



**NIPPON STEEL &
SUMITOMO METAL
CORPORATION**

Shareholder Letter 2018

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 2018

Nippon Steel & Sumitomo Metal Corporation



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

The year 2017 began with many political or geopolitical risks. The steel market, however, turned out to be solid on the back of favorable global economy. Noteworthy is China, which made progress in reducing excess production capacity, and demand in China was steady. This contributed to a stable supply-demand balance in the global steel market in general.

Raw material prices, however, were increasingly volatile, due in part to structural changes in the raw material market. As oil prices also remained stagnant, it is likely to take more time for a recovery in energy-related demand for steel products. We must also closely monitor China's excess capacity situation as there is still a long way to go after the progress made so far.

Mega-trends and our next growth scenario

Global industry trends are now entering a phase of major changes.

In our industry, steel demand is expected to gradually increase, mainly driven by infrastructure-related demand in emerging countries, as a medium- and long-term condition. However, protectionism and a trend for populism are combining to drive demand for domestic-made products in certain countries. Our competitive landscape is also getting to be more challenging, as our competitors are vigorously catching up through consolidation and restructuring, adoption of the latest manufacturing equipment with certain embedded operating know-how, and through other measures. Society in general is also demanding the steel industry to enhance measures against global warming and to promote more recycling as the global holdings of scrap is certain to increase.

Concerning the automotive industry, China and some European countries are discussing plans for legislation requiring all motor vehicles to be powered by electricity. All these changes can and do affect the demand structure of

steel products. Such influences include change in material requirements, along with an increase in demand for lighter-weight materials.

As such, players and business models in the steel industry and our customer industries are now standing at the threshold of big and rapid changes. We, the NSSMC Group, must therefore think about how to cope with these changes. We must ponder our management policy and business strategy.

In 2018, we are completing our current three-year Mid-Term Management Plan and will begin a new one. As we want to capture growing demand and earn a profit in our globally-expanding market, we need to draw up a management plan by foreseeing the next 10 or 20 years and do so from two perspectives: (1) what to be accomplished in three years and (2) what to be launched within three years, although it would take more years to be accomplished. We must then execute the plan acceleratedly.

Our priority challenges in 2018

Focus on safety and quality

Safety, environment, disaster prevention, and then quality are our first and foremost priority in manufacturing. Today



I would like to assure you that we share the basic value to pursue stable production under such conditions. Confidence and credibility extended by society are a major premise for continued existence of successful business operations. Each and all of us in the NSSMC Group will keep this in mind and engage in our daily tasks fairly and squarely.

Revamp facilities and workforce

We will continue to revamp our facilities and workforce from a long-term perspective, as we have done in the past. As for facilities, soundness of our diverse facilities will be maintained and enhanced, including the refurbishment of key facilities, based on the product business strategy. To do this, in view of the declining trend of the working-age population, we should bear in mind that we may need to create a safe workplace that has resilience in accommodating a more diversified workforce in the future. We will introduce leading-edge technologies and further improve our manufacturing workplaces, by alleviating workloads, introducing automated facilities, and continuing to expand our use of advanced IT.

In the midst of the great tide of generational changes, we see our workforce are becoming younger in many of our production bases. In order to make youth as an emerging source of power, we will promote measures to develop personnel from a long-term perspective.

Steel product strategy to be deepened

As a result of our aggressive efforts to develop local production in many countries, we have now begun to see steady positive outcomes from those investments and profit contributions from many of our overseas businesses. We are committed to enhance what we are doing overseas by solving challenges, while closely monitoring the trend of overseas mills, which are our joint venture partners.

In sales and marketing, we will work to improve margins and global market shares, so that our efforts toward maintaining steady production of mother mills and their outcome will surely lead to profit improvement. In a longer term, our sales capacity will be revamped from the viewpoint of enabling sustained profit improvement. Specific measures we will consider include branding of



President Shindo visiting the Oita Works

NSSMC products; sales development by utilizing that brand; and supply to customers our products, services, and solutions with enhanced value and performance within a supply chain or a value chain.

NSSMC's domestic businesses and overseas businesses function as the two halves of the whole in our basic strategy. We will build and develop comprehensive steel product strategy by looking at the domestic and overseas markets from a perspective of product business.

Standardization and operational reforms

Operations are becoming more complex along with the changes in the surrounding environment. As a way to improve productivity, we need to establish a solid operational-and-execution infrastructure and modify our workstyles to enable us to optimize the company as a whole. Including plant workers and management executives alike, we will share clear images of challenges and goals and steadily implement measures for improvement. We will then utilize the latest proven advances in IT from wherever possible, with the ultimate goal of drastically improving operations and management. Such initiatives are expected to bring about and facilitate work style reform as a result and invigorate our work environment.

Fiscal 2017 operating forecasts and year-end dividend policy

For fiscal 2017 (ending March 31, 2018), the Company is expecting ordinary profit of ¥300 billion and profit attributable to owners of the parent of ¥180 billion, an increase of ¥10 billion from the forecast disclosed at the time of the second quarter result announcement in November 2017.

Regarding the year-end dividend distribution, we plan to distribute a dividend of ¥30.0 per share (¥60.0 per share for the year and the consolidated payout ratio of around 30%), in consideration of earnings forecasts and other factors. (Please see "Operating results published on February 1, 2018" on page 3 for details.)

In October 2017, NSSMC celebrated its fifth anniversary since the merger of Nippon Steel and Sumitomo Metals. We have generated significant synergy effects during these five years. We also welcomed Nisshin Steel to our group in 2017, establishing a more competitive organization for the NSSMC Group. We are determined to carry out our plans to strengthen our position and realize sustainable growth over the next five years and beyond.

Representative Director and President,
Kosei Shindo

Overview of Business Operations

(Disclosed on February 1, 2018)

Forecasts for Fiscal 2017 and Year-End Dividend Distribution Policy

Business environment

NSSMC anticipates that, despite lingering uncertainty over political and other conditions in some countries and regions, the recovery trend in the global economy will continue as a whole. This will be supported by a continued steady recovery in business conditions in the United States, the continuation of firm economic trends in Europe, a stable economic performance in China, and an ongoing moderate economic recovery in the developing countries. The Japanese economy is expected to maintain a moderate recovery trend, supported by solid private consumption and capital investment.

The Company expects that demand for steel will stay firm in Japan, due principally to demand in the automotive sector and demand from the construction and civil engineering sectors. Overseas steel demand, in general, is also projected to remain firm and stable. The global steel market is expected to remain stable at a high level due to a tighter balance of supply and demand in China and other factors.

Forecasts for fiscal 2017

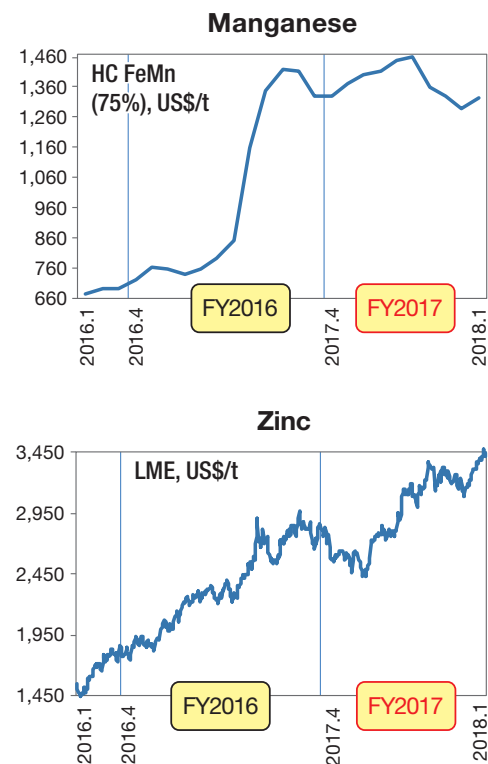
In this environment, the NSSMC Group, including its overseas businesses, is expected to post ¥300.0 billion in consolidated ordinary

profit (an increase of ¥125.5 billion from the previous year) and profit attributable to owners of the parent of ¥180 billion (an increase of ¥49.1 billion from the previous year) for full-year fiscal 2017 (see table). This is in spite of adverse factors, such as the rising trend in prices of auxiliary materials including scrap and alloys (i.e., manganese and zinc) (Graph 1). Main positive factors are steady cost improvement as planned in the Mid-Term Management Plan (Graph 2), continuous efforts to secure appropriate margins for sustainable economic reproduction, and further earnings improvement of overseas businesses and other group companies, including Nisshin Steel Co., Ltd., a newly-consolidated subsidiary of NSSMC.

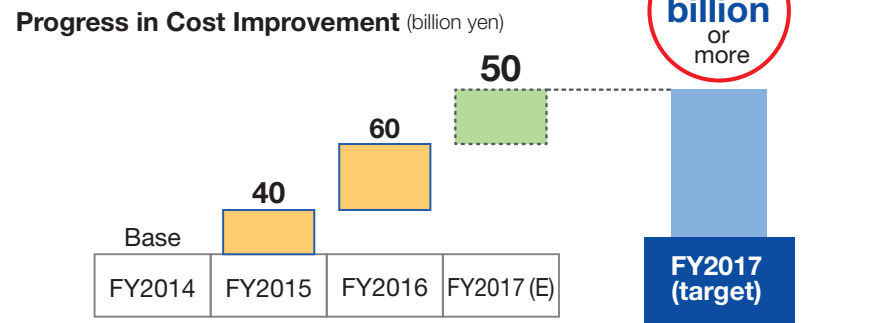
Year-end dividend distribution policy

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 the financial structure of the Company. Regarding the year-end dividend distribution, in accordance with the basic profit distribution policy, the Company plans to distribute a dividend of ¥30.0 per share (¥60.0 per share for the year and the consolidated payout ratio of around 30%).

[Figure 1]



[Figure 2]



Forecasts for Fiscal 2017

	Fiscal 2016	Fiscal 2017 forecast (Comparison to Fiscal 2016)	
Net sales	4,632.8	5,700.0	+ 1,067.2
Ordinary profit	174.5	300.0	+ 125.5
ROS	3.8%	5.3%	+ 1.5%
Profit attributable to owners of parent	130.9	180.0	+ 49.1
Crude steel production (non-consolidated basis; million tons)	42.62	41.00	- 1.62
Foreign exchange rate (¥/\$)	109	112	Depreciation of about 3 yen

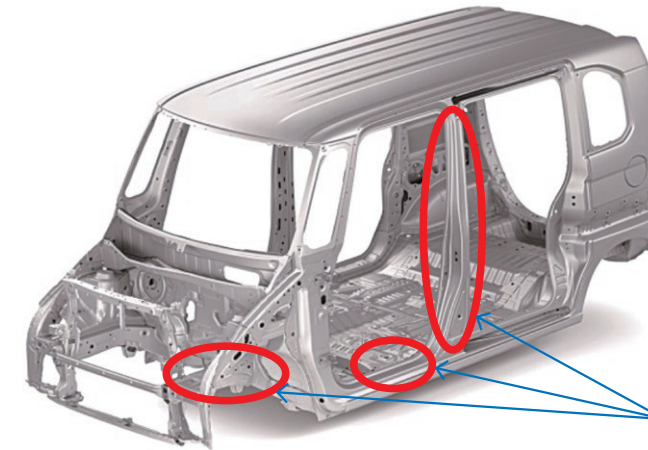
See NSSMC's website for details: <http://www.nssmc.com/en/ir/index.html>

IR Calendar:

March 2, 2018	Announcement of 2020 Mid-Term Management Plan
Late April 2018	Earnings announcement of fiscal 2017 (ending March 31, 2018) and proposal for year-end dividend distribution
Early June 2018	Notice of convocation of the 94 th Annual General Meeting of Shareholders
Late June 2018	The 94 th Annual General Meeting of Shareholders

TOPICS

1 NSSMC's ultra-high-tensile steel and solution technology adds value to Honda's new N-BOX



Components that employed NSSMC's ultra-high-tensile steel and solution technology

※ MPa : Mega Pascal

(Photo provided by Honda Motor Co., Ltd.)

NSSMC's ultra-high-tensile steel and solution technology adds value to Honda's new N-BOX

NSSMC's high-tensile steel and solution technology were adopted by Honda Motor Co., Ltd. for its new mini-vehicle "N-BOX" (launched on September 1, 2017). The adopted materials include 1180 megapascal (Mpa) cold-rolled high-tensile steel sheet for automotive outer panels and 980 Mpa high hole expansion type of cold rolled high-tensile steel. NSSMC's solutions, including its continuous flange method, were also employed. Through cooperation with Honda R&D Co., Ltd., these materials and solutions have been adopted for body parts of the new N-BOX, contributing to its lighter weight and greater rigidity.

2 Celebrating 40 years of friendly cooperation with China Baowu

NSSMC was awarded the 2016 (34th) Information Technology General Award from the Japan NSSMC and China's largest steelmaker China Baowu Steel Group Corporation (China Baowu) celebrated the 40th anniversary of their friendly cooperative relations in Shanghai on November 4, 2017. NSSMC personnel who have been involved in the relationship attended the ceremony. The late Yoshihiro Inayama, former Chairman of then Nippon Steel, was asked, on his visit to China in November 1977, for cooperation in constructing a steelworks in China by the late Li Xiannian, then Vice Chairman of the Communist Party of China. Since a visit by the late Deng Xiaoping, then Chairman of the National Committee, to the Kimitsu Works in 1978, NSSMC has been involved in construction of the Baoshan Works, accepting Chinese trainees and dispatching Japanese engineers. Celebrating 40 years of friendly cooperation, both companies are committed to further strengthening their partnership.



Both companies participated in the ceremony.

3 Importance of NSSMC's resource recycling system recognized and received the METI Minister Grand Award



The award ceremony

The resource recycling system using a ferroalloy melting furnace, developed by NSSMC, received the 2017 Ministry of Economy, Trade and Industry (METI) Minister Award in Resource Recycling and System.

This award is given to projects and initiatives that use advanced 3R* technologies and systems. NSSMC's system was given the award for the system's capability to recycle all by-products (chrome-contained steel scrap, dust, and scale), minimize generation of by-products (slag), and reuse ferroalloy and quicklime, generated by the high level of use of electricity.

◆ Details

- (1) Award title : 2017 Ministry of Economy, Trade and Industry (METI) Minister Award in Resource Recycling and System
- (2) Sponsor : Japan Environmental Management Association for Industry (supported by the METI)
- (3) Title : Construction of a resource recycling system by using a ferroalloy melting furnace
- (4) Winner : Yawata Works, NSSMC

* 3R means to Reduce, Reuse, and Recycle.

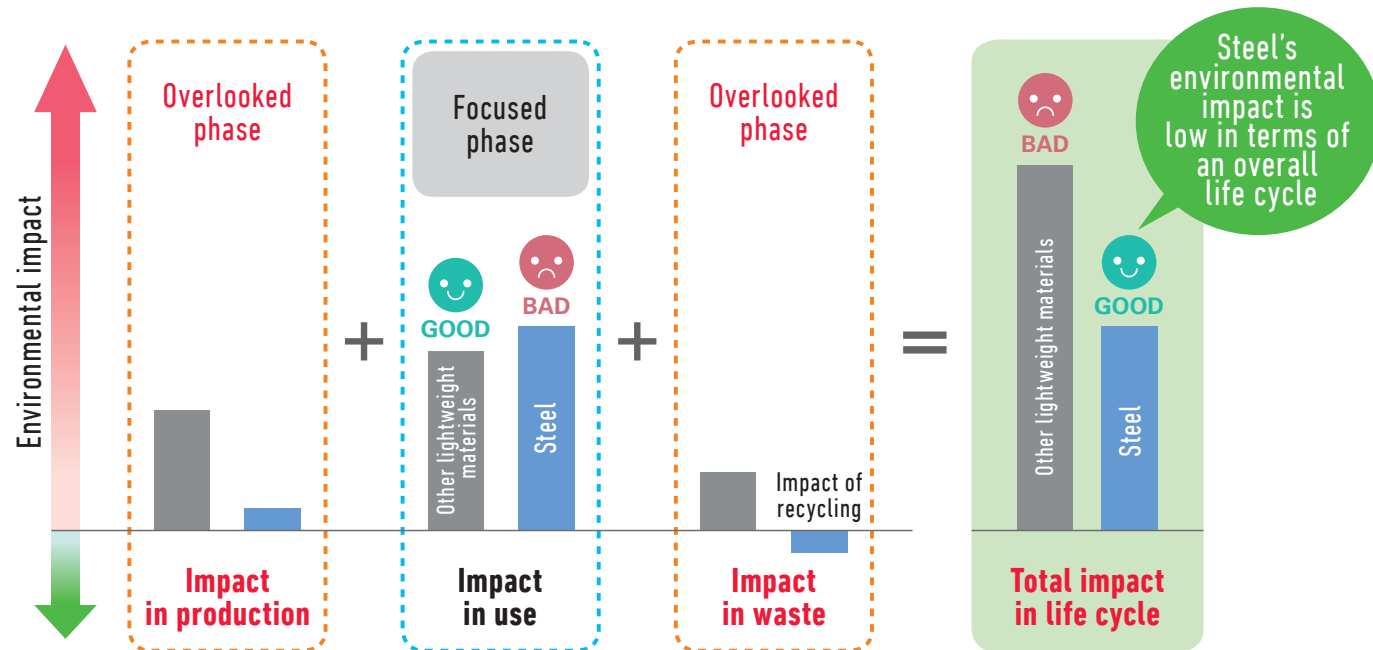
* Biomass is a renewable energy source derived from organic matter, excluding fossil resource.

Steel is a superior material from the viewpoint of life cycle

When selecting a material by use of environmental impact as a criterion, it is important to evaluate the material not merely when it is used but over its entire life cycle. For example, lighter-weight materials can improve fuel efficiency of vehicles and reduce CO₂ emissions during vehicle operation, but may not lead to being truly environmentally friendly if CO₂ emissions are high during production of the material or if the material is hard to recycle.

Compared to other materials, the process of producing steel emits less CO₂, and steel can be fully recycled and made into new steel products over and over again. Steel is therefore a superior material with low overall environmental impact.

Importance of thinking in terms of a life cycle



Evaluation of environmental impact of a product in all its phases, i.e., production, use, and disposal or recycling, is called **Life Cycle Assessment (LCA)**.

NSSMC set up a booth at the "EcoPro 2017" exhibition, held at Tokyo Big Sight on December 7-9, 2017.

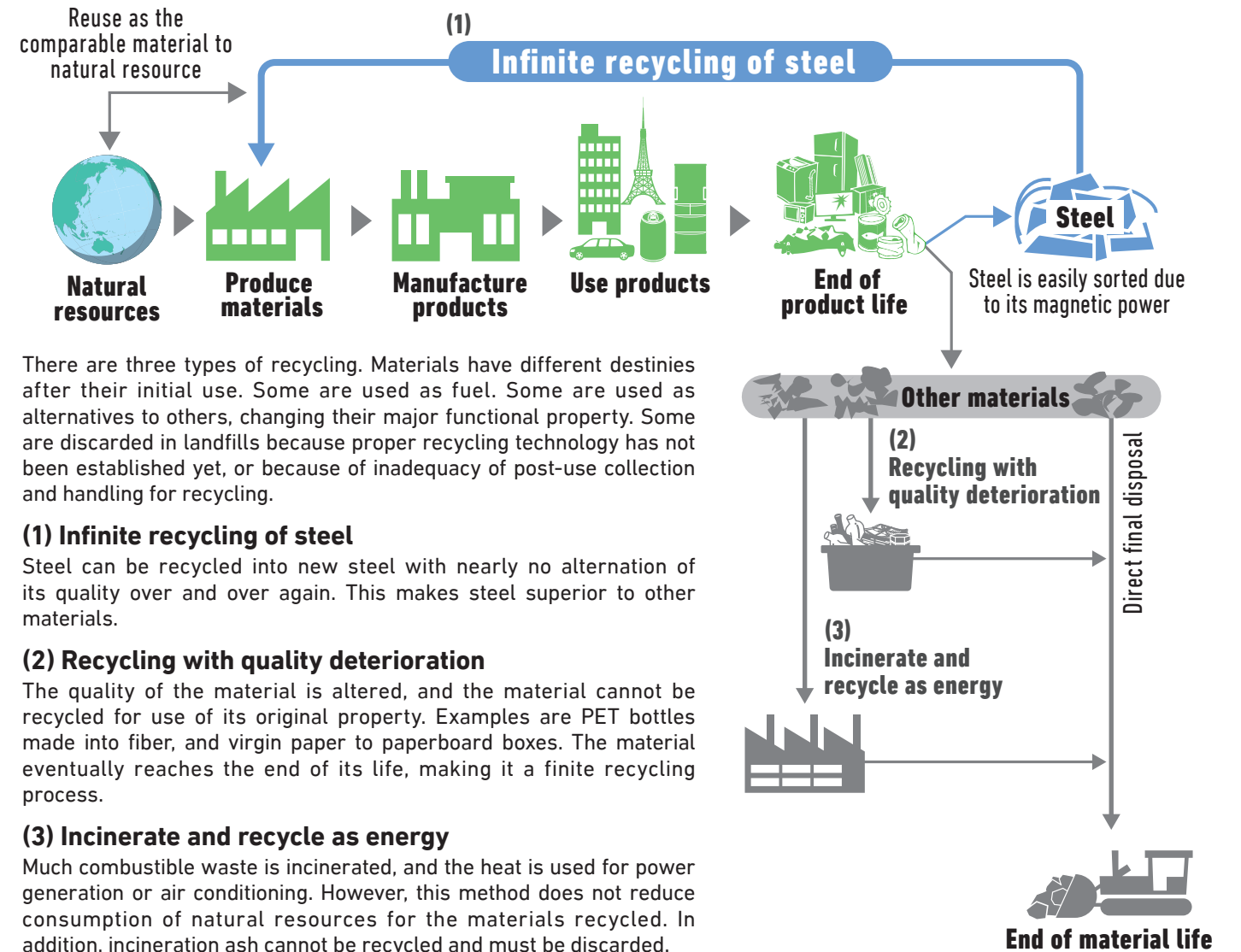
Please see the dedicated site introducing our exhibition in detail (only in Japanese) on NSSMC's website. Enjoy Virtual Reality (VR) panoramic views on the website.

<http://www.nssmc.com/csr/ecopro/2017/>

You can also visit the site by reading the QR code with a smartphone.



Steel can be recycled over and over again



There are three types of recycling. Materials have different destinies after their initial use. Some are used as fuel. Some are used as alternatives to others, changing their major functional property. Some are discarded in landfills because proper recycling technology has not been established yet, or because of inadequacy of post-use collection and handling for recycling.

(1) Infinite recycling of steel

Steel can be recycled into new steel with nearly no alternation of its quality over and over again. This makes steel superior to other materials.

(2) Recycling with quality deterioration

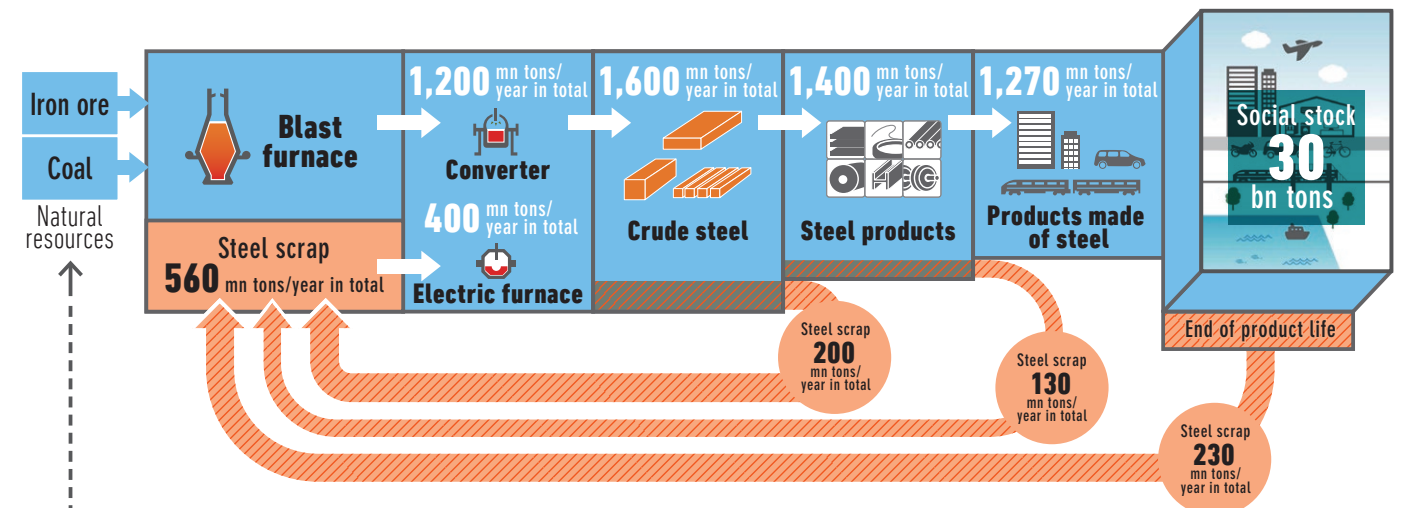
The quality of the material is altered, and the material cannot be recycled for use of its original property. Examples are PET bottles made into fiber, and virgin paper to paperboard boxes. The material eventually reaches the end of its life, making it a finite recycling process.

(3) Incinerate and recycle as energy

Much combustible waste is incinerated, and the heat is used for power generation or air conditioning. However, this method does not reduce consumption of natural resources for the materials recycled. In addition, incineration ash cannot be recycled and must be discarded.

Global steel recycling in 2015

Data source: The Japan Iron and Steel Federation



Steel can be infinitely recycled but we don't have enough steel scrap to satisfy global demand. We therefore need to produce new steel materials from natural resources.

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 Hall Chamber Orchestra concerts and other concerts	Twice a year (April -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.

● Note on forward-looking statement

The forward-looking comments and forecasts expressed in this document include projections based on the Company's assumptions, judgment, and plans available at the time of the Company's result announcement as of February 1, 2018. Actual results may differ from the above forecasts, due to various factors.