increased to approximately 360,000 tons partly due to a one-time factor.

Almost all steel slag is utilized. Approximately 70% of blast furnace slag is used for cement, while steelmaking slag is used for materials for roadbed bases, civil engineering work, fertilizer, soil improvement, etc.

To reuse the dust and sludge generated in the ironmaking processes, NSSMC operates a dust reduction kiln (resource circulating (RC) oven) at Kashima Works and a rotary hearth

reduction furnace (RHF) at Kimitsu Works, Hirohata Works, and Hikari Works\*<sup>6</sup>. This enables us to recycle all internally generated dust.

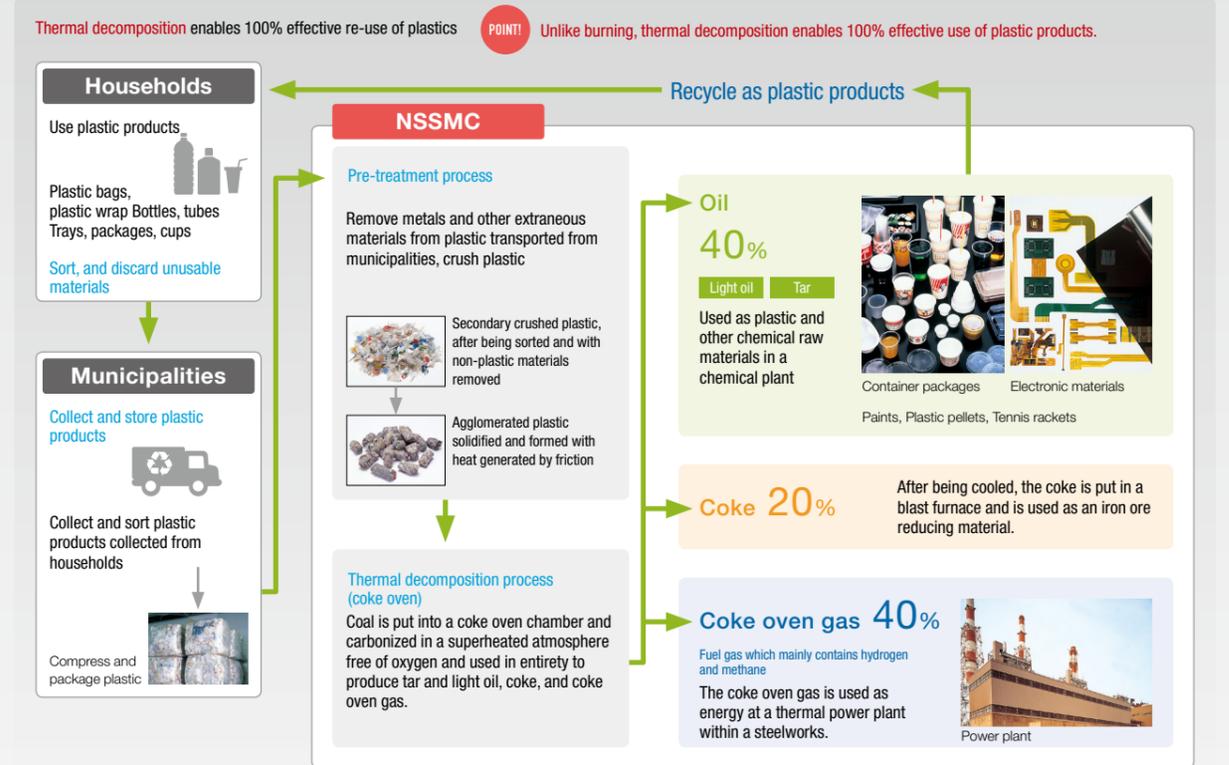
Moreover, NSSMC fully recycles waste plastics and discarded tires by using them in steelmaking processes.

\*6 Transferred to Nippon Steel & Sumikin Stainless Steel.

NSSMC's final disposal amounts



\*7 Including non-recurring waste (97,000 tons) generated by large-scale construction projects.



Promoting environmental risk management

Enhanced IP protection

NSSMC is promoting management of environmental risk with the aim of continually enhancing preservation of the environment in various regions, with due consideration of environmental risks, which differ by each steelworks or factory, and with due consideration to compliance with Japan's Air Pollution Control Act and other regulations. We are also engaged in reducing environmental risk throughout the Group.

Atmospheric risk management

In order to reduce emissions of sulfur oxides (SO<sub>x</sub>) and nitrogen oxides (NO<sub>x</sub>) and to curb emissions of soot and dust, we have implemented effective facility measures. In addition, we conduct constant monitoring and regular patrols to ensure that no abnormal emissions are released outside.

Water quality risk management

NSSMC uses approximately 6.0 billion m<sup>3</sup> of freshwater a year at all of its steelworks and factories combined. Approximately

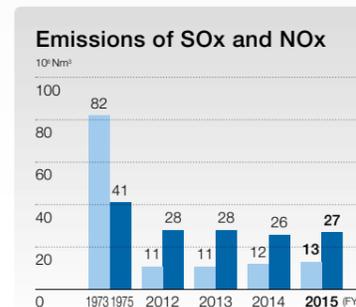
90% of this water is recycled or re-circulated. We try not to waste precious water resources, and to control wastewater discharge.

In consideration of the importance of preventing water pollution, we have installed devices such as water discharge automatic monitoring equipment, water drain shut-off gates, and emergency water storage tanks to prevent abnormal wastewater to spill over outside the steelworks or factories.

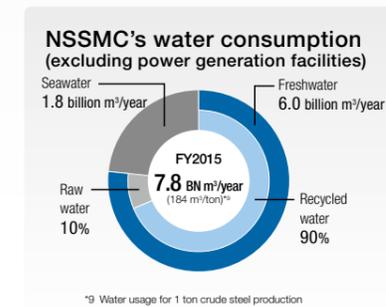
Comprehensive control of discharge of chemical substances

NSSMC appropriately manages and tries to improve the production, handling, and discharge of chemical substances such as VOC\*<sup>8</sup> in accordance with laws concerning the management of chemical substances as well as following the voluntary management procedures set by the Japan Iron and Steel Federation (JISF) and NSSMC. We also took the lead to promote the use of alternatives to steelmaking materials and equipment that contain hazardous materials such as asbestos and polychlorinated biphenyl (PCB).

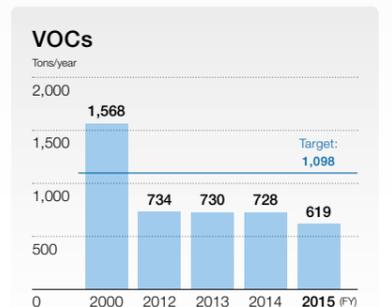
\*8 VOC: Volatile Organic Compounds



■ SO<sub>x</sub> emissions  
■ NO<sub>x</sub> emissions



\*9 Water usage for 1 ton crude steel production



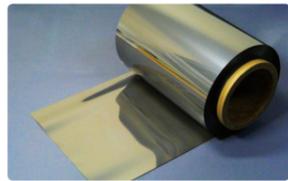


# ECO PRODUCTS™

(WHAT WE PRODUCE IS “ECO-FRIENDLY”)

### Titanium foil for fuel cell stack

Titanium foil is adopted in parts for vehicular fuel cells, which emit only water and no CO<sub>2</sub>. It has excellent anti-corrosion performance even inside the highly corrosive fuel cells. Being lightweight, it also contributes to improved fuel efficiency.



### SMart BEAM™, a lightweight welded H-beam

SMart BEAM™ is a lightweight welded H-beam manufactured from hot-rolled steel. Due to its strength and light weight, it has been adopted for use in beams for prefabricated houses as well as wooden houses. The high levels of its dimensional precision and durability have been highly acclaimed.



### High-tensile-strength steel materials

High-tensile-strength steel materials for automobiles help overcome two challenges: improvement in fuel efficiency by reduction of vehicle body weight, and ensuring the safety of passengers at the time of a collision. The materials are also superior in workability.



Drop impact test (the middle two products are high-tensile-strength steel materials)

### Tinplate for beverage and food cans

Tinplate for beverage and food cans can be recycled many times. Moreover, it helps protect food safety due to its strength, and its thinness minimizes container weight, thereby contributing to improved transportation energy and efficiency.



### HRX19™, stainless steel designed for high-pressure hydrogen environments

HRX19™, the stainless steel designed for high-pressure hydrogen environments, has excellent resistance to hydrogen gas embrittlement, strength of roughly twice that of conventional steel, and excellent weldability. The material, by being used for high-pressure hydrogen stations and fuel cell-powered vehicles, contributes to the realization of a hydrogen-oriented society.



Left: Conventional SUS316L stainless steel pipe  
Middle and right: HRX19™ stainless steel pipe

### Tough Guard™ Mild, smooth-surfaced high-corrosion resistant coated wires

Tough Guard™ Mild are coated wires that have roughly five times the corrosion resistance than conventional Zn-Al alloy coatings. Excelling in corrosion resistance when bent and welded for use, the wires can contribute to longer service lives of social infrastructure, such as when used for wire mesh and other products.



### NSSMC's eco-friendly products help reduce environmental burden.

Our Group's products, having advanced or highly specialized functions, based on our technological capabilities and reliability are used in diverse areas including energy, transportation and construction equipment, and household products. They typically help our customers become more efficient while making their products lighter or lengthening product life. That translates into the saving of resources and energy, and into a reduction in CO<sub>2</sub> emissions at the point of use at our customers, thereby contributing to lessening the environmental burden.

### Corrosion Resistance Steel for Painting Cycle Extension, CORSPACE™

CORSPACE™ has a superior corrosion resistance property and effectively reduces the need to repaint a bridge to once every 100 years instead of three times. The material contributes to the reduced use of paint, and is thereby friendly to the environment. Particularly in high-chloride content environments, CORSPACE™ shows performance superior to that of conventional steel.



### NSafe-Hull™, a highly ductile steel plate for shipbuilding

NSafe-Hull™ has excellent ductility and substantially improves a ship's collision safety by absorbing more energy and having a higher anti-rupturing performance than conventional steel. It contributes to protecting cargo and preventing oil leakage that could otherwise result in severe environmental pollution.



### Wheelsets (wheels and axles) for high-speed railways

NSSMC manufactures almost all wheels and axles used by railways in Japan. We are pursuing weight reduction by developing hollow axles, for example, and contributing to energy conservation in railway transport.



### The world's longest 150-meter railway rails

Rails for railways are ordinarily cut into 25-meter standard lengths for shipment to customers. The 150-meter rails reduce the number of joints between rails, which are one of the causes of noise and vibration that affect the comfort of passengers. It also reduces requirements for welding.



NSSMC's 150-meter railway rails are adopted for the Hokkaido Shinkansen (bullet train)  
Photo: Courtesy of Hokkaido Railway Company

### KATAMA™ SP (special), a fast-curing roadbed material

KATAMA™ SP, with its enhanced compaction properties derived from mixing steelmaking slag with water, is a fast-curing roadbed material. It prevents weed growth, helps maintain the generation efficiency of mega-solar power stations, and reduces mowing requirements of idle lands and median strips.





# ECO SOLUTION

(SHARING OUR "ECO-SOLUTIONS")

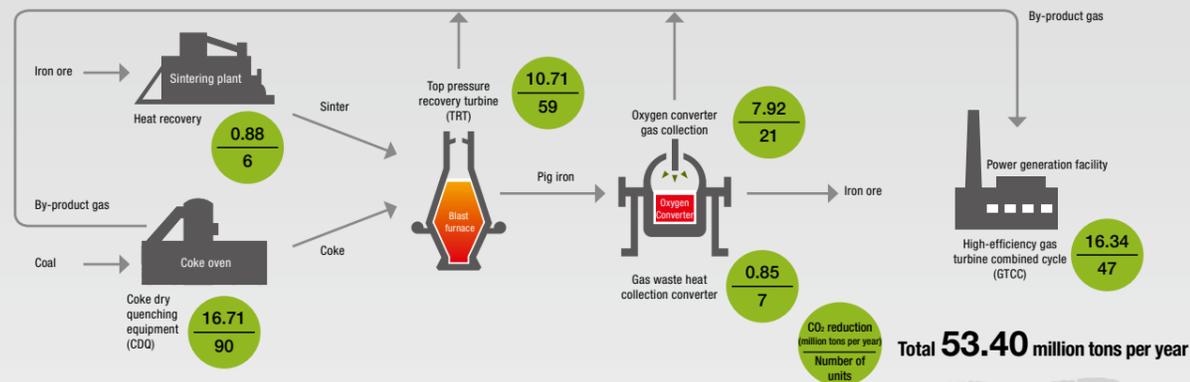
The NSSMC Group's technologies help solve the environmental challenges of various countries throughout the world.

With the understanding that the transfer of Japan's advanced energy-saving technologies overseas can be one of the most effective ways to globally reduce CO<sub>2</sub> emissions, NSSMC is participating in global energy-saving and environmental initiatives in various ways including multinational and bilateral arrangements with China and India.

## Overseas steel industry's CO<sub>2</sub> emission reduction effects by introducing Japan's energy-saving equipment

(Cumulative basis to fiscal 2014, JISF)

The CO<sub>2</sub> emission reduction effects achieved by Japanese companies' energy-saving technologies transferred overseas have amounted to over 50 million tons a year in total.



## Globally-expanding Japanese steel industry's energy-saving technologies

(Numbers represent the number of units.)



The Coke Dry Quenching (CDQ) power generation equipment uses the exhaust heat, which is collected while the hot coke is quenched with inert gas.

\* 90 units of CDQ equipment are all from the NSSMC Group (Nippon Steel & Sumikin Engineering).

NSSMC and other steelmakers in Japan had earnestly promoted continuous processing and exhaust heat recovery after the first oil crisis and until around 1990. This has resulted in their achieving the world's high-level energy efficiency.

## Energy efficiency in steelmaking by country (2010)



Comparison when Japan is assumed to be 100

Source: International Comparisons of Energy Efficiency (Sectors of Electricity Generation, Iron and steel, Cement), RITE, 2010 (Numerical values were provided by the Japan Iron and Steel Federation (JISF))

# DEVELOPMENT OF INNOVATIVE TECHNOLOGIES

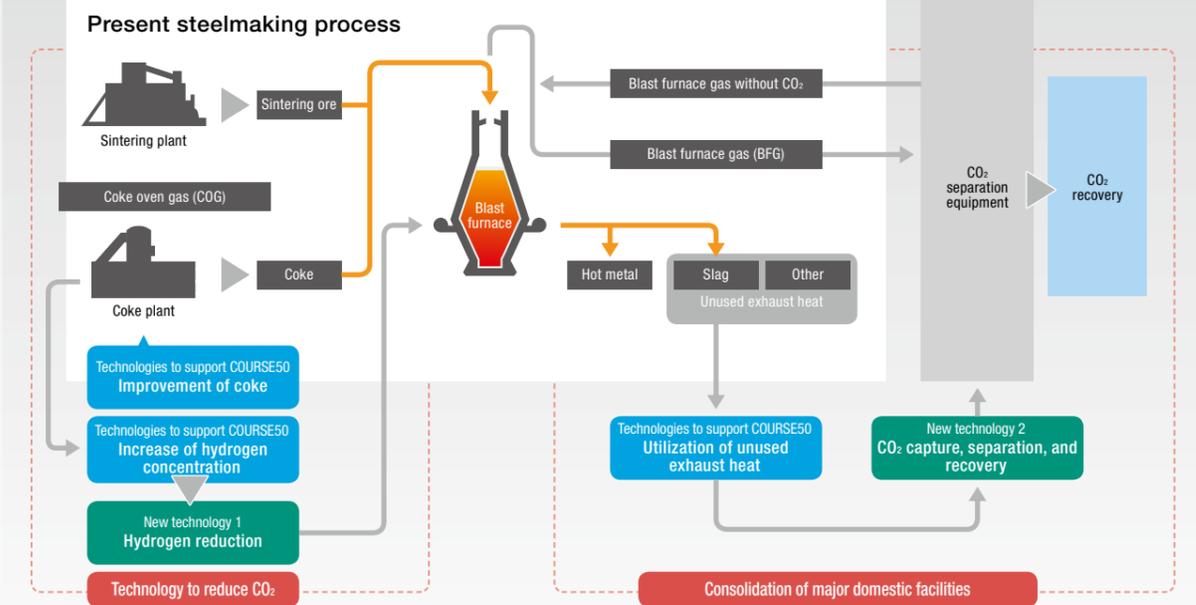
The NSSMC Group focuses on the development of technologies that help improve environmental burden substantially.

As part of ongoing efforts to improve its energy efficiency—already the highest in the world's steel industry—and contribute to curbing CO<sub>2</sub> emissions, Japan's steel industry has been undertaking a project to develop eco-friendly innovative steelmaking processes (COURSE50\*), commissioned by the New Energy and Industrial Technology Development Organization (NEDO).

NSSMC has constructed a 12 m<sup>3</sup> pilot blast furnace at the Kimitsu Works and completed two hot trial operations. In addition to a series of developments, from hydrogen reduction element technological development to experimental blast furnace development, NSSMC is working on themes such as hydrogen amplification, raising efficiency of the CO<sub>2</sub> separation/collection process, and development of high-efficiency heat exchangers.

\* COURSE50 stands for "CO<sub>2</sub> Ultimate Reduction in Steelmaking Processes by Innovative Technology for Cool Earth 50." Japan's four blast furnace steelmakers including NSSMC have been participating in this project, which aims to develop innovative process technologies to significantly reduce the amount of CO<sub>2</sub> emissions from blast furnaces.

## Environmentally harmonized steelmaking process technology development (COURSE50)



## Blast furnaces are huge reactors

Iron ore and coal are the main raw materials fed into a blast furnace. Iron ore is melted in a huge furnace (height, about 100 meters) and steel is reduced and extracted, but what kind of role does coal play? The main ingredient of coal is carbon, but before it is fed into a blast furnace, it is thermally decomposed in the absence of oxygen (carbonized), effective ingredients such as hydrocarbon oil and gas are separately extracted, and it is turned into coke with high strength and high carbon purity. However, the iron included in iron ore is present as iron oxides. In the blast furnace, a chemical reaction called reduction, which removes oxygen from these iron oxides, occurs, and the carbon in the coke functions as a reducing agent. Coal is not a fuel but rather the ingredient used to cause the chemical reaction.

At present, as there is no reducing agent to replace coal in the industrial production of steel, the generation of CO<sub>2</sub> resulting from the reduction reaction caused by carbon cannot be avoided. (iron oxide + carbon → iron + CO<sub>2</sub>) Nevertheless, as the Japanese steel industry, including NSSMC, has promoted energy-saving measures such as making effective use of the by-product gases and heat generated in the steelmaking processes, it has realized the highest energy efficiency in the global steel industry and at the same time is controlling CO<sub>2</sub> emissions. Furthermore, for the abovementioned COURSE50, we are engaged in R&D activities aimed at using hydrogen as a reducing agent partially replacing coal in industrial production. (iron oxide + hydrogen → iron + water)

# Together with Customers

NSSMC seeks to be No. 1 in customer evaluation.

NSSMC's mission is to go beyond providing materials and also share technology know-how and experience to ensure maximum value from the use of materials we provide, and to contribute to diverse improvements in the quality of our customers' products. The relationships of trust with our customers and their satisfaction, which we have gained by providing solutions, are our most valued assets. We will seek to ensure that our customers say, "only NSSMC can do this," in keeping with our aim of being the No. 1 steelmaker in terms of customer evaluation.

### Customer evaluation example (1)

**Taking advantage of NSSMC's simulation analysis technology and contributing to add value on customers' products**  
 Received the ECO-VC (Value Creation) Gold Award from Panasonic for a sixth consecutive year

Computer-aided engineering (CAE) is a tool to aid in the design and development of products through computer simulation. NSSMC's refined CAE analysis technology detects points of concern at the product design stage of our customers in home appliance, automobile, and other industries and is used in their design review work. We also make proposals for selection of the optimal steel material, depending on the physical characteristics of the product that is required. As an example, we have contributed to Panasonic Corporation through design support for the under-frame—a key component of LCD TVs, which had previously been designed separately for a flagship model and a mass-use model.

Specifically, we did the CAE analysis on rigidity, strength, and of press forming, and our analysis has greatly contributed to Panasonic's first attempt to reduce the number of molds, sheet thickness, and number of design processes. Such achievements led to us being awarded Panasonic's ECO-VC Gold Award for a sixth consecutive year. The ECO-VC awards are given to suppliers of Panasonic Group companies that make particularly significant contributions to reducing CO<sub>2</sub> emissions and making their products more competitive, out of approximately 1,000 such contributions from suppliers.

### Customer evaluation example (2)

**Providing total solutions and establishing a long-term relationship of trust with a customer**  
 Received the Global Partner Award from Royal Dutch Shell plc

NSSMC has had long-term contracts for oil country tubular goods (OCTG) with Shell for over four decades. We have contributed to Shell's business by proposing total solutions

which include the stable supply of high-performance OCTGs, development of new products which match the specific needs of Shell, and solid delivery service through supply chain management (SCM).

In 2015, NSSMC and Sumitomo Corporation jointly received the Global Partner Award, which is given to a supplier who greatly contributes to Shell's business. NSSMC, the only pipe and tube company awarded in the year, was commended for its excellent capabilities in product supply, product development, and making value-added proposals. While endeavoring to make the best use of our technology and services, we will continue to contribute to oil and gas development efforts, which are becoming increasingly difficult and demand further advanced technology.

### Awards from customers in FY2015 (in alphabetical order)

Customer	Award	Product type
Daikin Industries, Ltd.	CEO Award	Flat products
Fuji Xerox Co., Ltd.	Purchasing Premier Partner Award	Bars and wire rods, Flat products
Panasonic Corporation	ECO-VC Gold Award	Flat products
Royal Dutch Shell plc	Global Partner Award	Pipes and tubes
Yamaha Motor Co., Ltd.	Technology and Development Award	Titanium

# Together with Employees

Our workforce assumes a vital role in our world-leading manufacturing.

We believe that our manufacturing starts with the nonstop development of our prized human assets. NSSMC strives to create the best environment to facilitate efforts of each and every one of our employees to accomplish goals and set higher standards each day.

### Human development

NSSMC's launchpad for human resources development is on-the-job training (OJT). All supervisors are required to be accessible to his or her juniors, communicate with them every day, and teach them operational skills and help develop their ability to make judgments. Numerous off-the-job training (OFF-JT) programs are also available to complement these ongoing activities. They are constantly upgraded and modified to respond to changing needs over time. First, the program for Training for All Job Classes, for all employees, helps them to acquire basic knowledge and skills required for each job class.

In addition, for fostering steel engineers who support advancement in technology, professional technology courses that range from basics to highly advanced as well as variety of other technological training sessions are available. A scheme to help all engineers, young ones and veterans alike, acquire knowledge in a systematic manner has also been established.

In response to the mounting demands of globalization, NSSMC has initiated educational programs that include language lessons, intercultural learning programs, seminars prior to overseas assignment, and programs to study at a graduate school in the United States, Europe, or China, all with the aim of fostering people who can work on the global stage.

At manufacturing worksites, it is critically important for NSSMC's growth to have our veteran employees relay their accumulated skills and know-how to the next generation of young workers. Our method of transferring skills has evolved using such

systemized teaching methods as visualized work procedures and comprehension tests.

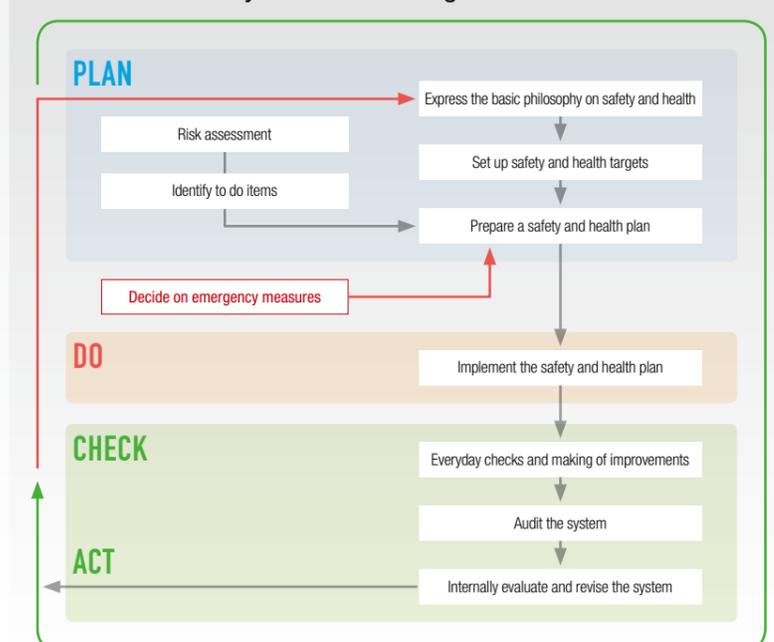
### Promoting diversity in the workplace

Within the NSSMC Group approximately 85,000 people of diverse backgrounds are working together in around 20 countries and regions, with the common aim of being the world leader in steelmaking. Also in many of our companies we have more female employees in important positions than in the past, even at manufacturing sites and in managerial positions.

### Safety and health at work

"The safety and health of employees at the Nippon Steel & Sumitomo Metal Corporation Group are the most important, top-priority values and the basis for supporting business development." In keeping with this Basic Philosophy on Safety and Health, we strive to ensure our worksites are safe, and free of accidents or injuries. Specifically, in order to thoroughly eliminate potential risks, we are now working on strengthening risk identification, making our equipment genuinely safer, and carrying out measures to prevent human errors. We are also taking initiatives for prevention of

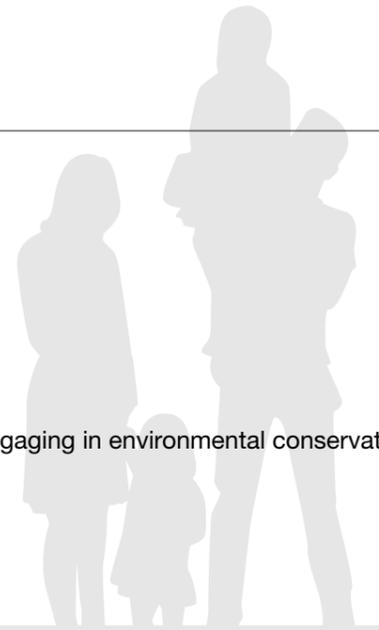
### Efforts toward safety and health management



# Together with Society

NSSMC grows hand in hand with local communities.

We support people in local communities and other stakeholders by engaging in environmental conservation, cultural, and athletic activities.



disaster recurrence and the analysis of past disasters. As for safety training, our Taikan Program (an experience-based safety education program), which allows employees to experience worksite risk through simulation, so as to better prepare them in anticipating and managing risk, has been enhanced.

As for healthcare management, we have strengthened procedures for employees' medical checkups and examinations, and are promoting preventive measures on behalf of the mind and the body of employees.

### Balanced work-life

From the viewpoint of supporting the work of employees, we not only seek to provide a good work environment but also a good work-life environment for our employees and their families. We offer various welfare benefit programs that accommodate the

needs of employees. These include dormitories, company housing, a childcare or family-care leave system, and the Work-Life Support Program, in which the company partly subsidizes expenses for childcare-related or other services, in response to individual applications by employees. In April 2016, our program for "life stage support" was expanded, and the Oita Works opened a 24-hour childcare center for use by shift work employees. We plan to open similar centers in other steelworks.

### Respect for human rights

NSSMC respects human rights, gives due attention to the rights of workers, and staunchly opposes the use of forced or child labor. These are prerequisites of our corporate activities. We have also prohibited as unjust the discriminatory treatment of workers, and take such initiatives as organizing training sessions and other activities to enlighten employees and holding conferences for human rights enlightenment on a regular basis. In addition, we give careful consideration to the traditions and culture of each country or region as we accelerate overseas business development.

Having a long history of managing steelworks all over Japan, NSSMC has been rooted in local communities and supported by local residents. In accordance with our attitude of maintaining harmony with local communities and society, we have implemented distinctive social contribution programs. These programs include promoting the "Creation of a Hometown Forest" by planting trees and plants in communities, educational support activities to make *monozukuri* (manufacturing) appealing to children, and distinctive social contribution activities such as through music-related ones, principally at Kioi Hall, and through various sports.

### "Creation of a Hometown Forest"

NSSMC's "Creation of a Hometown Forest" began in 1971, when we planted saplings at Oita Works. At present, each of NSSMC's steelworks in Japan has its own environmental conservation forest. Our forests, in aggregate, total around 961 hectares (about 2.5 times the area of Central Park in New York) and have become home to a diverse range of birds and small animals. Under the guidance of Dr. Akira Miyawaki, director of the Japanese Center for International

Studies in Ecology (professor emeritus at Yokohama National University), this project seeks to research the natural vegetation inherent to a certain area, carefully select suitable trees, grow their saplings in pots, and have them planted in prepared locations by local residents and our employees working together. Our "Creation of a Hometown Forest" has become the first silvicultural program based on an ecological approach by a Japanese company.

### Initiatives for children's future

NSSMC hosts a number of programs to make the importance and wonders of *monozukuri* (manufacturing) known to young children and students—on whose shoulders the future rests. We carry out a hands-on steelmaking program for children using the *tatara* method (a traditional Japanese iron-making technique). For elementary and junior high school students, we help support an energy conservation and environmental preservation class, science experiments, and special classroom lectures. We also offer work experience opportunities through internship programs to technical college students and university students and programs to teachers to help deepen their understanding of the steelmaking industry.

### Community activities through music and sports

Through the Nippon Steel & Sumitomo Metal Arts Foundation, NSSMC has a long history of supporting interest in and enjoyment of music, by helping the development of musicians, holding concerts, and supporting excellent music-related activities, principally at Kioi Hall in Tokyo. The annual Nippon Steel & Sumitomo Metal Music

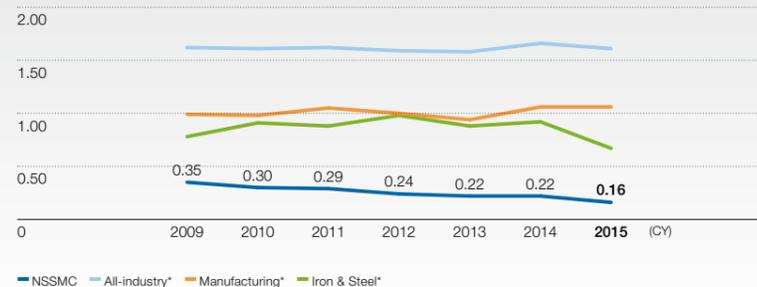


Factory tour at Kimitsu Works

Awards (formerly the Nippon Steel Music Awards) were established in 1990 to encourage promising young artists and those who contribute to the development of music culture.

NSSMC also manages or supports sports teams in the local communities of its steelworks. These include the professional J-League Kashima Antlers football team, which began as our corporate team; baseball teams in Kashima, Kimitsu, Nagoya, Hirohata, and Muroran, which have sent many of its players to the professional leagues; the Osaka Blazers Sakai, which began as our men's volleyball team and became a top team of Japan's major volleyball league; Hirohata Judo club, which has produced Olympic medalists; and the Kamaishi Sea Waves, our former corporate rugby team, which was the league champion for seven consecutive years. All of these teams also contribute to their local community through such various activities as sports classes for children, coaching of junior teams, and making our athletic facilities available to local residents for games and training. Together with local residents, we strive to provide renewed vigor to our local communities.

### Accident frequency rate



\* Source: JISF "Safety Management Overview, 2016"

$$\text{Accident frequency rate} = \frac{\text{Number of accidents and recordable incidents, accompanied by lost work time}}{\text{Total number of hours worked by all employees}} \times 1,000,000$$



Hands-on traditional Japanese ironmaking program for children

# 11-Year Financial Performance

(Unaudited; only for reference purposes)

FY	2005	2006	2007	2008	2009	2010	2011	2012 <sup>15</sup>	2013	2014	2015
<b>Operating Results (Fiscal year)</b>											
											Millions of yen
Net sales											
NSSMC/Nippon Steel	3,906,301	4,302,145	4,826,974	4,769,821	3,487,714	4,109,774	4,090,936	4,389,922	5,516,180	5,610,030	4,907,429
Sumitomo Metals	1,552,765	1,602,720	1,744,572	1,844,422	1,285,845	1,402,454	1,473,367	693,601	—	—	—
Operating profit (loss)											
NSSMC/Nippon Steel	576,319	580,097	545,580	342,930	32,005	165,605	79,364	20,110	298,390	349,510	167,731
Sumitomo Metals	305,804	303,774	274,396	226,052	(928)	56,301	76,801	15,759	—	—	—
Ordinary profit (loss)											
NSSMC/Nippon Steel	547,400	597,640	564,119	336,140	11,833	226,335	143,006	76,931	361,097	451,747	200,929
Sumitomo Metals	280,733	327,676	298,218	225,736	(36,634)	34,049	60,803	10,815	—	—	—
Profit (loss) before income taxes											
NSSMC/Nippon Steel	565,607	621,419	605,485	281,079	11,242	185,377	120,053	(136,970)	399,147	376,188	230,778
Sumitomo Metals	306,183	341,725	281,298	194,459	(39,758)	(27,991)	(51,251)	(134,831)	—	—	—
Profit (loss) attributable to owners of parent											
NSSMC/Nippon Steel	343,903	351,182	354,989	155,077	(11,529)	93,199	58,471	(124,567)	242,753	214,293	145,419
Sumitomo Metals	221,252	226,725	180,547	97,327	(49,772)	(7,144)	(53,799)	(133,849)	—	—	—
Capital expenditure											
NSSMC/Nippon Steel	203,973	273,440	308,993	305,738	329,356	287,236	281,748	355,873	257,019	304,389	304,643
Sumitomo Metals <sup>1</sup>	82,679	135,868	178,887	159,118	136,643	109,934	115,797	N.A.	—	—	—
Depreciation and amortization <sup>2</sup>											
NSSMC/Nippon Steel	183,365	192,454	244,038	273,744	284,092	291,587	280,940	288,770	331,801	320,046	308,276
Sumitomo Metals	75,255	72,291	102,565	109,854	120,853	126,267	122,937	49,757	—	—	—
Research and development costs											
NSSMC/Nippon Steel	37,881	41,229	45,329	45,797	46,824	46,663	48,175	60,071	64,437	62,966	68,493
Sumitomo Metals	16,427	18,769	20,102	22,120	22,845	22,783	22,842	N.A.	—	—	—
<b>Financial Position (End of fiscal year)</b>											
											Millions of yen
Total assets											
NSSMC/Nippon Steel	4,542,766	5,344,924	5,193,498	4,870,680	5,002,378	5,000,860	4,924,711	7,089,498	7,082,288	7,157,929	6,425,043
Sumitomo Metals	2,113,391	2,301,556	2,418,310	2,452,535	2,403,670	2,440,761	2,386,158	—	—	—	—
Shareholders' equity <sup>3</sup>											
NSSMC/Nippon Steel	1,677,889	1,892,883	1,908,777	1,668,682	1,844,382	1,860,799	1,828,902	2,394,069	2,683,659	2,978,696	2,773,822
Sumitomo Metals	720,866	880,807	901,946	857,697	829,219	766,777	709,315	—	—	—	—
Total net assets <sup>3</sup>											
NSSMC/Nippon Steel	1,782,006	2,369,228	2,413,954	2,174,809	2,335,676	2,380,925	2,347,343	2,938,283	3,237,995	3,547,059	3,009,075
Sumitomo Metals	762,172	924,798	949,303	904,371	879,209	818,080	761,484	—	—	—	—
Interest-bearing debt											
NSSMC/Nippon Steel	1,223,837	1,213,057	1,192,027	1,454,214	1,383,794	1,337,851	1,334,512	2,543,061	2,296,326	1,976,591	2,008,263
Sumitomo Metals <sup>4</sup>	679,778	717,984	883,888	990,010	1,138,353	1,173,382	1,172,120	—	—	—	—
<b>Cash Flows (Fiscal year)</b>											
											Millions of yen
Cash flows from operating activities											
NSSMC/Nippon Steel	392,996	478,460	525,777	127,540	437,668	369,500	237,414	313,317	574,767	710,998	562,956
Sumitomo Metals	311,943	171,833	230,043	190,582	67,002	202,340	88,065	N.A.	—	—	—
Cash flows from investing activities											
NSSMC/Nippon Steel	(226,894)	(374,669)	(438,121)	(306,603)	(412,827)	(325,781)	(226,096)	(327,336)	(196,856)	(263,667)	(242,204)
Sumitomo Metals	(63,892)	(108,934)	(274,316)	(214,977)	(172,933)	(144,009)	(120,110)	N.A.	—	—	—
Cash flows from financing activities											
NSSMC/Nippon Steel	(136,110)	19,387	(200,604)	170,209	(79,985)	(47,244)	(31,785)	33,332	(367,115)	(451,843)	(337,555)
Sumitomo Metals	(258,367)	(83,456)	48,751	52,623	87,843	(1,325)	(32,714)	N.A.	—	—	—
<b>Amounts per Share of Common Stock<sup>6</sup></b>											
											Yen
Profit (loss) attributable to owners of parent per share											
NSSMC/Nippon Steel	51.07	54.28	56.33	24.60	(1.83)	14.81	9.29	(16.23)	26.67	23.48	158.71 <sup>7</sup>
Sumitomo Metals	46.03	47.89	39.43	20.98	(10.74)	(1.54)	(11.61)	—	—	—	—
Cash dividends per share											
NSSMC/Nippon Steel	9.0	10.0	11.0	6.0	1.5	3.0	2.5	1.0	5.0	5.5	45.0 <sup>8</sup>
Sumitomo Metals	7.0	8.0	10.0	10.0	5.0	3.5	2.0	—	—	—	—

NSSMC and its domestic subsidiaries maintain their accounting records in yen. Yen amounts included in the financial statements are stated in millions of yen, and fractions of less than ¥1 million are omitted. Therefore, total or subtotal amounts presented in the financial statements may not equal the exact sum of the individual balances.

<sup>1</sup> Only for "Tangible fixed assets," construction base

<sup>2</sup> The amounts stated for "Sumitomo Metals" for fiscal 2011 and before are only for "Tangible fixed assets." The amounts stated for "NSSMC/Nippon Steel" and the amounts for "Sumitomo Metals" for the first half of fiscal 2012 (April 1 to September 30) include "Intangible fixed assets" excluding "Goodwill."

<sup>3</sup> "Shareholders' equity" stated here is the sum of "Shareholders' equity" as stated in the balance sheet and "Accumulated other comprehensive income." The amount stated for fiscal 2005 is "Total net assets." The difference between "Shareholders' equity" and "Total net assets" is "Non-controlling interests in consolidated subsidiaries."

<sup>4</sup> The amounts of "Outstanding borrowings" (the sum of "Borrowings," "Corporate bonds," and "Commercial paper") are stated.

<sup>5</sup> The amounts stated for "NSSMC/Nippon Steel" for fiscal 2012 are the sum of Nippon Steel's amounts for the first half (April 1 to September 30) of fiscal 2012 and NSSMC's amounts for the second half (October 1 to March 31) of fiscal 2012. The amounts stated for "Sumitomo Metals" for fiscal 2012 are Sumitomo Metals' amounts for the first half (April 1 to September 30) of fiscal 2012.

<sup>6</sup> On October 1, 2015, NSSMC performed a 1-for-10 share consolidation.

<sup>7</sup> Profit attributable to owners of parent per share for fiscal 2015 is calculated assuming the 1-for-10 share consolidation was performed at the beginning of the year.

<sup>8</sup> The interim dividend for fiscal 2015 would be converted into ¥30 based on this share consolidation, and after adding the fiscal 2015 year-end dividend of ¥15 the annual dividend for fiscal 2015 works out to be ¥45 per share.

FY	2005	2006	2007	2008	2009	2010	2011	2012 <sup>1)</sup>	2013	2014	2015
<b>Financial Indices</b>											
Return on sales ((Ordinary profit / Net sales) x 100)											%
NSSMC/Nippon Steel	14.0%	13.9%	11.7%	7.0%	0.3%	5.5%	3.5%	1.8%	6.5%	8.1%	4.1%
Sumitomo Metals	18.1%	20.4%	17.1%	12.2%	(2.8%)	2.4%	4.1%	—	—	—	—
Return on equity ((Profit attributable to owners of parent / Shareholders' equity [average for the period]) x 100)											%
NSSMC/Nippon Steel	24.0%	19.7%	18.7%	8.7%	(0.7%)	5.0%	3.2%	(5.9%)	9.6%	7.6%	5.1%
Sumitomo Metals	36.7%	28.3%	20.3%	11.1%	(5.9%)	(0.9%)	(7.3%)	—	—	—	—
Shareholders' equity ratio ((Shareholders' equity / Total assets) x 100)											%
NSSMC/Nippon Steel	36.9%	35.4%	36.8%	34.3%	36.9%	37.2%	37.1%	33.8%	37.9%	41.6%	43.2%
Sumitomo Metals	34.1%	38.3%	37.3%	35.0%	34.5%	31.4%	29.7%	—	—	—	—
Number of shares issued as of end of period <sup>1)</sup>											In thousands
NSSMC/Nippon Steel	6,806,980	6,806,980	6,806,980	6,806,980	6,806,980	6,806,980	6,806,980	9,503,214	9,503,214	9,503,214	950,321
Sumitomo Metals	4,805,974	4,805,974	4,805,974	4,805,974	4,805,974	4,805,974	4,805,974	—	—	—	—
Share price at end of period <sup>1)</sup>											Millions of yen
NSSMC/Nippon Steel	456	828	505	263	367	266	227	235	282	302.5	2,162
Sumitomo Metals	505	609	378	197	283	186	167	—	—	—	—
<b>Net Sales by Industry Segment<sup>2)</sup></b>											
Steelmaking and steel fabrication	3,057,510	3,482,377	3,994,526	4,038,685	2,823,193	3,473,495	3,476,855	3,790,450	4,877,909	4,939,239	4,283,923
Engineering and construction	336,179	367,968	359,884	386,643	331,905	254,941	248,934	303,002	314,174	348,699	315,727
Urban development	104,045	94,347	93,839	70,152	80,073	86,556	80,419	—	—	—	—
Chemicals and non-ferrous materials	373,072	—	—	—	—	—	—	—	—	—	—
Chemicals	—	318,755	289,029	212,172	179,412	193,896	197,669	195,719	230,130	212,777	181,823
New materials	—	65,601	76,157	59,907	58,799	60,888	54,245	42,211	37,241	36,449	36,280
System solutions	148,339	156,505	165,360	161,541	152,234	159,708	161,582	171,980	179,856	206,032	218,941
Other businesses	69,057	—	—	—	—	—	—	—	—	—	—
Elimination of inter-segment transactions	(181,903)	(183,410)	(151,823)	(159,281)	(137,904)	(119,711)	(128,769)	(113,442)	(123,132)	(133,168)	(129,267)
<b>Segment Profit (Loss)<sup>2)</sup></b>											
Steelmaking and steel fabrication	513,977	514,562	475,951	307,047	(20,589)	181,968	98,846	41,522	321,287	401,987	160,088
Engineering and construction	9,517	13,031	21,496	24,674	31,655	14,883	12,775	18,189	17,702	18,758	12,163
Urban development	14,155	14,301	12,602	3,929	2,937	9,273	9,371	—	—	—	—
Chemicals and non-ferrous materials	27,037	—	—	—	—	—	—	—	—	—	—
Chemicals	—	23,645	21,050	894	10,431	13,244	13,598	9,778	10,057	6,898	1,093
New materials	—	3,129	559	(2,397)	444	2,111	607	984	1,391	2,482	3,073
System solutions	11,806	13,992	14,756	11,479	10,732	11,332	11,215	11,673	12,760	16,565	19,493
Other businesses	(1,185)	—	—	—	—	—	—	—	—	—	—
Elimination of inter-segment transactions	1,010	(2,564)	(835)	(2,696)	(3,607)	(6,478)	(3,408)	(5,217)	(2,101)	5,053	5,017
<b>Non-Financial Performance</b>											
Crude steel production											Ten thousands of tons
NSSMC/Nippon Steel (Consolidated)	3,395	3,452	3,623	3,124	2,992	3,492	3,244	4,603	4,816	4,732	4,453
NSSMC/Nippon Steel (Non-consolidated)	3,120	3,160	3,311	2,861	2,750	3,246	3,020	4,355	4,567	4,496	4,217
Sumitomo Metals <sup>3)</sup>	1,331	1,338	1,362	1,287	1,165	1,290	1,272	—	—	—	—
Steel products shipments (Non-consolidated)											Ten thousands of tons
NSSMC/Nippon Steel	2,959	3,151	3,290	2,820	2,709	3,135	2,909	4,097	4,202	4,188	3,962
Sumitomo Metals <sup>4)</sup>	1,195	1,215	1,249	1,144	1,089	1,172	1,124	—	—	—	—
Average steel selling price (Non-consolidated)											Thousands of yen per ton
NSSMC/Nippon Steel	74.3	75.3	79.8	104.7	75.4	81.7	86.2	80.1	86.0	87.2	77.1
Sumitomo Metals <sup>4)</sup>	93.7	100.0	105.7	124.3	88.0	94.2	103.5	—	—	—	—
Export ratio (Value basis, non-consolidated) <sup>5)</sup>											%
NSSMC/Nippon Steel	30.9%	32.3%	33.4%	32.5%	38.4%	40.4%	39.2%	44%	46%	47%	45%
Sumitomo Metals <sup>4)</sup>	43.8%	46.2%	45.1%	45.2%	42.9%	41.6%	40.9%	—	—	—	—
Number of employees (Consolidated)											
NSSMC/Nippon Steel	46,143	47,257	48,757	50,077	52,205	59,183	60,508	83,187	84,361	84,447	84,837
Sumitomo Metals	25,639	24,982	24,926	24,245	23,674	22,597	23,007	—	—	—	—

<sup>1)</sup> On October 1, 2015, NSSMC performed a 1-for-10 share consolidation.

<sup>2)</sup> Figures for fiscal 2012 and earlier are for Nippon Steel. Figures in parentheses indicate either negative figures or elimination. "Segment profit (loss)" stated for fiscal 2009 and earlier is "Segment operating profit (loss)." Since July 1, 2006, Nippon Steel has made the following adjustments in its business segments: "the Chemicals and non-ferrous materials segment" has been divided into two segments, "Chemicals" and "New materials." "Titanium and aluminum operations" within the segment has been transferred to "Steelmaking and steel fabrication." "Electric power supply, services, and others" has been stated in aggregate as "Other businesses." Following the business integration of Nippon Steel City Produce, Inc. and Kowa Real Estate Co., Ltd. on October 1, 2012, the business segment classification has been changed to include the results for "Urban development" in "Elimination of inter-segment transactions" for "Net sales by segment" and "Profit (loss) by segment" from fiscal 2012.

<sup>3)</sup> "Crude steel production" of Sumitomo Metals includes those of Sumitomo Metals (Kokura), Ltd. (merged with Sumitomo Metals on January 1, 2012) and of Sumikin Iron & Steel Corporation (present Nippon Steel & Sumikin Koutetsu Wakayama Corporation).

<sup>4)</sup> "Steel products shipments," "Average steel selling price," and "Export ratio" of Sumitomo Metals include those of Sumitomo Metals (Kokura), Ltd. (merged with Sumitomo Metals on January 1, 2012), Sumitomo Metals (Nacetsu), Ltd. (merged with Sumitomo Metals on January 1, 2012), and Sumikin Iron & Steel Corporation (present Nippon Steel & Sumikin Koutetsu Wakayama Corporation).

<sup>5)</sup> "Export ratio" of NSSMC/Nippon Steel indicates the ratios of exports to total steel sales. "Export ratio" of Sumitomo Metals indicates the ratios of exports to total net sales.

<sup>6)</sup> The amounts of "Sales," "Ordinary profit," and "Net income" used to calculate "Return on sales (ROS)" and "Return on equity (ROE)" are the sum of Nippon Steel's amounts for the first half (April 1 to September 30) of fiscal 2012 and NSSMC's amounts for the second half (October 1 to March 31) of fiscal 2012. "Crude steel production" and "Steel products shipments" for fiscal 2012 are the sum of Nippon Steel's amount for the first half, Sumitomo Metals' amount for the first half, and NSSMC's amount for the second half. At the first half of fiscal 2012, NSSMC's "Average steel selling price" and "Export ratio" are the weighted average of Nippon Steel and Sumitomo Metals.

# Analysis of Financial Condition and Results of Operations

Fiscal years ended March 31

## Operating Results

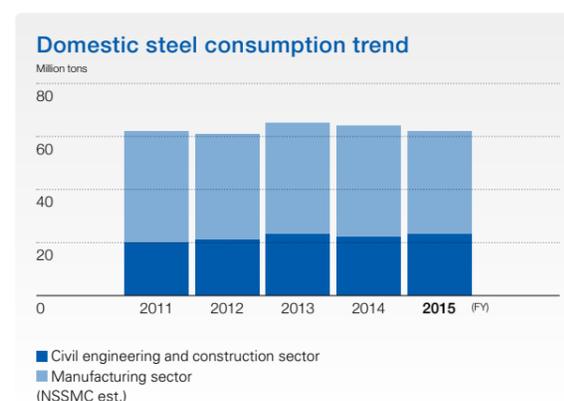
### Business Environment

Domestic steel demand remained sluggish, largely owing to stagnant capital investment. Overseas steel demand conditions included slowing steel demand in China and stagnant demand in the ASEAN region, while the slumping oil market led to depressed demand in the energy sector. International steel market conditions were characterized by substantial price declines beginning in the summer, which stemmed from strong supply pressure from Chinese steelmakers. Despite signs of recovery shown since the end of 2015, the market remained severely depressed.

In this harsh business environment, the Nippon Steel & Sumitomo Metal Corporation (NSSMC) Group made steady progress in implementing the strategies of the 2017 Mid-Term Management Plan, which was launched in March 2015. This included enhancing the competitiveness of the domestic “mother mills,” advancing global strategies, augmenting technological superiority, realizing world-leading cost competitiveness, and strengthening the Group companies in the steelmaking business.

### Operating Results

NSSMC’s consolidated results for fiscal 2015 included ¥4,907.4 billion in net sales, ¥167.7 billion in operating profit, and ¥200.9 billion in ordinary profit. The results were substantially affected by a decline in shipment volume and a decrease in steel material prices,



in addition to lower profit by Group companies and other factors. As a result, profit attributable to owners of parent amounted to ¥145.4 billion.

FY	Net sales		Ordinary profit	
	2014	2015	2014	2015
Steelmaking and steel fabrication	4,939.2	4,283.9	401.9	160.0
Engineering and construction	348.6	315.7	18.7	12.1
Chemicals	212.7	181.8	6.8	1.0
New materials	36.4	36.2	2.4	3.0
System solutions	206.0	218.9	16.5	19.4
Total	5,743.1	5,036.6	446.6	195.9
Adjustments	(133.1)	(129.2)	5.0	5.0
Consolidated total	5,610.0	4,907.4	451.7	200.9

Performance summaries for segments are as follows.

### Steelmaking and Steel Fabrication

The Steelmaking and steel fabrication segment implemented various measures centered primarily on enhancing the competitiveness of the domestic “mother mills” and advancing global strategies. In Japan, NSSMC has promoted initiatives to enhance manufacturing capability by identifying the reinforcement and reestablishment of major facilities as a priority management issue. As part of these efforts, NSSMC decided to expand the coke oven facilities of the Kashima Works with the aims of increasing production capacity and enhancing cost competitiveness. In addition, NSSMC decided to revise a part of the 2017 Mid-Term Management Plan to optimize the iron-making production structure at the Yawata Works. (The Yawata Works comprises the Yawata, Tobata, and Kokura areas.)

Initially, the Company planned to cease operation of the Kokura No. 2 blast furnace and to provide Tobata’s molten iron to the Kokura area. The new plan is to consolidate all iron-making production processes in the Tobata area, including the construction of a continuous caster (CC) in Tobata, while the No. 2 blast furnace and all other facilities in Kokura will cease operation. This will enable us to further improve productivity and enhance the overall competitiveness of the Yawata Works.

NSSMC also enhanced its global supply network to capture demand in overseas growth markets and build an operating structure that better responds to customers’ global development requirements. In fiscal 2015, NSSMC decided to produce ultra-high tensile strength steel sheet with high formability for automobiles in the United States. This will be the Company’s first attempt to produce such a type of steel overseas. In China, NSSMC

constructed and commenced operation of a hot-dipped galvanizing line for steel sheet at NSSMC’s steel sheet manufacturing company for automobiles in order to meet rising demand in China for steel sheet for luxury vehicles. Moreover, a processing subsidiary for seamless steel pipe fittings in Brunei started construction of a new plant.

The Company also adopted measures during the year to fortify its competitive base in Japan and overseas. In Japan, NSSMC entered into a memorandum of understanding with Nisshin Steel Co., Ltd. (Nisshin Steel) to pursue discussions aimed at making Nisshin Steel a subsidiary with a target date of March 2017, on the condition that NSSMC will provide a continuous supply of steel slabs to Nisshin Steel. By having Nisshin Steel in the Group, the NSSMC Group aims to further reinforce its position as the world’s leading comprehensive steelmaker, generate sustainable growth, and increase corporate value over the long term.

Outside Japan, NSSMC reached an agreement with its key strategic partner in the pipe and tube business, Vallourec S.A. of France, to broaden the strategic partnership primarily by deepening business alliances, and to acquire a 15% stake in Vallourec. Through this arrangement, NSSMC aims to create business structures capable of maintaining and augmenting each company’s earning power even in the severe business conditions caused by low oil prices.

NSSMC also made wholly owned subsidiaries of Nippon Steel & Sumikin Texeng. Co., Ltd. and Suzuki Metal Industry Co., Ltd., which was renamed Nippon Steel & Sumikin SG Wire Co., Ltd., effective October 1, 2015. Through these arrangements, the NSSMC Group will further strengthen the sharing of its business strategies with Group companies and enhance the Group’s earning power and competitiveness.

NSSMC also continued advancing measures to maximize cost improvement, including reducing raw material costs and improving yield, and sought the understanding and cooperation of its customers in adjusting steel material prices. The Steelmaking and steel fabrication segment recorded net sales of ¥4,283.9 billion and ordinary profit of ¥160.0 billion.

### Engineering and Construction

Nippon Steel & Sumikin Engineering Co., Ltd. continued to actively implement initiatives overseas, including the enhancement of its facility in Thailand and its subsidiary in India, and to fortify the competitiveness of its existing operations. However, on top of severe business conditions caused by factors such as the impact of the sluggish oil market and the declining investment appetite of overseas customers, profits were depressed. The Engineering and construction segment posted net sales of ¥315.7 billion and ordinary profit of ¥12.1 billion.

### Chemicals

Nippon Steel & Sumikin Chemical Co., Ltd. continued generating steady sales on strong demand in the functional materials business for circuit board materials, display materials, and other products. The chemicals business secured steady sales and profit, supported in part by robust demand for styrene monomer, a general-purpose resin material. Meanwhile, the coal chemicals business, particularly needle coke for graphite electrodes, struggled in extremely severe conditions caused by intensified competition driven by falling oil prices and stagnant demand worldwide. The Chemicals segment recorded net sales of ¥181.8 billion and ordinary profit of ¥1.0 billion.

### New Materials

Nippon Steel & Sumikin Materials Co., Ltd. continued to steadily increase sales in the electronic materials field for surface-treated copper wire. Demand in the carbon fiber field was strong for industrial and high-function applications and steady in other areas, including infrastructure maintenance and reinforcement applications and medical equipment applications. Meanwhile, declining demand in developing countries for metal substrates led to decreased earnings in the environmental and energy field. The New materials segment posted net sales of ¥36.2 billion and ordinary profit of ¥3.0 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. The segment’s IT outsourcing services were fortified and expanded during the term with the start of operations of the NSFITOS Center and other developments. The expansion of the global business also continued and included the acquisition of an IT company in Indonesia. As a result, the System solutions segment increased both sales and profit, compared to the previous year. It recorded net sales of ¥218.9 billion and ordinary profit of ¥19.4 billion.

## Outlook for Fiscal 2016

### Current Issues to be Addressed

The overall global economy is expected to show only modest growth. Economic conditions in the United States are likely to remain steady, mainly driven by private consumption, while the European economy appears poised for a moderate recovery. However, the slowing economic growth in China and the ASEAN countries is expected to persist.

An economic recovery in Japan is anticipated to slowly materialize amid a delayed recovery in private consumption and companies becoming increasingly cautious about capital investment.

Domestic steel demand is expected to decline in the first half of fiscal 2016 due to seasonal factors. Demand is then likely to recover in the second half, driven by factors such as a pick-up in automobile production and increased investment associated with the upcoming Olympics in 2020, on top of a seasonal rise in public works projects.

We anticipate overseas steel demand remaining essentially flat overall. Although we expect a modest increase in demand in the ASEAN region, the Chinese slowdown is expected to persist and the stagnant crude oil market will likely lead to depressed demand for the energy sector. While some signs of recovery are being seen in the international market, the situation needs to be monitored owing to the persistent excessive supply of steel products in China and elsewhere in East Asia.

In these conditions, NSSMC will continue to closely monitor trends in steel material supply and demand and raw material prices, and will also strive to implement maximum cost improvement. The Company will also strengthen its ability to make product proposals to customers, further enhance its overseas supply system, and continue revising steel material prices with the understanding of its customers.

## Outlook for Fiscal 2016

NSSMC is unable at this time to establish reasonably accurate earnings estimates for fiscal 2016 due to several factors, including the uncertainty of price trends for primary raw materials and steel products. The Company will disclose fiscal 2016 earnings forecasts when reasonable estimates become possible.

## Profit Distribution to Shareholders

### Basic Profit Distribution Policy and Distribution of Dividends for Fiscal 2015 and Fiscal 2016

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 dividend 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 distributed a dividend of ¥3.00 per share at the end of the first half of fiscal 2015 and a year-end dividend payment of ¥15.00 per share in accordance with this policy and as disclosed during the announcement of the financial results for the third quarter of fiscal 2015.

The Company carried out a share consolidation at a ratio of 10 shares to one share effective October 1, 2015. Assuming the first-half dividend is recalculated in accordance with the share consolidation, the interim dividend will be ¥30 per share. Including the year-end dividend of ¥15 per share, the full-year dividend will effectively be ¥45 per share and the consolidated dividend payout ratio 28.4%.

The Company has not determined a dividend distribution plan for fiscal 2016 due to the inability to establish reasonable earnings forecasts. The dividend distribution plan will be disclosed when it becomes available.

## Financial Position

### Analysis of the Balance Sheet

Consolidated total assets at the end of fiscal 2015 were ¥6,425.0 billion, representing a decrease of ¥732.8 billion from ¥7,157.9 billion at the end of fiscal 2014. The main factors were decreases in notes and accounts receivable of ¥92.2 billion, inventories of ¥143.3 billion, investments in securities of ¥176.3 billion, shares of subsidiaries and affiliates of ¥99.6 billion, and net defined benefit assets of ¥65.0 billion.

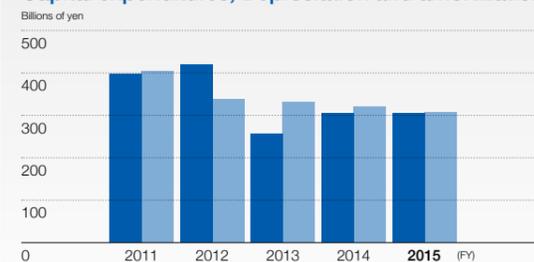
Total liabilities at the end of fiscal 2015 amounted to ¥3,415.9 billion, a decrease of ¥194.9 billion from ¥3,610.8 billion at the end of fiscal 2014. The decline was primarily due to an increase in interest-bearing debt of ¥31.6 billion from ¥1,976.5 billion at the end of fiscal 2014 to ¥2,008.2 billion at the end of fiscal 2015, along with decreases in notes and accounts payable of ¥85.3 billion, deferred

tax liabilities of ¥85.3 billion, and net defined benefit liabilities of ¥32.4 billion. Total net assets amounted to ¥3,009.0 billion at the end of fiscal 2015, representing a decrease of ¥537.9 billion from ¥3,547.0 billion at the end of fiscal 2014. The main factors in the decline were dividend payments of ¥59.7 billion, purchase of treasury stock of ¥26.4 billion and declines in unrealized gains on available-for-sale securities of ¥108.2 billion, foreign currency translation adjustments of ¥120.0 billion, and non-controlling interests in consolidated subsidiaries of ¥333.1 billion. These more than offset increases such as ¥145.4 billion for profit attributable to owners of parent. Shareholders' equity at the end of fiscal 2015 amounted to ¥2,773.8 billion and the ratio of interest-bearing debt to shareholders' equity (the D/E ratio) was 0.72.

### Analysis of Cash Flows

Cash flows from operating activities in fiscal 2015 amounted to ¥562.9 billion (compared to ¥710.9 billion in fiscal 2014). The principal factors were inflows from profit before income taxes of ¥230.7 billion, depreciation and amortization of ¥308.2 billion, and a decrease in inventories of ¥123.3 billion. These offset outflows of ¥84.5 billion from a decrease in notes and account payable and others. Cash flows from investing activities amounted to an outflow of ¥242.2 billion (compared to an outflow of ¥263.6 billion in fiscal 2014), as outflows including expenses for capital investments of ¥298.6 billion exceeded inflows including proceeds from sales of shares of subsidiaries and affiliates of ¥54.7 billion. The result was a free cash inflow of ¥320.7 billion in fiscal 2015 (compared to ¥447.3 billion in fiscal 2014). Cash flows from financing activities amounted to an outflow of ¥337.5 billion (compared to ¥451.8 billion in fiscal 2014), largely due to the effective repayment of interest-bearing debt of ¥268.3 billion after deducting the impact of refinancing from the redemption of preferred securities and financing by subordinated loans in July 2015. Other factors included the payments for purchase of treasury stock of ¥41.8 billion and the payment of cash dividends of ¥59.7 billion at the end of fiscal 2014 and the end of the first half (interim) of fiscal 2015. As a result of the above movements in cash flows, the Company's cash and cash equivalents at the end of the fiscal year under review amounted to ¥85.2 billion.

### Capital expenditures, Depreciation and amortization



■ Capital expenditures  
■ Depreciation and amortization  
For fiscal 2011 to the first half of fiscal 2012, figures for Nippon Steel Corporation and Sumitomo Metal Industries, Ltd. have been combined.

## Consolidated Balance Sheets

Nippon Steel & Sumitomo Metal Corporation and Consolidated Subsidiaries  
As of March 31, 2016 and 2015

Millions of yen

	2016	2015
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and bank deposits (Notes 14, 16 and 24)	¥ 85,365	¥ 113,822
Notes and accounts receivable (Notes 16 and 24)	523,207	615,429
Marketable securities (Notes 14, 16 and 17)	525	2,025
Inventories (Note 5)	1,110,901	1,254,203
Deferred tax assets (Note 20)	56,004	95,598
Other (Note 24)	214,635	253,754
Less: Allowance for doubtful accounts	(567)	(1,019)
<b>Total current assets</b>	<b>1,990,072</b>	<b>2,333,813</b>
<b>Fixed assets:</b>		
<b>Tangible fixed assets:</b>		
Buildings and structures (Note 24)	2,137,597	2,158,437
Accumulated depreciation	(1,455,409)	(1,444,286)
Buildings and structures, net	682,187	714,150
Machinery, equipment and vehicles (Note 24)	6,536,437	6,461,630
Accumulated depreciation	(5,507,581)	(5,405,296)
Machinery, equipment and vehicles, net	1,028,856	1,056,333
Tools, furniture and fixtures (Note 24)	264,740	264,482
Accumulated depreciation	(222,055)	(222,631)
Tools, furniture and fixtures, net	42,684	41,851
Land (Notes 8 and 24)	592,596	591,202
Leased assets	19,244	19,087
Accumulated depreciation	(10,246)	(9,684)
Leased assets, net	8,997	9,403
Construction in progress	223,916	184,931
<b>Total tangible fixed assets</b>	<b>2,579,240</b>	<b>2,597,872</b>
<b>Intangible assets:</b>		
Goodwill	41,756	50,046
Leased assets	288	335
Patents and utility rights	6,222	8,039
Software	39,413	40,441
<b>Total intangible assets</b>	<b>87,680</b>	<b>98,862</b>
<b>Investments and others:</b>		
Investments in securities	592,402	768,744
Shares of subsidiaries and affiliates (Notes 6, 8, 16 and 17)	979,879	1,079,523
Long-term loans receivable (Note 24)	41,909	58,579
Net defined benefit assets (Note 19)	58,708	123,764
Deferred tax assets (Note 20)	51,959	48,054
Other	45,698	52,567
Less: Allowance for doubtful accounts	(2,508)	(3,854)
<b>Total investments and others</b>	<b>1,768,049</b>	<b>2,127,380</b>
<b>Total fixed assets</b>	<b>4,434,970</b>	<b>4,824,115</b>
<b>Total assets</b>	<b>¥ 6,425,043</b>	<b>¥ 7,157,929</b>

The accompanying notes are integral parts of these statements.

Millions of yen

	2016	2015
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Notes and accounts payable (Note 16)	¥ 589,319	¥ 674,634
Short-term loans payable (Notes 16 and 24)	400,386	363,654
Bonds due within one year (Notes 16 and 24)	50,000	40,000
Current portion of lease obligations (Note 24)	3,498	5,740
Accounts payable—other (Note 16)	332,587	383,912
Income taxes payable	25,342	31,003
Provision for loss on construction contracts	2,124	1,670
Other (Note 24)	211,658	189,179
<b>Total current liabilities</b>	<b>1,614,918</b>	<b>1,689,797</b>
<b>Long-term liabilities:</b>		
Bonds and notes (Notes 16 and 24)	335,683	385,676
Long-term loans payable (Notes 16 and 24)	1,209,116	1,169,840
Lease obligations (excluding current portion) (Note 24)	8,378	10,249
Deferred tax liabilities (Note 20)	42,818	128,202
Deferred tax liabilities on revaluation of land (Note 8)	8,904	8,039
Allowance for retirement benefits of directors and Audit & Supervisory Board members	4,805	4,968
Net defined benefit liabilities (Note 19)	128,837	161,332
Other	62,504	52,763
<b>Total long-term liabilities</b>	<b>1,801,049</b>	<b>1,921,073</b>
<b>Total liabilities</b>	<b>3,415,968</b>	<b>3,610,870</b>
Commitments and contingent liabilities (Note 7)		
<b>NET ASSETS</b> (Note 13)		
<b>Shareholders' equity:</b>		
Common stock	419,524	419,524
Capital surplus	383,010	371,471
Retained earnings	1,837,919	1,752,210
Less: Treasury stock, at cost	(87,942)	(61,508)
<b>Total shareholders' equity</b>	<b>2,552,512</b>	<b>2,481,698</b>
<b>Accumulated other comprehensive income</b> (Note 12):		
Unrealized gains on available-for-sale securities (Note 17)	171,378	279,641
Deferred hedge income (loss)	(10,883)	371
Unrealized gains on revaluation of land (Note 8)	3,025	2,885
Foreign currency translation adjustments	14,652	134,732
Remeasurements of defined benefit plans (Note 19)	43,136	79,366
<b>Total accumulated other comprehensive income</b>	<b>221,310</b>	<b>496,997</b>
<b>Non-controlling interests in consolidated subsidiaries</b> (Note 8)	<b>235,252</b>	<b>568,362</b>
<b>Total net assets</b>	<b>3,009,075</b>	<b>3,547,059</b>
<b>Total liabilities and net assets</b>	<b>¥6,425,043</b>	<b>¥7,157,929</b>

## Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income

Nippon Steel & Sumitomo Metal Corporation and Consolidated Subsidiaries  
Years ended March 31, 2016 and 2015

Millions of yen

	2016	2015
<b>Consolidated Statements of Operations</b>		
Net sales	¥4,907,429	¥5,610,030
Cost of sales (Note 10)	4,288,386	4,801,781
<b>Gross profit</b>	<b>619,043</b>	<b>808,248</b>
Selling, general and administrative expenses (Notes 9 and 10)	451,312	458,738
<b>Operating profit</b>	<b>167,731</b>	<b>349,510</b>
Non-operating profit:		
Interest income	5,700	5,290
Dividend income	17,811	18,159
Equity in profit of unconsolidated subsidiaries and affiliates	44,181	82,717
Exchange gain on foreign currency transactions	—	33,854
Other	40,039	36,774
	<b>107,732</b>	<b>176,797</b>
Non-operating loss:		
Interest expense	20,110	19,920
Loss on disposal of fixed assets	14,258	16,717
Other	40,166	37,923
	<b>74,534</b>	<b>74,560</b>
<b>Ordinary profit</b>	<b>200,929</b>	<b>451,747</b>
Extraordinary profit:		
Gain on sales of investments in securities	—	14,317
Gain on sales of shares of subsidiaries and affiliates	32,650	—
Settlement received	30,000	—
	<b>62,650</b>	<b>14,317</b>
Extraordinary loss:		
Impairment loss (Note 11)	13,712	—
Loss on inactive facilities (Note 11)	19,088	21,276
Loss on business of subsidiaries and affiliates (Note 11)	—	68,600
	<b>32,801</b>	<b>89,876</b>
<b>Profit before income taxes</b>	<b>230,778</b>	<b>376,188</b>
<b>Income taxes—current</b> (Note 20)	<b>48,593</b>	<b>73,288</b>
<b>Income taxes—deferred</b> (Note 20)	<b>30,638</b>	<b>72,662</b>
	<b>79,232</b>	<b>145,950</b>
<b>Profit</b>	<b>151,546</b>	<b>230,237</b>
Profit attributable to non-controlling interests	6,127	15,944
<b>Profit attributable to owners of parent</b>	<b>¥ 145,419</b>	<b>¥ 214,293</b>

The accompanying notes are integral parts of these statements.

Millions of yen

	2016	2015
<b>Consolidated Statements of Comprehensive Income</b>		
Profit	¥ 151,546	¥230,237
Other comprehensive income:		
Unrealized gains on available-for-sale securities	(105,268)	87,127
Deferred hedge income (loss)	(10,156)	4,489
Unrealized gains on revaluation of land	56	120
Foreign currency translation adjustments	(74,285)	59,756
Remeasurements of defined benefit plans	(34,712)	37,142
Share of other comprehensive income (loss) of associates accounted for using equity method	(54,950)	20,264
<b>Total other comprehensive income</b> (Note 12)	<b>(279,317)</b>	<b>208,900</b>
<b>Comprehensive income</b> (Note 12)	<b>¥(127,770)</b>	<b>¥439,138</b>
(Breakdown)		
Comprehensive income attributable to owners of parent	¥(130,268)	¥407,753
Comprehensive income attributable to non-controlling interests	¥ 2,497	¥ 31,385

The accompanying notes are integral parts of these statements.

## Consolidated Statements of Changes in Net Assets (Note 13)

Nippon Steel & Sumitomo Metal Corporation and Consolidated Subsidiaries  
Years ended March 31, 2016 and 2015

	Thousands		Millions of yen			
	Number of issued shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains on available-for-sale securities
Balance at March 31, 2014	9,503,214	¥419,524	¥371,465	¥1,652,054	¥(62,882)	¥ 189,831
Cumulative effects of changes in accounting policies				(27,824)		
Restated balance	9,503,214	¥419,524	¥371,465	¥1,624,230	¥(62,882)	¥ 189,831
Cash dividends	—	—	—	(45,704)	—	—
Profit attributable to owners of parent	—	—	—	214,293	—	—
Acquisition of treasury stock	—	—	—	—	(142)	—
Disposal of treasury stock	—	—	5	—	6	—
Increase (decrease) due to the change in the number of consolidated companies	—	—	—	(40,567)	1,511	—
Increase (decrease) due to reversal of unrealized gains on revaluation of land	—	—	—	(41)	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	89,809
Total change for fiscal 2014	—	—	5	127,980	1,374	89,809
Balance at March 31, 2015	9,503,214	¥419,524	¥371,471	¥1,752,210	¥(61,508)	¥ 279,641
Cash dividends	—	—	—	(59,711)	—	—
Profit attributable to owners of parent	—	—	—	145,419	—	—
Acquisition of treasury stock	—	—	—	—	(41,899)	—
Disposal of treasury stock	—	—	12,252	—	15,866	—
Increase (decrease) due to the change in the number of consolidated companies	—	—	—	—	(401)	—
Increase (decrease) due to reversal of unrealized gains on revaluation of land	—	—	—	0	—	—
Change in shares of parent arising from transactions with non-controlling interests	—	—	(712)	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	(108,262)
Total change for fiscal 2015	—	—	11,539	85,708	(26,434)	(108,262)
<b>Balance at March 31, 2016</b>	<b>9,503,214</b>	<b>¥419,524</b>	<b>¥383,010</b>	<b>¥1,837,919</b>	<b>¥(87,942)</b>	<b>¥ 171,378</b>

	Millions of yen					
	Deferred hedge income (loss)	Unrealized gains on revaluation of land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Non-controlling interests in consolidated subsidiaries	Total
Balance at March 31, 2014	¥ (3,099)	¥2,554	¥ 71,565	¥42,644	¥554,335	¥3,237,995
Cumulative effects of changes in accounting policies						(27,824)
Restated balance	¥ (3,099)	¥2,554	¥ 71,565	¥ 42,644	¥ 554,335	¥3,210,171
Cash dividends	—	—	—	—	—	(45,704)
Profit attributable to owners of parent	—	—	—	—	—	214,293
Acquisition of treasury stock	—	—	—	—	—	(142)
Disposal of treasury stock	—	—	—	—	—	11
Increase (decrease) due to the change in the number of consolidated companies	—	—	—	—	—	(39,056)
Increase (decrease) due to reversal of unrealized gains on revaluation of land	—	—	—	—	—	(41)
Net changes of items other than shareholders' equity	3,471	330	63,167	36,722	14,026	207,528
Total change for fiscal 2014	3,471	330	63,167	36,722	14,026	336,887
Balance at March 31, 2015	¥ 371	¥2,885	¥ 134,732	¥ 79,366	¥568,362	¥3,547,059
Cash dividends	—	—	—	—	—	(59,711)
Profit attributable to owners of parent	—	—	—	—	—	145,419
Acquisition of treasury stock	—	—	—	—	—	(41,899)
Disposal of treasury stock	—	—	—	—	—	28,118
Increase (decrease) due to the change in the number of consolidated companies	—	—	—	—	—	(401)
Increase (decrease) due to reversal of unrealized gains on revaluation of land	—	—	—	—	—	0
Change in shares of parent arising from transactions with non-controlling interests	—	—	—	—	—	(712)
Net changes of items other than shareholders' equity	(11,255)	140	(120,080)	(36,230)	(333,109)	(608,797)
Total change for fiscal 2015	(11,255)	140	(120,080)	(36,230)	(333,109)	(537,984)
<b>Balance at March 31, 2016</b>	<b>¥(10,883)</b>	<b>¥3,025</b>	<b>¥ 14,652</b>	<b>¥ 43,136</b>	<b>¥ 235,252</b>	<b>¥3,009,075</b>

The accompanying notes are integral parts of these statements.

## Consolidated Statements of Cash Flows

Nippon Steel & Sumitomo Metal Corporation and Consolidated Subsidiaries  
Years ended March 31, 2016 and 2015

	Millions of yen	
	2016	2015
<b>Cash flows from operating activities:</b>		
Profit before income taxes	¥ 230,778	¥ 376,188
Adjustments to reconcile profit (loss) to net cash provided by operating activities:		
Depreciation and amortization	308,276	320,046
Impairment loss	13,712	—
Interest and dividend income	(23,512)	(23,450)
Interest expense	20,110	19,920
Amortization of goodwill	3,498	9,099
Equity in profit of unconsolidated subsidiaries and affiliates	(44,181)	(82,717)
Loss (gain) on sales of investments in securities	(6,765)	(14,317)
Gain on sales of shares of subsidiaries and affiliates	(32,650)	—
Loss on disposal of tangible fixed assets and intangible assets	3,744	6,812
Gain on sales of tangible fixed assets and intangible assets	(5,233)	(9,496)
Loss on business of subsidiaries and affiliates	—	68,600
Settlement received	(30,000)	—
Changes in allowance for doubtful accounts	(1,732)	(156)
Changes in notes and accounts receivable	91,530	(13,898)
Changes in inventories	123,394	(24,970)
Changes in notes and accounts payable	(84,501)	12,057
Other	6,205	132,999
Subtotal	572,674	776,717
Interest and dividend income received	38,086	36,592
Interest expenses paid	(19,684)	(20,861)
Settlement received	30,000	—
Income taxes (cash basis)	(58,120)	(81,450)
<b>Net cash provided by operating activities</b>	<b>562,956</b>	<b>710,998</b>
<b>Cash flows from investing activities:</b>		
Acquisition of tangible and intangible assets	(298,670)	(324,074)
Proceeds from sales of tangible and intangible assets	10,111	19,223
Acquisition of investments in securities	(3,134)	(1,376)
Proceeds from sales of investments in securities	18,121	57,086
Acquisition of shares of subsidiaries and affiliates	(21,565)	(17,780)
Proceeds from sales of shares of subsidiaries and affiliates	54,747	5,666
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(3,776)	(20,159)
Payment for loans	(5,020)	(2,847)
Proceeds from collections of loans	8,158	4,344
Other	(1,175)	16,250
<b>Net cash used in investing activities</b>	<b>(242,204)</b>	<b>(263,667)</b>
<b>Cash flows from financing activities:</b>		
Net increase (decrease) in short-term loans payable	(32,715)	(6,065)
Net increase (decrease) in commercial paper	—	(32,000)
Proceeds from long-term loans payable	322,584	56,767
Payments of long-term loans payable	(209,582)	(278,235)
Redemption of bonds and notes	(40,000)	(65,000)
Redemption of preferred securities	(300,000)	—
Payments for purchase of treasury stock	(41,874)	(137)
Cash dividends	(59,711)	(45,704)
Cash dividends to non-controlling shareholders	(7,876)	(9,530)
Proceeds from issuance of common stock to non-controlling shareholders	3,619	2,009
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(6,202)	—
Other	34,202	(73,948)
<b>Net cash used in financing activities</b>	<b>(337,555)</b>	<b>(451,843)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(10,688)</b>	<b>10,030</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(27,491)</b>	<b>5,518</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>112,994</b>	<b>105,464</b>
<b>Increase (decrease) from the change in the number of consolidated companies</b>	<b>(299)</b>	<b>2,011</b>
<b>Cash and cash equivalents at end of year (Note 14)</b>	<b>¥ 85,203</b>	<b>¥ 112,994</b>

The accompanying notes are integral parts of these statements.

# Notes to Consolidated Financial Statements

Nippon Steel & Sumitomo Metal Corporation and Consolidated Subsidiaries

## 01 BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Nippon Steel & Sumitomo Metal Corporation (NSSMC) and its subsidiaries (collectively “the NSSMC Group”) are prepared on the basis of accounting principles generally accepted in Japan, and are

compiled from the consolidated financial statements prepared by NSSMC as required by the Financial Instruments and Exchange Act of Japan.

## 02 NOTES TO THE PRESUMPTION OF GOING CONCERN

None

## 03 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (1) Scope of consolidation

Number of consolidated subsidiaries: 339 companies  
For details on the subsidiaries included in consolidation, reference should be made to the list of principal subsidiaries and affiliates of NSSMC on pages 91–92 of this report.

In fiscal 2015, the year ended March 31, 2016, the scope of consolidation expanded by 12 companies, including 7 newly established and 3 newly acquired companies. 29 companies—13 merged companies and 11 liquidations, etc.—were eliminated from the scope of consolidation in fiscal 2015.

As part of the above, NS Preferred Capital Limited, which had been designated as a specified subsidiary, was eliminated from the scope of consolidation due to completion of liquidation.

Non-adoption of the consolidation accounting treatment for the unconsolidated subsidiaries (5 companies) does not have a material effect on total assets, net sales, profit or retained earnings in the consolidated financial statements.

### (2) Application of equity method

Number of affiliates accounted for by the equity method: 103 companies

For details on the affiliates included in consolidation, reference should be made to the list of principal subsidiaries and affiliates of NSSMC on pages 91–92 of this report.

During fiscal 2015, 3 companies were added as equity-method affiliates and 5 companies were removed as equity-method affiliates. Non-adoption of the equity method for the unconsolidated subsidiaries (5 companies) and affiliates (62 companies) has no material effect on profit or retained earnings in the consolidated financial statements.

### (3) Adjustments of differences in fiscal year-end

For consolidated subsidiaries listed below using a fiscal year-end other than March 31, certain adjustments have been made, if appropriate, in preparing the consolidated financial statements to reflect material transactions that have taken place between their fiscal year-end and March 31.

Consolidated subsidiaries	Date of closing accounting period
1 domestic subsidiary	January 31
3 domestic subsidiaries	December 31
133 foreign subsidiaries	December 31

Principal foreign subsidiaries using a December 31 fiscal year-end:

NIPPON STEEL AND SUMIKIN TUBOS DO BRASIL LTDA.  
The Siam United Steel (1995) Company Limited  
National Pipe Company Limited  
Standard Steel, LLC  
NIPPON STEEL & SUMITOMO METAL U.S.A., Inc.  
PT PELAT TIMAH NUSANTARA TBK.  
NIPPON STEEL & SUMITOMO METAL (Thailand) Co., Ltd.  
WESTERN TUBE & CONDUIT CORPORATION  
NIPPON STEEL & SUMITOMO METAL Australia Pty. Limited  
NIPPON STEEL & SUMIKIN Steel Processing (Thailand) Co., Ltd.

### (4) Securities

• Held-to-maturity debt securities:

Amortized cost method (straight-line method)

• Available-for-sale securities:

Securities with market quotations are stated at market value as of the balance sheet date. (Net unrealized gains or losses are comprehensively included in net assets, and the cost of securities sold is determined by the moving-average method.)

Securities without market quotations are stated at cost determined by the moving-average method.

### (5) Inventories

Inventories are stated principally using the cost accounting method based on the periodic average method. (Regarding balance sheet values, this method is designed to reduce book value when the contribution of inventories to profitability declines.)

### (6) Tangible fixed assets (excluding leased assets)

Depreciation of tangible fixed assets is mainly calculated using the declining-balance method. However, depreciation of buildings is mainly calculated using the straight-line method.

Useful lives of tangible fixed assets are generally as follows:

Buildings: Mainly 31 years

Machinery: Mainly 14 years

### (7) Intangible assets (excluding leased assets)

Amortization of intangible assets is calculated using the straight-line method.

Software products for internal use are amortized mainly over the estimated useful life of 5 years.

### (8) Leased assets

Assets concerning finance leases in which ownership is transferred to the lessee are depreciated using the same method of depreciation for tangible fixed assets owned by the NSSMC Group.

Assets concerning finance leases in which ownership is not transferred to the lessee are depreciated to a residual value of zero based on the straight-line method over a useful life period corresponding to the lease contract period.

### (9) Allowance for doubtful accounts

The allowance for doubtful accounts is computed based on the historical experienced default ratio for non-specific receivables, as well as the estimated irrecoverable portion of specific doubtful receivables calculated on an individual basis.

### (10) Provision for loss on construction contracts

The provision for loss on construction contracts is provided based on the excess of estimated costs over contract revenue.

### (11) Allowance for retirement benefits of directors and Audit & Supervisory Board members

The allowance for retirement benefits of directors and Audit & Supervisory Board members are computed based on internal rules.

### (12) Retirement benefit accounting policy

The employee retirement benefit obligations are computed primarily based on the benefit formula basis using the projected retirement benefit obligations at the end of the consolidated fiscal year under review. Prior service costs are appropriated using the straight-line method over a specified period (mainly 10 years) within the employees’ average remaining service period at the time when such costs accrue. Actuarial differences are principally charged to expenses proportionally using the straight-line method from the consolidated fiscal year following the year in which such differences accrue over a specified period (mainly 10 years) within the employees’ average remaining service period at the time when such differences accrue.

### (13) Accounting for revenues on construction contracts

Regarding projects for which the outcome of the portion completed is deemed certain, the NSSMC Group has applied the percentage-of-completion method (estimating the project progress percentage based on the percentage of the cost incurred to the estimated total cost). The completion-of-contract method is applied to other projects.

### (14) Important assets and liabilities in foreign currencies and foreign currency translation

Monetary assets and liabilities of NSSMC and its domestic subsidiaries denominated in foreign currencies are translated into yen at the rate prevailing on the balance sheet date, and the resulting foreign exchange gains or losses are recognized as income or expenses. For foreign consolidated subsidiaries, assets and liabilities are translated into yen at the rate prevailing at each balance sheet date, revenue and expense accounts are translated at the average rate of exchange in effect during the fiscal year, and foreign currency translation adjustments are included in foreign currency translation adjustments and non-controlling interests in consolidated subsidiaries item under net assets.

### (15) Hedge accounting

Gains or losses arising from changes in the fair values of derivatives designated as “hedging instruments” are recorded as deferred hedge income (loss) in net assets and included in net profit or loss in the same period in which the gains or losses on the underlying hedged items or transactions are recognized.

In principal, the NSSMC Group adopts the deferred hedging accounting method. In addition, for interest swaps whose amounts, index, and period meet the conditions for hedged items, the “exceptional” method is adopted. Using this method, the NSSMC Group does not account for gains and losses on those interest swaps on a fair value basis, but recognizes swap interest on an accrual basis. For foreign exchange forward contracts and currency swaps whose amounts, currency, and period meet the conditions of hedged items, the “assigning” method is adopted. Using this method, the NSSMC Group does not account for gains and losses on those foreign exchange forward contracts and currency swaps on a fair value basis, but converts hedged items using the rates of those foreign exchange forward contracts and currency swaps at the end of the year.

Derivatives designated as hedging instruments by the NSSMC Group are principally foreign exchange forward contracts, interest swaps, and currency swaps. The related hedged items are trade accounts receivable and payable, foreign currency future transaction, long-term bank loans, and debt securities issued by the NSSMC Group.

The NSSMC Group has a policy which aims to utilize these hedging instruments in order to reduce its exposure to the risk of fluctuations in market prices, interest rates, or foreign exchange rates. Therefore, the NSSMC Group’s purchase of hedging instruments is limited to the amount of the hedged items.

The NSSMC Group continues to evaluate the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

#### (16) Goodwill

Goodwill accounted for on an equity basis is amortized over the period for which the excess cost is expected to contribute to consolidated profit, where it is possible to estimate such a period, using the straight-line method. Otherwise, the excess is amortized proportionately over 5 years.

#### (17) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows include cash in hand, bank deposits able to be withdrawn on demand, and short-term investments due within 3 months of the date of purchase, and which represent an insignificant risk of change in value.

#### (18) Consumption tax

The accounting treatment used with respect to consumption tax and local consumption taxes is the tax-excluded method.

#### Changes in accounting principles (Year ended March 31, 2016)

(Application of Revised Accounting Standard for Business Combinations, etc.)

“Revised Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (ASBJ) Statement No. 21 revised on September 13, 2013, hereinafter referred to as the “Accounting Standard for Business Combinations”), the “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22 revised on September 13, 2013, hereinafter referred to as the “Accounting Standard for Consolidated Financial Statements”), and the “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7 revised on September 13, 2013, hereinafter referred to as the “Accounting Standard for Business Divestitures”) have been applied from the consolidated fiscal year under review. As a result, for subsidiaries NSSMC continues to control, differences arising due to changes in the equity portion are entered in capital surplus and costs associated with the acquisition of shares are now treated as expenses in the consolidated fiscal year in which they are incurred.

In addition, for business combinations that are implemented after the beginning of the consolidated fiscal year under review, the allocation of the cost of acquisitions, as determined after review of provisional accounting treatment, is reflected in the consolidated financial statements for the consolidated fiscal year in which the business combination took place.

Additionally, NSSMC has changed the method of presenting consolidated profit and moved “minority interests in consolidated subsidiaries” to “non-controlling interests in consolidated subsidiaries.” To reflect these changes, NSSMC has reclassified its consolidated financial statements for the previous fiscal year.

In the consolidated statements of cash flows for the consolidated fiscal year under review, the following changes have been made in the method of classification. Cash flows related to purchases or sales of shares of subsidiaries that are not accompanied by a change in the scope of consolidation have been included in “Cash flows from financing activities.” Cash flows related to expenses arising due to purchases of shares of subsidiaries accompanied by a change in the scope of consolidation or cash flows related to expenses due to purchases or sales of shares of subsidiaries that are not accompanied by a change in the scope of consolidation have been included in “Cash flows from operating activities.”

NSSMC has applied these standards in accordance with the transitional treatment prescribed in Section 58-2 (4) of the Accounting Standard for Business Combinations, Section 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Section 57-4 (4) of the Accounting Standard for Business Divestitures, and will continue to apply these standards from the beginning of the consolidated fiscal year under review into the future. The effect of these changes in accounting standards on the consolidated financial statements for the consolidated fiscal year under review was not material.

(Application of the “Revised Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements”)

At the beginning of the consolidated fiscal year under review, NSSMC adopted the “Revised Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (Practical Issues Task Force Report No. 18 revised on March 26, 2015).

The application of this practical solution had no effect on the consolidated financial statements for the consolidated fiscal year under review.

#### Unapplied accounting standards (Year ended March 31, 2016)

On March 28, 2016, the ASBJ issued ASBJ Guidance No. 26, “Guidance on Recoverability of Deferred Tax Assets.”

##### (1) Summary

With regard to the treatment of the recoverability of deferred tax assets, the following treatments stated in Auditing Standards Committee Report No. 66, “Audit Treatment regarding the judgement of Recoverability of Deferred Tax Assets,” were reviewed. The process for estimating deferred tax assets stated in this report whereby, companies are categorized into five categories and deferred tax assets are calculated based on each of these categories, will basically be retained.

- i. Treatment of companies that do not fulfill any of the requirements for the classifications from Category 1 to Category 5
- ii. Requirements for the classifications of Category 2 and Category 3

iii. Treatment of deductible temporary differences of which timing of the reversal cannot be scheduled for companies classified into Category 2

iv. Treatment concerning the reasonable estimable period of taxable income before adjusting deductible or taxable temporary differences for companies classified into Category 3

v. Treatment when a company fulfilling the requirements of Category 4 also falls under Category 2 or Category 3

(2) Scheduled application date

NSSMC plans to apply the above guidance from the beginning April 1, 2016.

(3) Effect from application of the accounting standards

The effect on the consolidated financial statements from the application of the accounting standards is currently under assessment.

#### Changes to presentation (Year ended March 31, 2016) (Consolidated Statements of Cash Flows)

Due to the reduced material significance of the category “Exchange loss (gain) on foreign currency transactions” (¥22,711 million in fiscal 2015) in “Cash flows from operating activities,” its category is included in “Other” beginning with fiscal 2016. Previous fiscal year figures in the consolidated statements of cash flows have been reclassified to reflect the change to the presentation method.

Due to the reduced material significance of the category “Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation” (¥10,324 million in fiscal 2015) in “Cash flows from investing activities,” its category is included in “Other” beginning with fiscal 2016. Previous fiscal year figures in the consolidated statements of cash flows have been reclassified to reflect the change to the presentation method.

## 04 JAPANESE YEN AMOUNTS

NSSMC and its domestic subsidiaries maintain their accounting records in yen. Yen amounts included in the accompanying consolidated financial statements are stated in millions of yen, and fractions of less than ¥1 million are omitted. Therefore, total or

subtotal amounts presented in the accompanying consolidated financial statements may not equal the exact sum of the individual balances.

## 05 INVENTORIES

Items relevant to inventories are as follows:

	Millions of yen	
	2016	2015
Finished and half-finished products	¥497,631	¥548,473
Work in process	61,754	62,606
Raw materials and supplies	551,515	643,123

## 06 UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Items relevant to unconsolidated subsidiaries and affiliates are as follows:

	Millions of yen	
	2016	2015
Shares of subsidiaries and affiliates	¥979,879	¥1,079,523

## 07 CONTINGENT LIABILITIES AND NOTES AND BILLS DISCOUNTED ENDORSED

### (1) Guarantee liabilities

(Year ended March 31, 2016)

	Outstanding amounts	Substantial amounts
	Millions of yen	Millions of yen
	2016	2016
Contingent liabilities for:		
Guarantee of loans		
AM/NS Calvert LLC	¥ 58,619	¥ 58,619
WISCO-NIPPON STEEL Tinplate Co., Ltd.	15,955	15,955
JAMSHEDPUR CONTINUOUS ANNEALING & PROCESSING COMPANY PRIVATE LIMITED	12,515	6,132*
Japan-Brazil Niobium Corporation	9,491	9,491
TENIGAL, S. de R.L. de C.V.	8,972	8,972
UNIGAL Ltda.	1,690	1,690
VALLOUREC & SUMITOMO TUBOS DO BRASIL LTDA.	1,340	1,340
Other	1,294	1,017*
Total	¥109,878	¥103,218

\* These represent substantial amounts excluding that portion which is re-guaranteed by other parties.

	Outstanding amounts	Substantial amounts
	Millions of yen	Millions of yen
	2016	2016
Contingent liabilities for:		
Reserved guarantee of loans	¥ 968	¥ 764
Maximum repurchase obligation amount associated with the liquidation of receivables	1,200	1,200

(Year ended March 31, 2015)

	Outstanding amounts	Substantial amounts
	Millions of yen	Millions of yen
	2015	2015
Contingent liabilities for:		
Guarantee of loans		
AM/NS Calvert LLC	¥ 69,034	¥ 69,034
WISCO-NIPPON STEEL Tinplate Co., Ltd.	17,762	17,762
JAMSHEDPUR CONTINUOUS ANNEALING & PROCESSING COMPANY PRIVATE LIMITED	15,254	7,474*
TENIGAL, S. de R.L. de C.V.	11,040	11,040
Japan-Brazil Niobium Corporation	10,389	10,389
UNIGAL Ltda.	2,523	2,523
VALLOUREC & SUMITOMO TUBOS DO BRASIL LTDA.	2,450	2,450
Other	1,835	1,521*
Total	¥130,290	¥122,197

\* These represent substantial amounts excluding that portion which is re-guaranteed by other parties.

Outstanding amounts	Substantial amounts
Millions of yen	Millions of yen

2015	2015
------	------

Contingent liabilities for:		
Reserved guarantee of loans	¥1,482	¥1,111
Maximum repurchase obligation amount associated with the liquidation of receivables	1,429	1,429

### (2) Notes and bills endorsed

	Millions of yen	
	2016	2015
Notes and bills endorsed	¥0	¥3

Note: These bills have a recourse clause which is in fact the contingent liability.

## 08 REVALUATION OF LAND

Revaluation of land used for business purposes was carried out in accordance with the "Law concerning Revaluation of Land" and related amendments for certain of NSSMC's domestic consolidated subsidiaries and affiliates to which the equity method is applied.

Revaluation differences computed by consolidated subsidiaries, net of tax and non-controlling interests, which were charged to "Deferred tax liabilities on revaluation of land" and "Non-controlling interests in consolidated subsidiaries," respectively, were recorded as a separate component of net assets as "Unrealized gains on revaluation of land."

Additionally, revaluation differences accounted for by affiliates were recorded as a separate component of net assets as "Unrealized gains on revaluation of land" in proportion to the equity rate.

- Method of revaluation

Calculations were made in accordance with the "Law concerning Revaluation of Land."

(Year ended March 31, 2016)

(Revaluation done on March 31, 2002)

- The excess of the carrying amounts of the revalued land over its fair value on March 31, 2016 was ¥2,309 million.

(Revaluation done on March 31, 2001)

- The excess of the carrying amounts of the revalued land over its fair value on March 31, 2016 was ¥11,939 million.

(Revaluation done on March 31, 2000)

- The excess of the carrying amounts of the revalued land over its fair value on March 31, 2016 was ¥1,909 million.

(Year ended March 31, 2015)

(Revaluation done on March 31, 2002)

- The excess of the carrying amounts of the revalued land over its fair value on March 31, 2015 was ¥2,507 million.

(Revaluation done on March 31, 2001)

- The excess of the carrying amounts of the revalued land over its fair value on March 31, 2015 was ¥12,424 million.

(Revaluation done on March 31, 2000)

- The excess of the carrying amounts of the revalued land over its fair value on March 31, 2015 was ¥1,905 million.

## 09 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The main components of selling, general and administrative expenses for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen	
	2016	2015
Transportation and storage	¥107,280	¥116,146
Salaries	117,953	119,825
Retirement benefit expenses	5,824	4,274
Research and development expenses	53,912	49,674
Depreciation and amortization	7,033	6,791
Amortization of goodwill	7,063	9,304

## 10 RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income for the years ended March 31, 2016 and 2015 are ¥68,493 million and ¥62,966 million, respectively.

## 11 EXPLANATORY NOTES ON EXTRAORDINARY PROFIT AND LOSS

(Year ended March 31, 2016)

### Extraordinary loss

#### (1) Impairment loss

Impairment loss associated with property put into business, etc., is accounted for as an extraordinary loss of the chemicals segment and other segments. This categorization is based on recognizing the declining profitability in the deteriorating business conditions as impairment losses mainly associated with property of a consolidated subsidiary put into the coal tar chemicals business in China. The grouping method, in principle, is to use each steelworks as a group while also recognizing individual units that generate independent cash flow. Recoverable amounts are calculated based on the net sale amount for properties held for lease and the estimate of the use value for business-use properties, with future cash flow calculated by applying a discount rate of 8.0% to the present value.

The amount of impairment loss for buildings and structures is ¥1,026 million, ¥1,030 million for machinery, equipment and vehicles, ¥47 million for tools, furniture and fixtures, ¥302 million for land, and ¥11,306 million for construction in progress.

#### (2) Loss on inactive facilities

Expenses that were incurred mainly due to retirement or disassembly based on decision to phase out major production equipment.

(Year ended March 31, 2015)

### Extraordinary loss

#### (1) Loss on inactive facilities

Expenses that were incurred mainly due to retirement or disassembly based on decision to phase out major production equipment.

#### (2) Loss on business of subsidiaries and affiliates

Due to the significant change in the business environment for equity-method affiliate VALLOUREC & SUMITOMO TUBOS DO BRASIL LTDA., an amount equivalent to an impairment loss is reported as "loss on business of subsidiaries and affiliates."

## 12 NOTES ON CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Reclassification adjustments and deferred tax accounting related to other comprehensive income for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen	
	2016	2015
Unrealized gains on available-for-sale securities:		
Amount for the current term	¥(147,820)	¥132,864
Amount due to reclassification adjustments	(13,163)	(17,855)
Amount before adjustments in deferred tax accounting	(160,984)	115,009
Amount due to deferred tax accounting	55,715	(27,882)
Unrealized gains on available-for-sale securities	(105,268)	87,127
Deferred hedge income (loss):		
Amount for the current term	¥ (7,699)	¥ 6,055
Amount due to reclassification adjustments	(7,349)	682
Amount before adjustments in deferred tax accounting	(15,049)	6,738
Amount due to deferred tax accounting	4,892	(2,249)
Deferred hedge income (loss)	(10,156)	4,489
Unrealized gains on revaluation of land:		
Amount for the current term	¥ —	¥ —
Amount before adjustments in deferred tax accounting	—	—
Amount due to deferred tax accounting	56	120
Unrealized gains on revaluation of land	56	120
Foreign currency translation adjustments:		
Amount for the current term	¥ (74,274)	¥ 59,155
Amount due to reclassification adjustments	(11)	601
Amount before adjustments in deferred tax accounting	(74,285)	59,756
Amount due to deferred tax accounting	—	—
Foreign currency translation adjustments	(74,285)	59,756
Remeasurements of defined benefit plans:		
Amount for the current term	¥ (42,029)	¥ 59,779
Amount due to reclassification adjustments	(11,182)	(8,329)
Amount before adjustments in deferred tax accounting	(53,212)	51,450
Amount due to deferred tax accounting	18,499	(14,307)
Remeasurements of defined benefit plans	(34,712)	37,142
Share of other comprehensive income (loss) of associates accounted for using equity method:		
Amount for the current term	¥ (54,050)	¥ 18,842
Amount due to reclassification adjustments	(900)	1,422
Share of other comprehensive income (loss) of associates accounted for using equity method	(54,950)	20,264
Total other comprehensive income	¥(279,317)	¥208,900

## 13 CHANGES IN NET ASSETS AND SHAREHOLDERS' EQUITY

Notes on the consolidated statements of changes in net assets for the years ended March 31, 2016 and 2015 are as follows:

(Year ended March 31, 2016)

### (1) Information on issued shares

Type of stock	March 31, 2015	Increase	Decrease	March 31, 2016
Common stock (Thousands)	9,503,214	—	8,552,892	950,321

Note: The Company carried out the share consolidation at the ratio of 10 shares to 1 share effective October 1, 2015.

(Reason for increase or decrease of issued shares)

#### • Decrease (Thousands)

- Share consolidation 8,552,892

### (2) Information on treasury stock

Type of stock	March 31, 2015	Increase	Decrease	March 31, 2016
Common stock (Thousands)	374,600	22,111	348,656	48,055

Note: The Company carried out the share consolidation at the ratio of 10 shares to 1 share effective October 1, 2015.

(Reason for increase or decrease of treasury stock)

#### • Increase (Thousands)

- Treasury stock purchases 20,341
- Increase associated with the change in the scope of consolidation 1,316
- Odd-lot stock purchases 304
- Purchased by affiliates 149

#### • Decrease (Thousands)

- Share consolidation 249,186
- Disposal of treasury stock for stock exchange 99,406
- Odd-lot stock sold 64

### (3) Information on dividends

Amount of dividend payments

Decision	Type of stock	Total payments (Millions of yen)	Cash dividends per share (Yen)	Record date	Effective date
At the Ordinary General Meeting of Shareholders held on June 24, 2015	Common stock	¥31,991	¥3.5	March 31, 2015	June 25, 2015
At the Meeting of the Board of Directors held on October 29, 2015	Common stock	¥27,719	¥3.0	September 30, 2015	November 30, 2015

Dividends of which record date belong to the year ended March 31, 2016, and the effective date belong to the year ending March 31, 2017 are as follows:

Decision	Type of stock	Source of dividends	Total payments (Millions of yen)	Cash dividends per share (Yen)	Record date	Effective date
At the Ordinary General Meeting of Shareholders held on June 24, 2016	Common stock	Retained earnings	¥13,554	¥15.0	March 31, 2016	June 27, 2016

Note: The Company carried out the share consolidation at the ratio of 10 shares to 1 share effective October 1, 2015. In accordance with this, cash dividends per share of which record date is March 31, 2016 is based on the share consolidation.

(Year ended March 31, 2015)

### (1) Information on issued shares

Type of stock	March 31, 2014	Increase	Decrease	March 31, 2015
Common stock (Thousands)	9,503,214	—	—	9,503,214

### (2) Information on treasury stock

Type of stock	March 31, 2014	Increase	Decrease	March 31, 2015
Common stock (Thousands)	378,513	646	4,559	374,600

(Reason for increase or decrease of treasury stock)

#### • Increase (Thousands)

- Odd-lot stock purchases 453
- Purchased by affiliates 192

#### • Decrease (Thousands)

- Change in scope of consolidation 4,520
- Odd-lot stock sold 39

### (3) Information on dividends

Amount of dividend payments

Decision	Type of stock	Total payments (Millions of yen)	Cash dividends per share (Yen)	Record date	Effective date
At the Ordinary General Meeting of Shareholders held on June 25, 2014	Common stock	¥27,422	¥3.0	March 31, 2014	June 26, 2014
At the Meeting of the Board of Directors held on October 30, 2014	Common stock	¥18,281	¥2.0	September 30, 2014	December 1, 2014

Dividends of which record date belong to the year ended March 31, 2015, and the effective date belong to the year ended March 31, 2016 are as follows:

Decision	Type of stock	Source of dividends	Total payments (Millions of yen)	Cash dividends per share (Yen)	Record date	Effective date
At the Ordinary General Meeting of Shareholders held on June 24, 2015	Common stock	Retained earnings	¥31,991	¥3.5	March 31, 2015	June 25, 2015

## 14 NOTES ON CONSOLIDATED STATEMENTS OF CASH FLOWS

### Cash and cash equivalents

	Millions of yen	
	2016	2015
Cash and bank deposits	¥85,365	¥113,822
Less: Time deposits with original maturity over 3 months	(662)	(827)
Securities due within 3 months	500	—
Cash and cash equivalents	¥85,203	¥112,994

## 15 LEASE COMMITMENTS

### (1) Finance leases

(Years ended March 31, 2016 and 2015)

Finance lease contracts under which the ownership of the leased assets are to be transferred to lessees

Outline of leased assets

Tangible fixed assets

Mainly machinery in the steel business

Accounting for the depreciation and amortization of leased assets

Included in Note 03, "Summary of Significant Accounting Policies."

Finance lease contracts other than those under which the ownership of the leased assets are to be transferred to lessees

#### Outline of leased assets

- Tangible fixed assets
  - Mainly buildings in the steel business
- Intangible assets
  - Software

#### Accounting for the depreciation and amortization of leased assets

Included in Note 03, "Summary of Significant Accounting Policies."

#### (2) Operating leases (non-cancelable)

The amount of outstanding future lease payments due at March 31, 2016 and 2015 are summarized as follows:

	Millions of yen	
	2016	2015
Future lease payments:		
Within one year	¥ 4,257	¥ 4,831
Over one year	9,250	12,590
	¥13,507	¥17,421

The amount of outstanding future lease income due at March 31, 2016 and 2015 are summarized as follows:

	Millions of yen	
	2016	2015
Future lease income:		
Within one year	¥1,058	¥1,263
Over one year	5,146	5,970
	¥6,205	¥7,234

## 16 FINANCIAL INSTRUMENTS

### 1. Current status of financial instruments

#### (1) Policy regarding financial instruments

NSSMC considers its business plan as it undertakes the procurement of necessary funds (mainly through the arrangement of loans and the issuance of commercial paper and bonds), and its fund procurement methods are chosen based on consideration of the short- or long-term nature of funding requirements and other special characteristics of funding requirements. Surplus fund management is restricted to management methods that emphasize safety and capabilities for conversion into cash when necessary. In addition, in cases when NSSMC undertakes transactions in derivatives, such transactions are limited to transactions (including future transactions) undertaken as a part of business activities (for the purpose of hedging risks associated with hedged items actually executed in the course of NSSMC's business activities). NSSMC has a policy of not engaging in derivative transactions for trading purposes (transactions with the purpose of obtaining profit through the trading of derivatives themselves).

#### (2) Types of financial instruments and related risks

NSSMC is exposed to credit risks arising from trade receivables such as notes and accounts receivable, but limits its transactions to principal suppliers with respect to which it can offset receivables

against trade payables and loans and to companies with high credit ratings. NSSMC, therefore, judges that it is exposed to almost no contractual default credit risks. In addition, accompanying NSSMC's exports of products, NSSMC is exposed to foreign currency exchange risks associated with receivables denominated in foreign currencies. NSSMC holds marketable and investment securities, mainly stocks of customers and other business collaborators, and is exposed to market price risks owing to these stockholdings. In addition, NSSMC extends long-term loans payable to its affiliates.

NSSMC incurs trade payables such as notes and accounts payable that are, in principle, payable within one year. NSSMC is exposed to foreign currency exchange risks arising from a portion of trade payables associated with imports of raw materials that are denominated in foreign currencies. NSSMC's fund procurement is as described in (1) above. In addition, a portion of funds procured by means of long-term loans and bonds is associated with variable interest rates, and the related payment burden changes due to trends in market interest rates.

Regarding derivative transactions associated with marketable securities, interest rates, or currency exchange rates, NSSMC limits its execution of such transactions to (a) hedge transactions with the objective of avoiding value fluctuation risks on marketable

securities that NSSMC holds, (b) hedge transactions with the objective of hedging market risks accompanying movements in interest rates associated with assets/liabilities or with the objective of maintaining the proportion of assets/liabilities associated with fixed or variable interest rates, and (c) hedge transactions with the objective of avoiding currency exchange risks accompanying transactions undertaken as a part of business activities such as trading, funding, and investment. The derivative transactions executed by NSSMC are exposed to the risks of securities price fluctuation, future changes in interest rates, and currency exchange rates, but because those transactions are limited to those with the objectives described in (a), (b), and (c) above, NSSMC judges that the risks from those transactions are limited.

### (3) Systems for management of financial instrument risks

#### (a) Management of credit risks (the risks that customers may default on their obligations)

In accordance with NSSMC's credit management regulations, information related to the credit management situation of customers is shared, and asset preservation measures are considered and implemented when necessary.

#### (b) Management of market risks (the risks arising from fluctuations in exchange rates, interest rates, and other indicators)

##### 1) Market price risks

Regarding marketable and investment securities, NSSMC maintains a grasp of fair value situations when necessary and undertakes deliberations regarding whether such securities are necessary for business purposes.

##### 2) Interest rate risks

To control risks from interest rate changes associated with interest payments on loans and bonds, interest rate swaps are used.

##### 3) Currency exchange risks

Regarding foreign currency-denominated trade assets and liabilities, to avoid currency exchange risks accompanying transactions

### 2. Fair value and other matters related to financial instruments

Book value and fair value as of the balance sheet date and differences are shown in the following tables.

(Year ended March 31, 2016)

	Millions of yen		
	Book value*	Fair value*	Differences
(1) Cash and bank deposits	¥ 85,365	¥ 85,365	¥ —
(2) Notes and accounts receivable	523,207	523,207	—
(3) Marketable and investment securities:			
Held-to-maturity debt securities	5,000	4,986	(13)
Available-for-sale securities	559,870	559,870	—
(4) Notes and accounts payable	(589,319)	(589,319)	—
(5) Short-term loans payable	(400,386)	(400,386)	—
(6) Bonds due within one year	(50,000)	(50,000)	—
(7) Accounts payable—other	(332,587)	(332,587)	—
(8) Bonds and notes	(335,683)	(348,848)	(13,165)
(9) Long-term loans payable	(1,209,116)	(1,249,156)	(40,039)
(10) Derivative transactions	(5,490)	(5,490)	—

\* Figures shown in parentheses are liability items.

undertaken as a part of business activities such as trading, funding, and investment, exchange contracts and currency swaps are used to hedge such risks.

In addition, derivative transactions are executed in accordance with internal derivative transaction management regulations. These regulations require that prospective transactions in financial instrument-related derivatives be discussed by the Funding Management Committee with respect to the transaction policy, then discussed by or reported to the Management Conference/ Board of Directors, and finally approved individually by the General Manager of the Accounting & Finance Division within the pre-authorized scope of transactions before being executed. In conjunction with this, reports on the balance and profitability situation of such transactions must be regularly submitted to the Funding Management Committee. In addition, during each six-month semiannual fiscal period, an evaluation is undertaken of the effectiveness of hedging activities.

#### (c) Management of fund procurement liquidity-related risks (the risks that NSSMC may not be able to meet its payment obligations on the scheduled date)

Based on reports from each of NSSMC's departments, the Accounting & Finance Division prepares and updates cash flow plans when necessary to manage liquidity-related risks. To prepare for unexpected events, NSSMC arranges commitment line contracts.

The systems of consolidated subsidiaries are generally the same as those of NSSMC that are described in items (1) through (3) above.

### (4) Supplementary explanation of the fair value of financial instruments and related matters

The contract (notional) amount of derivative transactions in Note 18, "Information on Derivatives" is not an indicator of the actual risks involved in derivative transactions.

(Year ended March 31, 2015)

	Millions of yen		
	Book value*	Fair value*	Differences
(1) Cash and bank deposits	¥ 113,822	¥ 113,822	¥ —
(2) Notes and accounts receivable	615,429	615,429	—
(3) Marketable and investment securities:			
Held-to-maturity debt securities	3,000	2,988	(11)
Available-for-sale securities	737,446	737,446	—
(4) Notes and accounts payable	(674,634)	(674,634)	—
(5) Short-term loans payable	(363,654)	(363,654)	—
(6) Bonds due within one year	(40,000)	(40,000)	—
(7) Accounts payable—other	(383,912)	(383,912)	—
(8) Bonds and notes	(385,676)	(400,762)	(15,085)
(9) Long-term loans payable	(1,169,840)	(1,195,835)	(25,995)
(10) Derivative transactions	7,667	7,667	—

\* Figures shown in parentheses are liability items.

**Notice 1: Methods for computing the fair value of financial instruments and information on securities and derivative transactions**

**Assets**

**(1) Cash and bank deposits and (2) Notes and accounts receivable**

Since these items are settled in a short period of time and have fair values that are virtually the same as the book values, the latter has been used.

**(3) Marketable and investment securities**

The fair values of these items are mainly valued at the exchange trading price. Information on securities classified by purpose of holding are shown in Note 17, "Securities."

**Liabilities**

**(4) Notes and accounts payable, (5) Short-term loans payable,**

**(6) Bonds due within one year, and (7) Accounts payable—other**

Since these items are settled in a short period of time and have fair values that are virtually the same as the book values, the latter has been used.

**Notice 2: Items for which obtaining fair value is deemed to be extremely difficult**

(Year ended March 31, 2016)

Item	Millions of yen
	Book value
Unlisted stocks	¥28,057

(Year ended March 31, 2015)

Item	Millions of yen
	Book value
Unlisted stocks	¥30,322

The items in the preceding table do not have market values, and estimating their future cash flow is deemed to be practically impossible. Therefore, determining the fair value of these items is deemed to be extremely difficult, and consequently fair value is not disclosed or included in "Available-for-sale securities" under "(3) Marketable and investment securities."

**(8) Bonds and notes and (9) Long-term loans payable**

The fair value of bonds is valued at the market price. In addition, the fair value of long-term loans payable is calculated by discounting total principal and interest payments to present value using a discount rate equal to the rate that would be charged if the loan was newly borrowed. Floating rate bonds and loans are subject to exceptional method for interest rate swaps. Such interest rate swaps are handled together with total principal and interest payments and are calculated as the present value using a reasonable estimate of the discount rate that would be applied for the same kind of bonds or loans.

**Derivative transactions**

These transactions are handled as described in Note 18, "Information on Derivatives."

**Notice 3: Scheduled redemption amounts, subsequent to the balance sheet date, for monetary assets and securities with maturity dates**

(Year ended March 31, 2016)

	Millions of yen			
	Due within 1 year	Due in 1 to 5 years	Due in 5 to 10 years	Due after 10 years
Cash and bank deposits	¥ 85,365	¥ —	¥—	¥—
Notes and accounts receivable	523,207	—	—	—
Marketable and investment securities:				
Held-to-maturity debt securities:				
Corporate bonds	—	4,500	—	—
Negotiable certificates of deposit	500	—	—	—
Available-for-sale securities with maturity dates	25	65	—	—
<b>Total</b>	<b>¥609,098</b>	<b>¥4,565</b>	<b>¥—</b>	<b>¥—</b>

(Year ended March 31, 2015)

	Millions of yen			
	Due within 1 year	Due in 1 to 5 years	Due in 5 to 10 years	Due after 10 years
Cash and bank deposits	¥113,822	¥ —	¥—	¥—
Notes and accounts receivable	615,429	—	—	—
Marketable and investment securities:				
Held-to-maturity debt securities:				
Corporate bonds	2,000	1,000	—	—
Negotiable certificates of deposit	—	—	—	—
Available-for-sale securities with maturity dates	25	113	—	—
<b>Total</b>	<b>¥731,276</b>	<b>¥1,113</b>	<b>¥—</b>	<b>¥—</b>

**Notice 4: Estimated amount of bonds, long-term loans payable, and other interest-bearing debt subsequent to the balance sheet date**

(Year ended March 31, 2016)

	Millions of yen					
	Due within 1 year	Due in 1 to 2 years	Due in 2 to 3 years	Due in 3 to 4 years	Due in 4 to 5 years	Due after 5 years
Short-term loans payable	¥125,092	¥ —	¥ —	¥ —	¥ —	¥ —
Commercial paper	—	—	—	—	—	—
Bonds	50,000	120,000	65,700	60,000	45,000	45,000
Long-term loans payable	275,293	178,137	138,398	79,429	88,470	724,680
Lease obligations	3,498	2,483	1,122	824	621	3,325
<b>Total</b>	<b>¥453,884</b>	<b>¥300,621</b>	<b>¥205,221</b>	<b>¥140,253</b>	<b>¥134,092</b>	<b>¥773,006</b>

(Year ended March 31, 2015)

	Millions of yen					
	Due within 1 year	Due in 1 to 2 years	Due in 2 to 3 years	Due in 3 to 4 years	Due in 4 to 5 years	Due after 5 years
Short-term loans payable	¥161,617	¥ —	¥ —	¥ —	¥ —	¥ —
Commercial paper	—	—	—	—	—	—
Bonds	40,000	50,000	120,000	65,700	60,000	90,000
Long-term loans payable	202,037	279,314	177,708	130,559	74,415	507,842
Lease obligations	5,740	3,258	2,185	855	603	3,345
<b>Total</b>	<b>¥409,395</b>	<b>¥332,573</b>	<b>¥299,894</b>	<b>¥197,114</b>	<b>¥135,019</b>	<b>¥601,188</b>

## 17 SECURITIES

(Year ended March 31, 2016)

Information regarding marketable and investment securities at March 31, 2016 is as follows:

## (1) Held-to-maturity debt securities

	Millions of yen		
	Book value	Fair value	Differences
	<b>2016</b>		
Held-to-maturity debt securities whose fair value is less than the book value on the balance sheet:			
Corporate bonds	¥4,500	¥4,486	¥(13)
Negotiable certificates of deposit	500	500	—
Total	¥5,000	¥4,986	¥(13)

## (2) Available-for-sale securities

	Millions of yen		
	Book value	Acquisition cost	Differences
	<b>2016</b>		
Available-for-sale securities whose book value on the balance sheet is in excess of the related cost:			
Corporate shares	¥429,042	¥199,348	¥229,693
Other	93,750	80,047	13,702
Subtotal	¥522,792	¥279,396	¥243,396
Available-for-sale securities whose book value on the balance sheet is less than the related cost:			
Corporate shares	¥ 37,077	¥ 45,612	¥ (8,534)
Subtotal	¥ 37,077	¥ 45,612	¥ (8,534)
Total	¥559,870	¥325,008	¥234,861

## (3) Available-for-sale securities sold in the year ended March 31, 2016

	Millions of yen		
	Amount of sales	Gain on sales	Loss on sales
	<b>2016</b>		
Corporate shares	¥17,818	¥7,266	¥513
Other	17	12	0
Total	¥17,836	¥7,278	¥513

## (4) Financial assets with the right of free disposal

The NSSMC Group holds pledged financial assets (mainly securities) with the right of free disposal whose current fair value is ¥3,442 million at March 31, 2016.

(Year ended March 31, 2015)

Information regarding marketable and investment securities at March 31, 2015 is as follows:

## (1) Held-to-maturity debt securities

	Millions of yen		
	Book value	Fair value	Differences
	<b>2015</b>		
Held-to-maturity debt securities whose fair value is less than the book value on the balance sheet:			
Corporate bonds	¥3,000	¥2,988	¥(11)
Negotiable certificates of deposit	—	—	—
Total	¥3,000	¥2,988	¥(11)

## (2) Available-for-sale securities

	Millions of yen		
	Book value	Acquisition cost	Differences
	<b>2015</b>		
Available-for-sale securities whose book value on the balance sheet is in excess of the related cost:			
Corporate shares	¥606,950	¥244,893	¥362,057
Other	115,466	80,047	35,418
Subtotal	¥722,417	¥324,941	¥397,476
Available-for-sale securities whose book value on the balance sheet is less than the related cost:			
Corporate shares	¥ 15,029	¥ 17,075	¥ (2,045)
Subtotal	¥ 15,029	¥ 17,075	¥ (2,045)
Total	¥737,446	¥342,016	¥395,430

## (3) Available-for-sale securities sold in the year ended March 31, 2015

	Millions of yen		
	Amount of sales	Gain on sales	Loss on sales
	<b>2015</b>		
Corporate shares	¥46,492	¥19,019	¥399
Other	57	—	377
Total	¥46,550	¥19,019	¥777

## (4) Financial assets with the right of free disposal

The NSSMC Group holds pledged financial assets (mainly securities) with the right of free disposal whose current fair value is ¥4,061 million at March 31, 2015.

## 18 INFORMATION ON DERIVATIVES

(Year ended March 31, 2016)

## (1) Derivatives not subject to hedge accounting

Millions of yen

	Type of derivative	Contract amounts, etc.		Fair value	Appraisal profit or loss	Method for computing fair value
		Over one year	Fair value			
Non-market transactions	Foreign exchange forward contracts Buying Australian dollars	¥47,230	¥—	¥1,466	¥1,466	Based on foreign exchange forward quotes
Non-market transactions	Foreign exchange forward contracts Buying U.S. dollars	7,394	—	46	46	Based on foreign exchange forward quotes
Non-market transactions	Foreign exchange forward contracts Buying Other	5	—	(0)	(0)	Based on foreign exchange forward quotes
Non-market transactions	Foreign exchange forward contracts Selling U.S. dollars	240	—	9	9	Based on foreign exchange forward quotes
Non-market transactions	Foreign exchange forward contracts Selling Other	5	—	(0)	(0)	Based on foreign exchange forward quotes
Non-market transactions	Currency swaps Paying Malaysian ringgit Receiving U.S. dollars	725	—	2	2	Based on prices provided by third parties
Total		¥55,601	¥—	¥1,523	¥1,523	

## (2) Derivatives subject to hedge accounting

The contract amounts or the notional amounts as of the balance sheet date are shown below by types of hedge accounting methods.

Millions of yen

Hedge accounting method	Type of derivative	Principal hedged items	Contract amounts, etc.		Fair value	Method for computing fair value
			Over one year	Fair value		
Deferred hedging accounting method	Interest rate swaps Interest rate pay floating receive fixed	Bonds	¥ 35,000	¥ 25,000	¥ 962	Based on prices provided by third parties
Deferred hedging accounting method	Foreign exchange forward contracts Buying U.S. dollars Other	Accounts payable and Accounts payable—other	152,662 17,695	380 2,828	(8,113) 140	Based on foreign exchange forward quotes
Deferred hedging accounting method	Foreign exchange forward contracts Selling U.S. dollars Other	Accounts receivable	14,586 2,022	312 0	(3) 69	Based on foreign exchange forward quotes
Deferred hedging accounting method	Commodity swaps Commodity pay fixed receive floating	Electricity	343	205	(70)	Based on prices provided by third parties
Exceptional method of interest rate swaps	Interest rate swaps Interest rate pay fixed receive floating	Long-term loans payable	228,670	190,927	*	
Exceptional method of interest rate swaps	Interest rate swaps Interest rate pay floating receive fixed	Long-term loans payable	25,000	5,000	*	
Assigning method of currency swaps	Currency swaps Paying Yen receiving U.S. dollars	Long-term loans payable	108,177	96,881	*	
Assigning method of foreign exchange forward contracts	Foreign exchange forward contracts Buying U.S. dollars Other	Accounts payable	364 398	— —	— *	
Assigning method of foreign exchange forward contracts	Foreign exchange forward contracts Selling U.S. dollars Other	Accounts receivable	247 1,526	— —	— *	
Total			¥586,695	¥321,535	¥(7,014)	

Note: Since interest rate swaps subject to the exceptional method are handled together with long-term loans payable that are subject to hedging, their fair value is presented within the fair value of such long-term loans payable. In addition, foreign exchange forward contracts which are treated by the assigning method are handled together with accounts receivable and accounts payable. Therefore, their fair value is included within the fair value of accounts receivable and accounts payable. Since currency swaps subject to the assigning method are handled together with long-term loans payable, their fair value is presented within the fair value of such long-term loans payable.

(Year ended March 31, 2015)

## (1) Derivatives not subject to hedge accounting

Millions of yen

	Type of derivative	Contract amounts, etc.		Fair value	Appraisal profit or loss	Method for computing fair value
		Over one year	Fair value			
Non-market transactions	Foreign exchange forward contracts Buying Australian dollars	¥55,858	¥—	¥(421)	¥(421)	Based on foreign exchange forward quotes
Non-market transactions	Foreign exchange forward contracts Buying U.S. dollars	11,407	—	80	80	Based on foreign exchange forward quotes
Non-market transactions	Foreign exchange forward contracts Selling U.S. dollars	236	—	(26)	(26)	Based on foreign exchange forward quotes
Non-market transactions	Currency swaps Paying Malaysian ringgit Receiving U.S. dollars	726	—	0	0	Based on prices provided by third parties
Total		¥68,229	¥—	¥(367)	¥(367)	

## (2) Derivatives subject to hedge accounting

The contract amounts or the notional amounts as of the balance sheet date are shown below by types of hedge accounting methods.

Millions of yen

Hedge accounting method	Type of derivative	Principal hedged items	Contract amounts, etc.		Fair value	Method for computing fair value
			Over one year	Fair value		
Deferred hedging accounting method	Interest rate swaps Interest rate pay fixed receive floating	Long-term loans payable	¥ 20,162	¥ 250	¥ (27)	Based on prices provided by third parties
Deferred hedging accounting method	Interest rate swaps Interest rate pay floating receive fixed	Bonds	35,000	35,000	1,420	Based on prices provided by third parties
Deferred hedging accounting method	Foreign exchange forward contracts Buying U.S. dollars Other	Accounts payable	175,706 1,777	501 166	7,550 181	Based on foreign exchange forward quotes
Deferred hedging accounting method	Foreign exchange forward contracts Selling U.S. dollars Other	Accounts receivable	22,666 1,529	2,376 1,481	(882) (192)	Based on foreign exchange forward quotes
Deferred hedging accounting method	Commodity swaps Commodity pay fixed receive floating	Electricity	272	126	(15)	Based on prices provided by third parties
Exceptional method of interest rate swaps	Interest rate swaps Interest rate pay fixed receive floating	Long-term loans payable	273,852	223,273	*	
Exceptional method of interest rate swaps	Interest rate swaps Interest rate pay floating receive fixed	Bonds and Long-term loans payable	42,000	30,000	*	
Assigning method of currency swaps	Currency swaps Paying Yen receiving U.S. dollars Paying Yen receiving Australian dollars	Long-term loans payable	122,279 3,767	109,996 —	— *	
Assigning method of foreign exchange forward contracts	Foreign exchange forward contracts Buying U.S. dollars Other	Accounts payable	216 125	— 9	— *	
Assigning method of foreign exchange forward contracts	Foreign exchange forward contracts Selling U.S. dollars Other	Accounts receivable	647 444	— 179	— *	
Total			¥700,448	¥403,359	¥8,035	

\* Since interest rate swaps subject to the exceptional method are handled together with bonds and long-term loans payable that are subject to hedging, their fair value is presented within the fair value of such bonds and long-term loans payable. In addition, foreign exchange forward contracts which are treated by the assigning method are handled together with accounts receivable and accounts payable. Therefore, their fair value is included within the fair value of accounts receivable and accounts payable. Since currency swaps subject to the assigning method are handled together with long-term loans payable, their fair value is presented within the fair value of such long-term loans payable.

## 19 RETIREMENT BENEFITS

### (1) Summary of adopted retirement benefits

The NSSMC Group operates three defined benefit retirement plans which consist of a defined benefits enterprise pension plan, a defined contribution plan, and a lump-sum retirement payment plan. The NSSMC Group may pay special retirement allowances on voluntary retirement, which are not included in the defined benefit obligations.

Parts of the defined benefits enterprise pension plan are instituted to retirement benefit trusts. For the lump-sum retirement payment plan (although it is an unfunded retirement plan, some of it is a funded retirement plan as a result of institution to retirement benefit trusts), a lump-sum based on salaries and years of service are paid.

Defined benefits enterprise pension plans and lump-sum retirement payment plans for certain consolidated subsidiaries are determined by the simplified method.

### (2) Defined benefit plan

#### (a) Changes in the defined benefit obligations (excludes the simplified method)

	Millions of yen	
	2016	2015
Balance at beginning of year	¥562,038	¥543,337
Cumulative effects of changes in accounting policies	—	42,410
Restated balance	562,038	585,748
Service costs	25,122	24,010
Interest costs	4,214	4,666
Actuarial differences	8,817	3,071
Benefits paid	(57,487)	(52,957)
Prior service costs	(1,005)	(2,189)
Other	1,725	(311)
Balance at end of year	¥543,424	¥562,038

#### (b) Changes in the plan assets (excludes the simplified method)

	Millions of yen	
	2016	2015
Balance at beginning of year	¥536,538	¥511,449
Expected return on plan assets	7,809	7,489
Actuarial differences	(34,231)	60,649
Contributions by the employer	15,248	16,193
Benefits paid	(36,187)	(38,943)
Other	(3,580)	(20,300)
Balance at end of year	¥485,596	¥536,538

#### (c) Changes of net defined benefit liabilities for the simplified method

	Millions of yen	
	2016	2015
Balance at beginning of year	¥12,067	¥13,527
Net pension expense	3,215	1,768
Benefits paid	(1,355)	(1,666)
Contributions to the plan	(954)	(1,076)
Other	(672)	(485)
Balance at end of year	¥12,300	¥12,067

#### (d) Adjustment between the ending balance of defined benefit obligations and plan assets to the net defined benefit liabilities and net defined benefit assets arising in the consolidated balance sheets

	Millions of yen	
	2016	2015
Funded defined benefit obligations	¥ 463,295	¥ 486,551
Plan assets	(496,765)	(548,151)
	(33,469)	(61,600)
Unfunded defined benefit obligations	103,598	99,168
Net assets (liabilities) arising from defined benefit obligations	¥ 70,129	¥ 37,567
Net defined benefit liabilities	¥ 128,837	¥ 161,332
Net defined benefit assets	(58,708)	(123,764)
Net assets (liabilities) arising from defined benefit obligations	¥ 70,129	¥ 37,567

Note: Includes plans using the simplified method

#### (e) Net pension expense

	Millions of yen	
	2016	2015
Service costs	¥ 25,122	¥24,010
Interest costs	4,214	4,666
Expected return on plan assets	(7,809)	(7,489)
Amortization of actuarial differences	(10,393)	(6,101)
Amortization of prior service costs	(759)	(2,151)
Net pension expense for the simplified method	3,215	1,768
Other	4,112	3,486
Total	¥ 17,700	¥18,188

#### (f) Remeasurements of defined benefit plans

Remeasurements of defined benefit plans (before adjustments in deferred tax accounting) are as follows:

	Millions of yen	
	2016	2015
Prior service costs	¥ (222)	¥ 194
Actuarial differences	53,435	(51,644)
Total	¥53,212	¥(51,450)

#### (g) Remeasurements of defined benefit plans (accumulated)

Remeasurements of defined benefit plans (accumulated, before adjustments in deferred tax accounting) are as follows:

	Millions of yen	
	2016	2015
Unrecognized prior service costs	¥(10,242)	¥ (10,020)
Unrecognized actuarial differences	(63,831)	(117,266)
Total	¥(74,074)	¥(127,287)

## h) Plan assets

## 1) Categories of plan assets

The major categories of plan assets are as follows:

	2016	2015
Debt securities	38%	38%
Equity securities	42	44
Cash and bank deposits	8	7
Other	12	11
Total	100%	100%

Note: The total of plan assets includes retirement benefit trusts for the enterprise pension plan and lump-sum retirement payment plan, which accounts for 27% of the total for the year ended March 31, 2016 and 25% for the year ended March 31, 2015.

## 2) Method of determining expected long-term rate of return on plan assets

In order to determine the expected long-term rate of return on plan assets, the NSSMC Group considers previous and expected distributions of plan assets, and the present and long-term future expected rates of the Group's wide variety of plan assets.

## (i) Principal assumptions used in actuarial valuations

Principal assumptions used in actuarial valuations are as follows:

	2016	2015
Discount rate	Mainly 0.7%	Mainly 0.7%
Expected long-term rate of return on plan assets	Mainly 2.0%	Mainly 2.0%

## (3) Defined contribution plan

The estimated amount of contribution to the defined contribution plan was ¥4,567 million for the year ended March 31, 2016 and ¥4,648 million for the year ended March 31, 2015.

## 20 DEFERRED TAX ACCOUNTING

## (1) Components of deferred tax assets and liabilities at March 31, 2016 and 2015

	Millions of yen	
	2016	2015
<b>Deferred tax assets:</b>		
Reserve for accrued bonuses	¥ 22,554	¥ 26,547
Net defined benefit liabilities	30,139	20,916
Loss on revaluation of inventories	11,621	8,343
Impairment loss	62,858	72,261
Depreciation in excess of limit	34,361	33,132
Tax losses carried forward	93,999	102,629
Unrealized gains on tangible fixed assets	52,169	53,385
Other	54,038	63,745
Subtotal	361,744	380,962
Valuation allowance	(159,220)	(164,593)
Total	202,524	216,369
<b>Deferred tax liabilities:</b>		
Special tax purpose reserve	(65,343)	(73,082)
Unrealized gains on available-for-sale securities	(71,670)	(127,251)
Net unrealized gains on assets and liabilities of consolidated subsidiaries	(364)	(585)
Total	(137,378)	(200,918)
Net deferred tax assets	¥ 65,145	¥ 15,451

## (2) Reconciliation of the differences between the statutory tax rate and the actual tax rate

Years ended March 31	2016*	2015
Statutory tax rate	—	35.6%
Permanent non-deductible expenses	—	0.6
Permanent non-taxable income	—	(0.8)
Effect of foreign tax rate differences	—	(1.6)
Loss on business of subsidiaries and affiliates	—	6.5
Valuation allowance	—	(2.6)
Reduction in deferred tax assets at the end of period due to changes in the corporate income tax rate	—	2.9
Other	—	(1.8)
Actual tax rate	—	38.8%

\* Since the difference between the statutory tax rate and the actual tax rate is not significant (less than 5% of the statutory tax rate), no reconciliation of these two rates is presented.

## (3) Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates

## Year ended March 31, 2016

In accordance with the establishment in the national assembly on March 29, 2016, of the "Act on Partial Revision of the Income Tax Act" and the "Act on Partial Revision of the Local Tax Act," the effective statutory tax rate of 32.3% utilized in the previous consolidated fiscal year for the computation of deferred tax assets and deferred tax liabilities for the current consolidated fiscal year (applied only to assets and liabilities to be recovered or settled on or after April 1, 2016) has been revised from 32.3% utilized in the previous consolidated fiscal year to 30.9% for assets and liabilities to be recovered or settled during the period of April 1, 2016 to March 31, 2018, and to 30.6% for assets and liabilities to be recovered or settled from April 1, 2018 and thereafter.

The revisions had the effect of increasing deferred tax assets (the amount remaining after deducting the amount of deferred tax liabilities) by ¥194 million, income taxes—deferred reported in the current consolidated fiscal year by ¥4,985 million, unrealized gains on available-for-sale securities by ¥4,217 million, and remeasurements of defined benefit plans by ¥1,222 million.

## Year ended March 31, 2015

In accordance with the promulgation on March 31, 2015, of the "Act on Partial Revision of the Income Tax Act" and the "Act on Partial Revision of the Local Tax Act," the effective statutory tax rate of 35.6% utilized in the previous consolidated fiscal year for the computation of deferred tax assets and deferred tax liabilities for the current consolidated fiscal year (applied only to assets and liabilities to be recovered or settled on or after April 1, 2015) has been revised from 35.6% utilized in the previous consolidated fiscal year to 33.1% for assets and liabilities to be recovered or settled during the period of April 1, 2015 to March 31, 2016, and to 32.3% for assets and liabilities to be recovered or settled from April 1, 2016 and thereafter.

The revisions had the effect of increasing deferred tax assets (the amount remaining after deducting the amount of deferred tax liabilities) by ¥6,546 million, income taxes—deferred reported in the current consolidated fiscal year by ¥10,877 million, unrealized gains on available-for-sale securities by ¥13,470 million, and remeasurements of defined benefit plans by ¥4,213 million.

## 21 SEGMENT INFORMATION

### (1) Segment information

#### (a) General information about reportable segments

NSSMC is a company engaged in the steelmaking and steel fabrication business, and acts as the holding company for its business segment companies, which are engaged in the engineering and construction, chemicals, new materials, and system solutions businesses. Each business segment company shares the management strategy of the NSSMC Group, while conducting its business activities independently from and in parallel with other Group members. These five business segments are reportable segments.

Reportable segments	Principal businesses
Steelmaking and steel fabrication	Manufacturing and marketing of steel products
Engineering and construction	Manufacturing and marketing of industrial machinery and equipment as well as steel structures, performance of construction work under contract, waste processing and recycling, and supplying electricity, gas, and heat
Chemicals	Manufacturing and marketing of coal-based chemical products, petrochemicals, and electronic materials
New materials	Manufacturing and marketing of materials for semiconductors and electronic parts, carbon fiber and composite products, and products that apply technologies for metal processing and joining
System solutions	Computer systems engineering and consulting services

#### (b) Basis of measurement about segment sales, profit, assets, liabilities, and other items

The accounting methods for the reportable segments are generally the same as those which are set forth in Note 03, "Summary of Significant Accounting Policies." Figures for profit of reportable segments are on an ordinary profit basis, and liabilities are the balance of interest-bearing debt. Please note that inter-segment sales are based on prices employed in transactions with third parties.

#### (c) Information about segment sales, profit, assets, liabilities and other items

(Year ended March 31, 2016)

	Reportable segment							
	Steelmaking and steel fabrication	Engineering and construction	Chemicals	New materials	System solutions	Total	Adjustments	Consolidated
Net sales								
Sales to external customers	¥4,241,521	¥288,088	¥176,360	¥36,280	¥165,178	¥4,907,429	¥ —	¥4,907,429
Inter-segment sales or transfers	42,402	27,639	5,463	—	53,762	129,267	(129,267)	—
Total	4,283,923	315,727	181,823	36,280	218,941	5,036,697	(129,267)	4,907,429
Segment profit <Ordinary profit>	¥ 160,088	¥ 12,163	¥ 1,093	¥ 3,073	¥ 19,493	¥ 195,912	¥ 5,017	¥ 200,929
Segment assets	¥5,862,481	¥254,243	¥146,620	¥30,498	¥175,767	¥6,469,611	¥ (44,568)	¥6,425,043
Segment liabilities <Interest-bearing debt>	¥1,997,699	¥ 3,347	¥ 9,087	¥10,671	¥ 1,463	¥2,022,270	¥ (15,207)	¥2,007,063
Other items								
Depreciation and amortization	¥ 298,280	¥ 2,819	¥ 5,441	¥ 2,457	¥ 3,942	¥ 312,940	¥ (4,664)	¥ 308,276
Amortization of goodwill	1,833	1,466	—	—	198	3,498	—	3,498
Interest income	5,619	93	22	2	160	5,899	(199)	5,700
Interest expense	20,018	32	88	109	59	20,309	(199)	20,110
Equity in profit of unconsolidated subsidiaries and affiliates	30,461	765	1,637	—	32	32,897	11,284	44,181
Balance of investments in equity-method companies	842,499	3,518	20,284	—	11	866,313	108,117	974,431
Increase (decrease) in tangible fixed assets and intangible assets	289,190	3,676	8,755	1,663	4,715	308,001	(3,358)	304,643

#### Notes:

- Segment profit adjustments of ¥5,017 million includes investment return of ¥7,628 million from the equity-method affiliate Nippon Steel Kowa Real Estate Co., Ltd., an investment return of ¥3,631 million from the equity-method affiliate SUMCO Corporation, and elimination of inter-segment sales or transfers of ¥(6,243) million.
- Segment profit is adjusted with respect to ordinary profit in the consolidated statements of operations.
- The adjustments of segment liabilities include the elimination of the Steelmaking and steel fabrication segment's borrowings from the System solutions segment, etc.
- Depreciation and amortization includes depreciation of long-term prepaid expenses.
- The increased amount of tangible fixed assets and intangible assets includes the increased amount of long-term prepaid expenses.

(Year ended March 31, 2015)

Millions of yen

	Reportable segment					Total	Adjustments	Consolidated
	Steelmaking and steel fabrication	Engineering and construction	Chemicals	New materials	System solutions			
Net sales								
Sales to external customers	¥4,892,257	¥313,158	¥205,210	¥36,449	¥162,953	¥5,610,030	¥ —	¥5,610,030
Inter-segment sales or transfers	46,982	35,541	7,566	—	43,078	133,168	(133,168)	—
Total	4,939,239	348,699	212,777	36,449	206,032	5,743,199	(133,168)	5,610,030
Segment profit <Ordinary profit>	¥ 401,987	¥ 18,758	¥ 6,898	¥ 2,482	¥ 16,565	¥ 446,693	¥ 5,053	¥ 451,747
Segment assets	¥6,519,482	¥278,142	¥166,299	¥29,844	¥165,491	¥7,159,259	¥ (1,330)	¥7,157,929
Segment liabilities <Interest-bearing debt>	¥1,968,348	¥605	¥ 6,759	¥12,890	¥ 1,749	¥1,990,352	¥ (15,190)	¥1,975,161
Other items								
Depreciation and amortization	¥ 309,971	¥ 2,866	¥ 5,571	¥ 2,557	¥ 3,853	¥ 324,820	¥ (4,774)	¥ 320,046
Amortization of goodwill	7,834	1,080	22	(0)	160	9,099	—	9,099
Interest income	5,161	80	27	0	223	5,494	(203)	5,290
Interest expense	19,835	56	28	112	91	20,123	(203)	19,920
Equity in profit of unconsolidated subsidiaries and affiliates	68,801	508	996	—	(13)	70,293	12,424	82,717
Balance of investments in equity-method companies	933,766	2,796	20,143	—	(20)	956,685	118,501	1,075,186
Increase (decrease) in tangible fixed assets and intangible assets	290,753	1,775	12,030	1,372	3,127	309,059	(4,670)	304,389

#### Notes:

- Segment profit adjustments of ¥5,053 million includes investment return of ¥8,424 million from the equity-method affiliate Nippon Steel Kowa Real Estate Co., Ltd., an investment return of ¥4,531 million from the equity-method affiliate SUMCO Corporation, and elimination of inter-segment sales or transfers of ¥(7,902) million.
- Segment profit is adjusted with respect to ordinary profit in the consolidated statements of operations.
- The adjustments of segment liabilities include the elimination of the Steelmaking and steel fabrication segment's borrowings from the System solutions segment, etc.
- Depreciation and amortization includes depreciation of long-term prepaid expenses.
- The increased amount of tangible fixed assets and intangible assets includes the increased amount of long-term prepaid expenses.
- As reported in "Changes in accounting principles accompanying revisions in accounting standards," the calculation methods for the defined benefit obligations and service costs have been changed from the beginning of the current consolidated fiscal year. The calculation methods for the defined benefit obligations and service costs for each business segment have also been changed accordingly. The revision had the effect of increasing the ordinary profit of the Steelmaking and steel fabrication segment for the current consolidated fiscal year by ¥2,386 million compared to the previous method. The impact of the revision on the other business segments was immaterial.

### (2) Associated information

(Year ended March 31, 2016)

#### (a) Information about products and services

There is no mention of information about products and services, because similar information is disclosed in the segment information section.

#### (b) Information about geographical area

##### 1) Net sales

Japan	Overseas	Overseas		Total
		Asia	Other	
¥3,003,583	¥1,903,846	¥1,213,290	¥690,555	¥4,907,429

Note: Sales information is based on the geographical location of customers, and is classified by region.

##### 2) Tangible fixed assets

The amount of tangible fixed assets located in Japan is in excess of 90% of the amount of tangible fixed assets on the consolidated balance sheet, therefore disclosure has been omitted.

## (c) Information about principal customers

Millions of yen

Counterparty	Sales	Name of related segment
Nippon Steel & Sumikin Bussan Corporation	¥778,496	Steelmaking and steel fabrication
Sumitomo Corporation	770,608	Steelmaking and steel fabrication
Metal One Corporation	494,904	Steelmaking and steel fabrication

(Year ended March 31, 2015)

## (a) Information about products and services

There is no mention of information about products and services, because similar information is disclosed in the segment information section.

## (b) Information about geographical area

## 1) Net sales

Millions of yen

Japan	Overseas	Asia	Other	Total
¥3,317,619	¥2,292,410	¥1,484,914	¥807,496	¥5,610,030

Note: Sales information is based on the geographical location of customers, and is classified by region.

## 2) Tangible fixed assets

The amount of tangible fixed assets located in Japan is in excess of 90% of the amount of tangible fixed assets on the consolidated balance sheet, therefore disclosure has been omitted.

## (c) Information about principal customers

Millions of yen

Counterparty	Sales	Name of related segment
Sumitomo Corporation	¥992,596	Steelmaking and steel fabrication
Nippon Steel & Sumikin Bussan Corporation	895,718	Steelmaking and steel fabrication
Metal One Corporation	563,833	Steelmaking and steel fabrication

## (3) Information about impairment losses of fixed assets by reportable segments

(Year ended March 31, 2016)

Millions of yen

Steelmaking and steel fabrication	Engineering and construction	Chemicals	New materials	System solutions	Adjustments	Total
¥1,459	¥—	¥12,253	¥—	¥—	¥—	¥13,712

Note: Impairment loss associated with property put into business, etc., is accounted for as an extraordinary loss of the Chemicals segment. This categorization is based on recognizing the declining profitability in the deteriorating business environments as impairment losses mainly associated with property of a consolidated subsidiary put into the coal tar chemicals business in China.

(Year ended March 31, 2015)

There were no material impairment losses on fixed assets.

## (4) Information related to the amount of amortization of goodwill and the unamortized amount of goodwill by reportable segment

(Year ended March 31, 2016)

Millions of yen

	Reportable segment						
	Steelmaking and steel fabrication	Engineering and construction	Chemicals	New materials	System solutions	Adjustments	Total
Balance at fiscal year-end	¥28,714	¥11,020	¥—	¥—	¥2,022	¥—	¥41,756

Note: There is no mention of the amortization of goodwill because the same information is disclosed in "(1) Segment information (c) Information about segment sales, profit, assets, liabilities, and other items."

(Year ended March 31, 2015)

Millions of yen

	Reportable segment						
	Steelmaking and steel fabrication	Engineering and construction	Chemicals	New materials	System solutions	Adjustments	Total
Balance at fiscal year-end	¥34,118	¥13,740	¥—	¥—	¥2,187	¥—	¥50,046

Note: There is no mention of the amortization of goodwill because the same information is disclosed in "(1) Segment information (c) Information about segment sales, profit, assets, liabilities, and other items."

## (5) Information about profit arising from negative goodwill by reportable segment

(Years ended March 31, 2016 and 2015)

The NSSMC Group did not record a material amount of profit arising from negative goodwill.

## 22 RELATED PARTY INFORMATION

## (1) Related party transaction

(Year ended March 31, 2016)

Transaction with related party

Transaction of NSSMC with related party

Unconsolidated subsidiaries and affiliates

Millions of yen

Description of transaction	Transactions during the year ended March 31, 2016		Resulting account balances	
	Amount	Account	Amount	Account
(a) Category: Affiliate (b) Name: Nippon Steel & Sumikin Bussan Corporation (c) Head office address: Minato-ku, Tokyo (d) Paid-in capital: ¥12,335 million (e) Business content: Markets, imports, and exports steel, textiles, foods, and other products (f) Equity ownership percentage: Holding 36.3% directly and 0.6% indirectly (g) Relation with related party: Sells our products and holds the additional post of director	¥644,043	Notes and accounts receivable	¥16,515	

Notes: 1. Consumption taxes are not included in the amount of transaction and are included in the amount of resulting account balances.

2. The terms and conditions applicable to the above transaction were determined on an arm's length basis and with reference to normal market prices.

Transaction of consolidated subsidiaries of NSSMC with related party

Unconsolidated subsidiaries and affiliates

Millions of yen

Description of transaction	Transactions during the year ended March 31, 2016		Resulting account balances	
	Amount	Account	Amount	Account
(a) Category: Affiliate (b) Name: Nippon Steel & Sumikin Bussan Corporation (c) Head office address: Minato-ku, Tokyo (d) Paid-in capital: ¥12,335 million (e) Business content: Markets, imports, and exports steel, textiles, foods, and other products (f) Equity ownership percentage: Holding 36.3% directly and 0.6% indirectly (g) Relation with related party: Sells our products and holds the additional post of director	¥134,452	Notes and accounts receivable	¥14,425	

Notes: 1. Consumption taxes are not included in the amount of transaction and are included in the amount of resulting account balances.

2. The terms and conditions applicable to the above transaction were determined on an arm's length basis and with reference to normal market prices.

(Year ended March 31, 2015)

Transaction with related party

Transaction of NSSMC with related party

Unconsolidated subsidiaries and affiliates

Millions of yen

	Transactions during the year ended March 31, 2015		Resulting account balances	
	Description of transaction	Amount	Account	Amount
(a) Category: Affiliate				
(b) Name: Nippon Steel & Sumikin Bussan Corporation				
(c) Head office address: Minato-ku, Tokyo				
(d) Paid-in capital: ¥12,335 million				
(e) Business content: Markets, imports, and exports steel, textiles, foods, and other products	Sells steel products	¥743,077	Notes and accounts receivable	¥26,804
(f) Equity ownership percentage: Holding 36.3% directly and 0.6% indirectly				
(g) Relation with related party: Sells our products and holds the additional post of director				

Notes: 1. Consumption taxes are not included in the amount of transaction and are included in the amount of resulting account balances.  
2. The terms and conditions applicable to the above transaction were determined on an arm's length basis and with reference to normal market prices.

Transaction of consolidated subsidiaries of NSSMC with related party

Unconsolidated subsidiaries and affiliates

Millions of yen

	Transactions during the year ended March 31, 2015		Resulting account balances	
	Description of transaction	Amount	Account	Amount
(a) Category: Affiliate				
(b) Name: Nippon Steel & Sumikin Bussan Corporation				
(c) Head office address: Minato-ku, Tokyo				
(d) Paid-in capital: ¥12,335 million				
(e) Business content: Markets, imports, and exports steel, textiles, foods, and other products	Sells steel products	¥152,640	Notes and accounts receivable	¥23,133
(f) Equity ownership percentage: Holding 36.3% directly and 0.6% indirectly				
(g) Relation with related party: Sells our products and holds the additional post of director				

Notes: 1. Consumption taxes are not included in the amount of transaction and are included in the amount of resulting account balances.  
2. The terms and conditions applicable to the above transaction were determined on an arm's length basis and with reference to normal market prices.

**(2) Related party disclosures about parent company and significant affiliates**

(Years ended March 31, 2016 and 2015)

There are no parent company and significant affiliates.

**23 EARNINGS PER SHARE AND NET ASSETS PER SHARE**

Reconciliation of the differences between basic and diluted earnings per share ("EPS") and net assets per share ("BPS") for the years ended March 31, 2016 and 2015 are as follows:

(Year ended March 31, 2016)

	Millions of yen	Thousands of shares	Yen
	Profit attributable to owners of parent	Weighted-average number of shares	EPS
Basic EPS			
Profit attributable to owners of parent available to common shareholders	¥145,419	916,209	¥158.71
	Net assets	Number of shares at fiscal year-end used in calculating net assets per share	BPS
Basic BPS			
Net assets at fiscal year-end available to common shareholders	¥2,773,822	902,266	¥3,074.28

(Year ended March 31, 2015)

	Millions of yen	Thousands of shares	Yen
	Profit attributable to owners of parent	Weighted-average number of shares	EPS
Basic EPS			
Profit attributable to owners of parent available to common shareholders	¥214,293	912,547	¥234.82
	Net assets	Number of shares at fiscal year-end used in calculating net assets per share	BPS
Basic BPS			
Net assets at fiscal year-end available to common shareholders	¥2,978,696	912,861	¥3,263.03

Regarding diluted earnings per share, no figures for diluted earnings per share have been disclosed because no latent shares existed. NSSMC carried out the share consolidation at the ratio of 10 shares to 1 share effective October 1, 2015. In accordance with this, net assets per share and earnings per share are calculated based on the assumption that the share consolidation had been carried out at the beginning of fiscal 2015.

## 24 BONDS, NOTES, AND LOANS

Bonds, notes, and loans of the NSSMC Group at March 31, 2016 and 2015 consisted of the following:

		Millions of yen	
		2016	2015
<b>Bonds and Notes:</b>	3.3% SB due March 2017	¥ 10,000	¥ 10,000
<b>NSSMC</b>	3.175% SB due September 2017	10,000	10,000
	3% Euro MTN yen bonds due February 2019	689	686
	1.77% SB due September 2017	29,998	29,997
	1.66% SB due December 2017	29,999	29,999
	1.35% SB due April 2015	—	9,999
	1.92% SB due March 2018	29,995	29,993
	1.714% SB due June 2018	30,000	30,000
	2.491% SB due June 2028	10,000	10,000
	1.891% SB due September 2018	15,000	15,000
	1.942% SB due June 2019	20,000	20,000
	1.118% SB due July 2015	—	10,000
	1.53% SB due March 2020	20,000	20,000
	0.815% SB due April 2016	10,000	10,000
	0.73% SB due July 2017	10,000	10,000
	1.076% SB due June 2020	15,000	15,000
	0.543% SB due November 2015	—	10,000
	0.58% SB due March 2016	—	10,000
	1.293% SB due March 2021	30,000	30,000
	0.583% SB due May 2016	10,000	10,000
	0.846% SB due May 2018	10,000	10,000
	0.491% SB due July 2016	10,000	10,000
	1.109% SB due September 2021	15,000	15,000
	0.48% SB due October 2016	10,000	10,000
	0.7% SB due October 2018	10,000	10,000
	0.448% SB due April 2017	10,000	10,000
	0.697% SB due April 2019	10,000	10,000
	0.556% SB due June 2019	10,000	10,000
	0.951% SB due June 2022	20,000	20,000
	6 months LIBOR + 1.7% Euro-yen denominated bonds (subordinated)	—	300,000
	Subtotal	385,683	725,676
	Elimination of intra-group transactions	—	(300,000)
	Total	¥385,683	¥ 425,676

Note: "SB" = straight bonds, "MTN" = mid-term note

		Millions of yen	
		2016	2015
<b>Loans:</b>			
	Short-term loans payable	¥ 125,092*3	¥ 161,617
	Loans principally from banks and insurance companies due 2017–2050 for 2016 (2016–2027 for 2015)*1	1,484,410*3	1,371,877
	Lease obligations due 2017–2030 for 2016 (2016–2030 for 2015)*2	11,876	15,989
	Total	¥1,621,379	¥1,549,485

\*1 Including a portion due within one year of ¥275,293 million for 2016 and ¥202,037 million for 2015

\*2 Including a portion due within one year of ¥3,498 million for 2016 and ¥5,740 million for 2015

\*3 Average interest-rate at March 31, 2016 is 0.9%

The aggregate annual maturities of long-term debt as of March 31, 2016 are as follows:

		Millions of yen				
Years ending March 31		2017	2018	2019	2020	2021
	Bonds and notes	¥ 50,000	¥120,000	¥ 65,700	¥60,000	¥45,000
	Long-term loans payable	275,293	178,137	138,398	79,429	88,470
	Lease obligations	3,498	2,483	1,122	824	621

The following are the NSSMC Group's assets pledged as collateral primarily to secure long-term loans payable, short-term loans payable, and others, totaled ¥10,858 million and ¥16,526 million at March 31, 2016 and 2015, respectively.

		Millions of yen	
		2016	2015
<b>Years ended March 31</b>			
	(Factory foundation mortgage)		
	Buildings and structures	¥ 2,839	¥ 1,342
	Machinery, equipment and vehicles	5,788	2,021
	Tools, furniture and fixtures	0	0
	Land	8,112	5,983
	Total	¥16,740	¥ 9,348
	(Pledged assets)		
	Cash and bank deposits	¥ 5	¥ 493
	Notes and accounts receivable	—	49
	Current assets—other	4,965	5,797
	Buildings and structures	845	700
	Machinery, equipment and vehicles	39	46
	Land	2,690	2,345
	Long-term loans receivable	2,067	7,029
	Total	¥10,613	¥16,462

In addition, at March 31, 2016, out of the above secured liabilities, ¥1,261 million of shares of affiliates are pledged as collateral against the loans of those affiliates.

And, at March 31, 2015, out of the above secured liabilities, ¥347 million of long-term loans receivable, etc., are pledged as collateral against ¥233 million of loans of consolidated subsidiaries and ¥1,261 million of shares of affiliates are pledged as collateral against the loans of those affiliates.

## 25 SUBSEQUENT EVENTS

(Year ended March 31, 2016)

Execution of an Agreement to Make Nisshin Steel Co., Ltd. a Subsidiary of Nippon Steel & Sumitomo Metal Corporation, etc. and Implementation of Tender Offer

NSSMC and Nisshin Steel Co., Ltd. ("Nisshin Steel") entered into a memorandum of understanding on February 1, 2016 to commence discussions regarding making Nisshin Steel a subsidiary of NSSMC and other related matters, and have been engaged in the discussions since then. As a result, the companies reached an agreement on the specific structure of transactions for making Nisshin Steel a subsidiary of NSSMC and the conditions for NSSMC's capital contribution to Nisshin Steel, etc. Therefore, the companies entered into an agreement on May 13, 2016 on that matter.

Upon completion of the procedures including those required under Japanese and foreign competition laws, NSSMC plans to make Nisshin Steel its subsidiary around March 2017 (the "Proposed Transaction") by acquiring 51.00% of the total number of outstanding shares of Nisshin Steel through the tender offer of the common shares of Nisshin Steel (the "Tender Offer") and (if necessary) capital increase by Third-Party allotment, through which NSSMC will subscribe for newly issued shares of Nisshin Steel (the "Capital Increase by Third-Party Allotment") (the aforementioned transactions, collectively, the "Transaction"). Subsequent to a series of the transactions above, Nisshin Steel will remain listed on the First Section of Tokyo Stock Exchange, Inc.

### (1) Purpose of the Agreement for the Proposed Transaction, etc.

Through the completion of the Proposed Transaction, NSSMC will strengthen the position of the NSSMC Group as the "Best Steelmaker with World-Leading Capabilities" with the addition of Nisshin Steel, and will thereby intend to achieve sustainable growth and enhance their corporate value in the mid- to long-term. In addition, in order to increase their competitiveness the companies will implement the constant supply of steel slabs by NSSMC to Nisshin Steel subject to the completion of the Proposed Transaction. Both companies wish to better serve their customers by putting these measures into effect, which may also help them to contribute to the creation and development of a more prosperous society. Specifically, the companies will strive to implement the measures and achieve the objectives outlined below:

#### (i) Creating Synergies by Exploiting the Management Resources of Both Companies' Groups

NSSMC's strengths are global top-level technological superiority and product readiness, cost competitiveness centering on iron-making and steelmaking, and worldwide capabilities. Nisshin Steel's competitive advantage is customer- and market-readiness, enabled by meticulous development marketing (such as suggesting solutions from the design stage for customers), and other activities in line with customer needs. NSSMC and Nisshin Steel

will bring together these management resources and create synergies, exploiting their respective strengths. Thus, they will provide better products, technologies, and services that would meet customer needs, on a domestic and global basis, and will thereby seek to enhance their profitability.

#### (ii) Promoting Alliance Measures

After consummating the Proposed Transaction, NSSMC and Nisshin Steel will promote various alliance measures, including, without limitation, the improvement of efficiency through mutual alliances in the areas of their operations, technologies, facilities, procurement of raw materials, resources and equipment and manufacturing site management (including in the areas of safety, the environment, disaster prevention and maintenance), in addition to implementing the supply of steel slabs, as they work to achieve a level of cost-competitiveness necessary for survival in an environment of fierce global competition.

#### (iii) Maximizing Corporate Value and Improving Evaluations by Shareholders and Capital Markets through the Proposed Transaction

NSSMC and Nisshin Steel will establish a stable financial condition through the efficient use of their funds and assets, looking to help ensure healthy and sustainable growth, and maximize their corporate value in the mid- to long-term, as well as endeavoring to earn higher evaluations from current shareholders and other participants in capital markets.

### (2) Overview of Nisshin Steel (as of March 31, 2016)

(i) Name	Nisshin Steel Co., Ltd.
(ii) Location	4-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo
(iii) Name and Title of Representative	Toshinori Miki, Representative Director and President
(iv) Description of Business Activities	Steelmaking and steel fabrication (Manufacturing and sales of steel products)
(v) Capital	¥30,000 million
(vi) Date of Establishment	October 1, 2012
(vii) Total Number of Outstanding Shares	109,843,923 shares
(viii) Operating Results and Financial Conditions of Nisshin Steel (Consolidated Basis)	
Net assets	¥217,978 million
Total assets	¥708,167 million
Sales	¥547,026 million
Operating profit	¥ 10,087 million
Ordinary profit	¥ 6,206 million
Loss attributable to owners of parent	¥ (6,613) million

### (3) Information Regarding the Proposed Transaction

#### (i) Overview of the Proposed Transaction

The aim of the Proposed Transaction is for NSSMC's acquisition of Nisshin Steel shares to reach the ownership ratio of 51.00% of the total number of outstanding shares of Nisshin Steel, by means of a combination of the Tender Offer and (if necessary) the Capital Increase by Third-Party Allotment. Because of the nature of a tender offer, NSSMC's share ownership ratio (meaning the ratio of shares owned by NSSMC in comparison to the total number of outstanding shares of Nisshin Steel; hereinafter, the same shall apply) after the implementation of the Tender Offer will not be fixed before the settlement is completed; therefore, it is contemplated that if the Tender Offer results in a share ownership ratio for NSSMC of less than 51.00%, which is the target ratio in the Tender Offer, the Proposed Transaction will be realized through NSSMC purchasing Nisshin Steel shares through the Capital Increase by Third-Party Allotment. NSSMC and Nisshin Steel view the Tender Offer and the Capital Increase by Third-Party Allotment as a related series of procedures designed to achieve the Proposed Transaction and view the Capital Increase by Third-Party Allotment as a supplement to the Tender Offer.

#### (ii) Implementation of the Tender Offer

When the conditions precedent (including, without limitation, the completion of certain procedures required under domestic and foreign competition laws) are satisfied, NSSMC will conduct the Tender Offer (the timing of the Tender Offer may vary depending on the time of the satisfaction of the conditions precedent; however, at present, we assume that the Tender Offer will start by around February 2017). In implementing the Tender Offer, the proposed purchase price for the Tender Offer is planned to be ¥1,620 per share of Nisshin Steel.

The maximum number of shares to be purchased during the Tender Offer is planned to be 46,896,300 shares, the number of shares needed for the shares owned by NSSMC to represent 51.00% of the total outstanding shares of Nisshin Steel at the time of the completion of the settlement for the Tender Offer (units of less than 100 shares shall be rounded up), when combined with 9,124,200 shares (NSSMC's shareholding ratio: 8.31%), the number of Nisshin Steel shares owned by NSSMC as of the submission date of the Tender Offer statement.

#### (iii) Payments for the Capital Increase by Third-Party Allotment

The Capital Increase by Third-Party Allotment that will be carried out by Nisshin Steel in order to prepare for the possibility that the number of shares owned by NSSMC will not reach 51.00% of the total number of outstanding shares of Nisshin Steel at the time of completion of the settlement for the Tender Offer is to issue shares with NSSMC as the subscriber (95,706,600 common shares at ¥1,620 per share for a total (maximum amount) of ¥155,045 million (rounded to the nearest million Japanese yen)) with December 1, 2016, to June 23, 2017, being the payment period. In the Capital Increase by Third-Party Allotment, only where the Tender

Offer does not result in NSSMC's acquisition of such maximum number of shares, NSSMC will make a payment only to the extent necessary for the number of shares owned by NSSMC upon completion of the purchase in the Capital Increase by Third-Party Allotment to be the number of shares calculated by multiplying the total number of outstanding shares of Nisshin Steel at that time by 51.00%.

#### (iv) Supply of Steel Slabs

It was agreed that, after the realization of the Proposed Transaction through the Transaction, NSSMC will commence the constant supply (for consideration) of steel slabs to Nisshin Steel approximately within fiscal year 2019, and that Nisshin Steel will purchase such steel slabs. The specific terms and conditions, such as the timing of the commencement of supply and the volume, price, etc. of supply shall be separately determined through mutual consultation between the companies.

#### (v) Number of Nisshin Steel Shares to be Newly Obtained by NSSMC, etc.

As set forth in "(i) Overview of the Proposed Transaction" above, the maximum number of shares to be purchased during the Tender Offer is scheduled to be only the number of shares necessary to make the number of shares owned by NSSMC 51.00% of the total number of the outstanding shares of Nisshin Steel as of the time of completion of the settlement for the Tender Offer, when combined with the number of shares owned by NSSMC as of the date of submission of the tender offer statement (portions falling short of 100 shares shall be rounded up). As of June 24, 2016, NSSMC owns 9,124,200 Nisshin Steel shares (a share ownership ratio of 8.31%). Based on this, the maximum number of shares to be purchased shall be 46,896,300 shares (a share ownership ratio of 42.69%) and, the number of shares scheduled to be owned by NSSMC after the Tender Offer shall be 56,020,500 shares (a share ownership ratio of 51.00%). In addition, as described in "(iii) Payments for the Capital Increase by Third-Party Allotment" above, Nisshin Steel has resolved to offer 95,706,600 common shares in the Capital Increase by Third-Party Allotment. NSSMC will pay only for the offered shares in the number necessary to make its shareholding 51.00% of the total number of outstanding shares of Nisshin Steel upon completion of the purchase in the Capital Increase by Third-Party Allotment, and if NSSMC comes to own 51.00% of the total number of outstanding shares of Nisshin Steel through the Tender Offer alone, NSSMC will not make any payment for the Capital Increase by Third-Party Allotment. Therefore, the minimum number of Nisshin Steel shares to be newly obtained by NSSMC through the Proposed Transaction shall be 46,896,300 shares when the subscription for the Tender Offer reaches the maximum number of shares to be purchased and the payment for the Capital Increase by Third-Party Allotment is not made, and the maximum number shall be 95,706,600 shares when payment regarding the Capital Increase by Third-Party Allotment is conducted in full.

# Independent Auditor's Report



## Independent Auditor's Report

To the Shareholders and Board of Directors of Nippon Steel & Sumitomo Metal Corporation

We have audited the accompanying consolidated financial statements of Nippon Steel & Sumitomo Metal Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of operations, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information expressed in Japanese yen.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nippon Steel & Sumitomo Metal Corporation and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

*KPMG AZSA LLC*

June 24, 2016  
Tokyo, Japan

# Principal Subsidiaries and Affiliates

(As of March 31, 2016)

Company	Paid-in Capital (Millions of yen)	Voting Rights (%)	Business Content
<b>Steelmaking and Steel Fabrication (345 companies)</b>			
<b>Consolidated Subsidiaries (256 companies)</b>			
East Asia United Steel Corporation	17,217	74.3%	Holding company of Nippon Steel & Sumikin Koutetsu Wakayama Corporation
Nippon Steel & Sumikin Koutetsu Wakayama Corporation	17,217	100.0%	Manufactures and markets semi-finished steel products
Nippon Steel & Sumikin Coated Sheet Corporation	12,588	100.0%	Manufactures and markets galvanized sheets, prepainted galvanized sheets, coated sheets, and construction materials
Osaka Steel Co., Ltd.	8,769	66.3%	Manufactures and markets billets, shapes, deformed bars, and fabricated products
Nippon Steel & Sumikin Metal Products Co., Ltd.	5,912	100.0%	Manufactures and markets structural materials for buildings and civil engineering work, prepainted galvanized sheets and steelmaking fluxes, and CC powders
Nippon Steel & Sumikin Pipe Co., Ltd.	5,831	100.0%	Manufactures and markets steel pipes and tubes
Nippon Steel & Sumikin Texeng Co., Ltd.	5,468	100.0%	Provides engineering, maintenance, and operational services pertaining to machines, electrical instrumentation, systems, and the construction of steel production equipment
Nippon Steel & Sumikin Stainless Steel Corporation	5,000	100.0%	Manufactures and markets stainless steel
Nippon Steel & Sumikin Logistics Co., Ltd.	4,000	100.0%	Undertakes ocean and land transportation and warehousing
Nippon Steel & Sumikin SG Wire Co., Ltd.	3,634	100.0%	Manufactures and markets wire products
Geostr Corporation	3,352	42.3%	Manufactures and markets concrete products for civil engineering, along with metal products
Nippon Steel & Sumikin Welding Co., Ltd.	2,100	100.0%	Manufactures and markets welding materials and apparatus
Nippon Steel & Sumikin Drum Co., Ltd.	1,654	100.0%	Manufactures and markets drums
Nippon Steel & Sumikin Blast Furnace Slag Cement Co., Ltd.	1,500	100.0%	Manufactures and markets cement, steelmaking slag, and calcined lime products
Nippon Steel & Sumikin Cement Co., Ltd.	1,500	85.0%	Manufactures and markets cement
Nippon Steel & Sumikin Finance Co., Ltd.	1,000	100.0%	Engages in financing and lending operations
Nippon Steel & Sumikin Stainless Steel Pipe Co., Ltd.	916	100.0%	Manufactures and markets stainless steel pipes and tubes
Nippon Steel & Sumikin Steel Wire Co., Ltd.	897	51.0%	Manufactures and markets secondary products using bars and wire rods
Nippon Steel & Sumikin Eco-Tech Corporation	500	85.1%	Designs, constructs, operates, and maintains water treatment facilities; designs and constructs civil engineering projects; and undertakes environmental / chemical analyses
Nippon Steel & Sumikin Bolt Corporation	498	85.0%	Manufactures and markets high-tension bolts, etc.
Nippon Steel & Sumikin Shapes Corporation	400	100.0%	Manufactures and markets H-shapes
Nippon Steel & Sumikin Tubos do Brasil Ltda.	R2,002 million	100.0%	Markets seamless pipes
The Siam United Steel (1995) Co., Ltd.	THB9,000 million	72.7%	Manufactures and markets cold-rolled sheets
National Pipe Co., Ltd.	SAR200million	51.0%	Manufactures and markets primarily steel line pipes
Standard Steel, LLC	US\$47 million	100.0%	Manufactures and markets wheels and axles for railways
Nippon Steel & Sumitomo Metal U.S.A., Inc.	US\$40 million	100.0%	Invests mainly in U.S. companies and gathers information
PT Pelat Timah Nusantara Tbk.	US\$26 million	35.0%	Manufactures and markets tinplates
Nippon Steel & Sumitomo Metal (Thailand) Co., Ltd.	THB718 million	100.0%	Gathers information in Asian region focusing on Thailand
Western Tube & Conduit Corporation	US\$17 million	96.7%	Manufactures and markets steel conduit tubes and mechanical tubes
Nippon Steel & Sumitomo Metal Australia Pty. Limited	A\$21 million	100.0%	Participates in mine development in Australia and gathers information
Nippon Steel & Sumikin Steel Processing (Thailand) Co., Ltd.	THB571 million	66.5%	Manufactures and markets cold-heading wire and cold-finished bars
225 other companies			
<b>Affiliates Accounted for by the Equity Method (89 companies)</b>			
Godou Steel, Ltd.	34,896	16.6%	Manufactures and markets shapes, rails, bars, and wires
Topy Industries, Ltd.	20,983	20.5%	Manufactures and markets shapes, deformed steel bars, and automotive and industrial components
Sanyo Special Steel Co., Ltd.	20,182	15.3%	Manufactures and markets special steel products
Kyoei Steel Ltd.	18,515	26.7%	Manufactures and markets steel bars, shapes and billets; processes and markets steel products
Nippon Steel & Sumikin Bussan Corporation	12,335	36.8%	Imports, exports, and markets steel, textiles, foodstuffs, and other products
Nippon Denko Co., Ltd.	11,026	21.0%	Manufactures and markets ferro-alloys, advanced materials, chemicals, and environmental recycling systems

Affiliates Accounted for by the Equity Method			
Nichia Steel Works, Ltd.	10,720	24.2%	Manufactures and markets bolts and wire products
Sumitomo Precision Products Co., Ltd.	10,311	40.7%	Manufactures and markets aerospace hydraulic equipment, heat exchangers, and industrial / environmental equipment
NS United Kaiun Kaisha, Ltd.	10,300	33.4%	Undertakes ocean and land transportation
Unipres Corporation	9,972	17.4%	Manufactures and markets automotive components
Osaka Titanium Technologies Co., Ltd.	8,739	23.9%	Manufactures and markets titanium metal, polysilicon, and high-function materials made from titanium and silicon developed for new applications
Nippon Coke & Engineering Co., Ltd.	7,000	21.8%	Markets coal and manufactures and markets coke
Japan Casting & Forging Corporation	6,000	42.0%	Manufactures and markets castings, forgings, ingots, and billets
Krosaki Harima Corporation	5,537	47.1%	Manufactures, markets, and constructs refractories
Sanko Metal Industrial Co., Ltd.	1,980	16.5%	Manufactures, processes, installs, and sells metal roofs and building materials
Sanyu Co., Ltd.	1,513	35.1%	Manufactures and markets cold-finished bars and cold-heading wire
Usinas Siderúrgicas de Minas Gerais S.A.-USIMINAS	R12,150 million	29.2%	Manufactures and markets steel products
Vallourec & Sumitomo Tubos do Brasil Ltda.	R5,376 million	40.4%	Manufactures seamless pipes
Baosteel-NSC Automotive Steel Sheets Co., Ltd.	RMB3,000 million	50.0%	Manufactures and markets automotive steel sheets
UNIGAL Ltda.	R584 million	30.0%	Manufactures and markets galvanized sheets
Companhia Nipo-Brasileira de Pelotizacao	R432 million	31.4%	Maintains and leases pellet production facilities
Guangzhou Pacific Tinplate Co., Ltd.	US\$36 million	27.3%	Manufactures and markets tinplate

67 other companies

#### Engineering and Construction (40 companies)

Consolidated Subsidiaries (37 companies)		Affiliates Accounted for by the Equity Method (3 companies)	
Nippon Steel & Sumikin Engineering Co., Ltd.	15,000	100.0%	Manufactures and markets industrial machinery and equipment and steel structures; undertakes civil engineering and building construction work; operates waste and regeneration treatment business; operates electricity, gas, and heat supply business

39 other companies

#### Chemicals (20 companies)

Consolidated Subsidiaries (13 companies)		Affiliates Accounted for by the Equity Method (7 companies)	
Nippon Steel & Sumikin Chemical Co., Ltd.	5,000	100.0%	Manufactures and markets coal chemicals, petrochemicals, and electronic materials

19 other companies

#### New Materials (13 companies)

Consolidated Subsidiaries (13 companies)	
Nippon Steel & Sumikin Materials Co., Ltd.	3,000 100.0%

12 other companies

#### System Solutions (22 companies)

Consolidated Subsidiaries (20 companies)		Affiliates Accounted for by the Equity Method (2 companies)	
NS Solutions Corporation	12,952	62.4%	Provides engineering and consulting services pertaining to computer systems

21 other companies

#### Other (2 companies)

Affiliates Accounted for by the Equity Method (2 companies)	
SUMCO Corporation	138,718 18.4%

1 other company

Total consolidated subsidiaries: 339 companies Total affiliates accounted for by the equity method: 103 companies

## NSSMC's Network

### Domestic Steelworks and Research Laboratories (Non-consolidated)



#### Kashima Works (Ibaraki Pref.)

Crude steel production: 717  
Employees: 3,066  
Main products: Sheets, plates, shapes, pipes and tubes

#### Kimitsu Works (Kimitsu Area, Chiba Pref.) (Tokyo Area, Tokyo)

Crude steel production: 886  
Employees: 3,560  
Main products: Sheets, plates, wire rods, shapes, pipes and tubes

#### Nagoya Works (Aichi Pref.)

Crude steel production: 573  
Employees: 3,127  
Main products: Sheets, plates, pipes and tubes

#### Wakayama Works (Wakayama Area and Kainan Area, Wakayama Pref.), (Sakai Area, Osaka)

Crude steel production: 405\*  
Employees: 1,974  
Main products: Pipes and tubes, shapes, sheets

\* Nippon Steel & Sumikin Koutetsu Wakayama Corporation

#### Hirohata Works (Hyogo Pref.)

Crude steel production: 77  
Employees: 1,241  
Main product: Sheets

#### Yawata Works (Tobata Area, Kokura Area, and Yawata Area, Fukuoka Pref.)

Crude steel production: 486  
Employees: 3,640  
Main products: Sheets, shapes, rails, pipes and tubes, bars and wire rods

#### Oita Works (Oita Area, Oita Pref.), (Hikari Area, Yamaguchi Pref.)

Crude steel production: 926  
Employees: 1,952  
Main products: Sheets, plates, pipes and tubes, titanium

#### Muroran Works (Hokkaido Pref.)

Crude steel production: 142  
Employees: 610  
Main products: Bars and wire rods

#### Kamaishi Works (Iwate Pref.)

Employees: 237  
Main product: Wire rods

#### Amagasaki Works (Hyogo Pref.)

Employees: 679  
Main products: Pipes and tubes

#### Osaka Steel Works (Osaka)

Crude steel production: 4  
Employees: 1,138  
Main products: Wheels and axles, crankshafts

#### Naoetsu Works (Niigata Pref.)

Employees: 169  
Main products: Stainless steel, titanium

Notes:

- Crude steel production unit: Ten thousands of metric tons; Employees: Persons
- Crude steel production figures are for the year ended March 31, 2016; Employee figures are as of March 31, 2016.

## Overseas Bases



● Overseas Offices,  
● Locally Incorporated Companies

### Global Network

<b>Sweden</b> Bar & Wire Rod Suzuki Garphyttan AB	<b>Dusseldorf</b>
<b>Nigeria</b> Flat Products Midland Rolling Mills Limited (MRM)	<b>Dubai</b>
<b>South Africa</b> Flat Products Safal Steel (Proprietary) Limited	
<b>UAE</b> Flat Products Al Ghurair Iron & Steel L.L.C. (AGIS)	
<b>Saudi Arabia</b> Pipe & Tube National Pipe Company Limited (NPC)	
<b>India</b> Flat Products Jamshedpur Continuous Annealing & Processing Company Private Limited (JCAPCPL) Pipe & Tube Nippon Steel & Sumikin Pipe India Private Limited (NPI) Railway, Automotive & Machinery Parts SMI Amtek Crankshaft Private Limited	
<b>China</b> Flat Products Baosteel-NSC Automotive Steel Sheets Co., Ltd. (BNA) Guangzhou Pacific Tinplate Co., Ltd. (PATIN) WISCO-NIPPON STEEL Tinplate Co., Ltd. (WIN Steel) Ring-Techs Guangzhou Co., Ltd. Bar & Wire Rod Nippon Steel & Sumikin Cold Heading Wire (Suzhou) Co., Ltd. (NSCh(suzhou)) Pipe & Tube Guangzhou Nippon Steel & Sumikin Pipe Co., Ltd. (GYA) WUXI NIPPON STEEL & SUMIKIN PIPE Co., Ltd. (WNSP) Baoji-SMI Petroleum Steel Pipe Corporation Huizhou Sumikin Forging Co., Ltd.	<b>Vietnam</b> Flat Products China Steel Sumikin Vietnam Joint Stock Company (CSVC) Construction Products Nippon Steel & Sumikin Pipe Vietnam Co., Ltd (NPV) Pipe & Tube Vietnam Steel Products, Ltd. (VSP)
<b>ASEAN, USA</b> Flat Products NS BlueScope Coated Products (NSBS)	<b>USA</b> Flat Products I/N Tek L.P. I/N Kote L.P. AM/NS Calvert LLC Pipe & Tube Pennsylvania Extruded Tube Company (PEXCO) Western Tube & Conduit Corporation (WTC) Seymour Tubing, Inc. (STI) Railway, Automotive & Machinery Parts Standard Steel, LLC Nippon Steel & Sumikin Crankshaft LLC International Crankshaft Inc. (ICI) Bar & Wire Rod Nippon Steel & Sumikin Cold Heading Wire Indiana Inc. (NSCI)
<b>Malaysia</b> Flat Products Nippon EGalv Steel Sdn. Bhd. (N-EGALV)	<b>Mexico</b> Flat Products TENIGAL, S. de R.L. de C.V. Pipe & Tube Nippon Steel & Sumikin Pipe Mexico, S.A. DE C.V. (NPM)
<b>Thailand</b> Flat Products The Siam United Steel (1995) Co., Ltd. (SUS)* Nippon Steel & Sumikin Galvanizing (Thailand) Co., Ltd. (NSGT)* Siam Tinplate Co., Ltd. (STP) Pipe & Tube Nippon Steel & Sumikin Steel Processing (Thailand) Co., Ltd. (NSSPT) Pipe & Tube Nippon Steel & Sumikin Pipe (Thailand) Co., Ltd. (NSPCT)	<b>Brazil</b> Pipe & Tube Usinas Siderúrgicas de Minas Gerais S.A. (USIMINAS) Flat Products UNIGAL Ltda. Works Vallourec & Sumitomo Tubos do Brasil Ltda. (VSB)
<b>Indonesia</b> Flat Products PT. Krakatau Nippon Steel Sumikin (KNSS) PT. Pelat Timah Nusantara Tbk (LATINUSA) Pipe & Tube PT. Indonesia Nippon Steel Pipe (INP)	

\* SUS and NSGT will be integrated in September 2016. The planned name of the newly integrated company is NS-Siam United Steel Co., Ltd. (NS-SUS).

## History

NIPPON STEEL & SUMITOMO METAL CORPORATION	
2014	Yawata Works and Kokura Works were integrated to become Yawata Works. Wakayama Works and Sakai Works were integrated to become Wakayama Works. Kimitsu Works and Tokyo Works were integrated to become Kimitsu Works.
2012	Nippon Steel & Sumitomo Metal Corporation was incorporated on October 1.



# Investor Information

(As of March 31, 2016)

## Head Office

2-6-1, Marunouchi, Chiyoda-ku,  
Tokyo 100-8071, Japan  
Phone: +81-3-6867-4111  
URL: <http://www.nssmc.com/en/>

## Date of Establishment

March 31, 1970

## Common Stock

¥419,524 million

## Stock Code

5401

## Common Shares (Issued)

950,321,402 shares

## Common Shares (Authorized)

2,000,000,000 shares

## Number of Shareholders

499,195

## Listings

Tokyo Stock Exchange  
Nagoya Stock Exchange  
Fukuoka Stock Exchange  
Sapporo Securities Exchange

## Registration Agent

Sumitomo Mitsui Trust Bank, Limited  
1-4-1, Marunouchi, Chiyoda-ku,  
Tokyo 100-0005, Japan

Phone inquiries  
0120-785-401  
(Toll-free for domestic phone calls only)  
+81-3-3323-7111 (Outside Japan)

## ADR Information

Trading market: OTC (Over-the-counter)  
ADR ratio: 1 ADR: 1 Share of common stock  
Ticker symbol: NSSMY  
OUSIP number: 65461T101  
Depository bank: JPMorgan Chase Bank, N.A.

Contact for inquiries regarding our ADR program:

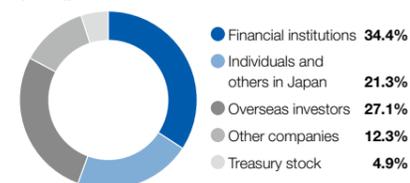
JPMorgan Service Center  
P.O. Box 64504  
St. Paul, MN 55164-0504, U.S.A.  
Phone: +1-800-990-1135  
(Toll-free within the U.S.A.)  
+1-651-453-2128 (Outside the U.S.A.)  
E-mail: [jpmorgan.adr@wellsfargo.com](mailto:jpmorgan.adr@wellsfargo.com)

## Number of Shares per Trading Unit

100 shares

## Share Ownership by Category

(Ratio of shares held to the total number of common shares issued)



## Principal Shareholders

Name	Shares owned (Hundreds)	Shareholding ratio (%) <sup>*3</sup>
Japan Trustee Services Bank, Ltd. (Trust Account)	398,797	4.2
The Master Trust Bank of Japan, Ltd. (Trust Account)	268,068	2.8
Nippon Life Insurance Company	245,324	2.6
Sumitomo Corporation	182,690	1.9
Mizuho Bank, Ltd. <sup>*1</sup>	162,998	1.7
Sumitomo Mitsui Banking Corporation <sup>*2</sup>	146,470	1.5
Meiji Yasuda Life Insurance Company	139,607	1.5
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	136,554	1.4
STATE STREET BANK WEST CLIENT-TREATY 505234	116,762	1.2
Japan Trustee Services Bank, Ltd. (Trust Account 7)	113,466	1.2

<sup>\*1</sup> Apart from those shares listed above, Mizuho Bank, Ltd. has 22,350 hundred shares (0.2% shareholding ratio) as retirement benefit trust.

<sup>\*2</sup> Apart from those shares listed above, Sumitomo Mitsui Banking Corporation has 66,381 hundred shares (0.7% shareholding ratio) as retirement benefit trust.

<sup>\*3</sup> Treasury stock owned by Nippon Steel & Sumitomo Metal Corporation, a total of 467,130 hundred shares (3.8% shareholding ratio), is included in calculation of the shareholding ratio.