

# CSR REPORT 2018

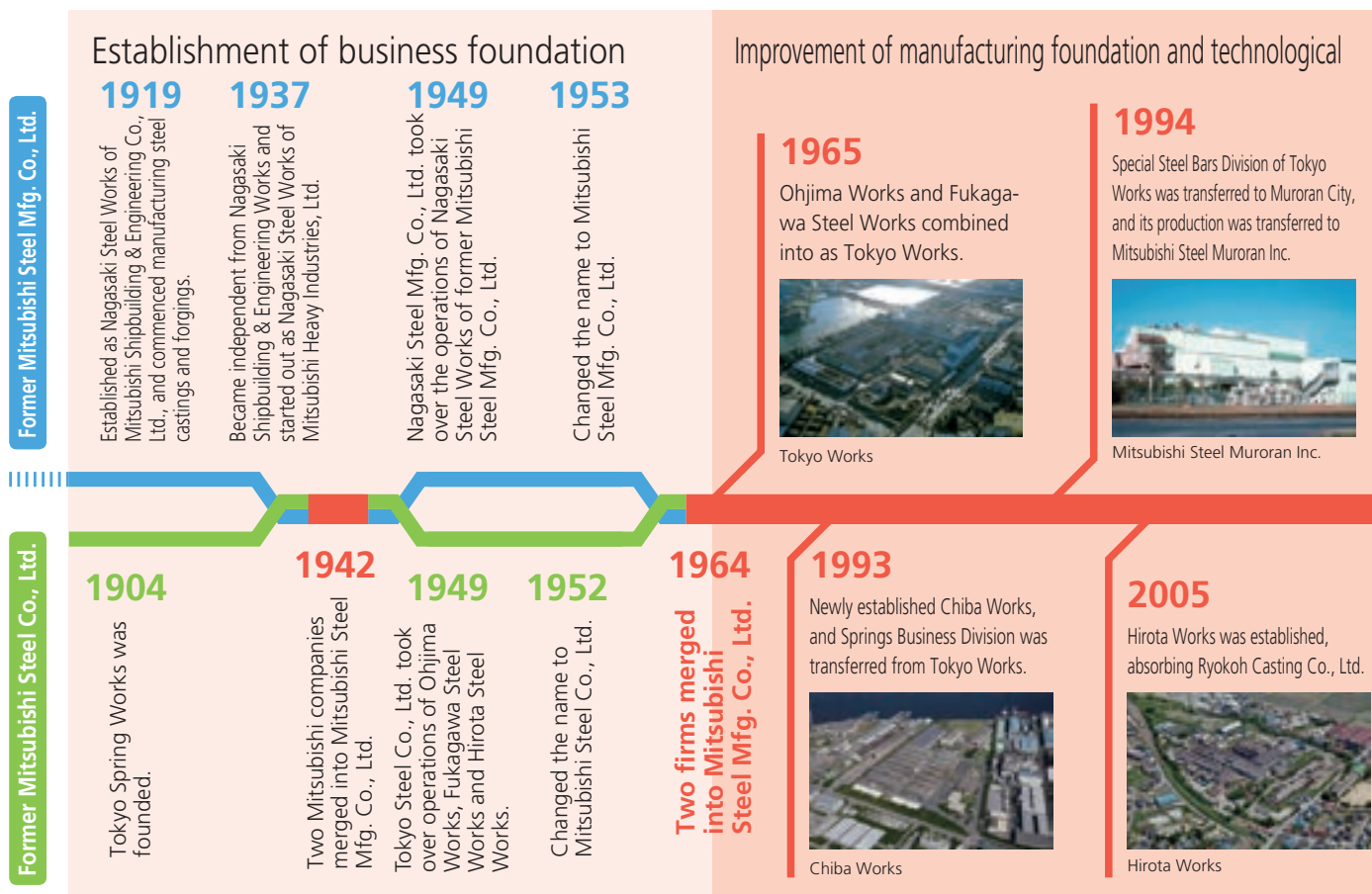




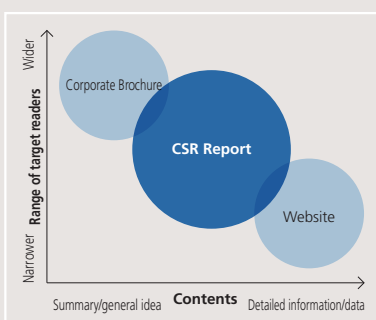
# Shift from "Processing Special Steel" to "Creating Added Value from Materials"

The history of the Mitsubishi Steel Group began with Tokyo Spring Works, the first spring manufacturer in Japan, established in 1904. Since then, in the course of a history of over 100 years, we have advanced as a company "Processing Special Steel." As we look toward the next 100 years, we will contribute to the progress of society by responding to changes in the world and growing into a company "Creating Added Value from Materials."

## Mitsubishi Steel's Evolution into "Creating Added Value from Materials"



## Communication Map



## Editorial Policy

### Purpose

The CSR Report is formulated to facilitate stakeholders to deepen their understanding of the various activities by the Company.

### Period of Application

The period of application is stated as fiscal 2017 (April 1, 2017 to March 31, 2018), however, some matters relate to outside the period.

### Scope of Application

The scope of application is stated as Mitsubishi Steel Mfg. Co., Ltd., however, it also applies to some Group companies.

### Importance and Completeness

Issues of high importance in the Mitsubishi Steel Group and in society are reported in the "CSR Report 2018." For more detailed information, please visit our website.

## Corporate Philosophy

### 1. Customer First

We are committed to supplying our customers with products of superior quality and features in response to their needs while continuing to strive for more competitive costs and improved customer services.

### 2. Development of New Technology

We focus on manufacturing excellence with a competitive edge in the global market while pursuing more advanced technology.

### 3. Maximizing Human Capital

We are committed to creating a pleasant and vigorous work environment, embracing a diverse workforce with various talents to achieve their full potential.

### 4. Challenge for the Future

We welcome any challenge with passion and creativity to respond confidently to ever-changing world markets.

### 5. Contribution to Society

Our management that is based on compliance contributes on progress of society through the business activities with environmental consideration.

## development

### 2006

MSM Ningbo Spring Co., Ltd. was established in China.



MSM Ningbo Spring Co., Ltd.

PT. MSM INDONESIA was established in Indonesia.

## "Creating Added Value from Materials"

### 2016

Opened Research & Development Center within Chiba Works.



Research & Development Center

Opened Jakarta Branch of PT. MSM INDONESIA in Indonesia.

MSSC MFG MEXICANA, S.A. DE C.V. was established in Mexico.



MSSC MFG MEXICANA, S.A. DE C.V.

### 2014

MSM SPRING INDIA PVT. LTD. was established in India.



MSM SPRING INDIA PVT. LTD.

### 2018

Acquired additional shares of PT. JATIM TAMAN STEEL MFG., and made it subsidiary company.



PT. JATIM TAMAN STEEL MFG.

Acquired whole shares of Gebrüder Ahle GmbH & Co. KG ("Ahle"), spring manufacture in Germany. (In September, Company name changed to MSSC Ahle GmbH.)



MSSC Ahle GmbH

## CSR Report 2018 Contents

### About Mitsubishi Steel

- Shift from "Processing Special Steel" to "Creating Added Value from Materials" ..... p1
- Business of Mitsubishi Steel ..... p3

### Aims of Mitsubishi Steel

- President's Message ..... p4
- Contribution to Society and Initiatives ..... p7

### Mitsubishi Steel's Value Creation

- Creating Value Together with Society ..... p9
- Corporate Governance ..... p10
- With the Environment ..... p14
- With Society ..... p16

### Corporate and Financial Information

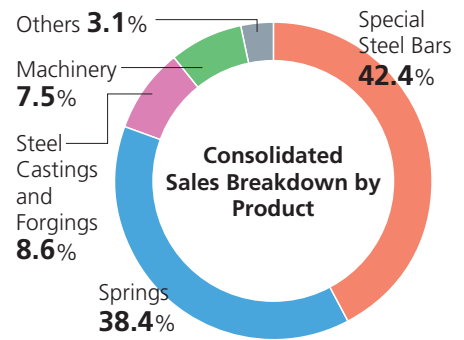
- Corporate and Financial Information ..... p19





# Business of Mitsubishi Steel

The Mitsubishi Steel Group is transforming its business model from "Processing Special Steel" into "Creating Added Value from Materials" to achieve sustainable growth and enhance corporate value over the medium- to long-term. We are committed to responding to the diverse needs of our customers and further expand our business fields by making use of our strength—a manufacturer with an integrated production system covering everything from materials to products—and maximizing synergies through collaboration between segments.

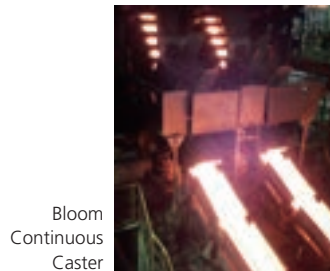


(FY2017 ended March 2018)

## Special Steel Bars Business

We produce special steel from blast furnace molten iron featuring high strength and durability for demanding usage in construction machinery, etc.

<b>Products</b>	Special steel bars (carbon steel, low-alloyed steel, spring steel, non-heated steel, bearing steel, free-cutting steel, tool steel, nitride steel)
<b>Production bases</b>	Domestic: Muroran City, Hokkaido, Japan Overseas: Indonesia
<b>Principal final uses</b>	Construction Machinery, Automobiles, Industrial machinery, Machine Tools, etc.



Bloom Continuous Caster

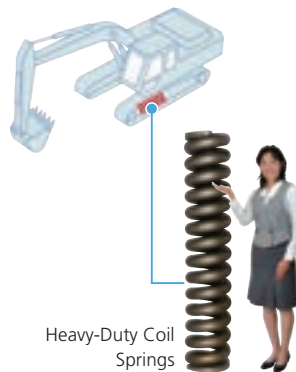


Full Continuous V-H Rolling Machine

## Springs Business

We offer a large selection of products ranging from precision springs to supersized springs through an integrated production system covering everything from materials to products, which is offered only by the Group in Japan. Our market share for heavy duty coil springs for construction machinery enjoys the largest proportion in the world.

<b>Products</b>	Coil springs, stabilizer bars, leaf springs, torsion bars, coiled wave springs, precision springs, various hinges, precision press products, plastic molded products, press assemblies, and repair parts and products for automobiles and construction machinery
<b>Production bases</b>	Domestic: Ichihara City, Chiba Prefecture, Japan Overseas: Canada, U.S.A., China, India, Philippines, Mexico, Germany
<b>Principal final uses</b>	Automobiles, Construction Machinery, Information and Communication Equipment, etc.



Heavy-Duty Coil Springs

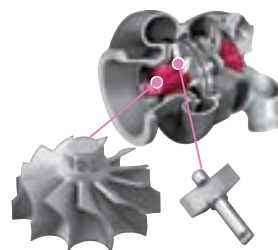


Hinges for various use

## Formed & Fabricated Products Business

In a business field that creates added value from materials, we manufacture formed & fabricated products applicable to a wide range of fields, through casting and other processing technologies.

<b>Products</b>	Castings, precision castings, precision forgings, general forgings, special alloy materials, special alloy machinery products, special alloy powder and fine special alloy powder
<b>Production bases</b>	Domestic: Aizuwakamatsu City, Fukushima Prefecture, Japan Overseas: Thailand
<b>Principal final uses</b>	Automobiles, Construction Machinery, Industrial Machinery, etc.



Precision Castings (turbocharger parts)



Super-alloy powders

## Machinery Business

We offer a wide range of products that support key industries with machinery and plant engineering technology.

<b>Products</b>	Forging machinery, general industrial machinery, steel fabrication, environmental equipment, magnetic separators, conveying equipment, weighing instruments and anti-vibration equipment
<b>Production bases</b>	Domestic: Nagasaki City, Nagasaki Prefecture, Japan
<b>Principal final uses</b>	Industrial Machinery, etc.



Forging Machinery (Ring Rolling Mills)



Forging Machinery (Forging press)



# We will achieve sustainable growth with our stakeholders

President & CEO

**Motoyuki Sato**



About Mitsubishi Steel

Corporate and Financial Information Mitsubishi Steel's Value Creation

**The mid-term market environment is likely to remain steady due to the recovery in the construction machinery industry and resilience in the automobile industry.**

In fiscal 2017, which is the second year of the Five-year Mid-term Business Plan, both the construction machinery industry and the automobile industry, which are our major customers of the Special Steel Bars Business and the Springs Business, respectively, performed well under the favorable market environment. In particular, the construction machinery industry enjoyed an increase in overseas demand, primarily in China and Southeast Asia. The Group's Special Steel Bars Business responded to the favorable conditions by operating full-fledged production throughout the year. The automobile industry also continued steady performance in Japan, the U.S. and China, contributing to expanding demand in the Springs Business.

As a result, sales for fiscal 2017 reached net sales of ¥118.7 billion, an increase of ¥15.0 billion from the previous fiscal year. This growth was obtained primarily as a result of increased demand, and also driven by the effects of the increase in sales prices due to the sharp rise of special steel material prices. On the other hand, operating income amounted to ¥3.2 billion, a decrease of ¥600 million from the previous fiscal year. The decline resulted from an increase in raw material costs and a higher depreciation burden with capital investment and research and development investment, which were strengthened under the Five-year Mid-term Business Plan. Nevertheless, the Group is currently focusing on

an investment to expand production and research and development initiatives from a medium- to long-term perspective rather than profit earning for a single fiscal year, thus maintaining earning power under these conditions.

Regarding the mid-term market environment, these steady conditions are likely to continue with the recovery trend in the construction machinery industry and firm steel demand in the automobile industry from fiscal 2016, which is our assumption in the Five-year Mid-term Business Plan. However, while the impact of U.S. trade issues is currently spreading, the Group faces such challenges as the imposition of tariffs on steel materials imported from Japan to the U.S. and cost increases for subsidiaries in Canada resulting from a higher tariff rate, which was determined as Canada's countermeasure against the U.S. We have also been affected by economic conditions as an external factor such as foreign exchange losses recorded in the Indonesian steel business due to the decline of the rupiah. Under such circumstances, we have revised downward our earnings plan for the first half of fiscal 2018. However, we expect that said effects will not impair the on-going steady conditions of the mid-term market environment, and our full-year earnings forecast for fiscal 2018 will be achieved almost as initially planned.



## Our Five-year Mid-term Business Plan is progressing well. We will keep the target for fiscal 2020: "sales of ¥170.0 billion and 8% ROE."

The Mitsubishi Steel Group aims to shift from being a company "Processing Special Steel" to a company "Creating Added Value from Materials" through the 2016 Mid-term Business Plan toward fiscal 2020. We will globally expand integrated production model for special steel bars to springs, which were previously produced inside Japan, to reinforce the profit center. At the same time, we will cultivate the Formed & Fabricated Products Business as the third profit center and expand the customer field by building the "Creating Added Value from Materials" business model. Over the past two years, each theme has made steady progress, thereby producing certain results.

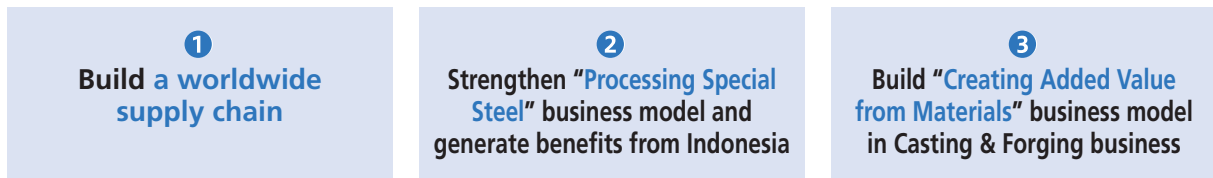
In fiscal 2017, in order to build a global supply chain in the Springs Business, we commenced the production of automobile stabilizer bars in China and Mexico, and the manufacture of large coil springs for construction machinery in India. In April 2018, we acquired Gebrüder Ahle GmbH & Co. KG (Ahle), a German spring manufacturer, which was an activity to complete the building of the global supply chain. As an action following these activities, we will launch the production of coil springs for automobile suspension and springs for electronic and electrical apparatuses in the Philippines with the intent to supply springs in line with the business development of Japanese manufacturers in the

ASEAN region. This is the entry for enhancing the effective use of the Group's existing facilities, thereby enabling us to build a domain where we can demonstrate our strength under the global supply chain.

In regard to integrated local production and processing in the Special Steel Bars Business which is progressing in Indonesia, we acquired additional shares of special steel electric furnace manufacturer PT. JATIM TAMAN STEEL MFG. (JATIM), and made it a consolidated subsidiary of the Company in January 2018. This activity was moved up from the plan in the Next Mid-term Business Plan. JATIM is currently lagging behind the sales plan due to customer inventory adjustment, etc., and is recording a loss due to low Indonesian rupiah as mentioned above. In order to improve its performance at an early stage, we will strengthen the firm's structure by dispatching managerial personnel and engineering staff and introducing other resources of the Group.

In the Formed & Fabricated Products Business, in order to build the "Creating Added Value from Materials" business model, we had previously been considering M&A with a turbocharger sub-assembly manufacturer. However, we decided not to proceed with this plan in consideration of the rapid shift in production to electric vehicles and the reduction of diesel-fueled vehicles in the automobile industry.

### Mid-term plan and the Three tactics

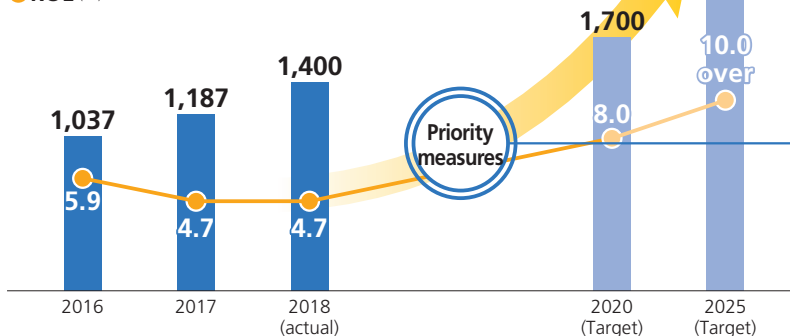


### Mid-term Business Plan

#### 2016 Mid-term Business Plan

Shift from "Processing Special Steel" to "Creating Added Value from Materials"

■ Sales (Billion Yen)  
● ROE (%)



- Investment on renewal of Muroran (MSR)
- Worldwide supply chain of Springs
- Strengthen technological development of Springs
- Expand Steel sales in Indonesia
- † Making JATIM a consolidated subsidiary (moved forward from next Mid-term Business Plan)
- Strengthen internal synergy (cross-functional project)
- R&D Center
- Expand Leaf Springs sales in worldwide
- Expand Steel sales in worldwide
- Integrated model of Casting (M&A)
- Integrated model of Casting (internal manufacturing of material)

Based on this policy change, our sales plan in the Formed & Fabricated Products Business has been changed from ¥34.0 billion to ¥17.0 billion for fiscal 2020, which is targeted under the 2016 Mid-term Business Plan. Meanwhile, said decrease will be supplemented by sales expansion mainly in the Special Steel Bars Business, etc. Therefore, we will keep the overall target for fiscal 2020: “sales of ¥170 billion and 8% ROE” as it is. In fiscal 2018, we will enhance refresh and strategic investments in the special steel manufacturing facilities of Muroan Works to strengthen the domestic foundation with

the aim of reducing costs and improving product quality, while maintaining a stable product system. In addition, we will introduce a vacuum induction melting (VIM) furnace for internal manufacturing of materials for formed and fabricated materials at Chiba Works, which plays a role as the “mother plant” that is able to manufacture overseas base’s product items in Japan. For business performance for fiscal 2018, operating income is expected to increase through the collection of investment returns and the on-going trend of revenue increase.

## **We achieved our annual goal of CO<sub>2</sub> emissions reduction. For labor management issues, we are proceeding with streamlining operations toward effective business reform.**

The Group strives to promote ESG (Environment, Social and Corporate Governance) management so as to ensure co-existence and co-prosperity with stakeholders and achieve sustainable growth.

Regarding our environmental conservation initiatives, we had set a goal to reduce CO<sub>2</sub> emissions on a per-unit basis by 1% year-on-year, and achieved the goal in fiscal 2017 at all the domestic offices. Going forward, we will make further efforts, including necessary capital investment, to achieve our goal set on a total volume basis. With respect to overseas offices, we will establish a stable production system and incorporate advanced environmental technologies on manufacturing in Japan so as to reduce the environmental burden and maintain stable production at the same time.

Our labor-related initiatives include employee work style reform and the improvement of the work-life balance. We are proceeding with streamlining operations to enhance the effectiveness of system development and operational improvement, while maintaining the balance between the

quantity and quality of employee work to reduce wasteful tasks and make our initiatives more active to enhance efficiency. In addition, we provide assistance to strengthen corporate governance in cooperation with personnel of the Mitsubishi Group to support the operation of overseas corporations.

Our efforts to contribute to society and solve social issues will be described later in the section “Creating Value Together with Society.”

With respect to corporate governance, efficiency is further increasing through the establishment of the “Investment and Credit Committee,” which analyses and assesses investment projects from an independent perspective, and the “Governance Committee,” which deepens Outside Directors’ understanding of business issues and reflect their advice and opinions in management. Their useful advice regarding the policy change of the M&A project in the Formed & Fabricated Products Business was well considered.

## **We established a working team to organize the link between our business activities and the SDGs, and then identify the Materiality.**

With regard to making a contribution to society and the resolution of social issues that we must fulfill as a corporation, we follow the Mitsubishi Group’s basic philosophy of “The Three Corporate Principles” as the guiding principles. The Three Principles—“Corporate Responsibility to Society,” “Integrity and Fairness,” and “Global Understanding Through Business”—show the initiative to create social value.

However, social value cannot be created until steady profit is earned from major business activities. “Creating shared value,” which achieves the improvement of both corporate value and social value, has been a management topic that corporations should focus on, as they are expected to make a contribution to achieve the Sustainable Development Goals (SDGs), which were adopted by the United Nations several years ago.

We established a working team centering on young employees to organize the link between our business activities and the

goals based on the SDGs, and then identify the Materiality (critical issues in CSR areas). Matters to be discussed by this team will be specified within fiscal 2018 and then reflected in the Next Mid-term Business Plan, which will be formulated later. We believe that our businesses will resolve social issues in many aspects, as the expansion of global production will contribute to employment creation and economic revitalization in communities.

I feel that a positive and challenging atmosphere has been created through the promotion of the 2016 Mid-term Business Plan, thereby broadening the vision of each employee. We now encourage everyone to take concrete actions and then link their experiences to build a future outlook. The Group is committed to making a further leap forward. We hope you will look forward to seeing the Group make further advances in the days ahead.





# Contribution to Society and Initiatives

The Mitsubishi Steel Group, which has hoisted the “what-to-be” policy of transforming the business model to “Creating Added Value from Materials,” strives to provide its unique solutions and new values to satisfy customer needs and issues, thereby contributing to solve social and environmental issues through business operations. This section explains what social issues each business field is facing and how the Company’s products specifically contribute to solve these issues.

## ▶ Efforts of each business to solve social issues

### Special Steel Bars Business

Mitsubishi Steel is a pioneer in the world to produce structural steels for automobile through LF (Ladle refining furnace) Degassing-Bloom continuous casting process and left mark on quality improvement. Now, Mitsubishi Steel is trying higher quality and productivity improvement in addition to saving energy to produce earth environmental friendly special steels through compounding pig iron with scrap.

### Springs Business

Our advanced technologies and strict quality control systems have created a highly-efficient product that is trusted in a wide variety of fields. We respond to customer needs and actively provide technological support in design and analysis during the development phase. Our technological development for lighter automobile parts contribute to a reduction of the environmental burden.

### Formed & Fabricated Products Business

As a major manufacturer of steel castings and forgings in Japan, we have manufactured a wide range of parts that serve as the very core of the modern production infrastructure. Our castings, forgings and alloy powders with high-performance special alloys support a wide variety of business fields, including automobiles, aerospace, vessels, energy and electronics.


### Machinery Business

Utilizing a consistent system, we supply high-end products ranging from large-sized products to precision apparatuses, such as forging machinery, environmental plants, general industrial machinery, and steel fabrication. We support quality manufacturing through advanced technology, which is the sophisticated integration of engineering and manufacturing.

## ▶ Concrete efforts in each application

**Factory**

We contribute to respective industrial fields through the design and manufacturing of cutting-edge pressing machinery such as free forging press machines with the leading global share and ring rolling mills.



Forging Machinery (Forging press)

**Recycling Factory**

We contribute to our society in response to recycling trends promoted in various industrial fields, through the manufacturing of magnetic separators, which retrieve iron and non-ferrous materials from bulk, automobiles, home electronic appliances and waste materials.



Aluminium Separator



## Office

Our special alloy powders, cast magnets and precision parts are actively used in various parts for OA systems, communication devices and digital cameras.



Super-alloy powders

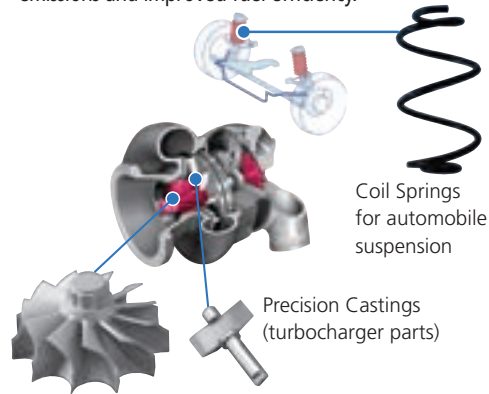
## Construction Machinery

Our special steel, heavy-duty coil springs for construction machinery and wear-resistant cast steel are used in construction machinery parts in which a high-strength property and durability are demanded, thereby contributing to the construction of social infrastructure.



## Trucks and Automobiles

We strive to accommodate the need for lighter weight by developing turbine wheels for turbochargers and coil springs for automobile suspension with our forging technology, thereby contributing to a reduction of CO<sub>2</sub> emissions and improved fuel efficiency.



## Sewage Disposal Plant

Mitsubishi Nagasaki Machinery Mfg.Co.,Ltd. is engaging in environmental plant business, utilizing METHASAUROS, a sewage sludge processing plant. METHASAUROS is innovative plant which realizes Zero-emission in sewage process. It reduces Sewage sludge into one fifth through a new technology, hydrothermal reactor principle. It also covers entire heat energy required by utilizing methane gas, which is by-product of the plant. Furthermore, the dewatered residue after reduction can be used as fuel for steam power plant and agricultural fertilizer.



METHASAUROS (Zero-emission sewage sludge reduction, fuel-and fertilizer conversion plant)



# Creating Value Together with Society

The Group has formulated the Basic CSR Policy based on our Corporate Philosophy and the Mitsubishi Steel Group Code of Conduct, and we are promoting CSR activities accordingly. The Mitsubishi Steel Group Code of Conduct is based around the six central pillars of "business activities," "compliance," "disclosure," "respect for employees," "environmental conservation," and "globalization." We are working to raise employees' awareness of CSR by releasing 11 statements regarding these areas.

## Corporate Philosophy

1. Customer First
2. Development of New Technology
3. Maximizing Human Capital
4. Challenge for the Future
5. Contribution to Society

## Mitsubishi Steel Group Code of Conduct

The purpose of the "Mitsubishi Steel Group Code of Conduct" is to ensure that the company is in line with expectations of society while retaining its flexibility to accommodate demands from a rapidly changing business environment to pursue sustainable global endeavors. All executives and employees of the group's companies share the responsibility to abide by the Code of Conduct.

### Business Activities

1. Supply high quality and functional products along with excellent services consistently to satisfy customer needs to play a part in the progress of society.
2. Focus on developing unique and advanced technology by mobilizing various areas of expertise developed within the organization to strive for profit and improved corporate value through efficient operation.
3. Cultivate a corporate culture that encourages people to take on a challenge without fear of failure for continuous growth.
4. Dedicate ourselves to improvement of society through business conduct, tapping into the opinions of all stakeholders.

### Compliance

5. Comply with the laws and regulations or code of ethics in society for transparent, fair, and equitable transactions under free competition.
6. Never be involved with destructive forces that pose a threat to peace and safety of civic society.

### Disclosure

7. Disclose corporate information in a timely and appropriate manner to ensure transparency while protecting privileged information pertaining to employees and customers.

### Respect for employees

8. Respect human rights, character, and the individuality of employees along with diversity in the workforce, and never discriminate on the basis of difference in characteristics.
9. Galvanize the company by fostering human resources as well as ensuring a safe and pleasant work environment.

### Environmental conservation

10. Get actively involved in protecting the environment in all aspects of business activities with a heightened awareness that conservation of the global environment is one of the most crucial challenges facing mankind.

### Globalization

11. Respect local culture and customs as well as comply with all international rules and local laws and regulations when conducting global business.



## Basic CSR Policy

We aim to be a more reliable business by fulfilling our social mission, and we will contribute to the realization of a sustainable society through dialogue with all stakeholders, including customers, suppliers, shareholders, employees, and local communities, based on our Corporate Philosophy and the Mitsubishi Steel Group Code of Conduct.

The Mitsubishi Steel Group recognizes the importance of the establishment of a corporate structure that is able to respond to any changes in the business environment, and we have designated achieving sustainable global expansion by fostering competitive businesses as our basic management policy. Based on this basic policy, we are strengthening activities related to "Corporate Governance," "Environment" and "Society," so as to achieve sustainable growth together with society.

Highlights of Activities

Details of Activities

  
**Corporate Governance**  
▶ P10

  
**With the Environment**  
▶ P14

  
**With Society**  
▶ P16

Please visit the "CSR Information" section of the Mitsubishi Mfg.Co.,Ltd. Steel website.  
<https://www.mitsubishisteel.co.jp/csr/>



# Corporate Governance

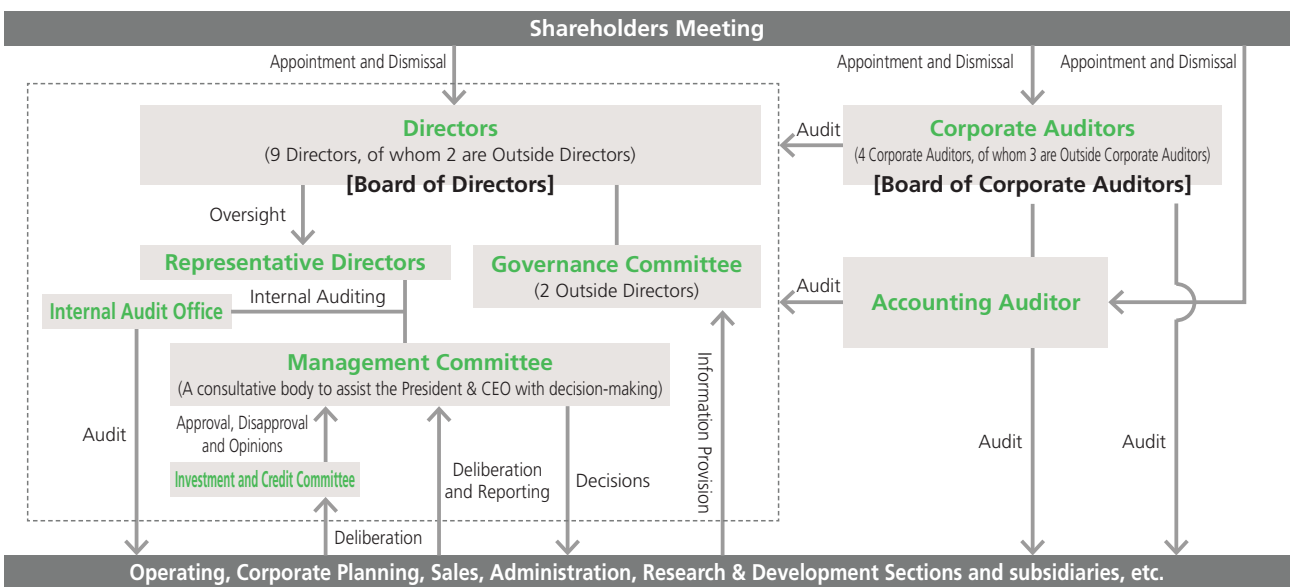
The Group recognizes the importance of the establishment of a corporate structure that is able to respond to any changes in the business environment, and we have designated “achieving sustainable global expansion by fostering competitive businesses” as our basic management policy. In order to achieve this, we recognize the importance of having comprehensive corporate governance and swift and reasonable decision-making processes, while also ensuring that we have functions for their oversight.

## Overview of Corporate Governance

We released the “Basic Policy for Corporate Governance” in fiscal 2015, and we have revised the Rules of the Board of Directors in line with this. In the pursuit of efficient corporate governance, we are strengthening the oversight functions of the Board of Directors by ensuring full exchange of information and pooling of knowledge, etc. between independent Outside Directors in the Governance Committee, which is a subordinate organization of the Board of Directors.

In fiscal 2016, we established the Investment and Credit Committee, which evaluates cases from an objective and neutral perspective as a committee independent from the Operating Unit, etc. In this manner, we are strengthening the risk management system.

The Basic Policy for Corporate Governance is available on our website.



## Internal Control System

The “Basic Policy for Internal Control System” is reviewed every year through a resolution of the Board of Directors and the operating status of the policy is disclosed in the business reports. In fiscal 2017, we added in said policy new provisions on the establishment, etc., of a Group-wide compliance enhancing structure in accordance with the Basic Regulations on Compliance. We make continuous efforts to promote compliance management and strengthen the internal management system.

## Strengthening the back up support system for overseas subsidiaries

In April 2018, the Global Control Office for Corporate Administration was newly established in the Corporate Planning Unit to improve the management structures of overseas subsidiaries. In addition to strengthening said system, we started the preparation and operation of a self-check list for internal management as a management tool for the administration of overseas subsidiaries.



## Message from Outside Director

**I recognize the Company's efforts to build a stable management foundation in which manufacturing excellence can steadily increase.**

Outside Director  
Masayuki Takashima



### **"Benefit for all three sides (managers, employees and shareholders)" and ESG management**

This is the 12th year since I was appointed as the Company's Outside Director in 2007. In my position, I am expected to supervise the Company's management and give them proposals from an external perspective. I believe that my role is to focus on "sampo yoshi" (the benefit for all three sides) involved in our business—managers, employees and shareholders—and ensure that the Company's management will contribute to the interests of all the three sides. At the same time, I am aware that it is my mission as an Outside Director to enhance efforts to respond to ESG (Environment, Social and Corporate Governance) issues as a member of the management team, thereby leading the Company to achieve sustainable growth. Basically, corporate activities must be something meaningful for society. If not, failing companies will be eliminated rapidly from society. This point has been specified in the Three Corporate Principles of the Mitsubishi Group and the Corporate Philosophy with such words as "Corporate Responsibility to Society" and "contribution to society" as the "what-to-be" attitude, and the Company has been exerting consistent efforts toward its realization since the foundation.

Over the 12 years I have been involved in the Company, I witnessed the replacement of the president twice and other changes in the management team, as well as drastic changes in the market environment. Amidst such changes, the Company has been continuing steady management with the confidence of top management and has been maintaining a firm business foundation. As an Outside Director, I try to ask questions from angles that the management team does not focus on and exchange opinions freely.

I have presented proposals on the performance of business investment projects and other related issues at the Board of Directors meetings by utilizing my insights and experiences, thereby contributing to management decisions. The Company also creates opportunities for Outside Directors to receive detailed explanations about projects with high importance and/or complex schemes, which shows its positive attitude to utilize the opinions of external parties in management decisions.

### **Highly regarded for the construction of a sustainable and stable management foundation**

The Company is currently developing business in ASEAN regions and other areas in the Indian Ocean and Pacific

Ocean, such as the construction of a global supply chain for spring products and the sales expansion of steel products to Japanese companies in Indonesia through the Mid-term Business Plan. At the same time, for domestic bases, the Company is making renewal and strategic investment in the facilities of Muroran Works and improving the system in Chiba Works, etc., to enhance its technological development capability.

In terms of overseas development, the Company has entered overseas markets smoothly through business investment in local companies. Meanwhile, the Company needs to convey Japan's production technologies that investees do not possess so as to improve quality and production efficiency. Chiba Works plays a role in such conveyance as the "mother plant." The strategy to steadily enhance its power of manufacturing excellence, which is the Company's business base, and continuously construct a sustainable and stable management foundation, is highly recognizable.

The steel industry is prone to fluctuation in raw material prices and currency exchange rates, causing ups and downs in business performance in a short term. The Company aims to enhance corporate value over the medium- to long-term, while maintaining the level of shareholder returns and employee salaries. Such perspective is in accordance with the "sampo yoshi," which was mentioned earlier.

### **Future opportunities that will open up a new path by the Company's offering of value with materials**

In terms of the execution of the long-term growth strategy, securing and developing manpower will become an issue. In order to succeed the quality manufacturing technologies and promote fusion with IoT and other advanced technologies, the Company must enhance two manpower types—those who precisely show initiative in the leading position and those who are able to correctly understand and execute tasks in the follower's position. The Company is expected to develop an organization that attracts such personnel and is operated in accordance with the objectives with a focus on personnel cultivation. The quality manufacturing to produce special steel, formed & fabricated products, etc., that the Company has been performing is an activity that offers value by materials and contains various opportunities for innovation. I am hopeful for the Company's opportunities to open up a new path for the future through material generation leading to the creation of new markets.



## I will continue to support the growth strategy over the medium- to long-term: the key action is the acceleration of overseas business expansion.



Outside Director  
Akira Hishikawa

### Improve the quality of decision-making on the judgment principles from an objective and neutral perspective

Outside Directors are expected to hold broad judgment principles from an objective and neutral perspective and contribute to discussions at the Board of Directors meetings. I believe it is my important mission to improve the quality of decision-making in consolidation and collaboration with advanced technical judgment principles regarding the business backbone held by the Company's directors who concurrently serve as executive officers and contribute to Mitsubishi Steel's sustainable growth and the enhancement of corporate value over the medium- to long-term.

Although the Company has maintained stable management in recent years, its growth potential may not be visible enough from the perspective of shareholders and other stakeholders. The 2016 Mid-term Business Plan was formulated to address this issue and has been recognized by the markets, as it clearly shows the Company's philosophy and objectives, and presents management decisions.

The key action to continue growth is the "acceleration of overseas business expansion." I was previously involved in customer acquisition, the establishment of production plants and M&A in foreign countries. Based on the knowledge acquired through these experiences, I presently make various proposals at the time of the formulation and implementation of plans. Bearing in mind that the business trends in this industry change rapidly, I strive to obtain and organize information on the latest status to be able to keep the judgment basis in line with the times.

### Sufficient discussions are being held by adding "matters to be deliberated" by the Board of Directors

The Company's Board of Directors is an organization where open and active discussions take place. The Board members respect diverse ideas such as the advice and proposals of Outside Directors and Outside Corporate Auditors from external perspectives, and exchange opinions interactively on diverse ideas. Under the system in support of the Board's policy, "matters to be deliberated" has been introduced in addition to "matters to be resolved" and "matters to be reported." This unique action of the Company helps eliminate the information gap and provides an opportunity for sufficient discussions to be held before a decision is made, greatly contributing to promoting the Board in being more active.

For Outside Directors, the Governance Committee was established with the aim of enhancing the function of supervising the Board of Directors by deepening the understanding of business issues and exchanging information and sharing understanding.

In addition, the Investment and Credit Committee was launched with the aim of improving the corporate governance function. This organization assesses projects from an independent perspective as a meeting body independent of the Operating Section and determines the investment of management resources scientifically based on numeric values in consideration of the accordance with the mid-term goal, raising expectations for more active engagement in line with the acceleration of overseas business expansion.

Through the system improvements, I was able to express my opinions in full for the promotion of large-scale projects, such as the conversion of Indonesia's JATIM into a consolidated subsidiary, the acquisition of Germany's Ahle, and the policy change of cooperative operation on the Formed & Fabricated Products Business during fiscal 2017. Such involvement in the essence of the mid-term plan has allowed me to make a contribution at a certain level as an Outside Director.

### Hopeful for Mitsubishi Steel, the market leader as a top company

In order to achieve growth over the medium- to long-term through global business operation, the Company must reinforce the "earning power" of established overseas sites and increase the contribution level to the consolidated business results.

To this end, the Company needs to achieve both "success in the business field" that leads to customer evaluation of products and services, and "success in the capital field" that increases financial recognition as a result of high investor returns and creates a virtuous circle led by fund raising and management. In other words, the Company is facing a great challenge to maintain operations in the "simultaneous equation."

I hope the Company will achieve success in the two fields by solving this equation with high awareness and strong will, and every site will evolve to become a market leader as a top company in each region.

As an Outside Director, I will also give medium- to long-term support to the Company's development and continue to take on my own challenges.



# Compliance

The Group is conducting business practices that comply with laws and social norms as indicated by the Mitsubishi Steel Group Code of Conduct.

## Compliance Initiatives

### Compliance education

The Group is working to ensure that thorough compliance education is conducted.

During training, unique ideas are implemented so that they relate themselves to compliance issues, such as by taking examples from actual events and using them as teaching materials as appropriate to the level of training, and engaging in discussions as necessary.

In fiscal 2017, we conducted training for managerial personnel in subsidiaries in China and the Philippines. Going forward, we will continue to conduct training in order to further improve awareness of compliance and ensure penetration among officers and all group employees.

### Review of operation status of the compliance system

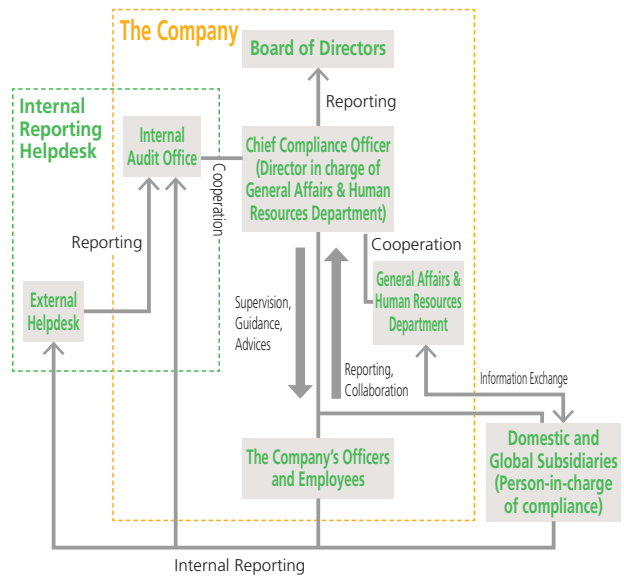
In order to strengthen the supervision of the compliance system, we submit proposals regarding the operating status of the compliance system to the Board of Directors (once a year).

The result of the review in 2017 indicated that the Company's compliance system had been operated properly in general. We will continue to conduct reviews on a regular basis to ensure the effective and proper operation of the compliance system and realize compliance management.

## Formulation of Basic Regulations on Compliance

"Basic Regulations on Compliance" which applies throughout the Group has been formulated. The rules concerning compliance have been clarified and a

compliance structure has been established, thereby strengthening the overall governance of the Group.



## Internal Reporting System

The internal reporting system utilizes internal and external help-desks outside of the workplace to receive reports and provide advice should any of the Group's employees become aware of illegal or improper acts, or where there may be a problem and for whatever reason finds it difficult to discuss the issue in the workplace.

Reports can be made by telephone, email, fax, mail, in writing, or in person, and we also accept anonymous reports.

## Communication with Shareholders and Investors

### Major IR activities

In addition to holding financial results briefings for securities analysts and institutional investors twice a year, we regularly held tours of factories and Research & Development Center in Japan.

We will swiftly convey feedback and opinions from shareholders and investors to the management team including senior management, leading to the creation of further dialogue opportunities and better information disclosure in a timely and appropriate manner so as to earn a correct understanding and trust from all the stakeholders.



Financial results briefings



# Environmental Management

Building and operating an environmental management system to promote an active approach to environmental conservation initiatives.

## Mitsubishi Steel Group Environmental Policy

With the amendment of the 2004 version of ISO 14001 to the 2015 version, we have reviewed the Group's environmental policy.

**Environmental Philosophy** Get actively involved in protecting the environment in all aspects of business activities with a heightened awareness that conservation of the global environment is one of the most crucial challenges facing mankind.

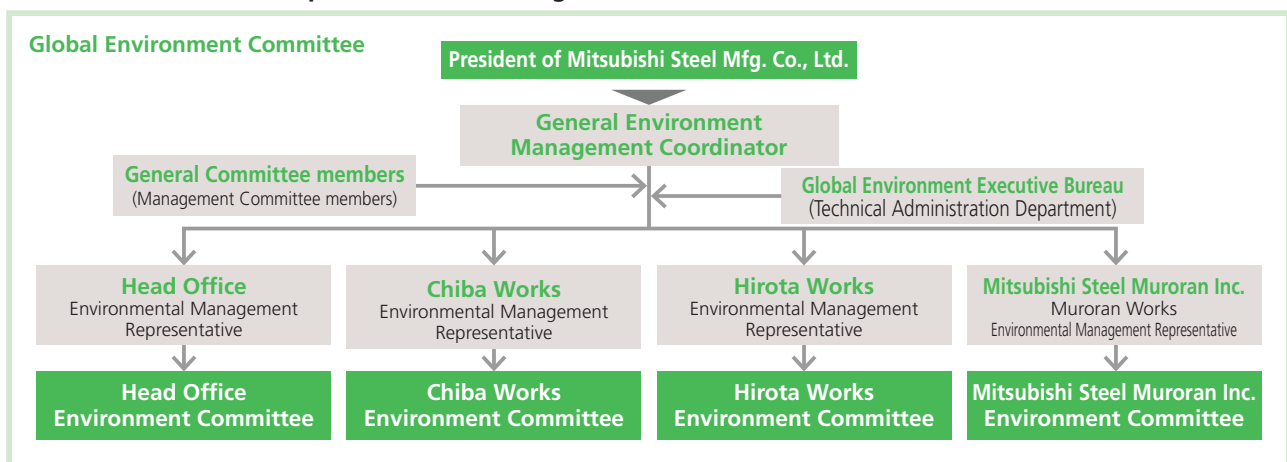
- Code of Conduct**
1. As an organization which contribute toward a sustainable society through manufacturing, take the environment into consideration at all stages of business activities including from product development and design to manufacturing.
  2. Set environmental purposes and goals based on corporate environmental policy and conduct periodic review.
  3. Engage in environmental conservation activities, such as prevention of pollution, application of sustainable resources, climate change mitigation as well as other environmental conservation, throughout all areas of business activities.
  4. Comply with environmental laws and regulations as well as other requirements which we consent.
  5. Pursue continuous improvement in environmental management system through implementation of PDCA cycle, for the better performance in environmental activity.
  6. Inform environmental policy to every member of our group through education and intra-group publication, and disclose the policy to stakeholders.

Revised in Mar. 15, 2016

## Environmental Management Organization

We have created a company-wide organization with the Global Environment Committee at its core to work on environmental conservation initiatives.

### <Mitsubishi Steel Group Environmental Organization Chart>



### Message from General Environment Management Coordinator

Since the acquisition of ISO 14001 certification in 2001, we have been committed to the reduction of energy consumption to ensure compliance with laws and regulations and achieve a sustainable global environment. We also operate an effective management system in business activities, ranging from research and development to manufacturing and sales so as to achieve the environmental goals that we have set and the active release of environmentally-friendly products in the markets. We will continuously work on environmental conservation initiatives with a shared awareness among employees that conservation of the global environment is one of the most crucial challenges facing mankind.

Director Yasuhiko Iizuka





## Initiatives to Reduce Environmental Burden

All work locations are implementing initiatives to reduce CO<sub>2</sub> emissions.

### Initiatives regarding Reduction of Environmental Burden through Products: Research & Development Center

#### Reduce weight of coil springs for automobile suspension

The Group strives to develop technologies to reduce the weight of coil springs for automobile suspension, including coil springs that absorb shock and impact from surfaces and stabilizer bars that prevent the horizontal tilt caused by turning an automobile or by changing lanes. Weight-reducing technologies will contribute to the improvement of fuel efficiency and the reduction of CO<sub>2</sub> emissions.

#### 1) Increasing the strength of coil springs

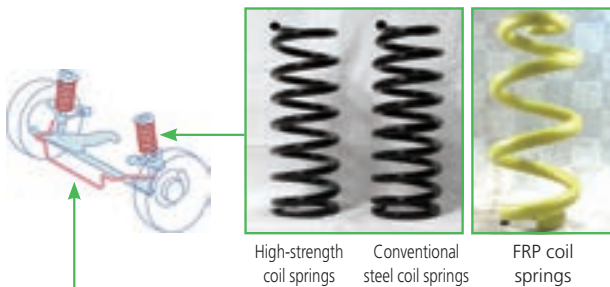
We are working on the development of high-strength materials to make lighter springs by making use of our strength—Integrated development model from raw materials through final products.

#### 2) Developing processing technologies of vacuum stabilizer bars

We are working on the development of processing technologies of vacuum stabilizer bars in response to stronger materials to make lighter springs.

#### 3) Developing coil springs with Fiber Reinforced Plastics (FRP)

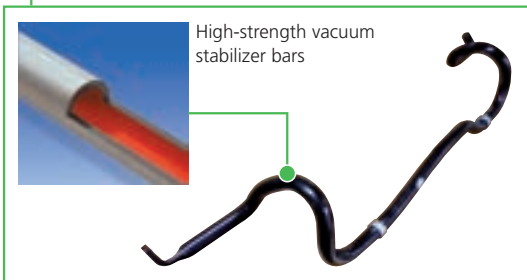
We are working on the development of coil springs with new FRP materials without relying on conventional steel technologies to make even lighter coil springs.



High-strength coil springs

Conventional steel coil springs

FRP coil springs



High-strength vacuum stabilizer bars

Coil springs and stabilizer bars

### Improve Unit Power Consumption Rate: Mitsubishi Steel Muroran Inc.

We upgraded the inverter of the motor cooling fan for the finishing rolling machine in the rolling plant. A shift of the discharge control method from damper control to rolling control contributed to reduce waste power generation, resulting in the improvement of the unit power consumption rate by 11.9% from the previous fiscal year.



Inverter control panel



Motor cooling fan for finishing rolling machine

### Promotion of LED Light Bulbs in the Plant: Mitsubishi Steel Muroran Inc.

We are gradually shifting the lights of the steel plant from mercury-vapor lamps to LED light bulbs, resulting in the reduction of lighting power by 2% for fiscal 2017. This effort promotes power saving and contributes to the prevention of environmental pollution by mercury.





## Creation of a Safe and Comfortable Workplace

Based on its concept of "Safety always comes first," the Group promotes the creation of a comfortable workplace environment that allows employees to work in safety and health.

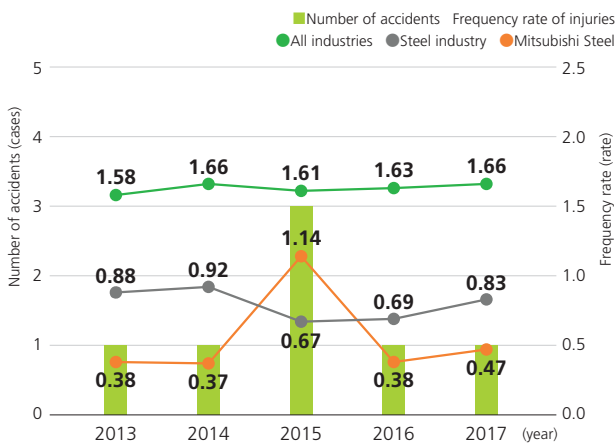
### Report on Safety Activities at Global Meetings

We held a global meeting where all managers across the group joined to discuss safety topics. Participants attended a safety seminar presented by a lecturer of the Japan Industrial Safety and Health Association and shared reports regarding safety activities, safety issues and measures, and other related topics. We offered opportunities for them to exchange opinions on actions and measures taken in their sites and share their understanding on safety in the Group.

### Safety Awareness Activities

To never repeat the major disaster like the one that occurred in 2017 again and never let the memory of the disaster fade away, the "Safety Restart Day" was designated as an anniversary to vow to uphold the "safety-first" principle. The Company distributed a badge to all the employees in the Group's domestic and global sites, including partner companies, for the purpose of raising employee awareness on safety. Employees can be more aware of safety by wearing the badge at all times.

### Frequency rate of injuries



\* Frequency rate of injuries = Number of persons who suffered from work-related accidents per million hours  
Data has been calculated as the total of Mitsubishi Steel Mfg. Co., Ltd. and Mitsubishi Steel Muroran Inc.

### Patrols at Domestic Sites by Industrial Physicians

Since 2017, safety and health patrols have been implemented by industrial physicians. In 2018, a safety diagnosis session was also provided by a safety management expert from the Japan Industrial Safety and Health Association to help our staff acquire knowledge from external specialists. We offer opportunities for employees to learn the Company's safety management level and improve the working environment with the aim of creating a more worker-friendly and safe workplace.



Safety and health patrol by industrial physicians

### Continuous Implementation of Stress Check

A stress check is conducted every year to prevent the manifestation of mental illness. The stress check is an opportunity for employees to identify the level of stress they are under based on the results. We recommend an interview with an industrial physician for those who are determined to be under a high level of stress. We also assign a counselor to conduct interviews with the heads of departments that require the improvement of the working environment based on the results of the collective analysis with the aim of creating a pleasant workplace, thereby leading to a boost in productivity.

### Work Style Reform

In order to achieve a "work-life balance" and the "establishment of a more grateful workplace," work style reform is progressing. In addition to various measures, work style reform training was offered for managerial personnel with the aim of further enhancing productivity.

### Work Style Reform Initiatives

No work after 8 p.m.	In principle, full-time daytime workers are not allowed to work after 8 p.m.
Introduction of Premium Friday	Full-time daytime workers are recommended to leave work at 3 p.m. on the third Friday of every month, which is designated as "Premium Friday."
Operation of specified vacation system	Employees are encouraged to specify their vacation period in advance, enabling them to take paid vacations based on the plan.



## Improving Customer Satisfaction

The Sales, Manufacturing, and Quality Assurance Sections work together to contribute to the growth of society by continuing to offer products that satisfy our customers and earn their trust.

### Initiatives to Improve Quality

In line with progress in global expansion, the Group's production sites have been expanding in recent years. Under such circumstances, when there are customer complaints, quality meetings are held, where employees investigate the causes of the complaints and ensure that the necessary measures are thoroughly implemented on a continuing basis. In order to ensure that we satisfy our customers and earn their trust, the Sales, Manufacturing, and Quality Assurance Units will work together to improve quality.



Quality meeting

### Participated in the Supplier Award Ceremony of the Daimler Group

The Group participated in the Daimler Group's awards ceremony held in Germany as the Company was nominated by Mitsubishi Fuso Truck and Bus Corporation (Mitsubishi Fuso) as a candidate for the Daimler Supplier Award. This nomination was made because of our business performance with Mitsubishi Fuso over many years and the high recognition of the global supply of the Company's products applied to trucks manufactured by Daimler India. We will continue our efforts to further promote sales activities by increasing our presence as a key supplier of the Daimler Group.



Award ceremony in Germany

## With Business Partners

The Company will perform corporate social responsibilities in procurement activities to become a company that is trusted and selected by business partners and other stakeholders.

### Basic Procurement Policy of the Mitsubishi Steel Group

The Company will promote material procurement activities based on the following three basic policies:

#### 1. Equitable and Fair Business

In all our dealings with business partners, we offer opportunities for equitable and fair business. We select suppliers in good faith through overall and equitable evaluation on quality, costs, technologies, delivery deadlines and other related aspects.

#### 2. Building Partnerships with Business Partners

We seek the establishment of true partnerships in the spirit of co-existence and co-prosperity with our business partners based on mutual trust and cooperation.

#### 3. Proper Management of the Confidential Information, Intellectual Property and Assets, etc. of Our Business Partners

We properly manage and protect the confidential information, intellectual property, and assets, etc. of our business partners while procuring materials.

### Promotion of CSR Procurement

We promote the following four CSR procurement policies and ask our business partners to understand and cooperate with us.

#### 1. Compliance with laws, regulations and societal norms

We perform corporate activities in compliance with corporate ethics, as well as the laws, regulations and ordinances of each country.

#### 2. Concern for the global environment

We promote green procurement with low environmental burden, and ensure the thorough control of hazardous chemical materials.

#### 3. Concern for human rights and worker safety and health

We will respect human rights and prohibit any kind of discrimination, child labor and forced labor. We also give consideration to the development of the work environment, as well as safety and health.

#### 4. Ensuring product safety and QCD

We promote material procurement activities that ensure safety and QCD (quality, cost and deadline) to maintain and improve product values.

### Basic Policy regarding Conflict Minerals Policy

The Company will promote initiatives for mineral procurement with greater responsibility in collaboration with business partners and other diverse stakeholders.

# Regional and Social Contribution

As a member of the local community, our goal is to actively communicate in order to live in harmony with society, while becoming involved in a variety of social and local contribution activities.

## Exchanges with Local People

### Academic-industrial alliance initiatives

The Company is actively working on joint research in conjunction with business and academia conducted mainly by the Research & Development Center, which was launched in 2016 for the purpose of the research and development of new materials and technologies and the creation of new businesses. The joint research and development, which was originally initiated at a university located near the Company's work locations, is underway in collaboration with multiple universities nationwide.

In addition, we actively welcome students for various activities such as plant tours and internship programs (work experience offered). These opportunities help participants deepen their understanding of the role and intended use of special steel, the Company's products and business contents.



Plant tour in Chiba Works

### Cleaning Activities in Arakawa Riverside

As a part of social contribution activities, the Company introduced a cleaning activity in Arakawa Riverside in the training program for newly-hired employees.



Cleaning activities in Arakawa Riverside

While picking up various type of waste of a higher amount than we expected, participants become more aware of environmental conservation. This opportunity also helped each participant realize the importance of a proper daily attitude as a member of society.

### Hirota Works Bon Odori gathering

Every August, the Hirota Works holds a Bon Odori gathering. This is attended not only by the employees of the Hirota Works and of partner companies, but also by local residents, making for a lively evening.



Hirota Works Bon Odori gathering

### Mitsubishi Steel Nagasaki Steel Works memorial service for atomic bomb victims

The former Nagasaki Steel Works of Mitsubishi Steel Mfg. Co., Ltd. was located in Nagasaki City, Nagasaki Prefecture. Every year on August 9, a memorial service is held for the more than 1,400 former colleagues who died at work after the atomic bombing. Family members of the victims, former employees of Mitsubishi Steel Nagasaki Steel Works, employees of the Company at managerial positions, as well as the president and officers of Mitsubishi Nagasaki Machinery Mfg. Co., Ltd. participated in the memorial service.



Mitsubishi Steel Nagasaki Steel Works memorial service for atomic bomb victims





# Corporate and Financial Information (As of March 31, 2018)

## Corporate Profile

Corporate Name	Mitsubishisteel MFG. Co., Ltd.
Head Office	Daiwa Tsukishima Bldg., 16-13, Tsukishima 4-chome, Chuo-ku, Tokyo, 104-8550 Japan
Established	April 1917
Founded	December 1949
Capital	¥100.3 billion
Representative	President Motoyuki Sato
Annual sales	Consolidated : ¥118.7 billion (Fiscal Year Ending March 2018)
Employees	Consolidated : 4,774 (Fiscal Year Ending March 2018)

## Executives

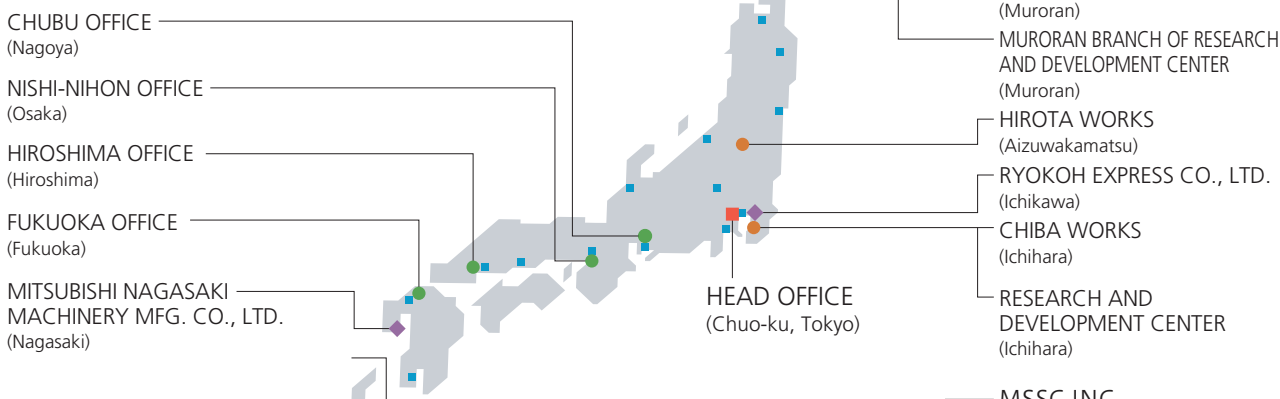
President (Representative Director)	Motoyuki Sato	Director	Yasuhiko Iizuka
Managing Director (Representative Director)	Hiroyuki Nagata	Director	Akira Yamao
Director	Masayuki Takashima	Full-time Auditor	Hirokuni Sakamoto
Director	Akira Hishikawa	Full-time Auditor	Yoshihiro Hayasaka
Director	Hiroshi Sekine	Auditor	Shuichiro Sekine
Director	Hiroshi Amano	Auditor	Tetsuya Nakagawa
Director	Jun Takayama		

(Note) Mr. Masayuki Takashima, Mr. Akira Hishikawa, Mr. Hirokuni Sakamoto, Mr. Shuichiro Sekine and Mr. Tetsuya Nakagawa are Outside Officers as stipulated by the Companies Act. The Company has filed them as independent officers stipulated by the Tokyo Stock Exchange, Inc.

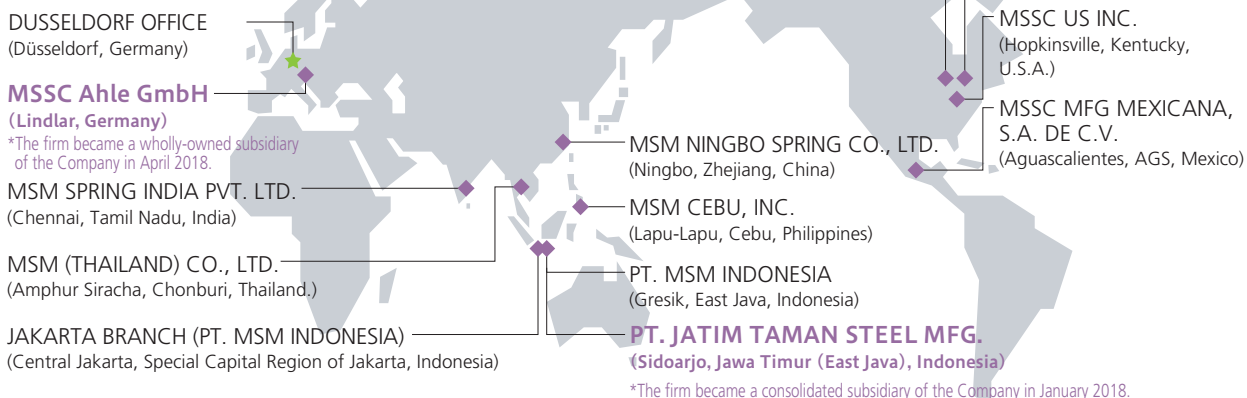
## Network (Domestic and Global Operating Sites)

- Head Office    ● Work locations    ● Sales offices    ★ Overseas offices
- Service centers    ◆ Subsidiaries

### Domestic Operating Sites



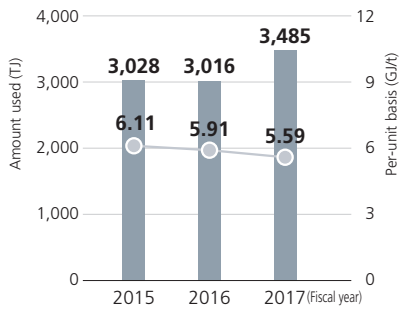
### Global Operating Sites



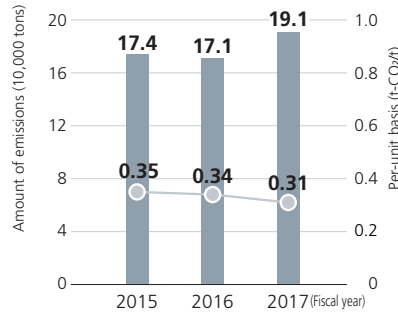


## ■ Environment-Related Data (Aggregate data of Mitsubishi Steel Mfg. Co., Ltd. and Mitsubishi Steel Muroran Inc.)

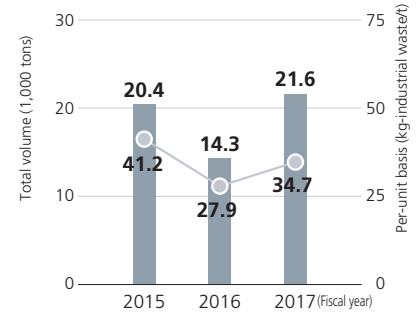
### Amount of energy used



### CO<sub>2</sub> emissions

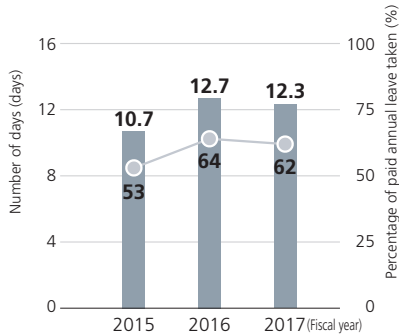


### Total volume of industrial waste

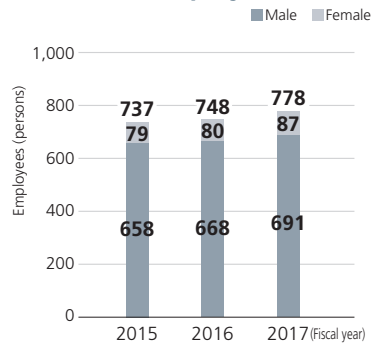


## ■ Labor-Related Data (Non-consolidated)

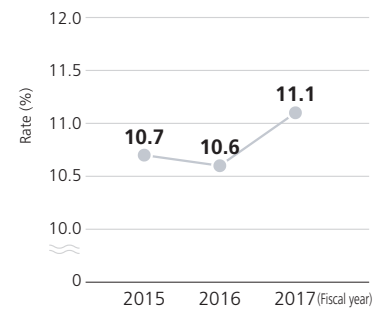
### Status of paid annual leave taken



### Number of employees



### Percentage of female employees



## ■ Financial highlights (Consolidated)

		FY2015	FY2016	FY2017
Financial information (billion yen)	Net sales	106.5	103.7	118.7
	Operating income	4.2	3.8	3.2
	Ordinary income	3.2	3.2	2.8
	Profit attributable to owners of parent	2.4	3.5	2.9
	Capital investment (excluding leases)	3.1	5.1	5.3
	Depreciation	3.0	3.3	3.6
	Research and development expenses	0.7	1.1	1.5
	Cash flows from operating activities	3.4	5.3	(4.5)
	Cash flows from investing activities	(2.5)	(3.3)	(6.9)
	Free cash flow	0.9	2.0	(11.4)
	Cash flows from financing activities	6.3	6.8	1.3
	Total assets	Total assets	122.4	135.1
Interest-bearing debt		25.9	33.7	42.0
Shareholders' equity		58.2	60.4	62.6
Financial indicators (%)	Return on equity (ROE)	4.2	5.9	4.7
	Return on assets (ROA)	2.7	2.5	2.0
	Equity ratio	47.6	44.7	40.7
Per share data (yen)	Earnings per share (EPS)	16.16	22.78	18.88*
	Net assets	378.59	392.72	407.21*

\*The Company consolidated 10 shares of its common shares into 1 share effective October 1, 2017. The figures for profit per share listed above reflect the value prior to the share consolidation. Profit per share and net assets per share on a share-consolidation basis for the consolidated fiscal year under review are ¥188.79 and ¥4,072.09, respectively, assuming the consolidation was conducted at the beginning of the reported fiscal year.



**MITSUBISHI STEEL MFG. CO., LTD.**

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