



**NIPPON STEEL &  
SUMITOMO METAL  
CORPORATION**

# Shareholder Letter 2016

To Our Shareholders,

As always, we are thankful for your support and cooperation. Together with our sincerest greetings, we are pleased to provide you with this Shareholder Letter and to tell you about the NSSMC Group's management policies and overview of business operations.

We will appreciate our shareholders' continued support.

February 2016

Nippon Steel & Sumitomo Metal Corporation



Oita Works

## To Our Shareholders

**Let us thank you first and foremost for your understanding and support.**

**We are grateful of this opportunity to give you an update on our business performance and strategy as well as recent developments.**

### Business environment

In 2015, oil prices dropped significantly and China's economy showed more signs of slowdown. Lower oil prices depressed the energy sector, and combined with weakness in primary commodity prices, led to stagnation in commodity-exporting countries. China's slowdown has also cast a dark shadow over ASEAN and other emerging economies that have strong economic ties with China.

Such changes occurred faster and with bigger impacts than initially expected. The global steel industry has entered the most severe phase in its recent history, a phase which is expected to continue for the time being. A downward turn in China's steel demand resulted in a slowdown in worldwide steel demand. China's excess capacity represents as much as about one-half of the global excess capacity, which is said to approximate 700 million tons. China thus remains burdened with excess exports and excess production, resulting in a deterioration of the global demand-supply balance for steel materials. While signs of a slight uptick emerged at the end of 2015, it would take a long time to eliminate excess capacity, suggesting the present intensified competition will persist. In addition, there is a trend for stronger protectionism around the world. Importing countries are filing anti-dumping petitions or imposing safeguard measures. Looking at the supply side, competition was intensified in the high-grade steel segment. Production capacity increased further with new blast furnaces being blown in China and Vietnam. Thus the steel market outlook in Asia is extremely uncertain.



### What we have done

Since Nippon Steel and Sumitomo Metals merged to form NSSMC in October 2012, three years have passed and we have steadily generated synergy effects from business integration. We formulated our first medium-term management plan in March 2013 and achieved many of the plan's targets by fiscal 2014. Consequently we developed the second medium-term management plan for fiscal 2015-2017 in March 2015. Under the new plan, we aim to enhance both domestic and overseas businesses, by leveraging our "technology," "cost," and "being global" as the forces behind our core competitiveness.

Thanks to launch of some new overseas operations, our overseas downstream annual production capacity has almost doubled to 19 million tons in the past two years.

### What we will do going forward

Under the influence of the rapidly deteriorating environment for the global steel industry, the performance of many of our competitors has turned into the red, but we

have maintained our relatively advantageous profitable position, although our profit level is not yet satisfactory. For the long term, global economic and industrial development is expected to drive steady growth of global steel demand, including demand for high-grade and middle-grade steel products, our areas of strength. Despite the imminent difficult conditions, we will keep that in mind to face the present extremely harsh environment, embrace our challenges, and make strong foothold toward the future.

### **Implementation of cost improvement and facility optimizing measures**

We intend to implement our planned cost improvement and facility optimizing measures, and realize maximum benefits derived from the optimizing strategy. On top of that, given the current environment, we will make further progress in cost reduction, become more competitive, and improve our financial position.

### **Promotion and enhancement of both domestic and overseas businesses**

In the domestic business, we will seek for more synergy effects from the integration of domestic manufacturing bases and allocate more equipment and human resources to enhance their capability as mother mills in the steelmaking business.

In overseas business, we will fully and quickly capitalize on our global supply network, which we have established ahead of our competitors and have become one of our strengths.

### **Enhancing technological superiority**

We will also further enhance technological superiority, as it is the backbone of our core competence. Our manufacturing, sales, engineering, and R&D divisions will coordinate and continue technological development, in addition to helping customers solve specific issues. Looking around the world, we cannot but find technological progress to be continually remarkable and sometimes it may compel us to drastically change conventional ideas. Keeping an eye on the latest trends in technology and other materials, we are determined to smartly utilize the most advanced broad-based developments, clarify our priorities, and accelerate our innovative development in products and processes.

### **Maximizing Group power**

We will generate more synergy effects from the integration, which promises a great advantage to us, and strengthen the NSSMC Group's total power. As many of our Group

companies have already made progress in integration, this is now the turn of those companies to generate more synergy effects. We as the entire NSSMC Group will generate such synergy effects quickly and to the maximum extent.



President Shindo visiting the Hikari Pipe & Tube Division of the Oita Works

### **Fiscal 2015 operating forecasts and year-end dividend policy**

For fiscal 2015 (ending March 31, 2016), while the Company will continue to devote maximum efforts to its operations, the Company's forecast of consolidated ordinary profit has been revised from a previously-announced ¥250.0 billion to ¥200.0 billion, representing a decrease of ¥50.0 billion, due to the extremely harsh business environment.

Regarding the year-end dividend distribution, we plan to distribute a dividend of ¥15.0 per share (effectively ¥45.0 per share for the year meaning a consolidated payout ratio of 30%, by recalculating the first-half dividend given the share consolidation effective October 1, 2015), in consideration of earnings forecasts and other factors. (Please see "Operating results published on February 1, 2016" on page 3 for details.)

We pledge to strive to steadily carry out various measures based on the above and to generate profits.

We would like to ask for your continued support and understanding.

Representative Director and President,  
**Kosei Shindo**

# Overview of Business Operations

(Disclosed on February 1, 2016)

## Forecasts for Fiscal 2015 and Year-End Dividend Distribution Policy

### Business environment

Overall global economic conditions stayed moderate with the slowdown in growth. Business conditions remain strong in the United States, and the recovery continued at a moderate pace in Europe. However, China's economic slowdown has also become more pronounced, while the ASEAN economies were depressed. In Japan, an economic recovery has been delayed, as private consumption was sluggish and companies were cautious about capital investment.

Japan's steel market had a weak undertone due to sluggish capital investment and other factors. Regarding overseas steel demand, on top of the slowdown in steel demand in China, the ASEAN region also experienced stagnant demand. Given a decline in China's domestic demand led to a persistent expansion of their exports (see Graph 1), resulting in a sharp drop in the international steel market. Despite a slight uptick at year end, the sluggish condition remains (see Graph 2).

### Forecasts for fiscal 2015

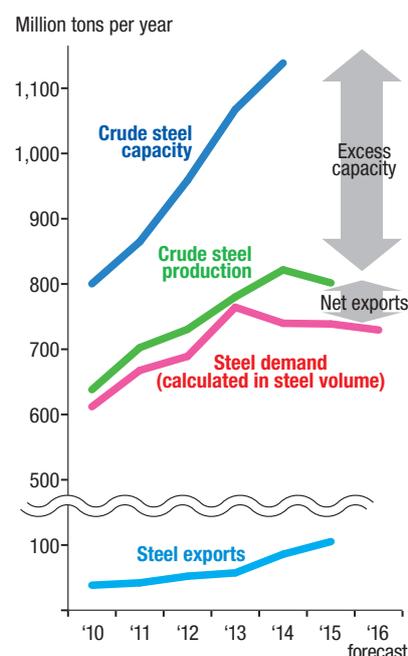
Under such a business environment, the Company is devoting maximum efforts to its operations but is severely affected by the deteriorated overseas market conditions in both volume and pricing, sluggish demand in the energy sector, and deteriorated performance by some Group companies. As a result, consolidated ordinary profit of ¥200 billion and net profit of ¥140 billion are expected for the current fiscal 2015 (ending March 31, 2016), suggesting a decline in sales and profit (see the table).

### Year-end dividend distribution policy

NSSMC's basic profit distribution policy is to pay dividends from distributable funds, in consideration of the operating results and such factors as capital requirements for investment and other activities aimed at raising corporate value and performance prospects. At the same time, NSSMC takes into consideration the financial structure of the Company. The Company has adopted a consolidated payout ratio target of around

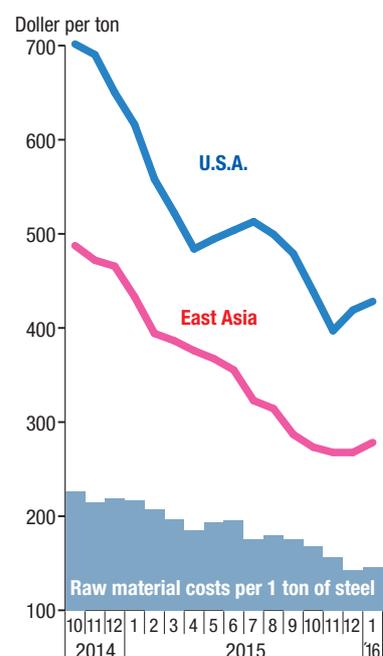
[Graph 1]

China's steel demand, production, and capacity



[Graph 2]

Overseas hot-rolled steel markets



Forecasts for Fiscal 2015 (Billion yen)

	Fiscal 2014	Fiscal 2015 forecasts (comparison to Fiscal 2014)	
Net sales	5,610	4,970	(-640)
Ordinary profit ROS	451.7 8.1%	200.0 4.0%	(-251.7) (-4.0%)
Net profit	214.2	140.0	(-74.2)
Crude steel production (non-consolidated basis; million tons)	44.96	42.40	(-2.56)
Foreign exchange rate (¥/\$)	109	121	Depreciation of ¥12

20%–30% as the benchmark for the “payment of dividends from distributable funds in consideration of the consolidated operating results.” Regarding the year-end dividend distribution, in accordance with the basic profit distribution policy described

above, the Company plans to distribute a dividend of ¥15.0 per share (effectively ¥45.0 per share for the year, for a consolidated payout ratio 30%, by recalculating the first-half dividend given the share consolidation effective October 1, 2015).

### IR Calendar:

Late April 2016	Earnings announcement of fiscal 2015 (ending March 31, 2016) and proposal for year-end dividend distribution
Early June 2016	Notice of convocation of the 92nd Annual General Meeting of Shareholders
Late June 2016	The 92nd Annual General Meeting of Shareholders

## 1) Commencement of discussions regarding making Nisshin Steel a subsidiary of NSSMC, and other items

NSSMC and Nisshin Steel Co., Ltd. have signed a memorandum of understanding, pursuant to which both companies will commence discussions regarding making Nisshin Steel a subsidiary of NSSMC with a target set for March 2017 and with NSSMC's constant supply of steel slabs to Nisshin Steel as a premise of the transaction.

By combining management resources of both companies and creating synergy effects, NSSMC aims to raise its competitiveness, enhance the position of the NSSMC Group, including Nisshin Steel, as "Best Steelmaker with the World-Leading Capabilities," and achieve sustainable growth and higher corporate value in the mid- to long-term.



NSSMC's President Shindo (left) and Nisshin Steel's President Miki

### NSSMC

- Global top-level technological leadership and prowess at making products as required
- Cost competitiveness particularly in iron and steelmaking
- Global capability and responsiveness

### Nisshin Steel

Customer and market responsiveness enabled by meticulous development, marketing and other activities to satisfy customer needs



See details in the website: <http://www.nssmc.com/en/news/index.html>

## 2) Enhancement of the Strategic Partnership with Vallourec

On February 1, NSSMC reached an agreement with Vallourec S.A., an important strategic partner in the pipe and tube business, to enhance the existing strategic partnership by expanding existing business alliances.

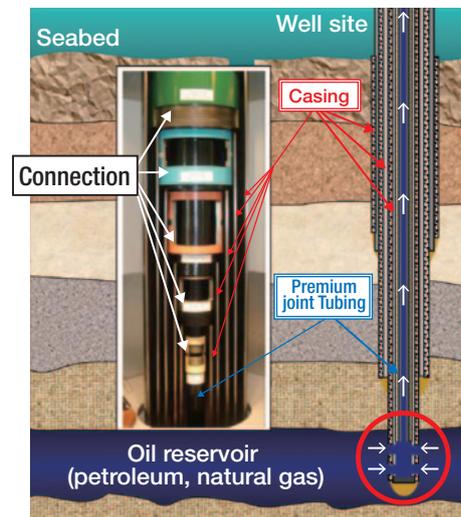
Vallourec is a leading manufacturer of OCTG seamless pipe, headquartered in France and with manufacturing facilities in Europe, Brazil, and other countries. VAM® is the brand name of the premium joints for seamless pipe, under which products are co-developed by NSSMC and Vallourec. With more than 200 shops in 46 countries ensuring product distribution and maintenance support services, VAM® has earned an outstanding reputation among customers.

After NSSMC and Vallourec have enjoyed the partnership for the VAM® premium joints for more than 40 years, NSSMC and Vallourec will now transform the collaboration into a more comprehensive partnership by expanding the scope of business cooperation for VAM®, enhancing the joint seamless pipe business in Brazil, and by means of NSSMC's equity investment in Vallourec. These initiatives would help each of NSSMC and Vallourec to individually expand and sustain profits even under the current severe market conditions driven by the low oil price levels.



See details in the website: <http://www.nssmc.com/en/news/index.html>

Structure of oil well and gas wells



## 3) Repurchase of Shares of Common Stock

At its meeting of the Board of Directors held on February 1, 2016, NSSMC resolved to repurchase shares of its common stock.

Type of shares to be repurchased	Common stock
Total number of shares to be repurchased	40,000,000 shares (maximum)
Total repurchase amount	100 billion yen (maximum)
Repurchase period	From February 2, 2016 to June 7, 2016

# Environmental management initiatives: NSSMC's "three ecos"

On December 10-12, 2015, the "Eco-Products 2015," the largest ecological exhibition in Japan, was held. NSSMC has participated in every of the 17 times this exhibition has been held, and this time showing in its exhibit 35 initiatives undertaken by the NSSMC Group. Several of those are presented here, along with the "three ecos" (eco products™, eco solutions, and eco process) as keywords.

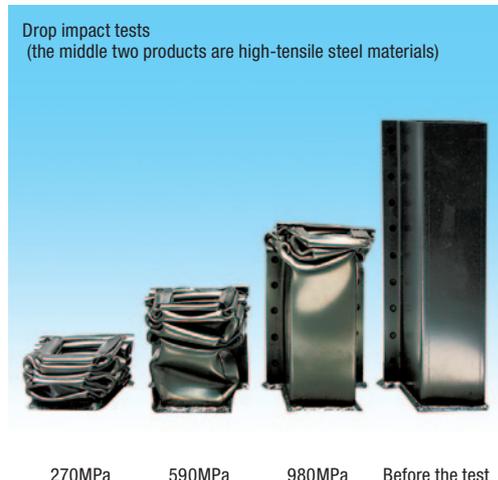
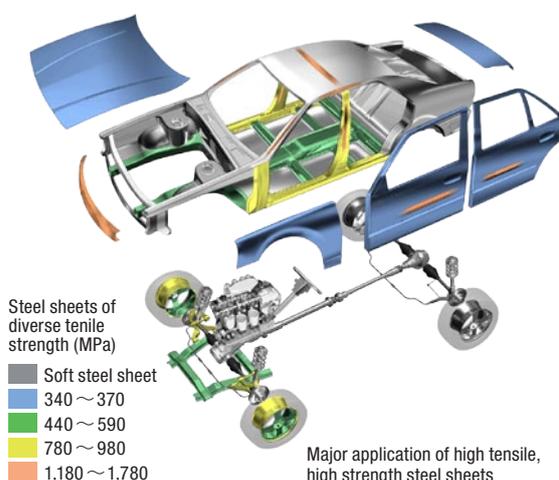


## 1. Eco products™

NSSMC develops and offers eco-friendly products that have highly specialized functions, which are used in diverse end products such as automobiles and home appliances. They contribute to a reduction in CO2 emissions and the lessening of the environmental burden at the point of use at customers.

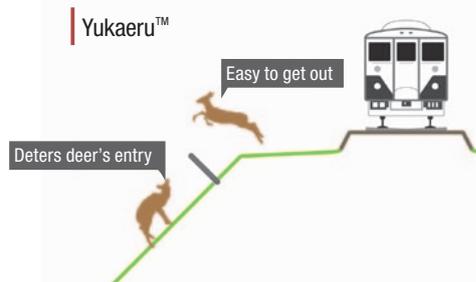
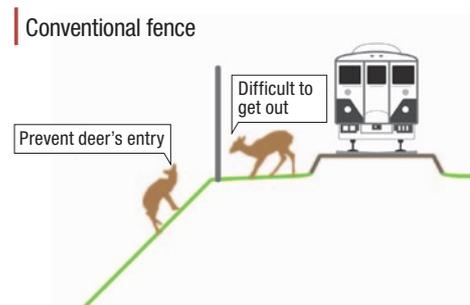
### High tensile, high strength steel sheets for automobiles ——— Lightweight but strong steel ensures safety.

In order to raise the fuel efficiency of automobiles, reduction of the weight of vehicle bodies is an important challenge. At the same time, the "enhancement of collision safety" is equally important. NSSMC's high tensile, high strength steel sheets can solve these incompatible issues. NSSMC has been the first to develop and use for commercial application such steel which is excellent in formability, in addition to having the required strength, ultimately contributing to prevention of global warming.



### Yukrid™ ——— The path of deer is destined to iron.

In Japan, there are 5,000 incidents of deer colliding with a train each year. Nippon Steel & Sumikin Metal Products Co., Ltd. found out that deer tend to approach railway tracks to lick the iron rails and has therefore developed Yukrid™, an innovative measure to prevent deer from approaching railway tracks. Yukrid™ consists of Yukuru™ material that contains iron to attract deer, and Yukaeru™ fencing that deters deer's entry but is easy for them to get out. If this product is adopted it may help reduce collisions with deer and the resulting damage and economic loss in agriculture, forestry, and railway transportation.





## 2. Eco process

NSSMC aims at preserving the environment by efficiently utilizing resources and energy, reducing waste in and out of the companies, and promoting recycling at every stage of operations including manufacturing processes and transportation of products.

### Plastic recycling — Steelmaking technologies contribute to waste plastic recycling.

NSSMC collects waste plastic products such as containers and bottles from households and uses them in entirety to produce oil, coke, and gas through a thermal decomposition process in the coke oven, and recycles them as reprocessed plastic materials. At present, NSSMC's seven steel

works are engaged in such operations and recycle about 30% of waste plastic collected by municipalities across Japan. As a single corporation, the company's recycling capacity is one of the largest in the world.



Collected and stored waste plastic



Solidified and formed waste plastic



Coke oven



Plastic pellets



## 3. Eco solution

Diffusion of eco-friendly fuel-cell vehicles requires certain infrastructure, including hydrogen stations, to be established. NSSMC and Nippon Steel & Sumikin Pipeline & Engineering Co., Ltd. have jointly developed a stainless steel for high-pressure hydrogen environments, HRX19TM, which has overcome the problem of embrittlement and have realized a longer product life and both improvement in safety and reduction of the weight of pipes for hydrogen stations.

### Hydrogen stations — Hydrogen has the potential of helping create the future



Hydrogen stations (photo from the website of Tokyo Gas Co., Ltd.)



HRX19®

Sea desertification, a problem of the sea bed losing ability to support life due to a decline in kelp, brown sea weed, and other varieties of seaweed, is happening along about 4,000 km of the seashore in various parts of Japan. NSSMC's "Beverly™ Series," the iron supply units composed of steel slugs, humus, and soil, is like a dietary-supplement for the sea. They are placed on the sea bed where plants absorb the iron and contribute to a creation of sea forests.

### Beverly™ Series — Iron supplement to the unhealthy sea

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"Desertified" sea bed



Kelp is reborn and flourishing

# NSSMC 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 benefit programs

We have a shareholder benefit program to express our gratitude to shareholders and to facilitate their understanding of our Group activities.

Details on programs, such as how to apply, will be separately informed to applicable shareholders.

### ● Plant tours and business briefings

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

### ● Other shareholder benefit programs

Events	Summary of programs	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 500 or more shares 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 5,000 or more shares as of the end of September or March
Invitation to concerts at Kioi Hall (by lottery)	Shareholders are invited to periodic Kioi Sinfonietta Tokyo concerts and other concerts	Twice a year ( May-July and September-February )	

## Administrative information for shareholders

Items	Details
Registration agent	Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Business (Mailing address) 2-8-4 Izumi, Suginami-ku, Tokyo 168-0063 Japan (Phone inquiries) 0120-785-401 (Toll-free for domestic phone calls only) +81-3-3323-7111 (Outside Japan)
Notification of change of address and request for purchase and sale of fractional unit shares	The request shall be made through a securities company in which shareholders have an account. (With respect to shares administered through a special account, please contact Sumitomo Mitsui Trust Bank, Limited.)
Request for payment of unpaid dividends	Please contact Sumitomo Mitsui Trust Bank, Limited.