

# The 92nd Term Interim Report

April 1, 2016 to September 30, 2016

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# To Our Shareholders

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Representative Director and President,

## **Kosei Shindo**

We would like to thank you for your continued understanding and support.

The environment surrounding the steel business has been extremely harsh, with the issue of excess production capacity in China, a sharp rise in coking coal prices, etc. Under these conditions, Nippon Steel & Sumitomo Metal Corporation (“NSSMC” or “the Company”) has been steadily implementing the Mid-Term Management Plan, where NSSMC is committed to growth both in Japan and overseas, building on its competitive advantages in “technology,” “cost,” and “being global.”

### **(Overview of Business Operations and Performance for the First Half of Fiscal 2016)**

We would like to present the overview of business operations during the first half of fiscal 2016 (April 1, 2016 to September 30, 2016).

During the first half of fiscal 2016, the overall global economy lacked strength, growing only moderately. The U.S. economy expanded steadily, led by consumer spending, and Europe continued to recover at a moderate pace, while China’s economic growth remained sluggish, despite indications that governmental stimulus measures are working.

In Japan, the economic recovery continued at a moderate pace. While consumer spending remained sluggish, employment conditions improved and there were signs of an upturn in corporate production activities.

Domestic demand for steel declined year-on-year as a result of a slow recovery in sales to the construction industry and depressed sales to manufacturers, particularly in the automotive sector, which was affected by the Kumamoto earthquake. However, due to the recent increase in demand, mainly in the construction and automotive sectors, overall demand bottomed in the first quarter and turned to an uptrend in the second quarter.

Overseas steel demand was flat overall. Although there were signs of a moderate recovery in ASEAN countries, the downtrend continued in China, despite some recent signs of the bottoming out of domestic demand.

International market conditions hit bottom at the start of the year and have since remained on a recovery track.

Under such conditions, NSSMC posted consolidated net sales for the first half of fiscal 2016 of ¥2,160.7 billion, with operating profit of ¥17.8 billion, ordinary profit of ¥28.0 billion, and profit attributable to owners of parent of ¥11.0 billion.

### **(Distribution of Dividend at End of First Half of Fiscal 2016)**

In accordance with the basic profit distribution policy, the Company sincerely regrets that it has decided to forgo the first-half dividend distribution, as disclosed at the time of the first-quarter results announcement (July 28, 2016).

### **(Future Outlook)**

NSSMC anticipates moderate growth in the overall global economy. While economic conditions in the United States are likely to remain firm, centered on consumer spending, and a gradual improvement in the European economy is expected, the sluggish growth in China is projected to continue.

The Japanese economy is expected to recover at a moderate pace, despite sluggish consumer spending, owing to the effects of government economic stimulus measures and signs of a recovery in corporate capital investment.

In the second half of fiscal 2016, the Company anticipates a firm recovery in domestic steel demand, albeit at a moderate pace, as a result of the revival of the automotive sector and an increase in construction demand related to the 2020 Tokyo Olympics. With regard to overseas steel demand, there are signs of the bottoming out of local demand in China, while steady gains are anticipated in ASEAN countries and India. In terms of global market conditions, the recent sharp rise in coking coal prices will gradually affect steel market prices in the future. Against this background, NSSMC will continue to make its utmost efforts to secure margins that are sufficient to allow recurring production, in response to the rapid rise in coking coal prices that exceeds our self-help efforts. At the same time, the Company will work closely with customers to gain their understanding in revising steel material prices.

For the full year of fiscal 2016, the Company is maintaining its previous forecast disclosed at the time of the first-quarter results announcement, and intends to achieve ¥130.0 billion in consolidated ordinary profit.

The Company plans to determine the forecast for the year-end dividend distribution amount, with due consideration of full-year outlook of profit attributable to owners of parent, and announce it at the time of its third-quarter results announcement.

NSSMC wishes to take this opportunity to ask its shareholders for their understanding of the aforementioned circumstances and for their continued support.

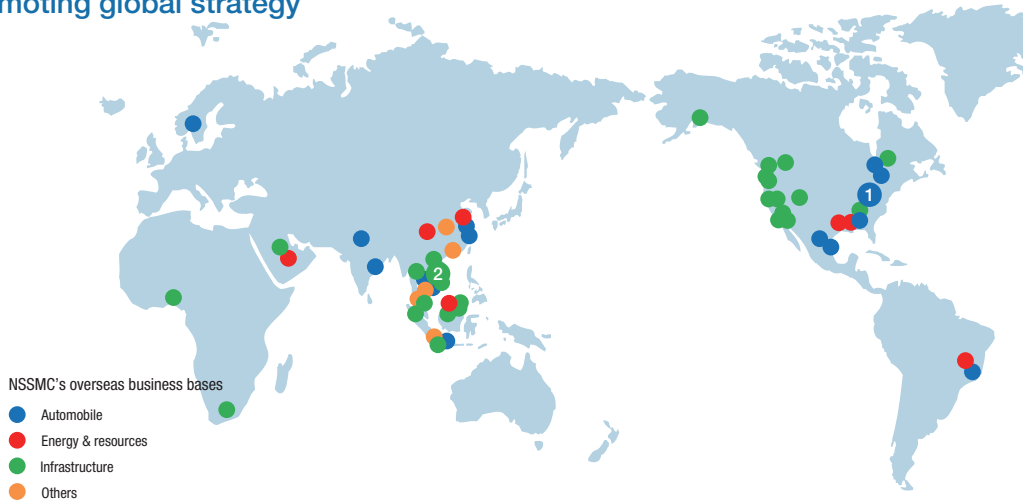
# Topics

In this section, we introduce activities by the NSSMC Group in the first half of fiscal 2016.

## Steelmaking and Steel Fabrication

We report on the progress of the measures set out in our Mid-Term Management Plan.

### ■ Promoting global strategy



### Cornerstone laying ceremony of NIPPON STEEL & SUMIKIN COLD HEADING WIRE INDIANA INC. (NSCI), a manufacturer and seller of steel wires for cold heading and forging in the U.S. (Figure ①)

In June 2016, the cornerstone laying ceremony was held for NSCI, which manufactures and sells steel wires for cold heading and forging mainly used for automobile fasteners, nuts and other kind of parts. NSCI is the third base following the bases in Thailand and China as the overseas secondary process plant, and plans to commence mass production in January 2018 in an aim to enhance a network for supply to Japanese automobile and parts manufacturers.



The cornerstone laying ceremony

### Installation of the No. 3 Metal Coating Line in a manufacturer and seller of steel sheets for building and construction in Thailand (Figure ②)

NS BlueScope (Thailand) Limited, a joint venture of the Company and BlueScope Steel Limited in Thailand, has decided to install the No. 3 Metal Coating Line in September 2016. Through this, the Company aims to enhance production capacity of zinc/aluminum hot-dip alloy coated steel and painted steel to capture growing demand for steel sheets for building and construction in Thailand.



NS BlueScope (Thailand) Limited

### **Renewal of the long-term sales agreement with the three major oil companies**

The Company has received high acclaim for its supply of excellent products and ability to make total solution proposals, and renewed the long-term sales agreement with the three major oil companies (Shell, BP, and Statoil) for oil country tubular goods. We will further seek to maintain and expand our position in the global market.



Seamless pipes

### **Awarded a large order of steel for an offshore natural gas pipeline in Mexico**

The Company, together with MITSUI & CO., LTD., has received a 600,000 ton steel order consisting of large diameter welded steel pipes and thick plates(\*) as raw materials for the pipes, which will be used for the offshore pipeline that will transport natural gas from Texas, U.S. to the middle of Mexico. This offshore pipeline will cover a distance of approximately 780km, which is equivalent to the distance between Tokyo and Yamaguchi in Japan. We will further strive to steadily capture the demand for high grade steel in the energy & resources area.

(\*) Plates are pipeformed by a steel pipe maker in Mexico.



Offshore pipeline

### **Achieved a total of 2 million tons of tinplate (for cans) shipment to Dole**

In May 2016, the Company achieved a total of two million tons of tinplate (for cans) shipment to Dole, which is the world's largest manufacturer of canned pineapple. The Company has received high acclaim for its high quality as materials for food containers and other strengths, and has exclusively supplied tinplate to Dole for over 50 years since it started business with Dole in 1962.



The 2 millionth ton of tinplate coil



Dole products using our materials

## **Enhancing technological superiority**

### **Titanium sheet adopted for the fuel tank of Honda's motocrosser**

The Company's titanium sheet has been adopted as materials for the fuel tank of the latest model of Honda's motocrosser CRF450R, in recognition of its excellent properties such as formability and weldability. In terms of mass-produced motorcycles, this was the world's first adoption of titanium materials to the main units of fuel tanks.



The fuel tank of Honda CRF450R



Honda CRF450R

## ■ Enhancing domestic mother mills' competitiveness

### The No. 1 F coke oven at the Kashima Works commenced operations

At the Kashima Works, the No. 1 F coke oven has been completed and commenced operations in August 2016. Through the extension of this new coke oven, the Company aims to increase production capacity as well as to reduce purchase of coke from external sources, thereby ensuring competitiveness in iron-making which enables the Company to survive the global competition.



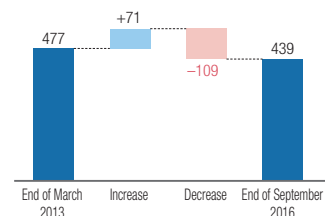
The No. 1 F coke oven which was extended

## ■ Strengthening Group companies in the steelmaking business

Although there is an increase in number of the Group companies in the steelmaking business through the promotion of global strategies, the Group has been steadily implementing “concentration on core business operations.”

Sector	Companies integrated	Company name after integration	Period of implementation
Construction products	Nippon Steel & Sumikin Metal Products Co., Ltd. and Nippon Steel & Sumikin Column Co., Ltd.	Nippon Steel & Sumikin Metal Products Co., Ltd.	April 2016
Pipe and tube	Nippon Steel & Sumikin Fine Technology Co., Ltd. and Nippon Tubular Products Co., Ltd.	Nippon Steel & Sumikin Precision Machining Co., Ltd.	July 2016

### Change in number of Group companies



## Engineering and Construction

Nippon Steel & Sumikin Engineering Co., Ltd. has proactively engaged in construction projects of large-scale logistics facilities. The company works to provide products and technology that optimize and incorporate steel structure engineering and ironworks know-how.



The "1 MISSIONS PARK Sakai," a large-scale logistics facility commissioned by Yanagi Properties

## Chemicals

In order to address the strong demand for ion exchange resins, synthetic rubbers, and ABS resins, Nippon Steel & Sumikin Chemical Co., Ltd. enhanced the capability of divinylbenzene production facilities and commenced its operation.



The divinylbenzene production facility

## New Materials

Nippon Steel & Sumikin Materials Co., Ltd. has developed the “NS-TEPreg™,” a carbon fiber thermoplastic prepreg with strength, rigidity, impact resistance and formability. The company aims to expand its application to electronics components and machine parts, medical braces, sports equipment, etc.



“NS-TEPreg™,” carbon fiber thermoplastic prepreg

## System Solutions

NS Solutions Corporation has set up the “NSFITOS Center,” a hub in Kitakyushu for the operation of IT outsourcing services. The Kitakyushu hub, along with the hub in Tokyo, will provide robust and secure IT outsourcing services.



The “Kitakyushu Data Center”



The “ITO Center  
(Western Japan)”

Clients’ IT infrastructure operations performed at one stop  
NSFITOS Center

## Environmental and Social Initiatives

### Environment

**Plastic recycling at the Kimitsu Works has reached a cumulative total of one million ton.**

Plastic recycling at the Kimitsu Works has reached a cumulative total of one million ton in August 2016. The Company recycles waste plastics at seven works in Japan, and treats approximately 30% of waste plastics collected by municipalities throughout Japan.

For details, please refer to “Find out! Plastic recycling at steel works” on the special website.

<http://www.nssmc.com/csr/plastic-recycle/>



Waste plastics collected



Coke oven

Waste plastics collected are thermally decomposed in a coke oven, and are collected as hydrocarbon oil (raw materials for plastics, etc.), coke and coke oven gas for 100% reuse.

### Society

**Participation in reconstruction project in Kaminakashima district, Kamaishi City**

The Kamaishi city, the Company and NIPPON STEEL KOWA REAL ESTATE CO., LTD. concluded an agreement on the comprehensive construction of Kaminakashima Kindergarten, facilities for Suku-Suku Parent and Child Workshop, and Kaminakashima Children’s Center. This construction project is the third reconstruction project in this district, following the public restoration housing construction projects Phase I and Phase II in Kaminakashima-cho, jointly implemented by the aforementioned three parties.



Concept of the construction project when completed

# Summary of Consolidated Financial Statements

## Consolidated Balance Sheets (Billions of yen)

Items	September 30, 2016
<b>ASSETS</b>	
Current assets	1,820.0
Fixed assets	4,359.0
<b>Total assets</b>	<b>6,179.1</b>
<b>LIABILITIES</b>	
Current liabilities	1,589.1
Long-term liabilities	1,735.2
<b>Total liabilities</b>	<b>3,324.3</b>
<b>NET ASSETS</b>	
Shareholders' equity	2,505.7
Accumulated other comprehensive income	117.3
Non-controlling interests in consolidated subsidiaries	231.7
<b>Total net assets</b>	<b>2,854.8</b>
<b>Total liabilities and net assets</b>	<b>6,179.1</b>

## Consolidated Statements of Operations (Billions of yen)

Items	First half of fiscal 2016
<b>Net sales</b>	<b>2,160.7</b>
Cost of sales	1,918.5
<b>Gross profit</b>	<b>242.2</b>
Selling, general and administrative expenses	224.4
<b>Operating profit</b>	<b>17.8</b>
Non-operating profit	64.3
Non-operating loss	54.1
<b>Ordinary profit</b>	<b>28.0</b>
<b>Extraordinary loss</b>	<b>9.1</b>
<b>Profit before income taxes</b>	<b>18.8</b>
Income taxes – current and deferred	2.1
<b>Profit</b>	<b>16.7</b>
Profit attributable to non-controlling interests	5.7
<b>Profit attributable to owners of parent</b>	<b>11.0</b>

## Consolidated Segment Information (April 1, 2016 to September 30, 2016)

(Billions of yen)

	Reportable segment					Total	Adjustments	Consolidated total
	Steelmaking and steel fabrication	Engineering and construction	Chemicals	New materials	System solutions			
Net sales	1,900.8	116.5	81.2	17.1	106.0	2,221.9	(61.1)	2,160.7
Segment profit <Ordinary profit>	14.0	1.5	0.8	0.7	10.3	27.5	0.4	28.0

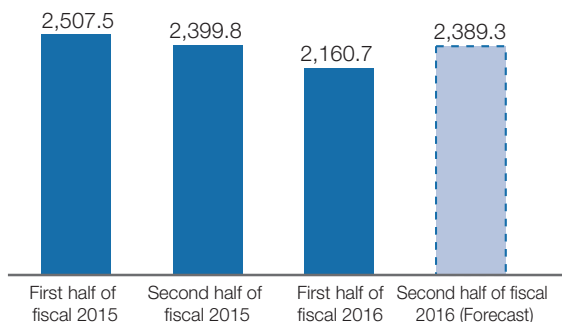
\* Figures less than ¥0.1 billion are rounded down to the nearest ¥0.1 billion.



# Changes in Consolidated Operating Results

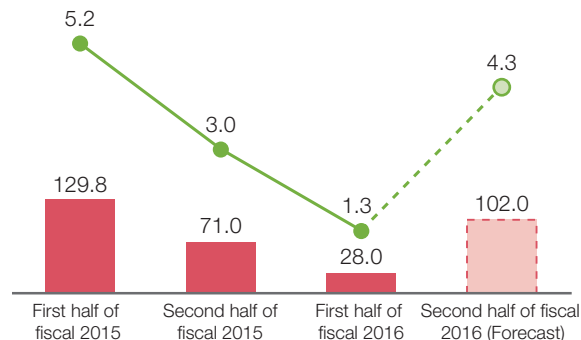
## Net sales

Net sales (billions of yen)



## Ordinary profit

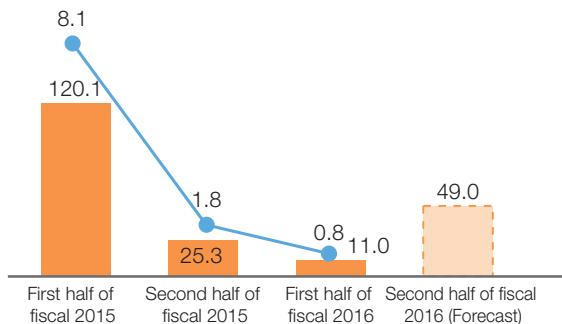
Ordinary profit (billions of yen) ROS (Return on Sales: %)



## Profit attributable to owners of parent

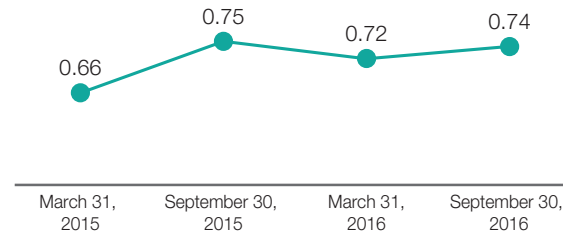
Profit attributable to owners of parent (billions of yen)

ROE (Return on Equity: %)



## D/E ratio

D/E ratio (Debt Equity ratio: times)



### < Operating results forecasts for full year of fiscal 2016 >

With regard to full year of fiscal 2016, we are forecasting consolidated net sales of ¥4,550.0 billion, ordinary profit of ¥130.0 billion, and profit attributable to owners of parent of ¥60.0 billion.

# Information about NSSMC Shares

## Basic Dividend Policy

NSSMC's basic policy regarding profit distribution is to pay dividends from distributable funds at the end of the first half (interim) and second half (year-end) of the fiscal year, in consideration of the consolidated operating results and such factors as capital requirements for investment and other activities aimed at raising corporate value and performance prospects, while also considering the financial structure of the Company on both consolidated and non-consolidated bases. The Company has adopted a consolidated payout ratio target of around 20%-30% as the benchmark for the "payment of dividends from distributable funds in consideration of the consolidated operating results." The level of the first-half dividend is determined based on consideration of interim performance figures and forecasts for the full fiscal year performance.

## Shareholder Benefits

We have a shareholder benefit program to express our gratitude to shareholders and to facilitate their understanding of our Group activities. The Company will send to applicable shareholders about the details of such events.

## Plant Tours and Business Briefings

Events	Summary of program	Period of implementation	Applicable shareholders
Plant tours (by lottery)	Shareholders are invited to a tour of our steel works and manufacturing sites.	Twice a year ( March-April and October-November )	Shareholders who own <b>1,000 or more shares</b> as of the end of September and March
Business briefings (by lottery)	Business briefings are conducted in Tokyo, Osaka and other locations.	Twice a year ( February-March and July-September )	

## Other Shareholder Benefit Programs

Events	Summary of program	Period of implementation	Applicable shareholders
Company calendar	NSSMC's calendar is distributed to shareholders.	Once a year ( Late November to early December )	Shareholders who own <b>500 or more shares</b> as of the end of September
Invitation to football games of Kashima Antlers (by lottery)	Shareholders are invited to J1-League football games (home or away).	Twice a year ( April-August and August-December )	Shareholders who own <b>5,000 or more shares</b> as of the end of September and March
Invitation to concerts at Kioi Hall (by lottery)	Shareholders are invited to periodic Kioi Sinfonietta Tokyo* concerts and other concerts.	Twice a year ( April-July and September-February )	

\* From April 2017, Kioi Sinfonietta Tokyo will be renamed "Kioi Hall Chamber Orchestra Tokyo."

## Change of the Number of Shares in a Unit of Shares

**Q**Why has the number of shares in a unit of shares been changed from 1,000 shares to 100 shares?

**A**For the greater convenience of market participants, all Japanese securities exchanges are promoting an “Action Plan for Consolidating Trading Units,” under which trading units of common shares (number of shares in a unit of shares) for domestically listed companies are uniformly set at 100 shares, and the listed companies are required to comply by October 2018. In light of the intent of the action plan, NSSMC changed the number of shares in a unit of shares from 1,000 shares to 100 shares as of October 1, 2015. In changing the number of shares in a unit of shares to 100 shares, in order to maintain the price level per trading unit and the number of voting rights of shareholders following the change of the number of shares in a unit of shares, on October 1, 2015, NSSMC carried out a share consolidation of NSSMC shares under which every 10 shares were consolidated into 1 share, after consulting on NSSMC shares with the General Meeting of Shareholders held in June 2015.

Change of the Number of Shares in a Unit of Shares and Share Consolidation

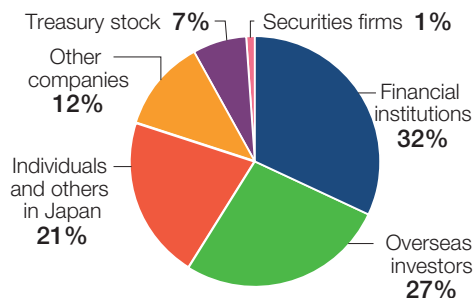
	Before change	Change and after share consolidation
Number of shares in a unit of shares	1,000 shares	100 shares
	×	×
Share price (assumption)	¥200	¥2,000
Price level per trading unit	¥200,000	¥200,000
	↑	↑
Number of voting rights of shareholders	1 vote	1 vote

## Corporate Profile and Status of Shares

### Corporate Profile

Company name	Nippon Steel & Sumitomo Metal Corporation
Head office	6-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8071, Japan
Paid-in capital	¥419.5 billion
Business	Steelmaking and steel fabrication / Engineering and construction / Chemicals / New materials / System solutions
Number of employees (consolidated)	84,837 (as of March 31, 2016)
Stock listings	Tokyo, Nagoya, Fukuoka, Sapporo
Securities code	5401
Total number of shares authorized to be issued	2,000,000,000 shares
Total number of shares issued	950,321,402 shares (as of September 30, 2016)
Number of shareholders	488,727 (as of September 30, 2016)

Percentage of ownership by shareholder composition (as of September 30, 2016)



Principal shareholders (as of September 30, 2016)

Name of shareholder	Shares held (Thousand shares)	Percentage of ownership (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	37,614	4.0
The Master Trust Bank of Japan, Ltd. (Trust Account)	25,359	2.7
Nippon Life Insurance Company	24,532	2.6
Sumitomo Corporation	18,269	1.9
Mizuho Bank, Ltd.	16,299	1.7
Sumitomo Mitsui Banking Corporation	14,647	1.5
Meiji Yasuda Life Insurance Company	13,960	1.5
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	13,655	1.4
THE BANK OF NEW YORK MELLON SA/NV 10	12,052	1.3
Japan Trustee Services Bank, Ltd. (Trust Account 7)	11,814	1.2
Total	188,206	19.8

# NSSMC Group's Guiding Principles

## Corporate Philosophy

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, innovative from within, and pursue unending progress.
5. We develop and bring out the best in our people to make our Group rich with energy and enthusiasm.

## Shareholder Reference Information

Fiscal year	April 1 to March 31
General Meeting of Shareholders	Latter part of June
Record date for the General Meeting of Shareholders	March 31
Record date for dividends	March 31, September 30 and such other date as determined by the Board of Directors
Number of shares in a unit of shares of the Company	100 shares (revised on October 1, 2015)
Website for electronic public notices	<a href="http://www.nssmc.com/en/index.html/">http://www.nssmc.com/en/index.html/</a>
Articles of Incorporation and Regulations Relating to Shares	Articles of Incorporation and Regulations Relating to Shares are posted on NSSMC's website under "Investor Relations."
Registration agent	Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan
Place of business of registration agent (Mailing address and telephone enquiries)	Sumitomo Mitsui Trust Bank, Limited, Stock Transfer Agency Business Planning Department 8-4, Izumi 2-chome, Suginami-ku, Tokyo, 168-0063, Japan Telephone number designated for NSSMC's shareholders: 0120-785-401 (toll free within Japan) Main number of transfer agent: 0120-782-031 (toll free within Japan)

### ●Change of address, and request for sale and purchase of shares less than one unit

Please contact and consult with the securities firm in where you have an account.

Shareholders for whom special accounts have been opened due to their lack of an account in a securities firm should contact Sumitomo Mitsui Trust Bank, Limited, our administrator of the special accounts.

### ●Payment of accrued dividends

Please contact Sumitomo Mitsui Trust Bank, Limited, our registration agent.

### ●Fees concerning sale and purchase of less than one unit of shares

Charged at the amount specified separately (please refer to "Investor Relations" on NSSMC's website).

## Information on the "Social Security and Tax Number System" with regard to shares

The Social Security and Tax Number notified by municipalities will be required in taxation procedures relating to shares. Therefore, shareholders are requested to notify their securities firm, etc. of their Social Security and Tax Number.  
Contact for inquiries about the notification of the Social Security and Tax Number

- ◆Shareholders whose shares are managed in securities accounts: Please contact your securities firm.
- ◆Shareholders with no transactions with securities firms: Sumitomo Mitsui Trust Bank, Limited,  
Stock Transfer Agency Business Planning Department  
0120-785-401 (toll free within Japan)

## NIPPON STEEL & SUMITOMO METAL CORPORATION

6-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8071

Tel.: +81-3-6867-4111

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