



**NIPPON STEEL &  
SUMITOMO METAL  
CORPORATION**

# Shareholder Letter

## March 2013

On October 1, 2012, Nippon Steel Corporation and Sumitomo Metal Industries, Ltd. merged to become Nippon Steel & Sumitomo Metal Corporation (NSSMC).

This report explains the NSSMC Group's management policies and overview of business operations. We hope you find it useful.

We would like to ask your continued support to the NSSMC Group.



Kimitsu Steel Works

## To Our Shareholders

Let us thank you first and foremost for your support.

Since the integration on October 1 last year, we have made a good start as Nippon Steel & Sumitomo Metal Corporation (NSSMC). We are striving hard to raise our corporate value by integrating the strength of the two former companies.

### Harsh business environment continues

The global economy is seeing signs of a modest pick-up in the U.S. and emerging countries while Japan's economy is experiencing only a sporadic recovery in some areas, partly due to the correction of the overvaluation of the yen in the world currency market. While the macro economic environment is improving somewhat, our business environment remains challenging as we are facing structural changes in the global steel industry.



Representative Director, President and COO, Tomono(left)  
Representative Director, Chairman, and CEO, Muneoka(right)

Specifically, many steelmakers, particularly those in China, had expanded production capacity. The resultant oversupply situation has forced many major global steelmakers to make drastic changes in their business structure. In Japan, in addition to a drop in demand

for construction, manufacturers are accelerating a shift to overseas production and local procurement from overseas suppliers. Further, the export market structure has also changed significantly. Japanese steel makers used to have an overwhelming presence in the ASEAN market but are now suffering from severe competition with Korean, Chinese and other emerging makers.

In order to win out in such a highly competitive environment, we must urgently reform our corporate structure and our practices in profit making, financial areas and manufacturing. We are determined to change wherever we need to change through integration and seek great improvement such as cannot be attained by our competitors.



**We are making collective efforts to establish competitive strength and aim to become the “Best Steelmaker with World-Leading Capabilities”**

The current business environment is severe indeed, but we believe that the steel industry is a growth industry from a long-term perspective. Global steel demand was 1.3 billion tons in 2007 and 1.5 billion tons in 2012 and is forecasted to keep growing along with the economic expansion of emerging countries in years to come. Against this background, we aim to become the “Best Steelmaker with World-Leading Capabilities.” In other words, we as a manufacturing company are determined to provide cost-competitive, best-quality products that satisfy the needs of our customers and contribute to society.

To achieve this goal, we must make collective efforts to implement our core four strategies in a quick and thorough manner and establish a solid foundation on which to build our competitive strength.

Our first strategy is to **“Improve Cost Competitiveness.”** We are determined to attain cost competitiveness quickly and win out in global competition. Our second strategy is to **“Advance Technologies.”** Our people in R&D, manufacturing and sales must work together to advance technical capabilities in all aspects including product development, manufacturing, production processes, energy-saving, and environment-related measures. Our third strategy is to **“Globalize Steel Business.”** We will endeavor to expand global production and supply

bases steadily. Our fourth strategy is to **“Strengthen Engineering, Chemicals, New Materials and System Solutions Businesses.”** Each segment company is getting ready to make the most of its newly combined strength through the strategy of concentrating on its core competence. We will further reinforce those non-steel business segments.

**New integrated company’s second-half operating forecasts and year-end dividend policy**

We forecast ordinary profit of ¥40 billion and net profit of ¥35 billion on a consolidated basis for the second half of the current fiscal year (ending March 31, 2013), as a result of our enhanced efforts to rapidly realize synergy effects from the integration.

Regarding the year-end dividend forecast, we have adopted a policy to distribute a year-end dividend of ¥1.0 per share (representing a second-half consolidated payout ratio of approximately 25%), in consideration of factors including the second-half earnings forecasts after the integration and the outlook for the business.

(Please see details on page 3, “Operating results published on February 14, 2013.”)



Nagoya Steel Works' new type of coke oven: SCOPE21



Overseas business integration is well under way. (The secondary-processing steel bar companies of the two former companies in Thailand have merged into Nippon Steel & Sumikin Steel Processing (Thailand) Company Limited.)

We are currently drawing up our mid-term business plan, which is to be announced in the near future. We will implement this plan in a speedy, steady, collective manner to win in global competition and become more profitable.

We would like to ask for your continued support.

Representative Director, Chairman, and CEO, **Shoji Muneoka**  
Representative Director, President and COO, **Hiroshi Tomono**

# Overview of business operations

(disclosed on February 14, 2013)

## Forecasts for Fiscal 2012 and year-end dividend distribution policy

### Business environment

The global economy is showing signs of recovery. Economies in China and other emerging countries are picking up from the recent economic slowdown, while Europe remains to be bleak.

Japan's economy is also showing some signs of improvement in particular from its weakness in the manufacturing industry, partly due to the correction of the overvaluation of the yen in the world currency market and the recovery in overseas economy.

Domestic steel demand had been weak, mainly due to weak demand from the manufacturing industry. However, it is now expected to increase in fiscal 2013, thanks to the government's economic measures in addition to construction demand that is related to reconstruction from the March 2011 earthquake as well as disaster prevention measures stimulated by that event. Moreover, less robust growth in steel exports

mainly to Asian emerging countries is projected to become relatively stable in the near future.

Against that background, the steel market had been depressed owing to sluggish demand and a high level of production by Chinese and Korean steelmakers. While the global steel market more recently is gradually turning around, we should say that the overall environment for fiscal 2012 will turn out to have been harsh, given the significant negative impacts up to the middle of the fiscal year.

### Forecasts for fiscal 2012 and year-end dividend distribution policy

Under these circumstances, we are striving hard to rapidly realize synergy effects from the integration, in addition to reduce costs as much as ¥130 billion per year. At the same time, we are making investments to upgrade upstream manufacturing processes in Japan as part of efforts to solidify our business base and making investments also to expand overseas business so as to capture

more growth potential. Despite such efforts, due to the depressed steel market and other factors, our forecasts for the current fiscal 2012 (ending March 31, 2013) are ordinary profit of ¥60 billion (¥70 billion on the simple combined basis of the two integrated companies), which will be lower than the previous year, and net loss of ¥140 billion partly due to the extraordinary loss, which was recorded in the first half.

If we look only at the second half of the year, ordinary profit of ¥40 billion and net profit of ¥35 billion are projected, as we are reinforcing efforts to rapidly realize synergy effects after the integration.

Regarding the year-end dividend forecast, we have adopted a policy to distribute a year-end dividend of ¥1.0 per share (representing a second-half consolidated payout ratio of approximately 25%), in consideration of our earnings forecasts (net profit of ¥35 billion) for the second-half after the integration and the outlook of business conditions.

### Forecasts for fiscal 2012

(Billions of yen)

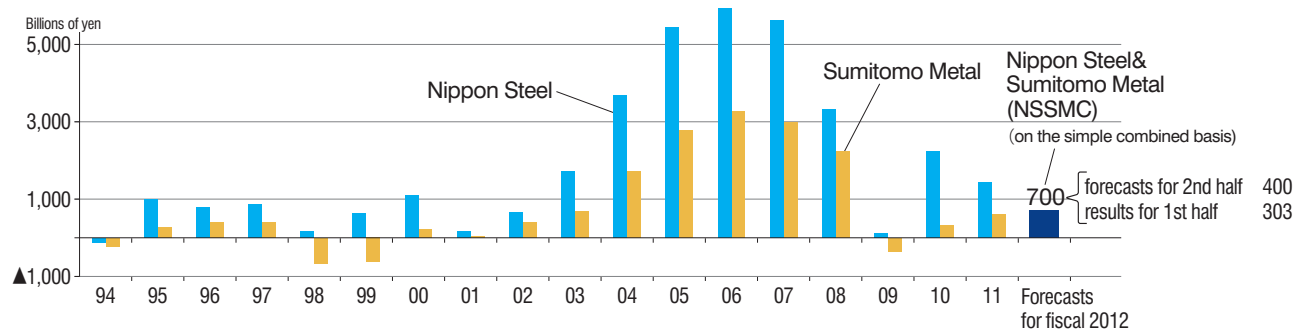
	forecasts for fiscal year	results for 1st half	forecasts for 2nd half		
	Nippon Steel& Sumitomo Metal(NSSMC)	Nippon Steel	results for 3Q	forecasts for 4Q	Nippon Steel& Sumitomo Metal(NSSMC)
ordinary profit (on the simple combined basis)*	600 (700)	195 (303)	125	275	400
net income (loss)	▲1,400	▲1,766	247	103	350
		Sumitomo Metal			
ordinary profit		108			
net income (loss)		▲1,338			

※ on the simple combined basis

① results for 1st half : the sum of results of Nippon Steel and Sumitomo Metal for 1st half

② forecasts for fiscal : the sum of above ① and Nippon Steel& Sumitomo Metal(NSSMC) forecasts for 2nd half

### Long-term trend of ordinary profit(loss) on consolidated basis



### IR Calendar: Upcoming Events

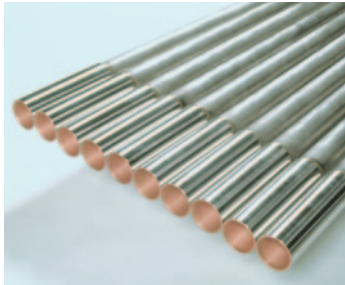
March 2013	Announcement of the Mid-term Business Plan
Early May 2013	Announcement of fiscal 2012 earnings and proposal for year-end dividend distribution
Early June 2013	Notice of convocation of the 89th Annual General Meeting of Shareholders
Late June 2013	The 89th Annual General Meeting of Shareholders

## Two 59th Okochi Memorial Foundation Production Prizes

NSSMC has received two Okochi Memorial Foundation Production Prizes. This prestigious prize awards notable contributions in the areas of production engineering and the implementation of high-level production methods in Japan.

### Development of high-alloy OCTGs and their manufacturing technology that enable increased production of natural gas

The following three technologies for high-alloy oil country tubular goods (OCTG) that are for natural gas exploration in a high-temperature, corrosive environment have been accredited: 1) mass-production technology for small to medium-sized OCTGs; 2) manufacturing technology for large-diameter OCTGs which enable to transport a large amount of natural gas at a time; and 3) development of ultra-strength high-alloy OCTGs that can withstand severe conditions.



High-alloy OCTGs that can withstand severe conditions

### Energy-efficient coke manufacturing technology that enables more use of coal

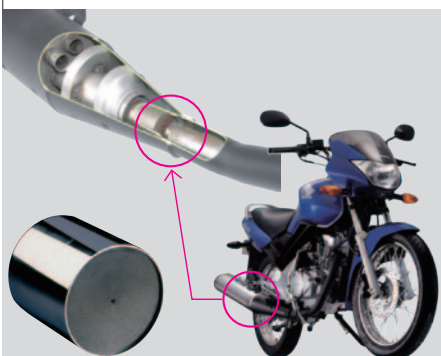
Technology that is jointly developed with other companies to enable manufacturing of superior coke while promoting maximum use of low-priced low-grade coal has been accredited. NSSMC is the first and only company which introduced this type of oven at its Oita Steel Works in 2008 and is introducing a second oven at its Nagoya Steel Works.



Oita Works' new type of coke oven

### Nippon Steel & Sumikin Materials Expand the metal substrates for catalytic converter business in the Asian market

Nippon Steel & Sumikin Materials Co., Ltd. has established a sales and marketing company in the suburbs of Jakarta, Indonesia for metal substrates for catalytic converter for cleaning automobile emissions and another one in Chennai, India, in addition to the base in China. The company is expanding globally as the world's only integrated manufacturer that produces metal substrates for catalytic converter for cleaning automobile emissions from stainless steel foil as raw materials.



Example of an application of the metal substrates for catalytic converter

## 2012 Thomson Reuters Top 100 Global Innovator Award

2012 THOMSON REUTERS  
**TOP 100**  
GLOBAL INNOVATORS

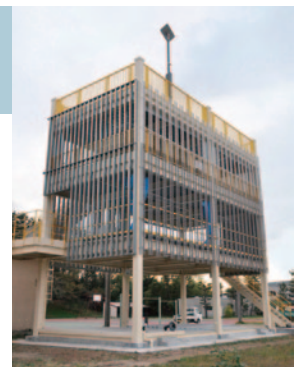
Thomson Reuters honors the world's top 100 corporations and institutions that are engaged in most innovative R&D activities and superior intellectual property activities each year. NSSMC has been one of the 25 Japanese companies represented and the only company selected from the global metal refining industry including steel.



The trophy for Thomson Reuters top 100 global innovator award

### Nippon Steel & Sumikin Metal Products Exchanged the use agreement of its tsunami evacuation facility with Sendai City

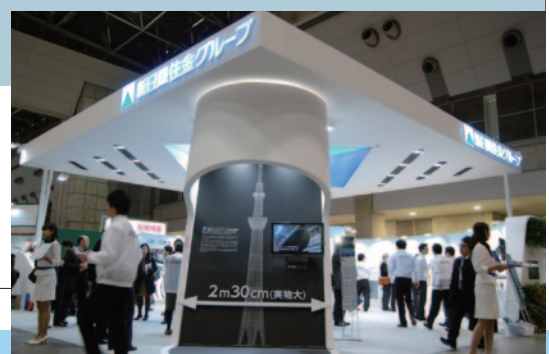
On November 20, 2012, Nippon Steel & Sumikin Metal Products Co., Ltd. made an agreement with Sendai City to offer its tsunami evacuation tower at the site of its factory in Sendai as an emergency evacuation place for local residents in the event of a tsunami. This is the first time a private company at the coast of Sendai City has offered to make its tsunami evacuation facility available to residents.



## Participated in the Eco-Products 2012 Exhibition

NSSMC participated one of the largest environmental exhibitions in Japan, which was held from December 13th to 15th, 2012 at the Tokyo Big Sight. It drew more than 180,000 people from elementary school kids to adults. NSSMC presented

its diverse measures ranging from environment/energy issues to disaster prevention, on the theme of "Three Ecos of Eco-Process, Eco-Products® and Eco-Solutions."



## Visits to Steelmaking Sites

NSSMC has 16 steel works that are located across Japan from Hokkaido to Kyushu. Each steel works manufactures distinctive products. Many of them have a history of over 100 years and have supported Japan's modernization, economic development and leading-edge monozukuri (manufacturing based on highly skilled craftsmanship). In this report let us introduce two of those sites where railway-related products are made: Yawata Steel Works' Kijo (Rail) Plant in Kitakyushu and Osaka Steel Works. NSSMC's rails, railway wheels and bogies are supporting the foothold of railways in the world.

### 1 Yawata Steel Works' Kijo (Rail) Plant

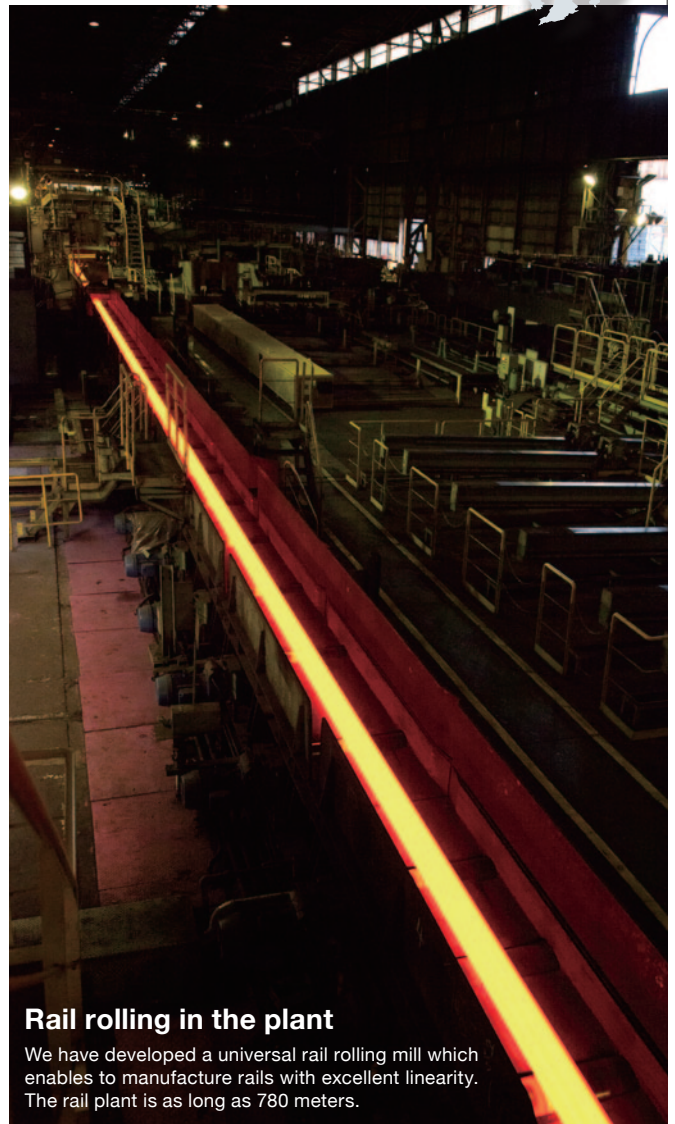
Yawata Steel Works  
Kijo (Rail) Plant

#### Red-hot rails run on a conveyor line

Yawata Steel Works commenced operation as the government-owned steel works in 1901. At present, it manufactures a wide range of products including steel sheets for automobiles and electric appliances, construction materials, spiral steel pipes, and rail. Reduced total cost is achieved with the world's hardest, straightest and longest-life rails manufactured in the Kijo Plant.



Rails ready to be shipped



#### Rail rolling in the plant

We have developed a universal rail rolling mill which enables to manufacture rails with excellent linearity. The rail plant is as long as 780 meters.



Mine railway requires rails that withstand heavy load burden.

# 2

## Osaka Steel Works

With the world's best forging technology



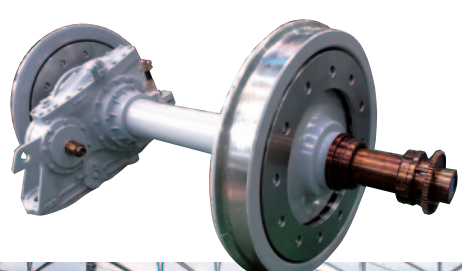
Osaka Steel Works was established as Sumitomo Steel Foundry in 1901 in Osaka and began manufacturing of railway products such as tires and railway wheels in 1920. At present, it manufactures products that use forging technologies, such as railway wheels, axles, and forged crankshafts.

High-grade integrated railway wheels and axles are used not only for Shinkansen and other railway cars in Japan, but also for other overseas high-speed railway such as Taiwan Shinkansen.

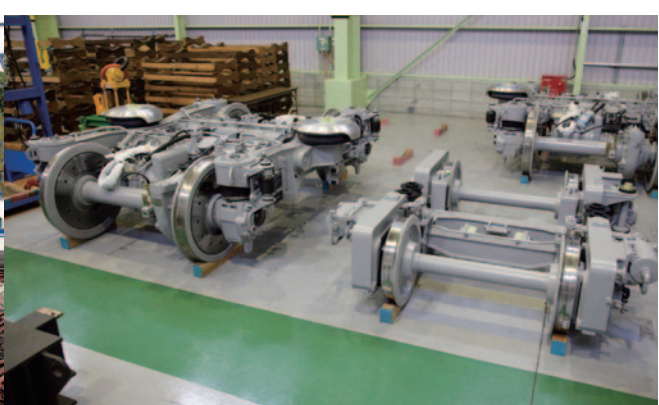
In addition, Osaka Steel Works manufactures many other products including automotive components and has Japan's No.1 share in forged crankshafts, which are one of key engine components.



Railway wheels being rolled



Example of an application for Tokaido Shinkansen N700A series of Nozomi train  
\* Central Japan Railway Company (JR Central)



Railway bogies for Shinkansen (left) and a streetcar (right)

# NIPPON STEEL & SUMITOMO METAL CORPORATION GROUP

## 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.

## Shareholder benefits

NSSMC conducts various programs for shareholders such as plant tours and business briefings. Details of such programs shall be forwarded to eligible shareholders separately.

### Plant Tours and Business Briefings

Event	Program	Schedule	Eligible shareholders
Invitation to plant tours (sortition)	Shareholders are invited to tour our steel works and other plants. (Plant tours are conducted at four to five steel works and other plants twice a year, in the spring and the fall. Eligible shareholders are asked to apply by selecting one of those plants.)	Semi-annually (March to April and October to November)	Shareholders who own <b>10,000 or more shares</b> (subject to change) as of the end of September and March.
Invitation to business briefings (sortition)	Briefings are conducted at Tokyo, Osaka and elsewhere.	Semi-annually (July to September and February to March)	Shareholders who own <b>10,000 or more shares</b> (subject to change) as of the end of September and March.

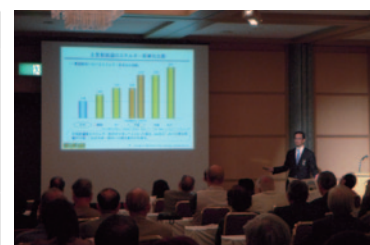


Plant tour: Shareholders see how steel is manufactured up close.

(Note) In 2013 plant tours will begin from the fall (around October or November).

### Other Events

Event	Program	Schedule	Eligible shareholders
Invitation to football games of the Kashima Antlers soccer team (sortition)	Shareholders are invited to J1-League football games (home and away).	Semi-annually (April to August and August to December)	Shareholders who own <b>5,000 or more shares</b> as of the end of September and March.
Sending the company's calendar	NSSMC's company calendar is sent to shareholders.	Once a year (late November to early December)	Shareholders who own <b>7,000 or more shares</b> as of the end of September
Invitation to concerts at Kioi Hall (sortition)	Shareholders are invited to the "Kioi Sinfonietta Tokyo" concerts and other concerts.	Semi-annually (April to July and September to March)	Shareholders who own <b>50,000 or more shares</b> as of the end of September and March.



Business briefings: NSSMC's directors present the company's business strategies.

## Stock Information

Administrator of the register of shareholders (Mailing address and phone inquiries)	Stock Transfer Agency Business Planning Department, Sumitomo Mitsui Trust Bank (Mailing address) 2-8-4 Izumi, Suginami-ku, Tokyo 168-0063 (Phone inquiries) Toll-free number* for NSSMC's shareholders: 0120-785-401 Toll-free number* (main switchboard): 0120-782-031 *For domestic phone calls only.
Change in address, application for NSSMC's buy-back programs for shares constituting less than one trading unit (1,000 shares).	Please contact the securities company where you have an account. (If your shares are not managed in the account of securities companies, please contact the Sumitomo Mitsui Trust Bank.)
Application for receipt of dividends payable.	Please contact the Sumitomo Mitsui Trust Bank (Administrator of the register of shareholders).