Flash Report
Consolidated Basis
Results for the Third Quarter of Fiscal 2016
(April 1, 2016—December 31, 2016)
＜under Japanese GAAP＞

February 2, 2017

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: February 9, 2017
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 2016 (April 1, 2016—December 31, 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	%
Third quarter of Fiscal 2016	**3,332,004**	**(10.3)**	**62,159**	**(57.9)**	**108,517**	**(41.3)**	**59,408**	**(61.2)**
Third quarter of Fiscal 2015	3,715,927	(11.1)	147,659	(42.1)	185,008	(46.1)	153,031	(0.4)

(For reference) Comprehensive income: Third quarter of Fiscal 2016 ¥ 66,282 million —%
Third quarter of Fiscal 2015 ¥ (48,904) million —%

	Earnings per share	Earnings per share after full dilution
	Yen	Yen
Third quarter of Fiscal 2016	**67.08**	—
Third quarter of Fiscal 2015	166.79	—

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	%
Third quarter of Fiscal 2016	**6,363,504**	**3,018,469**	**43.8**
Fiscal 2015	6,425,043	3,009,075	43.2

(For reference) Shareholders' equity: Third quarter of Fiscal 2016 ¥ 2,785,054 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	—	0.00	—		
Fiscal 2016 (Forecasts)				**25.00**	**25.00**

Notes: 1. Whether the dividends 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
Fiscal 2016	4,550,000	(7.3)	130,000	(35.3)	80,000	(45.0)	90.00

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 Third 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)

Third 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

Third quarter of Fiscal 2016	67,669,072 shares
Fiscal 2015	48,055,060 shares

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

Third quarter of Fiscal 2016	885,653,360 shares
Third quarter of Fiscal 2015	917,516,034 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 (accumulated) 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 Third Quarter of Fiscal 2016

(1) Explanation of Operating Results

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

The overall global economy was on a moderate recovery trend during the period under review. Stable economic growth continued in the United States, and Europe experienced a moderate economic recovery, while China's economy began to improve due to the government's economic stimulus measures and other factors.

In the Japanese economy, a firm and moderate recovery continued with signs of a pick-up in corporate production activities and other improving conditions.

Operating Results by Business Segment in the Third 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	
	3Q FY2016	**3Q FY2015**	**3Q FY2016**	**3Q FY2015**
Steelmaking and steel fabrication	**2,925.7**	3,264.2	**81.9**	154.2
Engineering and construction	**186.8**	218.5	**4.6**	6.5
Chemicals	**125.2**	145.4	**4.0**	3.7
New materials	**26.0**	27.1	**1.3**	2.7
System solutions	**158.9**	156.7	**15.8**	14.7
Total	**3,422.7**	3,812.0	**107.7**	182.0
Adjustments	**(90.7)**	(96.1)	**0.7**	2.9
Consolidated total	**3,332.0**	3,715.9	**108.5**	185.0

* The third quarter (3Q) is the nine-month period from April 1 to December 31

Steelmaking and Steel Fabrication

Domestic steel demand increased, mainly in the construction and automobile industries. Demand bottomed out in the first quarter of fiscal 2016 and has been on a recovery trend since the second quarter. On a cumulative basis, demand through the third quarter was at a similar level as in the same period of the previous year.

Overseas steel demand was firm, as signs of a moderate recovery emerged in ASEAN countries and China's domestic demand, after a sustained decline, was favorably influenced partly by the government's economic stimulus measures. International market conditions for steel hit bottom at the beginning of 2016 and have since been on an uptrend. In particular, a surge in prices of coking coal and other raw material prices from the second quarter onward helped to boost market conditions from the third quarter. The steelmaking and steel fabrication segment recorded net sales of ¥2,925.7 billion, with ordinary profit of ¥81.9 billion.

On January 5, 2017, the plate mill on the premises of the Oita Works of Nippon Steel & Sumitomo Metal Corporation (NSSMC or the Company) caught fire. It is likely to take about eight months to resume operation (in September 2017). We would like to express our sincere apologies for the great trouble and anxiety caused to the people of the local community, our business partners, and all those concerned by this accident. Under the Company's Emergency Control Headquarters, headed by the President, we are making companywide efforts to determine the cause of the fire, take measures to prevent any recurrence of a similar accident, and consider options that could enable a swift resumption of operation.

Engineering and Construction

Nippon Steel & Sumikin Engineering Co., Ltd., despite firm orders in the domestic construction industry, is operating in a business environment characterized by increased uncertainty stemming mainly from sluggish crude oil prices and a cautious stance regarding capital investment by overseas steelmakers. Maximum efforts were made to improve earnings by steadily controlling project execution, but earnings decreased due to shrinking sales volume. The engineering and construction segment posted net sales of ¥186.8 billion and ordinary profit of ¥4.6 billion.

Chemicals

Nippon Steel & Sumikin Chemical Co., Ltd. secured stable earnings, supported by the robust market for styrene monomers, which is in the midst of tight supply and demand conditions. The functional materials business also contributed to stable earnings, thanks to continued favorable sales of circuit board materials, display materials, and other products for electronic components. On the other hand, the coal chemicals business continued to face severe business conditions as a result of sluggish demand for needle coke. The chemicals segment recorded net sales of ¥125.2 billion and ordinary profit of ¥4.0 billion.

New Materials

Nippon Steel & Sumikin Materials Co., Ltd. maintained favorable sales of surface-treated copper wire in the electronics materials field. In the carbon fiber and composite materials field, demand was steady for infrastructure maintenance and reinforcement applications such as for tunnels and bridges. However, intensified market competition and the strong yen contributed to a decrease in net sales and ordinary profit. The new materials segment posted net sales of ¥26.0 billion and ordinary profit of ¥1.3 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. During the period under review, demand from industries, distribution and services, finance, government entities, and other sectors remained firm. The system solutions segment recorded net sales of ¥158.9 billion and ordinary profit of ¥15.8 billion.

Sales and Profit for the Third Quarter of Fiscal 2016

NSSMC posted consolidated net sales of ¥3,332.0 billion, with operating profit of ¥62.1 billion, ordinary profit of ¥108.5 billion for the third quarter of fiscal 2016. Profit attributable to owners of the parent amounted to ¥59.4 billion.

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

Consolidated Earnings Forecasts

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

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

In the fourth quarter of fiscal 2016, domestic steel demand in the construction industry is expected to decline due to seasonal factors, but a recovery in the automobile industry is projected to continue. Meanwhile, overseas steel demand is likely to be robust in North America and ASEAN countries and remain firm in China. Global market conditions are expected to continue to show a solid trend against the background of an improvement in the supply-demand balance. Under these circumstances, NSSMC will continue to devote maximum management efforts to securing reproducible margins in response to a surge in coking coal and other raw material prices. In addition, we will work closely with customers to gain their understanding regarding appropriate adjustments in steel material prices.

For the full term of fiscal 2016, consolidated ordinary profit is expected to be ¥130.0 billion, which remains unchanged from the previously announced forecast. In addition, our forecast for profit attributable to owners of the parent has increased from the previous forecast of ¥60.0 billion to ¥80.0 billion, due to factors such as an uptrend in the earnings of affiliates.

Basic Profit Distribution Policy and Year-End Dividend Distribution

NSSMC's basic policy regarding profit distribution 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 determined based on consideration of interim performance figures and forecasts for the full fiscal year performance.

The Company forwent a dividend from retained earnings at the end of the first half, and had not determined a year-end dividend distribution amount for the fiscal year when the first-half results were announced. In accordance with the basic profit distribution policy described above and in consideration of earnings forecasts for the year and other factors, the Company plans to pay a dividend of ¥25 per share (an annual dividend of ¥25 per share, representing a dividend payout ratio of 28%).

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:

(Changes in Accounting Principles)

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 since the first quarter of fiscal 2016. 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 third quarter of fiscal 2016 was not material.

(Additional Information)

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 since the first quarter of fiscal 2016.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

Millions of yen

ASSETS	March 31, 2016	December 31, 2016
Current assets :		
Cash and bank deposits	85,365	**71,797**
Notes and accounts receivable	523,207	**472,965**
Inventories	1,110,901	**1,080,404**
Other	271,164	**262,076**
Less: Allowance for doubtful accounts	(567)	**(1,102)**
Total current assets	1,990,072	**1,886,141**
Fixed assets :		
Tangible fixed assets :		
Buildings and structures	682,187	**678,061**
Machinery, equipment and vehicles	1,028,856	**996,122**
Other	868,195	**875,091**
	2,579,240	**2,549,275**
Intangible assets :	87,680	**77,281**
Investments and others :		
Investments in securities	592,402	**698,184**
Shares of subsidiaries and affiliates	979,879	**944,662**
Net defined benefit assets	58,708	**67,429**
Other	139,566	**143,025**
Less: Allowance for doubtful accounts	(2,508)	**(2,495)**
	1,768,049	**1,850,806**
Total fixed assets	4,434,970	**4,477,363**
Total assets	6,425,043	**6,363,504**

Millions of yen

LIABILITIES	March 31, 2016	**December 31, 2016**
Current liabilities :		
Notes and accounts payable	589,319	**597,883**
Short-term loans payable	400,386	**305,504**
Commercial paper	-	**48,000**
Bonds due within one year	50,000	**100,000**
Income taxes payable	25,342	**15,740**
Provision	2,124	**870**
Other	547,744	**588,903**
Total current liabilities	1,614,918	**1,656,901**
Long-term liabilities :		
Bonds and notes	335,683	**265,688**
Long-term loans payable	1,209,116	**1,144,777**
Allowance and reserve	4,805	**4,397**
Net defined benefit liabilities	128,837	**119,436**
Other	122,606	**153,833**
Total long-term liabilities	1,801,049	**1,688,133**
Total liabilities	3,415,968	**3,345,034**
NET ASSETS		
Shareholders' equity :		
Common stock	419,524	**419,524**
Capital surplus	383,010	**385,760**
Retained earnings	1,837,919	**1,883,655**
Less: Treasury stock, at cost	(87,942)	**(132,054)**
	2,552,512	**2,556,886**
Accumulated other comprehensive income:		
Unrealized gains on available-for-sale securities	171,378	**238,041**
Deferred hedge income (loss)	(10,883)	**3,349**
Unrealized gains on revaluation of land	3,025	**3,013**
Foreign currency translation adjustments	14,652	**(80,866)**
Remeasurements of defined benefit plans	43,136	**64,629**
	221,310	**228,167**
Non-controlling interests in consolidated subsidiaries	235,252	**233,415**
Total net assets	3,009,075	**3,018,469**
Total liabilities and net assets	6,425,043	**6,363,504**

(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 2015	**Third quarter of Fiscal 2016**
Operating revenues :		
Net sales	3,715,927	**3,332,004**
Cost of sales	3,224,029	**2,936,021**
Gross profit	491,898	**395,982**
Selling, general and administrative expenses	344,239	**333,823**
Operating profit	147,659	**62,159**
Non-operating profit and loss :		
Non-operating profit :		
Interest income	4,395	**4,386**
Dividend income	14,117	**12,246**
Equity in profit of unconsolidated subsidiaries and affiliates	41,003	**56,193**
Other	28,085	**28,217**
	87,601	**101,044**
Non-operating loss :		
Interest expense	15,112	**13,724**
Other	35,140	**40,961**
	50,252	**54,685**
Ordinary profit	185,008	**108,517**
Extraordinary profit :		
Gain on sales of shares of subsidiaries and associates	33,538	**-**
Settlement received	30,000	**-**
	63,538	**-**
Extraordinary loss :		
Loss on inactive facilities	16,360	**10,184**
Restructuring loss	-	**6,407**
	16,360	**16,591**
Profit before income taxes	232,186	**91,925**
Income taxes - current and deferred	71,155	**22,160**
Profit	161,031	**69,765**
Profit attributable to non-controlling interests	8,000	**10,356**
Profit attributable to owners of parent	153,031	**59,408**

Quarterly Consolidated Statements of Comprehensive Income — Millions of yen

	Third quarter of Fiscal 2015	**Third quarter of Fiscal 2016**
Profit	161,031	**69,765**
Other comprehensive income		
Unrealized gains on available-for-sale securities	(55,899)	**64,958**
Deferred hedge income (loss)	(5,611)	**12,256**
Unrealized gains on revaluation of land	(11)	**-**
Foreign currency translation adjustments	(86,706)	**(91,786)**
Remeasurements of defined benefit plans	(11,105)	**21,423**
Share of other comprehensive income of affiliates accounted for using equity method	(50,601)	**(10,335)**
Total other comprehensive income	(209,936)	**(3,483)**
Comprehensive income	(48,904)	**66,282**
(breakdown)		
Comprehensive income attributable to owners of parent	(53,047)	**66,279**
Comprehensive income attributable to non-controlling interests	4,142	**2**

(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 third 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)

Third quarter of Fiscal 2015 (April 1, 2015—December 31, 2015)

(Millions of yen)

	Reportable segment					Total	Adjustments	Consolidated Total
	Steelmaking and steel fabrication	Engineering and construction	Chemicals	New materials	System solutions			
Net sales	3,264,256	218,508	145,456	27,121	156,749	3,812,092	(96,165)	3,715,927
Segment profit <Ordinary Profit>	154,284	6,515	3,775	2,707	14,732	182,015	2,993	185,008

Third quarter of Fiscal 2016 (April 1, 2016—December 31, 2016)

(Millions of yen)

	Reportable segment					Total	Adjustments	Consolidated Total
	Steelmaking and steel fabrication	Engineering and construction	Chemicals	New materials	System solutions			
Net sales	2,925,736	186,833	125,216	26,049	158,940	3,422,775	(90,771)	3,332,004
Segment profit <Ordinary Profit>	81,913	4,678	4,013	1,336	15,814	107,756	760	108,517

(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 assets amortization other than goodwill) are as follows:

(Millions of yen)

	For the third quarter of Fiscal 2015	For the third quarter of Fiscal 2016
Depreciation and amortization	228,467	223,820

(Major Subsequent Events)

（The Tender Offer for Nisshin Steel Co., Ltd.'s Common Shares ）

As previously announced in the press release dated May 13, 2016 (entitled "Notice Regarding Execution of an Agreement to Make Nisshin Steel Co., Ltd. a Subsidiary of Nippon Steel & Sumitomo Metal Corporation, etc. and Implementation of Tender Offer") , NSSMC entered into an agreement dated May 13, 2016 with Nisshin Steel Co., Ltd. (the "Target Company") to, among other things, make the Target Company a subsidiary of NSSMC by around March 2017 (the "Proposed Transaction")(the "Agreement for the Proposed Transaction, Etc.") and adopted a resolution to acquire the shares of the Target Company's common stock through a tender offer (the "Tender Offer"), subject to the satisfaction of certain conditions, including completion of procedures and actions required under domestic and foreign competition laws.

Thereafter, NSSMC received from the Japan Fair Trade Commission a "notice stating that the JFTC will not issue a cease-and-desist order" dated January 27, 2017 regarding NSSMC's acquisition of the Target Company's common shares, whereby the conditions, including completion of procedures and actions required under domestic and foreign competition laws, were satisfied. Accordingly, at its Board of Directors held on February 2, 2017, NSSMC adopted a resolution to commence the Tender Offer as from February 3, 2017.