

2020 Medium-Term Management Plan

March 5, 2018 Nisshin Steel Co., Ltd.



l. Overview of 20	20 Medium-Term	Management Plan
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I - (1) Summary of 2020 Medium-Term Management Plan

Economic environment

- ODomestic demand contraction due to population decline
- OIncreased competition amid multi-material trend
- OOverseas mills erode domestic demand and dominate growth markets
- ONascent demand in fuel cells, robotics



Management challenges

- OMaintain profitability in shrinking domestic market
- Olmprove Group's value in domestic and international markets
- OStrengthen manufacturing, sales, and development capabilities

Where to go from here

- OStronger corporate structure: Build a robust corporate structure by honing competitiveness and improving profitability
- O**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 customercentric approach



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

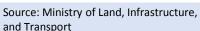
Domestic demand contracts in housing and other sectors due to population decline

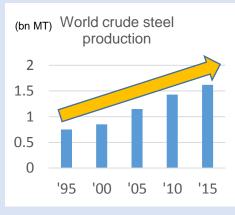
Increased competition with other materials due to trend of combining different materials

Overseas mills erode domestic demand and dominate growth markets

Emerging new demand in sectors such as fuel cells and robotics







Source: World Steel Association

Our management challenges

Highly dependent on steel demand in existing domestic business sectors

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

I - (3) Objectives

Objectives

[Stronger corporate structure]

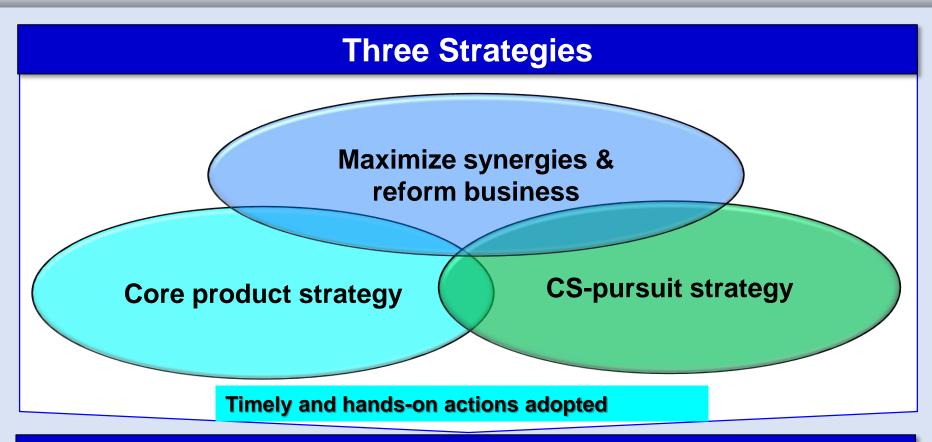
Build a robust corporate structure
by strengthening competitiveness and profitability

【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



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

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



II - (1) Strategy to maximize synergies and reform business

Maximize synergies

Deepen its relation with the NSSMC Group throughout the entire operation





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

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

^{*} 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.

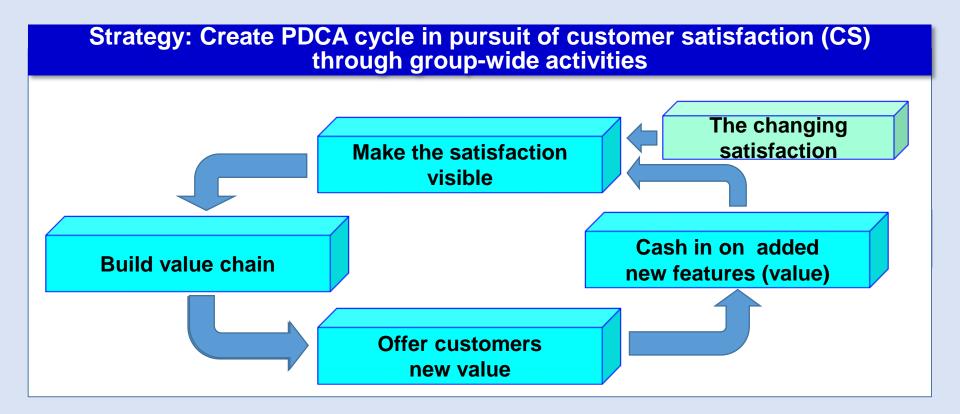
Develop new features

Sales, manufacturing, and development teams work together to increase sales

II - (3) Strategy to pursue CS

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



II - (3) Strategy to pursue CS

Structure

Unit system

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

		-		-
	Stainless Steel Unit	Special Steel Unit	Ordinary Steel Unit	Corporate Unit
	Unit leader	Unit leader	Unit leader	
Sales	Sales of stainless steel and other products	Sales of special steel	Sales of building materials and steel sheet products	Sales admin.
Domestic group Overseas group	Stainless steel companies	Special steel companies	Ordinary steel companies	Affiliated enterprises admin. Overseas business admin.
Manu-	Shunan Works		Works Works	Technology admin.
facturing	Kinuura Works	Osaka Works	Toyo Works	Outsourcing admin. Production Center
R&D	(Corporate	te Group Products Development Div.) Products Development Strategy Center, other		
	:	:	:	:

III. Four Key Initiatives

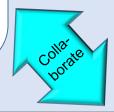


III- (1) Acquire earning powers by further strengtheningsales and development

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

6. Continue long-term projects, with additional benefits gained from manufacturing and purchasing synergies Strengthen cost competitiveness 6. Promote projects to streamline 5. Increase productivity by stable steel Rebuild manufacturing base and reduce total costs production and raise yield by rigorous quality improvement 5. Strengthen stainless steel production system 4. Invest in expanding production capacity of special steel, ZAM®, etc. 4. Make strategic investment in providing cutting-3. Conduct safety assessment and edge core products invest in replacement of facilities 3. Invest in managing safety, environmental, and disaster-related risks 2. Upgrade properly aging facilities based on NSSMC **Group's obsolescence** 2. Provide sound facilities to strengthen assessment criteria manufacturing base 1. Allocate funds for blast furnace-related and other 1. Extend service life of Kure blast furnaces and ensure capex stable operation

Ⅲ- (3) Further leverage overall Group capacity

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

[Japan]

Secondary/Tertiary processing

- O Promote group company-initiated development that fulfills customer needs
- O 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
- O Provide unique services that make customers happy

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Unify group

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

[Overseas]

Cold-rolled, plated, and other processed products

- O 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

Features and sales

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

Ⅲ- (4) Reinforce a corporate base

Environment	Security/Disa
W NISSHIN STEEL	

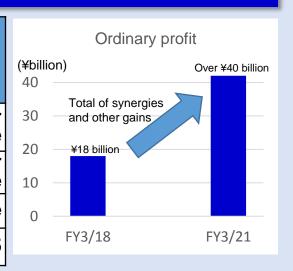
WISSHIN STEEL				
Safety	Environ	ment	Security/Disaster prevention	
 Train safety specialists Perform risk assessment Make facilities safe and prevent major disasters Increase safety assistance to group companies 	 Aim for zero environmental accidents Contribute to achieving targets of Japan Iron and 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 	
Quality			Internal control	
 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 		
Human resources	Organization and governance		ce Projects/IT systems	
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

	Fiscal year ending March 31, 2018 (forecast)	Fiscal year ending March 31, 2019 and 2020	Fiscal year ending March 31, 2021 (target)
Consolidated ordinary profit	¥18.0 billion*		¥40.0 billion or more
Consolidated profit	¥10.0 billion	•••	¥30.0 billion or more
ROE	4.5%	•••	10.0% or more
D/E ratio	1.0	•••	Around 0.5



^{*} 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

IV- (2) Capital investment plan and dividend policy

Capital investment plan

	Three-year total
Consolidated capital expenditures*	¥107.0 billion
[Of which group companies]	[¥22.0 billion]

^{*} Acceptance basis

Main investment strategies		
Strategic investment in core products	Investment to strengthen manufacturing base	
Increase production of ZAM® Increase production of special steel and other products	Replace or upgrade aging facilities based on appropriate criteria	

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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