2020 Medium-Term Management Plan

March 5, 2018
Nisshin Steel Co., Ltd.
I. Overview of 2020 Medium-Term Management Plan
I - (1) Summary of 2020 Medium-Term Management Plan

### Economic environment
- Domestic demand contraction due to population decline
- Increased competition amid multi-material trend
- Overseas mills erode domestic demand and dominate growth markets
- Nascent demand in fuel cells, robotics

### Management challenges
- Maintain profitability in shrinking domestic market
- Improve Group’s value in domestic and international markets
- Strengthen manufacturing, sales, and development capabilities

### Where to go from here
- **Stronger corporate structure**: Build a robust corporate structure by honing competitiveness and improving profitability
- **Differentiation**: Leverage Group’s unique strengths to achieve sustained growth and establish value in domestic and overseas markets

### Business strategy
- Maximize synergies, business reforms
  - Strengthen competitiveness by maximizing synergies and reforming business through sharing management strategies with NSSMC Group

### Core product strategy
- Line up core products that are profitable and represent the Group’s strengths

### CS-pursuit strategy
- Reinforce response to customer needs (one of the Group’s strengths), i.e., go back to basics of customer-centric approach

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I - (2) Understanding of business environment and our management challenges

**Understanding of business environment**

- Heightening risk of decline of domestic demand for steel products
- Nascent demand for new steel products
- Domestic demand contracts in housing and other sectors due to population decline
- Increased competition with other materials due to trend of combining different materials
- Overseas mills erode domestic demand and dominate growth markets
- Emerging new demand in sectors such as fuel cells and robotics

**Our management challenges**

Highly dependent on steel demand in existing domestic business sectors

- Maintain profitability in contracting domestic market
- Improve the Group’s value in the market as member of NSSMC Group
- Strengthen manufacturing, sales, and development capabilities

Source: Ministry of Land, Infrastructure, and Transport
Source: World Steel Association
Objectives

【Stronger corporate structure】
Build a robust corporate structure by strengthening competitiveness and profitability

【Differentiation】
Leverage Group’s unique strengths to enable sustained growth and establish value in market

【Positioning of 2020 Medium-Term Management Plan】
As a member of the NSSMC Group, the Nisshin Steel Group aims to leverage its unique strengths to establish value as a corporate group able to make a profit in distinctive ways. The Group plans to achieve this objective by pursuing three strategies to improve its competitiveness and profitability - strategies focused on core products and CS pursuit, plus one on maximizing synergies and business reforms.
I - (4) Strategies

Three Strategies

Maximize synergies & reform business

Core product strategy

CS-pursuit strategy

Timely and hands-on actions adopted

Four Key Initiatives

| Acquire earnings power by further strengthening sales and development | Rebuild manufacturing base and boost cost competitiveness | Further leverage overall Group capability | Reinforce corporate base |

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I - (5) Numerical targets

Targets for fiscal year ending March 31, 2021

Financial targets

- Consolidated ordinary profit: ¥40.0 billion or more
- Consolidated profit: ¥30.0 billion or more
- Consolidated ROE: 10.0% or more
- D/E ratio: Around 0.5

Strategic target

- Synergies: ¥16.0 billion*

* Total for NSSMC Group: ¥20.0 billion
II. Three Strategies
Maximize synergies

Deepen its relation with the NSSMC Group throughout the entire operation

Generate synergies totaling ¥20.0 billion (of which ¥16.0 billion at Nisshin Steel)

Main synergies

- Manufacturing: Introduction of NSSMC’s blast furnace operation technology and expertise; mutual transfer of other technologies
- Purchasing: Combined purchasing to benefit from volume discounts
- Others: Collaboration in logistics, lower interest rates, etc.

Business reforms

| Extend life of blast furnaces 1 and 2 at Kure Works and maximize their use | Harness NSSMC Group’s technology and expertise to extend service life of blast furnaces and maximize their use |
| Make core strategic investment | Utilize surplus cash generated by extending service life of blast furnaces |
| Optimize production structure | Upgrade Kure Works and optimize production structure of each plant |
## II - (2) Strategy to redefine core products

### Redefine “core products”

"Products that make customers happy and whose added value is reflected in the price"

<table>
<thead>
<tr>
<th>Previous core products</th>
<th>Main redefined items</th>
<th>New core products*</th>
</tr>
</thead>
<tbody>
<tr>
<td>ZAM®</td>
<td>Add strategic product (BLACK-ZAM™)</td>
<td>ZAM® (including new strategic product)</td>
</tr>
<tr>
<td>Prepainted steel</td>
<td>Exclude some products</td>
<td>Prepainted steel</td>
</tr>
<tr>
<td>Special steel</td>
<td>Exclude some products</td>
<td>Special steel</td>
</tr>
<tr>
<td>Stainless steel</td>
<td>Specialize in unique high-performance grades and products</td>
<td>High-performance stainless steel: Products with high strength, high functionality, corrosion-resistance, magnetic properties, plus processed products (e.g., steel pipes), stainless foil (SUS)</td>
</tr>
<tr>
<td>Others (e.g., surface-treated steel)</td>
<td>Add strategic products including Pla-Tight™</td>
<td>Other strategic products</td>
</tr>
</tbody>
</table>

* Regularly reviewed on basis of profitability, functionality, and future potential criteria to avoid obsolescence

### Increase sales of new core products

**Brand strategy**
- **Pursue CS strategy**
- **Formulate brand strategy**
- **Strive to be brand named by customers**

**New products development**
- **Identify other growth areas**
  - Next-generation cars, healthcare, robotics, etc.
- **Develop new features**
- **Sales, manufacturing, and development teams work together to increase sales**
Purpose: Deepen Nisshin Steel’s point of difference

Go back to basics of customer-centric approach and take it to a new level to accelerate new core product strategy

Strategy: Create PDCA cycle in pursuit of customer satisfaction (CS) through group-wide activities

- Build value chain
- Make the satisfaction visible
- Cash in on added new features (value)
- Offer customers new value
- The changing satisfaction
## II - (3) Strategy to pursue CS

### Structure

Share challenges and strategies throughout the Group (at all levels as well as departments) to build a structure for group-wide pursuit of CS and sales growth of core products.

<table>
<thead>
<tr>
<th>Stainless Steel Unit</th>
<th>Special Steel Unit</th>
<th>Ordinary Steel Unit</th>
<th>Corporate Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unit leader</strong></td>
<td><strong>Unit leader</strong></td>
<td><strong>Unit leader</strong></td>
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<tr>
<td>Sales</td>
<td>Sales admin.</td>
<td>Sales admin.</td>
<td></td>
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<tr>
<td>Domestic group</td>
<td>Affiliated enterprises admin.</td>
<td>Overseas business admin.</td>
<td></td>
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<tr>
<td>Overseas group</td>
<td>Technology admin.</td>
<td>Technology admin.</td>
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<tr>
<td><strong>Manufacturing</strong></td>
<td>Outsourcing admin.</td>
<td>Outsourcing admin.</td>
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</tr>
<tr>
<td>Sales</td>
<td>Products Development Strategy Center, other</td>
<td></td>
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<tr>
<td>Stainless steel</td>
<td>Special steel</td>
<td>Ordinary steel</td>
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<td>companies</td>
<td>companies</td>
<td>companies</td>
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<tr>
<td>Sales of stainless</td>
<td>Sales of special</td>
<td>Sales of building</td>
<td></td>
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<tr>
<td>steel and other</td>
<td>steel</td>
<td>materials and steel</td>
<td></td>
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<tr>
<td>products</td>
<td></td>
<td>sheet products</td>
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<tr>
<td>Shunan Works</td>
<td>Kure Works</td>
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<td>Kinuura Works</td>
<td>Sakai Works</td>
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<td>Osaka Works</td>
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<td></td>
<td>Toyo Works</td>
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<td>(Corporate Group</td>
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<td>Products Development</td>
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<td>Div.)</td>
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III. Four Key Initiatives
- (1) Acquire earning powers by further strengthening sales and development

### Sales

A sharper focus and multilayered approach to making customers happy

- Provide “one-stop shop” for full product range from materials to processed products
- Provide innovative services in logistics
- Make more on-time deliveries and shorten lead times by building integrated value chain from production to sales and logistics

### Product quality and technical services

Make customers happy by pursuing features that they want

- Strengthen development of profitable products (mainly core products)
- Promote switch to chrome-free plated and coated products
- Upgrade standard and precision of quality control
- Improve quality and response times of technical services by building integrated value chain
- Advance CS improvement programs

### R&D

Nisshin Steel Group makes customers happy as well as make a profit

- Shift management resources to core product development
- Strengthen information capability and accelerate R&D by building rapport with Group companies
- Understand what satisfies customers from their perspective to select development targets
- Exert efforts for deepening proprietary technologies
- Create new value by combining proprietary technologies
- Cash in on added new features, which turns product value into profit

Collaborate
Ⅲ- (2) Rebuild manufacturing base and boost cost competitiveness

1. Extend service life of Kure blast furnaces and ensure stable operation

2. Provide sound facilities to strengthen manufacturing base

3. Invest in managing safety, environmental, and disaster-related risks

4. Make strategic investment in providing cutting-edge core products

5. Strengthen stainless steel production system

6. Promote projects to streamline and reduce total costs

1. Allocate funds for blast furnace-related and other capex

2. Upgrade properly aging facilities based on NSSMC Group’s obsolescence assessment criteria

3. Conduct safety assessment and invest in replacement of facilities

4. Invest in expanding production capacity of special steel, ZAM®, etc.

5. Increase productivity by stable steel production and raise yield by rigorous quality improvement

6. Continue long-term projects, with additional benefits gained from manufacturing and purchasing synergies
Ⅲ - (3) Further leverage overall Group capacity

- All-round capability harnessed through strategies and initiatives driven by group companies
- CS-pursuit strategy: Make customers happy by adding more value (processing, services, etc.)
- Core product strategy: Offer core products that fit better for customers and markets
- Greater rapport between sales and development units to enhance their capabilities and generate synergies

**Secondary/Tertiary processing**

- Promote group company-initiated development that fulfills customer needs
- Consider making unique, high value-added products into core products
- Implement strategic promotion of core products from downstream process

**Distribution/coil center**

- Commit to Nisshin-style sales activities, i.e., nurturing ties by visiting customers frequently
- Provide unique services that make customers happy

**Unify group**

- Enhance both sales and development capabilities through unit system
- Gather and utilize information on what makes customers happy
- Strengthen synergies, quality, security, environment, and disaster prevention, and group governance of internal control

**Features and sales**

- Generate synergies with NSSMC Group to improve business efficiency and cut costs
- Advance core product and CS-pursuit strategy through sales, technical services, and sales support functions

**[Japan]**

**[Overseas]**

- Expand sales of core products that satisfy local needs
- Engage in Nisshin-style sales activities overseas as well as in Japan
- Strengthen collaboration with domestic units within the Group
- Selective focus on specific businesses centered on core products

**Cold-rolled, plated, and other processed products**

- Generate synergies with NSSMC Group to improve business efficiency and cut costs
- Advance core product and CS-pursuit strategy through sales, technical services, and sales support functions
### III- (4) Reinforce a corporate base

<table>
<thead>
<tr>
<th>Safety</th>
<th>Environment</th>
<th>Security/Disaster prevention</th>
</tr>
</thead>
</table>
| • Train safety specialists  
• Perform risk assessment  
• Make facilities safe and prevent major disasters  
• Increase safety assistance to group companies | • Aim for zero environmental accidents  
• Contribute to achieving targets of Japan Iron and Steel Federation’s “Commitment to a Low Carbon Society” | • Steps to prevent similar incidents  
• Improve ability to respond immediately to disasters  
• Understand disaster prevention rules and put them into practice  
• Disaster preparedness PDCA cycle |

<table>
<thead>
<tr>
<th>Quality</th>
<th>Internal control</th>
</tr>
</thead>
</table>
| • Ensure compliance with JISF guidelines (“compliance with laws and regulations,” instill awareness of quality assurance, etc.)  
• Step up quality assurance programs that includes subsidiaries | • Enhance autonomous compliance activities  
• Improve and extend compliance education  
• Strengthen internal auditing organization  
• Strongly support group companies’ internal control activities |

<table>
<thead>
<tr>
<th>Human resources</th>
<th>Organization and governance</th>
<th>Projects/IT systems</th>
</tr>
</thead>
</table>
| • Implement HR measures centered on training  
• Train and deploy personnel with abilities matching our core product and CS-pursuit strategies | • Transition to unit system  
• Strengthen governance by closer collaboration between organizations and groups  
• Promote working style reforms | • Utilize sophisticated IT resources through collaboration with NSSMC Group  
• Strengthen corporate structure of integrated value chain (sales, production and logistics) |
IV. Financial and Capital Expenditures
# IV- (1) Financial Plan

## Earnings plan

<table>
<thead>
<tr>
<th></th>
<th>Fiscal year ending March 31, 2018 (forecast)</th>
<th>Fiscal year ending March 31, 2019 and 2020</th>
<th>Fiscal year ending March 31, 2021 (target)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated ordinary profit</td>
<td>¥18.0 billion*</td>
<td>▼</td>
<td>¥40.0 billion or more</td>
</tr>
<tr>
<td>Consolidated profit</td>
<td>¥10.0 billion</td>
<td>▼</td>
<td>¥30.0 billion or more</td>
</tr>
<tr>
<td>ROE</td>
<td>4.5%</td>
<td>▼</td>
<td>10.0% or more</td>
</tr>
<tr>
<td>D/E ratio</td>
<td>1.0</td>
<td>▼</td>
<td>Around 0.5</td>
</tr>
</tbody>
</table>

* Ordinary profit adjusted for inventory valuation gain/loss is ¥6.0 billion

## Downside risk

Assume risk of ordinary profit in FY3/21 missing target by up to ¥20 billion due to external factors

- Worse-than-expected steel product demand decline
- Sharp rise in auxiliary material prices
- Other external risks

## Minimize risk

- Share management strategies with NSSMC Group
- Deepen core product strategy to minimize risk
### Capital investment plan

<table>
<thead>
<tr>
<th></th>
<th>Three-year total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated capital expenditures*</td>
<td>¥107.0 billion</td>
</tr>
<tr>
<td>[Of which group companies]</td>
<td>[¥22.0 billion]</td>
</tr>
</tbody>
</table>

* Acceptance basis

### Main investment strategies

<table>
<thead>
<tr>
<th>Strategic investment in core products</th>
<th>Investment to strengthen manufacturing base</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Increase production of ZAM®</td>
<td>- Replace or upgrade aging facilities based on appropriate criteria</td>
</tr>
<tr>
<td>- Increase production of special steel and other products</td>
<td></td>
</tr>
</tbody>
</table>

### Dividend policy

**Nisshin Steel will change its basic policy on dividend returns as follows, starting with financial results for fiscal year ending March 31, 2019.**

**Current:** Based on appropriate distribution of retained earnings in accordance with consolidated earnings results… our profit distribution benchmark is a consolidated dividend payout ratio in 20–30% range per year.

**Revised:** Based on appropriate distribution of retained earnings in accordance with consolidated earnings results… our profit distribution benchmark is a consolidated dividend payout ratio of around 30% per year.
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