

FY2016 Earnings Summary and Progress of Mid-term Business Plan

May. 23, 2017
President Kenji Hiwatari



**NIPPON STEEL & SUMIKIN BUSSAN
CORPORATION**

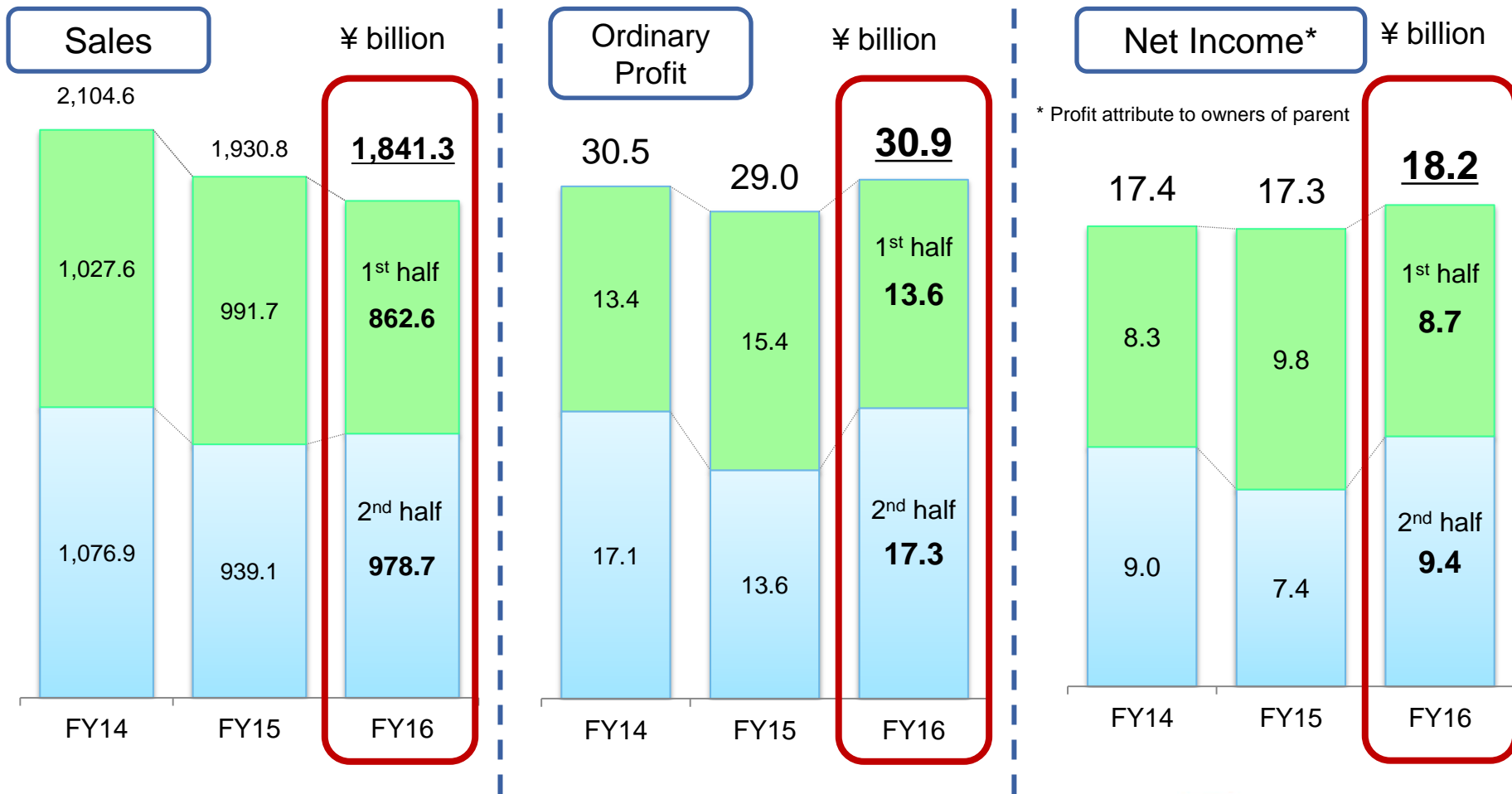
Agenda

- 1. FY2016 Results & FY2017 Forecast**
- 2. The Commencement of Discussion for the Partial Acquisition of the Steel Products Business of the Mitsui & Co. group by NSSB, and for the Additional Purchase of NSSB Shares by Mitsui & Co., Ltd.**
- 3. Progress of Mid-term Business Plan 2017**
- 4. Appendix**

1. FY2016 Results & FY2017 Forecast

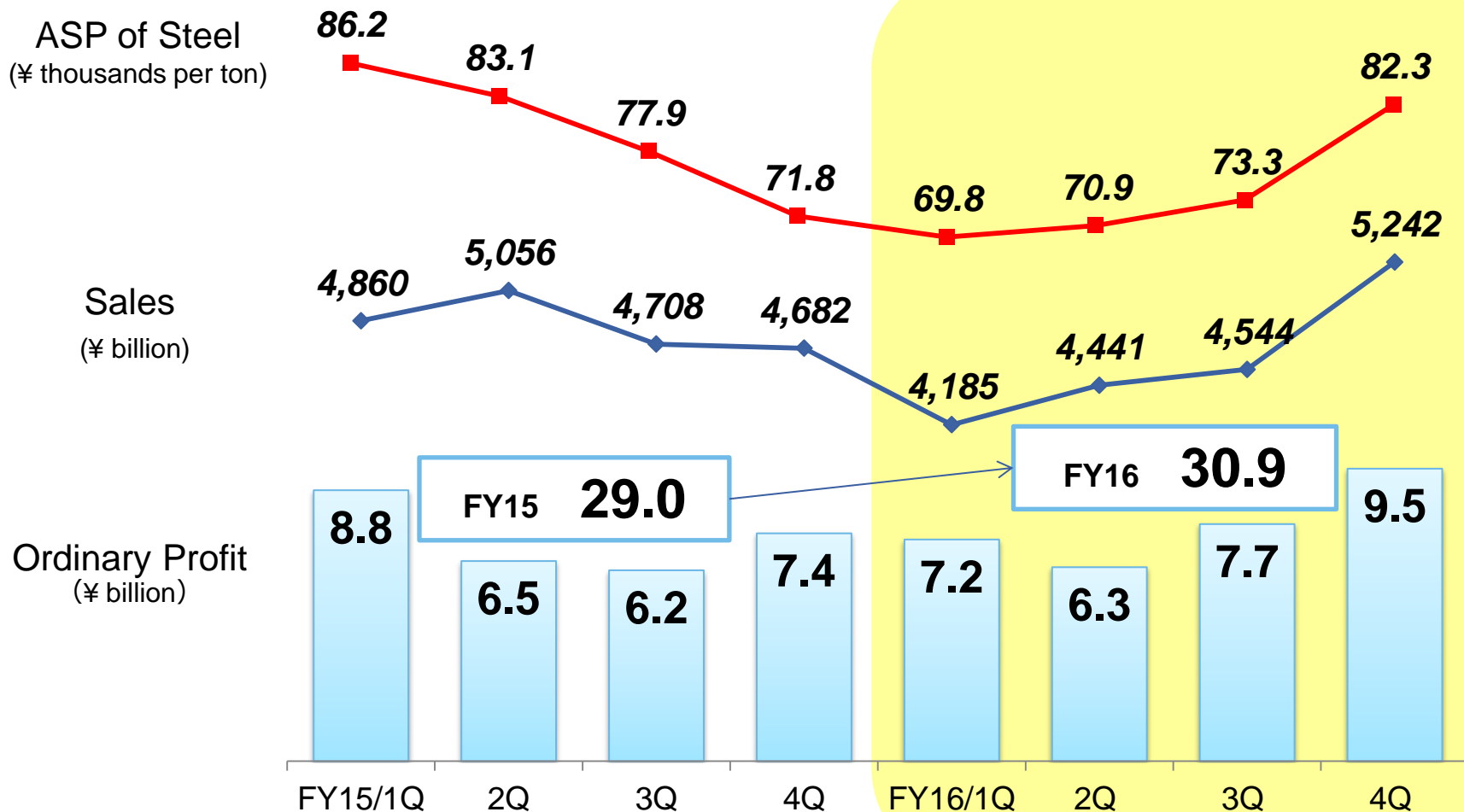
Highlight: FY2016 Results

- Sales declined: Mainly caused by ASP dropped in 1st half of the Steel business.
- Profit increased: Due to increased income from the Steel, Textiles and Food Stuff business, covering the decline in industrial machinery and infrastructure business



Trends by Quarter

Sales and ordinary profit tend to recover with the rise in steel prices in the 2nd half.



Segment Results

Sales

¥ billion	FY15	FY16	Change	
Steel	1,511.1	78% 1,448.4	-4%	-62.6
I & I	93.2	5% 86.3	-7%	-6.8
Textiles	176.1	9% 160.8	-9%	-15.2
Foodstuffs	149.0	8% 144.1	-3%	-4.8
Total	1,930.8	100% 1,841.3	-5%	-89.4
Overseas Sales	<26.1%> 503.0	<26.1%> 480.5	<+0.0%> -22.6	

Ordinary Profit

¥ billion	FY15	FY16	Change	
Steel	18.4	64% 19.6	7%	1.2
I & I	3.2	7% 2.2	-31%	-1.0
Textiles	4.3	18% 5.4	27%	1.1
Foodstuffs	2.8	11% 3.3	19%	0.5
Total	29.0	100% 30.9	7%	1.9

Steel

Trading of Steel, Raw Materials and Steel service centers

- Sales declined: Impact of decline in ASP in the 1H
- Profit increased: Due to higher ASP in the 2H and improved profitability of overseas group companies

Industrial Supply & Infrastructure

Industrial machinery and machine tools, automotive parts, railway car parts, aluminum products and infrastructure business

- Sales declined: Decline in sales to Russia
- Profit declined: Reflecting the absence of temporary factors

Textiles

OEM & ODM production for apparel & retail, solution business (logistics, etc.)

- Sales declined: The environment in the apparel industry remained severe
- Profit increased :Efforts of cost-cutting activities and liquidating group company with losses

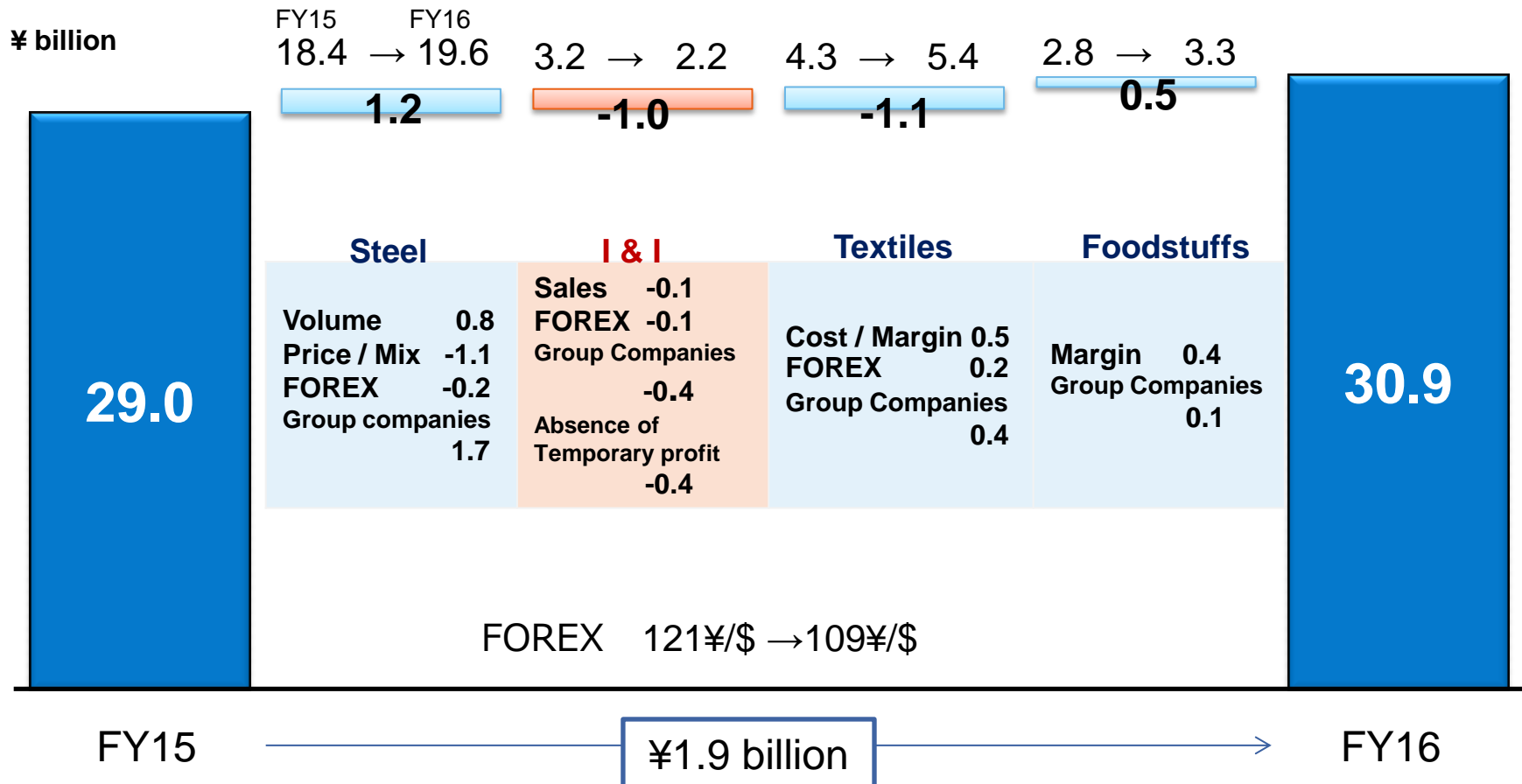
Foodstuffs

Import of meat and processed foods and chain restaurant business

- Sales declined: Weak meat market prices
- Profit increased: Improvement in profit margins of beef and broilers

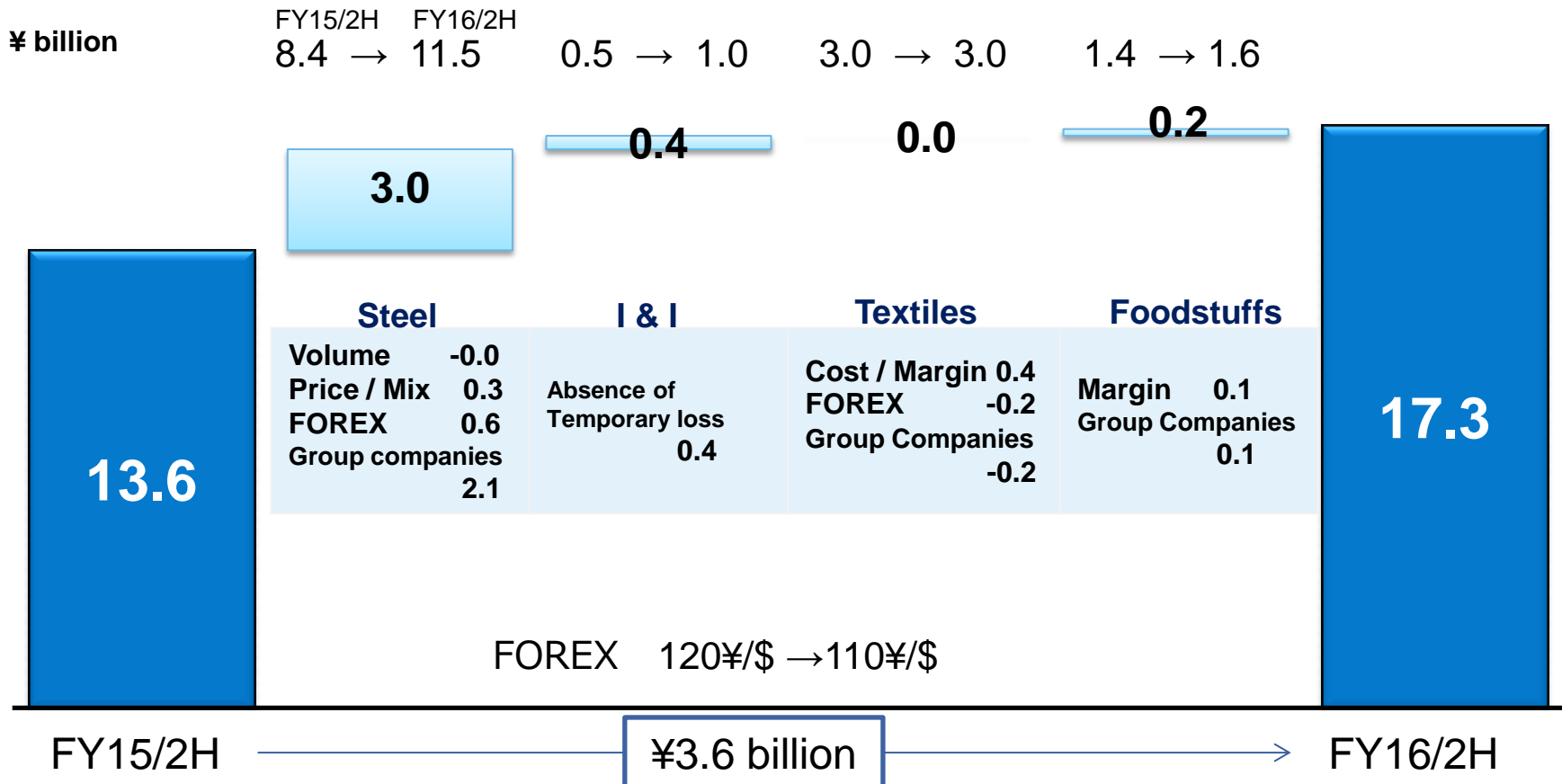
Ordinary Profit Variance Analysis [FY15 vs. FY16]

Ordinary Profit increased ¥19 billion due to increased income from the Steel, Textiles and Food Stuff business, covering the decline in industrial machinery and infrastructure business



Ordinary Profit Variance Analysis [FY15/2H vs. FY16/2H]

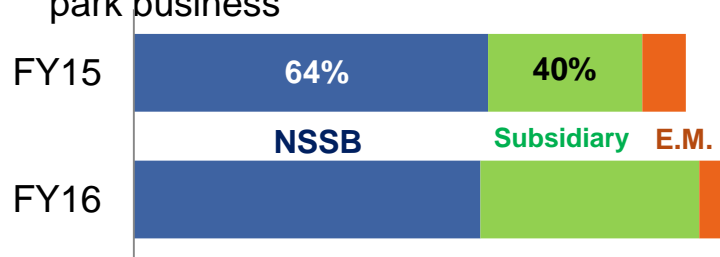
- Profit of Steel Business increased by ¥3 billion Due to higher ASP in the 2H and improved profitability of overseas group companies
- Other businesses also keep improving profitability



Group Performance

FY15→FY16

- Profit of the subsidiary has improved significantly
- Equity method gains declined mainly in the Thai industrial park business



Ordinary Profit
¥29.0 billion
¥30.9 billion

(YoY) Number	In the Black	In the Red	Total
Steel	(+5) 60	(-3) 13	(+2) 73
I & I	(+2) 21	(-1) 1	(+1) 22
Textiles	(+1) 11	(-2) 4	(-1) 15
Foodstuffs	(-) 2	(-) 0	(-) 2
Overseas office	(-1) 8	(+1) 4	(-) 12
Totals for Group Companies	(+7) 102	(-5) 22	(+2) 124

*EM: Affiliated company accounted for by the equity method

Steel

I & I

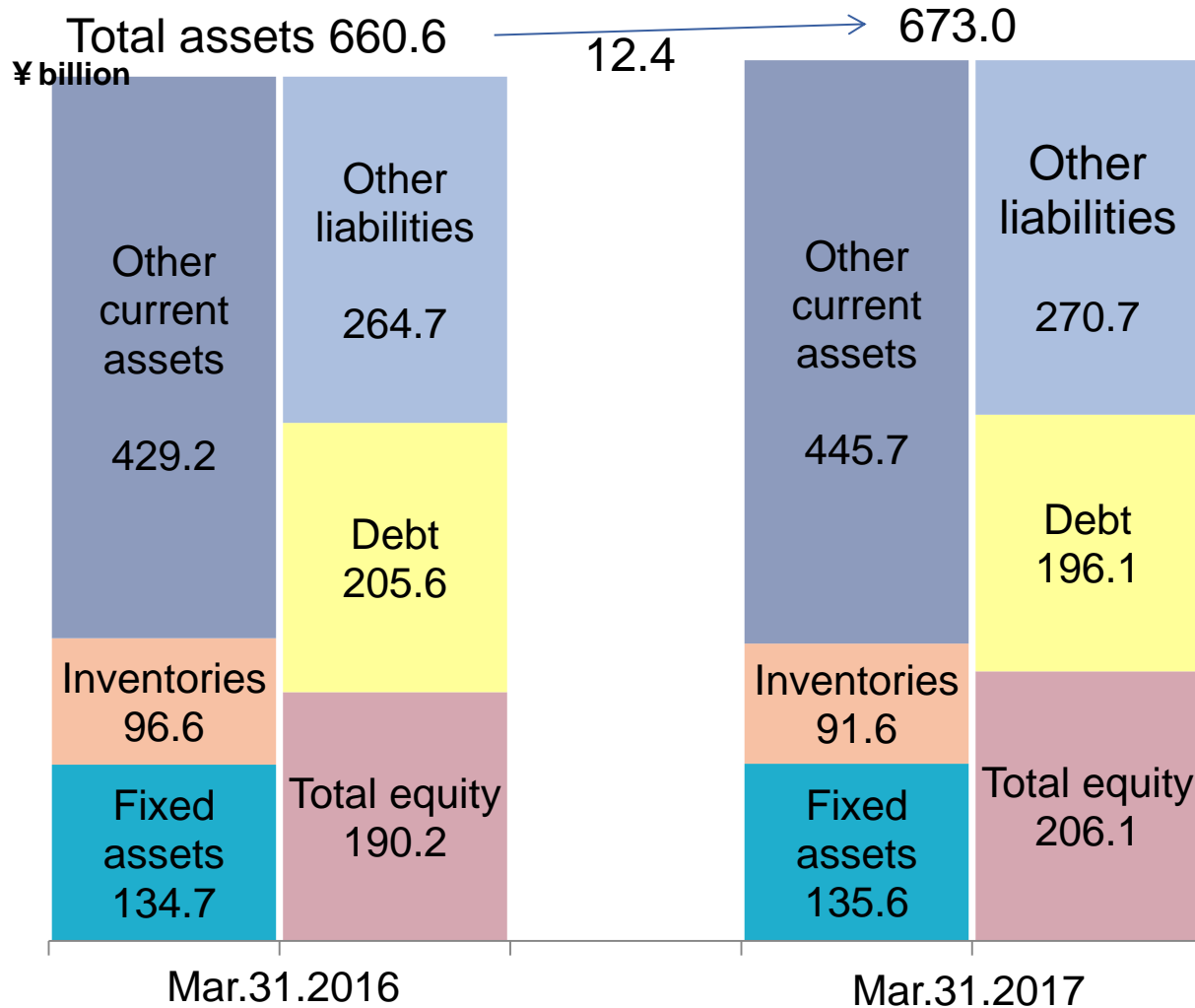
Textiles

Foodstuffs

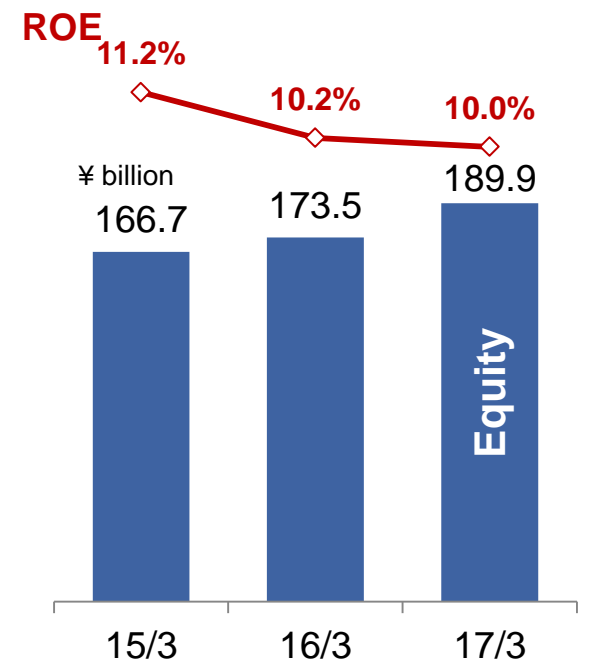
Ordinary Profit Breakdown (FY16)	Steel	I & I	Textiles	Foodstuffs
<p>Ordinary Profit Breakdown (FY16)</p> <p>**"NSSB" includes elimination</p>	<p>¥19.6 billion</p> <p>NSSB, Subsidiary, *EM</p>	<p>2.2</p> <p>NSSB, Subsidiary, *EM</p>	<p>5.4</p> <p>NSSB, Subsidiary</p>	<p>3.3</p> <p>NSSB, Subsidiary</p>
Change in OP	1.2	-1.0	1.1	0.5
Change in Group Earnings	2.6 (Except FOREX 1.7)	-0.8 (Except Temporary factors -0.4)	○ 4	○ 1
Main factor for the change	<p>○ Sales / Cost</p> <p>○ Market</p> <p>○ Stable Operation</p>	<p>× Absence of Temporary profit</p> <p>× Sales of Industrial Park</p>	<p>○ Uniform rental business</p> <p>○ Liquidation of unprofitable business</p>	

Balance Sheets

- Inventory decreased caused by the steel stock inventory volume reduction effect exceeded the unit price increase effect.



	16/3E	17/3E	Change
Equity ratio	26.3%	28.2%	+1.9%
Net - DER	1.1	0.9	-0.2



Cash Flow

¥ billion	FY15	FY16	
Operating CFs	0.1	22.2	Depreciation ¥5.6 billion
Investment CFs	-3.0	-4.0	CAPEX & Investments ¥6.2 billion
Free CF	-2.9	18.2	(CAPEX 4.2, Investments 2.0)
Net increase (decrease) of debts	-0.6	-9.5	
Cash dividends	-4.1	-4.6	
Others	-0.7	-0.5	
Changes in cash & cash equivalents	-8.4	2.9	

Guidance for FY2017

Ordinary Profit will increase, reflecting the stable performance of the steel business

<Previous Forecast>

¥ billion	FY16	FY17 (e)	YoY
Sales	<1,880.0> 1,841.3	2,000.0	158.7
Operating Profit	<29.0> 30.8	32.5	1.7
Ordinary Profit	<30.0> 30.9	33.0	2.1
Net Income	<17.5> 18.2	19.5	1.3
EPS (¥)	589.96	630.81	40.85
Dividend (¥)	<150> 180	180	-

* Based on after share consolidation

Sales & Ordinary Profit forecast by segment

¥ billion	FY16	FY17 (e)	YoY
Steel	1,448.4	1,600.0	151.6
I & I	86.3	90.0	3.7
Textiles	160.8	160.0	-0.8
Foodstuffs	144.1	150.0	5.9
Sales	1,841.3	2,000.0	158.7
Steel	19.6	22.0	2.3
I & I	2.2	2.2	-
Textiles	5.4	5.4	-
Foodstuffs	3.3	3.4	0.1
Ordinary Profit	30.9	33.0	2.1

Returns to Shareholders

Dividend for FY16

¥180
(Pay out ratio 30.5%)
Interim ¥75
Year-end ¥105

Previous Forecast ¥150
Pay out ratio 26.5%

* Based on after share consolidation

Dividend forecast for FY17

¥180
(Pay out ratio 28.5%)

Policy of cash dividend

- ◆ NSSB's most important management goal is to improve profit returns to our shareholders .
- ◆ Our basic dividend policy is to realize dividends that are in line with business results while balancing profit trends and financial condition.
- ◆ Targeting payout ratio in this mid-term business plan is 25%-30%.

Targeting financial condition

ROE **over 10%**
Equity **over ¥200 billion**
Net DER **under 1.0 times**

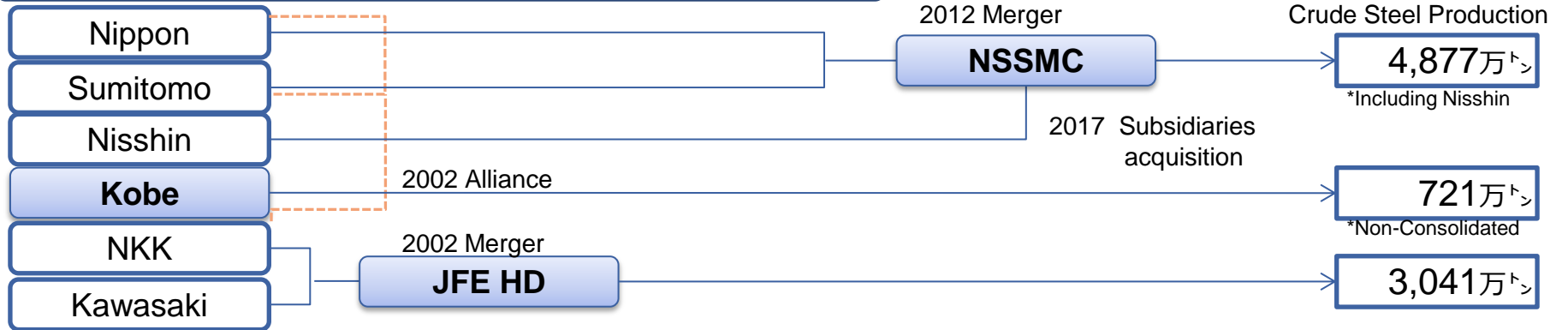
Results for FY2016

ROE **10.0%**
Equity **¥189.9 billion**
Net DER **0.91**

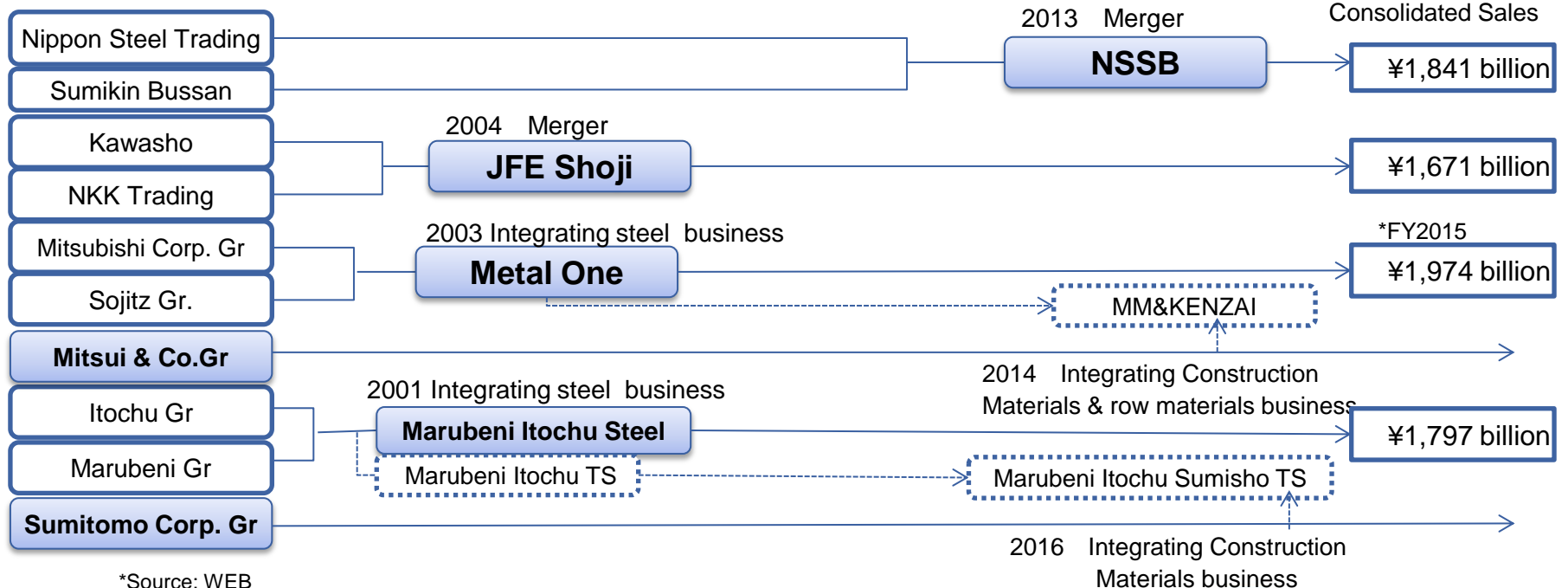
2. The Commencement of Discussion for the Partial Acquisition of the Steel Products Business of the Mitsui & Co. group by NSSB, and for the Additional Purchase of NSSB Shares by Mitsui & Co., Ltd.

Reorganization of Steel Industry in Japan

Consolidation of Blast Furnace Companies



Steel Trading Company Reorganization also Activated



*Source: WEB

Purpose of the Transaction



Further Improvement in Customer Satisfaction

Aiming to provide better services to our customers, by using our comprehensive power and the value chains.



Improvement and Enhancement of Competitiveness in the Steel Business

Expanding our steel businesses and increasing our competitive power by utilizing the combined strength and the synergy.



Acceleration of Global Strategies

Aiming to be the most suitable partners for one another, capable of planning and proposing total solutions that meet the global needs of customers all over the world.

Overview of the Transaction

Partial Acquisition of the Steel Products Business of the Mitsui & Co. group by NSSB

Agenda ; The specific business operations to be acquired,
 The acquisition method, The consideration to be provided

Additional Purchase of NSSB Shares by Mitsui & Co.,

Increase ownership ratio to 11% to 20% < to be equity-method investee >

Method: Combine “Acquisition from current shareholders” and

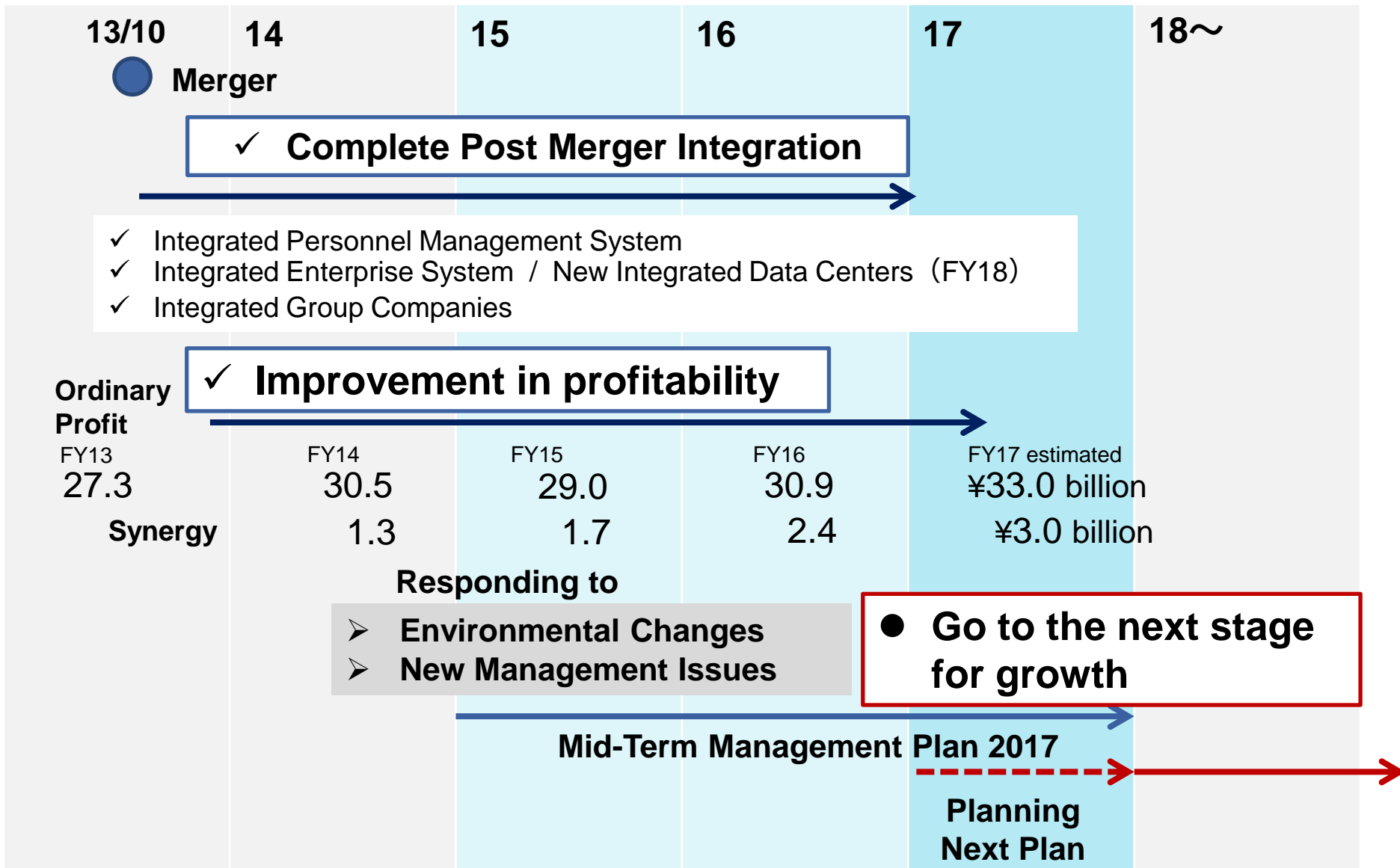
“Allocation of shares< Upper limit of Issued Share: 2,500,000 shares >”

Schedule

- March 22, 2017 : Execution of the basic agreement for the Discussion
- September 2017 (planned) : Execution of the final agreement for the Business Acquisition
- April 2018 (planned) : Effective date of the Business Acquisition

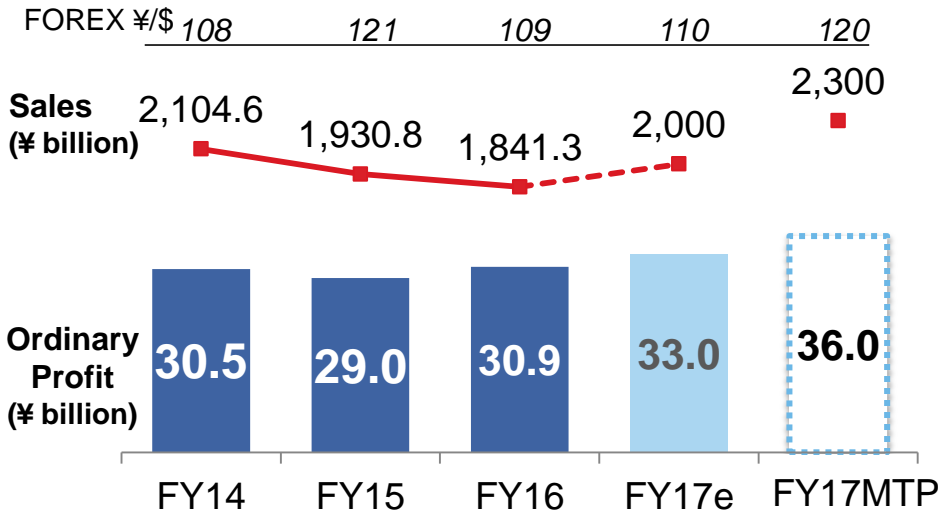
3. Progress of Mid-term Business Plan 2017

NSSB Goes to the Next Stage



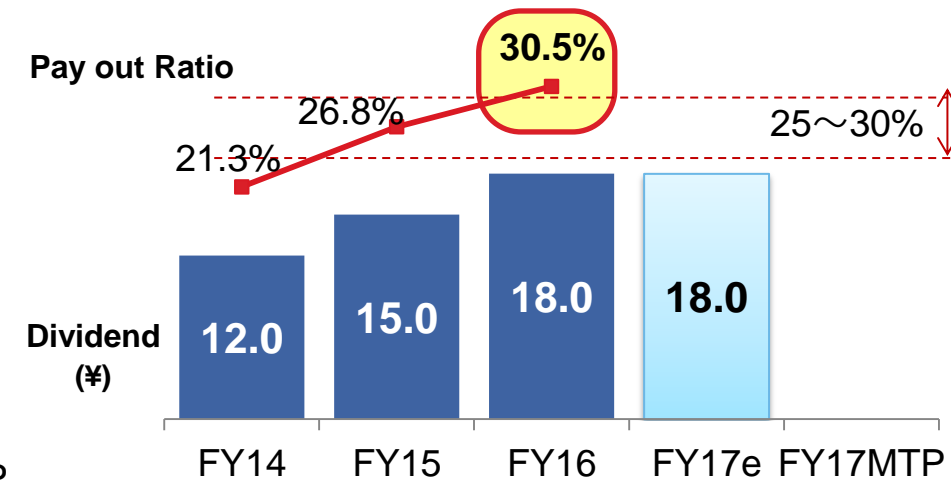
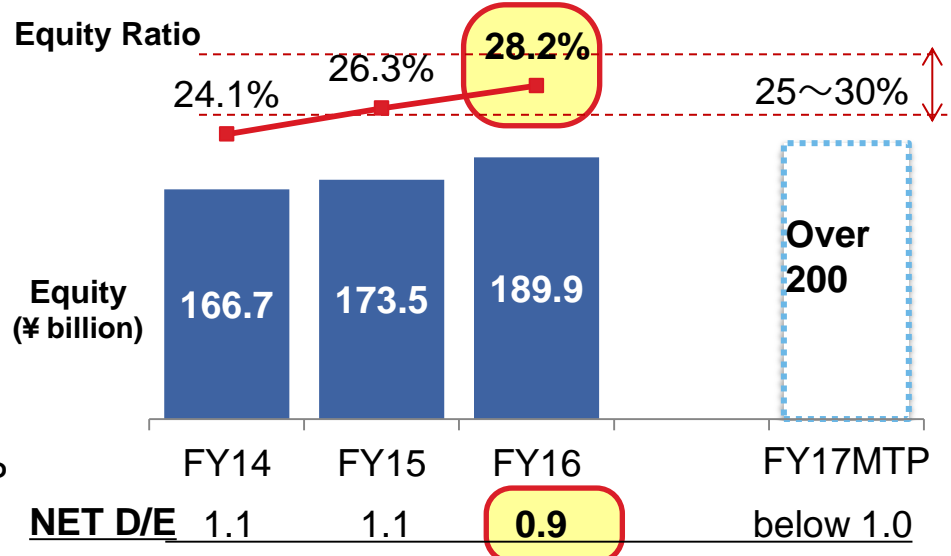
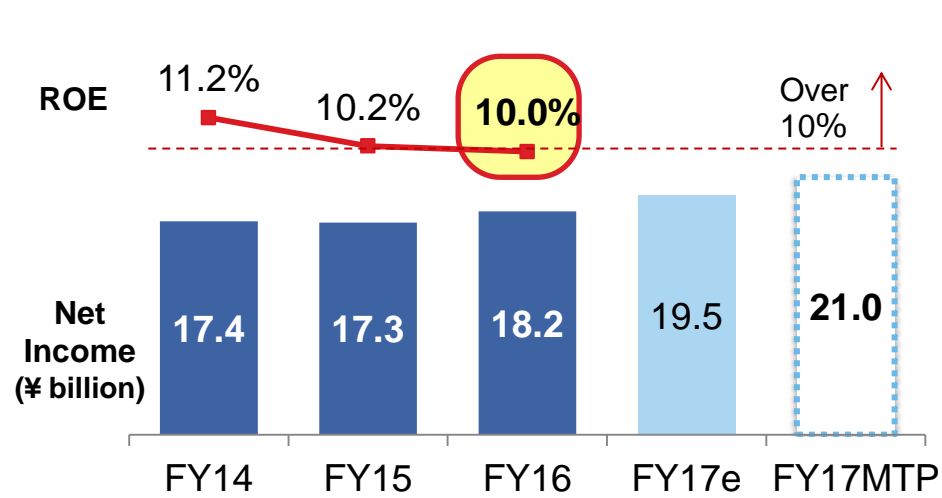
Progress in Financial Targets

Achieved Target



Over Seas Sales (¥ billion) 553.3 503.1 480.5 680.0

Year	Over Seas Sales (¥ billion)
FY14	553.3
FY15	503.1
FY16	480.5
FY17MTP	680.0



* Based on after share consolidation

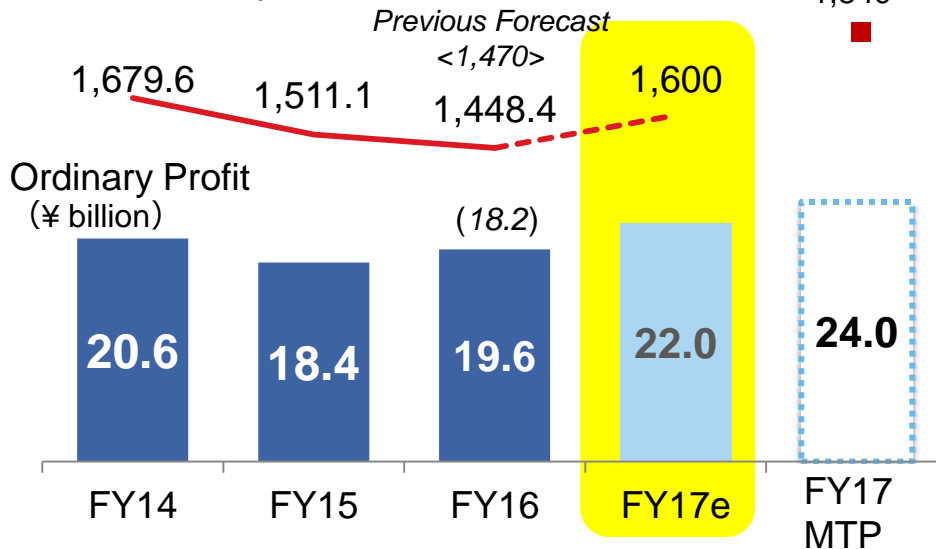
Steel Business

FY17 (e) (YoY)

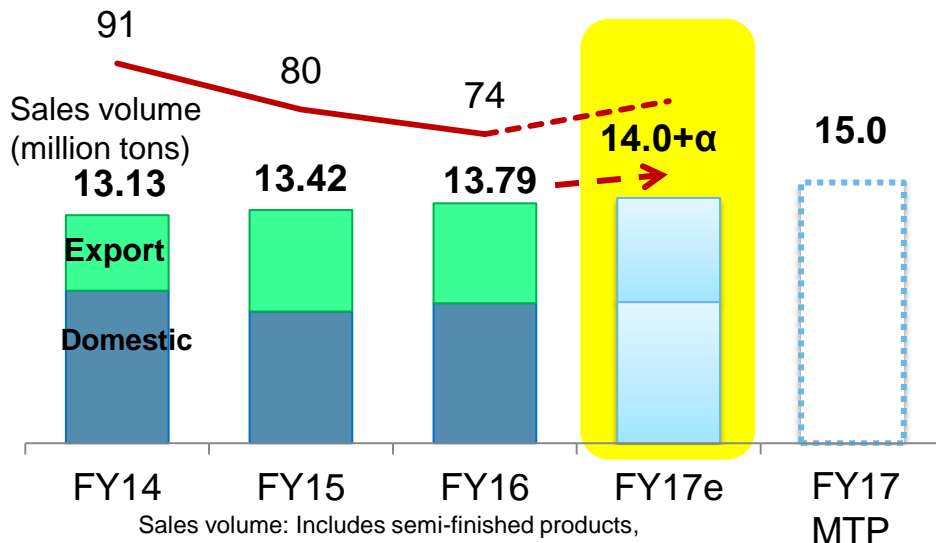
Sales: ↗ Profit: ↗



Sales (¥ billion)



ASP (¥ thousands per ton)



Sales volume: Includes semi-finished products, ASP; excludes semi-finished products

FY16 Performance

- Ordinary Profit exceeded expectations due to strong price improvement

Forecast for FY17

- Stable Demand
- Continue focusing on sales increase, price improvement, optimization of processing / distribution

Business Environment

- The excess capacity problem in China will continue.
- Construction-related steel demand for TOKYO 2020, which got off to a slow start, will begin picking up.

Major Initiative

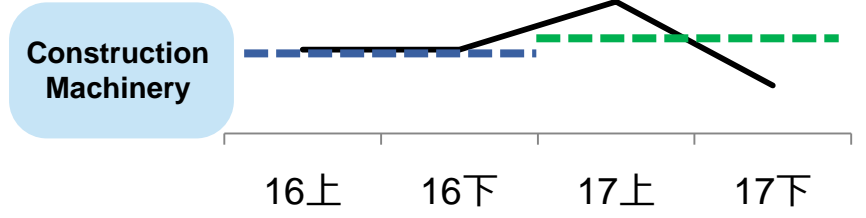
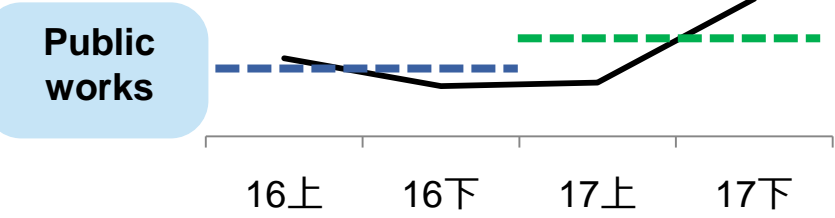
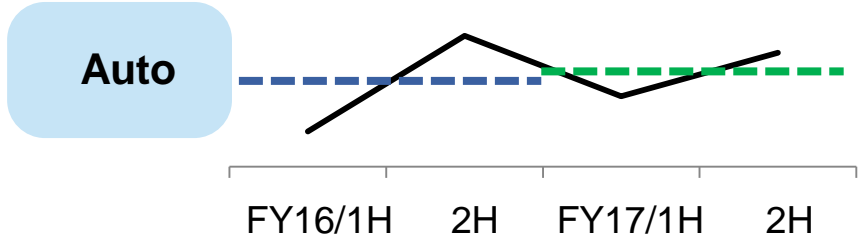
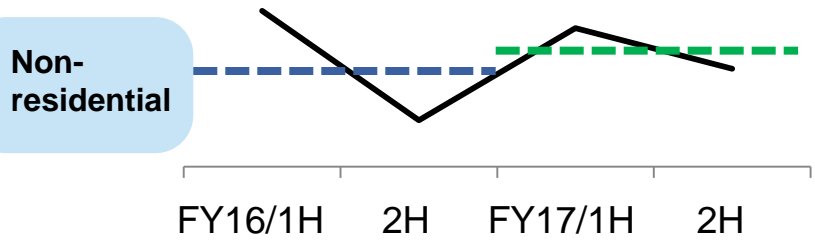
- ✓ Efforts to increase sales
- ✓ Strengthen respond for New Demand field
- ✓ Optimization of Processing
- ✓ Capturing construction work demand
- ✓ Organization revision corresponding to environmental change

Steel Demand Trend in Japan

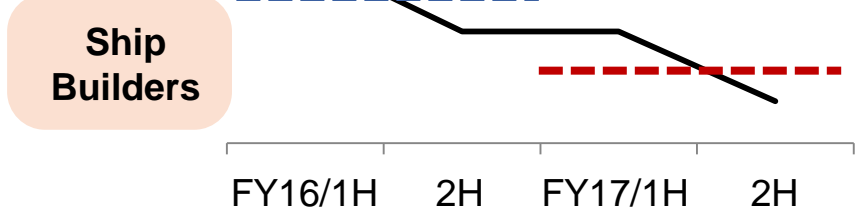
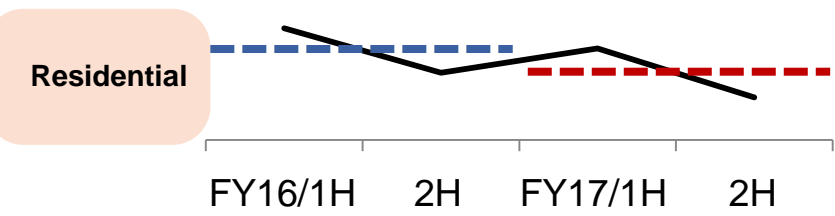


● Stable Demand is expected to continue

16→17 Increasing Sector



16→17 Decreasing Sector



Over view of Global Market



ASIA

Demand

Overall Demand is increasing except some countries and sectors

Supply

FHS* integrated steel mill will started operation

*FHS: Formosa Ha Tinh Steel

North America

Demand

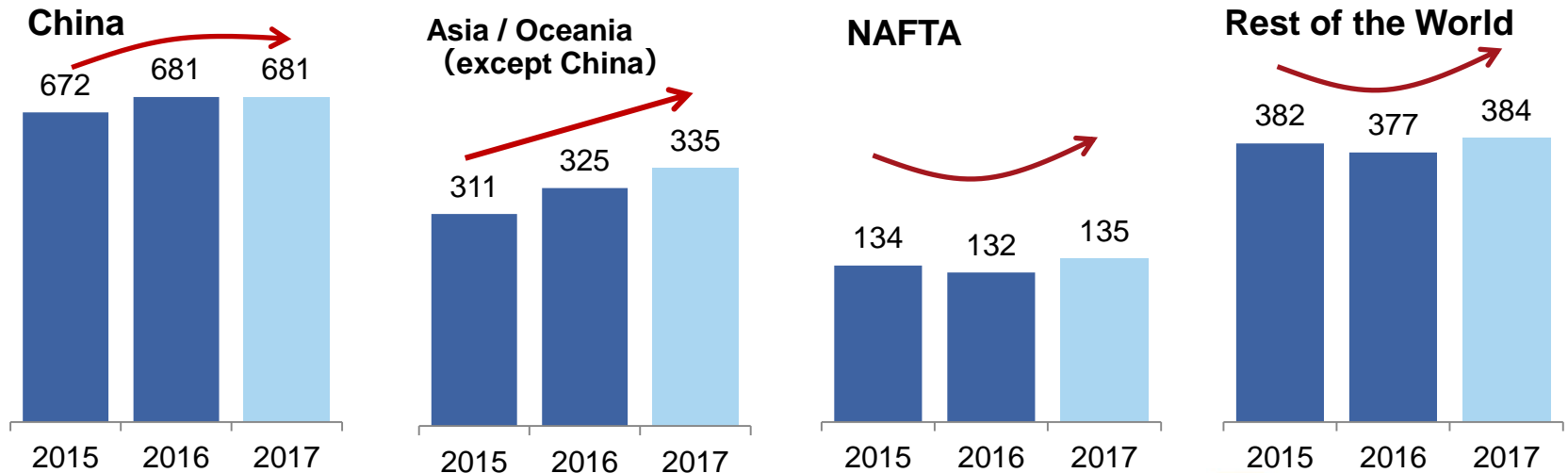
US demand is expected to expand due to policies such as tax reduction, infrastructure investment, deregulation etc.

Supply

The operation of local mills is expected to continue to perform well owing to US protectionist policy effects

Demand Forecast by Region (WSA Apr. 2017)

(Million tons)

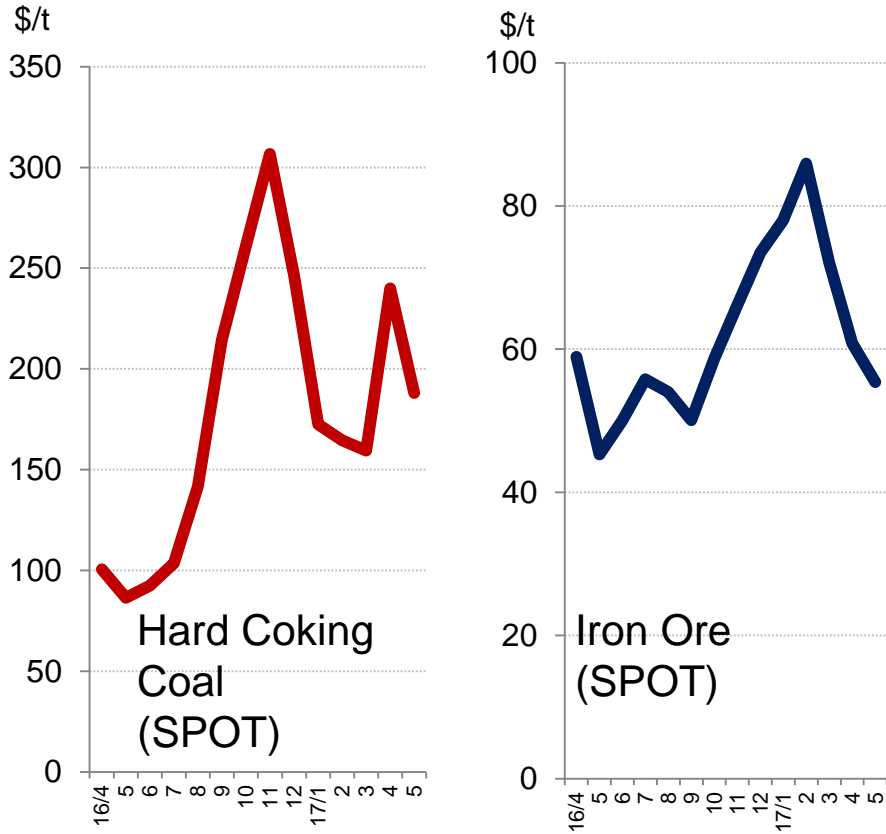


Steel Market Trend



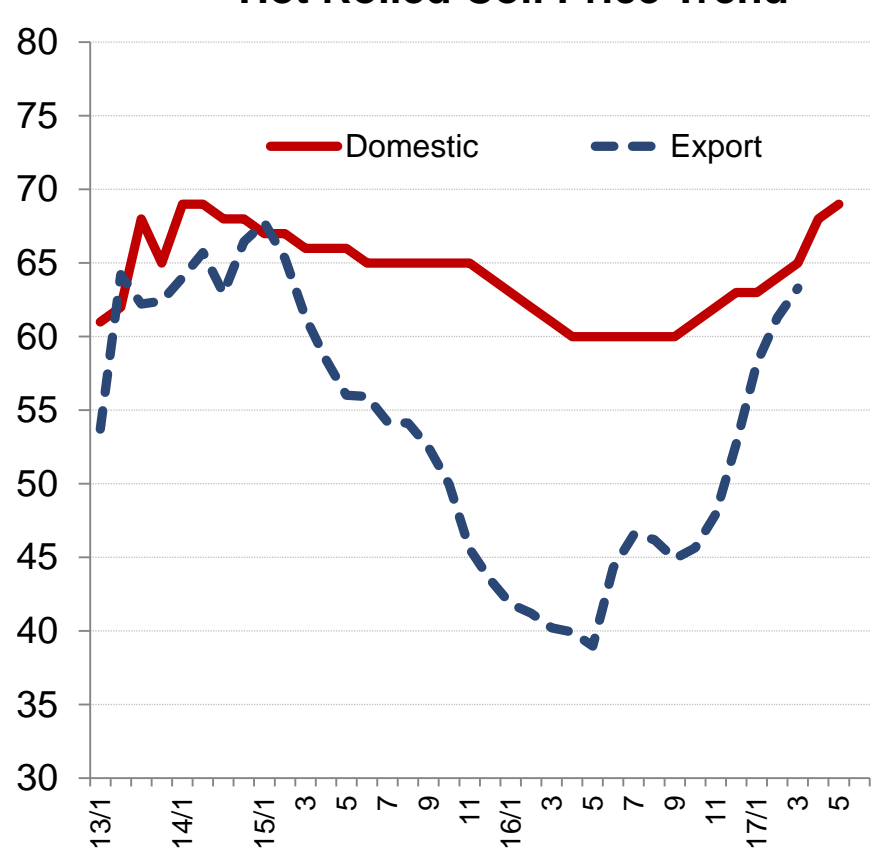
Recovery trends due to solid domestic demand, inventory reduction, price increases of manufacturers

Raw Material Price Trend



Source: NSSB

Hot Rolled Coil Price Trend



Source: Japan Metal Daily, Custom

Improvement of Competitiveness in Processing

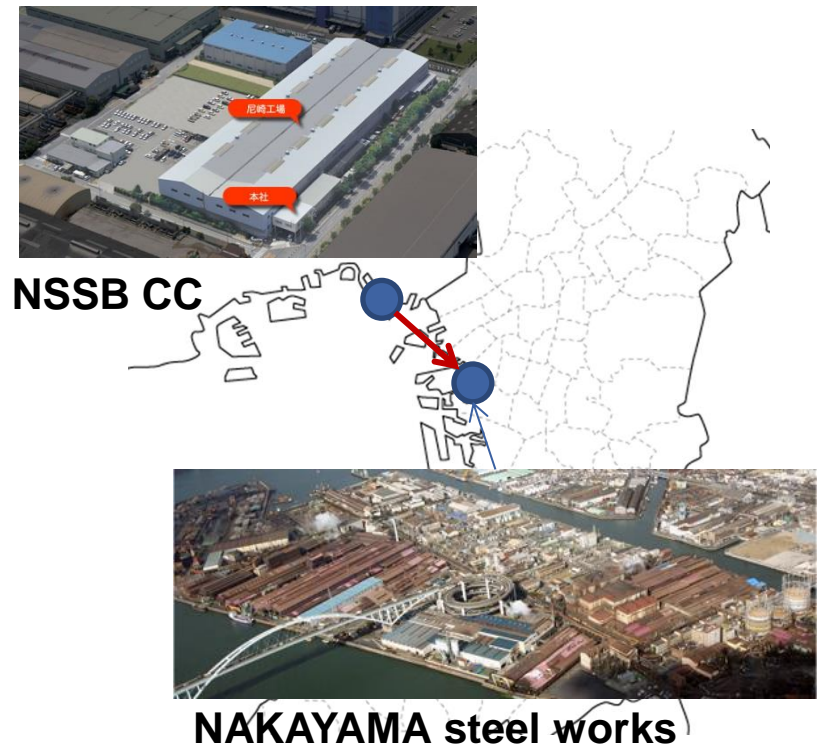


Merger of Coil Center in East Japan Area

- Relocation of processing equipment
- Reduction in management cost

Relocation of Coil Center in West Japan Area

- Relocate CC to inner of NAKAYAMA steel works
- Enable to Utilize facilities of NAKAYAMA





Capturing construction work demand in Japan

- Integration of distribution company , Subsidiary of Nippon Steel & Sumikin Metal Products.
- Establishment of subsidiary for steel framework construction



Organization revision

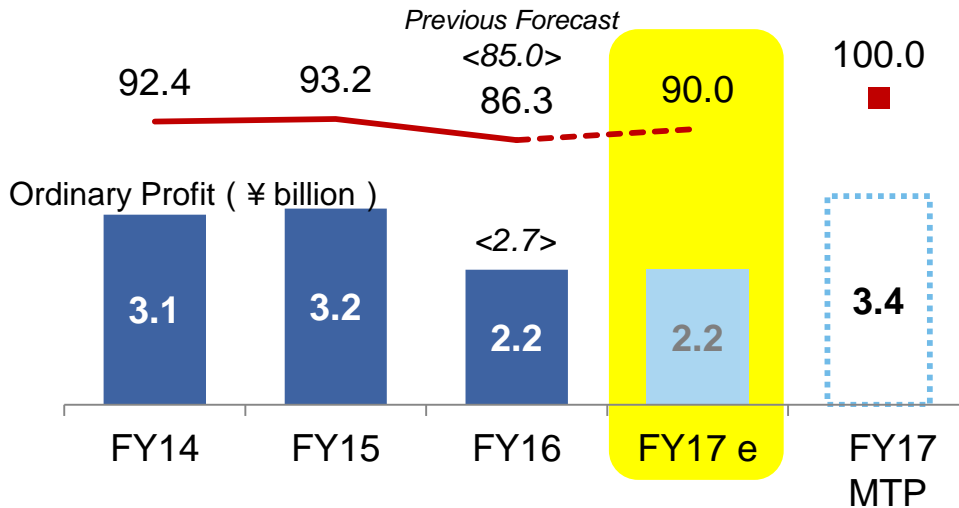
- Strengthen planning function for Overseas M&A etc.
- Strengthening sales organization for large development projects
- Organization change corresponding to reorganization of Steel Industry in Japan

Industrial Supply & Infrastructure Business

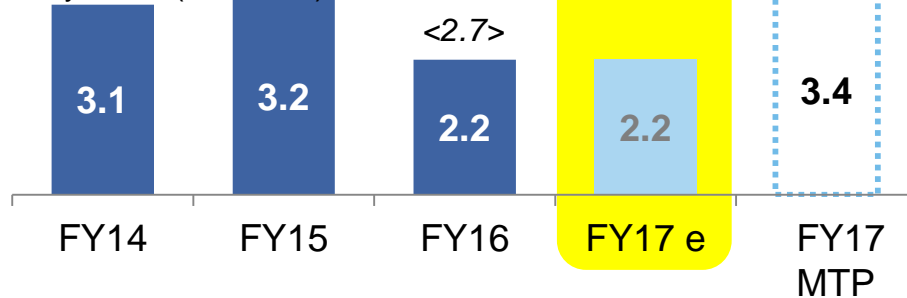
FY17 (YoY)

Sales: → Profit: →

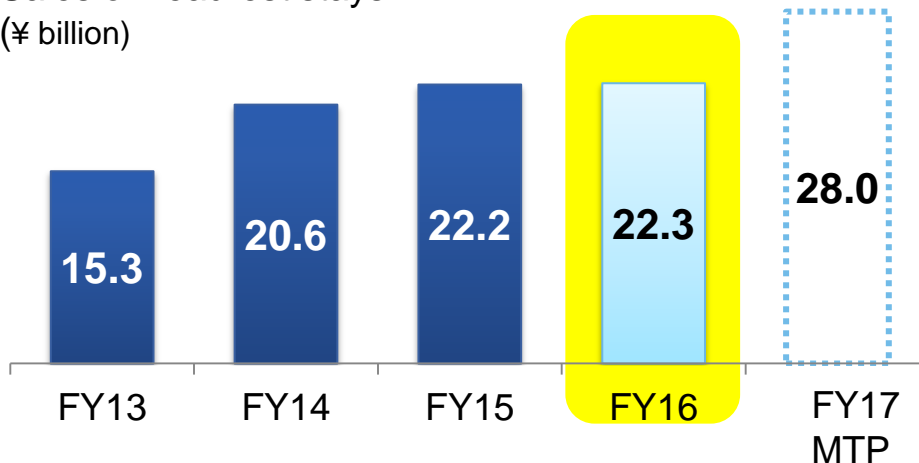
Sales (¥ billion)



Ordinary Profit (¥ billion)



Sales of headrest stays (¥ billion)



FY16 Performance

- Sales declined: Decline in sales to Russia
- Profit declined: Reflecting the absence of temporary factors

*Temporary Profit in FY15: Transitory profits related to the merger with the Thailand-based entity accounted for using equity method <¥ 0.8 billion>

Forecast for FY17

- Keep underlying profit

Business Environment

- Slump in emerging economies (Russia, Thailand, etc.)

Major Initiatives

Preparation for the recovery period

- Expansion of industrial park in Thailand
- Increase production capacity for headrest stays in Mexico
- Development of the industrial park business in Mexico
- Strengthening of response to high-performance materials

Development of the Industrial Park Business in Mexico



- NSSB executed the exclusive sales representative agreement with Lintel, the top Mexican industrial park developers.
- By December 2017, we aim to sell 50 ha in total for 15 to 20 companies out of 1,200 ha sales area.



Invitation seminar held in Tokyo this February

Industrial Park business of Lintel

- 9 industrial park , including projects under development
- Total development area :2,300ha
- Tenanted Many Japanese companies



Lintel



1 - 6
Industrial Park

7 - 9
Under Construction

Automobile Plant

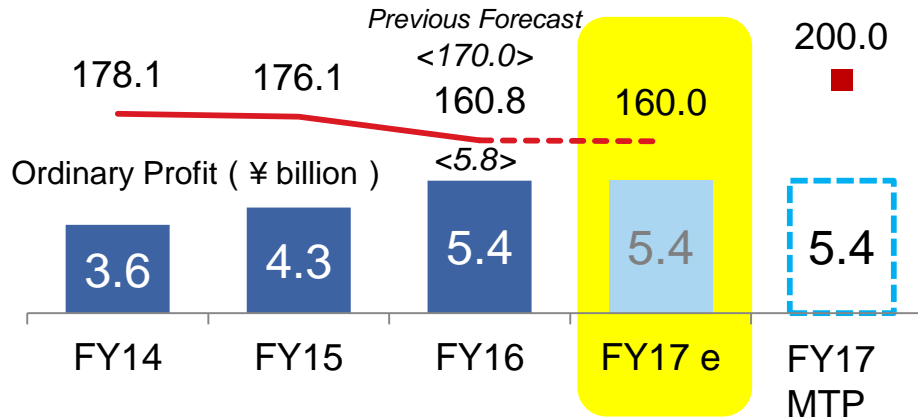
Textiles Business

FY17 (YoY)

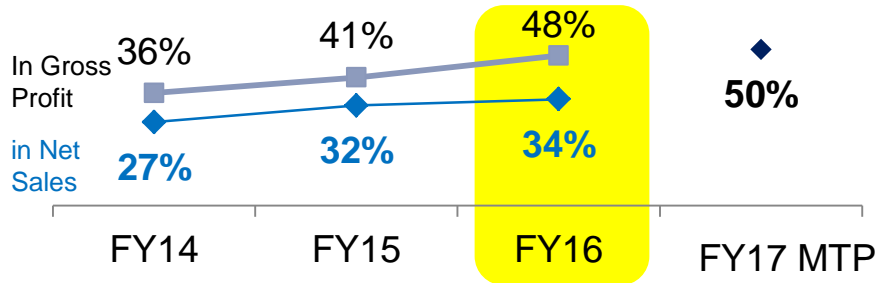
Sales: → Profit: →



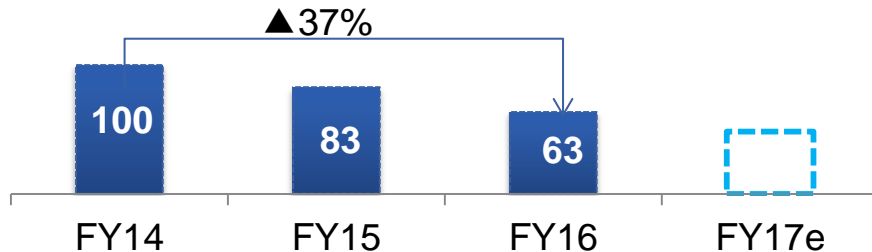
Sales (¥ billion)



Ratio of ODM Business



Ratio of "Loss" (FY14 = 100)



FY16 Performance

- Sales declined: The environment in the apparel industry remained severe
- Profit increased :Efforts of cost-cutting activities and liquidating group company with losses

FY17 Forecast

- Enhance profit management for each customer
- Maintain profitability by improving operational efficiency and improving "loss rate".

Business Environment

- Long depressed market for apparel in Japan

Major Initiatives

- ◆ Expand new business domain utilizing our capability
- Evolve OEM to ODM (Original Design Manufacturing)
- Increase overseas sales
- Develop solutions business

Strengthen Profitability of Textiles Business



Strengthen production facilities in Myanmar

- Install wash treatment facilities for “Damaged Denim”.
- Clear stringent environmental standards for western customers



Development of new materials

- Developed a new yarn with a soft bulge and strongly crimp properties .
- We will adopt this materials that make the best use of the original goodness of knitting to expand our OEM / ODM business.



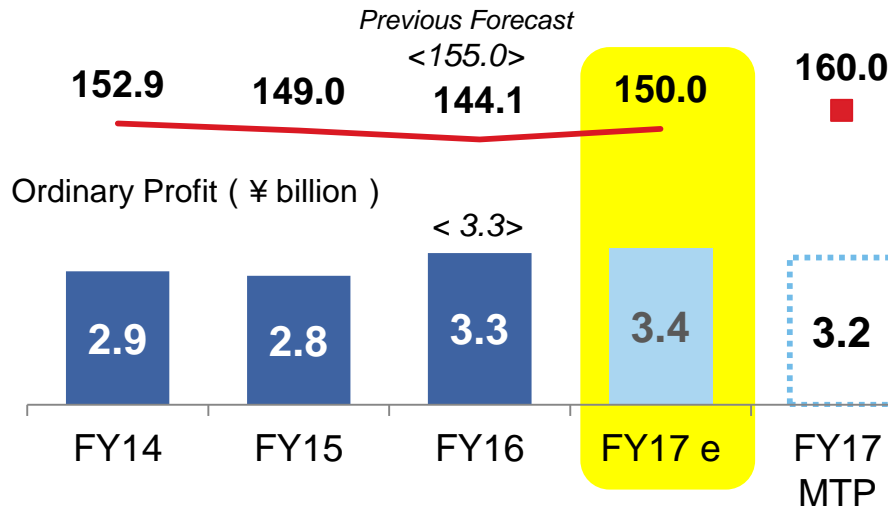
Foodstuffs Business

FY17 (YoY)

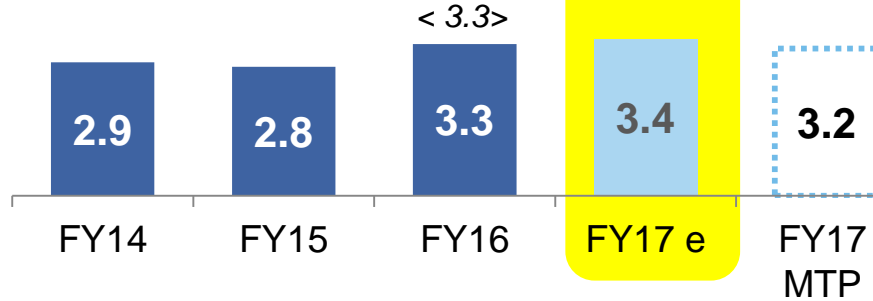
Sales: ↗ Profit: ↗



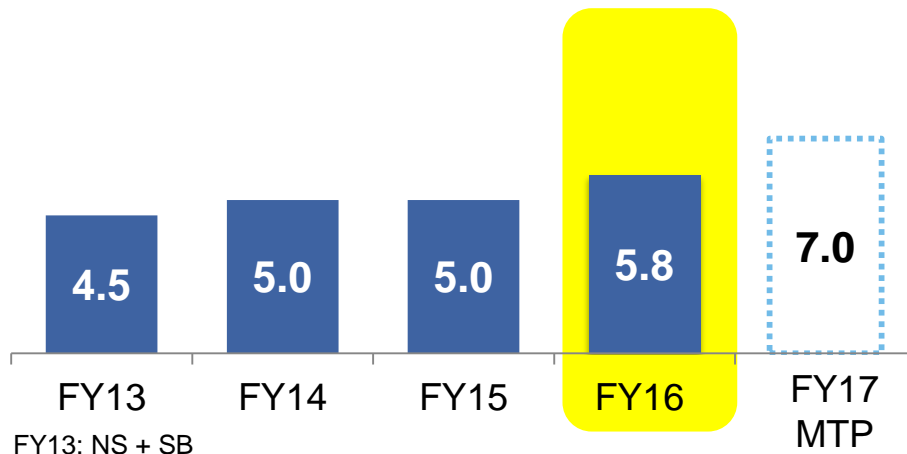
Sales (¥ billion)



Ordinary Profit (¥ billion)



Overseas sales (¥ billion)



FY16 Performance

- Sales declined: Weak meat market prices
- Profit increased: Improvement in profit margins of beef and broilers

FY17 Forecast

- Achieving target Profit of MTP
- Developing local blue-chip meat packers globally
- Expand tri-nation trade transactions

Business Environment

- Gradual contraction of the domestic market

Major Initiatives

- ◆ Expand tri-nation trade transactions
 - Beef / pork to China and ASEAN region
 - Chicken to China
 - Expand export of wagyu beef
 - Developing the restaurant chain business in ASEAN region and Taiwan

Developing the Meat Business



Live cattle imports from Australia

- To compensate for the decrease in domestic cattle due to the aging of Wagyu feeder , to secure a stable amount
- Started a new business to sell imported Wagyu raised with highly nurturing skills in Japan for overseas buyers



Expansion of Wagyu export business through investment partners

- The Kanpai Group operates a restaurant chain in the yakiniku category which focuses on wagyu (Japanese beef).
In Dec. 2015, NSSB underwrote an increase in capitalization of the Kanpai group to raise its share to about 15% to expand its beef business
- By establishing a central kitchen, Kanpai will expand the number of new store openings and secure supply capacity for their wholesale business.



4.Appendix

FY2016 Results

¥ billion	FY15				<Previous Forecast> FY16		Change	
	2H		1H	2H			YoY	HoH
Sales	939.1	1,930.8	862.6	978.7	<1,880.0>	1,841.3	-89.4	39.5
<i>(per sales)</i> Gross Profit	(7.0%) 65.7	(6.8%) 131.8	(7.1%) 60.8	(6.9%) 67.2		(7.0%) 128.1	-3.7	1.4
Operating Profit	14.3	27.8	13.5	17.2	<29.0>	30.8	2.9	2.9
Equity Method Income	0.3	2.3	0.6	0.5		1.2	-1.0	0.1
Ordinary Profit	13.6	29.0	13.6	17.3	<30.0>	30.9	1.8	3.6
Extraordinary Profit (Loss)	(0.8)	(1.9)	(0.2)	(1.7)		(2.0)	-0.0	-0.8
Net Income	7.4	17.3	8.7	9.4	<17.5>	18.2	0.9	1.9
ROE		10.2%				10.0%	-0.2%	
EPS (¥)	241.95	560.54	284.23	305.73		589.96	29.42	63.78
Dividend(¥)	75	150	75	105	<150>	180	30	30

*NSSB carried out a share consolidation at a ratio of 10 shares to 1 share effective Oct. 1, 2016. In accordance with this, EPS is calculated based on the assumption that the share consolidation had been carried out at the beginning of FY15.

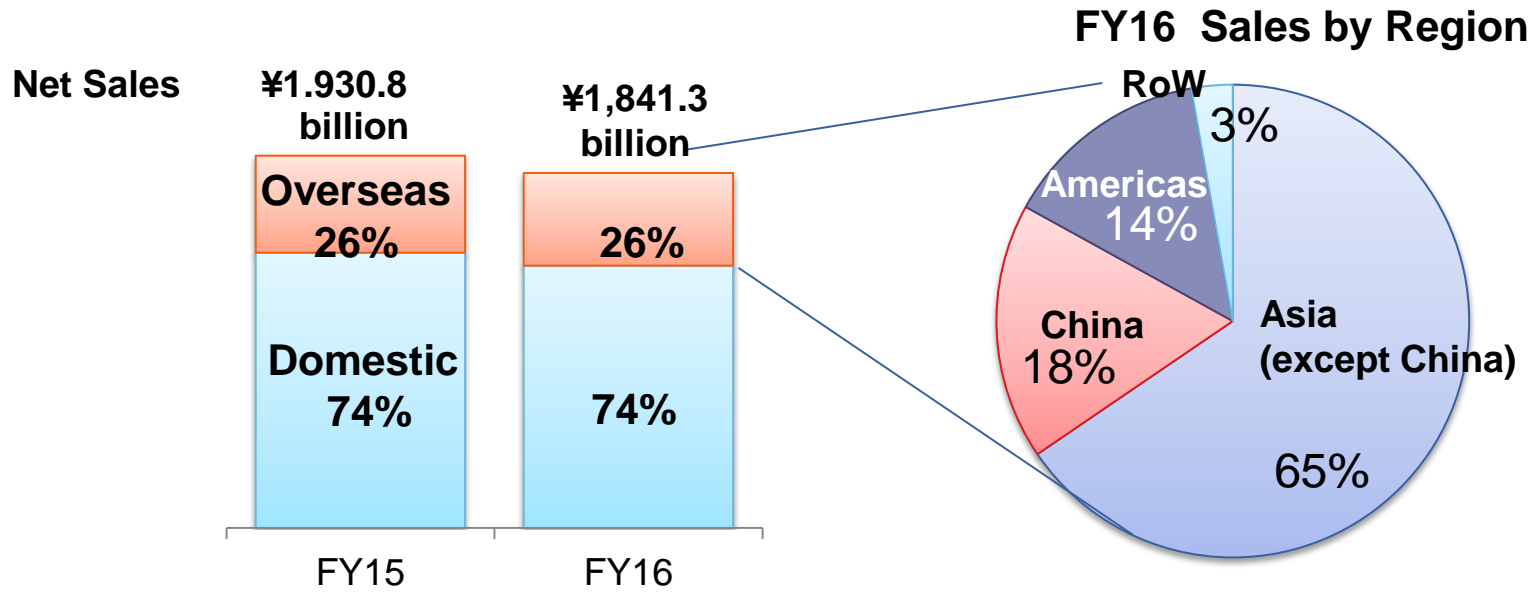
Extraordinary Profit (Loss)

¥ billion		FY15	FY16	YoY	Remarks
	Gain on Sales of Investment Securities	0.3	0.2	-0.1	
	Others	0.0	0.2	0.2	
Total Extraordinary Profit		0.4	0.5	0.0	
	Impairment Loss	(0.2)	(1.9)	1.6	
	Loss on Sales of Investment Securities	(0.0)	(0.1)	0.1	
	Loss on Liquidation of Subsidiaries and Associates	(1.8)	(0.2)	-1.6	FY15: Loss on withdrawal from unprofitable business (Textiles)
	Others	(0.3)	(0.2)	-0.0	
Total Extraordinary Profit		(2.4)	(2.5)	0.0	
Net Extraordinary Profit (Loss)		(1.9)	(2.0)	-0.0	

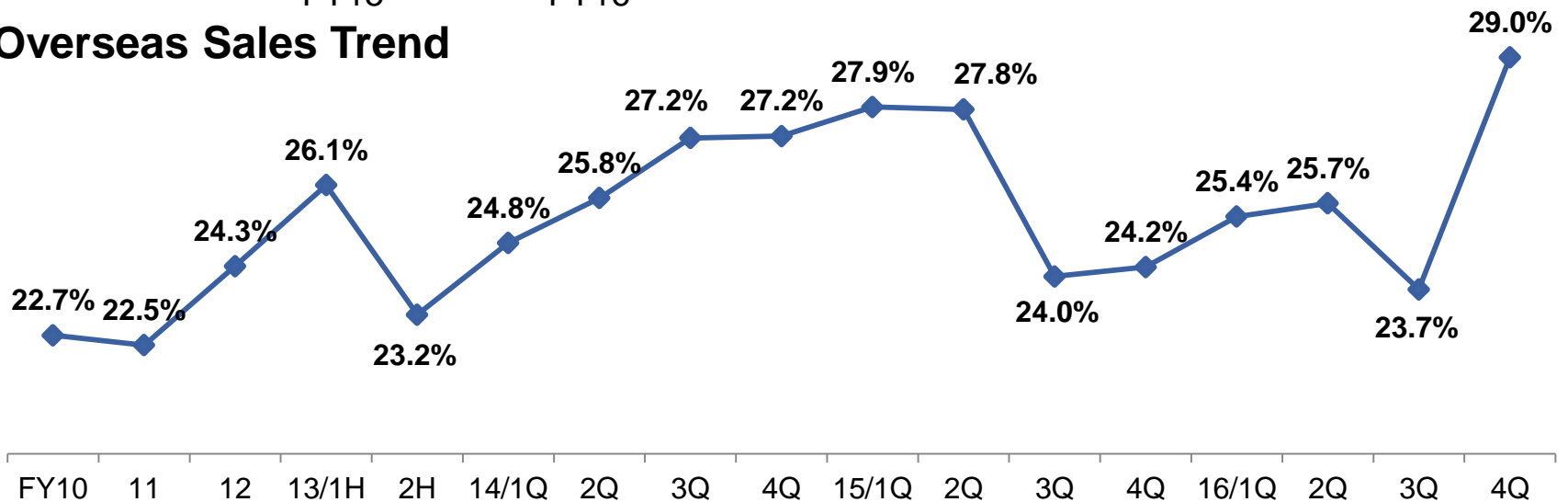
Sales and Ordinary Profit by Quarter

¥ billion	FY2014		FY2015				FY2016			
	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Steel	428.6	428.6	385.3	397.3	365.4	362.9	323.0	347.2	358.1	419.6
I & I	25.9	23.6	23.5	25.9	20.5	23.2	21.4	20.2	19.5	25.1
Textiles	45.4	48.4	39.0	42.9	46.7	47.3	37.3	39.4	40.4	44.1
Foodstuffs	41.3	34.3	37.8	38.6	38.0	34.4	36.3	36.5	35.9	35.3
Others	0.2	0.3	0.3	0.6	0.0	0.3	0.3	0.5	0.3	0.2
Sales	541.5	535.3	486.0	505.6	470.8	468.2	418.5	444.1	454.6	524.8
Steel	5.4	5.7	5.4	4.4	3.8	4.6	3.8	4.2	5.2	6.3
I & I	1.1	1.1	1.9	0.7	0.4	0.1	0.7	0.4	0.4	0.5
Textiles	0.3	2.0	0.7	0.5	1.0	1.9	1.6	0.8	1.1	1.8
Foodstuffs	0.8	0.4	0.7	0.6	0.8	0.6	0.9	0.7	0.7	0.8
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ordinary Profit	7.7	9.4	8.8	6.5	6.2	7.4	7.2	6.3	7.7	9.5

Overseas Sales

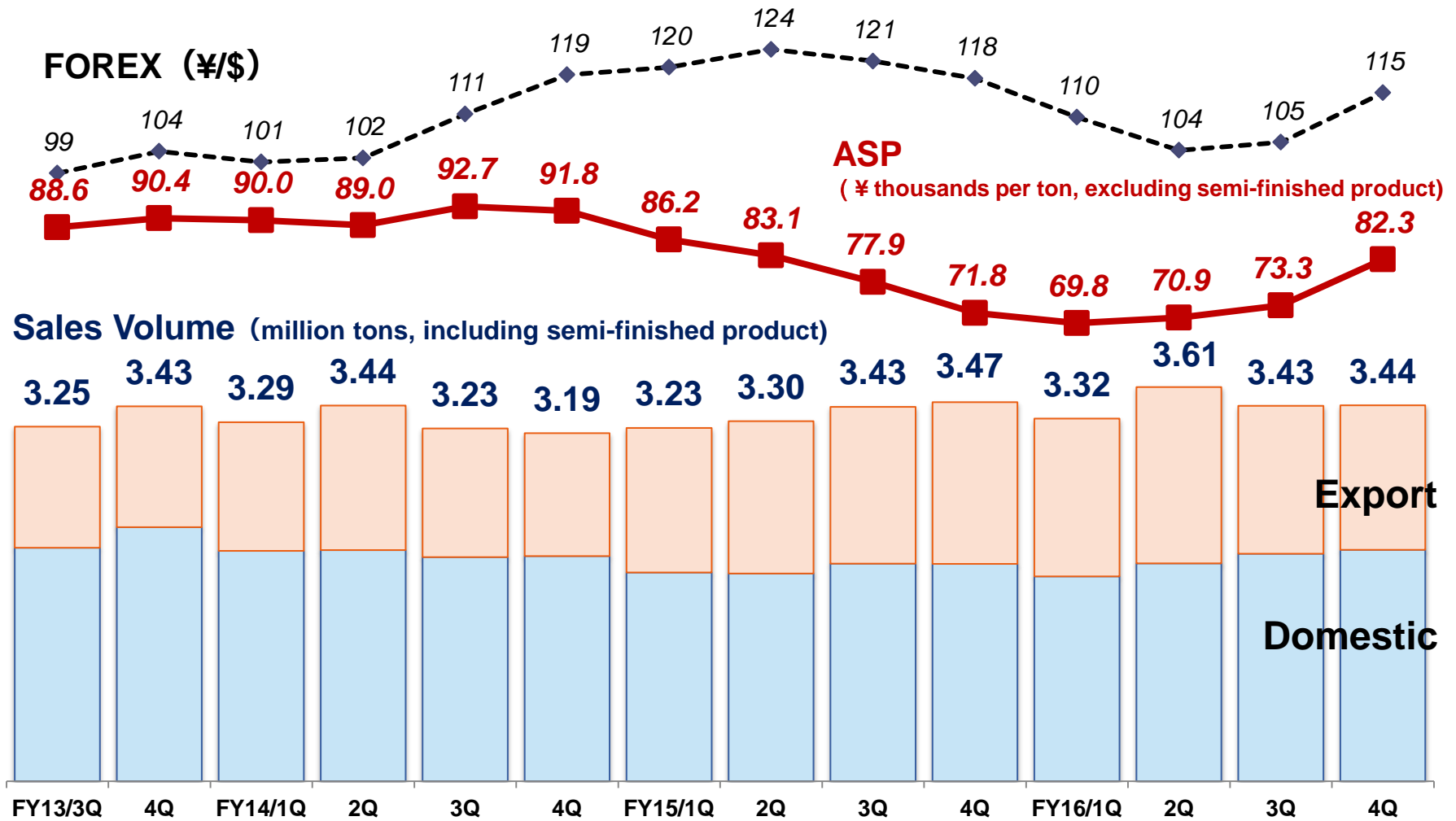


Overseas Sales Trend

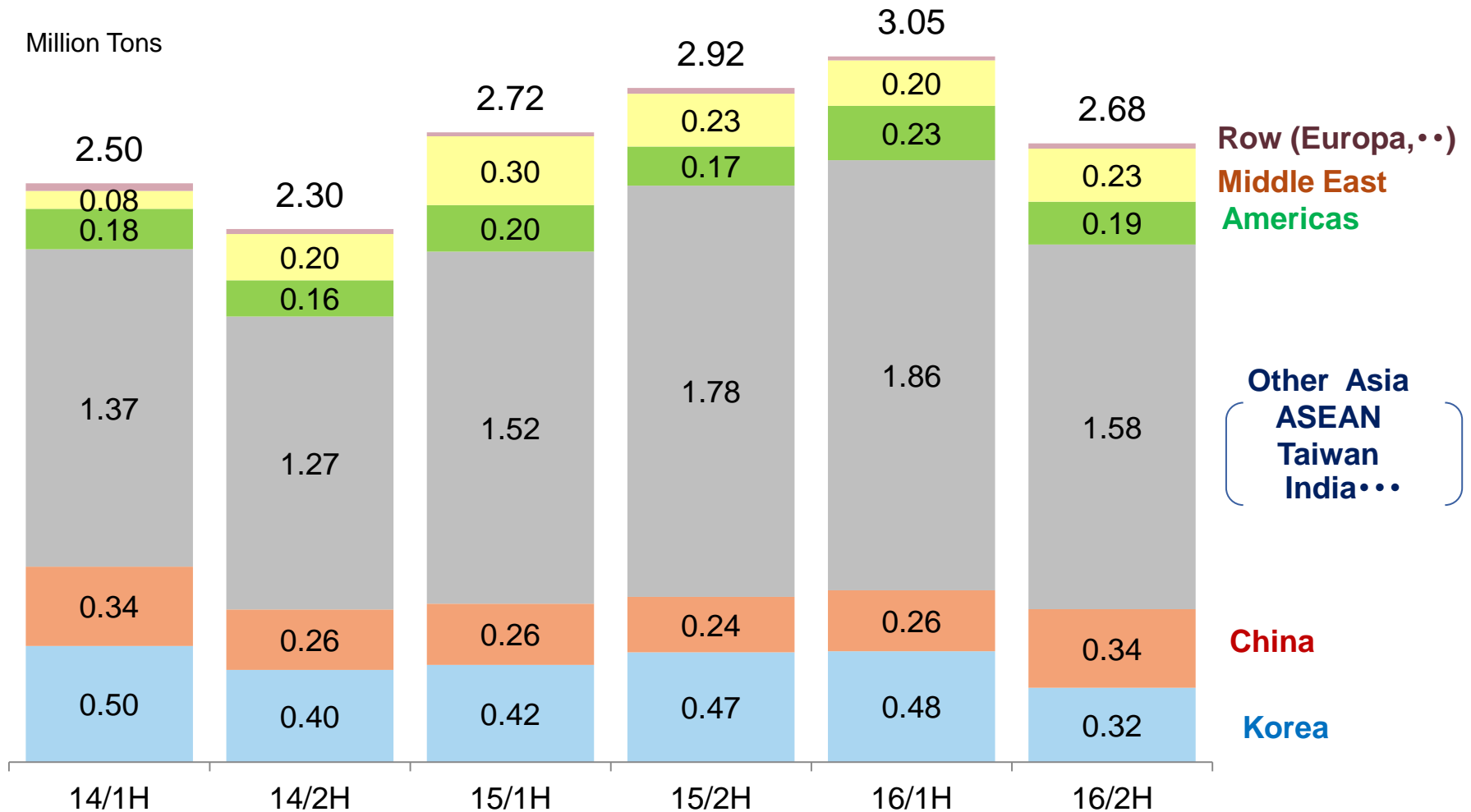


*FY10~FY13/1H NS+SB

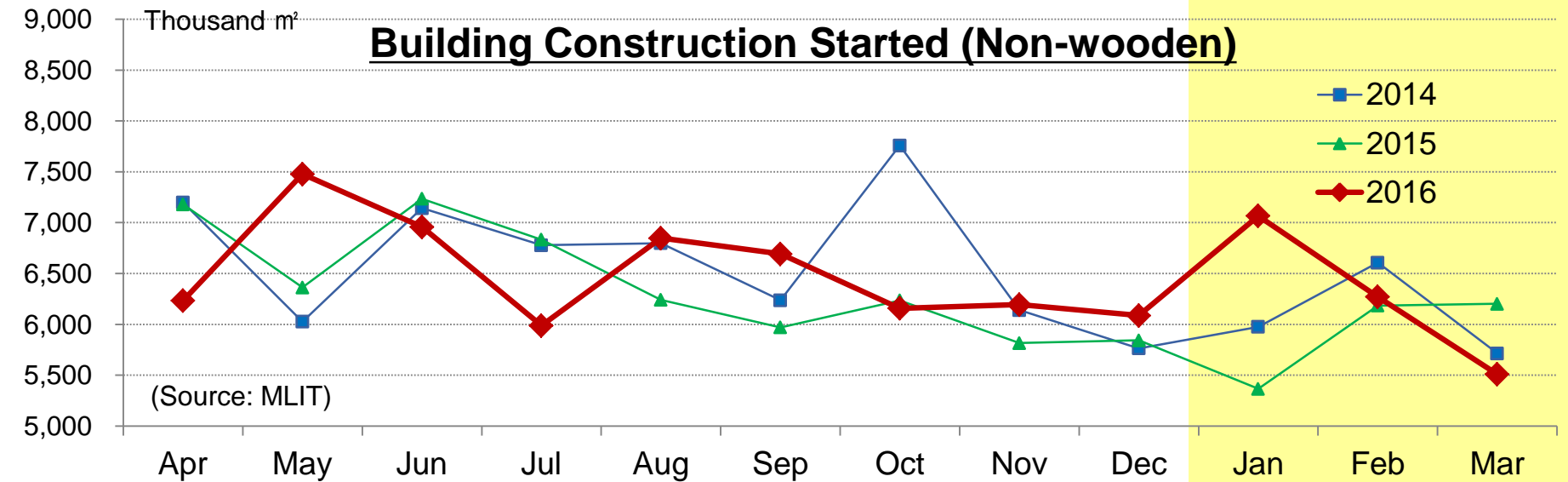
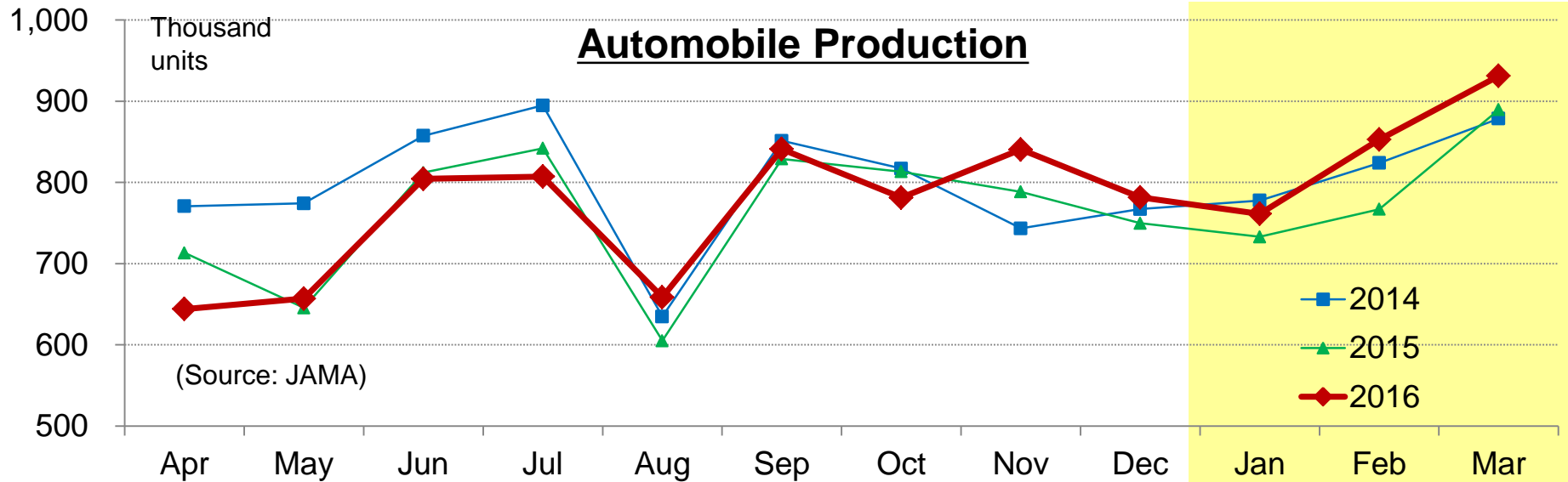
Sales Volume and ASP of Steel by Quarter



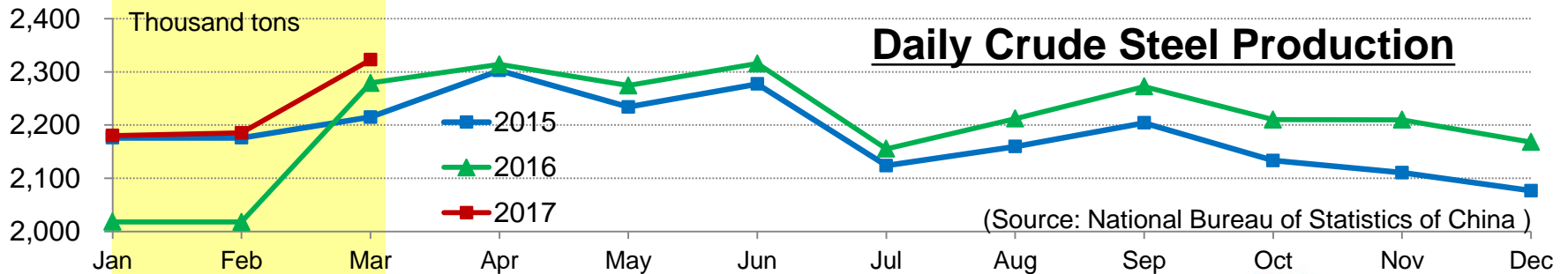
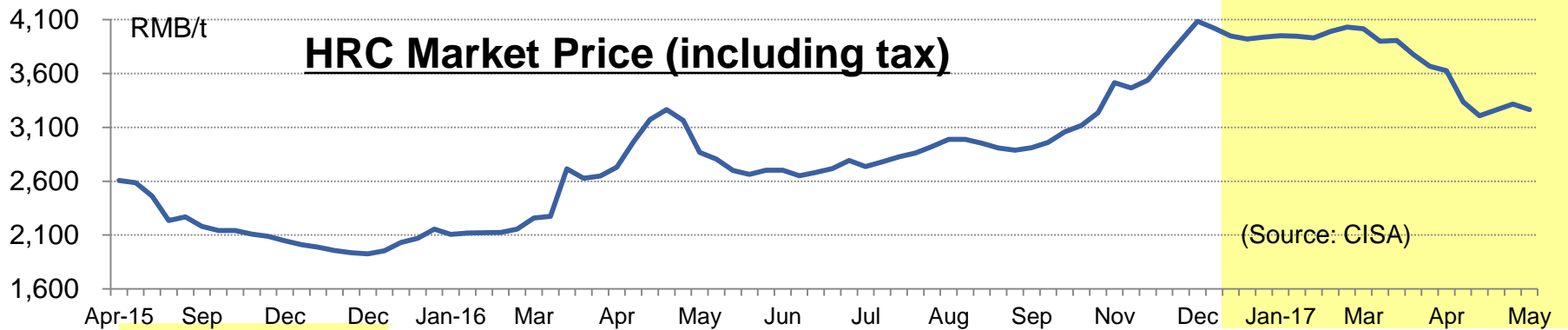
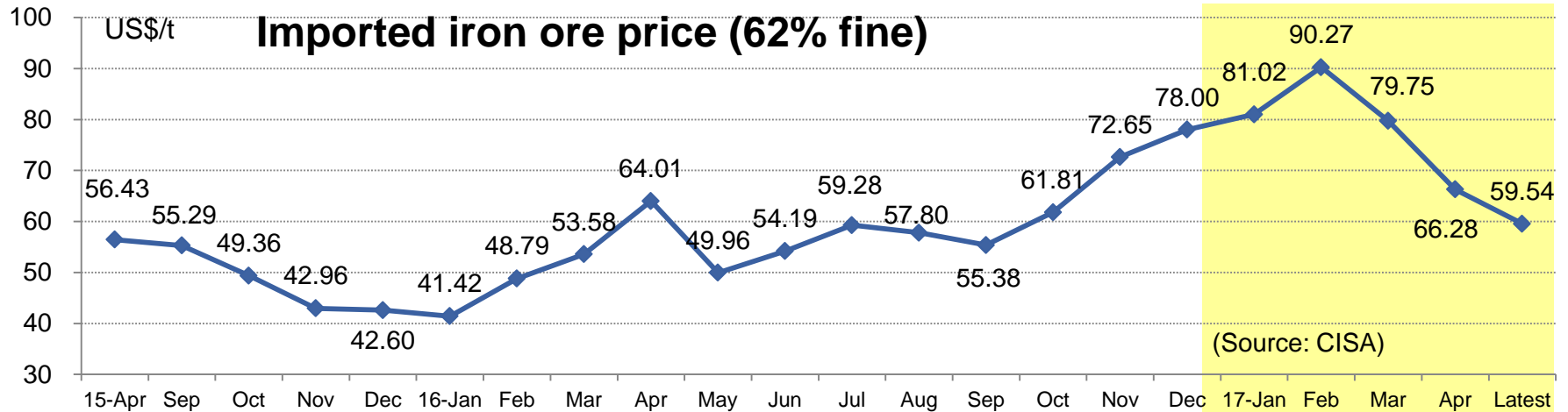
Steel Products Export Volume by Region



Domestic Demand Trend for Steel



Steel Market in China

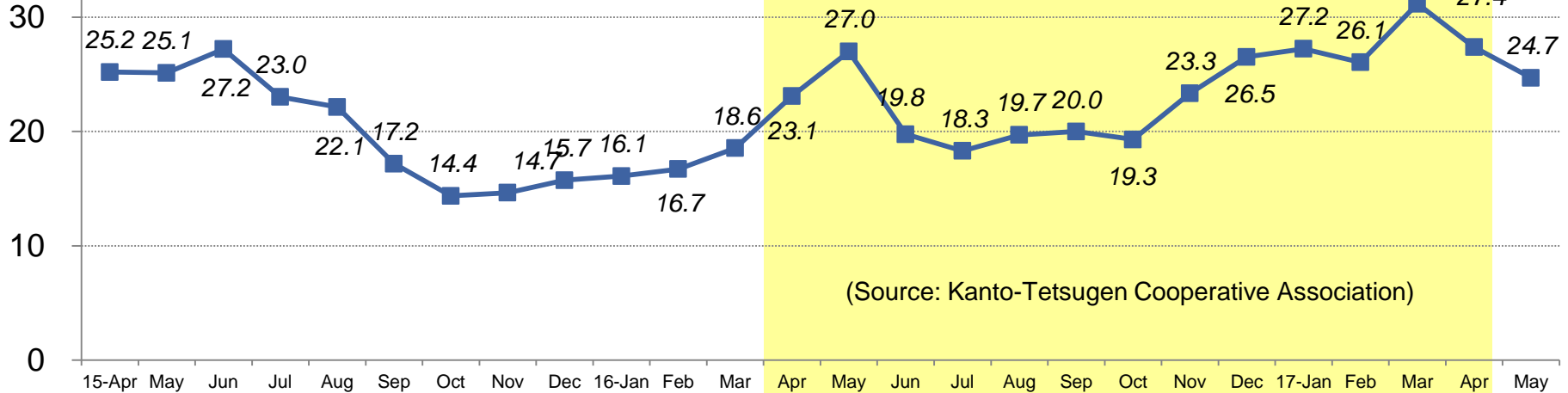


Steel Demand in Japan



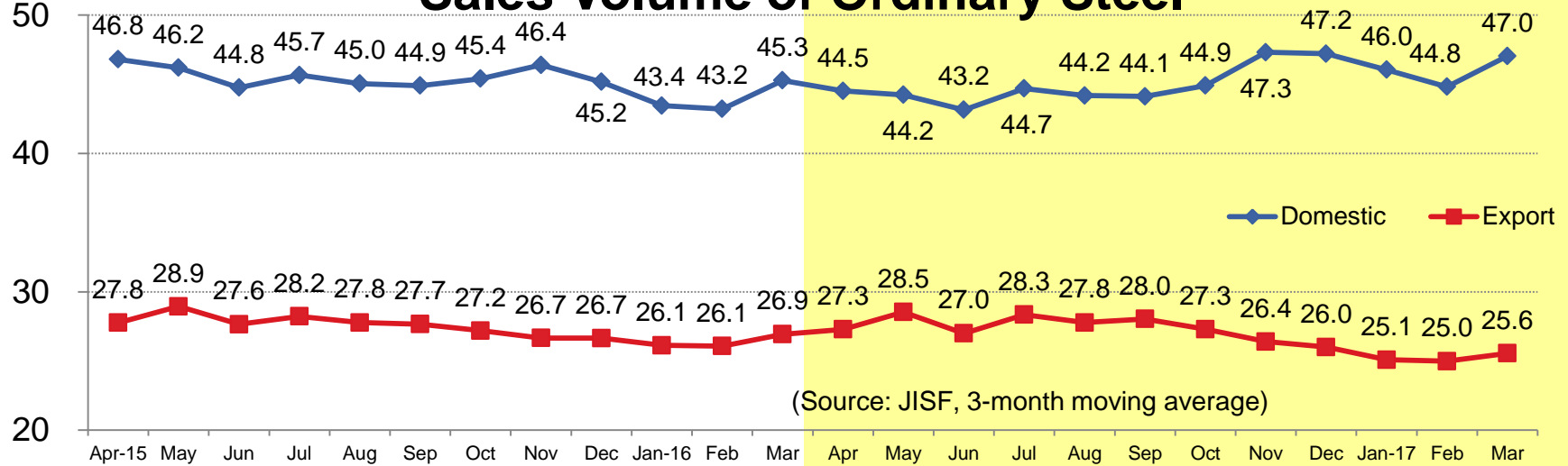
¥ thousands per ton

Bid Prices of Export Scrap Steel



Million tons per annum

Sales Volume of Ordinary Steel



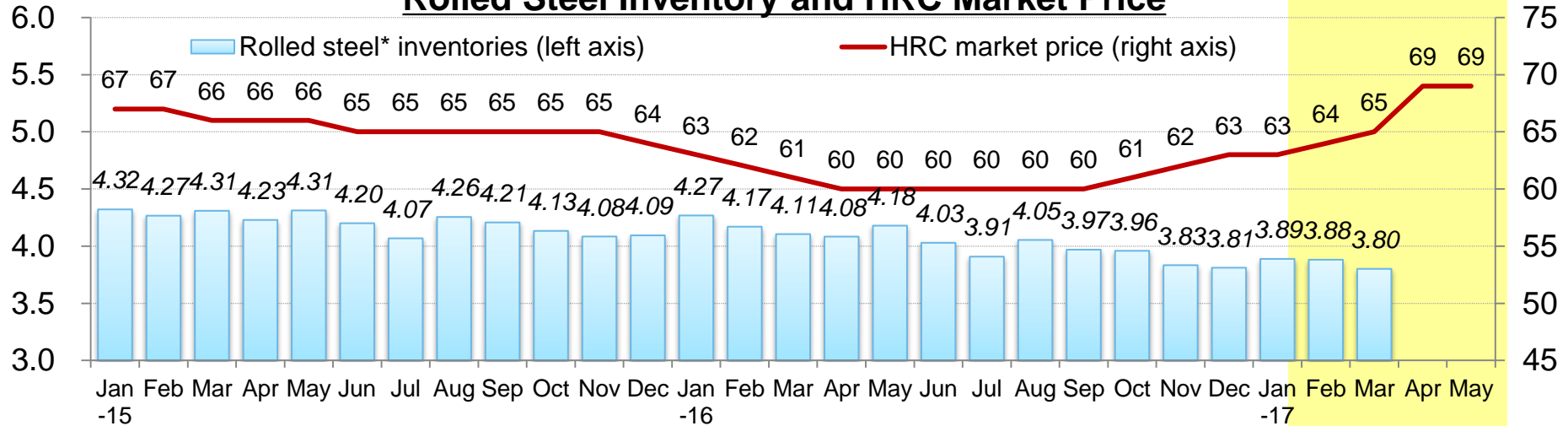
Steel Market in Japan



(Million tons)

Rolled Steel Inventory and HRC Market Price

(¥ thousands per ton)

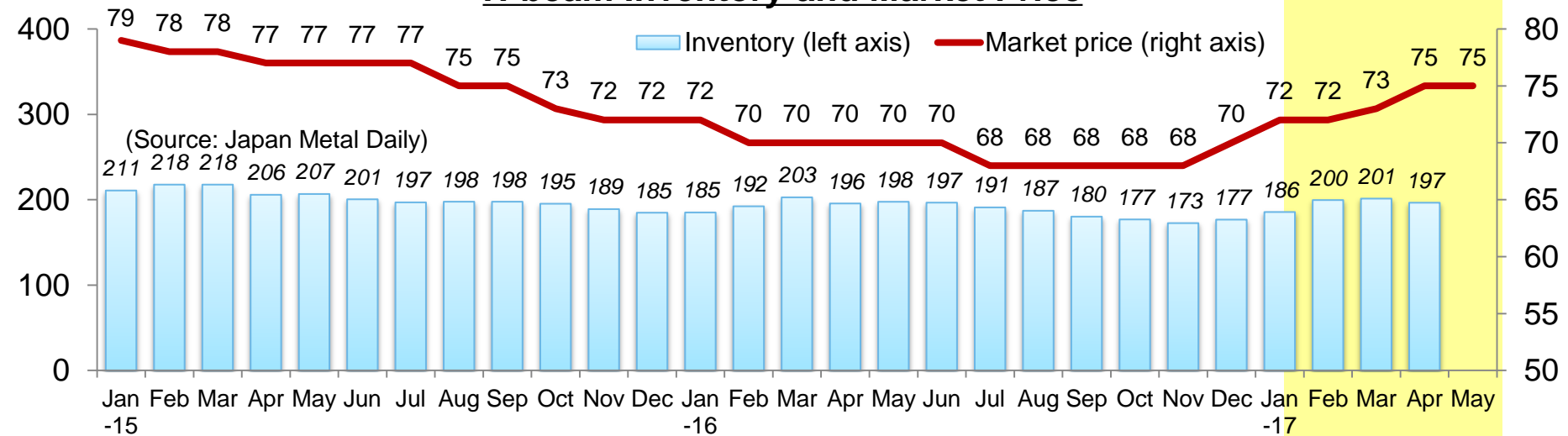


(Source: Japan Metal Daily *Rolled steel: Hot-rolled, cold-rolled and coated sheets)

(Thousand tons)

H-beam Inventory and Market Price

(¥ thousands per ton)

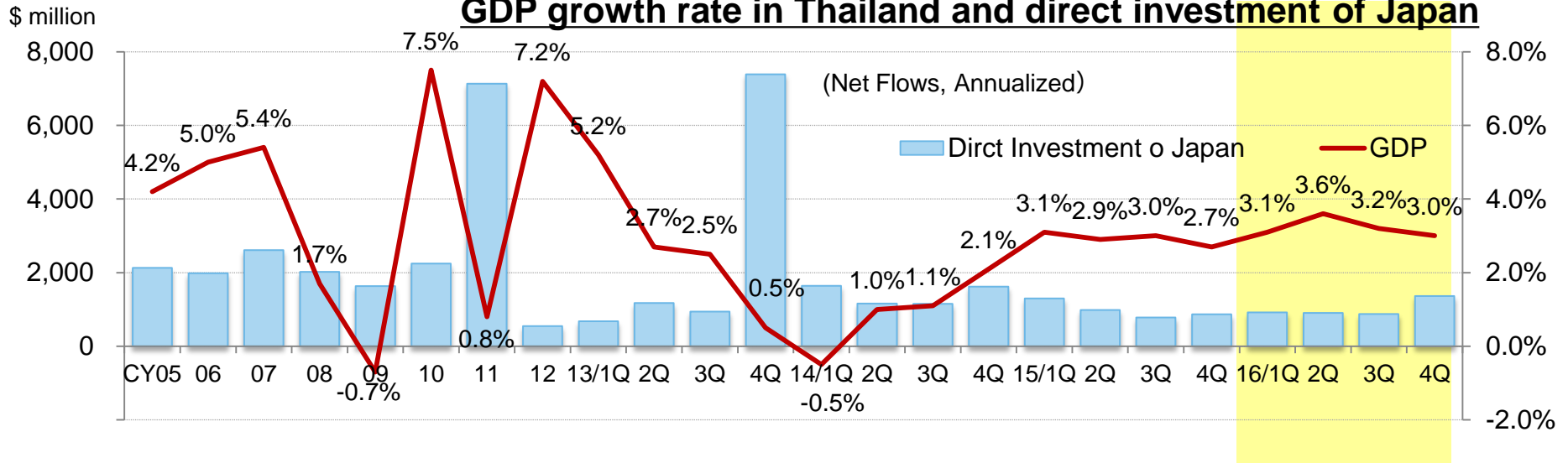


(Source: Japan Metal Daily)

Indicators related I&I Business

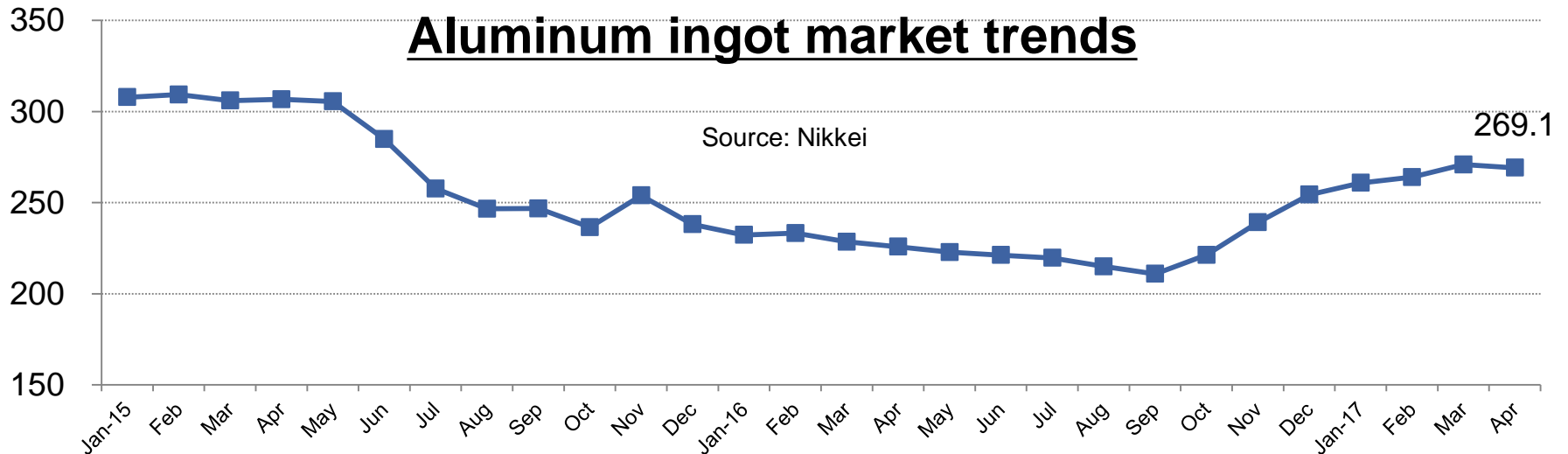


GDP growth rate in Thailand and direct investment of Japan



¥ thousands per ton

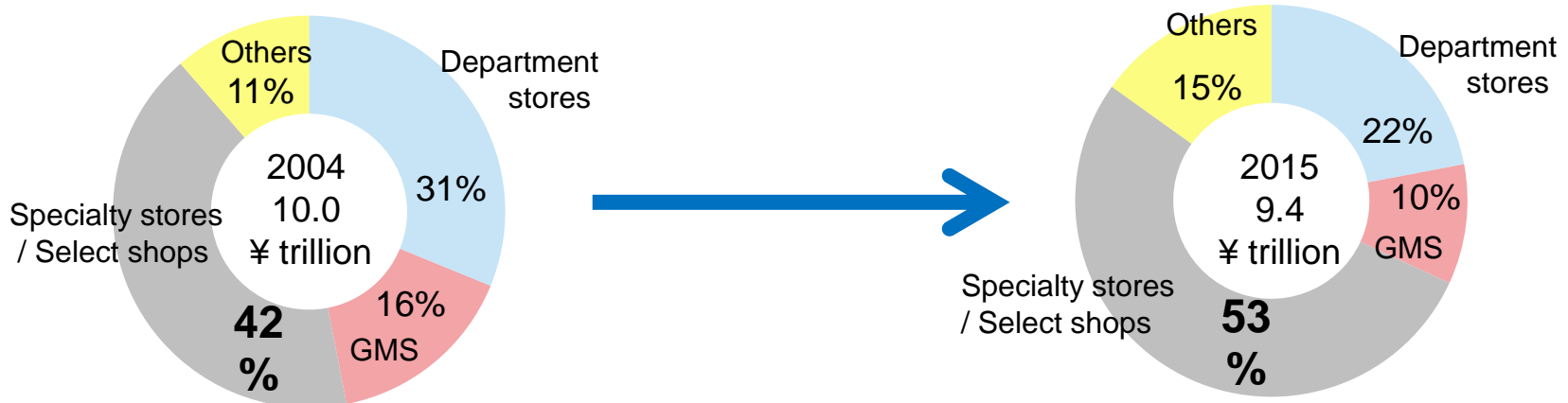
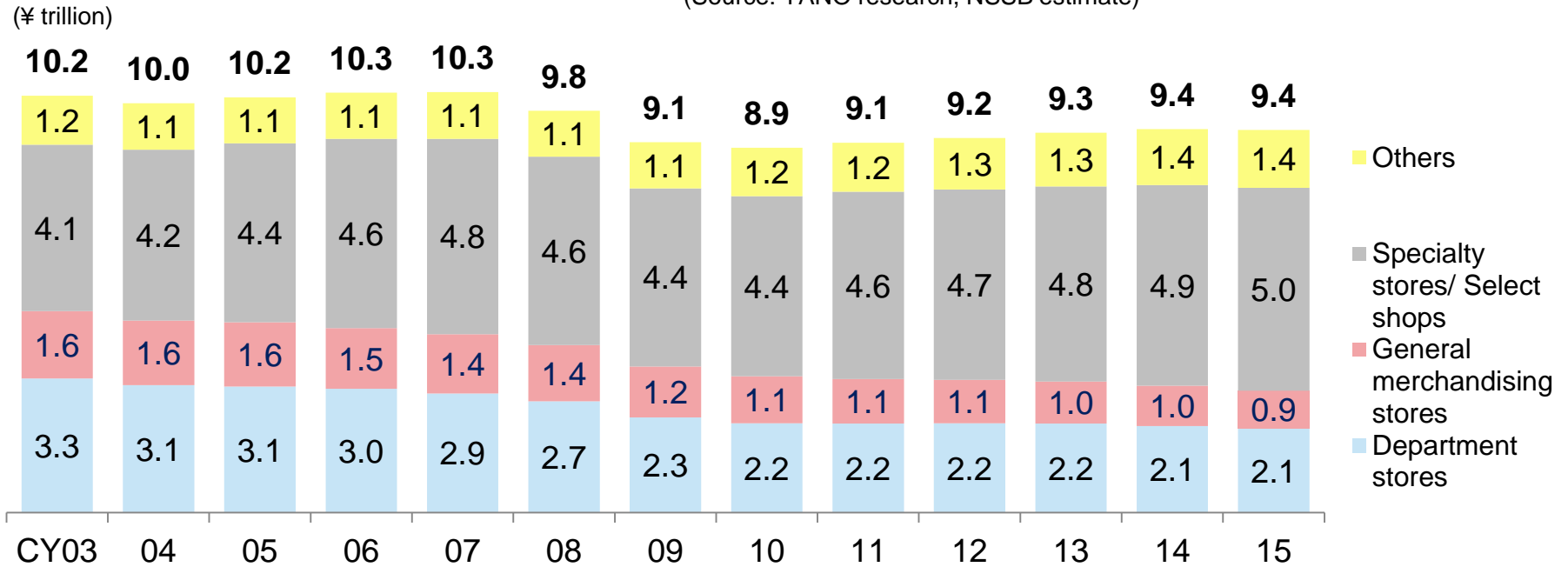
Aluminum ingot market trends



Domestic Market Trend of Apparel Retail Industries



(Source: YANO research, NSSB estimate)



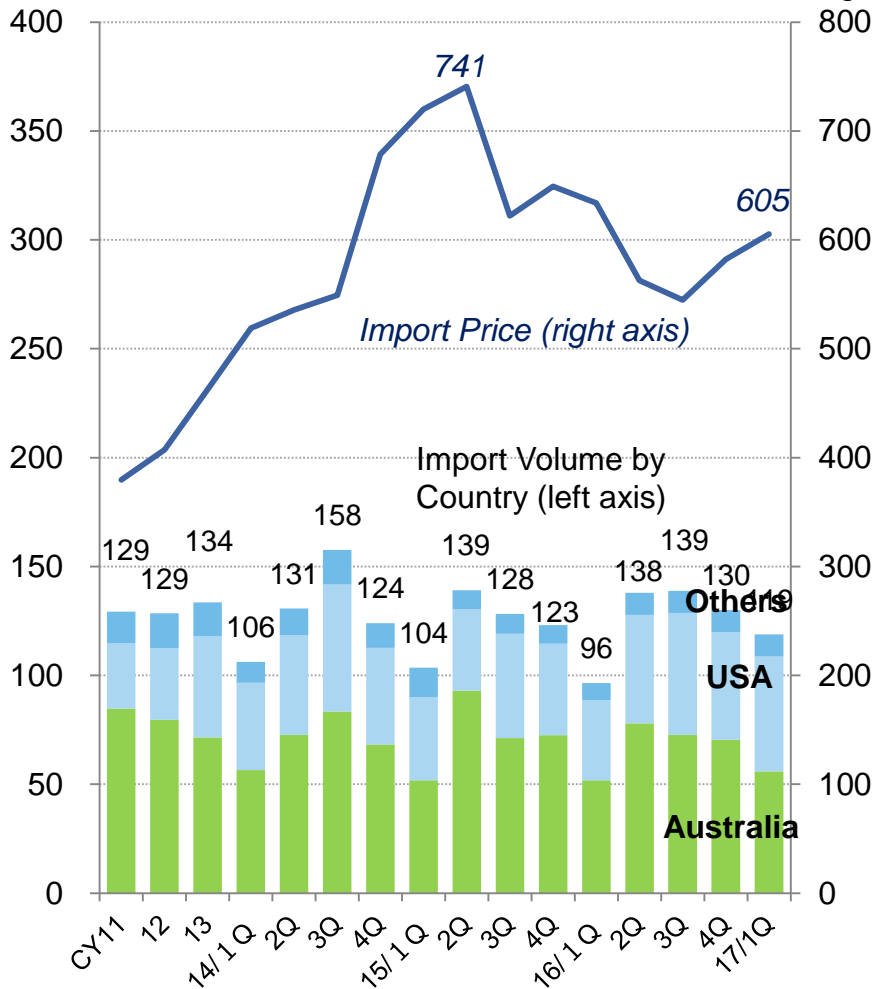
Import Price and Volume Trend of Meats (1)



Beef



(Thousand tons)

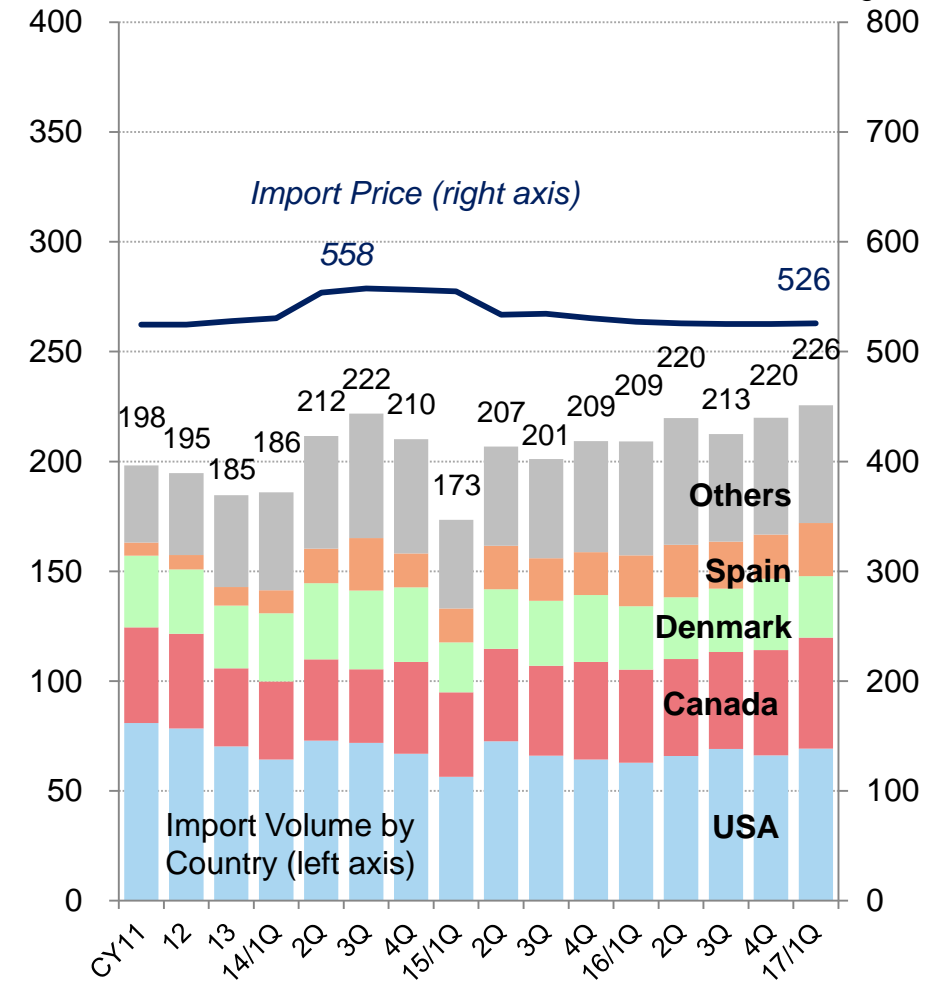


(Source: Custom)

Pork

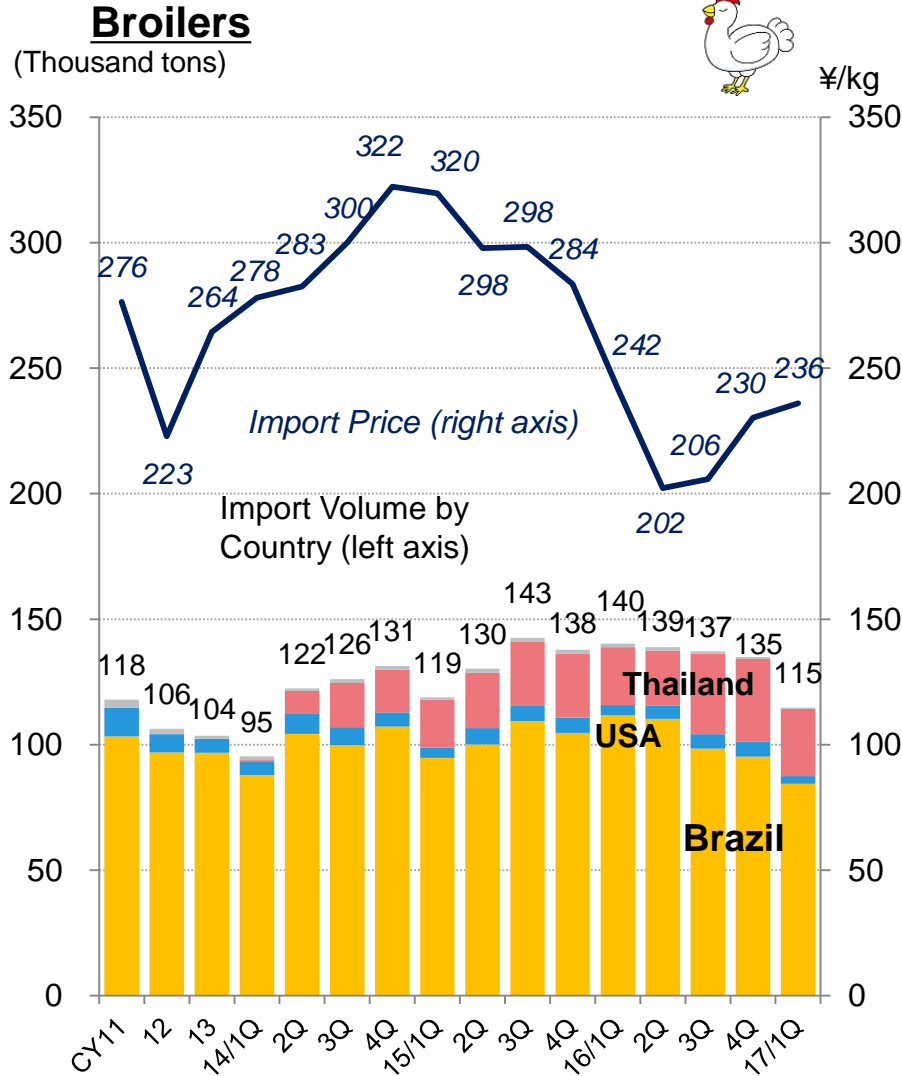


(Thousand tons)



(Source: Custom)

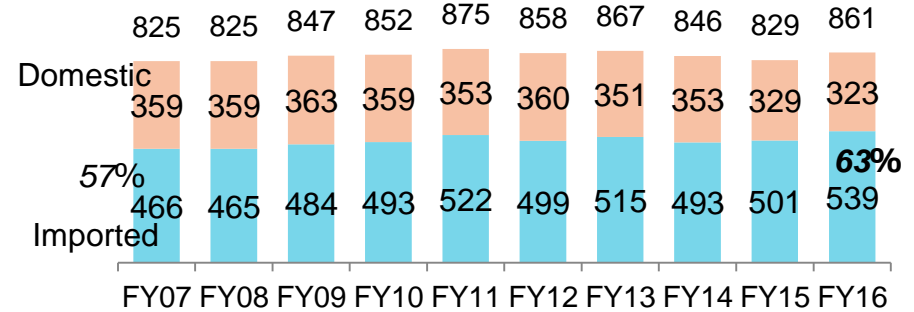
Import Price and Volume Trend of Meats (2)



(Source: Custom)

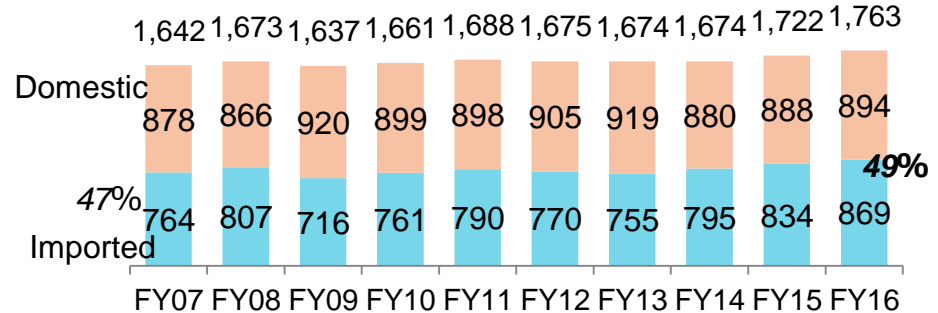
Estimated Marketing Quantity of Beef

(Thousand tons)



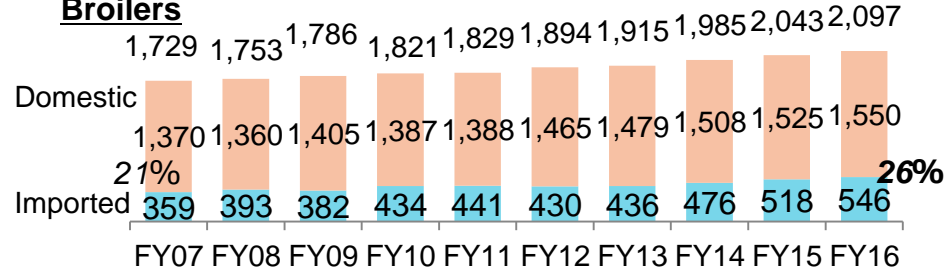
Estimated Marketing Quantity of Pork

(Thousand tons)



Estimated Marketing Quantity of Broilers

(Thousand tons)



(Source: Agriculture & Livestock Industries Corporation)

Key measures

Accelerating NSSB's Distinctiveness

Steel

Expanding Market Share
with NSSMC

Textiles

Strengthening ODM and
Solutions Businesses

Developing Auto-parts
Business and Industrial
Parks

Expanding "Out to Out"
Business in Asian Market

I & I

Foodstuffs

Investment Target **¥45 billion (+25%)**

Progressing NSSB's Competitiveness

Pursue customer safety, reliability and quality

Improve productivity and operational efficiency

Integrate Management System

Utilize Merger Synergies

P/L Targets

	FY17 target	(vs. FY14)
Net Sales	¥2,300 billion	(+9%)
Overseas Sales	¥680 billion	(+23%)
Ordinary Profit	¥36 billion	(+18%)
Net Profit	¥36 billion	(+18%)

Financial Goals

ROE	over 10%
Equity	over ¥200 billion
Net DER	below 1.0 times
Payout Ratio	25%–30%

Corporate Philosophy

1. Continuing to be a corporate group driven by the aspiration of providing goods and services that offer new value to the larger society.
2. Putting trust and reliability first, and by doing so developing together with our customers.
3. Aiming to become the kind of organization that increasingly cultivates, utilizes, and values human resources and their talents.

The current material is not subject to the audit procedures based on the Financial Instruments and Exchange Law and it does not guarantee the accuracy and the completeness of the material.

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**NIPPON STEEL & SUMIKIN BUSSAN
CORPORATION**