

Flash Report
Consolidated Basis
Results for the First Quarter of Fiscal 2016
(April 1, 2016—June 30, 2016)
<under Japanese GAAP>

July 28, 2016

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
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Scheduled date to submit Securities Report:	August 8, 2016
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 First Quarter of Fiscal 2016
(April 1, 2016—June 30, 2016)

(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	%
First quarter of Fiscal 2016	1,051,141	(16.9)	(7,392)	—	(12,050)	—	(14,638)	—
First quarter of Fiscal 2015	1,264,933	(7.1)	52,386	(12.1)	84,420	13.6	72,733	50.5

(For reference) Comprehensive income: First quarter of Fiscal 2016 ¥ (113,065) million —%
First quarter of Fiscal 2015 ¥ 17,585 million (80.0)%

	Earnings per share	Earnings per share after full dilution
	Yen	Yen
First quarter of Fiscal 2016	(16.44)	—
First quarter of Fiscal 2015	79.68	—

Note: The Company carried out the share consolidation at the ratio of 10 shares to 1 share effective October 1, 2015. In accordance with it, earnings per share are calculated based on the assumption that the share consolidation had been carried out at the beginning of the previous fiscal year.

(2) Consolidated Financial Results

	Total assets	Net assets	Ratio of shareholders' equity to total assets
	Millions of yen	Millions of yen	%
First quarter of Fiscal 2016	6,215,935	2,835,581	41.9
Fiscal 2015	6,425,043	3,009,075	43.2

(For reference) Shareholders' equity: First quarter of Fiscal 2016 ¥ 2,604,127 million
Fiscal 2015 ¥ 2,773,822 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 2015	—	3.00	—	15.00	—
Fiscal 2016	—				
Fiscal 2016 (Forecasts)		0.00	—	—	—

Notes: 1. Whether the divided forecasts under review have been revised: Yes

2. The Company carried out the share consolidation at the ratio of 10 shares to 1 share effective October 1, 2015. In accordance with it, the full fiscal year dividend of fiscal 2015 is shown as “—”. Assuming the share consolidation, the full fiscal year dividend of fiscal 2015 would be ¥45.00.

3. Consolidated Financial Forecasts for Fiscal 2016 (April 1, 2016—March 31, 2017)

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

	Net sales		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half of Fiscal 2016	2,200,000	(12.3)	15,000	(88.4)	0	(100.0)	0.00
Fiscal 2016	—	—	130,000	(35.3)	—	—	—

Notes: 1. Whether the consolidated financial forecasts for fiscal 2016 under review have been revised: Yes

2. For further details, please refer to page 4, “1. Qualitative Information for the First quarter of Fiscal 2016 (2) Explanation of Information on Future Estimates, Including Consolidated Earnings Forecasts.”

* 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 6, “2. Matters Concerning Summary Information (Notes to Financial Statements) (2) 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 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)

First quarter of Fiscal 2016 950,321,402 shares

Fiscal 2015 950,321,402 shares

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

First quarter of Fiscal 2016 67,721,255 shares

Fiscal 2015 48,055,060 shares

(c) Average number of shares issued during the term

First quarter of Fiscal 2016 890,229,326 shares

First quarter of Fiscal 2015 912,821,920 shares

* The Company carried out the share consolidation at the ratio of 10 shares to 1 share effective October 1, 2015. In accordance with it, average number of shares issued during the term is calculated based on the assumption that the share consolidation had been carried out at the beginning of the previous fiscal year.

* 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 for the First Quarter of Fiscal 2016

(1) Explanation of Operating Results

Global and Domestic Economic Conditions in the First Quarter of Fiscal 2016

The global economy grew only moderately during the period under review. The United States economy maintained strength, led by private consumption, and economic conditions in Europe continued to recover at a moderate pace. China's economy, however, remained in a slowdown despite some apparent impacts from the government's stimulus measures, while stagnant economic conditions were evident in developing countries.

The Japanese economy remained at a standstill. Employment conditions were improving, but overall conditions were weak with lackluster private consumption, slowing corporate capital expenditure, and weak exports.

Operating Results by Business Segment in the First Quarter of Fiscal 2016

The Nippon Steel & Sumitomo Metal Corporation Group's business segments 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	
	1Q FY16	1Q FY15	1Q FY16	1Q FY15
Steelmaking and steel fabrication	927.0	1,109.6	(16.1)	74.7
Engineering and construction	55.4	70.6	1.2	1.7
Chemicals	39.2	52.2	(1.2)	2.2
New materials	8.6	8.8	0.4	0.8
System solutions	50.0	51.1	4.9	4.8
Total	1,080.4	1,292.5	(10.7)	84.4
Adjustments	(29.2)	(27.5)	(1.3)	(0.0)
Consolidated total	1,051.1	1,264.9	(12.0)	84.4

*The first quarter (1Q) is the three-month period from April 1 to June 30.

Steelmaking and Steel Fabrication

In the Steelmaking and Steel Fabrication segment, domestic demand declined year-on-year due to sluggish shipments to the construction industry, combined with depressed shipments to manufacturers, particularly in the automotive sector, which was affected by the Kumamoto earthquakes, as well as to the industrial machinery sector.

Overseas steel demand was flat, as the impact from the declining trend in Chinese demand was strong despite some moderate signs of recovery in ASEAN countries. Global market conditions rapidly improved from the start of 2016 and then shifted into a correction phase before stabilizing at present. Nevertheless, conditions warrant close monitoring due to the continued strong supply pressure from persistently high output at Chinese steelmakers.

The steelmaking and steel fabrication segment recorded net sales of ¥927.0 billion and ordinary loss of ¥16.1 billion.

Engineering and Construction

Nippon Steel & Sumikin Engineering Co., Ltd. recorded healthy orders from the domestic construction industry, but low oil prices, constrained investments by steelmakers, and other factors are creating an increasingly uncertain outlook for business conditions. The company made every effort to maximize earnings by strictly controlling project execution, but ultimately recorded declines in both sales and profits caused by shrinking sales volume and the impact of the strong yen on revenue. The engineering and construction segment posted net sales of ¥55.4 billion and ordinary profit of ¥1.2 billion.

Chemicals

Nippon Steel & Sumikin Chemical Co., Ltd. posted strong sales in the styrene monomer business supported by robust conditions in the Asian market. However, earnings in the coal chemicals business declined due to the prolonged deterioration in global market conditions for needle coke. Earnings were also down in the circuit board materials business on falling demand for smartphones and other high-performance compact electronic devices coupled with a sharp rise in the value of the yen. The chemicals segment recorded net sales of ¥39.2 billion and ordinary loss of ¥1.2 billion.

New Materials

Nippon Steel & Sumikin Materials Co., Ltd. maintained steady sales in the electronic materials field for surface-treated copper wire. Demand in the carbon fiber and composite materials field was strong for industrial and high-function applications as well as for infrastructure maintenance and reinforcement applications. However, stagnant economic conditions in developing countries led to a drop in demand for metal substrates in the environmental and energy components field. The new materials segment posted net sales of ¥8.6 billion and ordinary profit of ¥0.4 billion.

System Solutions

NS Solutions Corporation provides comprehensive solutions in the planning, configuration, operation, and maintenance of IT systems for clients in a wide range of business fields, and develops leading-edge solutions services that respond to the changing business conditions of its clients. The company actively moved forward in developing and upgrading its solutions capabilities, including those related to the Internet of Things (IoT), by establishing the IoX Solution Business Promotion Department during the period under review. The system solutions segment recorded net sales of ¥50.0 billion and ordinary profit of ¥4.9 billion.

Sales and Profit for the First Quarter of Fiscal 2016

Nippon Steel & Sumitomo Metal Corporation (NSSMC or the Company) posted consolidated net sales of ¥1,051.1 billion, operating loss of ¥7.3 billion, ordinary loss of ¥12.0 billion, and loss attributable to owners of parent of ¥14.6 billion for the first quarter of fiscal 2016.

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

Consolidated Earnings Forecasts

The Company anticipates only moderate recovery in the global economy supported by ongoing strong conditions in the United States led by private consumption and gradually improving business conditions in Europe amid continued slowdown in economic expansion in China and stagnant business conditions in developing countries.

The Japanese economy is expected to maintain a generally moderate recovery in spite of sluggish private consumption.

In the first half of fiscal 2016, the Company expects domestic steel demand to decline year-on-year but demand in the construction and automotive sectors is likely to improve from the first to the second quarter. Overseas steel demand is projected to remain flat overall, as a moderate recovery in ASEAN countries will be offset by persistent decline in local demand in China. Global market conditions rapidly improved from the start of 2016 and then shifted into a correction phase before stabilizing at present. Nevertheless, conditions warrant close monitoring due to continued strong supply pressure from persistently high output at Chinese steelmakers.

Under such conditions, the Company is forecasting consolidated net sales of ¥2,200.0 billion and ordinary profit of ¥15.0billion, and is intending to secure profit attributable to owners of parent in the first half of fiscal 2016.

In the second half, the Company expects an improvement in demand in the automotive sector and growing demand in the construction sector in preparation for the 2020 Tokyo Olympics to support a recovery in domestic steel demand. At the same time, the Company thinks that the strong impact of a continued decline in local demand in China will keep overall steel demand essentially flat compared to the previous fiscal year. Against this background, NSSMC is reinforcing its management initiatives set forth in the 2017 Mid-Term Management Plan. The Company plans to negotiate primary raw material prices and sales prices for the second half of the fiscal year, and will continue devoting maximum management efforts to its operations while seeking to establish appropriate steel material prices with the understanding of its customers.

In such environment and after considering some one-time impact of the strong yen on items such as “foreign currency-denominated asset valuation” and “differences in inventory valuation,” the Company intends to target consolidated ordinary profit of ¥130.0 billion for full fiscal 2016.

Basic Profit Distribution Policy and the First-Half 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 payout ratio target of around 20%–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 set based on consideration of interim performance figures and forecasts for the full fiscal year performance.

In accordance with the basic profit distribution policy described above for the first half of the fiscal year, the Company sincerely regrets to announce that it will forgo the first-half dividend at this time.

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

(1) Changes in Significant Subsidiaries during the Period:

None

(2) 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.

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

1. Application of Practical Solution on a Change in Depreciation Method due to Tax Reform 2016

Accompanying tax reform, the Company has applied “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016” (PITF No. 32, issued June 17, 2016) in its consolidated financial statements beginning with the first quarter under review. As a result, the Company has changed its method of depreciation for facilities attached to buildings and structures acquired on and after April 1, 2016 from the declining-balance method to the straight-line method.

The effect of this change in accounting principles on the quarterly consolidated financial statements for the first quarter of fiscal 2016 was not material.

2. Application of the “Implementation Guidance on Recoverability of Deferred Tax Assets”

The Company has applied “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, issued March 28, 2016) in its consolidated financial statements beginning with the first quarter under review.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

Millions of yen		
ASSETS	March 31, 2016	June 30, 2016
Current assets :		
Cash and bank deposits	85,365	98,285
Notes and accounts receivable	523,207	420,099
Inventories	1,110,901	1,083,177
Other	271,164	264,790
Less: Allowance for doubtful accounts	(567)	(583)
Total current assets	1,990,072	1,865,769
Fixed assets :		
Tangible fixed assets :		
Buildings and structures	682,187	683,869
Machinery, equipment and vehicles	1,028,856	1,001,541
Other	868,195	875,836
	2,579,240	2,561,247
Intangible assets :	87,680	83,901
Investments and others :		
Investments in securities	592,402	542,162
Shares of subsidiaries and affiliates	979,879	958,501
Net defined benefit assets	58,708	54,735
Other	139,566	151,999
Less: Allowance for doubtful accounts	(2,508)	(2,381)
	1,768,049	1,705,017
Total fixed assets	4,434,970	4,350,166
Total assets	6,425,043	6,215,935

	Millions of yen	
LIABILITIES	March 31, 2016	June 30, 2016
Current liabilities :		
Notes and accounts payable	589,319	544,835
Short-term loans payable	400,386	397,472
Commercial paper	-	16,000
Bonds due within one year	50,000	40,000
Income taxes payable	25,342	8,596
Provision	2,124	1,108
Other	547,744	563,583
Total current liabilities	1,614,918	1,571,596
Long-term liabilities :		
Bonds and notes	335,683	325,685
Long-term loans payable	1,209,116	1,243,271
Allowance and reserve	4,805	4,314
Net defined benefit liabilities	128,837	132,776
Other	122,606	102,708
Total long-term liabilities	1,801,049	1,808,757
Total liabilities	3,415,968	3,380,354
NET ASSETS		
Shareholders' equity :		
Common stock	419,524	419,524
Capital surplus	383,010	383,008
Retained earnings	1,837,919	1,809,754
Less: Treasury stock, at cost	(87,942)	(132,206)
	2,552,512	2,480,081
Accumulated other comprehensive income:		
Unrealized gains on available-for-sale securities	171,378	113,067
Deferred hedge income (loss)	(10,883)	(9,140)
Unrealized gains on revaluation of land	3,025	2,999
Foreign currency translation adjustments	14,652	(18,379)
Remeasurements of defined benefit plans	43,136	35,499
	221,310	124,045
Non-controlling interests in consolidated subsidiaries	235,252	231,454
Total net assets	3,009,075	2,835,581
Total liabilities and net assets	6,425,043	6,215,935

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

Quarterly Consolidated Statements of Operations		Millions of yen
	First quarter of Fiscal 2015	First quarter of Fiscal 2016
Operating revenues :		
Net sales	1,264,933	1,051,141
Cost of sales	1,098,983	946,494
Gross profit	165,949	104,646
Selling, general and administrative expenses	113,563	112,039
Operating profit(loss)	52,386	(7,392)
Non-operating profit and loss :		
Non-operating profit :		
Interest income	1,562	1,403
Dividend income	7,514	6,408
Equity in profit of unconsolidated subsidiaries and affiliates	18,126	11,942
Other	17,221	9,222
	44,425	28,977
Non-operating loss :		
Interest expense	4,544	4,822
Other	7,847	28,812
	12,391	33,634
Ordinary profit(loss)	84,420	(12,050)
Extraordinary profit :		
Gain on sales of shares of subsidiaries and associates	33,464	-
	33,464	-
Extraordinary loss :		
Loss on inactive facilities	14,170	-
Restructuring loss	-	6,200
	14,170	6,200
Profit(loss) before income taxes	103,715	(18,250)
Income taxes - current and deferred	27,217	(5,954)
Profit(loss)	76,498	(12,295)
Profit attributable to non-controlling interests	3,764	2,342
Profit(loss) attributable to owners of parent	72,733	(14,638)

Quarterly Consolidated Statements of Comprehensive Income		Millions of yen
	First quarter of Fiscal 2015	First quarter of Fiscal 2016
Profit(loss)	76,498	(12,295)
Other comprehensive income		
Unrealized gains on available-for-sale securities	4,223	(54,978)
Deferred hedge income (loss)	(4,127)	1,564
Unrealized gains on revaluation of land	(11)	-
Foreign currency translation adjustments	(34,856)	(32,554)
Remeasurements of defined benefit plans	16	(7,448)
Share of other comprehensive income of affiliates accounted for using equity method	(24,157)	(7,353)
Total other comprehensive income	(58,912)	(100,769)
Comprehensive income	17,585	(113,065)
(breakdown)		
Comprehensive income attributable to owners of parent	13,539	(111,875)
Comprehensive income attributable to non-controlling interests	4,046	(1,190)

(3) Notes on Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

None

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

(Acquisition of Treasury Stock)

The Company acquired 19,658,800 shares of treasury stock in the first quarter of fiscal 2016 in accordance with a resolution made at the Company's Board of Directors held on February 1, 2016. As a result, treasury stock increased by ¥44,239 million.

(Segment Information)

(Information about segment sales, profit (loss))

First quarter of Fiscal 2015 (April 1, 2015—June 30, 2015)

(Millions of yen)

	Reportable segment					Total	Adjustments	Consolidated Total
	Steelmaking and steel fabrication	Engineering and construction	Chemicals	New materials	System solutions			
Net sales	1,109,686	70,602	52,252	8,806	51,182	1,292,530	(27,597)	1,264,933
Segment profit <Ordinary Profit>	74,734	1,757	2,276	856	4,873	84,498	(77)	84,420

First quarter of Fiscal 2016 (April 1, 2016—June 30, 2016)

(Millions of yen)

	Reportable segment					Total	Adjustments	Consolidated Total
	Steelmaking and steel fabrication	Engineering and construction	Chemicals	New materials	System solutions			
Net sales	927,003	55,463	39,230	8,668	50,055	1,080,420	(29,279)	1,051,141
Segment profit <Ordinary Profit (loss)>	(16,194)	1,239	(1,227)	456	4,998	(10,727)	(1,322)	(12,050)

(Depreciation Information)

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

(Millions of yen)

	For the first quarter of Fiscal 2015	For the first quarter of Fiscal 2016
Depreciation and amortization	73,424	71,447