

Flash Report
Consolidated Basis
Results for the Third Quarter of Fiscal 2018
(April 1, 2018—December 31, 2018)
< under Japanese GAAP >

February 6, 2019

| | |
|---|---|
| Company name: | Nippon Steel & Sumitomo Metal Corporation |
| Stock listing: | Tokyo, Nagoya, Sapporo, Fukuoka stock exchanges |
| Code number: | 5401 |
| URL: | http://www.nssmc.com/en/index.html |
| Representative: | Kosei Shindo, Representative Director and President |
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| Telephone: | +81-3-6867-2130 |
| Scheduled date to submit Securities Report: | February 13, 2019 |
| Scheduled date to pay dividends: | - |
| Preparation of supplemental explanatory materials: | Yes |
| Holding of quarterly financial results meeting: | Yes (for investment analysts) |

(Figures of less than ¥1 million have been omitted.)

1. Consolidated Financial and Operating Results through the Third Quarter of Fiscal 2018
(April 1, 2018—December 31, 2018)

(1) Consolidated Operating Results (Accumulated)

(Percentage figures are changes from the same period of the previous fiscal year.)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | |
|-------------------------------------|------------------|------------|------------------|------------|-----------------|-------------|---|-------------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| Third quarter of Fiscal 2018 | 4,519,103 | 8.5 | 150,717 | 9.2 | 253,284 | 12.3 | 231,639 | 48.4 |
| Third quarter of Fiscal 2017 | 4,164,556 | 25.0 | 138,031 | 122.1 | 225,484 | 107.8 | 156,056 | 162.7 |

(For reference) Comprehensive income: Third quarter of Fiscal 2018 ¥ 26,410 million (91.5)%
Third quarter of Fiscal 2017 ¥ 310,262 million 368.1%

| | Earnings per share | Earnings per share after full dilution |
|------------------------------|--------------------|--|
| | Yen | Yen |
| Third quarter of Fiscal 2018 | 262.45 | — |
| Third quarter of Fiscal 2017 | 176.81 | — |

(2) Consolidated Financial Results

| | Total assets | Net assets | Ratio of shareholders' equity to total assets |
|-------------------------------------|------------------|------------------|---|
| | Millions of yen | Millions of yen | % |
| Third quarter of Fiscal 2018 | 7,710,193 | 3,459,992 | 40.3 |
| Fiscal 2017 | 7,526,351 | 3,515,501 | 41.8 |

(For reference) Shareholders' equity: Third quarter of Fiscal 2018 ¥ 3,104,051 million
Fiscal 2017 ¥ 3,145,450 million

2. Dividends

| | Dividends per share | | | | |
|--------------------------------|----------------------|-----------------------|----------------------|--------------------|------------------|
| | End of first quarter | End of second quarter | End of third quarter | End of fiscal year | Full fiscal year |
| | Yen | Yen | Yen | Yen | Yen |
| Fiscal 2017 | — | 30.00 | — | 40.00 | 70.00 |
| Fiscal 2018 | — | 40.00 | — | | |
| Fiscal 2018 (Forecasts) | | | | 40.00 | 80.00 |

Notes: Whether the dividends forecasts under review have been revised: Yes

3. Consolidated Financial Forecasts for Fiscal 2018 (April 1, 2018—March 31, 2019)

(Percentage figures are changes from the same period of the previous fiscal year.)

| | Revenue | | Business profit (*) | | Profit attributable to owners of parent | | Earnings per share |
|--------------------|-----------------|---|---------------------|---|---|---|--------------------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Yen |
| Fiscal 2018 (IFRS) | 6,200,000 | — | 330,000 | — | 230,000 | — | 258.00 |

Notes: Whether the consolidated financial forecasts for fiscal 2018 under review have been revised: Yes
For further details, please refer to page 4, “1. Qualitative Information for the Third Quarter of Fiscal 2018 (2) Explanation of Information on Future Estimates, Including Consolidated Earnings Forecasts.”

As for the consolidated financial forecasts for fiscal 2018 (April 1, 2018—March 31, 2019), Nippon Steel & Sumitomo Metal Corporation (NSSMC or the Company) calculates the figures based on International Financial Reporting Standards(IFRS), as the Company has decided to apply IFRS voluntarily from the consolidated financial statements in the fiscal 2018.

[Additional Information]

Consolidated Operating Results (Rough figures based on IFRS) through the Third Quarter of Fiscal 2018(Accumulated) (April 1, 2018—December 31, 2018)

(Percentage figures are changes from the same period of the previous fiscal year.)

| | Revenue | | Business profit (*) | | Profit attributable to owners of parent | | Earnings per share |
|-------------------------------------|-----------------|---|---------------------|---|---|---|--------------------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Yen |
| Third quarter of Fiscal 2018 (IFRS) | 4,570,000 | — | 260,000 | — | 200,000 | — | 226.60 |

(*)Business Profit on Consolidated Statements of Profit or Loss indicates the results of sustainable business activities, and is an important measure to compare and evaluate the Company’s consolidated performance continuously. It is defined as being deducted Cost of sales, Selling general and administrative expenses and Other operating expenses from Revenue, and added Equity in profit of unconsolidated subsidiaries and affiliates and Other operating income. Other operating income and expenses is composed mainly of Dividend income, Foreign exchange gains or losses, Loss on disposal of fixed assets.

* Notes

(1) Changes in significant subsidiaries during the period: None

(2) Adoption of special accounting methods for preparation of quarterly consolidated financial statements: Yes

Note: For further details, please refer to page 9, “2. Quarterly Consolidated Financial Statements and Main Notes (3) Notes on Quarterly Consolidated Financial Statements (Adoption of Special Accounting Methods for Preparation of Quarterly Consolidated Financial Statements).”

(3) Changes in accounting principles, changes in accounting estimates, and retrospective restatements

(a) Changes in accounting principles accompanying revisions in accounting standards: Yes

(b) Changes other than those in (a) above: None

(c) Changes in accounting estimates: None

(d) Retrospective restatements: None

Note: For further details, please refer to page 9, “2. Quarterly Consolidated Financial Statements and Main Notes (3) Notes on Quarterly Consolidated Financial Statements (Changes in Accounting Principles, Changes in Accounting Estimates, and Retrospective Restatements).”

(4) Number of shares issued (common shares)

(a) Number of shares issued at the end of the period (including treasury stock)

Third quarter of Fiscal 2018 950,321,402 shares

Fiscal 2017 950,321,402 shares

(b) Number of treasury stock at the end of the period

Third quarter of Fiscal 2018 67,727,862 shares

Fiscal 2017 67,710,915 shares

(c) Average number of shares issued during the term (accumulated)

Third quarter of Fiscal 2018 882,602,690 shares

Third quarter of Fiscal 2017 882,634,161 shares

* This report is not subject to quarterly review by accounting auditor.

* Explanation of the appropriate use of performance forecasts and other related items

(Explanation of the appropriate use of performance forecasts)

The forward-looking statements included in this flash report are based on the assumptions, forecasts, and plans of the Company as of the date on which this document is made public. The Company’s actual results may differ substantially from such statements due to various risks and uncertainties.

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1. Qualitative Information for the Third Quarter of Fiscal 2018

(1) Explanation of Operating Results

Global and Domestic Economic Conditions in the Third Quarter of Fiscal 2018

The global economy as a whole maintained modest growth. While China's economic growth slowed down, the economy of the United States remained strong and the economies of emerging countries in general remained firm.

The Japanese economy continued to recover moderately, as indicated by further improvements in the employment and income environments and increased capital investment.

Operating Results by Business Segment in the Third Quarter of Fiscal 2018

Business segments of the Nippon Steel & Sumitomo Metal Corporation Group (the NSSMC Group) strived to respond to the changing business environment and to improve sales and earnings. An overview of operating results by business segment is shown below.

| | (Billions of yen) | | | |
|-----------------------------------|-------------------|-----------|-----------------|-----------|
| | Net Sales | | Ordinary Profit | |
| | 3Q FY2018 | 3Q FY2017 | 3Q FY2018 | 3Q FY2017 |
| Steelmaking and Steel Fabrication | 3,987.0 | 3,699.8 | 212.5 | 189.7 |
| Engineering and Construction | 253.7 | 205.2 | 5.2 | 4.8 |
| Chemicals and Materials* | 191.0 | 179.4 | 20.6 | 14.5 |
| System Solutions | 187.2 | 168.2 | 18.0 | 14.7 |
| Total | 4,619.2 | 4,252.8 | 256.4 | 223.9 |
| Adjustment | (100.1) | (88.3) | (3.1) | 1.5 |
| Consolidated total | 4,519.1 | 4,164.5 | 253.2 | 225.4 |

* Nippon Steel & Sumikin Chemical Co., Ltd. and Nippon Steel & Sumikin Materials Co., Ltd. were integrated into Nippon Steel Chemical & Material Co., Ltd. in October 2018. Therefore the Chemicals segment and the New Materials segment were unified into the Chemicals and Materials segment.

Steelmaking and Steel Fabrication

In the Steelmaking and Steel Fabrication segment, domestic steel demand remained solid, especially for shipments to the automotive sector, and overseas steel demand as a whole was on a rising trend. In the domestic steel markets, prices were at a generally high level against a background of stable demand, while prices declined in the overseas markets in the third quarter of fiscal 2018, due to uncertainty over China's economic outlook. Amid such operating conditions, although natural disasters, including heavy rainfall and typhoons, as well as a difference in inventory valuation by NSSMC and its Group companies somewhat affected performance, NSSMC continued to work on initiatives to secure appropriate sales prices to maintain continuity in supply. These efforts included adjusting steel product prices to reflect rises in prices of auxiliary materials, such as scrap and alloys, other material procurement costs, and distribution costs. The segment also made steady progress in cost improvement measures. As a result, compared to the same third quarter of fiscal 2017, the Steelmaking and Steel Fabrication segment recorded an increase in net sales to ¥3,987.0 billion, and an increase in ordinary profit to ¥212.5 billion.

Engineering and Construction

Nippon Steel & Sumikin Engineering Co., Ltd. experienced gradually improving business conditions due to the resumption of capital investments by some overseas steel manufacturers and other factors. In addition, the business environment in Japan surrounding the construction and environment-related sectors remained favorable, and steady progress toward project completions was made due to strict control of project execution. As a result, compared to the same third quarter of fiscal 2017, the Engineering and Construction segment recorded an increase in net sales to ¥253.7 billion, and an increase in ordinary profit to ¥5.2 billion.

Chemicals and Materials

Nippon Steel Chemical & Material Co., Ltd. (which was established in October 2018 following the merger of Nippon Steel & Sumikin Chemical Co., Ltd. and Nippon Steel & Sumikin Materials Co., Ltd.) experienced a high level of market prices for mainstay needle coke in the coal tar chemicals business against a background of tight supply and demand conditions. In the functional materials business, overall sales remained firm based on favorable sales of resists for LCDs and metal foils for suspension materials despite signs of weakness seen in sales of circuit board materials for smartphones and other devices. The composite materials business continued to generate robust sales of both epoxy resins for electronic materials and carbon fiber composite materials for the civil engineering and construction sectors. In the chemicals business, prices for styrene monomer declined against the backdrop of lower crude oil prices and a weakening supply and demand balance. As a result, compared to the same third quarter of fiscal 2017, the Chemicals and Materials segment posted an increase in net sales to ¥191.0 billion, and an increase in ordinary profit to ¥20.6 billion.

System Solutions

NS Solutions Corporation provides advanced solution services and other comprehensive solutions in the planning, configuration, operation, and maintenance of IT systems for clients in a wide range of business fields. During the period under review, against the backdrop of robust system investments stemming mainly from customers' advanced operational needs, the company's business environment continued to be favorable. In addition, NS Solutions proceeded proactively in developing safe, protective solutions at factories and other work sites that make use of IoT technology, and developed platforms to analyze data based on AI technology. As a result, compared to the same third quarter of fiscal 2017, the System Solutions segment recorded an increase in net sales to ¥187.2 billion, and an increase in ordinary profit to ¥18.0 billion.

Sales and Profit for the Third Quarter of Fiscal 2018

Compared to the same period of fiscal 2017, NSSMC posted growth in both sales and profit: net sales increased to ¥4,519.1 billion; operating profit to ¥150.7 billion; ordinary profit to ¥253.2 billion; and profit attributable to owners of parent to ¥231.6 billion. Please note that the NSSMC Group will voluntarily apply International Financial Reporting Standards (IFRS) beginning with the fiscal year ending March 31, 2019. Based on IFRS, NSSMC's consolidated revenue is estimated to amount to ¥4,570.0 billion, business profit to ¥260.0 billion, and profit attributable to owners of parent to ¥200.0 billion for the third-quarter of this fiscal year.

(2) Explanation of Information on Future Estimates, Including Consolidated Earnings Forecasts

Consolidated Earnings Forecasts

NSSMC anticipates that the overall global economy will continue to grow moderately despite concerns about a slowdown in China's economy, as the United States is likely to sustain stable economic conditions and the government in China has been focusing on implementing various measures to support its economy.

The Japanese economy is also expected to maintain its recovery, supported by further improvements in the employment and income environments.

In Japan, demand for steel and steel market prices are forecast to remain firm. While overseas steel demand and market conditions are becoming more uncertain mainly due to intensifying US-China trade friction and the slowdown in the Chinese economy, which partly stems from the former, market prices have recently appeared to stop declining and some impacts can be anticipated from the Chinese government's economic stimulus measures. Developments will require close monitoring.

Amid such operating conditions, the consolidated business performance for the full year of fiscal 2018 will be substantially affected by a decline in production and shipment caused by operation and equipment troubles, including deterioration in the No. 5 blast furnace operation at the Wakayama Works, as well as by the decline in overseas steel prices in the third quarter of fiscal 2018. The Company is now expecting business profit of ¥330.0 billion (based on IFRS), which is ¥20.0 billion less than the amount forecasted at the second-quarter earnings announcement (November 2, 2018). NSSMC plans to switch from Wakayama's No. 5 blast furnace to No. 2 blast furnace and will strive to ensure the smooth start-up, scheduled to start in the middle of February. NSSMC will continue to maximize group-wide management initiatives through initiatives including (a) implementing measures to stabilize equipment use and operations; (b) securing appropriate sales prices to maintain continuity in supply, which includes adjusting steel product prices to take account of surges in prices of auxiliary materials, such as scrap and alloys, other material procurement costs, and distribution costs; and (c) making steady progress in cost improvement measures.

Basic Profit Distribution Policy and the Year-End Dividend Distribution

NSSMC's basic profit distribution policy 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 annual payout ratio target of around 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.

Regarding the dividend from retained earnings for the end of the fiscal year, the Company had not determined a dividend distribution plan at the second quarter earnings announcement (November 2, 2018). However, in accordance with the policy described above and after giving due consideration to full-year forecasts, the Company now plans to pay a dividend of ¥40 per share (bringing the dividend for the full year to ¥80 per share and representing a consolidated payout ratio of approximately 31% (based on IFRS)).

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheets

| | Millions of yen | |
|---------------------------------------|-----------------|-------------------|
| ASSETS | March 31, 2018 | December 31, 2018 |
| Current assets : | | |
| Cash and bank deposits | 108,782 | 133,303 |
| Notes and accounts receivable | 678,579 | 684,135 |
| Inventories | 1,380,003 | 1,513,322 |
| Other | 233,902 | 279,873 |
| Less: Allowance for doubtful accounts | (1,766) | (1,546) |
| Total current assets | 2,399,500 | 2,609,088 |
| Fixed assets : | | |
| Tangible fixed assets : | | |
| Buildings and structures | 759,716 | 772,163 |
| Machinery, equipment and vehicles | 1,131,993 | 1,194,570 |
| Other | 983,250 | 998,142 |
| | 2,874,959 | 2,964,876 |
| Intangible assets : | 84,972 | 111,636 |
| Investments and others : | | |
| Investments in securities | 871,399 | 668,443 |
| Shares of subsidiaries and affiliates | 1,069,688 | 1,047,722 |
| Net defined benefit assets | 116,573 | 106,319 |
| Other | 112,982 | 206,765 |
| Less: Allowance for doubtful accounts | (3,726) | (4,659) |
| | 2,166,917 | 2,024,591 |
| Total fixed assets | 5,126,850 | 5,101,104 |
| Total assets | 7,526,351 | 7,710,193 |

Millions of yen

| LIABILITIES | March 31, 2018 | December 31, 2018 |
|---|----------------|-------------------|
| Current liabilities : | | |
| Notes and accounts payable | 775,126 | 805,271 |
| Short-term loans payable | 300,632 | 312,462 |
| Commercial paper | 76,000 | 211,000 |
| Bonds due within one year | 85,700 | 50,700 |
| Income taxes payable | 43,916 | 47,369 |
| Provision for loss on construction contracts | 1,508 | 3,561 |
| Other | 803,197 | 703,444 |
| Total current liabilities | 2,086,080 | 2,133,809 |
| Long-term liabilities : | | |
| Bonds and notes | 209,996 | 229,999 |
| Long-term loans payable | 1,380,660 | 1,557,483 |
| Allowance and reserve | 4,991 | 4,788 |
| Net defined benefit liabilities | 166,152 | 182,075 |
| Other | 162,967 | 142,044 |
| Total long-term liabilities | 1,924,768 | 2,116,391 |
| Total liabilities | 4,010,849 | 4,250,201 |
| NET ASSETS | | |
| Shareholders' equity : | | |
| Common stock | 419,524 | 419,524 |
| Capital surplus | 386,865 | 384,414 |
| Retained earnings | 2,076,769 | 2,237,734 |
| Less: Treasury stock, at cost | (132,162) | (132,202) |
| | 2,750,997 | 2,909,471 |
| Accumulated other comprehensive income: | | |
| Unrealized gains on available-for-sale securities | 313,116 | 180,884 |
| Deferred hedge income (loss) | (2,107) | (2,020) |
| Unrealized gains on revaluation of land | 3,001 | 2,966 |
| Foreign currency translation adjustments | (4,898) | (54,064) |
| Remeasurements of defined benefit plans | 85,341 | 66,814 |
| | 394,453 | 194,580 |
| Non-controlling interests in consolidated subsidiaries | 370,050 | 355,940 |
| Total net assets | 3,515,501 | 3,459,992 |
| Total liabilities and net assets | 7,526,351 | 7,710,193 |

**(2) Quarterly Consolidated Statements of Operations and
Quarterly Consolidated Statements of Comprehensive Income**

| Quarterly Consolidated Statements of Operations | Millions of yen | |
|--|---------------------------------|---------------------------------|
| | Third quarter of Fiscal 2017 | Third quarter of Fiscal 2018 |
| Operating revenues : | | |
| Net sales | 4,164,556 | 4,519,103 |
| Cost of sales | 3,641,588 | 3,962,839 |
| Gross profit | 522,968 | 556,264 |
| Selling, general and administrative expenses | 384,936 | 405,547 |
| Operating profit | 138,031 | 150,717 |
| Non-operating profit and loss : | | |
| Non-operating profit : | | |
| Interest income | 3,891 | 4,135 |
| Dividend income | 15,574 | 17,667 |
| Equity in profit of unconsolidated subsidiaries and affiliates | 93,896 | 105,725 |
| Other | 29,442 | 30,368 |
| | 142,804 | 157,897 |
| Non-operating loss : | | |
| Interest expense | 15,486 | 13,570 |
| Other | 39,865 | 41,759 |
| | 55,352 | 55,329 |
| Ordinary profit | 225,484 | 253,284 |
| Extraordinary profit : | | |
| Gain on sales of investment in securities | 24,572 | 30,339 |
| | 24,572 | 30,339 |
| Extraordinary loss : | | |
| Loss on inactive facilities | 5,969 | - |
| Loss on disaster | - | 22,349 |
| Restructuring loss | 6,200 | - |
| | 12,169 | 22,349 |
| Profit before income taxes | 237,887 | 261,274 |
| Income taxes - current and deferred | 62,501 | 30,037 |
| Profit | 175,385 | 231,237 |
| Profit(loss) attributable to non-controlling interests | 19,329 | (402) |
| Profit attributable to owners of parent | 156,056 | 231,639 |

| Quarterly Consolidated Statements of Comprehensive Income | Millions of yen | |
|---|---------------------------------|---------------------------------|
| | Third quarter of Fiscal 2017 | Third quarter of Fiscal 2018 |
| Profit | 175,385 | 231,237 |
| Other comprehensive income | | |
| Unrealized gains on available-for-sale securities | 96,021 | (131,657) |
| Deferred hedge income | (1,111) | (274) |
| Foreign currency translation adjustments | 9,290 | (25,544) |
| Remeasurements of defined benefit plans | 24,869 | (18,512) |
| Share of other comprehensive income of affiliates accounted for using equity method | 5,805 | (28,837) |
| Total other comprehensive income | 134,876 | (204,826) |
| Comprehensive income | 310,262 | 26,410 |
| (breakdown) | | |
| Comprehensive income attributable to owners of parent | 284,116 | 31,802 |
| Comprehensive income attributable to non-controlling interests | 26,146 | (5,391) |

(3) Notes on Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

None

(Notes in Case of Significant Changes to Shareholders' Equity)

None

(Adoption of Special Accounting Methods for the Preparation of Quarterly Consolidated Financial Statements)

The Company reasonably estimated the effective tax rate following application of tax-effect accounting on profit before income taxes for the consolidated fiscal year, which includes the quarterly period under review, and applied this percentage to quarterly profit before income taxes to determine income taxes.

(Changes in Accounting Principles, Changes in Accounting Estimates, and Retrospective Restatements)

At the beginning of the first quarter of fiscal 2018, the Company adopted the "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No.28, February 16, 2018) and "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No.26, February 16, 2018)

The application of this practical solution had no effect on the quarterly consolidated financial statements for the first half of fiscal 2018.