




NIPPON STEEL & SUMITOMO METAL

NSSMC REPORT 2018
Year ended March 31, 2018



**NIPPON STEEL &
SUMITOMO METAL**

A large industrial steel mill with a massive glowing steel coil in the foreground. The background shows complex machinery, pipes, and structural steel beams, illuminated by warm industrial lights.

Forging
manufacturing capability,
addressing megatrends,
and creating
the value of steel



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.



What drives NSSMC's
sustainable growth

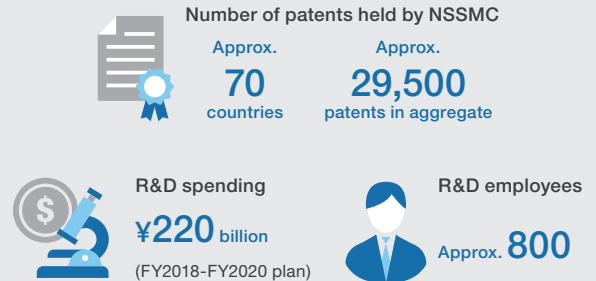
3 points
to know



1 Enhance technological superiority

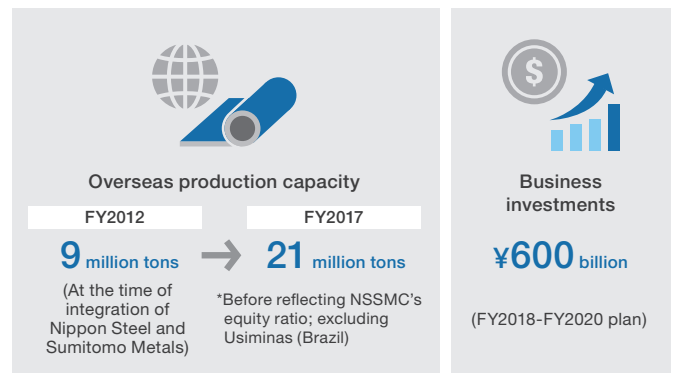
NSSMC's source of growth is its unrivaled technological power. In the area of high-tensile steel sheet for automobiles, a type of steel that provides better fuel efficiency by weight reduction and contributes to passenger safety due to its high strength, we have satisfied many customers ahead of our competitors. Our high-alloy oil country tubular goods (OCTG) have been in high demand at the oil majors and have captured an 80% global share, while our railway wheels and axles are used by all railway companies in Japan. As such, our wide-range of products that are based on superior technology and fulfill customers' needs are developed from our R&D organization, which is proud to be top-class in quality and scale in the steel industry. We are determined to further expand our present technological advantages and to lead the world in steel technology.

Global top-class R&D organization in the steel industry



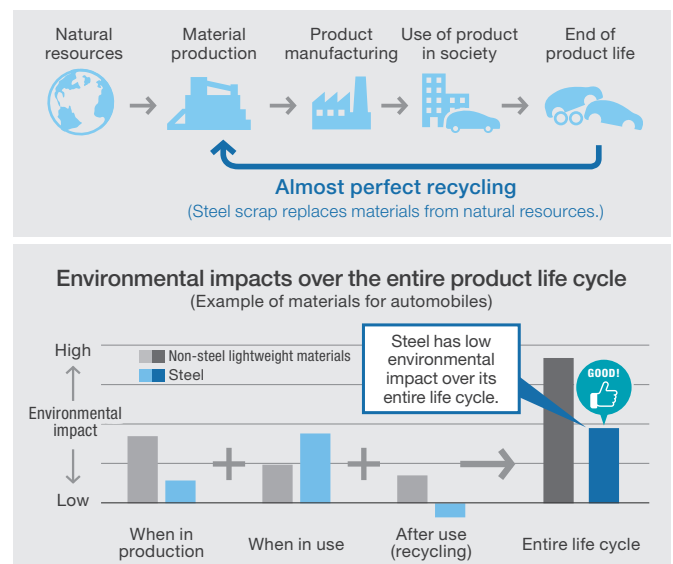
2 Strengthen and expand global business

With the aim to timely deliver products of the same quality as those made in Japan to our customers overseas, we expanded into North America in 1990 in the automotive steel sheet market, into Southeast Asia in the 1960's in the automotive steel tube market, and into the Middle East in 1980 in the energy market. We have since then continued to establish manufacturing bases in growth markets. We have thus been ahead of our peers in establishing a global supply network of materials, which has become our strength. We will make most use of this network, which is now expanding into emerging countries and other growth regions as well as automotive, energy and resources, infrastructure, and other growth areas. At the same time, we are considering adding overseas integrated production bases with processes from crude steel production so as to make sure we capture overseas growing demand.



3 Pursue advantages of steel as eco-material

When we use cars or home appliances, we care about their fuel or energy efficiencies. Now we should further consider reducing the environmental impact of products by thinking about their life cycle, from the production of materials used for products to their end of life. Steel, a material that is greatly used in many kinds of products around us, is actually an eco-friendly material not only in its production but also in its disposal since it is recycled into new types of steel with almost the same quality as before. Steel is recycled endlessly into all kinds of products and will continue to be required in society over the long term. We will continue to pursue advantages of steel by using our technological prowess.



Business Model

— steelmaking business —

Through its steelmaking NSSMC responds to challenges of solving issues confronting society.

Social issues to be solved



Infrastructure building
New investment in emerging countries; renewal investment in developed countries



Improving living standard,
mainly in emerging countries



Environmental preservation,
prevention of global warming problem,
formation of a recycling-oriented society, and
biodiversity conservation



Problems in resources
and energy

**SUSTAINABLE
DEVELOPMENT
GOALS**

NSSMC

Competitive superiority



Technology



Cost



Being global

3 strategic areas



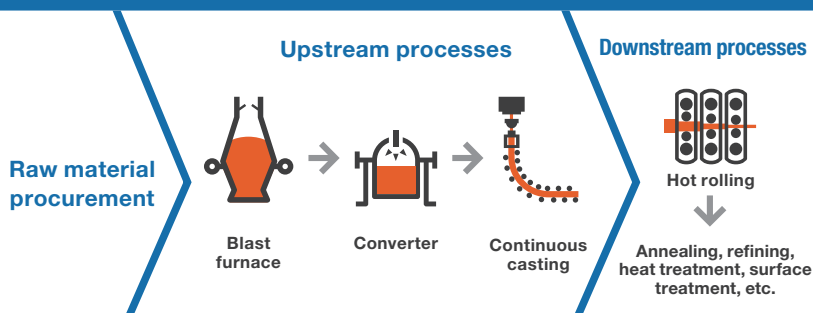
Automotive



Energy and
resources

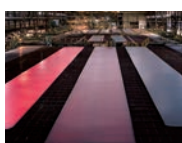


Infrastructure

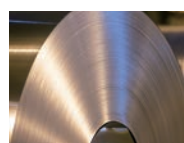


Products and solutions

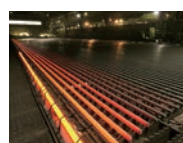
OUTPUT



Steel plates



Steel sheets



Bars & wire rods



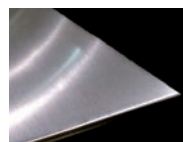
Construction products



Pipes & tubes



Railway

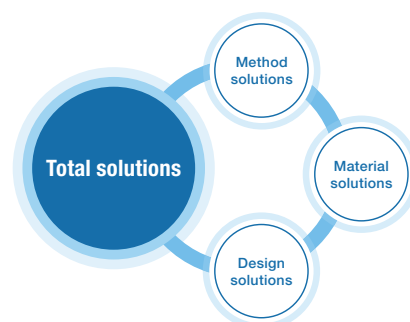


Titanium & specialty
stainless steel



Stainless steel

Total solutions to
customers



We are dedicated to using our technology and manufacturing capability to contribute to the solution of various social issues: infrastructure building, improvement of living standards, climate change, problems in resources and energy, etc.

Major applications



Automobiles



Resources & energy



Construction & civil engineering



Railways



Shipbuilding



Home appliances



Food cans



Industrial machinery

Value creation

OUTCOME

Social value



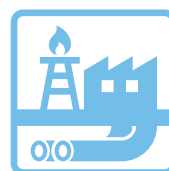
Development and supply of advanced civil engineering, construction, and railway-related technology and products for expansion of efficient infrastructure capital



Use of steel to improve performance of vehicles and home appliances, which leads to higher living standards



Reduction in environmental burden during manufacturing and through products (such as weight reduction)



Stable energy supply, improved energy efficiency

Targets of Mid-Term Management Plan

ROS

10% or more

ROE

10% or more

D/E ratio

Approx. **0.7**



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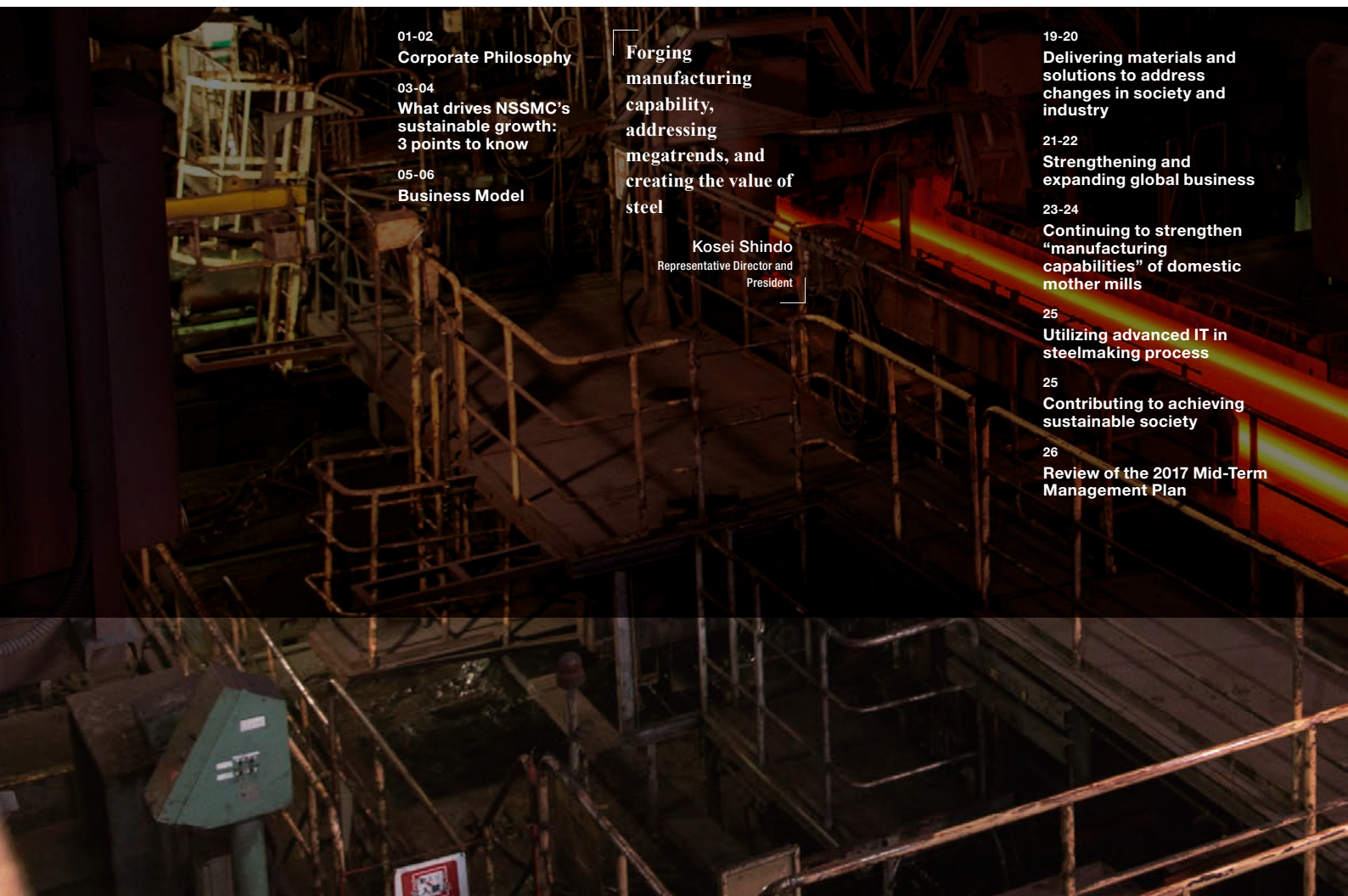
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Forging
manufacturing
capability,
addressing
megatrends, and
creating the value of
steel

Kosei Shindo
Representative Director and
President

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Forging manufacturing capability, addressing megatrends, and creating the value of steel

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

Nowadays, great waves of long-term structural changes are washing over society and industries. We feel that amidst this the steel industry is on the verge of a new phase in its evolution. Globally, rising protectionism and emerging markets' shift towards self-sufficient steel markets are expected to affect the supply-demand structure of steel. Trends such as rapid innovation in IT (notably, AI), automakers' growing need for lighter and stronger vehicles, a shift to electric and other new energy vehicles, the development of self-driving vehicles, wider acceptance of a sharing economy are all anticipated to bring about significant change to society and industries. Further, the United Nations has adopted the Sustainable Development Goals (SDGs) and the Paris Agreement has entered into force, which have reinforced corporate responsibility to contribute to the achievement of a sustainable society.

What can be things which do not change, even in such global environment? For me, they start from the fact that steel as a material element has outstanding features that cannot be substituted by other materials and because of that, steel will continue to play a significant role for building social infrastructure for forthcoming economic development and for facilitating everyone to enjoy benefits of wealth.

The steel industry will continue to be a growth industry. In this context, NSSMC intends to forge its manufacturing capabilities, address the megatrends and determine what to change and what not to change, and through these initiatives create the value of steel, while contributing to society by providing steel, generating solid profits, and growing strongly as a company. These are our aims. Let me explain what we have in mind toward achieving these aims.

Basic strategy and five initiatives

NSSMC aims at expanding business globally by developing an optimal production framework with its globally-expanding production bases and based on our manufacturing capabilities, and by leveraging its competitiveness in products and costs. We also aim at profit growth, primarily in the high-grade steel segment in three strategic areas of automotive, energy and resources, and infrastructure, with emphasis on competitive superiority in technology, cost, and being global. Consonant with such basic strategy, we announced in March 2018 the 2020 Mid-Term Management Plan for the three years from fiscal 2018 to fiscal 2020. The plan has five main initiatives:

- Delivering materials and solutions responsive to changes in society and industry;
- Continuing to strengthen “manufacturing capabilities” of domestic mother mills;
- Utilizing advanced IT in steelmaking processes;
- Strengthening and expanding global business;
- Contributing to the achievement of a sustainable society (SDGs).

Delivering materials and solutions; Continuing to strengthen “manufacturing capabilities”; and Utilizing advanced IT

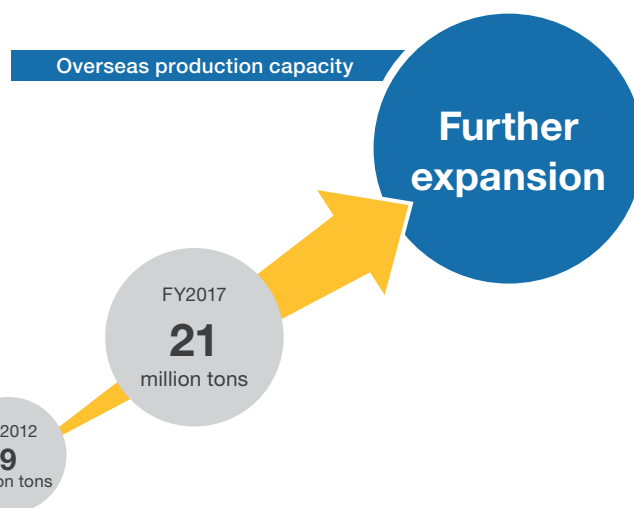
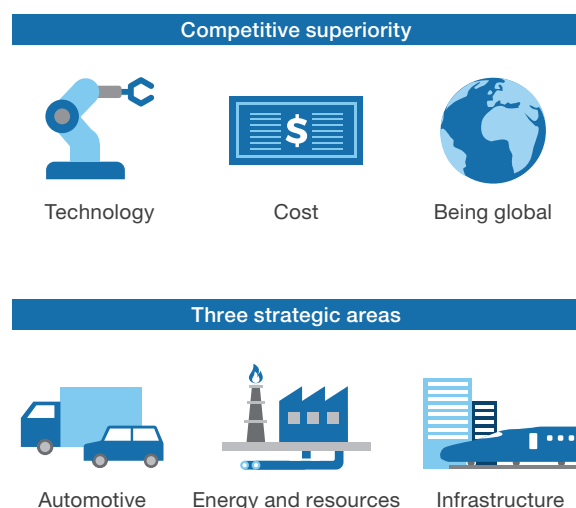
As change takes place in society and industries, customers demand advanced materials to match. We must keep providing higher value-added products to customers to satisfy this demand. For example, the automotive sector needs more light-weight steel materials with strength and good workability. The energy and resource sector desires steel materials with superior resistance to corrosion, high temperature, and high pressure. The infrastructure sector requires steel materials which enable shorter construction periods, but also sufficient strength and reliability, to satisfy the needs of urbanization and growth in scale in infrastructure especially in emerging countries. In order to respond to these requirements, we will enhance our technology development

and maximize the potential of steel as material. At the same time, in order to further differentiate ourselves from competitors, we are making efforts at advancing solution technologies for the use of materials, such as technologies to make good use of materials that are difficult to process and technologies that contribute to customers' work efficiency enhancement.

For enhancement of “manufacturing capabilities” of domestic mother mills that create those high-end products, we will further strengthen facilities and human resources by introducing leading-edge facilities, revamping existing facilities, and promoting the transfer of technology and skills to younger generations.

Further, utilization of continuously evolving IT is becoming an essential element that determines the competitiveness of a company. While NSSMC has a group company that is engaged in a system solution business, we have also established a new team within NSSMC for promoting use of advanced IT. Applying our comprehensive, collective strength through cooperation within the group and utilizing IoT and big data, and AI, we aim at achieving safety and competitiveness in the front lines of manufacturing, stability in production, improvement in product quality, and sophistication in business operations. We will further align operational process and systems among our manufacturing bases in Japan and overseas and apply advanced IT to realize a united, efficient execution of operations. Ultimately, we foresee in our future one virtual mill such as hitherto could hardly be envisioned even in our dreams.

We will implement capital expenditures of around ¥ 1,700 billion and R&D spending of around ¥220 billion over the three-year term. We will have rock-solid manufacturing capabilities, or production bases, so that we can steadily deliver unrivaled high-end products and solutions to customers and aim at enhancing cost competitiveness. In the short term, we will have significant cash outflows and increased depreciation burden. However, I believe this is a necessary, important step for us to make long-lasting achievements.



* Before reflecting NSSMC's equity ratio; excluding Usiminas (Brazil)

Strengthening and expanding the global business

We are ahead of other steelmakers in global development of downstream production processes. Our overseas production capacity steadily increased from 9 million tons per year in 2012 when Nippon Steel and Sumitomo Metal Industries merged to 21 million tons at present, and overseas bases are contributing more on the profit line as well. Anticipating steady increase in overseas steel demand over the long term, we have set about ¥600 billion for business investment over the three years up to fiscal 2020. We intend to invest aggressively in projects which promise to contribute to our future growth, mainly in the three strategic areas of automotive, energy and resources, and infrastructure in Asia, North America, and South & Central America. In preparation for rising protectionism and a shift towards self-sufficient markets, we are considering establishing integrated steel production bases from ironmaking to product making in certain overseas areas. This will be a shift from our previous business model of dividing work between domestic mother mills and overseas downstream production processes. In March 2018, NSSMC and ArcelorMittal entered into an agreement on basic terms and conditions to jointly acquire and manage Essar Steel India Limited, an Indian steelmaker having a fully integrated steel production system, and have begun procedures.

Contributing to the achievement of a sustainable society (SDGs)

Being a company with integrity and reliability is one of our underlying objectives, in addition to generating profit and making sustainable growth through our daily operations. First and foremost, safety and disaster prevention are the top priority. We will continuously work at appropriate risk management and implement preventive measures, based on lessons learned from past events and accidents. We also strive for continually improving internal control systems in order to comply with laws and regulations and to ensure credibility of our financial reporting, as well as the validity and efficiency of its operations. In addition, we respect human rights and are working to realize the Workstyle Innovation as endorsed by the Japanese government, by standardization of our operations and improvement in efficiency of operations as well as further utilization of IT. We aim at becoming a company where our workforce of diverse participants, regardless of their nationality and gender, can exercise their maximum abilities.

Following accession to the Paris Agreement in November 2016, Japan is working on a plan to cut greenhouse gas emissions 26% from 2013 levels by 2030, and 80% by 2050 as a long-term goal. In accordance with these goals, NSSMC is promoting



three eco-friendly initiatives: reduction in environmental burden in manufacturing process (Eco process), development of eco-friendly products (Eco products), and reduction in global environmental burden by providing its advanced environmental technologies (Eco solutions).

As part of our actions to significantly reduce CO₂ emissions in manufacturing, we are conducting extremely challenging technology research on the hydrogen reduction process, as well as separation and recovery of CO₂ from blast furnace gas*. As a result of trial operations at a 12m³ pilot blast furnace within the Kimitsu Works, these technologies were put to use on a test scale in fiscal 2017. This was a major advance toward practical use. We plan to establish the technologies as proven by around 2030 and target practical use by 2050, as long as they can be economically viable.

*Development projects (CO₂ Ultimate Reduction System for Cool Earth 50, or COURSE 50, Project) are being supported by the New Energy and Industrial Technology Development Organization (NEDO) and are being jointly conducted by NSSMC and other Japanese steel companies.

Review of the 2017 Management Plan and targets of the 2020 Management Plan

In fiscal 2017, the final year of the 2017 Mid-Term Management Plan, NSSMC was on a recovery trend, showing an increase in sales and profit from the previous year. Net sales amounted to ¥5,668.6 billion, ordinary profit to ¥297.5 billion, and profit attributable to owners of the parent to ¥195.0 billion. Concerning Key Performance Indicators (KPIs), cost reduction of ¥150.0 billion was achieved as targeted, while asset compression was ¥300 billion, significantly exceeding the ¥200 billion target for the past three years. The debt-to-equity ratio improved to 0.66 but was below the target of 0.5, mainly due to a decline in operating cash flow and expenses related to making Nisshin Steel a subsidiary. Regrettably, ROS and ROE were 5.2% and 6.4% respectively, falling short of their 10% targets.

As a background for the shortfall to the plan, there were external factors such as the deteriorated steel product market that suffered due to China's excess production and excess exports; a decline in demand for high value-added steel products for the energy industry that was stemmed from sluggish oil prices, a surge in coal prices, and a cost increase in commodity raw materials, logistics, were additional influences. At the same time, a decline in output caused by our production troubles was a significant internal factor behind the shortfall. However, these factors are currently becoming more accommodative to our improved performance. Among the external factors, the international steel market is improving as the Chinese Government has made a significant change in policy, reducing excess production capacity. Addressing the surge in coal prices, we have made steady progress in gaining acceptance of passing increases on to steel product prices. With regard to steel products for the energy industry, we are improving our business in order to remain profitable even in a difficult environment. Oil prices have bottomed out of the worst phase, showing signs of recovery. After experiencing

production troubles, we have reorganized the production systems and improved the production process, to eliminate the causes of the troubles. Moreover, we are making concerted efforts at realizing stable production and exerting our full capabilities, in order to flexibly cope with changes in operational conditions, that are accompanied by advanced quality requirements. Concerning overseas businesses, that have been expanded since our business integration in October 2012, the overseas profit contribution has been increasing, demonstrating steady progress in implementing our global strategy.

We have renewed our determination to successfully deal with the challenge of achieving ROS of 10% and ROE of 10% in the 2020 Plan. One of the ways to ensure achieving the targets is to enhance our selling and marketing capabilities. In addition to managing cost fluctuation in material costs and logistics costs, we find it critical to achieve appropriate prices for maintaining our reproduction capability, so that we can continue to serve our clients with the world's highest-standard steel products. We are committed to contribute to enhancing added value of products of our long-term customers and to continue growing together with them. We highly value cooperative relationships of trust with our customers. We will focus on developing advanced high-grade products, while striving to achieve our targets.

Return to shareholders

Our annual dividend payment for fiscal 2017 was ¥70 per share, for a payout ratio at 31.7%. From fiscal 2018 onwards, we will raise the targeted payout ratio from the previous "around 20%-30%" on a consolidated basis to "around 30%" as a benchmark for the "payment of dividends from distributable funds in consideration of the consolidated operating results."





Creating the value of steel and contributing to society

The earth is an “iron planet” with one-third of its weight being iron. Steel is a superb material with abundant reserves, high-strength, a high cost-performance ratio, outstanding recyclability, and low environmental impacts in production and from the perspective the life cycle assessment (LCA)*. This is proven by a fact that around 90% of metals used in society is steel. In addition, we can say that steel has a distinctive characteristic of being able to add diverse features through heat treatment using a small amount of an added element or elements and to satisfy even unusual or extremely precisely defined needs of customers. Steel therefore cannot be substituted by other materials. At the same time, this also means that manufacturers’ capabilities are critical for bringing out the potential of materials. We will continue our quest for creating the value of steel, an indispensable basic material for all industries and infrastructure building, provide the power of steel to society, and contribute to realizing society in which everyone can benefit from that value and power. In my view, this is the mission for all of us who are

engaged in steelmaking.

In April 2019, we will change our name to Nippon Steel Corporation, opening a new chapter in our history. Since the business integration of Nippon Steel and Sumitomo Metals in 2012, Nisshin Steel joined our group and we are now considering to making Sanyo Special Steel our subsidiary. The name change this time demonstrates our strong commitment to prevail in the era of global competition as a steel company that originated in Japan, and that incorporated DNAs of various companies. Keeping that pride in mind, we will make our best efforts on the global stage every day, to realize Our Values to “pursue world-leading technologies and manufacturing capabilities, and to contribute to society by providing excellent products and services.

June 2018

Kosei Shindo

Representative Director and President

* Life Cycle Assessment (LCA) means to assess the environmental impact of products through all stages of their life cycle, from production and use to disposal or recycling.

2020 Mid-Term Financial Plan

We will increase operating cash flow derived from profit improvement, and expand capital expenditures and business investment from the previous mid-term management plan, partly by using cash generated from asset compression. We also will raise shareholder return, and at the same time maintain the present level of our financial position.

Profit improvement

NSSMC plans to reduce cost by ¥150 billion per year, recover crude steel production and shipment to 45 million tons per year, improve profitability, and improve earnings of group companies. Through these measures, we aim to realize improvement in earnings that exceeds an increase in depreciation expenses stemmed from expanded investment, with a target ROS of 10% and ROE of 10%.

Investment

NSSMC will implement domestic capital expenditures of around ¥1,700 billion over the three-year term, in order to (a) enhance facilities through the introduction of advanced equipment and maintenance of the soundness of facilities and (b) capture customer demand in growth areas created by social and industrial structural change.

Business investment will be around ¥600 billion over the three-year term. In addition to growth investment in (a) domestic and overseas businesses to be developed based on approaches specific to products customer sectors, or regional demand, and (b) acquiring interests in raw materials, NSSMC will be alert for new opportunities through mergers and acquisitions.

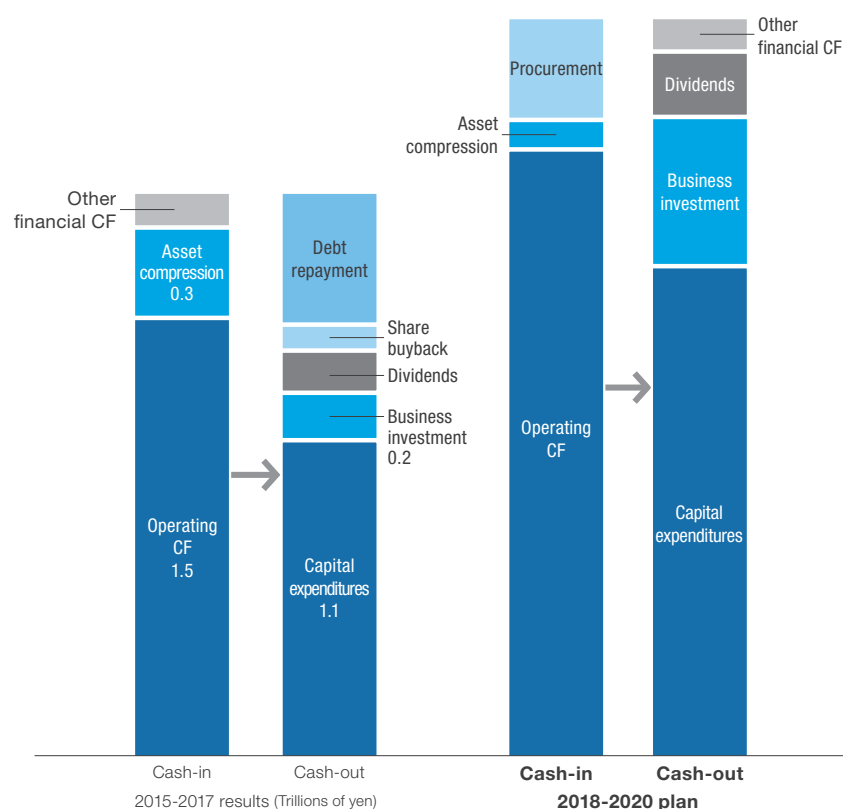
Shareholder return

NSSMC's basic profit distribution policy is to pay dividends based on consolidated operating results. We have raised the targeted consolidated payout ratio from the previous "around 20%–30%" to "around 30%" as a new benchmark.

Financial position

Including consideration of facility enhancement investment and growth investment, NSSMC aims to achieve a debt-to-equity ratio of about 0.7 at the end of FY2020, a level similar to that at the end of FY2017.

Logics behind the 2020 mid-term cash flow plan

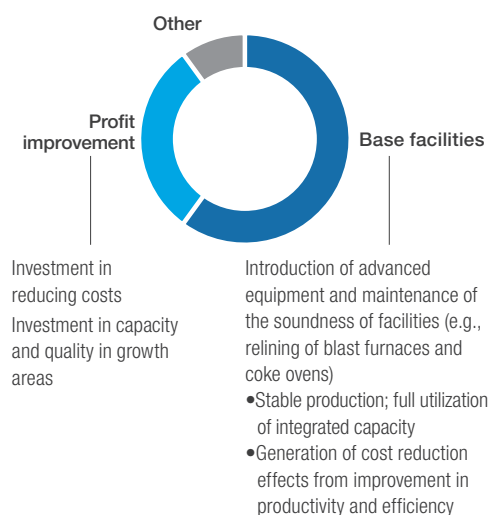


Business investment

Flexible, agile execution of strategic investments based on products, customer sectors, and regions in Japan and overseas, in light of long-term structural changes in global supply and demand of steel.

Capital expenditures

In aggregate, IRR > Cost of capital



Financial indices

2020 mid-term KPI targets

ROS

About **10%**

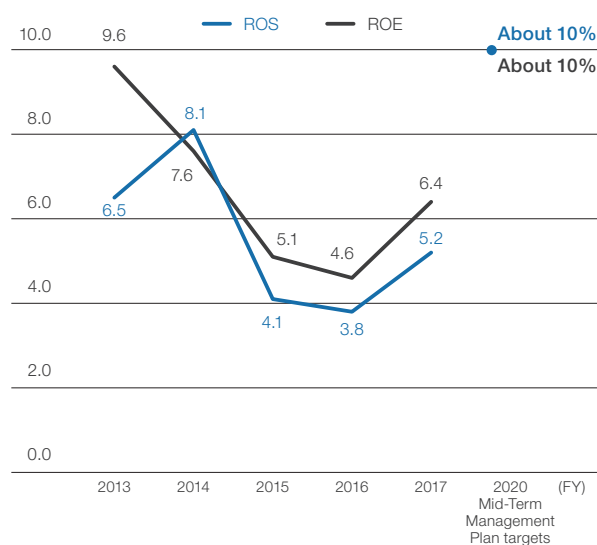
ROE

About **10%**

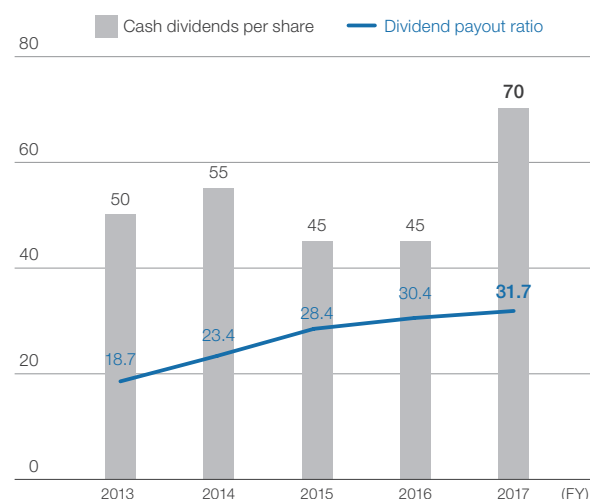
D/E ratio

About **0.7**Capital expenditures in Japan
(3 years; consolidated basis)¥ **1,700** billionBusiness investment
(3 years; consolidated basis)¥ **600** billionPayout ratio
(from Fiscal 2018)Around **30%**(Raised from "around 20%-30%" in the 2017
Mid-Term Management Plan)

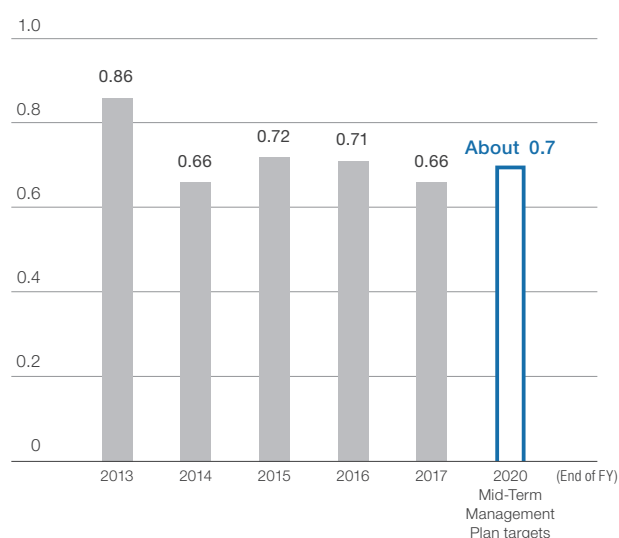
ROS (Return on sales), ROE (Return on equity) (%)



Cash dividends per share (Yen), Dividend payout ratio (%)

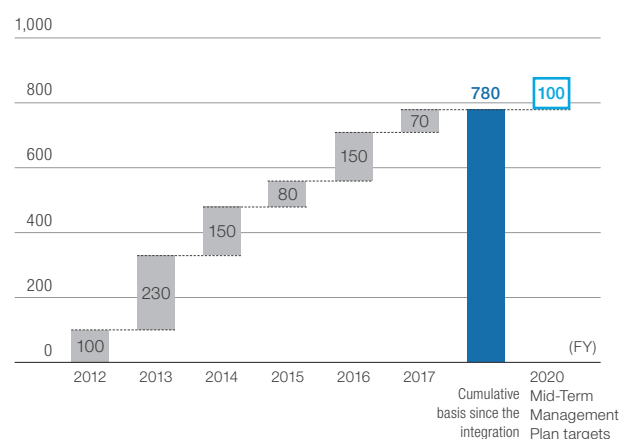


D/E ratio (Times)



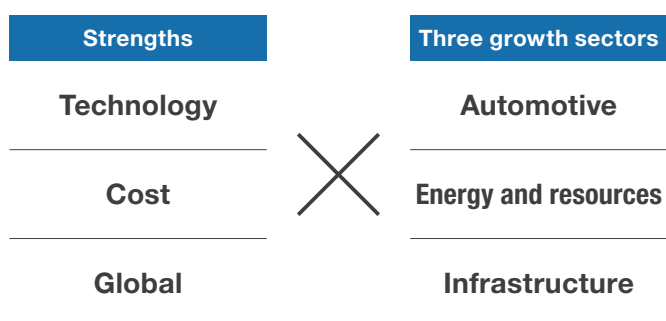
Asset compression (Billions of yen)

¥780 billion on a cumulative basis since the integration; plans are to achieve ¥100 billion in asset compression during the three-year 2020 Mid-Term Management Plan



2020 Mid-Term Management Plan

Basic Policy






Five major initiatives

- 1 Delivering materials and solutions responsive to changes in society and industry
- 2 Strengthening and expanding its global business
- 3 Continuing to strengthen “manufacturing capabilities” of domestic mother mills
- 4 Utilizing advanced IT in steelmaking processes
- 5 Contributing to the achievement of a sustainable society (SDGs)

Major initiatives to address long-term, structural changes

Addressing changes

 <p>Structural changes in supply and demand of steel</p>	<p>Decline in population in Japan</p> <p>Rising protectionism in various countries</p> <p>Shift towards self-sufficient markets in emerging countries</p>
 <p>Structural changes in society and industry</p>	<p>Utilization of advanced IT</p> <p>Shift to electric vehicles (EV) and the development of self-driving vehicles</p>
 <p>Achievement of a sustainable society</p>	<p>SUSTAINABLE DEVELOPMENT GOALS</p> <p>Reduction in greenhouse gas emission</p> <p>Establishment of a recycling-oriented society</p>

Capital injection 3 years

Capital expenditures in Japan (consolidated basis)

Approx.

¥1,700 bn / 3 years

Business investment (consolidated basis)

Approx.

¥600 bn / 3 years

R&D spending (consolidated basis)

Approx.

¥220 bn / 3 years

How will the megatrends in society and industry unfold in the future? What will be our role in society and industry created by our handling steel? Having these questions in mind, we studied and discussed in detail our mid- to long-term challenges and strategies and on that basis developed the 2020 Mid-Term Management Plan. Under the plan, our aim is to advance towards “the best steel maker with world-leading capabilities” by further improving our capabilities in terms of “technology,” “cost,” and “being global,” as we advance in forging manufacturing capabilities and creating the inherent value of steel.

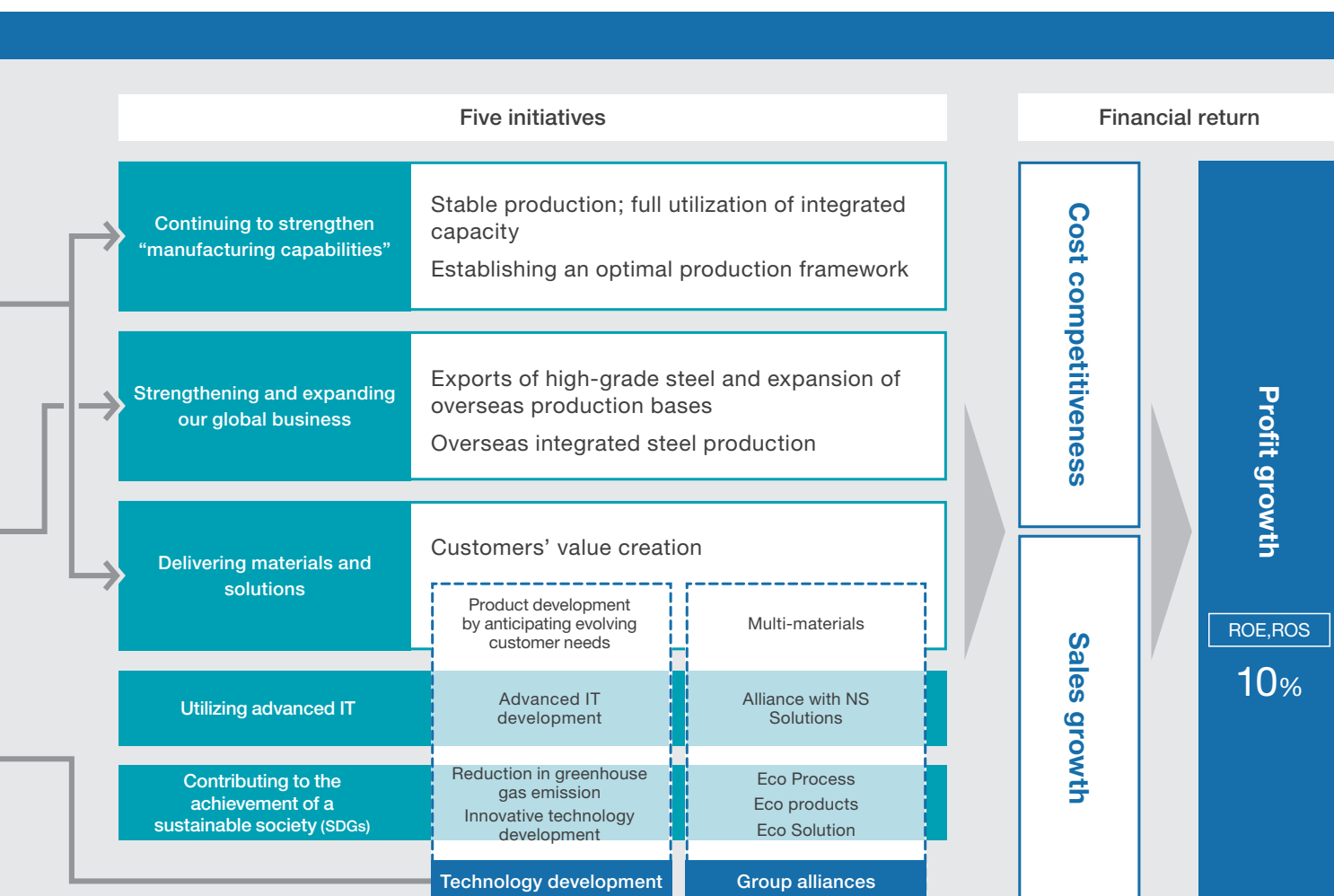
We will work on the following five initiatives for achieving our aim.



By achieving these five organically-interlinked initiatives, we seek to expand sales and earnings, enhance cost competitiveness, and strengthen ourselves so as to be resilient to long-term, structural changes in society and industry. We will implement capital expenditures of around ¥1,700 billion, business investment of around ¥600 billion, and R&D spending of around ¥220 billion over the three-year term. Each of these amounts exceeds those of the 2017 Mid-Term Management Plan. By fully utilizing our capabilities in technology development and in the Group's alliances, we will make utmost efforts to achieve these initiatives.

2020 Mid-Term Management Plan targets	ROS (Business profit on sales*)	ROE (Return on equity)	Crude steel production (Non-consolidated) Stable production; full utilization of integrated capacity	Cost reduction (3 years; non-consolidated)	D/E ratio	Consolidated payout ratio
Fiscal 2017 results	5.2%	6.4%	40.67 million tons/year	¥150 billion	0.66	31.7%
Fiscal 2020 Mid-Term Management Plan targets	About 10%	About 10%	About 45 million tons/year	¥150 billion	About 0.7	About 30%

* From Fiscal 2018 onwards, ROS is calculated using IFRS.
Business profit = Profit before income taxes – Net financial cost – Additional line items



Delivering materials and solutions to address changes in society and industry

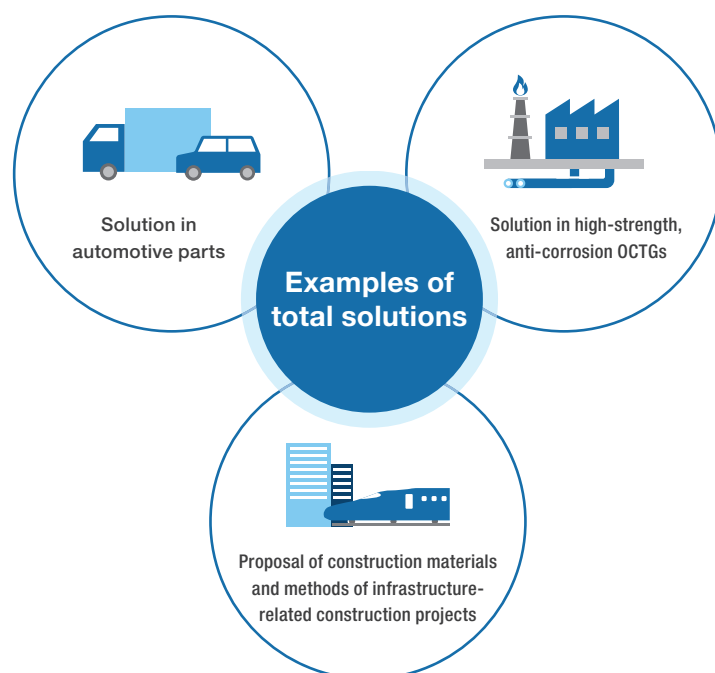
Along with changes in society and industry customers' requirements for properties of materials are becoming increasingly diverse and advanced. It is therefore important to enhance application and processing technologies in order to make proposals on design and processes to customers, on top of bringing out the maximum potential of steel as a material, by using advanced technologies. We will provide total solutions that include materials to customers so that their final products will have greater added value.



Diverse, advanced properties required to materials

Delivery of total solutions in the three strategic areas

Our customers are facing more diverse, complex issues. We intend to address (a) rising needs for lighter vehicles, and electric and other new energy vehicles in the automotive sector, (b) a more severe energy development environment in which resistance to corrosion, high temperature, high pressure, and other conditions are increasingly required of steel for the energy and resources sector, and (c) the challenge of shortening construction periods in order to restrain increase in construction costs in emerging countries where there will be investment in larger, advanced infrastructure and increased labor costs in the infrastructure sector. In addition to providing materials, we will support customers by providing solutions on how to use them. Examples include provision of application and processing technology of high-tensile steel sheet for automobiles, provision of development premium connectors and customer services that contribute to enhance added value of oil country tubular goods (OCTG), and proposal of construction methods that contribute to advanced infrastructure and cost reduction due to shorter construction period.



2020 Mid-Term Management Plan

Create the value of steel
and deliver total solutions
that include materials and
application and processing
technologies

Total solutions



Method
solutions



Material
solutions



Design
solutions

Addressing changes in the automotive sector

In the automotive sector, assemblers' requirements are expected to change dramatically, with growing demand for lighter and stronger vehicles, a shift to electric vehicles and an increase in use of electric and electronic equipment. In addition to advancing potential of steel as material and combining with application and processing technologies, the Automotive Material Planning Department, newly established in April 2018, is largely concerned with use of steel to meet these requirements. The NSSMC Group will respond to multi-material and other complex, advanced needs of customers by organically using old and new technologies and products of our non-steel material businesses, in combination with steel.



"Creating the value of steel"
Explore the full potential of steel;
combine steel with processing
technologies



Organic alliance with
non-steel material
businesses, centered
around steel



Addressing the trends toward lighter yet stronger materials, a shift to EVs, and adoption of more electric equipment in the automotive sector

Integrate chemicals & materials, enhance alliance with steel

To advance this initiative, Nippon Steel & Sumikin Chemical Co., Ltd. and Nippon Steel & Sumikin Materials Co., Ltd. will be integrated to become Nippon Steel Chemical & Material Co., Ltd. in October 2018. The integrated company will advance its business strategy, deepen alliances with the steel business, and enhance the NSSMC Group's capabilities in providing comprehensive material solution for customers' advanced needs in areas such as automobiles and batteries.



Nippon Steel Chemical &
Material Co., Ltd.
(Plan to be integrated in October 2018)



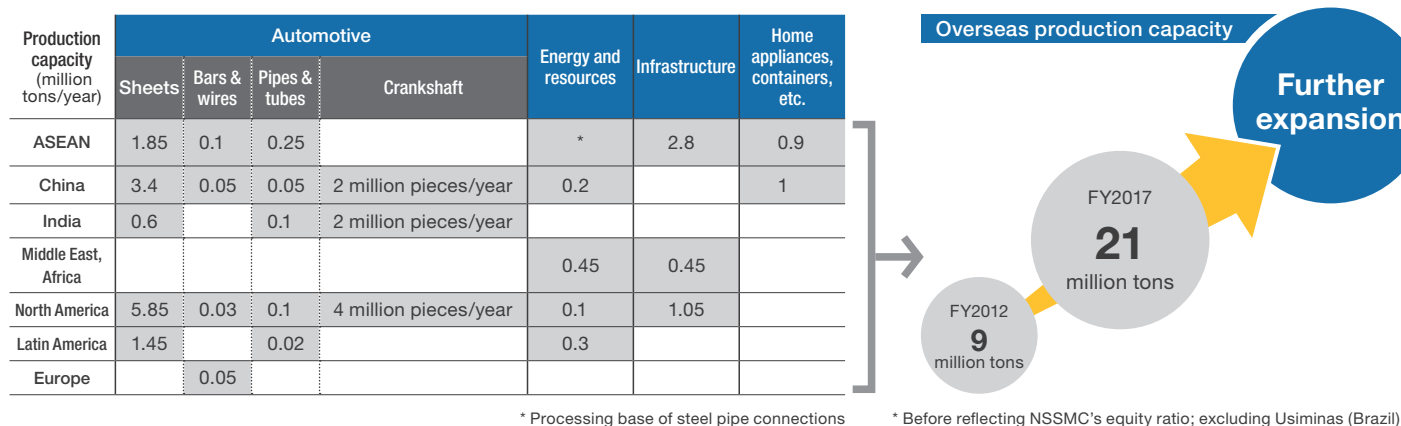
Expertise of steel business
Solution providing capability



Create comprehensive material solutions, centered around steel
Addressing customer needs in light of structural changes in society and industry

Strengthening and expanding global business

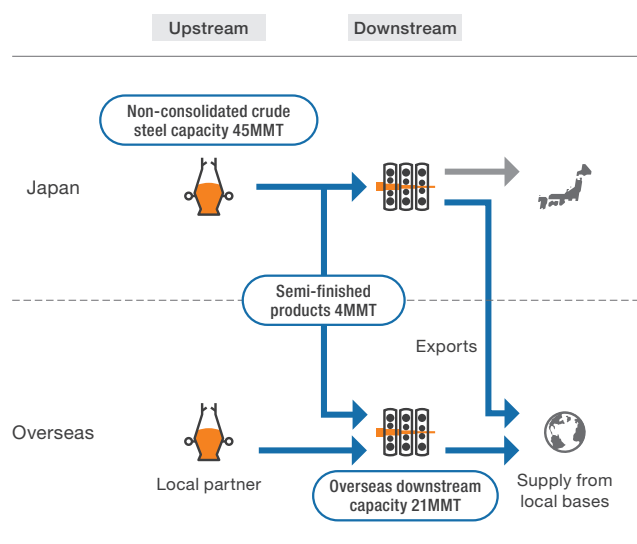
Global steel demand is anticipated to keep increasingly for a long time. NSSMC has been ahead of its competitors in establishing overseas downstream production bases in Asia, North America, and Latin America. We now have a global supply network of 21 million tons of capacity mainly to satisfy requirements in three key industrial sectors: automotive, energy and resources, and infrastructure.



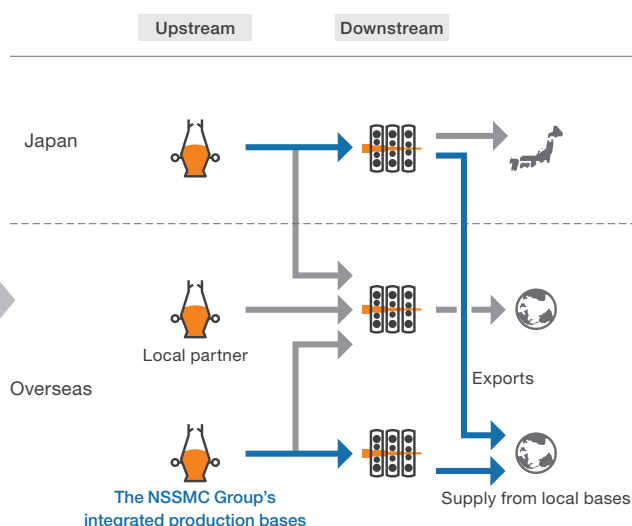
At present, NSSMC's overseas downstream bases import semi-finished products from the upstream processes of mother mills in Japan and local joint ventures, produce high-grade steel products (where we have strengths), and timely deliver steel products of the same quality as those made in Japan to our overseas customers. We have thus expanded supply of steel products with the NSSMC brand to customers through both exports from mother mills in Japan and supply from local production bases.

In addressing the rising protectionism and the shift towards self-sufficient markets, we are considering adding overseas integrated production bases with processes from crude steel production to final product manufacturing, to our Group. This means to go beyond our conventional business model that divides work between domestic mother mills and overseas downstream production processes.

Business model to combine domestic mother mills and overseas downstream bases in global supply of high-grade steel products



Expand integrated production bases in growing markets



2020 Mid-Term Management Plan

In March 2018, we agreed with ArcelorMittal on the basic terms on the joint acquisition and operation of Essar Steel India Limited, an integrated steelwork in India, and entered into a basic agreement.

In June 2018, we acquired and made Ovako AB, a wholly owned subsidiary. Ovako is a specialty steel maker in Sweden and has global top-level technology regarding high-cleanliness steel for bearing steel and other such products.

We are studying to make Sanyo Special Steel Co., Ltd. our subsidiary around March 2019. Considering cooperation among NSSMC, Sanyo Special Steel, and Ovako, we intend to strengthen the special steel businesses and work toward building a global business promotion system. We have raised business investment from the 2017 Plan to around ¥ 600 billion over the three-year term. We will continue to undertake alliances with major companies and M&As with speed and flexibility.

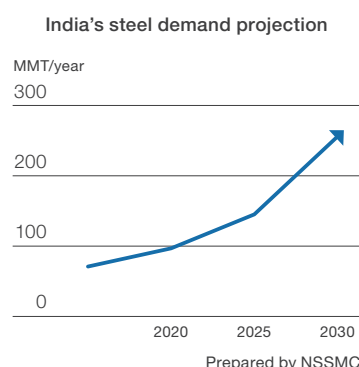


Working with ArcelorMittal for joint acquisition of Essar Steel India Limited and establishment of the joint venture

Essar Steel is India's fourth largest steelmaker and has an integrated steelwork in the west coast of India. It manufactures steel sheets, plates, and pipes. Last year bankruptcy proceedings were initiated against Essar Steel, which are ongoing. At this time, we began considering acquisition of Essar Steel, jointly with ArcelorMittal. ArcelorMittal has been our joint venture partner at companies such as AM/NS Calvert in the U.S. Through these alliances, both companies have developed mutual trust. If the deal goes through, we will capture steel demand in India, which is expected to significantly grow in the medium- to long-term, and use it as a growth driver of our Group.

About Essar Steel India Limited

Nominal crude steel production capacity	10MMT (integrated steel mill)
Revenue (consolidated)	219.6 bn. INR (Fiscal 2016)
Number of employees	3,988 (as of March 31, 2017)
Products	Hot-rolled/cold-rolled/hot-dip-galvanized sheets; plates and pipes



Indian steel makers' crude steel production (CY2016; MMT/year)

1	Tata	24.5
2	JSW	14.9
3	SAIL	14.4
4	Essar	7.5
5	Vizag	3.8
total		95.5

Source: worldsteel



Strengthen the special steel businesses and work toward building a global business promotion system

In June 2018, we acquired and made Ovako AB a wholly owned subsidiary. Ovako is a specialty steel maker in Sweden and has global top-level technology regarding high-cleanliness steel for bearing steel and other such products.

We are also studying the matter of making Sanyo Special Steel Co., Ltd. a subsidiary around March 2019. Sanyo Special Steel is another top brand in bearing steel and other special steel products, based on its high-cleanliness steel technology. Special steel is used as material for important components of diverse industries, such as automotive, industrial machinery, wind power generation and robots, and has a solid growth potential in demand. NSSMC is also engaged in the special steel bars and wire rods business, mainly for mechanical structures. With the objective of synergistic cooperation among NSSMC, Sanyo Special Steel, and Ovako, we intend to strengthen the special steel businesses and work toward building a global business promotion system, with the aim of capturing rising demand.

About Ovako AB

Sales volume	780,000 tons (Year 2017)
Net sales (consolidated)	921 million euros (Year 2017)
Number of employees	Approximately 3,000
Business activities	Manufacture and sale of special steel and secondarily processed products

About Sanyo Special Steel Co., Ltd.

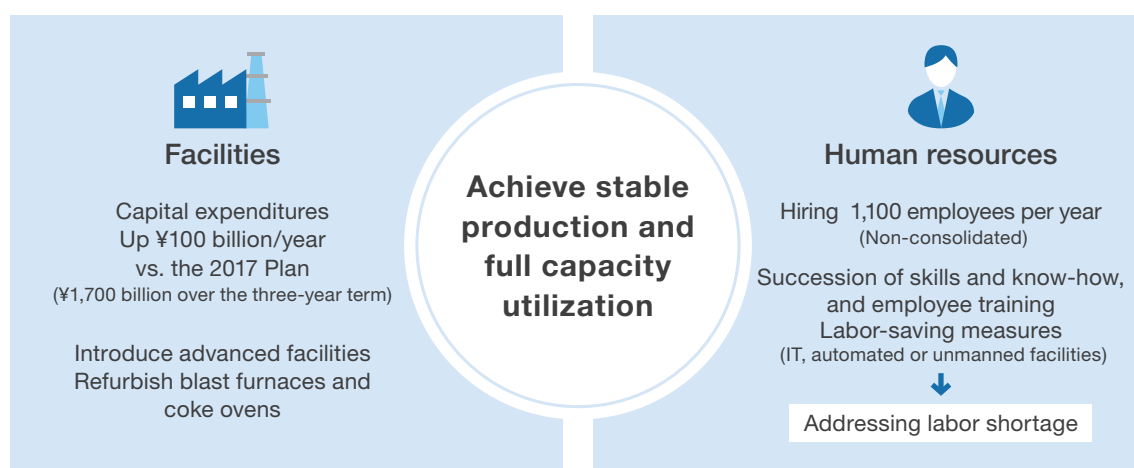
Sales volume	1.06MMT/year (Fiscal 2016)
Net sales (consolidated)	¥138.6 billion (Fiscal 2016)
Number of employees	2,598
Business activities	Specialty Steel (manufacturing and sales of special steel products); powders; formed and fabricated materials

Continuing to strengthen “manufacturing capabilities” of domestic mother mills

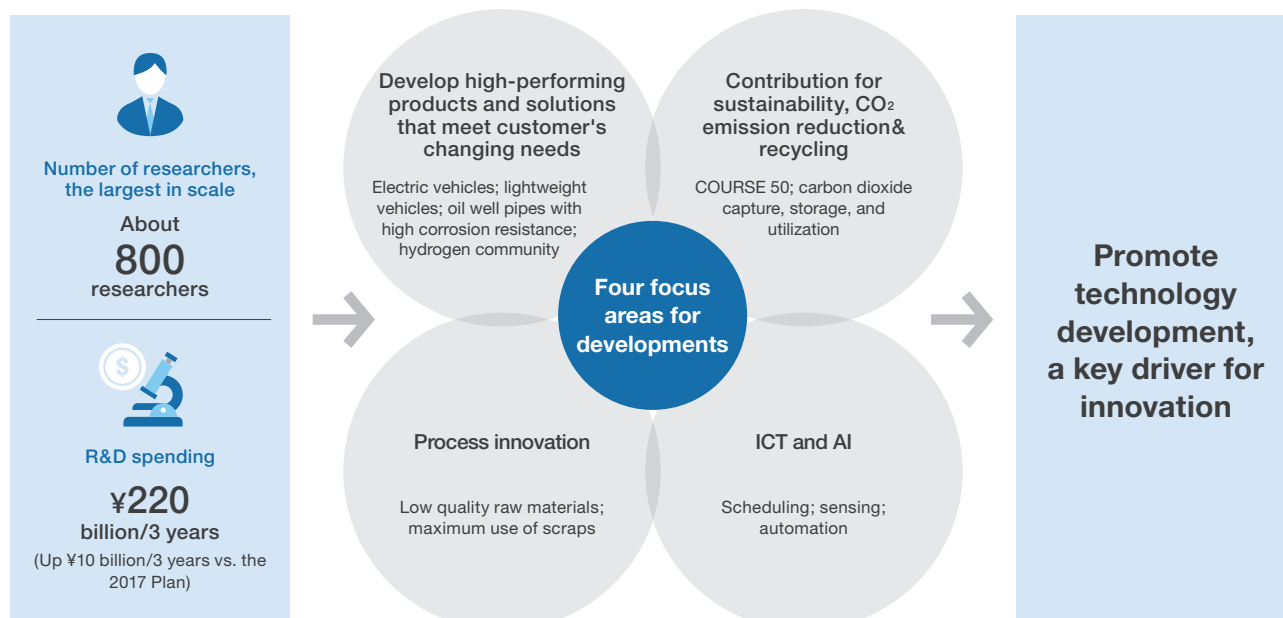
NSSMC's domestic mother mills will aim to strengthen their manufacturing capabilities and to continue to improve as bases for technology development, cost competitiveness, and productivity. The mother mills will be committed to stable supply of steel products in Japan and overseas and assisting overseas businesses.

We will further enhance facilities and human resources capabilities and aim at stable production and full utilization of integrated capacity. We will also promote the development of an optimal production framework in order to build a lean manufacturing framework that can address changes in the business environment. Moreover, we will make the best of our R&D operations, which is the largest in scale (with about 800 researchers) and highest level in quality in the global steel industry, and promote technology development, a key driver for innovation.

Enhancing facilities and human resources capabilities



World-leading Technology Development



2020 Mid-Term Management Plan

Achieve world-leading cost competitiveness

Cost Reduction

¥150
billion/year

Refurbishment of facilities (i.e., Coke ovens); more energy efficiency; more resource recycling; optimal and lean production framework, etc.

Establish an optimal, lean production framework

Maximize capacity utilization rates and adopt state-of-the-art facilities

Continue to work on building an optimal production network, anticipating changes in the future business environment

Yawata Works (Kokura Area) to optimize upstream



From Fiscal 2019

Start operating the new continuous casting facility in Yawata

By about the end of Fiscal 2020

Stop upstream processes in Kokura Area
Maintain Kokura's production level of special steel bar & wire rods

Enhance capability to respond in the automotive sector

(Kimitsu Works to install a new No. 6 CGL to strengthen supply system for ultra-high-tensile steel sheets)

Plan a start-up of operation in the 2nd quarter of Fiscal 2020

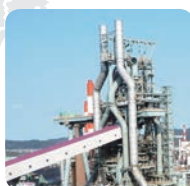
► Capacity: 0.4 MMT/year (maximum strength: 1.5 GPa)
► No.4 CGL at Kimitsu Works (capacity: 0.4 MMT/year) to stop operation

Kimitsu Works (former Tokyo Works) to stop operating a small-diameter seamless pipe & tube mill

By around May 2020

Stop operation of Kimitsu's small-diameter seamless pipe & tube mill
► Consolidate production in Wakayama Works (Kainan Area)

Wakayama Works to switch to a new No. 2 blast furnace (BF) and to stop operating a steelmaking mill of Nippon Steel & Sumikin Shapes Corp.



By around the end of fiscal 2018

Switch from the No. 5 BF (2,700m³) to a new No. 2 BF (3,700m³)
► Crude steel production capacity: Up 0.5MMT/year

By around the end of fiscal 2019

Stop operation of a steelmaking mill (electric furnace, continuous caster) of Nippon Steel & Sumikin Shapes Corp.
► Steel slabs to be supplied from Wakayama Works

Synergies with Nisshin Steel

Since March 2017 when Nisshin Steel Co., Ltd., which became a subsidiary of NSSMC, we seek to realize synergies of ¥20 billion per year by the end of Fiscal 2020. At the same time, the refurbishment of the Kure No. 1 blast furnace of Nisshin Steel has been deferred from the end of Fiscal 2019 to the end of Fiscal 2023 by utilizing NSSMC's technology to extend the life of a blast furnace, so as to increase room for investment for Nisshin Steel. Moreover, NSSMC has decided to make Nisshin Steel a wholly owned subsidiary in January 2019 to accelerate mutual use of management resources and to further expand alliance.

Further, NSSMC, Nisshin Steel, and Nippon Steel and Sumikin Stainless Steel Corp. have decided to integrate the stainless steel businesses by around April 2019 in order to realize the maximum effects of synergies at an early stage. Additional synergies of around ¥10 billion per year is expected from Nisshin Steel becoming a wholly owned subsidiary and the integration of the stainless steel businesses.

Synergies (Billions of yen/year)

Mutual supply of semi-finished products	6
Shared sales & marketing strategy; effective utilization of capacity	3
Transfer of best technological practices	7
Shared procurement strategy	4

¥20 billion/year in total
(by the end of Fiscal 2020)

Targeting additional synergies of around ¥10 billion from Nisshin Steel becoming a wholly owned subsidiary and the integration of the stainless steel businesses

Nisshin Steel becoming a wholly owned subsidiary (January 2019)



Deferred refurbishment of the Kure No. 1 blast furnace by utilizing NSSMC's technology (from the end of Fiscal 2019 to the end of Fiscal 2023)



2020 Mid-Term Management Plan

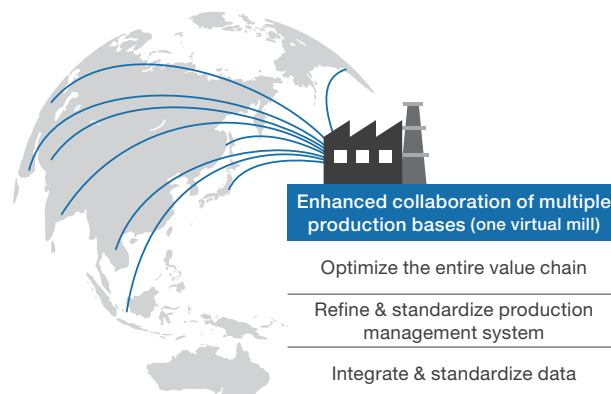
Utilizing advanced IT in steelmaking process

Utilization of Advanced IT; Alliance with NS Solutions

Utilizing IT, which is continuously evolving, is becoming an essential element that determines the competitiveness of a company. NS Solutions Corporation (NSSOL), which is engaged in the system solution business within our Group, is strengthening its solution proposal capability in the areas of IoT and AI for the benefit of customers through its loX™* Solution Business Promotion Department (established in April 2016) and AI Research and Development Center (opened in October 2017). In the meantime, NSSMC established the Advanced Application Technology Planning Department in April 2016, and started the Intelligent Algorithm Center where about 30 top-class researchers in use of advanced IT within the NSSMC Group have been united, in April 2018. By demonstrating our comprehensive capability with these resources, we will aggressively adopt advanced IT to achieve safety and competitiveness in manufacturing frontlines, stability in production, improvement in product quality, and sophistication in business operations. Our ultimate vision is one virtual mill. We aim

to adopt advanced IT in each operation and each production basis as well as to enhance collaboration of multiple production bases. By these initiatives, we will make our operating processes and production systems more united and efficient.

*loX™: NS Solutions' trademark, meaning a concept to integrate Internet of Things (IoT) and Internet of Humans (IoH)



Contributing to achieving sustainable society

To be a company with integrity, reliability & sustainability

Our priorities in manufacturing are “safety, the environment, and disaster prevention.” We will continuously work at appropriate risk management and implement preventive measures, based on lessons learned from past events and accidents. In addition, we will implement and appropriately manage internal control systems and strive to continuously improve them. We will achieve the Work Style Reform as endorsed by the Japanese government by standardization of operations and improvement in efficiency of operations as well as further utilization of IT. We view the “environment” as one of our fundamental management issues. We are therefore promoting the implementation of the “three Ecos” and the development of innovative technology. With “Eco Process,” we aim to lessen environmental impact during production of steel. With “Eco Products,” we aim to provide environmentally-friendly products and contribute to less environmental impact when being used by customers; and with “Eco Solutions,” we aim to provide our environmental technologies accumulated to date and contribute to environmental issues on a world-wide basis. We are also working on innovative technology development, including COURSE 50, which uses hydrogen reduction technology, and

processes of carbon dioxide capture, storage and utilization. We will strive to implement those initiatives in order to be a company with integrity, reliability and sustainability.






Review of the 2017 Mid-Term Management Plan

Initiatives (Initiatives approved during the 2017 Mid-Term Management Plan)

	Oct. 2012 Integration of NSSMC	FY2013-2014	FY2015-2017	FY2018 and onward
Enhance mother mills ● Blast furnace (BF) ● Coke oven		March 2013 Nagoya #5 April 2014 Tobata #4BF	Aug. 2016 Kashima #1F Jan. 2017 Kimitsu #4	May 2018 Kashima #2E 2H of 2018 Kimitsu #5 1H of 2019 Muroran #5 West
Optimal, lean production framework ● New ● Shut-down		2013-2014 Ceased 14 rolling lines	March 2016 Ceased Kimitsu #3BF Kokura to cease upstream operation	FY2019 Tobata New CC FY2020
Alliance and consolidation			Feb. 2016 Enhanced alliance with Vallourec March 2017 Nisshin Steel became a subsidiary.	Feb. 2018 Usiminas adopted new governance rules.
Overseas production capacity		9 million tons	19 million tons	21 million tons
Restructuring of group companies		2012-2014 Integration of group companies	May 2015 Unipres became an equity-method affiliate. From May 2015 Sale of SUMCO shares Aug. 2015 NS-TEXENG became a wholly-owned subsidiary. Sep. 2015 Suzuki Metal became a wholly-owned subsidiary. March 2016 Osaka Steel's tender offer for Tokyo Kohtetsu	

Key Performance Indices (KPI): Targets and actual results

		Actual result	Target
 Cost improvement measures	Cost reduction (non-consolidated; ¥bn; FY2015-FY2017)	150	150
	Non-steel business profit (FY2017; ¥bn)	45	60
	Overseas business profit (FY2017; ¥bn)	45	65
 Profitability and financial position	ROS(%)	5.2	10
	ROE(%)	6.4	10
	Asset compression (consolidated; ¥bn; FY2015-FY2017)	Approx. 300	Approx. 200
	Debt-to-equity ratio	0.66	Approx. 0.5
	Capital expenditures in Japan (consolidated; ¥bn; FY2015-FY2017)	1,260	1,350
 Investment in resources	Hiring (non-consolidated; persons per year)	Approx. 1,300	Approx. 1,300
	Business investment (¥bn; FY2015-FY2017)	210	Approx. 300
	Consolidated payout ratio (%)	31.7	20~30

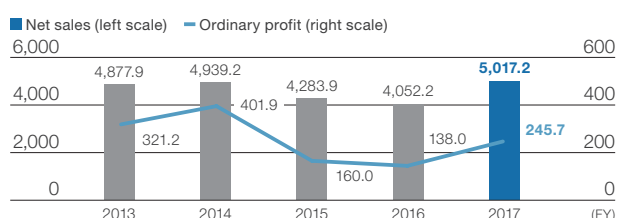
Steelmaking and Steel Fabrication

Fiscal 2017 business results and fiscal 2018 outlook

In fiscal 2017, the Steelmaking and Steel Fabrication segment recorded an increase in sales and profit from the previous year at ¥5,017.2 billion in net sales (compared to ¥4,052.2 billion in fiscal 2016) and ¥245.7 billion in ordinary profit (compared to ¥138.0 billion). We continued to strive for cost improvement such as reduction in material and fuel costs, as well as yield improvement, and for implementing various measures centered primarily on enhancing the competitiveness of the domestic “mother mills” and advancing global strategies. As for our product prices, we sought the understanding and cooperation of its customers in adjusting steel product prices, given the surge in raw material prices and other factors. In fiscal 2018, domestic steel demand is expected to remain firm, especially in the automotive and industrial machinery sectors. We

anticipate that overseas steel demand will continue to expand at a moderate pace. In the international steel market, we are assuming that the supply and demand balance will remain relatively tight, but, since there are concerns about the impact of protectionist policies in the United States and other countries, close attention to future trends will be necessary. Amid these conditions, we will continue to closely monitor trends in steel product supply and demand and raw material prices and will also strive to implement steady cost improvement. In tandem with these initiatives, we are working to secure appropriate sales prices for continuous supply, and will continue to seek the understanding and cooperation of our customers in adjusting steel product prices, given rises in prices of some auxiliary materials such as scrap and alloy, other materials procurement costs, and distribution costs.

Net sales, Ordinary profit (Billions of yen)



Consolidated crude steel production (fiscal 2017)

46.82 million tons

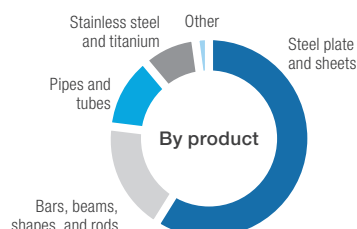
Japan

No.1

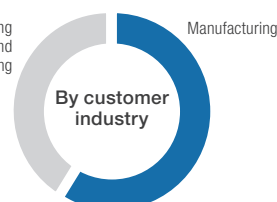
World

No.3

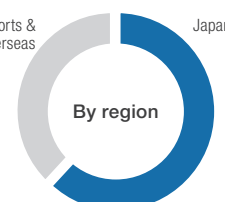
Breakdown of the Steelmaking segment



Building materials and civil engineering



Exports & overseas



*The breakdowns by product and by region are in value terms and the breakdown by customer industry is in volume terms.

Business strategy

Automobiles

Stricter environmental regulations and shifting in source of power for automobiles will not change automakers' efforts to decrease the weight of the vehicles they make; these efforts are expected to remain intact or even increase. NSSMC will therefore accelerate development of industry-leading steel materials where we have competitive advantages, as represented by ultra-high-tensile steel sheets that contribute to lighter vehicles. At the same time, we will continue R&D so as to respond to customer needs for lighter vehicles and multi-materials, eyeing the possibility to ally other materials with steel by utilizing knowledge of the steelmaking technologies. In fiscal 2018, the Automotive Material Planning Department was established, to engage in new initiatives in automotive materials. The initiatives include an acceleration of product development and the application to actual vehicles by close cooperation of departments in development and sales; enhanced cooperation among our product groups such as steel sheets, bar and rod materials, and pipes and tubes and, cooperation including related companies; and building effective PR strategies.

Energy and resources

NSSMC believes it is important to maintain and expand its world-leading technology level in steel materials for the energy market and firmly establish ourselves as a market leader, in order to realize a stable profit structure regardless of the market environment. In the OCTG area, we differentiate ourselves by bundling pipes with special threaded couplings that improve the seal at connections, and by enhancing related services. We are thereby aiming at further fortifying our longstanding relationship of trust with the oil majors, who have been using our products.

As for global strategy, we have been ahead of our peers in establishing a global supply network of materials for automobiles, to provide high-grade steel products of the same quality as those made in Japan to automakers' overseas plants. The start-up of a steel sheet manufacturing base in the U.S. in the early 1990s is one of the prime examples. Looking ahead, we aim at growing profit by further expanding this global network and capturing overseas growth markets, while expecting shrinking of the domestic automobile market. As recent developments, in the steel sheet area, PT Krakatau Nippon Steel Sumikin (KNSS), a joint venture of NSSMC and PT Krakatau Steel (Persero) Tbk, started commercial production of high-grade, high-quality cold-rolled, hot-dip galvanized, and galvanized steel sheets, including high-strength steel sheets up to a 1.2GPa class in fiscal 2017. In the bars & wire rods area, NSSMC made Ovako AB, one of the largest in Europe manufacturing and selling bearing steel and other special steel (mainly in the European market), a wholly owned subsidiary in June 2018.

Infrastructure

Construction and civil engineering

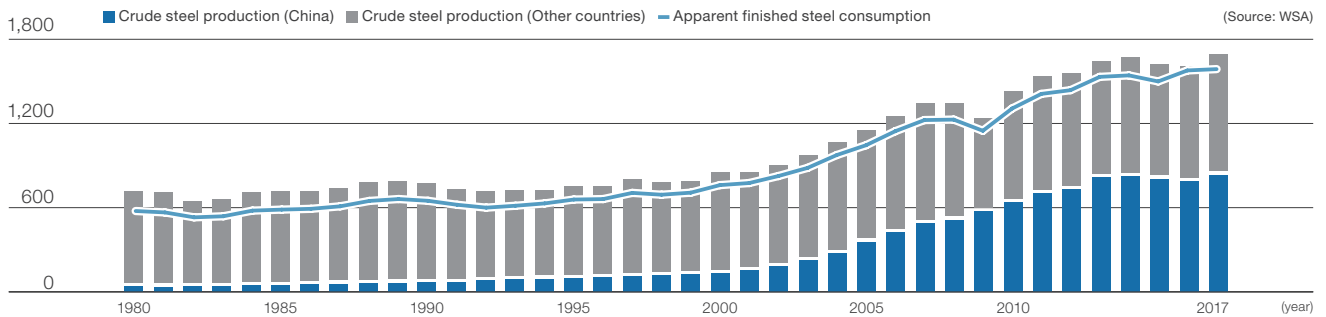
Mainly in emerging countries, in cooperation with local major universities and other academic institutions, NSSMC is engaged in dissemination of its advanced steel structure technology.

Railways

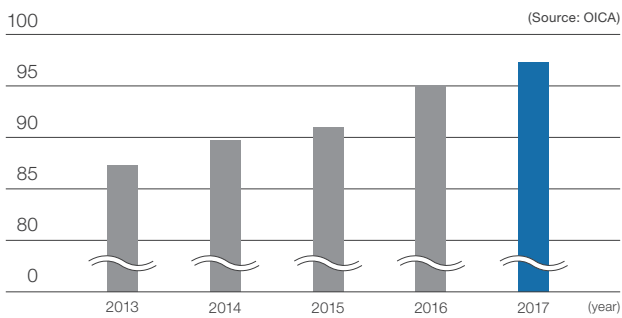
Having completed capital investments in our North American manufacturing base for railway wheels and axles, NSSMC now has a manufacturing system with bases in Japan and the United States. By using such facilities, we aim at raising our market share in the global market, including Asia and Europe.

Steelmaking-related key indicators

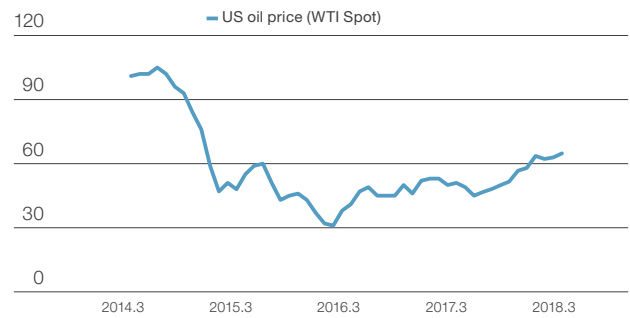
World crude steel production, World steel demand (Millions of tons)



World motor vehicle production (Millions of cars)

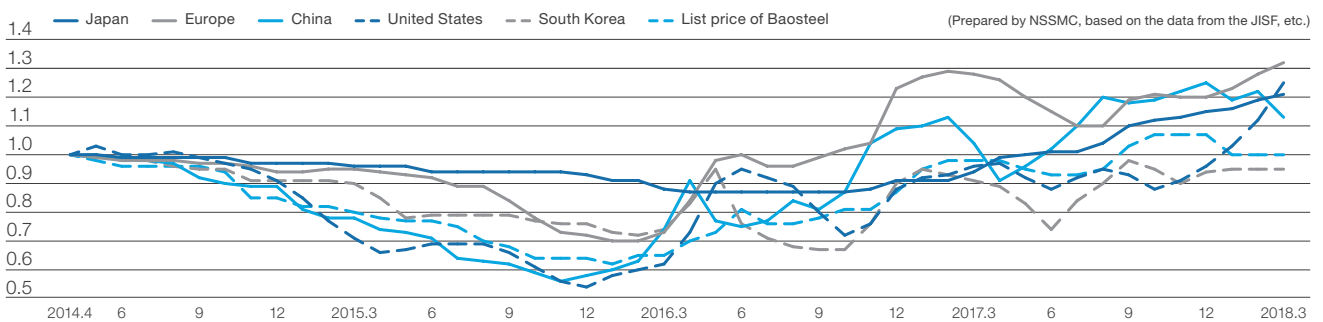


Crude oil price (US\$/bbl)

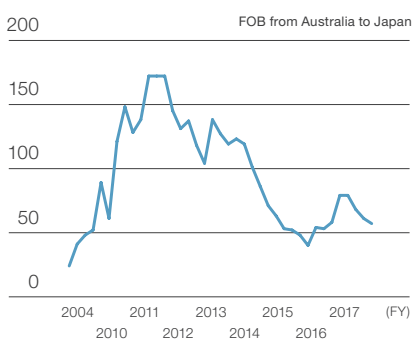


Major countries, hot coil market prices

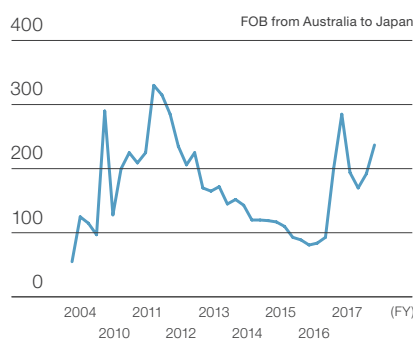
(Hot coil prices in local currency, April 2014 = 1.0)



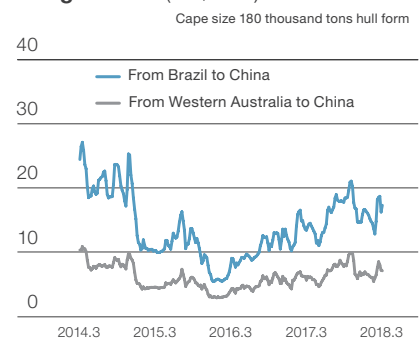
Iron ore price (Fine) (US\$/dmt)



Hard coking coal (US\$/wmt)



Freight rates (US\$/wmt)

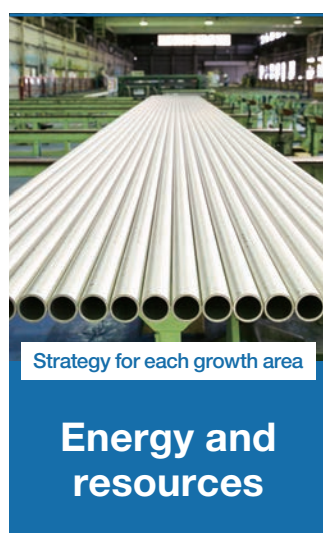


Steelmaking and Steel Fabrication



Business Environment

- The overall global automobile market continues to be on a growth track, led by China.
- Environmental regulations and crash safety standards have been enhanced for vehicles.
- CO₂ emission control is most strict in the European Union, where the 2021 emission reduction target is 95g/km, and other countries tend to follow EU in targeting that level.
- Energy constraints and consumers' increasing environmental awareness have led to expansion of the market for new energy vehicles including hybrid vehicles (HV), plug-in hybrid vehicles (PHV), and electric vehicles (EV). Fuel cell vehicles (FCV), often referred as next-generation eco-cars, have also made their appearance in the market.
- As the movement towards industrial globalization continues to advance, automakers are expanding foreign production, synchronized worldwide launch of strategic car models is increasing, and the development period for a new vehicle is becoming shorter. As a result, automakers are demanding suppliers to confront this change in the business environment as well as changes in each company's requirements.



Business Environment

- Oil prices have bottomed out of slump of the last few years and are recovering. Over the long term, energy demand is expected to expand as the living standard will continue to improve in emerging countries.
- At oil and natural gas development sites, existing oil wells and gas wells are likely to gradually become depleted, making the drilling environment severer. In such an environment, we are forecasting a gradual recovery in shipment of high-end products, where we have strengths.
- Needs for renewable energy are rising in Europe and other places.
- Toward establishing a hydrogen-oriented society, development of next-generation materials applicable for storage, transportation, and use of hydrogen is required.



Business Environment

Construction and civil engineering

- Along with growth in infrastructure-related demand, many emerging countries are facing issues related to larger, more advanced infrastructure plans and rising construction costs that stem from wage increases and other factors.
- In contrast to mainstay concrete structures that have been familiar since long ago, in emerging countries, at present demand for steel structures is rising as advanced precast steel enables shortening of construction periods, and thereby results in cost reduction.

Railways

- Rail stands out as a means of transportation that results in lower CO₂ emission and less environmental burden and the railway-related market is anticipated to expand in the medium to long term.
- As high-speed railway networks are extended worldwide, freight railway will be required to enhance carrying capacity and have higher load capacity per freight car.

Advantages

NSSMC has world-leading technology in the development of steel products which combine contradictory performance requirements of car body weight reduction (to enhance fuel efficiency) and higher strength for crash safety, and which also excel in forming and welding. For example, our high-tensile automobile steel sheets replace heavier steel by being thinner, and our cold-pressed sheets of 1.2 GPa in strength are available to our customers. Steel sheets with strength of 1.5 GPa have already been developed and are currently under consideration for commercial application with some automakers. Also, for hot press processing, we are shipping to our customers base material of 1.8 GPa in strength and galvanized material of 1.5 GPa in strength. Further, we can strongly support customers by making use of "coordination across different product types," which is a benefit from our unrivaled wide range of menus of product types and products, and "total solutions," which range from provision of materials to processing method and design of components. One example of this coordination is our success in developing electrical steel sheet specifically for drive motors of HVs, PHVs, and EVs and titanium foil for fuel cells of FCVs, as well as high-tensile steel sheets that contribute to reduction of vehicle body weight. These are examples of how we excel and how we expand our competitiveness.

Applications

- High-tensile steel used for outer panels, suspensions, inner panels, structural materials, and reinforced materials
- Electrical steel sheets for engine motors of new energy vehicles
- Special wires and rods used for engines, transmissions, and suspensions
- Pipes and tubes
- Forged crankshafts
- Materials for secondary batteries
- Stainless steel foil for fuel cells, etc.

Advantages

NSSMC's high-function product lines that broadly cover the energy sector's supply chain including mining and refining, transportation and storage, and power generation contribute to the stable supply of energy.

We have an 80% global market share in oil country tubular goods (OCTG), which are used in the harsh high-pressure, high-temperature corrosive gas environment of drilling. Our advantages also include a line of products with distinctive features that have been made possible and practical by technological capabilities, such as steel plates for LNG tanks that contain a low amount of nickel and withstand use at ultralow temperature; boiler tubes for ultra-super-critical power generation that contributes to reduction in CO₂ emissions by enhanced power generation efficiency; S-TENTM steel plates that exhibits resistance to sulfuric acid and hydrochloric acid corrosion found in the flue-gas treatment equipment used in energy plants; and tubes (HYDREXELTM) designed for high-pressure hydrogen environments, of great importance if there is a shift in the future to use of hydrogen to power motor vehicles. These tubes have excellent resistance to hydrogen gas embrittlement, but also have high strength and excellent weldability.

Applications

- High-end oil country tubular goods (OCTG)
- Line pipes
 - Pipes and tubes, and steel plates for boilers
- Ultralow temperature steel for LNG
- Steel plates for marine structures
- Steel plates for the penstock of hydropower generation
- Steel plates designed for wind power generation
- Pipes and tubes designed for high-pressure hydrogen environments

Advantages

Construction and civil engineering

NSSMC has excellent technological and product competitiveness, accumulated in the Japanese market where numerous buildings of cutting-edge steel structure have been built. We have various construction methods and products, which excel in measures against noise and vibration, environmental measures, or quake resistance, shortening of construction periods or reduction of costs.

Applications

Construction and civil engineering

H-beams, steel sheet piles, steel pipe piles, rails, and other steel materials used in the civil engineering and construction sectors

Railways

The trend of higher speed of passenger railways and increased load capacity of freight railways provides opportunities to boost demand for NSSMC's products, which offer outstanding features such as safety (high quality), high performance (low vibration and low noise), high strength, and long product life.

Railways

Railway steel wheels, axles, bogies, rails, etc.

Growth strategy of non-steel business segments

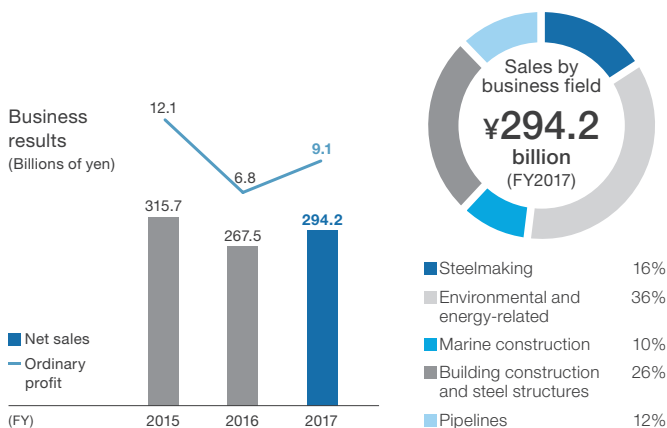
Engineering & Construction/Chemicals/New Materials/System Solutions



Engineering & Construction

Nippon Steel & Sumikin Engineering Co., Ltd.

The Engineering & Constructio segment saw signs of an improvement in the robust business environment, as oil prices rose and overseas steelmakers resumed capital investments. Solid business conditions in the domestic construction sector and other areas and the company's steady control of project execution also contributed to an increase in both sales and profit. The segment posted net sales of ¥294.2 billion and ordinary profit of ¥9.1 billion.



Strategy

Nippon Steel & Sumikin Engineering (NSSE) plans to expand its value chain including plant operation and maintenance, centering around the EPC* business, by enhancing the capacity to provide optimal "EPC × Solutions" that are appropriate to customers' requirements. NSSE is also strengthening its local organizations in the overseas growth areas and developing business that matches local needs. Furthermore, responding to changes in the external environment, NSSE intends to flexibly cooperate with outside parties or internal sources, such as technology and knowhow of each business field, including a comprehensive collaboration with Toyo Engineering Corporation, and to become a more resilient and flexible complex entity, with the aim of achieving stability and growth in profit.

Business field

Provision of engineering solutions in steel plants, environmental and energy, marine, building construction and steel structures, pipelines, and new business fields.

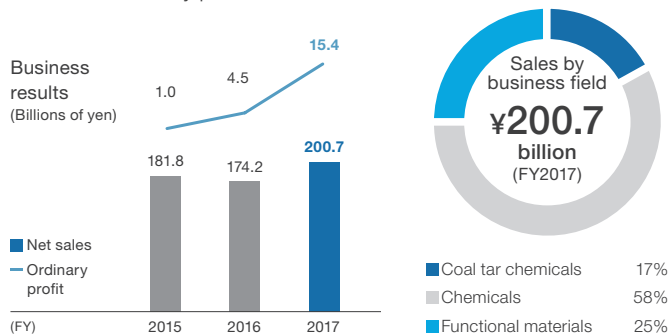
*EPC: building and construction services that include Engineering, Procurement, and Construction



Chemicals

Nippon Steel & Sumikin Chemical Co., Ltd.

The Chemicals segment expanded sales of circuit board materials and display materials for electronic devices such as smartphones in its functional materials business, and posted record-high sales volume of both materials during the term. In the chemicals business, supply and demand conditions for styrene monomer, a core product in this segment, were favorable, enabling the company to report a steady gain in profit. In the coal tar chemicals business, supply and demand conditions for needle coke were tight due to robust demand for graphite electrodes used in the electric furnace sector, while demand for coke used in negative pole electrodes in lithium ion batteries also increased. As a result, the market environment showed a significant improvement along with rising product price levels and other factors. The chemicals segment recorded net sales of ¥200.7 billion and ordinary profit of ¥15.4 billion.



Strategy

Nippon Steel & Sumikin Chemical (NSCC) is implementing the 2020 Mid-Term Management Plan, aiming at using features of its four main business sectors and establishing a profit structure that ensures sustainable, stable ordinary profit of ¥10.0 billion or more (ROS of 5% or higher). Under a slogan "Promote base foundation (in terms of facilities, personnel, and work) in anticipation of growth, and implement a down-to-earth growth plan," NSCC intends to steadily grow earnings power of its existing business by founding the base that supports sustainable growth, and also to build an earnings base by investing management resources in new business areas with growth potential, where NSCC's core technological strength can be utilized, such as functional materials and automobile-related.

Business field

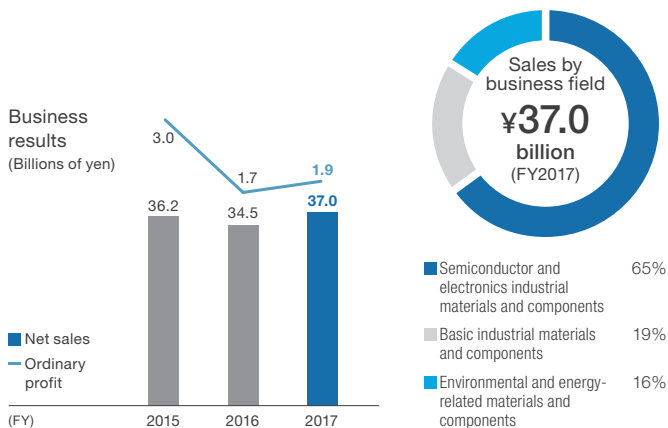
Engaged in a wide range of business lines, including carbon materials, functional materials, resin materials, and other chemicals, by combining coal chemicals and petrochemical by-products of the steelmaking processes.



New Materials

Nippon Steel & Sumikin Materials Co., Ltd.

The New Materials segment continued to post favorable sales of metal foils for suspension and other materials within its semiconductor and electronics industrial materials business. In the field of environmental and energy materials, sales of metal substrates expanded as the company steadily captured demand in developing countries. Although overall performance was affected by severer competition, an increase in sales boosted both net sales and profit. The new materials segment posted net sales of ¥37.0 billion and ordinary profit of ¥1.9 billion.



Strategy

Consistent with the motto "Innovate the world with advanced materials," Nippon Steel & Sumikin Materials (NSSM) aims to become a world-leading company in each business area by acquiring distinctive technologies and achieving international cost competitiveness. The three targets of strategy are as follows. To contribute to the creation of value for customers: By emphasizing matching solutions to customers' true needs, NSSM will contribute to value creation for our customers. To promote global business development: Our production and sales bases in Japan and seven other countries will cooperate to meet increasing global demand, and thereby enhance the level of service for global customers. Domestic bases will fulfill the role of mother plant: NSSM will promote the development of original new products, thoroughly pursue higher productivity and cost reduction at our domestic bases, and expand similar efforts at our overseas bases.

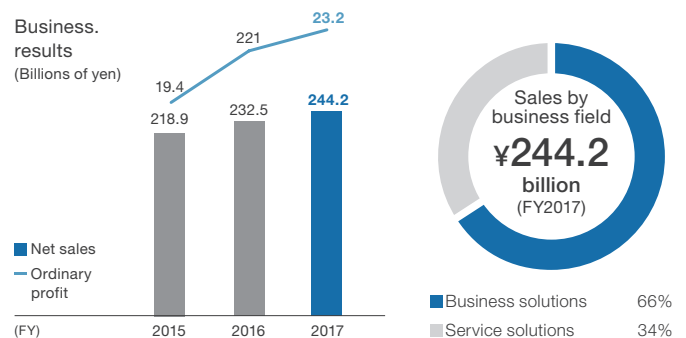
Business field

Provision of various material solutions to global customers by using such diverse advanced materials as metals, inorganic materials, and carbon fiber.

System Solutions

NS Solutions Corporation

The System Solutions segment provides comprehensive solutions in the planning, configuration, operation, and maintenance of IT systems for clients in a wide range of business fields and develops leading-edge solutions services that respond to the changing business conditions of its clients. During the fiscal year, the company promoted the development of solutions for its customer enterprises to enable them to make use of AI, machine learning, and IoT and thereby enhance the sophistication of their operations in their production and logistics workplaces. This contributed to the expansion of both sales and profit. The system solutions segment recorded net sales of ¥244.2 billion and ordinary profit of ¥23.2 billion.



Strategy

In keeping with the advent of widespread use of digital innovations in IT for business, NS Solutions is further strengthening its conventional System Integration (SI) business model, which we now call "NSSOL1.0," and is developing new ones, NSSOL2.0 and NSSOL4.0. NSSOL2.0 is for building long and deep partnerships with clients, mainly in cloud services and IT outsourcing services, jointly developing new markets, working on the real issues of clients, and ultimately helping them grow their business. NSSOL4.0 aims at exploring new business fields arising from digital innovation, such as IoTTM* solutions and use of AI.

Business field

Provision of IT business solutions to a wide range of sectors by applying the extensive insight and advanced, practical IT capabilities acquired in the steel manufacturing business.

*IoTTM: NS Solutions' trademark, meaning a concept to integrate Internet of Things (IoT) and Internet of Humans (IoH)

Corporate Governance

NSSMC 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, we have established a corporate governance structure appropriate for its businesses.

Basic structure of corporate governance

1. Reason for adopting the company system form of organization with an Audit & Supervisory Board NSSMC, with its core business being steelmaking, has adopted a structure in which a Board of Directors, comprised of Executive Directors with a thorough understanding of NSSMC's business and Outside Directors, who have vast experience and deep insight, makes decisions on basic management policy and important business activities, while Audit & Supervisory Board Members, who are given 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 & Supervisory Board.

2. Participants of the Board of Directors meetings and their roles

At present, NSSMC's Board of Directors meetings are attended by 11 Executive Directors, as well as 3 Outside Directors, who are not involved with business execution, and 7 Audit & Supervisory Board Members (of whom 3 are full-time Audit & Supervisory Board Members and former NSSMC employees and 4 are Outside Audit & Supervisory Board Members). Roughly half of meeting attendees (10 out of 21) are non-executive officers and one-third (7 out of 21) are outside officers.

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.

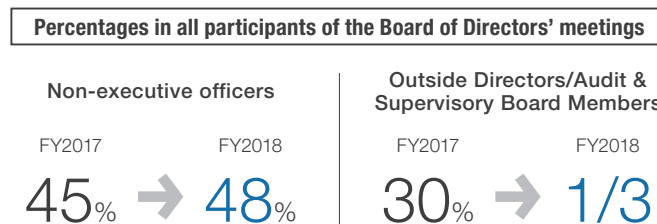
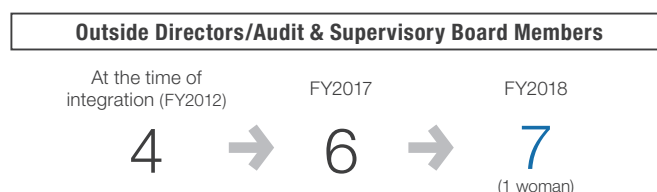
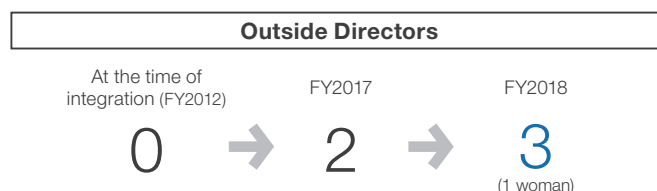
Full-time Audit & Supervisory Board Members, each having work experience at NSSMC and hence a thorough understanding of its business, and Outside Audit & Supervisory Board Members, with deep insight, attend the Board of Directors' meetings and express their opinions from independent positions. They also 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, so as to ensure fairness in management.

3. Appropriate disclosure of information Going beyond the disclosure of information based on the laws and regulations, and rules set by the financial instruments exchanges in Japan, NSSMC intends to clearly and accurately disclose financial and non-financial information at appropriate times, aiming at raising transparency of management and for accurate understanding of the NSSMC Group's operating situation on the part of every stakeholder.

4. Establishment and management of internal control system NSSMC seeks to establish, appropriately manage, and continuously improve the internal control system to comply with relevant laws and regulations and ensure credibility of financial reporting and effectiveness and efficiency of operations. Aiming at establishing a healthy organization with workplaces of positive atmosphere, the Company focuses on dialogues in and out of the workplace, regularly carries out opinion surveys of all employees, and has set up a whistleblower system to handle concerns among employees, Group employees, and their family members. Such additions are intended to establish a sound internal control environment.

5. Regular checking and reviewing of corporate governance NSSMC regularly checks and reviews the corporate governance structure and its management status, including the analysis and evaluation of the effectiveness of the Board of Directors as a whole at a Board of Directors meeting, so as to autonomously make improvement by taking into account the opinions of Outside Directors and Outside Audit & Supervisory Board Members.

Evolution of corporate governance



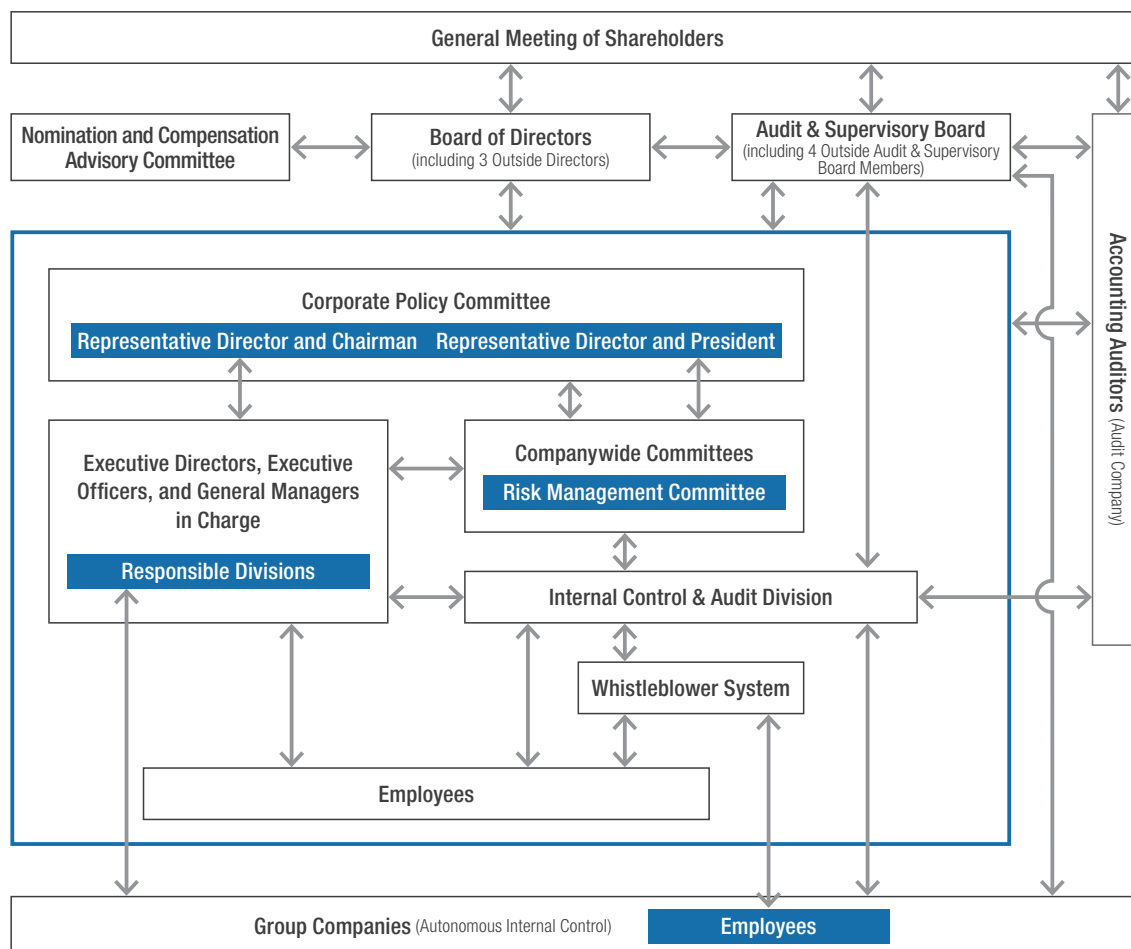
October 2015
Establishment of the Nomination and Compensation Advisory Committee
 (comprised of the Chairman, the President, and 3 outside Directors/Audit & Supervisory Board Members)

Corporate governance system

	Directors	Audit & Supervisory Board Members	Members of the Board of Directors
Internal	11	3	14
Outside	3	4	7
Total	14	7	21

Type of system	Company with an Audit & Supervisory Board	
Term of office for Directors	1 year	
Number of Outside Directors/Audit & Supervisory Board Members	7 (3 Outside Directors and 4 Outside Audit & Supervisory Board Members)	
Accounting Auditor	KPMG AZSA LLC	
Adoption of Executive Officer System	Yes	

Corporate governance structure



Execution of business activities

Based on the Company's 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 in a meeting of the Corporate Policy Committee, which is attended by the Chairman, the President, the Vice Presidents, and other members, and generally convenes once a week.

As advisory bodies prior to the Corporate Policy Committee and Board of Directors' meetings, NSSMC has 23 companywide committees, each with its own objectives. They include the Ordinary Budget, Capital Expenditures Budget, Investment and Loan, Capital Management, Technology Development, Environmental Management, and Risk Management Committees. 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 Directors, Executive Officers, and the Heads and other General Managers of relevant units and divisions, under the direction of the President. The Company's Rules clarify authorities, duties, and business processes so as to ensure appropriate business execution.

Policies and procedures regarding the nomination of candidates for Directors and Audit & Supervisory Board Members and the selection of management executives

1. Policy on the selection

The policy is to consider not only experience, insight, and expertise of each candidate, but also the size of the overall Board of Directors and of the Audit & Supervisory Board, and the balance of candidates (including the Outside Directors/Audit & Supervisory Committee Members) who comprise these boards. This is intended to establish an optimal organization in which each person can appropriately execute his or her role and duties and precisely respond to management issues of the NSSMC Group's operations.

2. Procedures of the selection

The selection is determined by a Board of Directors' resolution after a proposal has been examined by the Nomination and Compensation Advisory Committee, which comprises the Chairman, the President, and 3 Outside Directors/Audit & Supervisory Committee Members who are nominated by the President. According to the policy stated above, the Committee discusses and studies from various aspects and considers the size of the overall Board of Directors and of the Audit & Supervisory Board, and the balance of candidates who comprise these boards, among other factors. Concerning nomination of candidates for Audit & Supervisory Board membership, the issue is submitted to the Board of Directors after agreement by the Audit & Supervisory Board.

Analysis and evaluation of the Board of Directors effectiveness

Once a year NSSMC's Board of Directors analyzes and evaluates the effectiveness of the Board as a whole, and uses the results for improving the future management of the Board of Directors. This is based on quantitative analysis on the number of items submitted to and reported at the Board meetings, duration of discussions, attendance of and number of statements made by each Director and Audit & Supervisory Board Member, relative to previous years and with individual interviews of each Director and Audit & Supervisory Board Member on evaluation and opinions concerning the management of the Board of Directors.

NSSMC's Board carried out an evaluation of the effectiveness of the Board in FY2017 in the Board meeting held in April 2018. It was confirmed that each agenda item, which was submitted and reported to the Board of

Directors based on the Companies Act and internal rules, was properly explained in advance, and was resolved after a question and answer session and a discussion on a wide range of viewpoints of internal and outside Directors and Audit & Supervisory Board Members, and with the perspective of raising medium- to long-term corporate value. As a result, the Board of Directors was evaluated as effective as a whole. In addition, based on the interviews of each Director and Audit & Supervisory Board Member on the evaluation of effectiveness in FY2017, from a perspective of further enhancing effectiveness, the Board has decided to work on further enhancing discussions on the immediate major issues and on reporting an update on important management issues and a medium-term management plan.

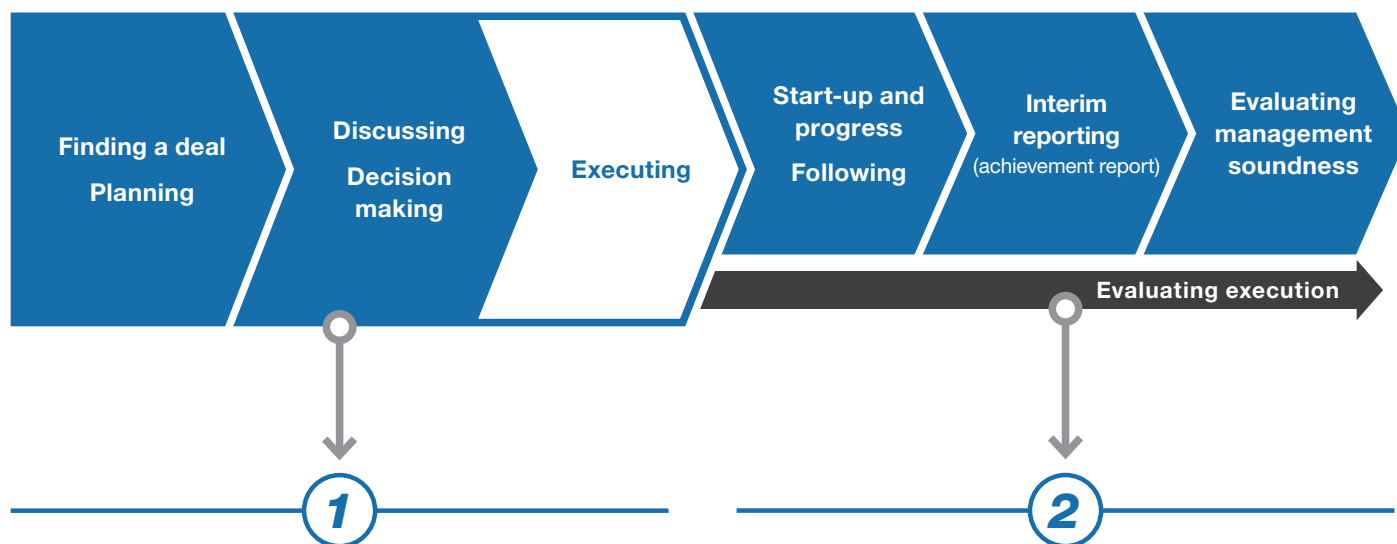
Internal Controls and Risk Management System

NSSMC's basic policy concerning the internal control system was resolved by the Board of Directors and subsequently the Basic Rules for Internal Control were stipulated, and as a result the internal control and risk management system was established and is managed as follows.

- NSSMC devises an annual plan on internal control and risk management (Internal Control Plan) and act accordingly.
- At the Risk Management Committee, which is independent from the Audit & Supervisory Board and is chaired by the executive vice president in charge of Internal Control & Audit, the following items are regularly reported:
 - the status of planning and implementation of an annual plan of internal control (the Internal Control Plan);
 - compliance with the Anti-Monopoly Act and anti-corruption laws including bribery of officials and others;
 - compliance with internal rules; and
 - risk management issues, including ESG risks, such as labor safety; abuse of human rights, environmental, disaster-preventive, quality, and financial reporting, and information security.
- Significant risks are reported and discussed at the Corporate Policy Committee, meetings of which are attended by the Chairman and the President.
- The Board of Directors supervises risk management and evaluates its effectiveness by regularly receiving reporting on important managerial risks, such as those stated above, which are reported and discussed at the Risk Management Committee and the Corporate Policy Committee.
- Each division of the Company designates a person in charge of risk management, and each group company also designates a risk management official. This is to encourage each division and company to take initiatives and share information about risk management within their organization through regular meetings and other means.
- NSSMC regularly checks the Group-wide status of internal control by establishing measures to check and supervise matters related to internal control and risk management.
- The NSSMC Group clearly states in its internal rules a zero-tolerance approach to violations of laws and regulations, such as bribes and corruption. The Board of Directors oversees the prevention of these violations.
- Anticipating the possibility of national disasters, such as earthquakes, and environmental accidents, NSSMC has developed a business continuity plan (BCP), regularly have a drill, and be prepared. It has also decided on countermeasures against occurrence of an accident, such as the urgent formation of an emergency control headquarters, in order to minimize operational impacts and secondary damage.
- As a whistleblower & consultation system, NSSMC has set up a Compliance Consulting Room (Internal Control & Audit Division being the internal point of contact; an outside specialized agency serves as outside contact) to receive notifications or inquiries (that can be anonymous) concerning violation of laws or regulations, or internal rules from employees and family members, and from business partners, to prevent such violations and help improve operations.
- Notification from outside stakeholders concerning NSSMC's violation of laws, regulations, or internal rules, and other issues is accepted from an inquiry form on NSSMC's website.
- In case of occurrence of a violation of laws, regulations, or internal rules, NSSMC follows these response and control processes:
 - The Internal Control & Audit Division Department instructs and guides a division or a group company where such violation occurred, on how to initially respond, how to investigate facts and causes, and how to plan preventive measures against recurrence. Based on these, the division or group company concerned implements the measures needed.
 - The Internal Control & Audit Division reports the matter and facts, causes, and preventive measures against recurrence concerning significant violation of laws, regulations, and internal rules, to the Risk Management Committee. The Committee then evaluates the appropriateness of the response, effectiveness of the preventive measures for recurrence, responsibility of relevant persons, and other items.
 - The Internal Control & Audit Division shares information on significant violations of laws, regulations, and internal rules within the NSSMC Group, and encourages each division and group company to check and ascertain appropriateness of its operations.

Business investment management system

NSSMC seeks to make appropriate decision making on business investments, such as for founding and equity investing in companies in Japan and overseas, as well as for M&A deals, to find early and solve promptly issues during the stage of execution of those deals, and share and preserve such know-how, by having a PDCA cycle in the management system.



Discussion and decision making

Proposed projects are considered in terms of significance to business strategy, market growth, competitive landscape, and individual risks (country, partner, foreign exchange, and other risks). In the case of M&A deals, based on due diligence, their risks are to be understood and appropriately funded. After such a procedure and given consideration to risk scenarios, the certainty of generating return that matches investment is confirmed.

Investment and Loan Committee

The Investment and Loan Committee discusses projects from a professional perspective of each corporate unit and division. The business investment projects are submitted to the Corporate Policy Committee after being discussed at the Investment and Loan Committee. Very important projects are then submitted to the Board of Directors.

Execution evaluation

Immediately after the project start-up, Key Performance Indicators (KPI) are set up for each project and their updated situation is regularly monitored by the corporate division, to know of progress and identify issues at an early stage.

Also, after a certain period from the start-up, an interim study and report ("accomplishment report") are made to share insights and know-how acquired and to utilize them in considering future business investments.

After the interim reporting, financial soundness of the project company or companies is continuously evaluated based on the evaluation standards set by the corporate division, to determine and deal with any need for improvement.

Start-up and progress to follow

For about three years since start-up, KPIs for operation, production, shipment, financials, and other items are set up for each project, and the corporate division regularly follows its performance relative to the plan, and reports to the Investment and Loan Committee and the Corporate Policy Committee.

Accomplishment report

About three years from the start-up, the entire processes from decision making to full-scale operation are reviewed and reported to the Investment and Loan Committee and the Corporate Policy Committee.

Evaluation of soundness

Every year, all Group companies in which NSSMC has made direct or indirect investment are evaluated in terms of financial soundness, based on their financial data, and the results are reported at the Corporate Policy Committee. Companies with financial issues are asked to make a plan for improvement and their execution of plans is monitored.

Outside Officers

Independence of Outside Officers (Outside Directors and Outside Audit & Supervisory Board Members)

NSSMC determines the independence of outside officers 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 officers 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 officers is independent, NSSMC has reported all of them as independent officers to each financial instruments exchange in Japan (e.g., Tokyo Stock Exchange). NSSMC. As stated above, since NSSMC believes that each of the outside officers is independent, NSSMC has reported all of them as independent officers to each financial instruments exchange in Japan (e.g., Tokyo Stock Exchange).

Support of and briefings to 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 from 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.

NSSMC gives briefings on its Corporate Philosophy and the group business activities from relevant officers to each Outside Director and Outside Audit & Supervisory Board Member when appointed. Opportunities to visit steelworks and research centers and to talk with the Chairman, the President, or the Vice Presidents are also provided after their appointment.

Attendance of meetings of the Board of Directors and the Audit & Supervisory Board in FY2017

Outside Directors	Attendance at meetings of the Board of Directors	
	Board of Directors	Audit & Supervisory Board
Mutsutake Otsuka	13/13	
Ichiro Fujisaki	12/13	
Outside Audit & Supervisory Board Members	Attendance at meetings	
	Board of Directors	Audit & Supervisory Board
Katsunori Nagayasu	12/13	16/17
Hiroshi Obayashi	13/13	17/17
Jiro Makino	13/13	17/17
Seiichiro Azuma	13/13	17/17

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.

NSSMC abolished its retirement benefits plan for Directors and Audit & Supervisory Board Members in 2006. Furthermore, a deletion from rules concerning bonuses was made from the "Policies regarding the Decision on the Amount of Remuneration for Directors and Audit & Supervisory Board Members" in 2013, and bonuses are no longer paid to the Directors and Audit & Supervisory Board Members.

2. Determination on 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 Compensation Advisory Committee, which comprises the Chairman, the President, and 3 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 in FY2017

Category	Number of recipients	Aggregate amount of remuneration (Millions of yen)
Directors	15	857
Of which, Outside Directors	2	28
Audit & Supervisory Board Members	7	210
Of which, Outside Audit & Supervisory Board Members	4	57
Total	22	1,067

Note: The above number of recipients includes 2 Directors Member who resigned at the conclusion of the 93rd General Meeting of Shareholders held on June 27, 2017.

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

Policy regarding cross-shareholdings

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. Among shares held in the Investment Securities item recorded on the balance sheets as of March 31, 2018, 361 shares on a non-

consolidated basis are held for purposes other than pure investment (compared to 372 shares at the end of FY2016 and 408 shares at the end of FY2015) and amounted to ¥635.9 billion.

Basic policy regarding the exercise of voting rights associated with cross-shareholding shares

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.

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.

regularly holds corporate briefings and plant tours, and publishes information brochures to promote shareholders' understanding and enhance communication with them. For institutional investors and 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.

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

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.

IR activities

[Fiscal 2017 results in parentheses]

Event	Summary of event
For institutional investors and analysts	Quarterly results briefings, presented by the director in charge of IR [4 times] Briefings or telephone conferences on important matters concerning business strategy [3 times] One-on-one meetings at NSSMC [Approx. 300 investors in total] Visits to major overseas institutional investors and face-to-face meetings at investment conferences [Approx. 100 investors in total] Visits to steelworks and research centers [8 times]
For shareholders	Results briefings [4 times] * Plant tours [12 times] *
IR library on the Web http://www.nssmc.com/en/ir/	Financial Results / IR Briefing / Security Reports (quarterly; only in Japanese) Annual Reports / Fact Books Mid-Term Management Plan Press Release and IR Briefing / Reports for Shareholders

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

Executive team

(As of June 26, 2018)



Shoji Muneoka

Representative Director
and Chairman



Kosei Shindo

Representative Director
and President



Eiji Hashimoto

Representative Director
and Executive Vice President

- Head of Global Business Development
- Overseas Offices



Toshiharu Sakae

Representative Director
and Executive Vice President

- General Administration; Legal;
Internal Control & Audit;
Business Process Innovation;
Human Resources; Environment, Raw Materials



Shinji Tanimoto

Representative Director
and Executive Vice President

- Intellectual Property; Safety; Plant Safety; Technical Administration & Planning; Standardization; Quality Management; Plant Engineering and Facility Management; Ironmaking Technology; Steelmaking Technology; Energy Technology; Slag & Cement
- Cooperating with Executive Vice President T. Sakae on Environment



Shinichi Nakamura

Representative Director
and Executive Vice President

- 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



Akihiko Inoue

Representative Director
and Executive Vice
President

- Head of Research and Development



Katsuhiko Miyamoto

Representative Director
and Executive Vice President

- Corporate Planning; Group Companies Planning;
Accounting & Finance



Shin Nishiura

Managing Director,
Member of the Board

- Head of Unit, Pipe & Tube Unit; Project Leader, VSB
Project, Global Business Development Sector



Atsushi Iijima

Managing Director,
Member of the Board

- 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



Yutaka Ando

Managing Director,
Member of the Board

- Intellectual Property; Safety; Plant Safety; Technical Administration & Planning; Standardization; Quality Management; Plant Engineering and Facility Management; Ironmaking Technology; Steelmaking Technology; Energy Technology; Slag & Cement
- Rendering Assistance to Executive Vice President S. Nakamura on Steel Products Units
- Cooperating with Managing Director A. Iijima on Transportation & Logistics Technology

**Mutsutake Otsuka*¹**

Director, Member of the Board

- Executive Advisor to the Board of East Japan Railway Company

Reason for appointment

Deep insight, knowledge and extensive experience in management of a company

**Ichiro Fujisaki*¹**

Director, Member of the Board

- President, The America-Japan Society Inc.

Reason for appointment

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

**Noriko Iki*¹**

Director, Member of the Board

- Chairman, Japan Institute for Women's Empowerment & Diversity Management

Reason for appointment

Deep insight and knowledge on the employment and labor, and the empowerment of diverse human resources, nurtured at the Ministry of Health, Labour and Welfare, and extensive as Director-General of the Tokyo Labour Bureau, in the Ministry of Health, Labour and Welfare, an ambassador and in other important posts

**Yutaka Takeuchi**

Senior Audit & Supervisory Board Member

**Atsuhiko Yoshie**

Senior Audit & Supervisory Board Member

**Masato Tsuribe**

Audit & Supervisory Board Member

**Katsunori Nagayasu*²**

Audit & Supervisory Board Member

- Senior Advisor, MUFG Bank, Ltd.

Reason for appointment

Deep insight, knowledge and extensive experience in management of a bank

**Hiroshi Obayashi*²**

Audit & Supervisory Board Member

- Attorney, Obayashi Law Office

Reason for appointment

Deep insight and knowledge as an attorney at law and extensive experience as prosecutor-general and in other important posts

**Jiro Makino*²**

Audit & Supervisory Board Member

- Vice Chairman, The General Insurance Association of Japan

Reason for appointment

Deep insight and knowledge of fiscal matters, based on years at the Ministry of Finance, and extensive experience as the Director General of National Tax Agency Japan and in other important posts

**Seiichiro Azuma*²**

Audit & Supervisory Board Member

- Certified Public Accountant, Certified Public Accountant Seiichiro Azuma Office

Reason for appointment

Deep insight and knowledge of corporate accounting, and extensive experience as a certified public accountant

*¹ Meets the requirements of an outside director as set forth in Article 2, Item 15 of the Companies Act

*² Meets the requirements of an outside company auditor as set forth in Article 2, Item 16 of the Companies Act

Contributing to building a society with reduced environmental burden

Under the Corporate Philosophy to “contribute to society by providing excellent products and services,” NSSMC is committed to implement our Three Eco-Friendly Initiatives; namely, the way we manufacture is “Eco-friendly” (Eco Process); what we produce is “Eco-friendly” (Eco Products); and sharing our “Eco-solutions” (Eco Solution). Through these initiatives, we strive earnestly to engage in energy-efficient production activities, reduce waste in manufacturing processes, promote recycling, and thereby reduce environmental burden.

Eco Process

The way we manufacture is “Eco-friendly”



Eco Products

What we produce is “Eco-friendly”



Eco Solution

Sharing our “Eco-solutions”



Promoting global warming countermeasures

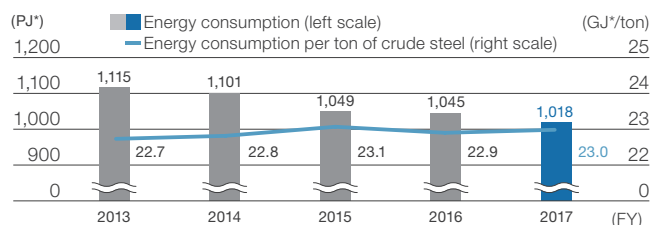
The most effective way to act against global warming is to curb consumption. From the time of the first oil crisis to around 1990, we have intensively promoted continuous processing, exhaust heat recovery, and other measures, all to enable significant energy conservation. This has led to NSSMC and Japan's steel industry as a whole achieving the world's top-class energy efficiency.

We are striving to reduce CO₂ emissions by using energy generated in steelmaking processes, including power generation, through use of by-product gas or exhaust heat recovery, or by recycling waste plastics and discarded tires. As a result of these efforts, NSSMC and affiliated electric furnace and other companies*¹ consumed 1,018 PJ of energy and emitted 88 million tons (preliminary figure)*² of CO₂ in FY2017.

*1: Affiliated electric furnace and other companies: Osaka Steel Co., Ltd.; Godo Steel, Ltd.; Nippon Steel & Sumikin Stainless Steel Corporation; Nippon Coke & Engineering Co., Ltd.; five Cooperative Thermal Power Companies; and two Sanso Centers, etc.

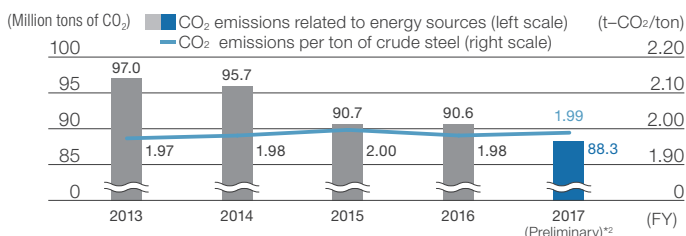
*2: Preliminary: A provisional value based on the assumption that the CO₂ level in a unit of purchased electricity in FY2017 is the same as in FY2016.

NSSMC Group's changes in energy consumption



*PJ indicates peta-joules (10¹⁵ joules). A joule is a unit of energy, or amount of heat.
GJ indicates giga-joules (10⁹ joules)

NSSMC Group's energy-derived CO₂ emissions



(Preliminary)*²

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 by-products are generated for every ton of iron produced. In fiscal 2017, we produced 40.67 million tons of crude steel and generated 23.29 million tons of by-products. The majority of these by-products were recycled inside and outside the company, and the final disposal amount was approximately 230,000 tons, resulting in a high recycling ratio of 99%.

Moreover, we recycle waste plastics and discarded tires by using them in steelmaking processes. In the case of waste plastics recycling, we dispose about 200,000 tons of waste plastics, equivalent to around 30% of waste plastics being collected nationwide, based on the Containers and Packaging Recycling Act in Japan. Our cumulative amount of waste plastics up to the end of fiscal 2017 is approximately 2.89 million tons and the effects of reduction in CO₂ emissions amount to approximately 9.25 million tons.

Promoting environmental risk management

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 (SOx) and nitrogen oxides (NOx) 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.

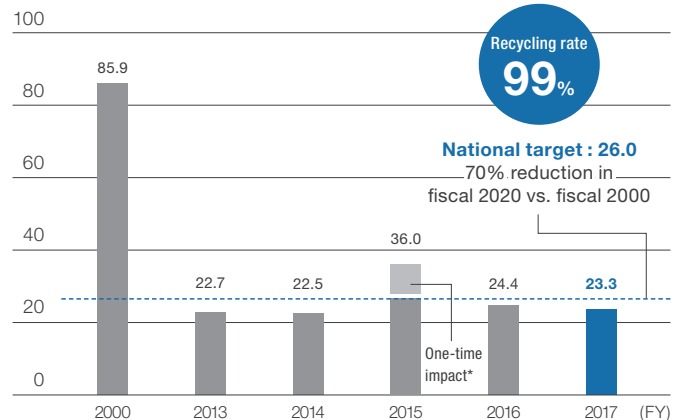
Water risk management

We use approximately 6.0 billion m³ 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.

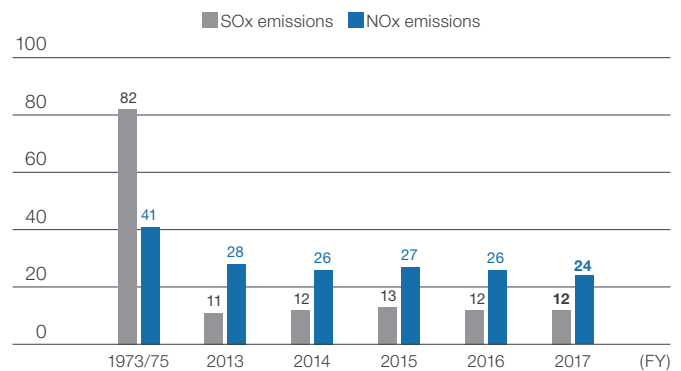
Comprehensive control of discharge of chemical substances

We appropriately manage and try to improve the production, handling, and discharge of chemical substances such as Volatile Organic Compounds (VOC) in accordance with laws concerning the management of chemical substances as well as following the voluntary management procedures set by ourselves and by the Japan Iron and Steel Federation (JISF). We also took the lead to promote the use of alternatives to steelmaking materials and equipment that contain hazardous materials such as polychlorinated biphenyl (PCB) and mercury.

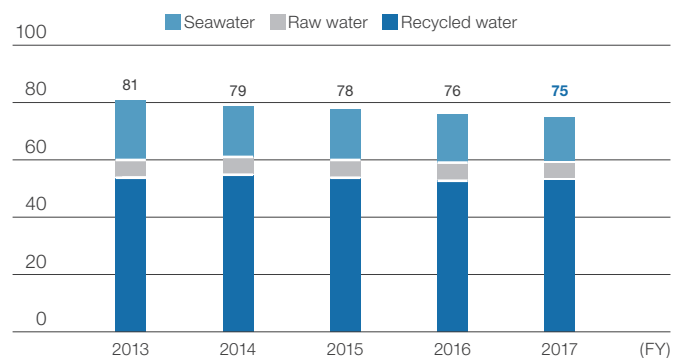
NSSMC's final disposal amounts (Million tons)



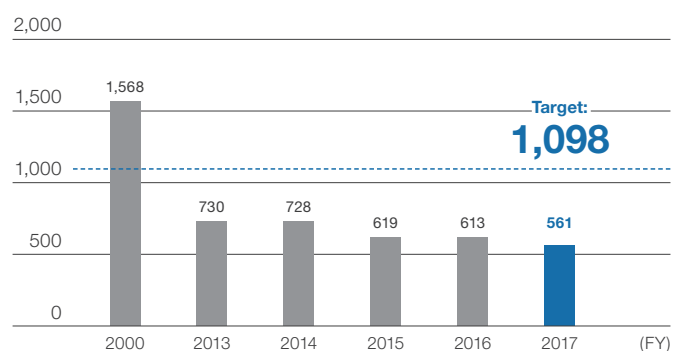
Emissions of SOx and NOx (10⁶Nm³)



NSSMC's water consumption (%) (excluding power generation facilities)



VOCs (Tons/year)





ECO PROCESS (THE WAY WE MANUFACTURE IS “ECO-FRIENDLY”)

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

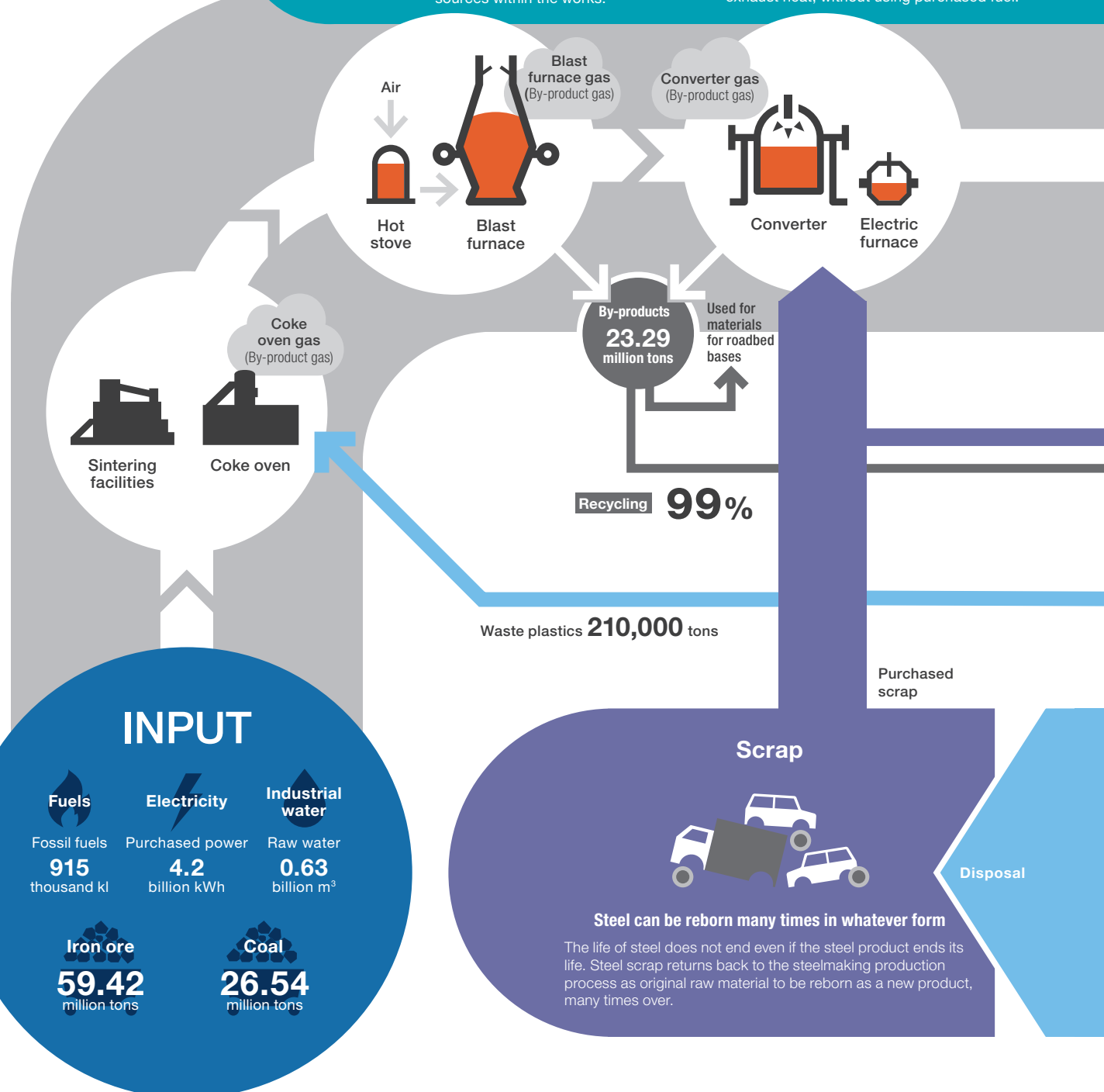
Recycling of energy and water within steelworks

Recycling ratio of by-product gas **100%**

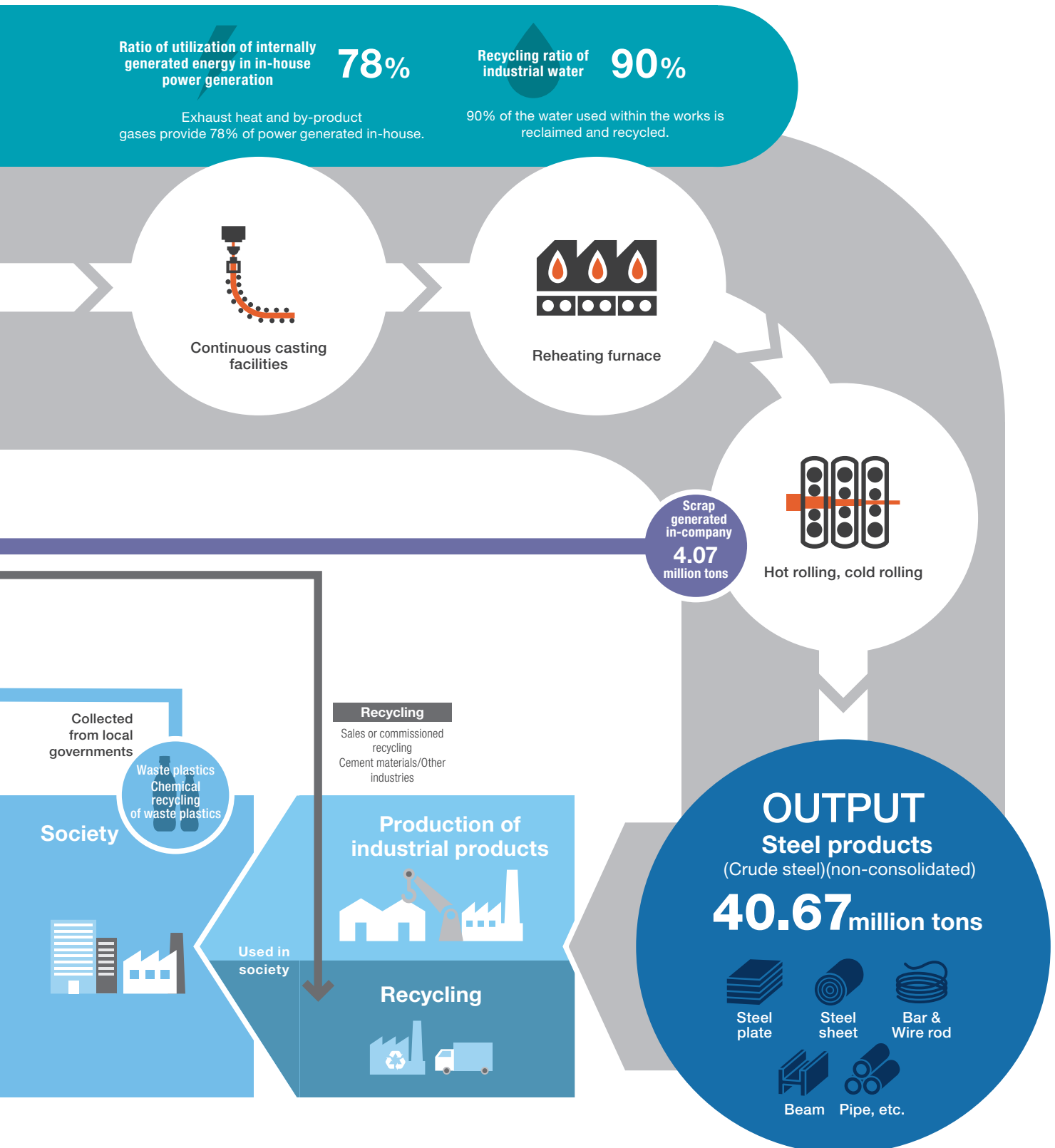
By-product gases generated in the steelworks are fully used as energy sources within the works.

Ratio of utilization of exhaust heat generated in production of steam **76%**

76% of steam used as heat sources within the steelworks is generated by recovered exhaust heat, without using purchased fuel.



NSSMC's manufacturing bases are working rigorously to save energy in all manufacturing processes with the aim of reducing CO₂ 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.



Topic

Steel as Environmentally Friendly Material

When in production, when in use, and after use: Environmental superiority of steel over the entire life cycle

When we evaluate the environmental impacts, such as the amount of CO₂ emissions from motor vehicles and other products, we tend to focus on the impacts that occur when using the product, such as in terms of fuel efficiency for a passenger car. However, that is not enough. Steel represents a majority of the weight of an automobile. While NSSMC has been undertaking R&D on lighter weight steel products, some automobile makers have replaced some of the steel they used with aluminum, carbon fiber and other lightweight materials.

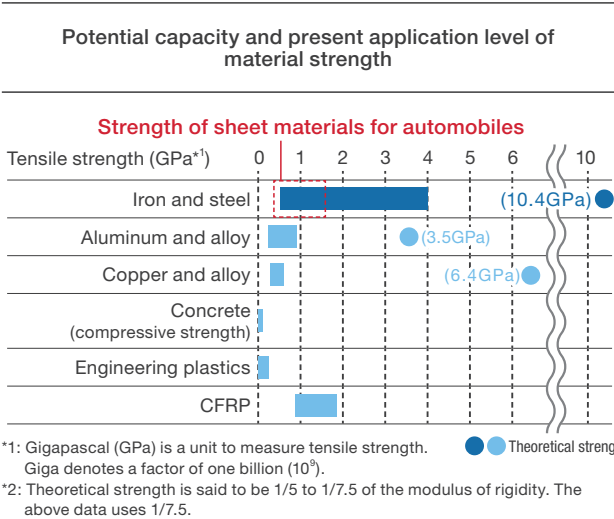
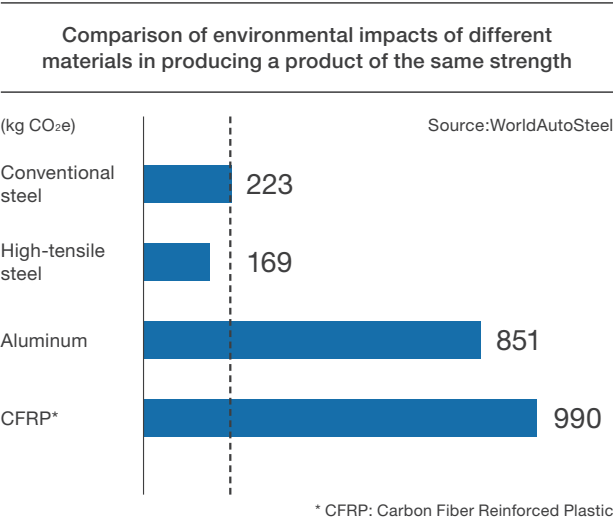
However, less environmental impact in use is not enough in evaluating a material. We also have to think about the environmental impact in manufacturing that material as well as the recyclability after the end of the product life. When looking at the environmental impact of the total product life, some materials with less impact in use may actually result in higher impact in the total product life. Thus, selection of such materials will not reduce environmental impact. Consider the environmental impact of steel and other materials in three stages: when in production, when in use, and after use.



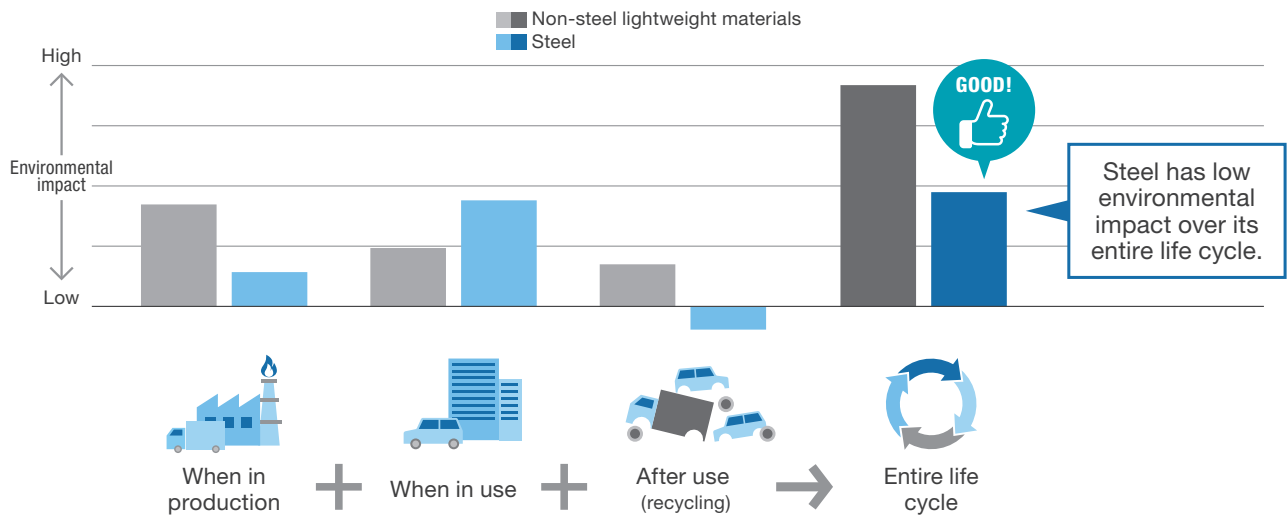
The graph below compares environmental impacts (CO₂ emissions) of different materials in producing a product of the same strength. We can see that steel emits far less CO₂ emissions compared to aluminum, which consumes a large amount of electricity in production, and carbon fiber, which need to be processed in oxidation ovens. As a longer-term initiative, we are undertaking an innovative process project* aimed at controlling CO₂ emissions by replacing part of the coal used with the use of hydrogen when iron ore is reduced to make steel.

*Development projects are jointly conducted with other Japanese steel companies and commissioned by the New Energy and Industrial Technology Development Organization (NEDO). They include development of harmonized steelmaking process technology and of hydrogen reduction and others.

NSSMC has developed and is producing high strength steel sheets, which achieve much higher strength than conventional steel, and therefore provide safety and at the same time are lighter in weight. This sheet has been adopted by many vehicle manufacturers. As the high-tensile steel sheets have excellent strength, a vehicle can be made by using a smaller amount of steel and the amount of CO₂ emission of this vehicle can be similar to the amount of a vehicle made of aluminum. Moreover, the strength of the high-tensile steel for automobiles is merely about 10% of the theoretical strength of steel, which is much higher than that of other materials. We will continue R&D to further enhance the strength of steel to achieve reduction in weight of steel sheets.



Environmental impacts over the entire product life cycle (Example of materials for automobiles)



After use (recycling)



Thinking about the entire life cycle

When vehicles finish their product life and are disposed, their steel can be almost fully recycled and made into automotive steel sheets or materials for buildings, bridges, ships, and many other steel products. How about aluminum? Most of the aluminum in vehicles is not recycled because aluminum is difficult to sort out from other materials, contrary to steel which can be easily recovered by magnets. In addition, aluminum alloys have more tramp elements (impurities which are difficult to be removed) than steel, and are more susceptible to quality degrading. Carbon fiber is difficult to incinerate and valid, established recycling technology has not been established yet. Close to 100 million light vehicles are produced worldwide every year. Thinking about recyclability from the stage of material selection is extremely important.

People tend to overlook the environment impact of material production, and waste treatment or recycling after the end of a product life. We need to recognize that even if the environmental impact arising from use of a product is improved, that does not necessarily mean reduction in environmental impact over its life cycle. NSSMC is striving to make steel that contributes to reducing the environmental impact of the entire product life cycle, with the hope that people will start to think, “steel is environmentally friendly” and “steel is therefore indispensable.”

Tramp elements that are difficult to remove in recycling

Steel

Co, Cu, Mo, Ni, Sn

(Most of these can be sorted out by magnet force.)

Aluminum

B, Ce, Co, Cr, Fe, Mo,
Nb, Ni, Pb, Si, Sn, Ti, V

*Takehito Hiraki et al, 23rd waste resources circulation society meeting (2012), 23 269



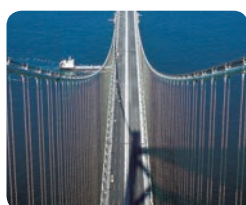


Eco products (What we produce is “Eco-friendly”)

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

Saving of energy and a reduction in CO₂ emissions (promoting measures against climate changes)

NSSMC is contributing to reduction in CO₂ emissions through improved fuel efficiency by customers' use of high-tensile-strength steel sheets, which are thinner and more lightweight.



Improved construction efficiency for civil engineering

Wire rods for high-strength suspension bridge cables



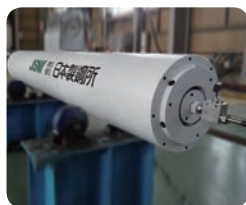
Energy conservation from lighter, faster-speed railways

Wheels and axles for high-speed railways



Improved construction efficiency for civil engineering

Hat-type steel sheet piles



Promotion of energy conversion

Seamless pipes and tubes for steel accumulators used in hydrogen refueling stations

Photo from The Japan Steel Works, Ltd.



Auxiliary brake system with better fuel efficiency for trucks and buses

Reduces wear debris from foot brake pads Permanent magnet-type retarder



Weight reduction and better fuel efficiency for automobiles

Steel cords for tires



Better heat efficiency for home appliances

Stainless clad steel



Weight reduction for food cans

Ultra-thin tin-laminated steel foil

Lengthened product life and improved recyclability (promoting the creation of recycle-oriented society)

NSSMC is contributing to lengthened product lives by providing corrosion-resistant, abrasion resistant steel products, that respond well to usage and the environment to be used. We are also contributing to promote a recycle-oriented society by adding various functions to steel, which has extremely high recyclability.



Prolonged service life and enhanced durability and reliability for construction and industrial machinery

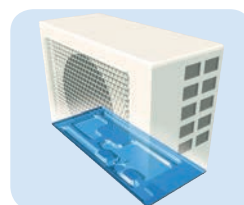
Abrasion resistant steel plate, ABREX™

Photo from Komatsu Ltd.



Prolonged service life and enhanced durability and reliability for the construction industry

Titanium roofing



Enhanced corrosion resistance for home appliances and construction products

High corrosion resistance coated steel sheet, SuperDyma™

Preservation of the environment and control of chemical substances (promoting environmental risk management)

NSSMC is contributing to reduction of environmental risks by realizing the same performance, which used to be achieved by adding lead and other substances of concern, without doing so, and by providing steel products that curb noise generation in the use of the products.



Enhanced maritime safety of ships
Steel plates for enhancing collision safety

NSafe™-Hull



Electrolytic chromate-free zinc-coated steel sheet for home appliances

NS ZINKOTE™ Black



Measures against noise and vibration for railways

World longest 150-meter rails

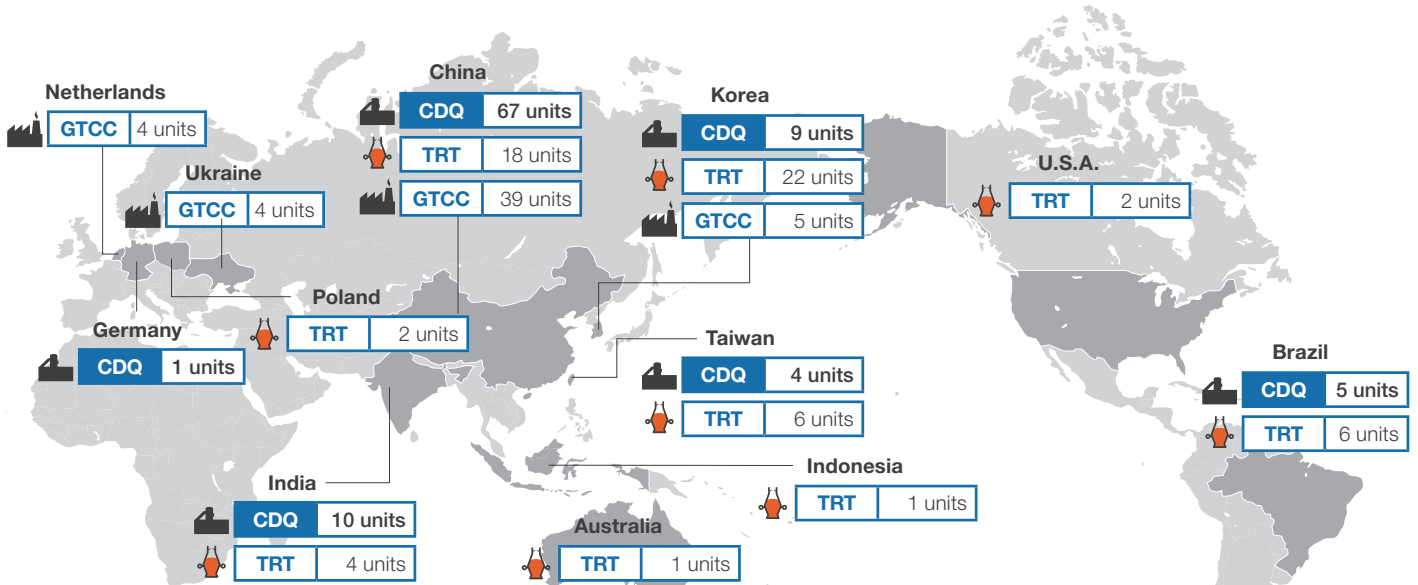


ECO SOLUTION (SHARING OUR "ECO-SOLUTIONS")

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 CO₂ emissions, NSSMC is participating in global energy-saving and environmental initiatives in various ways including multinational and bilateral arrangements with China and India.

Globally-expanding Japanese steel industry's energy-saving technologies (Numbers represent the number of units.)



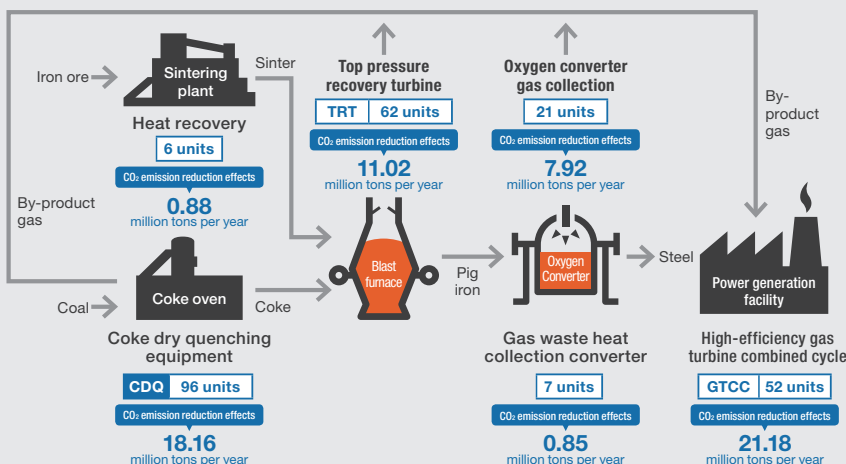
The Coke Dry Quenching (CDQ) power generation equipment uses the exhaust heat, which is collected while the hot coke is quenched with inert gas.

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

Overseas steel industry's CO₂ emission reduction effects by introducing Japan's energy-saving equipment (Cumulative basis to fiscal 2016, JISF)

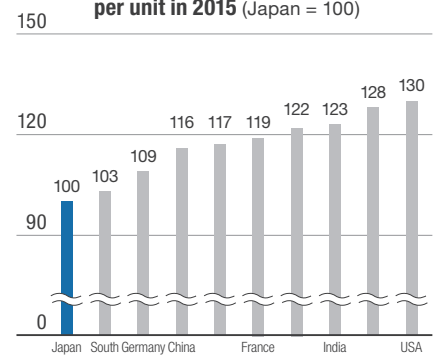
The CO₂ emission reduction effects achieved by Japanese companies' energy-saving technologies transferred overseas have amounted to over 60.01 million tons a year in total.

CO₂ emission reduction effects **Total 60.01 million tons per year**



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.

Converter steel energy consumption per unit in 2015 (Japan = 100)



Source: International Comparisons of Energy Efficiency (Sectors of Electricity Generation, Iron and steel, Cement), RITE, 2015 (Numerical values were provided by the Japan Iron and Steel Federation (JISF))



The base that supports growth

1

Organization

NSSMC will further enhance its organizational strength and create the value of steel.

Strong worksite teams are indispensable for steelmaking, which requires massive facilities.

The correct functioning of an organization is critically important for team members, who need to maintain high morale and assume a high level of responsibility.

We are always aiming to grow as organization and to maximize attainment of the ultimate potential of steelmaking.

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

We continue to emphasize the importance of integrity and reliability in our actions.

We provide products and services that benefit society, and grow in partnership with our customers.

We pursue world-leading technologies and manufacturing capabilities.

We continually anticipate and address future changes, innovate from within, and pursue unending progress.

We develop and bring out the best in our people to make our Group rich with energy and enthusiasm.

Code of Conduct

The NSSMC Group aspires to fulfill its social responsibility by implementing the following nine principles set in this Code of Conduct.

Act with a strong sense of ethical values and in compliance with laws and regulations.

Develop and provide socially beneficial, good-quality and safe products and services, thereby earning the satisfaction and trust of our customers.

Engage in fair and free competition and proper business practices, and maintain a sound and proper relationship with political bodies and government agencies.

Actively engage with the public, disclosing corporate information in a fair and proactive manner, while carefully protecting and managing personal data and other types of information.

Create a healthy, safe and comfortable work environment, and respect the character and diversity of our employees.

Actively contribute, as a member of society, to global environmental preservation and to local communities and society.

Reject any relations with antisocial forces and organizations, and take a firm stance against all improper demands.

Comply with laws and regulations of relevant countries and regions, and respect international norms, cultures and customs in conducting our business operations.

Abide by this Code of Conduct and set up an effective mechanism to implement it. If a violation of this Code occurs, act promptly to determine the cause and prevent similar violations in the future, and make appropriate public disclosure.

NSSMC's sustained growth has been supported by our R&D organization that is world-leading in steel in terms of quality and scale, strong relationships of trust with customers and people in communities and society, advanced purchasing strategy jointly fostered with suppliers, and various other assets we have accumulated over many decades. In addition, our cultural attribute of carefully developing and utilizing human resources, that create those assets, and our organization that encourages these people to manifest their best are also our precious assets and part of the base to support growth. We will further enhance such invisible values, which do not appear on the financial statements, hand them down to the next generation, and aim to realize further growth.



2

Aiming for further advancement in technology

Three core research centers



Research & Engineering Center (Futtsu)



Amagasaki R&D Center



Hasaki R&D Center

NSSMC will create the value of steel and the future.

Iron is believed to be one-third of the Earth's weight. While its theoretical strength is said to be 10GPa, the strength of steel materials commercially used today for automobiles is merely 10% of its theoretical strength. What supports such a high level of manufacturing that combines huge scale and minute precision is NSSMC's maximizing the potential of steel as a material, that is, the challenge of "creating the value 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. 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. 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.

Strengths in R&D

Comprehensiveness and speed of development, facilitated by the integration of R&D and engineering

R&D network having locations near customer locations

Integrated solutions enhanced by Group companies' R&D organization products and technologies

Ability to address environmental and energy-related concerns with solutions maximizing steelmaking process technology

Collaboration between industry and academic institutions, overseas alliances, and joint research with customers

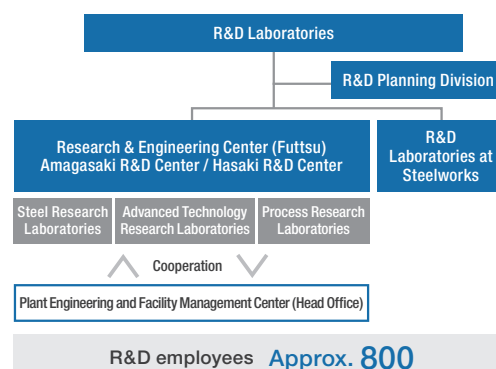
Extensive portfolio of fundamental and platform technologies

In April 2018, the Intelligent Algorithm Center (IA³ Center; also called "IA Cube") was established to strengthen research on use of advanced IT. The NSSMC Group's top-class researchers in the area have been brought together to work at the IA³ Center.

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 near customers;
- (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.

R&D organization



3

Intellectual property

Number of
patents held by
NSSMC

Approx. 70
countries

Approx.
29,500
patents
in aggregate

Becoming the best steelmaker with world-leading capabilities

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 (Number of patents held: approximately 15,000 in Japan and 14,500 overseas as of May 2018; named a Top 100 Global Innovator in 2017 for fifth consecutive year by Clarivate Analytics, formerly Thomson Reuters)

- 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 Amended Unfair Competition Prevention Act was enforced starting on January 1, 2016. In accordance with the spirit of this amended Act, we are enhancing initiatives to think about a code of conduct on safeguarding business secrets and to reflect it in our daily operations. Meanwhile, we engage

in active sharing and utilization of technological information that ought to be shared, without excessively worrying about information leakage and disrupting sharing. We also continue to strictly deal with counterfeit products as well as any illegal use of our corporate name, brands, IP, and other properties.

Strategic establishment of brand families

We have launched SteelLinC™ as a brand of the Bar & Wire Rod Unit of the NSSMC Group and are promoting and enhancing the brand value of its products and services. In 2017, we added a word "built-in" in the SteelLinC™ logo to further promote it. The SteelLinC™ has been adopted for the box-spring of beds made by Simmons Co., Ltd. in Japan and Showa Sangyo's mesh products, for example.

We plan to look into strategically establishing brand products with strong messages and appealing power in our other businesses and product areas so that our customers can accurately recognize their features and values. These brands include titanium products TranTixxii™ designed for use in the roof of Senso-ji Temple and other prominent works of architecture,

the new stainless steel HYDREXEL™ for use in high-pressure hydrogen environments, and the abrasion resistant steel plate ABREX™ in use for construction machinery. At the same time, we will promote activities to communicate and share NSSMC's value to many of our stakeholders.



SteelLinC™ built-in logo

4

Together with Suppliers

Basic policy

1

Compliance with laws

2

Equal opportunities

3

Building of a partnership

4

Fair disclosure of information and quick transaction processing

5

Consideration to resource protection and environmental preservation

6

Preservation of confidentiality

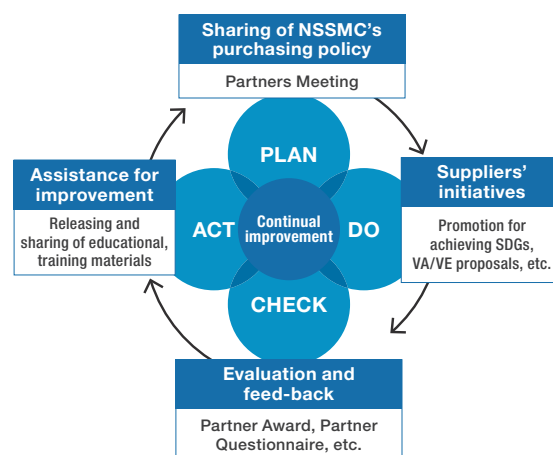
Together with suppliers, NSSMC aims to enhance competitiveness and to realize a sustainable society.

Economic development of emerging countries is a major element of change in the global purchasing environment, requiring NSSMC to make strategic purchasing for enhancing manufacturing capabilities. At the same time, it is becoming increasingly important for not merely our company but also our entire supply chain to fulfill social responsibilities toward realizing a sustainable society.

We purchase around one million product items of equipment and materials from gigantic facilities such as blast furnace to electric and mechanical products as well as safety, emergency, and office supplies from about 3,000 suppliers other than major suppliers of iron ore and coal. Based on our basic policy, our aim is to realize a top-flight purchasing strategy, with a focus on dialogues with suppliers.

Aiming to enhancing dialogue with suppliers, we have organized a Material/Equipment Procurement Partners Meeting, to be held once every three years, in the first year of the new medium-term management plan, with an objective to share our purchasing policy in light of our new management strategy. In fiscal 2018, about 1,300 suppliers joined our first Partners Meeting, where we agreed to share our purchasing policy that emphasizes thorough compliance; product safety, ensuring of quality, cost, and delivery (QCD), advancement of technology development capability; consideration of human rights, labor environment, safety and health; environment conservation; and thorough information management, with the aim to deepen the partnership for enhanced manufacturing competitiveness and to promote purchasing that contributes to a more sustainable society. Under the policy, we strive to enhance risk management of the entire supplier chain by undertaking more initiatives, such as CSR initiatives (including the enhancement of governance structure), survey on minerals from conflict-affected and high-risk areas, and business

continuity planning (BCP). In addition, we began to compile a Partner Questionnaire to survey suppliers once a year. The Partner Award System has also been implemented to express our gratitude to suppliers who have greatly contributed to our advancement in manufacturing competitiveness.



Supply chain management that reduces environmental burden

Based on the Life Cycle Assessment concept, NSSMC is taking initiatives in reducing environmental burden at various points along the supply chain. In keeping with rising demand for tighter management of chemical substances, we have created management standards for 16 toxic chemical substances, including cadmium, jointly with customers and suppliers. We then established a system to manage substances of concern contained in purchasing materials and products, including packaging materials. In addition, as stipulated in the Charter of Corporate Behavior by

Keidanren, we have set up internal rules, including an appropriate purchasing policy, which puts us on record as fully considering resource protection and environmental preservation. Moreover, we have participated in the Green Purchasing Network (GPN) since 1996, when the network was founded, in order to promote green purchasing activities. Jointly with businesses, governments, academia, local governments, and NGOs, we have taken the initiative in developing a framework to prioritize the purchasing of products and services that represent less environmental load.

5

Together with Employees

Based on the belief that the development of excellent personnel is a prerequisite for the production of excellent products, NSSMC is actively rolling out programs to strengthen the overall capabilities.

Human empowerment and development

Human development policy

Under the common understanding that “human development is an important part of work,” the identification of skills and capabilities required for certain worksites are being identified and corresponding on-the-job training is being planned and executed through dialogues between supervisors and their subordinates. In addition, training geared to specific career levels and various types of off-the-job training sessions are being conducted to complement the basic plan.

At manufacturing worksites, it is critically important to have our veteran employees relay their accumulated skills and know-how to the next generation of young workers. In addition to constantly hiring of employees, we have evolved a method of transferring skills using such systemized teaching methods as visualized work procedures and comprehension tests.

Development of personnel who support overseas expansion

NSSMC is actively expanding business to overseas growth markets and many NSSMC employees are working on these projects, together with employees of our joint ventures and local employees. At these bases, we also contribute to local communities by locally hiring employees and creating job opportunities. In order to develop employees who promote our overseas business expansion, we put efforts in international education, such as intercultural learning programs and study abroad.

Personnel and treatment system

NSSMC’s administering of personnel policies aim at encouraging our employees to grow and develop their overall capabilities, from the time they join the company until they retire. We also find it important, to ensure consistent, fair treatment of all employees regarding their capability and achievement, by methods including through dialogue between supervisors and subordinates. Furthermore, we have various measures that support our employees to balance their work with their family life. We have implemented a “work at home” system to

give employees time for child care, and a rehiring program for employees who previously left the company for child or elderly care and other reasons. We opened a 24-hour childcare center for use by shift work employees in steelworks. We are enhancing support programs for our employees, who are raising children, in particular those shift work employees, who have a night shift.

Human empowerment and development

<http://www.nssmc.com/en/csr/employees/human.html>

Respect for Human Rights and Promoting Diversity

Respect for human rights

In compliance with the Universal Declaration of Human Rights and other international norms on human rights, the NSSMC Group is in the business of creating and delivering valuable and attractive products and ideas, by respecting our employees’ diverse views and individualities and utilizing them for the good of all. Based on the United Nations Guiding Principles on Business and Human Rights, the NSSMC Group Conduct Code has been set. By adhering to its nine principles, NSSMC conducts business ethically, while paying full heed to human rights issues arising with the increasing globalization of the economy. NSSMC 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 based on nationality, race, belief, creed, gender, age, sexual orientation, and disability. In addition, we give careful consideration to the traditions and culture, business practice, and labor practice of each country or region as we accelerate overseas business development.

Prevention of forced or child labor

Adhering to international norms concerning forced or child labor, NSSMC has a policy to eradicate both types of labor. We conduct regular monitoring surveys of our group companies to prevent such occurrence in our business activities.

Promotion of balanced work-life

NSSMC complies with labor laws and regulations of each country and strives to create a work environment that allows each and every employee to do his/her best.

We promote balanced work-life by encouraging employees to fully use their paid holidays and to reduce long working hours under an appropriate working hour management, in cooperation with labor unions. We also provide diverse welfare programs to support employees' personal life and numerous measures for individual departments depending on their business conditions, such as to setting a no-overwork day.

Respect for Human Rights and Promoting Diversity

<http://www.nssmc.com/en/csr/employees/diversity.html>

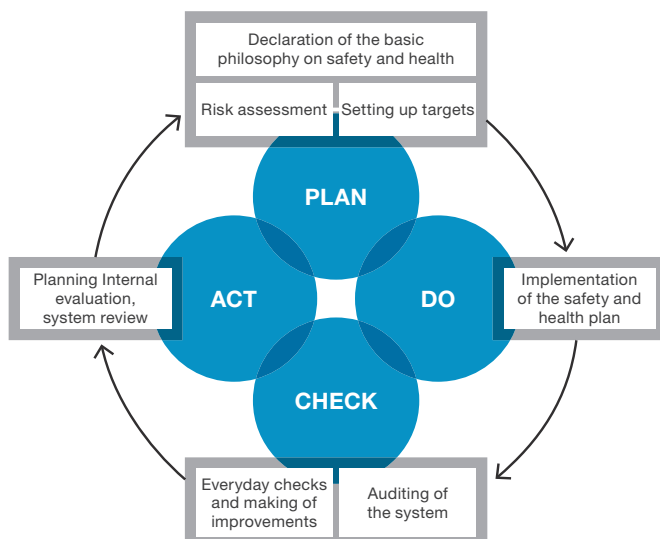
Efforts Toward Safety and Health Management

In keeping with the corporate philosophy that "safety and health are the most valuable factors that take precedence over all other things and they are the basis that supports business development," we have firmly kept our manufacturing priorities (Safety, environment, and disaster prevention comes first, quality comes next, followed by production) in all of our activities. We have been improving our Occupational Safety and Health Management System (OSHMS) and strive at making a safe and secure workplace.

The Basic Policy on Safety and Health is applied to NSSMC as well as to related or subcontracting companies.

Under the OSHMS, we make a policy, targets, and a plan on the safety and health policy, implement a PDCA cycle, and drive continuous improvement. We are now considering obtaining the ISO (JIS) 45001, which was published in March 2018 and specified requirement for OSHMS. At present, about 40% of our offices and works have obtained OSHMS certification by a third party.

Occupational Safety and Health Management System (OSHMS)

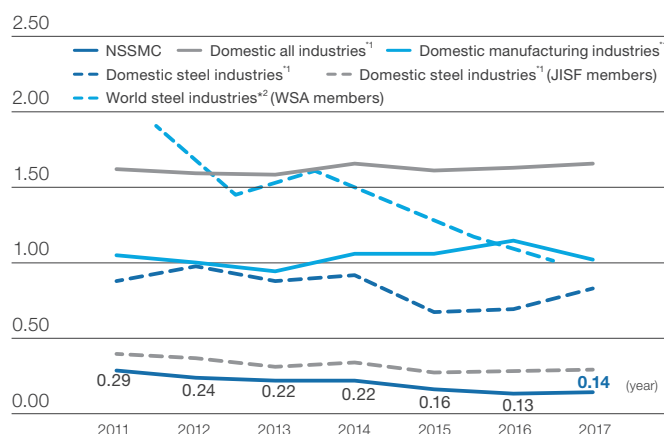


Reducing disaster risks to zero, and group-wide sharing of effective measures

We make a risk assessment when planning a new project and regularly conduct safety and risk assessment for existing projects, to prevent accidents and reduce risks. We also seek for greater safety of equipment even when essentially safe, and take countermeasures against human error.

We are sharing effective examples of accident-preventive measures and those based on analysis of actual accidents.

Accident frequency rate



^{*1} Source: JISF "Safety Management Overview, 2018"

^{*2} Source: WSA

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

Making work and workplace environments more comfortable and improving the physical and mental health of our employees

Regarding health management, besides improving healthcare counseling for employees, we make efforts for early detection and appropriate actions in the area of mental health. In addition, as we expand business in various parts of the world, we proactively deal with global health issues, including HIV, tuberculosis, and malaria, through vaccination, seminars, and other means, in order to protect the healthy life of employees who work overseas or will be transferred overseas and their family members. We will continue to deal with those issues in an appropriate manner.

Safety training

We make efforts to improve training for preventive accidents. The safety training programs are attended by all newly-appointed managers of manufacturing worksites (84 managers in FY2016 and 108 in FY2017). Our Taikan Program (an experience-based safety education program) allows employees to experience worksite risk through simulation, so as to better prepare them in anticipating and managing risk.

Safety and health management

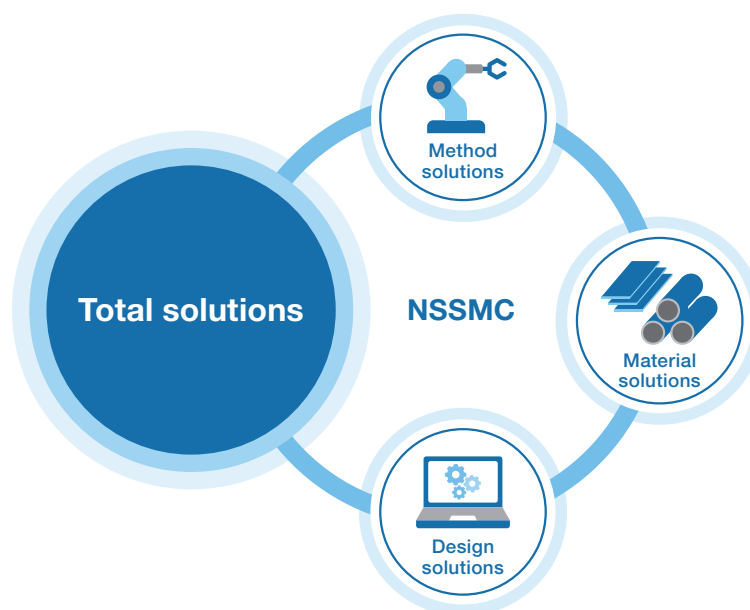
<http://www.nssmc.com/en/csr/safety/index.html>

6

Together with Customers

NSSMC emphasizes the importance of long-term relationships of trust with our customers.

NSSMC sees as an important role going beyond providing materials, to ensuring maximum value for customers from total solutions we provide, including proposals on materials, design, and methods. We make efforts every day to be trusted by customers, ensuring that our customers say, “only NSSMC can do this.”



Example of customer evaluation and adoption

Automotive sector

NSSMC's ultra-high-tensile steel sheets and their solution technology were adopted for Honda N-BOX

NSSMC's 1,180 MPa-class high-strength cold-pressed steel sheets for outer panels, 980 MPa-class high-strength cold-pressed steel sheets with good expansibility of openings, and related solution technologies such as for strength flange-ability have been adopted for N-Box minivehicle of Honda Motor (sold since September 2017). In cooperation with Honda R&D Co., NSSMC's steel sheets have been adopted for body parts, contributing to make N-Box lower in weight and stronger in rigidity.

NSSMC's manufacturing and sales subsidiary of crankshafts in the U.S., earned Diamond Supplier Award from Navistar

Nippon Steel & Sumikin Crankshaft, NSSMC's subsidiary that manufactures and sells crankshafts in the U.S., received the 2017 Diamond Supplier Award from Navistar, the largest truck manufacturer in the U.S. Nippon Steel & Sumikin Crankshaft was among 32 suppliers to earn Navistar's Diamond Supplier Award, which recognizes the top 2 percent of Navistar's supply chain. Recipients are selected for the award based on their contributions with comprehensive superior performance in terms of quality, delivery, technology, and cost. NSSMC has established an integrated manufacturing framework that covers from material production to forging and machining process in its crankshaft business. It provides services that satisfy a wide range of needs of its customers, including automakers and engine makers.



Example of customer evaluation and adoption

Energy and resources sector

Continuous strategic partnership with Oman's largest petroleum development company

NSSMC, Sumitomo Corporation, and Oman's largest petroleum development company, Petroleum Development Oman (PDO) held a ceremony in Oman in January 2017 when they agreed to extend their continuous strategic partnership. NSSMC and Sumitomo Corporation have had a long-term relationship for the supply of OCTG, and recently Sumitomo Corporation's subsidiary Sumitomo Corporation Tubular Services Oman LLC (SCTSO) and PDO extended their contract about OCTG Supply Chain Management for another five years. As a premium OCTG supplier, NSSMC is continuously supplying high-performance OCTG to PDO through this contract.



Example of customer evaluation and adoption

Infrastructure sector

NSSMC's HAT-type Steel Sheet Piles Adopted for Infrastructure Construction in Singapore and Australia

NSSMC has delivered HAT-type steel sheet piles (partially including NS-SP-J steel sheet piles for ancillary construction) to Avenue Engineering Pte. Ltd., for constructing earth-retaining walls for PUB's (Singapore Public Utilities Board) rainwater main pipeline, Lucky Height Water Drainage. NSSMC has also delivered HAT-type steel sheet piles to McConnell Dowell Corporation for constructing earth retaining walls for the O-Bahn City Access Project, a project by the Department of Planning, Transport and Infrastructure of the Government of South Australia, to construct a road tunnel. While NSSMC's HAT-type steel sheet piles had been predominantly

used for marine and river works, they have been adopted for overseas urban civil works on the strength of their (1) rapid and relatively easy installation and (2) no need to consider reducing sectional properties during designing. NSSMC will continue to promote application of its products and solutions in the domestic and overseas construction markets and contribute to high-quality infrastructure improvement.

NSSMC and Standard Steel Received TTX "Excellent Supplier 2017" Award

Both NSSMC and its U.S. subsidiary Standard Steel LLC (SS) received the "Excellent Supplier 2017" award from TTX Company in the U.S. in June 2018. TTX is North America's largest leasing company of railcars and has over 200,000 freight cars for use throughout North America. TTX is a large customer of railway wheels and axles supplied by NSSMC and SS. Every year TTX reviews suppliers' performance including quality, cost, delivery, and service, and designates suppliers which score 90 or more points of 100 points as Excellent Suppliers. This award is extremely comprehensive and is the most stringent supplier evaluation in the rail industry. This is the 12th time for NSSMC's since its first award in 2004, and SS's 27th consecutive award since the first year TTX made this award.

Awards from customers in FY2017 (in alphabetical order)

Customer	Award	Product type
Fuji Xerox Co., Ltd.	Premier Partner Award	Wire rod
Navistar International Corporation	Diamond Supplier Award	Crankshafts
Panasonic Corporation	ECO-VC Gold Award	Steel sheets
TTX Company (U.S.A.)	Excellent Supplier	Railway wheels

7

Together with Society

NSSMC grows hand in hand with local communities and society.

Having many manufacturing bases all over Japan, NSSMC has a long history of being engaged in business activities 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, mainly through promotion of environmental preservation, and through education, music, sports, and international exchange.

We believe that such activities result in better understanding of NSSMC as well as the steel industry and the advantages of the steel from a Life Cycle Assessment (LCA) perspective, which are tremendously important from our business sustainability, hiring activities, and other viewpoints.

Environment preservation activities, jointly with local communities

In order to respond appropriately to environmental and energy issues and to build a recycling-oriented society, it is necessary that businesses, governments, academia, and citizens go beyond the limits of their respective domains, and think and act for the best of our future generations. NSSMC is cooperating with various organizations in local and international communities on behalf of environmental activities.

“Creation of a Hometown Forest”

NSSMC’s “Creation of a Hometown Forest” began in 1971, when we planted saplings at Oita Works, under the guidance of Dr. Akira Miyawaki (professor emeritus at Yokohama National University). At present, each of NSSMC’s steelworks in Japan has its own environmental conservation forest. Our forests, in aggregate, total around 900 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. 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.



Tree-planting by new employees

Collaboration with an NPO, “Mori wa Umi no Koibito”

In 1989, Mr. Shigeatsu Hatakeyama, a fisherman cultivating oysters and scallops in Kesenuma City, Miyagi Prefecture, and the leader of the NPO, Mori wa Umi no Koibito (The forest is longing for the sea, the sea is longing for the forest), along with his fellow fishermen, commenced the Forests are Lovers of the Sea campaign to plant trees at Murone Mountain in Iwate Prefecture, located in the upper reaches of the Okawa River, which flows into Kesenuma Bay. Mr. Hatakeyama was awarded the 2012 United Nations Forest hero. This activity was based on the theory that the chain of forests, villages, and the sea nurtures the blessings of the sea. We have been supporting this activity. In June 2017, approximately 1,600 people, including school children, college students, and our employees, joined their tree-planting festival.



Tree-planting festival

Providing Education on Manufacturing and the Environment

NSSMC finds it important to be involved in educating young people and their teachers, who are helping prepare our future generations. We try to help them better understand the appeal of “monodzukuri (product-manufacturing)” and our various initiatives on the environmental issues.

Demonstrating the joy of product-manufacturing through “Tatara Ironmaking”

With the aim of showing children the joy of product-manufacturing, NSSMC has been holding demonstrations on “tatara ironmaking” – Japan’s indigenous ironmaking technique – at our steelworks and nearby schools in Japan every year.

Support of community-based education

NSSMC has been engaged in unique community-based environmental education support programs and educational activities on “monodzukuri (product-manufacturing).” For example, we organized a scientific stand at Kimitsu Works, where our younger employees introduced the fascinating properties of iron and the mechanism of electricity generation to primary and secondary school children. Our employees at Oita Works also gave a “travelling scientific lecture” at local primary and secondary schools. NSSMC’s Head Office staff took part in an Energy and Environmental Workshop held by a junior high school in Kanagawa Prefecture, showing an example of use of waste plastics at NSSMC to demonstrate the steelmaking industry’s environmental initiatives. In addition, we donate to the Tohoku University’s project which aims at teaching children in the stricken areas of the East Japan Earthquake and Tsunami of 2011 the basics about why disasters happen and what appropriate actions to take when one occurs.

Internship programs and the endowment of a university donated course

For many years, NSSMC has been offering internship opportunities to students to help them learn our business and gain some work experience. In FY2017, a total of 1,171 students from universities and technical colleges participated in the programs at our steelworks and research centers throughout Japan, and the program was favorably received. In addition, we endow a university donated course, which also contributes to one of our business strategies, “enhancement of our technological superiority.”

“Training Programs for Educators at Private Companies” for enhancing teacher understanding of the steelmaking industry

Every summer we support the “Training Programs for Educators at Private Companies” sponsored by the Japan Institute for Social and Economic Affairs, so that teachers can better understand how the steel industry is contributing to society and can better appreciate the fascination of product-manufacturing. In 2017, we hosted some primary, secondary, and junior high school teachers at our eight steelworks for the tours of our facilities and our human development activities.

Activities in the support of art, music, and sports/programs to support employees’ social contribution

Activities in the support of art, music, and sports

NSSMC has a history since its foundation of consistent support of art, music, and sports, along with our main business to support development of society through many aspects of steel, a basic material. This is because we aim not only at the economic growth but also at the true development of society by assisting people’s healthy and fulfilling lifestyle.

NSSMC has supported cultural and art activities, mainly focus on music, for about 60 years. As an example, we sponsored a radio program “Nippon Steel Concert” from 1955 to 2005 and created Nippon Steel &

Sumitomo Metal Music Awards (formerly Nippon Steel Music Awards) in 1990. At present, the management of Kioi Hall in Tokyo and support of the Nippon Steel & Sumitomo Metal Arts Foundation are the main activities of our corporate philanthropy in the support of music. 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; a judo club, which has produced Olympic medalists; baseball teams, which have sent many of its players to the professional leagues; and both a men’s volleyball team and a rugby team. 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 who support our teams, we strive to provide renewed vigor to our local communities, and at the same time to support their healthy lifestyle.



Kioi Hall Chamber Orchestra Tokyo © Tomoko Hidaki

Volunteer leave system

NSSMC has a special leave system to support employees who engage in volunteer activities that are recognized for the good of the community, such as through the Japan Overseas Cooperation Volunteers or as a long-term social welfare volunteer.

11-Year Financial Performance

(Unaudited; only for reference purposes)

		FY	2007	2008	2009	2010
Operating Results (Fiscal year) <Millions of yen>						
Net sales	NSSMC/Nippon Steel		4,826,974	4,769,821	3,487,714	4,109,774
	Sumitomo Metals		1,744,572	1,844,422	1,285,845	1,402,454
Operating profit (loss)	NSSMC/Nippon Steel		545,580	342,930	32,005	165,605
	Sumitomo Metals		274,396	226,052	(928)	56,301
Ordinary profit (loss)	NSSMC/Nippon Steel		564,119	336,140	11,833	226,335
	Sumitomo Metals		298,218	225,736	(36,634)	34,049
Profit (loss) before income taxes	NSSMC/Nippon Steel		605,485	281,079	11,242	185,377
	Sumitomo Metals		281,298	194,459	(39,758)	(27,991)
Profit (loss) attributable to owners of parent	NSSMC/Nippon Steel		354,989	155,077	(11,529)	93,199
	Sumitomo Metals		180,547	97,327	(49,772)	(7,144)
Capital expenditure	NSSMC/Nippon Steel		308,993	305,738	329,356	287,236
	Sumitomo Metals* ¹		178,887	159,118	136,643	109,934
Depreciation and amortization* ²	NSSMC/Nippon Steel		244,038	273,744	284,092	291,587
	Sumitomo Metals		102,565	109,854	120,853	126,267
Research and development costs	NSSMC/Nippon Steel		45,329	45,797	46,824	46,663
	Sumitomo Metals		20,102	22,120	22,845	22,783
Financial Position (End of fiscal year) <Millions of yen>						
Total assets	NSSMC/Nippon Steel		5,193,498	4,870,680	5,002,378	5,000,860
	Sumitomo Metals		2,418,310	2,452,535	2,403,670	2,440,761
Shareholders' equity* ³	NSSMC/Nippon Steel		1,908,777	1,668,682	1,844,382	1,860,799
	Sumitomo Metals		901,946	857,697	829,219	766,777
Total net assets* ³	NSSMC/Nippon Steel		2,413,954	2,174,809	2,335,676	2,380,925
	Sumitomo Metals		949,303	904,371	879,209	818,080
Interest-bearing debt	NSSMC/Nippon Steel		1,192,027	1,454,214	1,383,794	1,337,851
	Sumitomo Metals* ⁴		883,888	990,010	1,138,353	1,173,382
Cash Flows (Fiscal year) <Millions of yen>						
Cash flows from operating activities	NSSMC/Nippon Steel		525,777	127,540	437,668	369,500
	Sumitomo Metals		230,043	190,582	67,002	202,340
Cash flows from investing activities	NSSMC/Nippon Steel		(438,121)	(306,603)	(412,827)	(325,781)
	Sumitomo Metals		(274,316)	(214,977)	(172,933)	(144,009)
Cash flows from financing activities	NSSMC/Nippon Steel		(200,604)	170,209	(79,985)	(47,244)
	Sumitomo Metals		48,751	52,623	87,843	(1,325)
Amounts per Share of Common Stock*⁶ <yen>						
Profit (loss) attributable to owners of parent per share	NSSMC/Nippon Steel		56.33	24.60	(1.83)	14.81
	Sumitomo Metals		39.43	20.98	(10.74)	(1.54)
Cash dividends per share	NSSMC/Nippon Steel		11.0	6.0	1.5	3.0
	Sumitomo Metals		10.0	10.0	5.0	3.5

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.

*1. Only for "Tangible fixed assets," construction base

*2. 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."

*3. "Shareholders' equity" stated here is the sum of "Shareholders' equity" as stated in the balance sheet and "Accumulated other comprehensive income."
The difference between "Shareholders' equity" and "Total net assets" is "Non-controlling interests in consolidated subsidiaries."

2011	2012 ^{*5}	2013	2014	2015	2016	2017
4,090,936	4,389,922	5,516,180	5,610,030	4,907,429	4,632,890	5,668,663
1,473,367	693,601	—	—	—	—	—
79,364	20,110	298,390	349,510	167,731	114,202	182,382
76,801	15,759	—	—	—	—	—
143,006	76,931	361,097	451,747	200,929	174,531	297,541
60,803	10,815	—	—	—	—	—
120,053	(136,970)	399,147	376,188	230,778	181,692	289,860
(51,251)	(134,831)	—	—	—	—	—
58,471	(124,567)	242,753	214,293	145,419	130,946	195,061
(53,799)	(133,849)	—	—	—	—	—
281,748	355,873	257,019	304,389	304,643	351,038	411,930
115,797	N.A.	—	—	—	—	—
280,940	288,770	331,801	320,046	308,276	304,751	340,719
122,937	49,757	—	—	—	—	—
48,175	60,071	64,437	62,966	68,493	69,110	73,083
22,842	N.A.	—	—	—	—	—
4,924,711	7,089,498	7,082,288	7,157,929	6,425,043	7,261,923	7,592,413
2,386,158	—	—	—	—	—	—
1,828,902	2,394,069	2,683,659	2,978,696	2,773,822	2,948,232	3,145,450
709,315	—	—	—	—	—	—
2,347,343	2,938,283	3,237,995	3,547,059	3,009,075	3,291,015	3,515,501
761,484	—	—	—	—	—	—
1,334,512	2,543,061	2,296,326	1,976,591	2,008,263	2,104,842	2,068,996
1,172,120	—	—	—	—	—	—
237,414	313,317	574,767	710,998	562,956	484,288	458,846
88,065	N.A.	—	—	—	—	—
(226,096)	(327,336)	(196,856)	(263,667)	(242,204)	(343,738)	(353,419)
(120,110)	N.A.	—	—	—	—	—
(31,785)	33,332	(367,115)	(451,843)	(337,555)	(135,054)	(89,190)
(32,714)	N.A.	—	—	—	—	—
9.29	(16.23)	26.67	23.48	158.71 ^{*7}	147.96	221.00
(11.61)	—	—	—	—	—	—
2.5	1.0	5.0	5.5	45.0 ^{*8}	45	70
2.0	—	—	—	—	—	—

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

*5. 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.

*6. On October 1, 2015, NSSMC performed a 1-for-10 share consolidation.

*7. 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.

*8. 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.

11-Year Financial Performance (Unaudited; only for reference purposes)

		FY	2007	2008	2009	2010
Financial Indices						
Return on sales ((Ordinary profit / Net sales) x 100)	NSSMC/Nippon Steel		11.7%	7.0%	0.3%	5.5%
	Sumitomo Metals		17.1%	12.2%	(2.8%)	2.4%
Return on equity ((Profit attributable to owners of parent / Shareholders' equity [average for the period]) x 100)	NSSMC/Nippon Steel		18.7%	8.7%	(0.7%)	5.0%
	Sumitomo Metals		20.3%	11.1%	(5.9%)	(0.9%)
Shareholders' equity ratio ((Shareholders' equity / Total assets) x 100)	NSSMC/Nippon Steel		36.8%	34.3%	36.9%	37.2%
	Sumitomo Metals		37.3%	35.0%	34.5%	31.4%
Number of shares issued as of end of period*1 <In thousands>	NSSMC/Nippon Steel		6,806,980	6,806,980	6,806,980	6,806,980
	Sumitomo Metals		4,805,974	4,805,974	4,805,974	4,805,974
Share price at end of period*1 <Yen>	NSSMC/Nippon Steel		505	263	367	266
	Sumitomo Metals		378	197	283	186
Net Sales by Industry Segment*2 <Millions of yen>						
Steelmaking and steel fabrication			3,994,526	4,038,685	2,823,193	3,473,495
Engineering and construction			359,884	386,643	331,905	254,941
Urban development			93,839	70,152	80,073	86,556
Chemicals			289,029	212,172	179,412	193,896
New materials			76,157	59,907	58,799	60,888
System solutions			165,360	161,541	152,234	159,708
Elimination of inter-segment transactions			(151,823)	(159,281)	(137,904)	(119,711)
Segment Profit (Loss)*2 <Millions of yen>						
Steelmaking and steel fabrication			475,951	307,047	(20,589)	181,968
Engineering and construction			21,496	24,674	31,655	14,883
Urban development			12,602	3,929	2,937	9,273
Chemicals			21,050	894	10,431	13,244
New materials			559	(2,397)	444	2,111
System solutions			14,756	11,479	10,732	11,332
Elimination of inter-segment transactions			(835)	(2,696)	(3,607)	(6,478)
Non-Financial Performance						
Crude steel production <Ten thousands of tons>	NSSMC/Nippon Steel (Consolidated)		3,623	3,124	2,992	3,492
	NSSMC/Nippon Steel (Non-consolidated)		3,311	2,861	2,750	3,246
	Sumitomo Metals*3		1,362	1,287	1,165	1,290
Steel products shipments (Non-consolidated) <Ten thousands of tons>	NSSMC/Nippon Steel		3,290	2,820	2,709	3,135
	Sumitomo Metals*4		1,249	1,144	1,089	1,172
Average steel selling price (Non-consolidated) <Thousands of yen per ton>	NSSMC/Nippon Steel		79.8	104.7	75.4	81.7
	Sumitomo Metals*4		105.7	124.3	88.0	94.2
Export ratio (Value basis, non-consolidated)*5 <%>	NSSMC/Nippon Steel		33.4%	32.5%	38.4%	40.4%
	Sumitomo Metals*4		45.1%	45.2%	42.9%	41.6%
Number of employees (Consolidated)	NSSMC/Nippon Steel		48,757	50,077	52,205	59,183
	Sumitomo Metals		24,926	24,245	23,674	22,597

*1. On October 1, 2015, NSSMC performed a 1-for-10 share consolidation.

*2. 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)." 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.

*3. "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.

	2011	2012 ^{*6}	2013	2014	2015	2016	2017
	3.5%	1.8%	6.5%	8.1%	4.1%	3.8%	5.2%
	4.1%	—	—	—	—	—	—
	3.2%	(5.9%)	9.6%	7.6%	5.1%	4.6%	6.4%
	(7.3%)	—	—	—	—	—	—
	37.1%	33.8%	37.9%	41.6%	43.2%	40.6%	41.4%
	29.7%	—	—	—	—	—	—
	6,806,980	9,503,214	9,503,214	9,503,214	950,321	950,321	950,321
	4,805,974	—	—	—	—	—	—
	227	235	282	302.5	2,162	2,565	2336.5
	167	—	—	—	—	—	—
	3,476,855	3,790,450	4,877,909	4,939,239	4,283,923	4,052,261	5,017,245
	248,934	303,002	314,174	348,699	315,727	267,545	294,268
	80,419	—	—	—	—	—	—
	197,669	195,719	230,130	212,777	181,823	174,227	200,767
	54,245	42,211	37,241	36,449	36,280	34,519	37,050
	161,582	171,980	179,856	206,032	218,941	232,512	244,200
	(128,769)	(113,442)	(123,132)	(133,168)	(129,267)	(128,175)	(124,868)
	98,846	41,522	321,287	401,987	160,088	138,017	245,708
	12,775	18,189	17,702	18,758	12,163	6,838	9,110
	9,371	—	—	—	—	—	—
	13,598	9,778	10,057	6,898	1,093	4,518	15,480
	607	984	1,391	2,482	3,073	1,786	1,919
	11,215	11,673	12,760	16,565	19,493	22,113	23,292
	(3,408)	(5,217)	(2,101)	5,053	5,017	1,256	2,030
	3,244	4,603	4,816	4,732	4,453	4,517	4,682
	3,020	4,355	4,567	4,496	4,217	4,262	4,067
	1,272	—	—	—	—	—	—
	2,909	4,097	4,202	4,188	3,962	3,978	3,779
	1,124	—	—	—	—	—	—
	86.2	80.1	86.0	87.2	77.1	72.6	84.7
	103.5	—	—	—	—	—	—
	39.2%	44%	46%	47%	45%	42%	41%
	40.9%	—	—	—	—	—	—
	60,508	83,187	84,361	84,447	84,837	92,309	93,557
	23,007	—	—	—	—	—	—

*4. "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 (Naoetsu), Ltd. (merged with Sumitomo Metals on January 1, 2012), and Sumikin Iron & Steel Corporation.

*5. "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.

*6. 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.

Consolidated Balance Sheets

Nippon Steel & Sumitomo Metal Corporation and Consolidated Subsidiaries

As of March 31, 2018 and 2017

<Millions of yen>

	2018	2017
ASSETS		
Current assets:		
Cash and bank deposits (Notes 14, 16 and 25)	¥ 108,782	¥ 88,111
Notes and accounts receivable (Notes 16 and 23)	678,579	624,089
Marketable securities (Notes 14, 16 and 17)	7,266	4,654
Inventories (Notes 5)	1,380,003	1,215,649
Deferred tax assets (Note 20)	77,363	59,441
Other (Note 25)	226,635	254,669
Less: Allowance for doubtful accounts	(1,766)	(2,179)
Total current assets	2,476,863	2,244,436
Fixed assets:		
Tangible fixed assets:		
Buildings and structures	2,508,813	2,463,167
Accumulated depreciation	(1,749,097)	(1,709,470)
Buildings and structures, net (Note 25)	759,716	753,697
Machinery, equipment and vehicles	7,758,229	7,571,204
Accumulated depreciation	(6,626,236)	(6,456,352)
Machinery, equipment and vehicles, net (Note 25)	1,131,993	1,114,851
Tools, furniture and fixtures	320,728	311,385
Accumulated depreciation	(268,056)	(263,482)
Tools, furniture and fixtures, net (Note 25)	52,671	47,903
Land (Notes 8 and 25)	653,182	654,475
Leased assets	22,048	19,441
Accumulated depreciation	(8,986)	(9,123)
Leased assets, net	13,061	10,318
Construction in progress	264,334	259,591
Total tangible fixed assets	2,874,959	2,840,838
Intangible assets:		
Goodwill	32,401	38,652
Leased assets	1,636	359
Patents and utility rights	4,802	5,229
Software	46,131	47,045
Total intangible assets	84,972	91,287
Investments and others:		
Investments in securities (Notes 16, 17 and 25)	871,399	816,389
Shares of subsidiaries and affiliates (Notes 6 and 8)	1,069,688	1,041,397
Long-term loans receivable (Note 25)	32,149	36,713
Net defined benefit assets (Note 19)	116,573	92,948
Deferred tax assets (Note 20)	26,185	55,521
Other	43,346	45,959
Less: Allowance for doubtful accounts	(3,726)	(3,569)
Total investments and others	2,155,616	2,085,361
Total fixed assets	5,115,549	5,017,487
Total assets	¥ 7,592,413	¥ 7,261,923

<Millions of yen>

2018

2017

LIABILITIES**Current liabilities:**

Notes and accounts payable (Note 16)	¥ 775,126	¥ 728,300
Short-term loans payable (Notes 16 and 25)	300,632	316,115
Commercial paper (Notes 16 and 25)	76,000	20,000
Bonds due within one year (Notes 16 and 25)	85,700	140,000
Current portion of lease obligations (Note 25)	3,016	3,769
Accounts payable-other (Note 16)	449,913	383,125
Income taxes payable	43,916	31,909
Provision for loss on construction contracts	1,508	2,297
Other (Note 25)	350,477	329,616
Total current liabilities	2,086,291	1,955,134

Long-term liabilities:

Bonds and notes (Notes 16 and 25)	209,996	255,690
Long-term loans payable (Notes 16 and 25)	1,380,660	1,360,025
Lease obligations (excluding current portion) (Note 25)	12,990	8,444
Deferred tax liabilities (Note 20)	114,120	99,293
Deferred tax liabilities on revaluation of land (Note 8)	7,010	7,069
Allowance for retirement benefits of directors and Audit & Supervisory Board members	4,991	4,799
Net defined benefit liabilities (Note 19)	166,152	188,016
Other	94,698	92,433
Total long-term liabilities	1,990,620	2,015,774
Total liabilities	4,076,911	3,970,908

Commitments and contingent liabilities (Note 7)

NET ASSETS (Note 13)**Shareholders' equity:**

Common stock	419,524	419,524
Capital surplus	386,865	386,873
Retained earnings	2,076,769	1,949,960
Less: Treasury stock, at cost	(132,162)	(132,063)
Total shareholders' equity	2,750,997	2,624,294

Accumulated other comprehensive income (Note 12)

Unrealized gains on available-for-sale securities (Note 17)	313,116	269,282
Deferred hedge income (loss)	(2,107)	(2,370)
Unrealized gains on revaluation of land (Note 8)	3,001	3,002
Foreign currency translation adjustments	(4,898)	(9,339)
Remeasurements of defined benefit plans (Note 19)	85,341	63,363
Total accumulated other comprehensive income	394,453	323,938
Non-controlling interests in consolidated subsidiaries (Note 8)	370,050	342,782
Total net assets	3,515,501	3,291,015

Total liabilities and net assets

¥ 7,592,413 ¥ 7,261,923

The accompanying notes are integral parts of these statements.

Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income

Nippon Steel & Sumitomo Metal Corporation and Consolidated Subsidiaries

Years ended March 31, 2018 and 2017

<Millions of yen>

	2018	2017
Consolidated Statements of Operations		
Net sales	¥ 5,668,663	¥ 4,632,890
Cost of sales (Note 10)	4,969,121	4,065,779
Gross profit	699,541	567,111
Selling, general and administrative expenses (Notes 9 and 10)	517,158	452,908
Operating profit	182,382	114,202
Non-operating profit:		
Interest income	5,146	5,654
Dividend income	17,608	14,923
Equity in profit of unconsolidated subsidiaries and affiliates	122,675	79,180
Other	55,704	43,162
	201,135	142,921
Non-operating loss:		
Interest expense	20,106	18,006
Loss on disposal of fixed assets	18,862	19,158
Other	47,007	45,428
	85,976	82,593
Ordinary profit	297,541	174,531
Extraordinary profit:		
Gain on sales of investments in securities	25,685	—
Gain on sales of shares of subsidiaries and affiliates	—	24,172
Gain on step acquisitions	—	10,027
	25,685	34,200
Extraordinary loss:		
Impairment loss (Note 11)	15,602	—
Loss on inactive facilities (Note 11)	11,604	12,793
Loss on disaster (Note11)	—	7,839
Restructuring loss (Note11)	6,158	6,407
	33,366	27,039
Profit before income taxes	289,860	181,692
Income taxes - current (Note 20)	76,309	47,074
Income taxes - deferred (Note 20)	(7,510)	(11,377)
	68,798	35,697
Profit	221,061	145,995
Profit attributable to non-controlling interests	26,000	15,048
Profit attributable to owners of parent	¥ 195,061	¥ 130,946

The accompanying notes are integral parts of these statements.

<Millions of yen>

	2018	2017
Consolidated Statements of Comprehensive Income		
Profit	¥ 221,061	¥ 145,995
Other comprehensive income:		
Unrealized gains on available-for-sale securities	44,845	68,181
Deferred hedge income (loss)	(736)	6,515
Foreign currency translation adjustments	10,937	(30,691)
Remeasurements of defined benefit plans	23,779	20,348
Share of other comprehensive income of affiliates accounted for using equity method	(288)	7,103
Total other comprehensive income(Note 12)	78,537	71,458
Comprehensive income	¥ 299,598	¥ 217,453
(Breakdown)		
Comprehensive income attributable to owners of parent	¥ 265,294	¥ 203,625
Comprehensive income attributable to non-controlling interests	34,303	13,828

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, 2018 and 2017

	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, 2016	950,321	¥419,524	¥383,010	¥1,837,919	¥(87,942)	¥171,378
Cash dividends	—	—	—	(13,554)	—	—
Profit attributable to owners of parent	—	—	—	130,946	—	—
Acquisition of treasury stock	—	—	—	—	(44,321)	—
Disposal of treasury stock	—	—	(17)	—	199	—
Increase (decrease) due to the change in the number of consolidated companies	—	—	—	(5,385)	0	—
Increase (decrease) due to reversal of unrealized gains on revaluation of land	—	—	—	34	—	—
Change in shares of parent arising from transactions with non-controlling interests	—	—	3,879	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	97,904
Total change for fiscal 2016	—	—	3,862	112,041	(44,121)	97,904
Balance at March 31, 2017	950,321	¥419,524	¥386,873	¥1,949,960	¥(132,063)	¥269,282
Cash dividends	—	—	—	(66,293)	—	—
Profit attributable to owners of parent	—	—	—	195,061	—	—
Acquisition of treasury stock	—	—	—	—	(102)	—
Disposal of treasury stock	—	—	1	—	3	—
Increase (decrease) due to the change in the number of consolidated companies	—	—	—	(1,959)	0	—
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	—	—	(8)	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	43,834
Total change for fiscal 2017	—	—	(7)	126,809	(98)	43,834
Balance at March 31, 2018	950,321	¥419,524	¥386,865	¥2,076,769	¥(132,162)	¥313,116

	<Millions of yen>					
	Deferred hedge 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, 2016	¥(10,883)	¥3,025	¥14,652	¥43,136	¥235,252	¥3,009,075
Cash dividends	—	—	—	—	—	(13,554)
Profit attributable to owners of parent	—	—	—	—	—	130,946
Acquisition of treasury stock	—	—	—	—	—	(44,321)
Disposal of treasury stock	—	—	—	—	—	182
Increase (decrease) due to the change in the number of consolidated companies	—	—	—	—	—	(5,385)
Increase (decrease) due to reversal of unrealized gains on revaluation of land	—	—	—	—	—	34
Change in shares of parent arising from transactions with non-controlling interests	—	—	—	—	—	3,879
Net changes of items other than shareholders' equity	8,513	(23)	(23,991)	20,226	107,530	210,158
Total change for fiscal 2016	8,513	(23)	(23,991)	20,226	107,530	281,940
Balance at March 31, 2017	¥(2,370)	¥3,002	¥(9,339)	¥63,363	¥342,782	¥3,291,015
Cash dividends	—	—	—	—	—	(66,293)
Profit attributable to owners of parent	—	—	—	—	—	195,061
Acquisition of treasury stock	—	—	—	—	—	(102)
Disposal of treasury stock	—	—	—	—	—	4
Increase (decrease) due to the change in the number of consolidated companies	—	—	—	—	—	(1,958)
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	—	—	—	—	—	(8)
Net changes of items other than shareholders' equity	262	(0)	4,440	21,978	27,267	97,783
Total change for fiscal 2017	262	(0)	4,440	21,978	27,267	224,486
Balance at March 31, 2018	¥(2,107)	¥3,001	¥(4,898)	¥85,341	¥370,050	¥3,515,501

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, 2018 and 2017

<Millions of yen>

	2018	2017
Cash flows from operating activities:		
Profit before income taxes	¥ 289,860	¥ 181,692
Adjustments to reconcile profit (loss) to net cash provided by operating activities:		
Depreciation and amortization	340,719	304,751
Impairment loss	15,602	—
Amortization of goodwill	4,774	4,015
Interest and dividend income	(22,754)	(20,577)
Interest expenses	20,106	18,006
Equity in profit of unconsolidated subsidiaries and affiliates	(122,675)	(79,180)
Loss on disposal of tangible fixed assets and intangible assets	4,540	8,694
Loss (gain) on sales of tangible and intangible assets	(9,023)	(7,192)
Loss (gain) on sales of investments in securities	(25,685)	(8,535)
Loss (gain) on sales of shares of subsidiaries and affiliates	(2,635)	(24,172)
Loss (gain) on step acquisitions	—	(10,027)
Restructuring loss	6,158	6,407
Changes in allowance for doubtful accounts	(260)	1,439
Changes in notes and accounts receivable	(50,156)	(29,227)
Changes in inventories	(162,841)	26,500
Changes in notes and accounts payable	49,296	27,363
Other	157,865	109,945
Subtotal	492,892	509,900
Interest and dividend income received	50,566	34,568
Interest expenses paid	(21,175)	(18,428)
Income taxes	(63,438)	(41,751)
Net cash provided by operating activities	458,846	484,288
Cash flows from investing activities:		
Acquisition of tangible and intangible assets	(403,064)	(321,879)
Proceeds from sales of tangible and intangible assets	13,430	15,004
Acquisition of investments in securities	(3,169)	(48,715)
Proceeds from sales of investments in securities	39,936	42,520
Acquisition of shares of subsidiaries and affiliates	(4,939)	(14,413)
Proceeds from sales of shares of subsidiaries and affiliates	9,522	30,820
Purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 14)	289	(52,892)
Payment for loans	(6,537)	(9,511)
Proceeds from collections of loans	2,875	3,504
Other	(1,762)	11,826
Net cash used in investing activities	(353,419)	(343,738)
Cash flows from financing activities:		
Net increase (decrease) in short-term loans payable	1,271	(49,857)
Net increase (decrease) in commercial paper	56,000	13,000
Proceeds from long-term loans payable	246,411	179,443
Payments of long-term loans payable	(243,628)	(271,826)
Proceeds from issuance of bonds and notes	40,000	20,000
Redemption of bonds and notes	(140,000)	(50,000)
Payments for purchase of treasury stock	(96)	(44,315)
Cash dividends	(66,293)	(13,554)
Cash dividends to non-controlling shareholders	(6,565)	(4,720)
Proceeds from issuance of common stock to non-controlling shareholders	—	2,696
Other	23,709	84,080
Net cash used in financing activities	(89,190)	(135,054)
Effect of exchange rate changes on cash and cash equivalents	196	(655)
Net increase (decrease) in cash and cash equivalents	16,433	4,839
Cash and cash equivalents at beginning of year	91,391	85,203
Increase (decrease) from the change in the number of consolidated companies	3,953	1,348
Cash and cash equivalents at end of year (Note 14)	¥ 111,779	¥ 91,391

The accompanying notes are integral parts of these statements.

Notes to Consolidated Financial Statements

Nippon Steel & Sumitomo Metal Corporation and Consolidated Subsidiaries

1. 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.

2. NOTES TO THE PRESUMPTION OF GOING CONCERN

None

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Scope of consolidation

Number of consolidated subsidiaries: 377 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 104-105 of this report.

In fiscal 2017, the year ended March 31, 2018, the scope of consolidation expanded by 25 companies, including 23 added owing to the acquisition of Nisshin Steel Co., Ltd., on March 13, 2017 and 2 newly acquired. 14 companies —7 liquidations and 5 divestments, etc.—were eliminated from the scope of consolidation in fiscal 2017.

Non-adoption of the consolidation accounting treatment for the unconsolidated subsidiaries (7 companies) has no 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: 114 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 104-105 of this report.

During fiscal 2017, 3 companies were added as equity-method affiliates and 2 companies were removed as equity-method affiliates.

Non-adoption of the equity method for the unconsolidated subsidiaries (7 companies) and affiliates (71 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.

In fiscal 2017, NS-Siam United Steel Co., Ltd. changed its fiscal

year-end to March 31. Due to the change, fiscal 2017 is 15 months for NS-Siam United Steel Co., Ltd.

Consolidated subsidiaries	Date of closing accounting period
1 domestic subsidiary	January 31
2 domestic subsidiaries	December 31
145 foreign subsidiaries	December 31

Principal foreign subsidiaries using a December 31 fiscal year-end: NIPPON STEEL AND SUMIKIN TUBOS DO BRASIL LTDA.

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.

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. Furthermore, depreciation of facilities attached to buildings and structures acquired on and after April 1, 2016 is 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 revenues 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.

Unapplied accounting standards (Year ended March 31, 2018)

On February 16, 2018, the Accounting Standards Board of Japan [ASBJ] issued ASBJ Guidance No.28,

"Implementation Guidance on Tax Effect Accounting."

On February 16, 2018, the ASBJ issued ASBJ Guidance No.26, "Implementation Guidance on Recoverability of Deferred Tax Assets."

(1) Summary

Treatment of the taxable temporary differences of shares of subsidiaries for non-consolidated financial statements was reviewed and treatment of the recoverability of deferred tax assets for companies classified into Category 1 was clarified.

(2) Scheduled application date

The NSSMC Group plans to apply the above implementation guidances from April 1, 2018.

(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.

On March 30, 2018, the ASBJ issued ASBJ Standard No.29, "Accounting Standard for Revenue Recognition."

On March 30, 2018, the ASBJ issued ASBJ Guidance No.30, "Implementation Guidance on Accounting Standard for Revenue Recognition."

(1) Summary

It is a comprehensive accounting standard for revenue recognition, and revenue is recognized applying following 5 steps.

Step 1 : Identify the contract(s) with a customer

Step 2 : Identify the performance obligations in the contract

Step 3 : Determine the transaction price

Step 4 : Allocate the transaction price to the performance obligations in the contract

Step 5 : Recognize revenue when (or as) the entity satisfies a performance obligation

(2) Scheduled application date

NSSMC plans to apply the above accounting standard and implementation guidance from April 1, 2021.

(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 in presentation (Year ended March 31, 2018)

(Consolidated Statements of Operations)

As the "Exchange loss on foreign currency transactions" represented no more than 10% of the total amount of non-operating loss, it has been included in "Other" with effect from the year ended March 31, 2018. The exchange loss of ¥9,987 million on foreign currency transactions was presented separately in non-operating loss for the year ended March 31, 2017. Previous fiscal year figures in the consolidated statements of operations have been reclassified to reflect the change to the presentation method.

(Consolidated Statements of Cash Flows)

Due to the reduced material significance of the category "Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation" (¥13,019 million in fiscal 2016) in "Cash flows from investing activities," its category is included in "Other" beginning with fiscal 2017. Previous fiscal year figures in the consolidated statements of cash flows have been reclassified to reflect the change to the presentation method.

4. 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.

5. INVENTORIES

Items relevant to inventories are as follows:

	<Millions of yen>	
	2018	2017
Finished and half-finished products	¥ 684,509	¥ 582,692
Work in process	69,461	69,704
Raw materials and supplies	626,031	563,252

6. UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Items relevant to unconsolidated subsidiaries and affiliates are as follows:

	<Millions of yen>	
	2018	2017
Shares of subsidiaries and affiliates	¥ 1,069,688	¥ 1,041,397

7. CONTINGENT LIABILITIES AND NOTES AND BILLS DISCOUNTED ENDORSED

(1) Guarantee liabilities

(Year ended March 31, 2018)

Outstanding amounts Substantial amounts
<Millions of yen>

Contingent liabilities for:			
Guarantee of loans			
AM/NS Calvert LLC	¥	43,292	¥ 43,292
WISCO-NIPPON STEEL Tinplate Co., Ltd.		19,430	19,430
Jamshedpur Continuous Annealing & Processing Company Private Limited		8,428	4,130*
Japan-Brazil Niobium Corporation		7,370	7,370
TENIGAL, S. de R.L. de C.V.		6,507	6,507
Other		1,463	1,260*
Total	¥	86,492	¥ 81,991

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

Outstanding amounts Substantial amounts
<Millions of yen>

Contingent liabilities for:			
Reserved guarantee of loans	¥	880	¥ 720

(Year ended March 31, 2017)

Outstanding amounts Substantial amounts
<Millions of yen>

Contingent liabilities for:			
Guarantee of loans			
AM/NS Calvert LLC	¥	52,109	¥ 52,109
WISCO-NIPPON STEEL Tinplate Co., Ltd.		11,209	11,209
Jamshedpur Continuous Annealing & Processing Company Private Limited		10,680	5,233*
Japan-Brazil Niobium Corporation		8,512	8,512
TENIGAL, S. de R.L. de C.V.		7,558	7,558
Bahru Stainless Sdn. Bhd.		1,251	1,251
UNIGAL Ltda.		1,009	1,009
Other		2,148	1,908*
Total	¥	94,480	¥ 88,793

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

Outstanding amounts Substantial amounts
<Millions of yen>

Contingent liabilities for:			
Reserved guarantee of loans		866	¥ 675
Maximum repurchase obligation amount associated with the liquidation of receivables		796	796

(2) Notes and bills endorsed

<Millions of yen> <Millions of yen>
2018 2017

Notes and bills endorsed	¥	1	¥ 0
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Note: These bills have a recourse clause which is in fact the contingent liability.

8. 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, 2018)

(Revaluation done on March 31, 2002)

The excess of the carrying amounts of the revalued land over its fair value on March 31, 2018 was ¥1,395 million.

(Revaluation done on March 31, 2001)

The excess of the carrying amounts of the revalued land over its fair value on March 31, 2018 was ¥337 million.

(Revaluation done on March 31, 2000)

The excess of the carrying amounts of the revalued land over its fair value on March 31, 2018 was ¥1,922 million.

(Year ended March 31, 2017)

(Revaluation done on March 31, 2002)

The excess of the carrying amounts of the revalued land over its fair value on March 31, 2017 was ¥1,577 million.

(Revaluation done on March 31, 2001)

The excess of the carrying amounts of the revalued land over its fair value on March 31, 2017 was ¥1,576 million.

(Revaluation done on March 31, 2000)

The excess of the carrying amounts of the revalued land over its fair value on March 31, 2017 was ¥1,924 million.

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The main components of selling, general and administrative expenses for the years ended March 31, 2018 and 2017 are as follows:

	<Millions of yen>	
	2018	2017
Transportation and storage	¥ 138,545	¥ 109,887
Salaries	132,637	117,248
Retirement benefit expenses	5,564	6,214
Research and development expenses	60,026	53,966
Depreciation and amortization	9,803	6,965
Amortization of goodwill	6,776	6,459

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income for the years ended March 31, 2018 and 2017 are ¥73,083 million and ¥69,110 million, respectively.

11. EXPLANATORY NOTES ON EXTRAORDINARY PROFIT AND LOSS

(Year ended March 31, 2018)

Extraordinary loss

(1) Impairment loss

In the steelmaking and steel fabrication segment, the Company recognized impairment losses associated with property put into business of a subsidiary operating steel pipe business in the U.S. and certain subsidiaries due to the declining profitability in the unfavorable business environment. In the chemicals segment, the Company recognized impairment losses associated with property put into business of a subsidiary operating coal chemical business in China. In the system solutions segment, the Company recognized impairment losses associated with property of certain data center.

The grouping method, in principle, is to use each steelworks as a group while also recognizing individual units that generate independent cash flow. The recoverable amounts for rental properties are measured at the net selling price which is determined mainly based on the real estate appraisal. The recoverable amounts for business-use properties are measured at the value in use which is the present value of future cash flows calculated by using a discount rate of mainly 8.0%.

The amount of impairment losses consisted of ¥5,955 million for buildings and structures, ¥8,344 million for machinery, equipment and vehicles, ¥564 million for tools, furniture and fixtures, ¥536 million for land, and ¥201 million for software.

(2) Loss on inactive facilities

Loss on inactive facilities was recorded mainly due to retirement and disassembly of manufacturing facilities based on decision to phase out major production equipment.

(3) Restructuring loss

Restructuring loss was recorded due to restructuring of Steel Wheel Business of Ring Techs Co., Ltd., for steelmaking and steel fabrication segment.

(Year ended March 31, 2017)

Extraordinary loss

(1) Loss on inactive facilities

Loss on inactive facilities was recorded mainly due to retirement and disassembly of manufacturing facilities based on decision to phase out major production equipment.

(2) Loss on disaster

Loss on disaster was recorded owing to the Oita Works' Fire Accident in its Plate Mill, including expenses for the restoration and retirement of manufacturing facilities, etc.

(3) Restructuring loss

Restructuring loss was recorded due to restructuring of Butt-welding Fittings Business of NIPPON STEEL & SUMIKIN KIKOH COMPANY, LTD., for steelmaking and steel fabrication segment.

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, 2018 and 2017 are as follows:

	<Millions of yen>			
	2018		2017	
Unrealized gains on available-for-sale securities:				
Amount for the current term	¥	92,231	¥	114,655
Amount due to reclassification adjustments		(23,874)		(16,718)
Amount before adjustments in deferred tax accounting		68,356		97,936
Amount due to deferred tax accounting		(23,511)		(29,755)
Unrealized gains on available-for-sale securities		44,845		68,181
Deferred hedge income (loss):				
Amount for the current term	¥	1,053	¥	1,870
Amount due to reclassification adjustments		(2,225)		7,621
Amount before adjustments in deferred tax accounting		(1,171)		9,492
Amount due to deferred tax accounting		435		(2,976)
Deferred hedge income (loss)		(736)		6,515
Foreign currency translation adjustments:				
Amount for the current term	¥	12,032	¥	(28,565)
Amount due to reclassification adjustments		(1,095)		(2,125)
Amount before adjustments in deferred tax accounting		10,937		(30,691)
Amount due to deferred tax accounting		—		—
Foreign currency translation adjustments		10,937		(30,691)
Remeasurements of defined benefit plans:				
Amount for the current term	¥	34,285	¥	28,602
Amount due to reclassification adjustments		(2,043)		(58)
Amount before adjustments in deferred tax accounting		32,242		28,544
Amount due to deferred tax accounting		(8,462)		(8,195)
Remeasurements of defined benefit plans		23,779		20,348
Share of other comprehensive income of affiliates accounted for using equity method:				
Amount for the current term	¥	(216)	¥	11,817
Amount due to reclassification adjustments		(71)		(4,714)
Share of other comprehensive income of affiliates accounted for using equity method		(288)		7,103
Total other comprehensive income	¥	78,537	¥	71,458

13. CHANGES IN NET ASSETS AND SHAREHOLDERS' EQUITY

Notes on the consolidated statements of changes in net assets for the years ended March 31, 2018 and 2017 are as follows:

(Year ended March 31, 2018)

(1) Information on issued shares

Type of stock	March 31, 2017	Increase	Decrease	March 31, 2018
Common stock (Thousands)	950,321	—	—	950,321

(2) Information on treasury stock

Type of stock	March 31, 2017	Increase	Decrease	March 31, 2018
Common stock (Thousands)	67,674	38	1	67,710

(Reason for increase or decrease of treasury stock)

Increase (Thousands)

1. Odd-lot stock purchases	36
2. Purchased by affiliates	2

Decrease (Thousands)

1. Odd-lot stock sold	1
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(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 27, 2017	Common stock	¥ 39,776	¥ 45	March 31, 2017	June 28, 2017
At the Meeting of the Board of Directors held on October 27, 2017	Common stock	26,517	30	September 30, 2017	November 30, 2017

Dividends of which record date belong to the year ended March 31, 2018, and the effective date belong to the year ending March 31, 2019 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 26, 2018	Common stock	Retained earnings	¥ 35,355	¥ 40	March 31, 2018	June 27, 2018

(Year ended March 31, 2017)

(1) Information on issued shares

Type of stock	March 31, 2016	Increase	Decrease	March 31, 2017
Common stock (Thousands)	950,321	—	—	950,321

(2) Information on treasury stock

Type of stock	March 31, 2016	Increase	Decrease	March 31, 2017
Common stock (Thousands)	48,055	19,689	70	67,674

(Reason for increase or decrease of treasury stock)

Increase (Thousands)

1. Treasury stock purchases	19,658
2. Odd-lot stock purchases	31

Decrease (Thousands)

1. Sold by affiliates	69
2. Odd-lot stock sold	1

(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, 2016	Common stock	¥ 13,554	¥ 15	March 31, 2016	June 27, 2016

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 27, 2017	Common stock	Retained earnings	¥ 39,776	¥ 45	March 31, 2017	June 28, 2017

14. NOTES ON CONSOLIDATED STATEMENTS OF CASH FLOWS

(1) Cash and cash equivalents

<Millions of yen>

	2018	2017
Cash and bank deposits	¥ 108,782	¥ 88,111
Less: Time deposits with original maturity over 3 months	(1,169)	(854)
Securities due within 3 months	4,166	4,135
Cash and cash equivalents	¥ 111,779	¥ 91,391

(2) Principal assets and liabilities of a company that became a consolidated subsidiary due to acquisition of stock

(Year ended March 31, 2017)

Assets and liabilities at the time Nisshin Steel Co., Ltd. became a consolidated subsidiary as a result of the acquisition of stock as well as the relationship between the acquisition price paid for the stock and expenditure (net) for the acquisition are presented below.

<Millions of yen>

Current assets	¥ 250,595
Fixed assets	419,026
Goodwill	1,696
Current liabilities	(224,318)
Long-term liabilities	(256,754)
Non-controlling interests in consolidated subsidiaries	(99,492)
Acquisition price paid for the stock	90,753
Gain on step acquisitions	(10,027)
Carrying amount of shares held before acquisition	(4,753)
Cash and cash equivalents held by Nisshin Steel Co., Ltd.	(23,079)
Expenditure for the acquisition	¥ 52,892

15. LEASE COMMITMENTS

(1) Finance leases

(Years ended March 31, 2018 and 2017)

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 engineering and construction business

Accounting for the depreciation and amortization of leased assets

Included in Note 3, "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 3, "Summary of Significant Accounting Policies"

(2) Operating leases (non-cancelable)

The amount of outstanding future lease payments due at March 31, 2018 and 2017 are summarized as follows:

	<Millions of yen>			
	2018		2017	
Future lease payments:				
Within one year	¥	9,964	¥	4,749
Over one year		38,263		8,560
	¥	48,227	¥	13,310

The amount of outstanding future lease income due at March 31, 2018 and 2017 are summarized as follows:

	<Millions of yen>			
	2018		2017	
Future lease income:				
Within one year	¥	1,906	¥	1,010
Over one year		14,203		8,321
	¥	16,110	¥	9,331

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 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.

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, 2018)

<Millions of yen>				
	Book value*		Fair value*	
				Differences
(1) Cash and bank deposits	¥	108,782	¥	108,782
(2) Notes and accounts receivable		678,579		678,579
(3) Marketable and investment securities:				
Held-to-maturity debt securities		12,766		12,772
Available-for-sale securities		840,578		840,578
(4) Notes and accounts payable		(775,126)		(775,126)
(5) Short-term loans payable		(300,632)		(300,632)
(6) Commercial paper		(76,000)		(76,000)
(7) Bonds due within one year		(85,700)		(85,700)
(8) Accounts payable-other		(449,913)		(449,913)
(9) Bonds and notes		(209,996)		(215,686)
(10) Long-term loans payable		(1,380,660)		(1,403,870)
(11) Derivative transactions		1,036		1,036

*Figures shown in parentheses are liability items. The fair value of assets and liabilities stemming from derivative transactions are shown in net figures, and figures for items with total net fair values that are liabilities are shown in parentheses.

(Year ended March 31, 2017)

<Millions of yen>				
	Book value*		Fair value*	
				Differences
(1) Cash and bank deposits	¥	88,111	¥	88,111
(2) Notes and accounts receivable		624,089		624,089
(3) Marketable and investment securities:				
Held-to-maturity debt securities		9,125		9,117
Available-for-sale securities		780,564		780,564
(4) Notes and accounts payable		(728,300)		(728,300)
(5) Short-term loans payable		(316,115)		(316,115)
(6) Commercial paper		(20,000)		(20,000)
(7) Bonds due within one year		(140,000)		(140,000)
(8) Accounts payable-other		(383,125)		(383,125)
(9) Bonds and notes		(255,690)		(264,114)
(10) Long-term loans payable		(1,360,025)		(1,385,961)
(11) Derivative transactions		2,938		2,938

*Figures shown in parentheses are liability items. The fair value of assets and liabilities stemming from derivative transactions are shown in net figures, and figures for items with total net fair values that are liabilities are shown in parentheses.

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) Commercial paper, (7) Bonds due within one year, and (8) 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.

(9) Bonds and notes and (10) 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 2: Items for which obtaining fair value is deemed to be extremely difficult**(Year ended March 31, 2018)**

Item	<Millions of yen>	
	Book value	
Unlisted stocks	¥	25,321

(Year ended March 31, 2017)

Item	<Millions of yen>	
	Book value	
Unlisted stocks	¥	31,354

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.”

Notice 3: Scheduled redemption amounts, subsequent to the balance sheet date, for monetary assets and securities with maturity dates**(Year ended March 31, 2018)**

	<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	¥ 108,782	¥ —	¥ —	¥ —
Notes and accounts receivable	678,579	—	—	—
Marketable and investment securities				
Held-to-maturity debt securities				
Government bonds/municipal bonds	—	—	—	—
Corporate bonds	2,873	5,500	—	—
Negotiable certificates of deposit	4,392	—	—	—
Available-for-sale securities with maturity dates	—	13	174	—
Total	¥ 794,628	¥ 5,513	¥ 174	¥ —

(Year ended March 31, 2017)

	<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	¥ 88,111	¥ —	¥ —	¥ —
Notes and accounts receivable	624,089	—	—	—
Marketable and investment securities				
Held-to-maturity debt securities				
Government bonds/municipal bonds	489	—	—	—
Corporate bonds	—	4,500	—	—
Negotiable certificates of deposit	4,135	—	—	—
Available-for-sale securities with maturity dates	53	—	152	—
Total	¥ 716,879	¥ 4,500	¥ 152	¥ —

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, 2018)

<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	¥ 122,404	¥ —	¥ —	¥ —	¥ —	¥ —
Commercial paper	76,000	—	—	—	—	—
Bonds	85,700	60,000	45,000	15,000	20,000	70,000
Long-term loans payable	178,228	110,346	119,987	139,335	199,449	811,539
Lease obligations	3,016	2,809	2,508	1,284	1,083	5,304
Total	¥ 465,348	¥ 173,155	¥ 167,496	¥ 155,619	¥ 220,533	¥ 886,844

(Year ended March 31, 2017)

<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	¥ 119,241	¥ —	¥ —	¥ —	¥ —	¥ —
Commercial paper	20,000	—	—	—	—	—
Bonds	140,000	85,700	60,000	45,000	15,000	50,000
Long-term loans payable	196,874	179,008	106,780	111,957	120,503	841,775
Lease obligations	3,769	1,504	1,137	856	623	4,322
Total	¥ 479,884	¥ 266,213	¥ 167,917	¥ 157,813	¥ 136,127	¥ 896,097

17. SECURITIES

(Year ended March 31, 2018)

Information regarding marketable and investment securities at March 31, 2018 is as follows:

(1) Held-to-maturity debt securities

<Millions of yen>

	2018		
	Book value	Fair value	Differences
Held-to-maturity debt securities whose fair value is in excess of the book value on the balance sheet:			
Government bonds /municipal bonds	¥ —	¥ —	¥ —
Corporate bonds	5,373	5,379	6
Negotiable certificates of deposit	1,921	1,926	5
Subtotal	¥ 7,294	¥ 7,306	¥ 11
Held-to-maturity debt securities whose fair value is less than the book value on the balance sheet:			
Corporate bonds	¥ 3,000	¥ 2,994	¥ (5)
Negotiable certificates of deposit	2,471	2,471	—
Subtotal	¥ 5,471	¥ 5,465	¥ (5)
Total	¥ 12,766	¥ 12,772	¥ 5

(2) Available-for-sale securities

<Millions of yen>

	2018		
	Book value	Acquisition cost	Differences
Available-for-sale securities whose book value on the balance sheet is in excess of the related cost:			
Corporate shares	¥ 673,630	¥ 263,564	¥ 410,066
Other	96,996	52,725	44,270
Subtotal	¥ 770,627	¥ 316,290	¥ 454,336
Available-for-sale securities whose book value on the balance sheet is less than the related cost:			
Corporate shares	¥ 69,927	¥ 84,691	¥ (14,763)
Bonds	23	23	(0)
Subtotal	¥ 69,951	¥ 84,714	¥ (14,763)
Total	¥ 840,578	¥ 401,004	¥ 439,573

(3) Available-for-sale securities sold in the year ended March 31, 2018

<Millions of yen>

	2018		
	Amount of sales	Gain on sales	Loss on sales
Corporate shares	¥ 39,638	¥ 25,832	¥ 119
Bonds	248	—	—
Other	13	—	27
Total	¥ 39,900	¥ 25,832	¥ 147

(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 ¥3,519 million at March 31, 2018.

(Year ended March 31, 2017)

Information regarding marketable and investment securities at March 31, 2017 is as follows:

(1) Held-to-maturity debt securities

<Millions of yen>

	2017		
	Book value	Fair value	Differences
Held-to-maturity debt securities whose fair value is in excess of the book value on the balance sheet:			
Government bonds /municipal bonds	¥ 489	¥ 492	¥ 2
Corporate bonds	2,500	2,504	4
Negotiable certificates of deposit	—	—	—
Subtotal	¥ 2,989	¥ 2,996	¥ 7
Held-to-maturity debt securities whose fair value is less than the book value on the balance sheet:			
Corporate bonds	¥ 2,000	¥ 1,985	¥ (14)
Negotiable certificates of deposit	4,135	4,135	—
Subtotal	¥ 6,135	¥ 6,121	¥ (14)
Total	¥ 9,125	¥ 9,117	¥ (7)

(2) Available-for-sale securities

<Millions of yen>

	2017		
	Book value	Acquisition cost	Differences
Available-for-sale securities whose book value on the balance sheet is in excess of the related cost:			
Corporate shares	¥ 623,173	¥ 277,967	¥ 345,206
Other	83,787	52,725	31,061
Subtotal	¥ 706,961	¥ 330,693	¥ 376,267
Available-for-sale securities whose book value on the balance sheet is less than the related cost:			
Corporate shares	¥ 73,587	¥ 78,876	¥ (5,289)
Bonds	16	16	—
Subtotal	¥ 73,603	¥ 78,893	¥ (5,289)
Total	¥ 780,564	¥ 409,586	¥ 370,978

(3) Available-for-sale securities sold in the year ended March 31, 2017

<Millions of yen>

	2017		
	Amount of sales	Gain on sales	Loss on sales
Corporate shares	¥ 9,024	¥ 4,558	¥ 160
Bonds	9	0	—
Other	31,458	4,136	—
Total	¥ 40,492	¥ 8,695	¥ 160

(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 ¥3,400 million at March 31, 2017.

18. INFORMATION ON DERIVATIVES

(Year ended March 31, 2018)

(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				
Non-market transactions	Interest rate swaps Paying fixed receiving floating	¥ 146	¥ 23	¥ 2	2	Based on prices provided by third parties
Non-market transactions	Foreign exchange forward contracts Buying Australian dollars	28,881	—	(314)	(314)	Based on foreign exchange forward quotes
Non-market transactions	Foreign exchange forward contracts Buying U.S. dollars	1,794	—	(51)	(51)	Based on foreign exchange forward quotes
Non-market transactions	Foreign exchange forward contracts Buying Other	133	—	1	1	Based on foreign exchange forward quotes
Non-market transactions	Foreign exchange forward contracts Selling U.S. dollars	718	—	(14)	(14)	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 ringgits Receiving U.S. dollars	695	—	(11)	(11)	Based on prices provided by third parties
Non-market transactions	Currency swaps Paying Indian rupees Receiving U.S. dollars	1,292	869	118	118	Based on prices provided by third parties
Total		¥ 33,668	¥ 893	¥ (270)	¥ (270)	

(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.		Method for computing fair value
			Over one year	Fair value	
Deferred hedging accounting method	Interest rate swaps Paying fixed receiving floating	Long-term loans payable	¥ 72,120	¥ 71,622	¥ 521
Deferred hedging accounting method	Foreign exchange forward contracts Buying U.S. dollars	Accounts payable, Accounts payable-other and Forecast transactions	164,272	433	399
	Other		49,433	206	107
Deferred hedging accounting method	Foreign exchange forward contracts Selling U.S. dollars	Accounts receivable and Forecast transactions	21,494	1,138	305
	Other		10,486	7,335	(80)
Deferred hedging accounting method	Commodity swaps Paying fixed receiving floating	Electricity	321	217	52
Exceptional method of interest rate swaps	Interest rate swaps Paying fixed receiving floating	Long-term loans payable	204,019	187,118	*
Assigning method of currency swaps	Currency swaps Paying Yen receiving U.S. dollars	Long-term loans payable	83,244	67,353	*
Assigning method of foreign exchange forward contracts	Foreign exchange forward contracts Buying U.S. dollars	Accounts payable	265	4	*
	Other		297	6	*
Assigning method of foreign exchange forward contracts	Foreign exchange forward contracts Selling U.S. dollars	Accounts receivable	417	—	*
Total			¥ 606,374	¥ 335,436	¥ 1,306

* 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, 2017)

(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				
Non-market transactions	Foreign exchange forward contracts Buying Australian dollars	¥ 48,142	¥ —	¥ 210	¥ 210	Based on foreign exchange forward quotes
Non-market transactions	Foreign exchange forward contracts Buying U.S. dollars	1,369	—	65	65	Based on foreign exchange forward quotes
Non-market transactions	Foreign exchange forward contracts Buying Other	102	0	(1)	(1)	Based on foreign exchange forward quotes
Non-market transactions	Foreign exchange forward contracts Selling U.S. dollars	726	—	(8)	(8)	Based on foreign exchange forward quotes
Non-market transactions	Foreign exchange forward contracts Selling Other	0	0	(0)	(0)	Based on foreign exchange forward quotes
Non-market transactions	Currency swaps Paying Malaysian ringgits Receiving U.S. dollars	703	—	3	3	Based on prices provided by third parties
Non-market transactions	Currency swaps Paying Indian rupees Receiving U.S. dollars	1,556	895	190	190	Based on prices provided by third parties
Total		¥ 52,600	¥ 896	¥ 459	¥ 459	

(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			
Deferred hedging accounting method	Interest rate swaps Paying fixed receiving floating	Long-term loans payable	¥ 61,017	¥ 61,017	¥ 600	Based on prices provided by third parties
Deferred hedging accounting method	Interest rate swaps Paying floating receiving fixed	Bonds	25,000	—	269	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	147,104 8,488	530 1,560	2,040 (400)	Based on foreign exchange forward quotes
Deferred hedging accounting method	Foreign exchange forward contracts Selling U.S. dollars Other	Accounts receivable	15,490 2,872	33 —	(43) (24)	Based on foreign exchange forward quotes
Deferred hedging accounting method	Commodity swaps Commodity pay fixed receive floating	Electricity	294	186	37	Based on prices provided by third parties
Exceptional method of interest rate swaps	Interest rate swaps Paying fixed receiving floating	Long-term loans payable	225,639	215,191	*	
Exceptional method of interest rate swaps	Interest rate swaps Paying floating receiving fixed	Long-term loans payable	5,000	—	*	
Assigning method of currency swaps	Currency swaps Paying Yen receiving U.S. dollars	Long-term loans payable	96,881	83,244	*	
Assigning method of foreign exchange forward contracts	Foreign exchange forward contracts Buying U.S. dollars Other	Accounts payable	95 55	7 —	*	
Assigning method of foreign exchange forward contracts	Foreign exchange forward contracts Selling U.S. dollars	Accounts receivable	104	—	*	
Total			¥ 588,044	¥ 361,770	¥ 2,478	

* 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.

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>	
		2018	2017
Balance at beginning of year	¥	606,792	¥ 543,424
Service costs		30,294	25,566
Interest costs		3,635	3,539
Actuarial differences		(4,732)	(315)
Benefits paid		(52,786)	(58,790)
Prior service costs		(5,463)	88
Change in scope of consolidation		—	92,632
Other		(5,368)	647
Balance at end of year	¥	572,371	¥ 606,792

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

		<Millions of yen>	
		2018	2017
Balance at beginning of year	¥	524,922	¥ 485,596
Expected return on plan assets		8,113	7,143
Actuarial differences		24,090	28,375
Contributions by the employer		12,707	14,619
Benefits paid		(33,634)	(36,311)
Change in scope of consolidation		—	66,799
Other		(408)	(41,300)
Balance at end of year	¥	535,789	¥ 524,922

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

		<Millions of yen>	
		2018	2017
Balance at beginning of year	¥	13,197	¥ 12,300
Net pension expense		2,101	2,481
Benefits paid		(1,767)	(1,318)
Contributions to the plan		(688)	(882)
Other		155	616
Balance at end of year	¥	12,997	¥ 13,197

(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>	
		2018	2017
Funded defined benefit obligations	¥	457,569	¥ 479,047
Plan assets		(545,173)	(536,017)
		(87,603)	(56,970)
Unfunded defined benefit obligations		137,183	152,038
Net liabilities (assets) arising from defined benefit obligations	¥	49,579	¥ 95,067
Net defined benefit liabilities	¥	166,152	¥ 188,016
Net defined benefit assets		(116,573)	(92,948)
Net liabilities (assets) arising from defined benefit obligations	¥	49,579	¥ 95,067

Note: Includes plans using the simplified method

(e) Net pension expense

		<Millions of yen>	
		2018	2017
Service costs	¥	30,294	¥ 25,566
Interest costs		3,635	3,539
Expected return on plan assets		(8,113)	(7,143)
Amortization of actuarial differences		(557)	606
Amortization of prior service costs		(1,486)	(696)
Net pension expense for the simplified method		2,101	2,481
Other		7,198	4,134
Total	¥	33,072	¥ 28,487

(f) Remeasurements of defined benefit plans

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

		<Millions of yen>	
		2018	2017
Prior service costs	¥	(3,976)	¥ 784
Actuarial differences		(28,265)	(29,328)
Total	¥	(32,242)	¥ (28,544)

(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>	
		2018	2017
Unrecognized prior service costs	¥	(13,434)	¥ (9,457)
Unrecognized actuarial differences		(121,425)	(93,160)
Total	¥	(134,860)	¥ (102,618)

(h) Plan assets

1) Categories of plan assets

The major categories of plan assets are as follows:

	2018	2017
Debt securities	33%	35 %
Equity securities	45	44
Cash and bank deposits	6	9
Other	16	12
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 30% of the total for the year ended March 31, 2018 and 27% for the year ended March 31, 2017.

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:

	2018	2017
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 ¥4,968 million for the year ended March 31, 2018 and ¥4,864 million for the year ended March 31, 2017.

20. DEFERRED TAX ACCOUNTING

(1) Components of deferred tax assets and liabilities at March 31, 2018 and 2017

<Millions of yen>

	2018	2017
Deferred tax assets:		
Reserve for accrued bonuses	¥ 26,195	¥ 25,273
Net defined benefit liabilities	22,848	38,270
Loss on revaluation of inventories	13,468	11,848
Impairment loss	59,865	63,129
Depreciation in excess of limit	35,009	35,698
Tax losses carried forward	116,552	122,841
Unrealized gains on tangible fixed assets	50,530	52,058
Other	85,896	85,927
Subtotal	410,365	435,049
Valuation allowance	(203,670)	(224,263)
Total	206,695	210,786
Deferred tax liabilities:		
Special tax purpose reserve	(76,884)	(76,897)
Unrealized gains on available-for-sale securities	(132,514)	(110,105)
Net unrealized gains on assets and liabilities of consolidated subsidiaries	(7,868)	(8,112)
Total	(217,267)	(195,116)
Net deferred tax assets	¥ (10,571)	¥ 15,669

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

Years ended March 31	2018	2017
Statutory tax rate	30.9%	30.9%
Permanent non-deductible expenses	0.8	1.1
Permanent non-taxable income	(0.6)	(1.0)
Effect of foreign tax rate differences	(2.0)	(1.5)
Valuation allowance	(3.8)	(9.0)
Other	(1.6)	(0.9)
Actual tax rate	23.7%	19.6%

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

(Year ended March 31, 2018)

The Tax Cut and Jobs Act was enacted on December 22, 2017 and the federal corporate income tax rate applicable to the Company's subsidiaries in the U.S. was reduced from 35% to 21%. As a result of the reduction, the amount of deferred tax liabilities after

deducting the amount of deferred tax assets decreased by ¥5,883 million yen and income taxes-deferred decreased by ¥6,253 million yen for the year ended March 31, 2018.

21. INFORMATION CONCERNING THE BUSINESS COMBINATION

(Year ended March 31, 2017)

(1) Outline of the Business Combination

(a) Name and Business of the Acquired Company

Acquired company name	Nisshin Steel Co., Ltd.
Business of the acquired company	Steelmaking and steel fabrication

(b) Objectives of the Business Combination

NSSMC and Nisshin Steel Co., Ltd. aim to bring together the respective management resources that they have fostered to date and create synergies, and thereby enhance competitiveness, and to strengthen the position of the NSSMC Group as the “Best Steelmaker with World-Leading Capabilities” with the addition of Nisshin Steel Co., Ltd., and to thereby enhance sustainable growth and corporate value in the mid-to long-term and contribute to the creation and development of a more prosperous society.

(c) Date of the Business Combination

March 13, 2017

(d) Legal Method of the Business Combination

Share acquisition with cash as consideration.

(e) Name of the Company after the Business Combination

No changes are made to the name of the company after the business combination.

(f) Acquired Ratio of Voting

Ratio of voting rights owned before the business combination: 8%

Ratio of voting rights additionally acquired on the date of the business combination: 43%

Ratio of voting rights after acquisition: 51%

(g) Primary Reasons for Determining the Acquiring Company

NSSMC acquired 51% of voting rights of the acquired company through share acquisition with cash as consideration.

(2) Period of the Business Performance of the Acquired Company included in the Consolidated Statement of Operations Regarding the Consolidated Fiscal Year

As the deemed acquisition date assumed to be the end of consolidated fiscal year, only the balance sheet of the acquired company was consolidated, and the consolidated statement of operations does not include the business performance of the acquired company.

(3) The Acquisition Cost of the Acquired Company and its Breakdown by the Type of Consideration

Fair value on the date of the business combination of the acquired company's shares held before the business combination	¥	14,781 million
Cash paid for additional acquisition	¥	75,972 million
Total Acquisition Cost	¥	90,753 million

(4) Difference between Acquisition Cost for Acquired Company and Total Acquisition Cost for Each Transaction Leading to Acquisition

Gain on step acquisitions: ¥10,027 million

(5) Details and Amounts of Major Acquisition-Related Expenses

Advisory fees, etc.: ¥627 million

(6) Amount, Cause and Amortization Method and Period of Goodwill Generated

(a) The amount of goodwill is ¥1,696 million.

(b) The cause is the acquisition cost exceeded the fair value of the net assets acquired on date of the business combination.

(c) The amortization method and period will be the straight-line method over a period of 5 years.

(7) Amounts of Assets Acquired and Liabilities Assumed on the Date of the Business Combination and Breakdown by Major Items

Current assets	¥	250,595 million
Fixed assets	¥	419,026 million
Total assets	¥	669,622 million
Current liabilities	¥	224,318 million
Long-term liabilities	¥	256,754 million
Total liabilities	¥	481,073 million

(8) Estimated Effect on the Consolidated Statement of Operations if the Business Combination had been completed at the Beginning of the Fiscal Year

Net sales	¥	525,563 million
Ordinary profit	¥	5,998 million
Profit before income taxes	¥	5,051 million

(Method of the estimation)

These figures are estimated based on the consolidated statement of operations of the acquired company from April 1, 2016 to March 31, 2017 and have not been audited.

22. 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
System solutions	Computer systems engineering and consulting services; IT-enabled outsourcing and other 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 3, "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, 2018)

<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	¥ 4,983,335	¥ 260,908	¥ 197,057	¥ 37,050	¥ 190,310	¥ 5,668,663	—	¥ 5,668,663
Inter-segment sales or transfers	33,910	33,360	3,709	—	53,889	124,868	(124,868)	—
Total	¥ 5,017,245	¥ 294,268	¥ 200,767	¥ 37,050	¥ 244,200	¥ 5,793,531	¥ (124,868)	¥ 5,668,663
Segment profit <Ordinary profit>	245,708	9,110	15,480	1,919	23,292	295,510	2,030	297,541
Segment assets	7,003,681	247,696	154,230	30,758	223,601	7,659,967	(67,554)	7,592,413
Segment liabilities <Interest-bearing debt>	2,057,997	8,313	4,520	6,999	3,693	2,081,524	(12,527)	2,068,996
Other items								
Depreciation and amortization	¥ 330,393	¥ 2,489	¥ 5,467	¥ 1,861	¥ 4,646	¥ 344,859	¥ (4,140)	¥ 340,719
Amortization of goodwill	3,029	1,279	—	—	465	4,774	—	4,774
Interest income	4,983	180	35	2	146	5,348	(202)	5,146
Interest expense	20,080	44	42	130	11	20,309	(202)	20,106
Equity in profit of unconsolidated subsidiaries and affiliates	116,408	378	148	—	(10)	116,925	5,750	122,675
Balance of investments in equity method companies	950,887	4,393	24,843	—	17	980,142	83,614	1,063,757
Increase (decrease) in tangible fixed assets and intangible assets	390,623	6,301	5,863	2,633	7,638	413,061	(1,130)	411,930

Notes: 1. Segment profit adjustments of ¥2,030 million includes investment return of ¥5,929 million from the equity-method affiliate Nippon Steel Kowa Real Estate Co., Ltd., and elimination of inter-segment sales or transfers of ¥(3,899) million.

2. Segment profit is adjusted with respect to ordinary profit in the consolidated statements of operations.

3. The adjustments of segment liabilities include the elimination of the Steelmaking and steel fabrication segment's borrowings from the System solutions segment.

4. Depreciation and amortization includes depreciation of long-term prepaid expenses.

5. The increased amount of tangible fixed assets and intangible assets includes the increased amount of long-term prepaid expenses.

(Year ended March 31, 2017)

<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	¥ 4,016,670	¥ 234,861	¥ 168,596	¥ 34,519	¥ 178,242	¥ 4,632,890	—	¥ 4,632,890
Inter-segment sales or transfers	35,590	32,683	5,630	—	54,270	128,175	(128,175)	—
Total	4,052,261	267,545	174,227	34,519	232,512	4,761,065	(128,175)	4,632,890
Segment profit <Ordinary profit>	¥ 138,017	¥ 6,838	¥ 4,518	¥ 1,786	¥ 22,113	¥ 173,274	¥ 1,256	¥ 174,531
Segment assets	6,716,970	248,628	146,406	30,584	200,252	7,342,843	(80,919)	7,261,923
Segment liabilities <Interest-bearing debt>	2,092,610	6,066	7,400	8,790	1,177	2,116,045	(12,000)	2,104,045
Other items								
Depreciation and amortization	¥ 294,008	¥ 2,653	¥ 6,110	¥ 2,116	¥ 4,174	¥ 309,064	¥ (4,313)	¥ 304,751
Amortization of goodwill	2,518	1,257	—	—	240	4,015	—	4,015
Interest income	5,566	124	19	16	133	5,860	(206)	5,654
Interest expense	17,831	118	98	135	28	18,212	(206)	18,006
Equity in profit of unconsolidated subsidiaries and affiliates	70,723	655	920	—	21	72,320	6,859	79,180
Balance of investments in equity method companies	931,342	4,056	19,749	—	32	955,181	76,571	1,031,752
Increase (decrease) in tangible fixed assets and intangible assets	335,733	5,637	7,005	2,224	4,343	354,943	(3,905)	351,038

Notes: 1. Segment profit adjustments of ¥1,256 million includes investment return of ¥6,524 million from the equity-method affiliate Nippon Steel Kowa Real Estate Co., Ltd., an investment return of ¥629 million from the equity-method affiliate SUMCO Corporation, and elimination of inter-segment sales or transfers of ¥(5,897) million.

2. Segment profit is adjusted with respect to ordinary profit in the consolidated statements of operations.

3. The adjustments of segment liabilities include the elimination of the Steelmaking and steel fabrication segment's borrowings from the System solutions segment.

4. Depreciation and amortization includes depreciation of long-term prepaid expenses.

5. The increased amount of tangible fixed assets and intangible assets includes the increased amount of long-term prepaid expenses.

(2) Associated information

(Year ended March 31, 2018)

(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
¥ 3,708,644	¥ 1,960,019	¥ 1,267,604	¥ 692,414	¥ 5,668,663

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	¥ 848,839	Steelmaking and steel fabrication
Sumitomo Corporation	772,942	Steelmaking and steel fabrication
Metal One Corporation	592,146	Steelmaking and steel fabrication

(Year ended March 31, 2017)

(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
¥ 2,955,981	¥ 1,676,909	¥ 1,042,224	¥ 634,684	¥ 4,632,890

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	¥ 744,325	Steelmaking and steel fabrication
Sumitomo Corporation	675,417	Steelmaking and steel fabrication

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

(Year ended March 31, 2018)

<Millions of yen>

Steelmaking and steel fabrication	Engineering and construction	Chemicals	New materials	System solutions	Adjustments	Total
¥ 9,932	¥ —	¥ 3,334	¥ —	¥ 2,570	¥ (234)	¥ 15,602

Note: In the steelmaking and steel fabrication segment, the Company recognized impairment losses associated with property put into business of a subsidiary operating steel pipe business in the U.S. and certain subsidiaries due to the declining profitability in the unfavorable business environment. In the chemicals segment, the Company recognized impairment losses associated with property put into business of a subsidiary operating coal chemical business in China. In the system solutions segment, the Company recognized impairment losses associated with property of certain data center.

(Year ended March 31, 2017)

There were no material impairment losses of 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, 2018)

<Millions of yen>

Reportable segment							
	Steelmaking and steel fabrication	Engineering and construction	Chemicals	New materials	System solutions	Adjustments	Total
Balance at fiscal year-end	¥ 19,531	¥ 8,549	¥ —	¥ —	¥ 4,320	¥ —	¥ 32,401

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, 2017)

<Millions of yen>

Reportable segment							
	Steelmaking and steel fabrication	Engineering and construction	Chemicals	New materials	System solutions	Adjustments	Total
Balance at fiscal year-end	¥ 24,849	¥ 9,017	¥ —	¥ —	¥ 4,785	¥ —	¥ 38,652

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, 2018 and 2017)

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

23. RELATED PARTY INFORMATION

(1) Related party transaction

(Year ended March 31, 2018)

Transaction with related party

Transaction of NSSMC with related party

Unconsolidated subsidiaries and affiliates

<Millions of yen>

	Transactions during the year ended March 31, 2018		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	Sells steel products	¥700,772	Notes and accounts receivable	¥16,088
(e) Business content:Markets, imports, and exports steel, textiles, foods, and other products				
(f) Equity ownership percentage:Holding 36.2% 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, 2018		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	Sells steel products	¥148,067	Notes and accounts receivable	¥22,971
(e) Business content:Markets, imports, and exports steel, textiles, foods, and other products				
(f) Equity ownership percentage:Holding 36.2% 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.

(Year ended March 31, 2017)

Transaction with related party

Transaction of NSSMC with related party

Unconsolidated subsidiaries and affiliates

<Millions of yen>

	Transactions during the year ended March 31, 2017		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	Sells steel products	¥613,880	Notes and accounts receivable	¥17,379
(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				

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, 2017		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	Sells steel products	¥130,445	Notes and accounts receivable	¥18,186
(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				

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, 2018 and 2017)

There are no parent company and significant affiliates.

24. 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, 2018 and 2017 are as follows:

(Year ended March 31, 2018)

	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	¥ 195,061	882,629	¥ 221.00

	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	¥ 3,145,450	882,610	¥ 3,563.80

(Year ended March 31, 2017)

	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	¥ 130,946	884,959	¥ 147.96

	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	¥ 2,948,232	882,647	¥ 3,340.21

Regarding diluted earnings per share, no figures for diluted earnings per share have been disclosed because no latent shares existed.

25. BONDS, NOTES, AND LOANS

Bonds, notes, and loans of the NSSMC Group at March 31, 2018 and 2017 consisted of the following:

		<Millions of yen>	
		2018	2017
Bonds and Notes: NSSMC	3.175% SB due September 2017	¥ —	¥ 10,000
	3% Euro MTN yen bonds due February 2019	696	693
	1.77% SB due September 2017	—	29,999
	1.66% SB due December 2017	—	29,999
	1.92% SB due March 2018	—	29,997
	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
	1.53% SB due March 2020	20,000	20,000
	0.73% SB due July 2017	—	10,000
	1.076% SB due June 2020	15,000	15,000
	1.293% SB due March 2021	30,000	30,000
	0.846% SB due May 2018	10,000	10,000
	1.109% SB due September 2021	15,000	15,000
	0.7% SB due October 2018	10,000	10,000
	0.448% SB due April 2017	—	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
	0.28% SB due September 2026	10,000	10,000
	0.64% SB due September 2031	10,000	10,000
	0.22% SB due May 2024	10,000	—
	0.375% SB due May 2027	10,000	—
	0.23% SB due December 2024	10,000	—
	0.35% SB due December 2027	10,000	—
Nisshin Steel Co., Ltd.	2.2% SB due June 2018	10,000	10,000
	0.62% SB due June 2017	—	20,000
	0.64% SB due March 2019	10,000	10,000
Total		¥ 295,696	¥ 395,690

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

					<Millions of yen>	
					2018	2017
Loans:						
Short-term loans payable	¥	122,404	*1	¥	119,241	
Long-term loans payable due within one year		178,228	*2		196,874	
Current portion of lease obligations		3,016			3,769	
Long-term loans payable		1,380,660	*3		1,360,025	
Lease obligations		12,990			8,444	
Commercial paper		76,000	*4		20,000	
Total	¥	1,773,299		¥	1,708,354	

*1 Average interest-rate at March 31, 2018 is 0.9%.

*2 Average interest-rate at March 31, 2018 is 1.0%.

*3 Average interest-rate at March 31, 2018 is 0.8%.

*4 Average interest-rate at March 31, 2018 is (0.0)%.

The aggregate annual maturities of long-term debt as of March 31, 2018 are as follows:

							<Millions of yen>	
Years ending March 31	2019		2020		2021		2022	2023
Bonds and notes	¥	85,700	¥	60,000	¥	45,000	¥	15,000
Long-term loans payable		178,228		110,346		119,987		139,335
Lease obligations		3,016		2,809		2,508		1,284
								1,083

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 6,801 million and 8,902 million at March 31, 2018 and 2017, respectively.

		<Millions of yen>	
Years ended March 31		2018	2017
(Factory foundation mortgage)			
Buildings and structures, net	¥	2,988	¥ 3,000
Machinery, equipment and vehicles, net		6,801	6,715
Tools, furniture and fixtures, net		2	0
Land		8,187	8,203
Total	¥	17,980	¥ 17,919
(Pledged assets)			
Cash and bank deposits	¥	9	¥ 5
Buildings and structures, net		795	816
Machinery, equipment and vehicles, net		24	30
Land		2,667	2,690
Investments in securities		11	16
Long-term loans receivable		4,883	5,990
Total	¥	8,392	¥ 9,549

In addition, at March 31, 2018, 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, 2017, out of the above secured liabilities, ¥1,261 million of shares of affiliates are pledged

26. SUBSEQUENT EVENTS

(Year ended March 31, 2018)

I. Regarding the Execution of a Share Exchange Agreement to Make Nisshin Steel Co., Ltd. a Wholly Owned Subsidiary of the Company

The Company and Nisshin Steel CO., Ltd. ("Nisshin Steel") resolved at their respective board of directors' meetings held on May 16, 2018 to execute a share exchange (the "Share Exchange") which is expected to take effect on January 1, 2019 ("effective date") wherein Nisshin Steel will become a wholly owned subsidiary of the Company with the aim of realizing the maximum effects of synergies at an early stage by accelerating the mutual utilization of management resources and further promoting deeper alliances in the Group. The Company and Nisshin Steel entered into a share exchange agreement regarding the Share Exchange (the "Share Exchange Agreement") on May 16, 2018.

The Share Exchange will be executed through a short-form share exchange procedure under Article 796, paragraph 2 of the Companies Act of Japan, under which no approval of the shareholders' meeting of the Company is required. With respect to Nisshin Steel, the terms of the Share Exchange require approval by the shareholders of Nisshin Steel at Nisshin Steel's extraordinary shareholders' meeting expected to be held in December 2018. Prior to the effective date of the Share Exchange, the common shares of Nisshin Steel will be delisted from the First Section of the Tokyo Stock Exchange ("TSE") on December 26, 2018 (the last day of trading will be December 25, 2018).

In connection with the Share Exchange, the Company will file a registration statement on Form F-4 with the U.S. Securities and Exchange Commission, pursuant to the U.S. Securities Act of 1933, prior to Nisshin Steel's extraordinary shareholders meeting to approve the Share Exchange.

Further, in order to maximize synergy in the NSSMC Group's stainless steel business at an early stage, NSSMC, Nisshin Steel, and Nippon Steel & Sumikin Stainless Steel Corporation ("NSSC") resolved at their respective board of directors' meetings held on May 16, 2018 that NSSC will assume part of the steel sheet business contained within the special stainless steel business (steel sheets, shaped steel) of NSSMC and the steel sheet business contained within the stainless steel business (steel sheets, steel pipes and tubes) of Nisshin Steel (the "Integration of Stainless Steel Sheet Business") around April 1, 2019, after the Conversion into a Wholly Owned Subsidiary, resulting from the Share Exchange, and the three companies entered into a basic agreement regarding the Integration of Stainless Steel Sheet Business as of May 16, 2018.

1. Objective of the Conversion into a Wholly Owned Subsidiary

In March 2017, the Company successfully made Nisshin Steel its subsidiary (the "Conversion into a Subsidiary"), in order to provide better products, technologies and services to consumers in and outside Japan, build cost competitiveness to survive global competition and build strong finances through efficient utilization of

funds and assets, thereby facilitating various measures to maximize corporate value and creating synergies.

Since the Conversion into a Subsidiary, the Company and Nisshin Steel have constantly realized synergistic effects through the mutual utilization of their management resources and deepening of their sales alliance and optimization of their production system by using technological advancement and flexible merchandizing at a global top level, cost competitiveness and global responsiveness focusing on steel scrap, which are the strengths of the Company, and customer and market responsiveness through attentive business development based on consumer needs, which are the strengths of Nisshin Steel.

The two companies recognize that, while global demands for steel products are expected to constantly expand in the long run, the environment surrounding the steel-making industry is at a turning point for long-term and structural changes, exemplified by: changes in the steel supply-demand structure such as domestic depopulation, movements toward protectionism, a shift to domestic production by emerging countries; changes in social and industrial structures such as rapid progress of IT, increased needs of auto-manufacturers for lighter and stronger vehicle bodies, the spread of cars powered by new and alternative sources of energy, such as electric vehicles, and automated driving; and expectation from companies for measures toward the realization of a sustainable society.

Under these circumstances, in order to respond to the future business environment surrounding the ordinal steel and stainless steel industries, the Company and Nisshin Steel reached the conclusion that it would be necessary to enhance their respective strengths and realize the maximum effects of synergies at an early stage by accelerating the mutual utilization of management resources and further promoting alliances within the Group, and agreed to conduct the Conversion into a Wholly Owned Subsidiary. The Company believes that the Conversion into a Wholly Owned Subsidiary will enable it to more speedily enact intercompany measures including those for pursuit of an optimized production system and business restructuring of its group companies in a more expeditious and flexible manner in line with the changes in the business environment, without creating concern for conflict between the shareholders of each company. Nisshin Steel is also convinced that, by becoming a wholly owned subsidiary of the Company, it will be able to further show the strength of its customer and market responsiveness, and reinforce its brand power, which has been built under customer-centric principles through the promotion of its alliances within the Group, because the Conversion into a Wholly Owned Subsidiary will allow Nisshin Steel to make the most of the Group's management resources, and that this will contribute to the improvement of Nisshin Steel's corporate value.

(2) Terms and conditions of the Share Exchange

(a) Method of the Share Exchange

The Share Exchange will be in the form of a share exchange wherein the Company will become a wholly owning parent company and Nisshin Steel will become a wholly owned subsidiary. The Share Exchange will be conducted effective as of January 1, 2019 in the following manner: The Share Exchange will be conducted through a short-form share exchange under Article 796, paragraph 2 of the Companies Act, under which no approval at a shareholders meeting is required, with respect to the Company. With respect to Nisshin Steel, the Share Exchange Agreement will be approved at Nisshin Steel's extraordinary shareholders meeting to be held around December 2018.

(b) Allotment in the Share Exchange

	The Company (Wholly owning parent company in Share Exchange)	Nisshin Steel (Wholly owned subsidiary in Share Exchange)
Share Exchange ratio	1	0.71

(Note 1) Share exchange ratio

Each share of Nisshin Steel's common stock will be exchanged for 0.71 shares of the Company's common stock. However, 56,020,563 shares of Nisshin Steel's common stock held by the Company (as of May 16, 2018) will not be subject to the Share Exchange.

(Note 2) Number of the Company's shares to be delivered in the Share Exchange

The Company will allocate and deliver 38,161,032 shares of the Company's common stock through the Share Exchange. The Company will utilize its treasury stock (66,436,595 shares as of March 31, 2018) for the Share Exchange, and no additional shares will be issued.

Nisshin Steel will, by a resolution at the board of directors' meeting to be held on the day preceding the effective date of the Share Exchange, cancel all of the treasury stock (including the treasury stock to be acquired upon a share purchase request of any dissenting shareholder in relation to the Share Exchange pursuant to Article 785, paragraph 1 of the Companies Act of Japan) held at the point in time immediately before the Company acquiring all issued shares of Nisshin Steel in the Share Exchange (excluding the common stock of Nisshin Steel held by the Company). Accordingly, the Company will not be allocating and delivering its common stock to the treasury stock held by Nisshin Steel (75,427 shares as of March 31, 2018). This is subject to change due to acquisition or cancellation by Nisshin Steel of its treasury stock.

(3) Basis and Reasons for Particulars of Allotment of Shares Relating to the Share Exchange

In order to ensure the fairness and reasonableness of the calculation of the share allocation ratio (the "Share Exchange Ratio") to be used in the Share Exchange and stated in "2. (2) Allotment in the Share Exchange" above, the Company and Nisshin Steel agreed to ask third-party valuation organizations independent of both companies to calculate the Share Exchange Ratio. The Company appointed Nomura Securities Co., Ltd. ("Nomura Securities") and Nisshin Steel appointed Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. ("Mitsubishi UFJ Morgan Stanley Securities") to be their respective third-party valuation organizations.

The Company and Nisshin Steel deliberated based on the results of their respective due diligence investigations into the other company, making reference to the calculation result of the Share Exchange Ratio submitted by their respective third-party valuation organizations, and engaged in repeated negotiations and consultations, comprehensively taking into account such factors as financial conditions, asset conditions and the future prospects of the Company and Nisshin Steel. As a result, the Company and Nisshin Steel reached the conclusion that the Share Exchange Ratio is reasonable and not detrimental to the interests of their respective shareholders. Therefore, the Company and Nisshin Steel resolved at their respective board of directors' meetings held on May 16, 2018 to execute the Share Exchange Agreement between them to conduct the Share Exchange using the Share Exchange Ratio.

If there is any material change in the conditions used as a basis for the calculation, the Share Exchange Ratio is subject to change upon mutual consultation between the companies.

(4) Outline of the Company's capital and description of business activities after the Share Exchange

Name	Nippon Steel & Sumitomo Metal Corporation
Head office	Chiyoda-ku, Tokyo
Representative	Kosei Shindo, Representative Director and President
Capital	419,524 million yen
Total equity	To be determined.
Total Assets	To be determined.
Description of Business Activities	Steelmaking and steel fabrication, Engineering, Chemicals, New materials, and System solutions

II. Regarding acquisition of Ovako AB (making it a subsidiary)

The Company entered into a share purchase agreement in March, 2018 to acquire Ovako AB (“Ovako”) which is manufacturer and distributor headquartered in Sweden of special steel aimed mainly at the European market. Having completed all necessary procedures including the competition authorities’ examination, the Company hereby announces that it has acquired whole of the shares of Ovako and made the company a wholly owned subsidiary on June 1, 2018 (acquisition cost: 51.7 billion yen). As from June 1, 2018, both companies will promote business operations in an integrated manner under common business policies as members of the NSSMC Group.

Special steel is used as a vital input for various industries, such as the automobile, industrial equipment, wind power generation, and robotic industries, and it is expected that demand for it shall continue to grow steadily. From now on, the NSSMC Group will bring together Ovako’s highest quality products (i.e., global top-level technology regarding high-cleanliness steel for bearing steel and other such products) and the Company’s strengths, whereby we will provide better products, technologies, and services on a global basis. Through these, we wish to better serve our customers and to strengthen and expand its global special steel business.

The Company and Ovako will endeavor to reach full potential and realize synergies in an early stage to strengthen the position of the Group as “The Best Steelmaker with World-Leading Capabilities”, thereby aiming to achieve sustainable growth and enhance the Group’s corporate value in the mid- to long-term.

Overview of Ovako (Consolidated Basis)

Name	Ovako AB
Head office	Sweden (headquarter)
Representative	Marcus Hedblom (CEO)
Business activities	Manufacturing and sale of special steel and secondarily processed products
Sales volume	780,000 tons (Year 2017)
Sales	921 million Euros (Year 2017, approximately 120 billion Yen*)
Total Assets	743 million Euros (Year 2017, approximately 97 billion Yen*)
Employees	Approximately 3,000 employees

*Based on an exchange rate of 130 Yen per Euro

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, 2018 and 2017, 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 judgment, 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, 2018 and 2017, 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 26, 2018
Tokyo, Japan

Principal Subsidiaries and Affiliates (As of March 31, 2018)

Company	Paid-in Capital (Millions of yen)	Voting Rights (%)	Business Content
Steelmaking and Steel Fabrication (400 companies)			
Consolidated Subsidiaries (300 companies)			
Nisshin Steel Co., Ltd.	30,000	51.3%	Manufactures and markets ordinary steel, stainless steel and specialty steel
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 shapes, bars, and billets
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%	Conducts engineering, maintenance, and operations relating to machinery, electrical instrumentation, systems, and construction for steel-production and other facilities
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 bars and wire rods
Geostr Corporation	3,352	42.3%	Manufactures and markets concrete and metal products for civil engineering and building construction work
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
Nihon Teppan Co., Ltd.	1,300	100.0%	Markets, processes, and imports and exports steel products, metal processing machines, and electrical / electronic devices
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.	697	51.0%	Manufactures and markets secondary products using bars and wire rods
Nippon Steel & Sumikin Eco-Tech Corporation	500	85.1%	Designs, builds, operates, maintains, and manages water-treatment and other systems; designs civil-engineering projects; and performs environmental and chemical analysis
Nippon Steel & Sumikin Bolten Corporation	498	85.0%	Manufactures and markets high-tension bolts, etc.
Nippon Steel & Sumikin Shapes Corporation	400	100.0%	Manufactures and markets H-beams
Nippon Steel & Sumikin Koutetsu Wakayama Corporation	100	100.0%	Manufactures and markets semi-finished steel products
Nippon Steel & Sumikin Tubos do Brasil Ltda.	R2,002 million	100.0%	Markets seamless steel pipes
NS-Siam United Steel Co., Ltd.	THB13,007 million	80.2%	Manufactures and markets cold-rolled sheets and galvanized sheets
National Pipe Co., Ltd.	SAR200 million	51.0%	Manufactures and markets primarily steel line pipes
Standard Steel, LLC	US\$47 million	100.0%	Manufactures and markets railway wheels and axles
Nippon Steel & Sumitomo Metal U.S.A., Inc.	US\$40 million	100.0%	Invests companies in North American region focusing on U.S. 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
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
269 other companies			
Affiliates Accounted for by the Equity Method (100 companies)			
Godo Steel, Ltd.	34,896	17.8%	Manufactures and markets shapes, rails, bars, billets, and wires
Topy Industries, Ltd.	20,983	20.6%	Manufactures and markets shapes, bars, and industrial machine parts
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 shapes, steel bars, and billets; processes and markets steel
Nippon Steel & Sumikin Bussan Corporation	12,335	36.8%	Markets, imports, and exports steel, textiles, foods, and other products
Nippon Denko Co., Ltd.	11,026	21.0%	Manufactures and markets ferroalloys, advanced materials, industrial chemical products, environmental recycling systems, etc.

Principal Subsidiaries and Affiliates (As of March 31, 2018)

Company	Paid-in Capital (Millions of yen)	Voting Rights (%)	Business Content
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 hydraulics, heat exchangers, and industrial environmental apparatuses
NS United Kaiun Kaisha, Ltd.	10,300	33.4%	Undertakes ocean transportation
Unipres Corporation	10,039	16.4%	Manufactures and markets automotive parts
Osaka Titanium Technologies Co., Ltd.	8,739	23.9%	Manufactures and markets metal titanium, polysilicon, high-functioning materials developed from titanium and silicon for new applications
Nippon Coke & Engineering Co., Ltd.	7,000	23.8%	Markets coal; 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	47.0%	Manufactures, markets, and constructs refractories
Sanko Metal Industrial Co., Ltd.	1,980	39.8%	Manufactures, processes, installs, and sells metal roofs and building materials
Sanyu Co., Ltd.	1,513	34.8%	Manufactures and markets cold-finished bars and cold-heading wire
Usinas Siderúrgicas de Minas Gerais S.A.-USIMINAS	R13,200 million	31.4%	Manufactures and markets steel products
Vallourec Soluções Tubulares do Brasil S.A.	R8,688 million	15.0%	Manufactures seamless steel pipes
Baosteel-NSC Automotive Steel Sheets Co., Ltd.	RMB3,000 million	50.0%	Manufactures and markets automotive steel sheets
WISCO-NIPPON STEEL Tinplate Co., Ltd.	RMB2,310 million	50.0%	Manufactures and markets tinplate and tinplate sheets
UNIGAL Ltda.	R584 million	30.0%	Manufactures galvanized sheets
Companhia Nipo-Brasileira de Pelotizacao	R432 million	33.0%	Maintains and leases pellet production facilities
Guangzhou Pacific Tinplate Co., Ltd.	US\$36 million	27.3%	Manufactures and markets tinplate

78 other companies

Engineering and Construction (37 companies)

Consolidated Subsidiaries (34 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
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36 other companies

Chemicals (19 companies)

Consolidated Subsidiaries (11 companies) Affiliates Accounted for by the Equity Method (8 companies)

Nippon Steel & Sumikin Chemical Co., Ltd.	5,000	100.0%	Manufactures and markets coal chemicals, petrochemicals, and electronic materials
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18 other companies

New Materials (12 companies)

Consolidated Subsidiaries (12 companies)

Nippon Steel & Sumikin Materials Co., Ltd.	3,000	100.0%	Manufactures and markets semiconductor components and materials, electronic components and materials, carbon-fiber composite products, and metal-processed products
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11 other companies

System Solutions (22 companies)

Consolidated Subsidiaries (20 companies) Affiliates Accounted for by the Equity Method (2 companies)

NS Solutions Corporation	12,952	61.3%	Provides engineering and consulting pertaining to computer systems, outsourcing and other services using IT
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21 other companies

Other (1 company)

Affiliates Accounted for by the Equity Method (1 company)

Total consolidated subsidiaries: 377 companies Total affiliates accounted for by the equity method: 114 companies

Investor Information

(As of March 31, 2018)

Head Office

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

Inception

October 1, 2012 (Inception by merger)

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

436,620

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
CUSIP number: 65461T101
Depositary bank: JPMorgan Chase Bank, N.A.

Contact for inquiries regarding our ADR program:
JPMorgan Chase Bank N.A.
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@eq-us.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 (Thousands)	Shareholding ratio (%) ^{*3}
Japan Trustee Services Bank, Ltd. (Trust Account)	39,987	4.5
The Master Trust Bank of Japan, Ltd. (Trust Account)	37,861	4.3
Nippon Life Insurance Company	24,532	2.8
Sumitomo Corporation	18,269	2.1
Japan Trustee Services Bank, Ltd. (Trust Account 5)	16,913	1.9
Mizuho Bank, Ltd. ^{*1}	16,299	1.8
STATE STREET BANK WEST CLIENT - TREATY 505234	14,896	1.7
Sumitomo Mitsui Banking Corporation ^{*2}	14,647	1.7
Meiji Yasuda Life Insurance Company	13,960	1.6
Japan Trustee Services Bank, Ltd. (Trust Account 9)	13,904	1.6

^{*1} Apart from those shares listed above, Mizuho Bank has 2,235 thousand shares (0.3% shareholding ratio) as retirement benefit trust.

^{*2} Apart from those shares listed above, Sumitomo Mitsui Banking Corporation has 6,638 thousand shares (0.8% shareholding ratio) as retirement benefit trust.

^{*3} The shareholding ratio is calculated after treasury stock owned by Nippon Steel & Sumitomo Metal Corporation is excluded from the number of common shares (issued).



<http://www.nssmc.com/en/>

Nippon Steel & Sumitomo Metal Corporation will change its name to “Nippon Steel Corporation” effective April 1, 2019.

Other Communication Tools

Please use our corporate website, Sustainability Report 2018, and Basic Facts About Nippon Steel & Sumitomo Metal 2018 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

We produce detailed reports on environmental and CSR activities.

<http://www.nssmc.com/en/csr/>



Basic Facts About Nippon Steel & Sumitomo Metal

Basic Facts About Nippon Steel & Sumitomo Metal 2018 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>

