



**NIPPON STEEL &
SUMITOMO METAL
CORPORATION**

Shareholder Letter 2017

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.

March 2017

Nippon Steel & Sumitomo Metal Corporation



Yawata Works



To Our Shareholders

Let me thank you first and foremost for your understanding and support.

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

Business environment

In 2016, a lot of unexpected things happened. The United Kingdom began its first step to withdraw from the European Union, and Mr. Donald Trump was elected President of the United States. Behind such unexpected outcomes lie worldwide problems such as widening income gaps, the decline of the middle class, and immigrant or refugee issues. I believe that we could also say that the process of globalization, which put priority on financial aspects, led by the United States and since the end of the Cold War, has begun to unfold its contradictions and problems. This has led to emergence of an introverted attitude; many people now think only about the interests of their own country, and to a trend toward isolationism and protectionism. The global political and economic outlook has therefore become more and more uncertain.

In such a challenging environment, the year 2016 was truly a year of perseverance for the steel industry. We began the year by seeing some recovery in the steel market but from mid-year, along with a significant appreciation of the yen, the coal price surged putting downward pressure on the margin for steel. We also witnessed a sharp increase in anti-dumping, safeguard measures, and other protectionist moves. In the midst of such environment, NSSMC recorded depressed earnings in the first

half of fiscal 2016 and I am sorry to report to our shareholders that we had to forego the usual interim dividend payment.

With regard to safety, I deplore that 13 serious accidents occurred in Japan's steel industry and that seven were at NSSMC. This has led to setting up a public-private council under the guidance of the Ministry of Economy, Trade and Industry and other relevant ministries and agencies. Through participation to this council, we at NSSMC are objectively reviewing our present safety management status and we must improve our safety level.

In 2017, I am anticipating that the environment surrounding the steel industry will continue to be severe. Coking coal and other material prices, for example, are likely to stay at high levels, while excess production capacity persists. On the other hand, there are early signs for the market environment to reverse. We also began to see some tailwinds, including steady demand growth for middle- and high-grade steel materials, in emerging countries such as in the ASEAN region, which we identify as one of our major markets. Such a positive trend is being driven by accelerating infrastructure spending and rising demand for high-performance materials associated with the advancement of industries.

Priority issues in 2017

Safety revamping

By positioning 2017 as “a year dedicated for safety enforcement,” we are planning and thoroughly executing measures based on the following five approaches: to support priority workplaces which face serious safety issues; to accelerate making equipment inherently safe; to eliminate repetition of similar accidents; to establish or enhance special safety-related operations and the systems that support them; and to implement measures to improve safety levels of subcontracting companies.

On January 5, 2017, however, our Oita Works' plate mill had a fire accident and is expected to need about eight months for resuming operation (September 2017). We sincerely regret the great trouble and anxiety caused to our shareholders and those concerned by this accident. Emergency Control Headquarters, headed by myself, was established to investigate the cause of the accident and make company-wide efforts to implement measures to prevent occurrence of a similar accident.

Completing the mid-term management plan measures in its final year of 2017

Partly due to rapid changes in the business environment, we are quite far from our ROS (return on sales), ROE (return on equity), and other financial targets set for the current mid-term management plan ending in fiscal 2017. However, we intend to fully accomplish the measures we had set for ourselves in keeping with our basic strategy and further strengthen our foundations.

Stable operation and securing profit margin

As for production and equipment, we will keep operations stable and achieve the planned technical parameters, and make sure to improve cost control. As for sales and marketing, in today's environment of rising material prices, we will closely work with our customers to help them understand us better and protect the margin that we earn.

Enhancing mother mills' competitiveness

In terms of facilities, we will implement the measures to prevent and minimize troubles across the entire group and conduct comprehensive check-ups and maintenance that go one step beyond, in order to support stable production. In terms of people, we have increased the number of newly-hired employees from 2016, and we have pursued efficiency at the same time. We intend to develop the new hires to become an effective part of our workforce early and smoothly hand over techniques and skills into a younger generation.

Deepening the globalization strategy

I am pleased that our overall overseas business has become profitable. This partly stemmed from making operational indicators visible, and from more efficient and advanced overseas management teams. We intend to further expand our profits, using our accumulated know-how.



Maximizing combined Group strength

In March 2017, a blast furnace integrated steel manufacturer Nisshin Steel will become a subsidiary of the NSSMC Group. Once this materializes, we will further deepen coordination within the Group and generate synergies at an early stage under the best-for-the-Group strategy.

Discussing our future direction for 2018 and beyond

The global steel industry's competitive landscape is now on the brink of changing at breakneck speed. Bearing that in mind, we will flexibly and boldly start considering a new management plan for 2018 and beyond, with foresight regarding the next generation.

Technological development

Engineering and development capabilities are our source of competitiveness. We are undertaking development of the next-generation process technology, with due consideration to

environmental friendliness, and of products and solutions that can excel competing ones.

Business strategies by product type

We believe that NSSMC's value is to support the industrial development with our comprehensive capabilities that are composed of leading-edge technology, high quality, strength in delivery, solution proposals, and other factors. From a viewpoint of what is needed to be done for our value to be most recognized by customers, we will carry out more in-depth study on business strategies by product type and region, including a brand strategy.

Domestic steelworks and other production bases

We will be unceasingly striving to enhance competitiveness, as we have done in the past. Based on our Group's comprehensive capabilities, we will make use of the Internet of Things (IoT), Big Data, and Artificial Intelligence (AI) to enhance operating capability and seek to become resilient in manufacturing in the face of changing conditions.

Software aspect in management

“Standardization” will be an initiative of the entire company. In my view, “standardization,” combined with IT innovative technology, will be a foundation that assures what next-generation management will be. This should support an optimal production framework and at the same time contribute to drastic operational improvement in human resource development, safety and quality management, and other areas. I believe that this should also contribute to raising our Group's comprehensive capabilities, including our overseas operations.

Fiscal 2016 operating forecasts and year-end dividend policy

For fiscal 2016 (ending March 31, 2017), our forecast for ordinary profit is ¥130 billion, the same as at the time of the announcement of the first-half results (November 1, 2016). Our forecast for profit attributable to owners of the parent has increased by ¥20 billion from ¥60 billion disclosed in November to ¥80.0 billion, due to factors such as an uptrend in the earnings of affiliates.

Regarding the year-end dividend distribution, we plan to distribute a dividend of ¥25.0 per share (¥25.0 per share for the year and the consolidated payout ratio 28%), in consideration of earnings forecasts and other factors. (Please see “Operating results published on February 2, 2017” on page 3 for details.)

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

Representative Director and President,
Kosei Shindo

Overview of Business Operations

(Disclosed on February 2, 2017)

Consolidated Earnings Forecasts for Fiscal 2016 and Year-End Dividend Distribution Forecasts

Business environment

The global economy is expected to stay on a moderate recovery trend, with continued stable growth in the United States, a gradual recovery in Europe, and some improvement in China, stemming from factors such as the positive impact of government economic stimulus measures.

The Japanese economy is also expected to maintain its moderate recovery, supported mainly by an improvement in the employment environment, the positive effects of government economic measures, and an uptrend in corporate production activities.

Domestic steel demand is expected to be firm mainly due to a recovery in the automobile industry. Meanwhile, overseas steel demand is likely to be robust in North America and ASEAN countries and China's domestic steel demand is also anticipated to remain firm. Global market conditions are thus expected to continue to show a solid trend against the background of an improvement in the supply-demand balance.

Forecasts for fiscal 2016

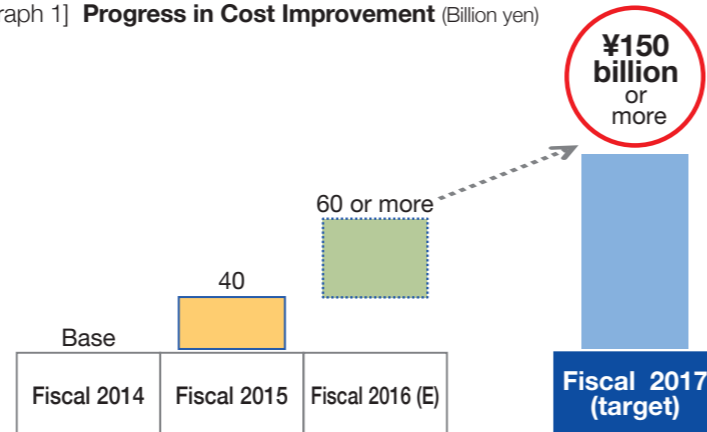
Under such a business environment, consolidated ordinary profit of ¥130 billion and net profit attributable to owners of the parent of ¥80 billion are expected for the current fiscal 2016 (ending March 31, 2017), suggesting a decline in sales and profit (see table).

The main factors behind the forecasts are: while we have steadily improved costs as planned in the mid-term management plan (Graph 1); prices of coal and other raw materials have surged since last summer (Graph 2); our profit margins have been squeezed due to the difference in the degree of penetration of sales price adjustments to reflect increases in costs (despite our request for price adjustment to our customers); depressed oil prices have resulted in sluggish demand for steel materials in the energy sector; and the Oita Works steel plate mill's fire accident in January had reduced production and shipments (ordinary loss, around ¥-10 billion).

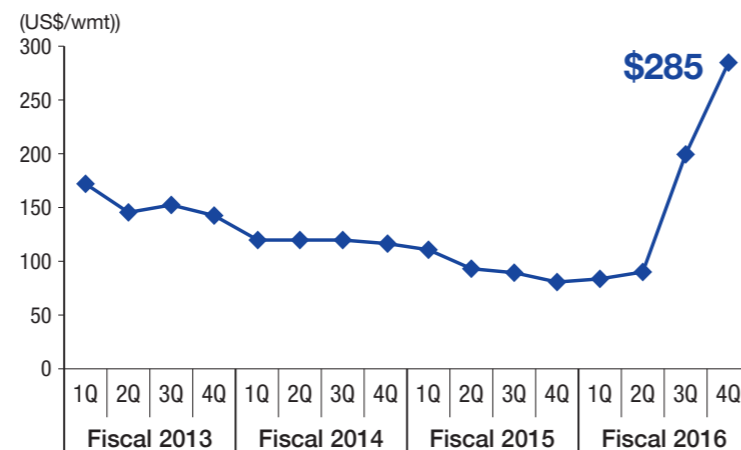
Year-end dividend distribution policy

NSSMC's basic profit distribution policy is to pay dividends from distributable funds (around 20-30% in terms of the consolidated payout ratio) in consideration of the operating results and such factors as capital requirements for investment aimed at raising corporate value and performance prospects, while also considering its financial structure on both consolidated and non-consolidated bases. Regarding the year-end dividend distribution, in accordance with the basic profit distribution policy, we plan to distribute a dividend of ¥25.0 per share (¥25.0 per share for the year and the consolidated payout ratio 28%).

[Graph 1] Progress in Cost Improvement (Billion yen)



[Graph 2] Hard Coking Coal Contract Prices



Forecasts for Fiscal 2016

(Billion yen)	Fiscal 2015	Fiscal 2016 forecast (Comparison to Fiscal 2015)	
Net sales	4907.4	4550.0	-357.4
Ordinary profit	2,009	1,300	-70.9
ROS	4.1%	2.9%	-1.2%
Profit attributable to owners of parent	145.4	80.0	-65.4
Crude steel production (non-consolidated basis; million tons)	42.17	42.80	+0.63
Foreign exchange rate (\$-¥)	121	109	Appreciation of ¥12

IR Calendar:

Late April 2017	Earnings announcement of fiscal 2016 (ending March 31, 2017) and proposal for year-end dividend distribution
Early June 2017	Notice of the 93 rd General Meeting of Shareholders
Late June 2017	The 93 rd General Meeting of Shareholders

TOPICS

1 Making Nisshin Steel Co., Ltd. a subsidiary of NSSMC



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

NSSMC will complete the procedures to make Nisshin Steel Co., Ltd. a subsidiary within March 2017. Both companies will combine their resources to create synergy effects and promote various joint measures including NSSMC's supply of steel slabs to Nisshin Steel. The NSSMC Group, including Nisshin Steel, aims to enhance its position as the "Best Steelmaker with World-Leading Capabilities," and to achieve sustainable growth and higher corporate value in the mid- to long-term.

2 Received the first IT General Award in the steel industry



The award ceremony

NSSMC was awarded the 2016 (34th) Information Technology General Award from the Japan Institute of Information Technology. This award is given to companies, groups, and others for their outstanding efforts and achievements in enabling management innovations utilizing information technology. The General Award, in particular, is regarded as the organization's top award and NSSMC is the first in the steel industry to receive this honor. NSSMC was highly evaluated for its large-scale system integration of the No. 1 company and the No. 3 company in Japan's steel industry, and its building and development of an advanced production control system model.

3 Received the New Energy Award (METI Minister's Award) from the New Energy Foundation



Kamaishi Works coal-fired thermal power plant

NSSMC, jointly with IHI Corporation, received the 2016 New Energy Award (METI Minister's Award) from the New Energy Foundation, for its visionary approach to expand biomass* mixed combustion in pulverized-coal-fired thermal power generation. The METI Minister's Award is the highest of the New Energy Awards.

Specifically, initiatives such as achievement of one of Japan's largest-scale mixed combustion processes with a high ratio of biomass and procurement of a massive amount of biomass resources in alliance with forest cooperatives. These activities are highly evaluated as a visionary approach by which significant CO₂ emission reduction and greater use of forestry biomass can be anticipated.

* Biomass is a renewable energy source derived from organic matter, excluding fossil resource.

4 Yukuru™, the material to control movements of deer, received the Good Design Award

Yukuru™, the deer-inducing material developed by Nippon Steel & Sumikin Metal Products Co., Ltd., received the 2016 Good Design Award (sponsored by Japan Institute of Design Promotion). Yukuru™ is one of the products that make up the deer-preventive Yukrid™ system. Based on the finding that deer tend to approach railway tracks to lap iron of the rail, this is the world's first deer attractant (a salt cube) to induce deer to not go to train rails. The product uses the effect of iron to attract deer. Yukrid™ has already been adopted by many railway operators and municipalities as it is easy and cheap to use to prevent killing of animals and interruption of service, and is environmentally friendly.



Deer lapping Yukuru™ (product photo: upper left)

NSSMC Group's environmental management initiatives



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.

ABREX™, abrasion resistant steel plate — Extremely hard and durable

Use of ABREX™ enables reduction of the weight of end products in which it is used as it has higher abrasion-resistance than conventional steel plates. It is excellent for use in construction machinery and mining equipment, which are operated in a harsh environment such as civil engineering projects and resource development. ABREX™ is eco-friendly as it helps reduce life-cycle costs and is lightweight, and thus more energy efficient.



A dump truck using ABREX™ (for an open-box bed)

Titanium — Lightweight, beautiful and durable

NSSMC's titanium material that has distinctive aesthetic quality and color due to its unique surface finish is used for external roofs and walls of shrines, temples and landmark architecture. As an example, tiles made of this titanium have been used for the roofs of Sensoji Temple's Hozo-mon Gate, main hall, and five-story pagoda. The tiles are about 20% lighter than conventional ones and have superior corrosion resistance, contributing to raise the durability and earthquake resistance of special buildings.



Sensoji Temple Hozo-mon Gate, Tokyo (Roof tiles on the right)



Organic EL lighting materials — Vivid, thin and energy-efficient

Nippon Steel & Sumikin Chemical Co., Ltd. manufactures electroluminescent materials used in organic EL lighting devices. The main features of those devices are that organic EL layers are ultrathin (less than one micron or 0.001 mm) and are in a sheet form. By designing and combining red, green, and blue emissive layers, white light emission in a natural tone is obtained. In addition to high energy efficiency, organic EL lighting is friendly to people and the environment without using ultraviolet light or mercury.



Mirror stand, exhibited at the "Eco-Products 2016" (OEL units provided by Pioneer Corporation)



Organic EL lighting



Eco process

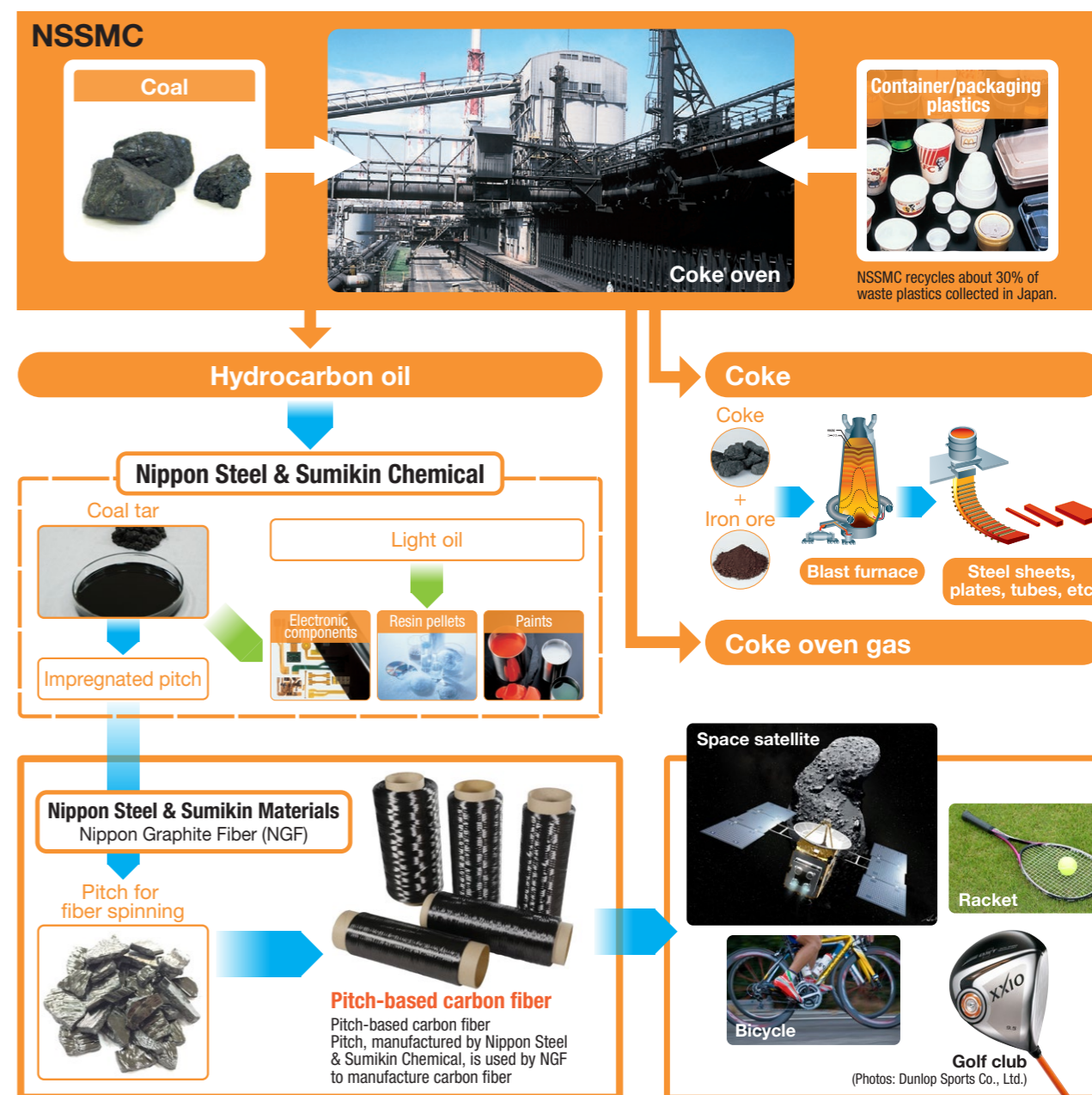
NSSMC aims at preserving the environment by efficiently utilizing resources and energy, reducing waste in and out of the companies, and promoting recycling at every stage of operations including manufacturing processes and transportation of products.

Efficient use of limited resources in steelmaking processes — Coal-derived carbon fiber

By using coal-tar pitch*, a byproduct from the production of the coke used in steelmaking, as raw material, Nippon Steel & Sumikin Materials Co., Ltd. produces pitch-based carbon fiber. Being lightweight and strong, the pitch-based carbon fiber has various applications from sporting goods (such as

racing bicycle frames, tennis racket frames, and golf club shafts) to space satellite antennas and electronic components.

* Pitch is a black liquid that remains after the distillation of coal tar, when coal is carbonized.



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 (February-March and July-September)	

● 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 (April -July and September-February)	

* Will change its name to Kioi Hall Chamber Orchestra in April 2017.

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.