

Flash Report

Consolidated Basis

Results for the Third Quarter of Fiscal 2014 (April 1, 2014—December 31, 2014)

January 29, 2015

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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Scheduled date to submit Securities Report:	February 6, 2015
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 2014

(April 1, 2014—December 31, 2014)

(1) Consolidated Operating Results (Accumulated)

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

	Net sales		Operating profit		Ordinary profit		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Third quarter of Fiscal 2014	4,181,755	3.6	255,144	15.1	343,145	21.6	153,587	(20.3)
Third quarter of Fiscal 2013	4,037,489	31.4	221,602	—	282,261	780.6	192,784	—

(For reference) Comprehensive income: Third quarter of Fiscal 2014 ¥ 293,868 million (22.5%)

Third quarter of Fiscal 2013 ¥ 239,830 million (—%)

	Net income per share	Net income per share after full dilution
	Yen	Yen
Third quarter of Fiscal 2014	16.83	—
Third quarter of Fiscal 2013	21.20	—

(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 2014	7,187,711	3,451,162	40.1
Fiscal 2013	7,082,288	3,237,995	37.9

(For reference) Shareholders' equity: Third quarter of Fiscal 2014 ¥ 2,882,681 million

Fiscal 2013 ¥ 2,683,659 million

2. Dividends

Base date	Dividends per share				
	End of the first quarter	End of the first half	End of the third quarter	End of the second half	Full-year
	Yen	Yen	Yen	Yen	Yen
Fiscal 2013	—	2.00	—	3.00	5.00
Fiscal 2014	—	2.00	—		
Fiscal 2014 (Forecasts)				3.00	5.00

Note: Whether the dividend forecasts under review have been revised: Yes

3. Consolidated Financial Forecasts for Fiscal 2014(April 1, 2014—March 31, 2015)

The Company's consolidated financial results forecasts for fiscal 2014 are net sales of ¥5,650 billion, ordinary profit of ¥410 billion, and net income of ¥180 billion (¥20 net income per share).

For further details, please refer to page 4, "1. Qualitative Information Concerning Consolidated Financial Results for the Third Quarter of Fiscal 2014 (2) Explanation of Information on Future Estimates, Including Consolidated Earnings Forecasts."

Note: Whether the consolidated financial forecasts for fiscal 2014 under review have been revised: Yes

* Notes

(1) Changes in the state of material subsidiaries during the period: None

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

Note: For further details, please refer to page 6, "2. Matters Concerning Summary Information (Notes to Financial Statements) (2) Adoption of Special Accounting Methods for the 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 6, "2. Matters Concerning Summary Information (Notes to Financial Statements) (3) 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 2014	9,503,214,022 shares
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Fiscal 2013	9,503,214,022 shares
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(b) Number of treasury stock at the end of the period

Third quarter of Fiscal 2014	378,970,043 shares
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Fiscal 2013	378,513,168 shares
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(c) Average number of shares issued during the term

Third quarter of Fiscal 2014	9,124,508,272 shares
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Third quarter of Fiscal 2013	9,094,694,071 shares
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* Status of Performance of Quarterly Review Procedures

This quarterly flash report is exempt from the quarterly review procedures based on Japan's Financial Instruments and Exchange Law. At the time when this quarterly flash report was disclosed, the quarterly review procedures based on the Financial Instruments and Exchange Law had not been completed.

* 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 Concerning Consolidated Financial Results for the Third Quarter of Fiscal 2014

(1) Explanation of Operating Results

Global and Domestic Economic Conditions in the Third Quarter of Fiscal 2014

The global economy maintained an overall moderate growth pace as solid corporate profits and private consumption supported an ongoing improvement in business conditions in the United States while the European economy continued to be weak and the trend of slowing growth in China and other emerging countries became more pronounced.

In Japan, despite generally brisk production activity, business confidence remained virtually unchanged due to continued weak private consumption affected by the consumption tax hike, delays in construction projects caused by labor shortages, and other factors.

Operating Results by Business Segment in the Third Quarter of Fiscal 2014

The Nippon Steel & Sumitomo Metal Corporation Group's business segments strived to cope with the changing business environment and to improve their sales and earnings. An overview of operating results by business segment is shown below.

	(Billions of Yen)			
	Net Sales		Ordinary Profit	
	3Q FY2014	3Q FY2013	3Q FY2014	3Q FY2013
Steelmaking and steel fabrication	3,700.8	3,599.1	308.0	255.7
Engineering and construction	244.5	203.8	12.7	7.6
Chemicals	165.7	174.2	6.3	10.0
New materials	27.3	28.4	1.9	1.4
System solutions	143.1	121.7	11.1	7.3
Total	4,281.6	4,127.4	340.2	282.3
Adjustments	(99.8)	(89.9)	2.8	(0.0)
Consolidated Total	4,181.7	4,037.4	343.1	282.2

*1 The Third Quarter (3Q) indicates a nine-month period from April 1 to December 31.

Steelmaking and Steel Fabrication

Despite some seasonal increase from the civil engineering and construction sectors, overall steel demand in Japan remained generally flat due to the ongoing impact of the consumption tax hike in some manufacturing industry segments and other factors. Steel exports also continued to be flat supported by a gradual recovery in the global economy. In the international steel markets, a downtrend continued. In addition to a decline in main raw material prices, steel demand in emerging countries showed signs of a slowdown, while Chinese and South Korean steelmakers continued their high level of production output.

Under these conditions, the Company continued implementing measures to improve revenue, and the steelmaking and steel fabrication segment recorded net sales of ¥3,700.8 billion and ordinary profit of ¥308.0 billion.

NSSMC sincerely regrets the great trouble and inconvenience caused to shareholders and others concerned by the power failures and fire accident which occurred at the Company's Nagoya Works in 2014. In November 2014, the Company announced the results of its investigation into the cause of the power failures and a summary of measures to prevent recurrence. Each of the measures is steadily being executed. In order to be continuously trusted by shareholders and other concerned, NSSMC is making its utmost concerted efforts to continue examining a series of measures, including fire prevention measures, led by the Crisis Management Headquarters, whose director is the President of the Company.

Engineering and Construction

Nippon Steel & Sumikin Engineering Co., Ltd. is enhancing the competitiveness of its existing businesses and implementing aggressive overseas strategic initiatives, including full-scale operation at recently-established overseas bases in Southeast Asia and other regions and the realization of synergies with the leading European waste disposal design and construction company acquired in May 2014.

The engineering and construction segment posted net sales of ¥244.5 billion and ordinary profit of ¥12.7 billion.

Chemicals

Nippon Steel & Sumikin Chemical Co., Ltd. continued recording relatively firm sales in the functional materials business for circuit board materials and display materials, reflecting the growing demand for smartphones and other factors. However, profits in the chemicals business declined from the previous term due to a worsening sales environment for needle coke, ongoing sluggish demand for epoxy resins, and deteriorating conditions in the styrene monomer market.

The chemicals segment recorded net sales of ¥165.7 billion and ordinary profit of ¥6.3 billion.

New Materials

Nippon Steel & Sumikin Materials Co., Ltd. experienced an increase in demand in the electronic materials field due to a steady switch from gold bonding wire to surface-treated copper wire as alternative material despite intensifying pricing competition for the latter. Demand was strong for social infrastructure maintenance and reinforcement materials in the basic industrial materials and components field and from emerging countries for metal carriers in the environmental and energy field.

The new materials segment posted net sales of ¥27.3 billion and ordinary profit of ¥1.9 billion.

System Solutions

NS Solutions Corporation advanced measures aimed at strengthening sales and marketing and improving profitability, and continued reinforcing and expanding its cloud computing and other service businesses. In

December 2014, the Company announced the opening of new cloud service centers in the Tokyo and Kitakyushu regions and is preparing to launch these services in April 2015.

The system solutions segment recorded net sales of ¥143.1 billion and ordinary profit of ¥11.1 billion.

Sales and Profit for the Third Quarter of Fiscal 2014

Nippon Steel & Sumitomo Metal Corporation (NSSMC or the Company) posted consolidated net sales of ¥4,181.7 billion, operating profit of ¥255.1 billion, and ordinary profit of ¥343.1 billion for the third quarter of fiscal 2014. Gain on sales of investments in securities, loss on inactive facilities (disposal and demolition expenses for major manufacturing facilities at the Kimitsu Works and Wakayama Works), and loss on business of subsidiaries and affiliates as special profit and loss contributed to the net income result of ¥153.5 billion.

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

Consolidated Earnings Forecasts

The overall global economy is expected to maintain moderate growth. The United States is likely to maintain an improvement in business conditions on the back of solid corporate profits and a recovery in employment supporting strong private consumption. In contrast, sustained weak economic conditions are projected in Europe together with more pronounced decelerating growth in China and other emerging countries.

In Japan, while construction project delays from the labor shortage remain a concern and future economic uncertainty lingers, we anticipate a gradual economic recovery supported by both depressed private consumption turning into a recovery, thanks to the receding impact of the consumption tax hike, and ongoing robust corporate production activity.

Domestic steel demand is expected to generally move toward a moderate recovery supported by steady public investment and growing capital expenditure along with an eventual turnaround in sluggish private consumption. The decline in oil prices have begun to show some impacts on energy-related demand but exports for fiscal 2014 are likely to remain flat, compared to the previous year. International market conditions will remain a concern, as the outlook for steel demand from emerging countries has become more uncertain and so has demand in energy-related industries with lower oil prices, on top of lower raw material prices.

In such an environment, the Company will continue applying its utmost management efforts to implement various measures and accomplish the goals of the Mid-Term Management Plan while asking users to cooperate in ensuring appropriate product pricing levels.

For the full-year of fiscal 2014, ordinary profit is expected to be ¥410 billion, up ¥10 billion from the previously-announced forecast of ¥400 billion. Factors expected to make a positive contribution are a steady response to recovering steel demand from the impact of the consumption tax hike and further cost improvement.

The net income forecast has been revised down by ¥70 billion from the previously announced ¥250 billion to ¥180 billion, due partly to a loss on business of subsidiaries and affiliates, which was recorded in the third quarter of fiscal 2014.

Basic Profit Distribution Policy and the Second-Half Dividend Distribution

NSSMC's basic profit distribution policy is to pay dividends from distributable funds at the end of the first half and the second half of the fiscal year. The Company does so in consideration of consolidated operating results and such factors as capital requirements for investment and other activities aimed at raising corporate value and performance prospects. The Company also considers the financial structure of the Company on consolidated and non-consolidated bases. The Company has set a consolidated payout ratio target of approximately 20% for use as an indicator for the distribution of profits based on due consideration of consolidated operating results. The level of the first-half dividends is set based on consideration of interim performance figures and forecasts for the full fiscal year performance.

When the first-half results were announced, the Company had not determined a year-end dividend distribution amount for the current fiscal year ending March 2015. However, in accordance with the basic profit distribution policy described above, after due consideration of the earnings forecasts for the year and other factors, the Company intends to distribute a dividend of ¥3.0 per share at the end of the second half (year-end). This would bring the full-year dividend distribution amount to ¥5.0 per share, representing a consolidated dividend payout ratio of 25 %.

2. Matters Concerning Summary Information (Notes to Financial Statements)

(1) Changes in the State of Material Subsidiaries During the Period:

None

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

Income taxes were computed by multiplying consolidated quarterly income before income taxes and minority interests by a rational estimate of the effective tax rate on consolidated income before income taxes and minority interests for the fiscal year including the quarterly period under review after adjustments for the application of tax-effect accounting.

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

Provisions stated in Section 35 of the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, hereinafter referred to as the “Retirement Benefits Accounting Standard”) and Section 67 of the “Guidance on the Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, hereinafter “Guidance on Retirement Benefits”) have been applied from the first quarter of fiscal 2014. With this application, calculation methods for retirement benefit obligations and service costs have been changed. Under this change, the calculation method for annual allocation expenses for projected benefit obligations is changed from the straight-line attribution standard pro-rated on employees’ years of service to benefit formula standard pro-rated on employees’ salaries. The method for determining the time period over which the discount rate is imputed is changed from the average remaining years of service for employees to mainly the expected period length of benefits payments and weighted average discount rate reflecting the amount to be paid in each period under the expected length of benefits payments for all employees under the plan.

In accordance with the transitional treatment prescribed in Section 37 of the Retirement Benefits Accounting Standard, the Company applied the Accounting Standard for Retirement Benefits at the beginning of the third quarter of fiscal 2014, and the effect of the accounting change in retirement benefit obligations and service costs was reflected in retained earnings.

As a result, net defined benefit assets decreased by ¥27,904 million, net defined benefit liabilities increased by ¥14,506 million and retained earnings decreased by ¥27,824 million at the beginning of the third quarter of fiscal 2014. The effect of this change on consolidated financial results for the third quarter of fiscal 2014 was to increase operating profit by ¥1,745 million, and both ordinary profit and income before income taxes and minority interests by ¥1,736 million.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

Millions of yen		
ASSETS	March 31, 2014	December 31, 2014
Current assets :		
Cash and bank deposits	105,303	156,974
Notes and accounts receivable	589,802	582,842
Inventories	1,225,014	1,294,252
Other	354,791	350,926
Less: Allowance for doubtful accounts	(1,540)	(1,732)
Total current assets	<u>2,273,371</u>	<u>2,383,263</u>
Fixed assets :		
Tangible fixed assets :		
Buildings and structures	725,473	714,091
Machinery, equipment and vehicles	1,078,995	1,059,363
Other	807,810	813,135
	<u>2,612,280</u>	<u>2,586,591</u>
Intangible fixed assets	94,079	97,603
Investments and others :		
Investments in securities	1,836,196	1,864,970
Net defined benefit assets	111,958	111,756
Other	157,727	146,574
Less: Allowance for doubtful accounts	(3,324)	(3,047)
	<u>2,102,557</u>	<u>2,120,254</u>
Total fixed assets	<u>4,808,916</u>	<u>4,804,448</u>
Total assets	<u>7,082,288</u>	<u>7,187,711</u>

	Millions of yen	
LIABILITIES	March 31, 2014	December 31, 2014
Current liabilities :		
Notes and accounts payable	661,267	706,752
Short-term loans payable	435,357	303,025
Commercial paper	32,000	20,000
Bonds due within one year	65,000	50,000
Income taxes payable	36,894	20,089
Provision	3,078	3,505
Other	577,539	602,579
Total current liabilities	1,811,137	1,705,952
Long-term liabilities :		
Bonds and notes	425,668	395,674
Long-term loans payable	1,313,248	1,252,522
Allowance and reserve	13,739	5,324
Net defined benefit liabilities	157,373	169,234
Other	123,125	207,840
Total long-term liabilities	2,033,155	2,030,596
Total liabilities	3,844,293	3,736,549
NET ASSETS		
Shareholders' equity :		
Common stock	419,524	419,524
Capital surplus	371,465	371,470
Retained earnings	1,652,054	1,732,131
Less: Treasury stock, at cost	(62,882)	(63,023)
	2,380,162	2,460,103
Accumulated other comprehensive income:		
Unrealized gains on available-for-sale securities	189,831	256,967
Deferred hedge income (loss)	(3,099)	1,467
Unrealized gains on revaluation of land	2,554	2,554
Foreign currency translation adjustments	71,565	93,786
Remeasurements of defined benefit plans	42,644	67,802
	303,496	422,578
Minority interests in consolidated subsidiaries	554,335	568,481
Total net assets	3,237,995	3,451,162
Total liabilities and net assets	7,082,288	7,187,711

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

Quarterly Consolidated Statements of Income		Millions of yen
	Third quarter of fiscal 2013	Third quarter of Fiscal 2014
Operating revenues :		
Net sales	4,037,489	4,181,755
Cost of sales	3,476,865	3,576,027
Gross margin	560,624	605,728
Selling, general and administrative expenses	339,021	350,583
Operating profit	221,602	255,144
Non-operating profit and loss :		
Non-operating profit :		
Interest	3,405	3,809
Dividend income	13,158	14,244
Equity in net income of unconsolidated subsidiaries and affiliates	53,076	62,130
Other	45,225	60,797
	114,865	140,982
Non-operating loss :		
Interest expense	19,642	15,372
Other	34,563	37,608
	54,206	52,981
Ordinary profit	282,261	343,145
Special profit :		
Gain on sales of investments in securities	44,619	6,138
	44,619	6,138
Special loss :		
Loss on inactive facilities	15,904	15,862
Loss on business of subsidiaries and affiliates	-	68,600
	15,904	84,462
Income before income taxes and minority interests	310,976	264,821
Income taxes - current and deferred	106,201	95,982
Income before minority interests	204,774	168,839
Minority interests in net income of consolidated subsidiaries	11,989	15,251
Net income	192,784	153,587

Quarterly Consolidated Statements of Comprehensive Income		Millions of yen
	Third quarter of fiscal 2013	Third quarter of Fiscal 2014
Income before minority interests	204,774	168,839
Other comprehensive income		
Unrealized gains on available-for-sale securities	75,826	66,314
Deferred hedge income	1,232	5,838
Foreign currency translation adjustments	(30,854)	22,400
Remeasurements of defined benefit plans	-	25,495
Share of other comprehensive income (loss) of associates accounted for using equity method	(11,147)	4,980
Total other comprehensive income	35,056	125,028
Comprehensive income	239,830	293,868
Attributable to		
Comprehensive income attributable to owners of the parent	227,501	272,669
Comprehensive income attributable to minority interests	12,328	21,199

(3) Notes on Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

None

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

None

(Segment Information)

(Information about segment sales, profit (loss))

Third quarter of Fiscal 2013 (April 1, 2013—December 31, 2013)

(Millions of yen)

	Reportable segment					Total	Adjustments	Consolidated Total
	Steelmaking and steel fabrication	Engineering and construction	Chemicals	New materials	System solutions			
Net sales	3,599,105	203,853	174,221	28,495	121,728	4,127,404	(89,914)	4,037,489
Segment profit <Ordinary Profit>	255,771	7,630	10,033	1,474	7,396	282,306	(45)	282,261

Third quarter of Fiscal 2014 (April 1, 2014—December 31, 2014)

(Millions of yen)

	Reportable segment					Total	Adjustments	Consolidated Total
	Steelmaking and steel fabrication	Engineering and construction	Chemicals	New materials	System solutions			
Net sales	3,700,825	244,581	165,754	27,353	143,128	4,281,642	(99,887)	4,181,755
Segment profit <Ordinary Profit>	308,054	12,720	6,395	1,947	11,166	340,284	2,861	343,145

(Depreciation Information)

The Company does not prepare a cumulative Quarterly Consolidated Statement of Cash Flows for the third quarter of the fiscal year. Depreciation and amortization (including intangible fixed assets amortization other than goodwill) are as follows:

(Millions of yen)

	For the third quarter of fiscal 2013	For the third quarter of fiscal 2014
Depreciation and amortization	245,160	235,878