

2020 Mid-term Business Plan

(FY2020 to FY2022)

May 29, 2020

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



Message

During FY2016 to FY2020, the Company implemented various measures in line with the 2016 Mid-term Business Plan. However, due to delays in implementing thoroughgoing solutions in the rapidly changing business environment, we have decided to conclude that plan one year ahead of schedule. We have formulated the new 2020 Mid-term Business Plan as a three-year plan for the years through FY2022.

Amid major changes in the business environment, such as US-China trade friction and rising trade protectionism, business results have worsened, chiefly at overseas facilities. Last year, we recorded significant impairment losses and were regrettably unable to pay dividends. We apologize to our shareholders.

This Mid-term Business Plan is a three-year plan reflecting our vision for 10 years into the future. Its framework calls, first of all, for progress on energizing loss-making overseas businesses in the first fiscal year, enhancing our product strengths, and expanding integrated production businesses from the raw materials stage. These initiatives target sustained growth.

While this plan gets underway at a time of profound challenges in the business environment, including the global novel coronavirus pandemic, the Group will work as one to steadily implement the measures called for in the plan, further contribute to society, and resume dividend payments at an early date. We appreciate your continuing support.

Motoyuki Sato
President

I. Introduction

II. Review of the 2016 Mid-term Business Plan

III. The 2020 Mid-term Business Plan

IV. Initiatives in Individual Divisions

Reasons for revising the Mid-term Business Plan

I. Introduction

Worsening business environment

Slowing automotive and construction machinery demand due to the rise of trade protectionism, alongside automakers' change in global procurement policies

Both external and internal conditions have changed significantly since the time the 2016 Mid-term Business Plan was drafted...

Declining strengths in manufacturing and products

Slow sales and profits because progress on overseas business development has failed to lead to technological development and stable procurement

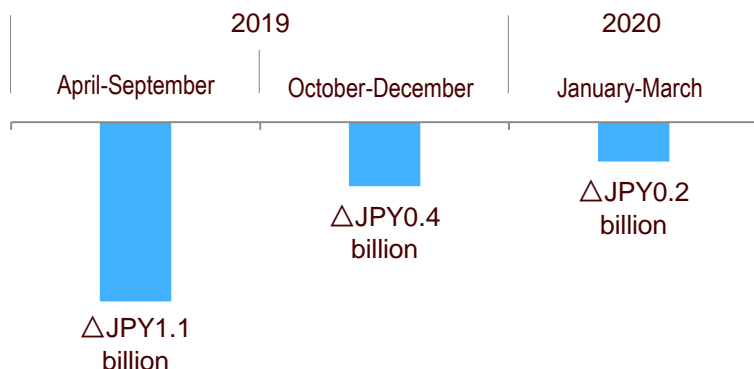
Worsening business results
Impairment losses totaling JPY15 billion
Deviation from planned figures

In recognition of the delays in achieving thoroughgoing solutions in response to dramatic changes in the business environment, we have formulated a new three-year Mid-term Business Plan starting in FY2020, one year ahead of schedule.

<Key points underlying the formulation of the new Mid-term Business Plan>

- Start in the first year by stopping the hemorrhage (JATIM* in Indonesia, North American MSSC)
- Formulating a plan for the coming three years that reflects our vision for 10 years into the future
- In technological development, establishing the new Sales Strategy Office to implement systematic enhancements ranging from grasping and analyzing information through new product development and mass production
- Implementing structural reforms in material procurement, which accounts for 50% or more of manufacturing costs
- Strengthening organizational structures capable of responding swiftly to environmental changes to minimize risks

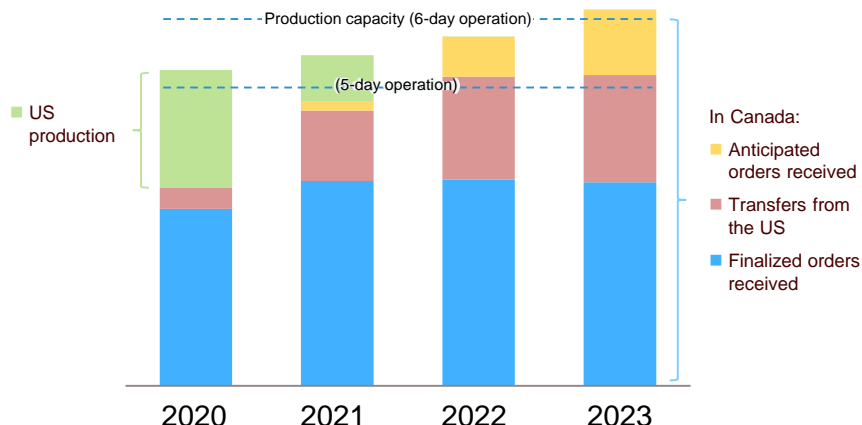
Improvements in operating losses



✓ Reducing operating losses

- Problems with the startup of mass production have largely been resolved.
- Integration of coil spring production lines in Canada: Completed on schedule
- Negotiations on price increases with a major customer, a topic of concern, have largely been concluded as planned (new pricing to take effect in June 2020).
- Reduced amortization costs due to impairment are reflected from the second half.

Progress in gaining orders for stabilizers, which account for 70% of North American sales



✓ Progress on receipt of stabilizer orders

- Progress on receipt of orders in 2019 through the introduction of lightweight products
- Expected to contribute to net sales starting with the introduction of new vehicle models in 2022

While product strengths and manufacturing are improving...

We plan to strive to achieve profitability early by shifting and consolidating production of stabilizers in Canada and Mexico and ceasing production in the US for further cost improvements.

Ability to manufacture at planned costs

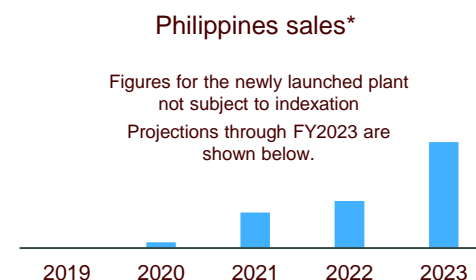
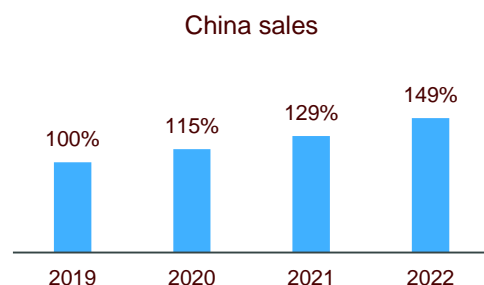
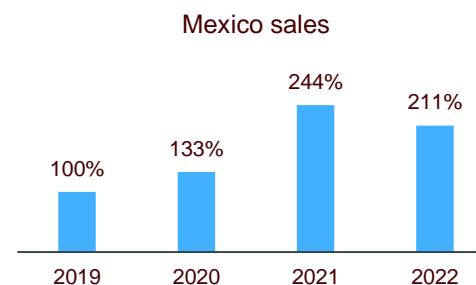
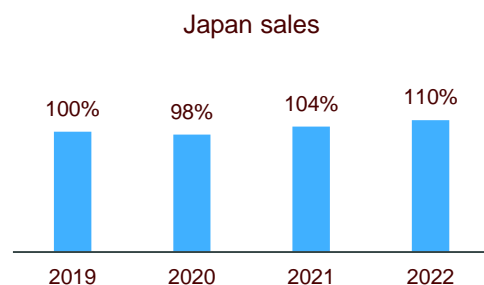
➔ **Achieving profitability by increasing utilization rates**

- ✓ Quickly realizing a profitability structure by integrating North American facilities in addition to winning new orders

Survival of other automotive suspension spring production facilities

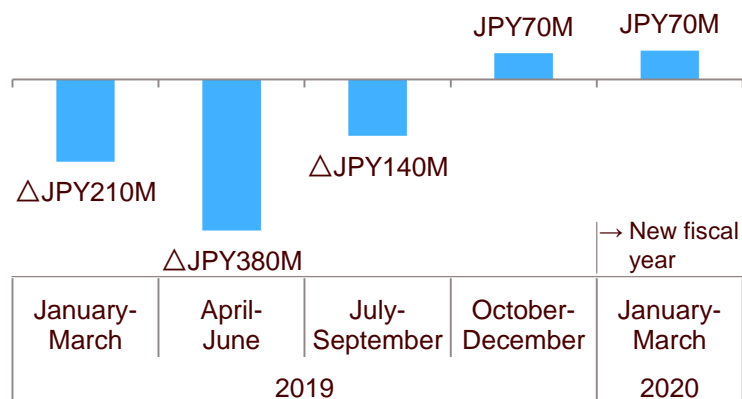
✓ Projections of order reception for automotive springs at each facility

- Numbers of coil springs and stabilizers for which receipt of orders is finalized or confidently projected (indexation by setting 2019 levels to 100)
- While overseas facilities were enhanced under the Mid-term Business Plan, securing of orders was delayed.
➔ The introduction of lighter weight products led to a buildup of new orders received in FY2019. Deliveries are expected to increase with the next model changes.



- ### ✓ Adopting a six-region structure consisting of Canada, Japan, China, Mexico, the Philippines, and India (JV)

Operating income in the black

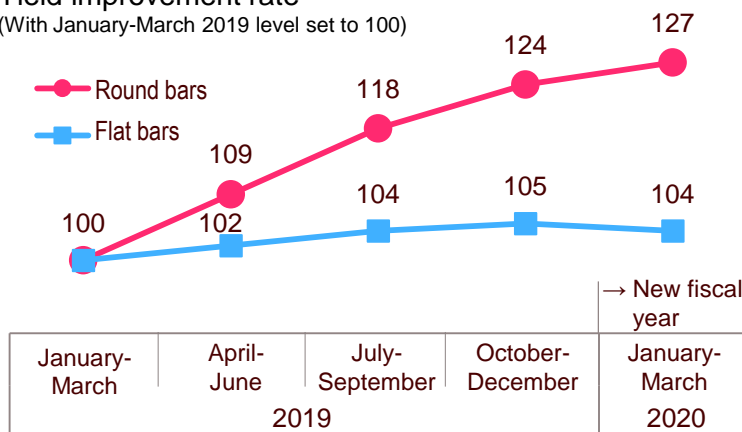


✓ Operating income has been in the black since October-December, thanks to greater emphasis on profitability and cost cutting than sales volumes.

- Yield improvements resulted in lower manufacturing costs.
- Fixed costs are down thanks to a large-scale staff reduction and other measures.
- Low-profit orders received have been reviewed.
- Results for the third quarter and beyond reflect lower amortization costs resulting from impairment.

Manufacturing cost improvement initiatives

Yield improvement rate
(With January-March 2019 level set to 100)



✓ Significant cost improvements were realized in round bars for which yields had been poor.

- Yields improved by narrowing down mass produced product lineup for round bars.
- A review of suppliers made it possible to cut materials costs and maintain appropriate inventories.
- Cost cutting has made products more price competitive. JATIM received new orders for leaf springs. This will lead to improvements in utilization rates.
- JATIM is currently adopting equipment to improve the dimensional precision of round bars, a step intended to achieve yield improvements and sales growth.

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II. Review of the 2016 Mid-term Business Plan

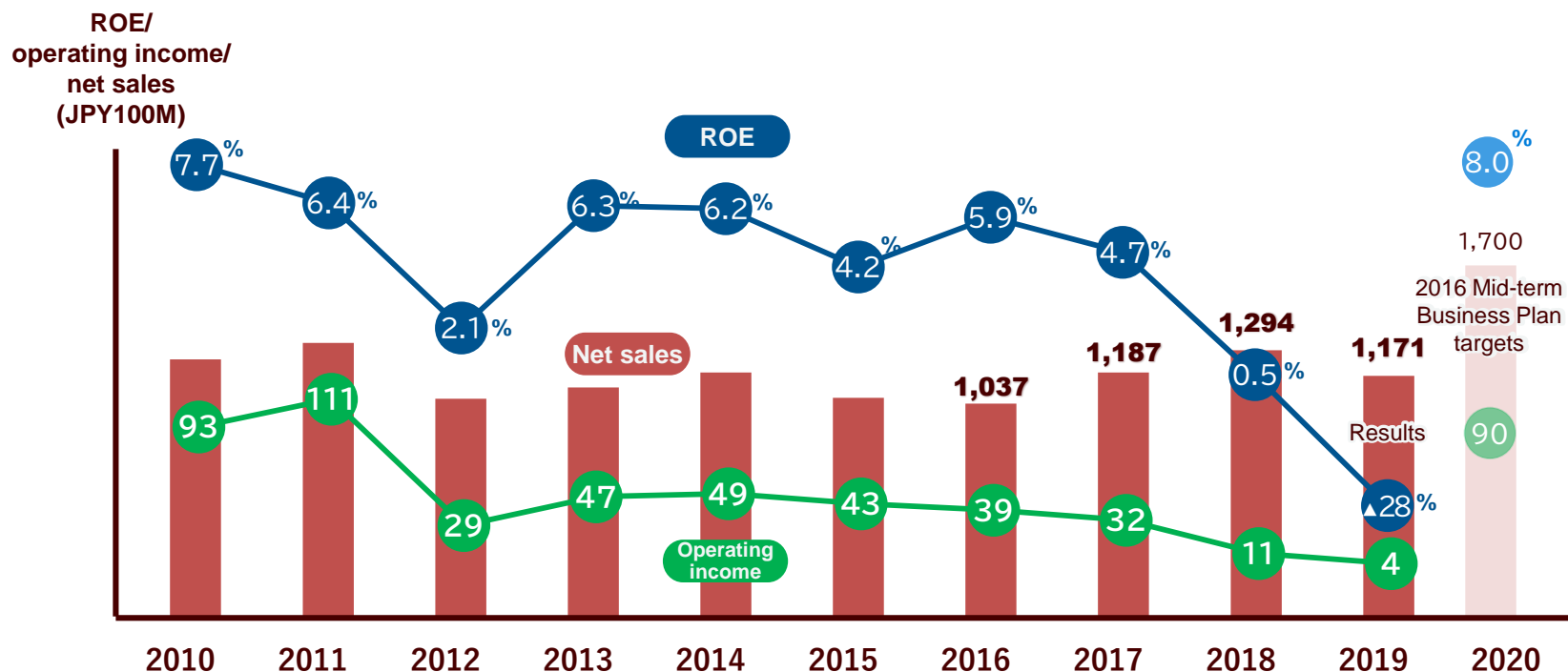
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Trends in business results

II. Review of the 2016 Mid-term Business Plan

- ✓ Despite increases attributable to the acquisition of Ahle in Europe and making JATIM in Indonesia a consolidated subsidiary, the declining business environment led to net sales far below plans.
- ✓ Due to pressure on profits from manufacturing difficulties in overseas businesses, the gap between planned and actual results was greater for operating income than for net sales.



Slogan

The First Step for Coming 10 Years ,
Shift from “Processing Special Steel” to
“Creating Added Value from Materials”

Vision

Strengthening Our “Processing Special Steel” Business Model with Worldwide Acceleration and Synergy between the Steel Bar and Spring Divisions

Building the “Creating Added Value from Materials” Business Model with Expansion into New Industrial Sectors and Making the Formed & Fabricated Products Division a Third Profit Center

Three Tactics

Building a worldwide supply chain

Expansion of the Springs business into European market

Technological development in weight reduction

Strengthening the “Processing Special Steel” business model and generating benefits from Indonesia

Expanding leaf spring sales worldwide and steel bar sales in South East Asia

Building the “Creating Added Value from Materials” business model in the Formed & Fabricated Products business

Advancing into the turbocharger assembly business
Material production by VIM*



Ten Key Initiatives

Ten key initiatives and results

II. Review of the 2016 Mid-term Business Plan

① Investments in renovations of MSR* ¹ ; strategic investment	Renovations of aged facilities was completed according to plan. However, strategic investment targeting cost savings was delayed.
② Building a worldwide supply chain for springs	Although a supply chain was built largely according to plan, external environmental changes have led to the need to review strategies.
③ Strengthening technological development of springs	A recovery in spring weight reduction, on which we lagged behind the competition, has led to orders received.
④ Expanding steel bar sales in Indonesia	Changing course from securing volumes to improving quality and prioritizing profitability
⑤ Cross-functional projects	New business evaluation management and sales synergies are proceeding according to plan.
⑥ Research & Development Center	Although the Center has opened and generated certain results in areas such as the development of spring materials, long-term development remains inadequate at this point.
⑦ Expanding leaf spring sales worldwide	Progress has been made on growing sales through synergies with JATIM.
⑧ Overseas advance of steel bar businesses	Getting the JATIM business on track has been prioritized. Advance into India was considered but has been postponed.
⑨ Building an integrated production model for the Formed & Fabricated Products business (Advance into T/C* ² subassemblies)	M&A plans were postponed due in part to the rapid shift away from diesel engines and shift toward EVs.
⑩ Building an integrated production model for the Formed & Fabricated Products business (Internal production of materials)	Despite delays in completion of both VIM equipment for materials development use and gas atomizer mass production furnaces for alloy powders, a development structure has largely been achieved.

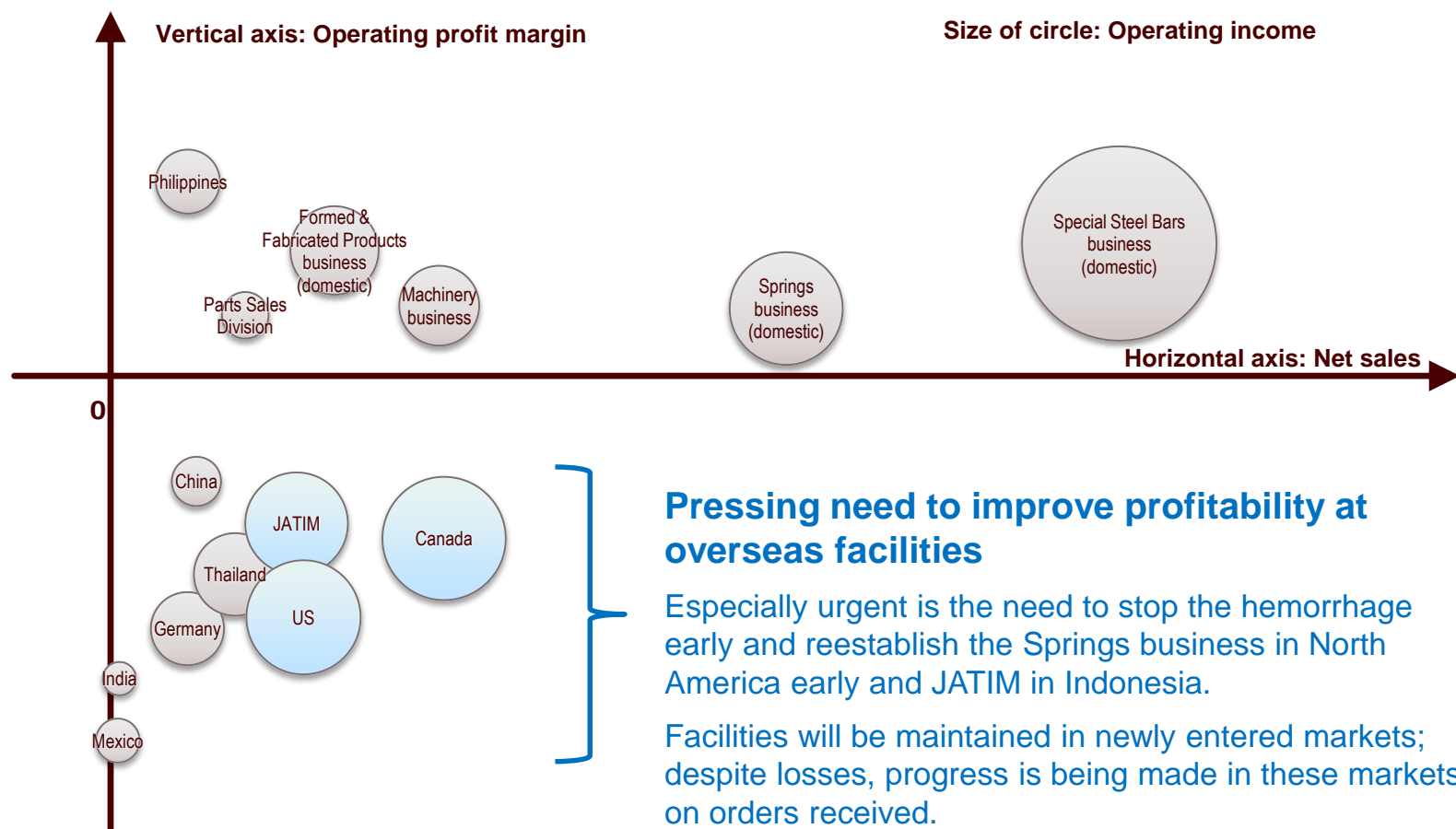
*1 Mitsubishi Steel Muroran Inc. *2 Turbocharger

Toward the 2020 Mid-term Business Plan:

The Special Steel Bars and Formed & Fabricated Products businesses stay on the same course and continue to make progress.

The Springs business needs a major course correction to adapt to the drastically changing business environment. Although planned initiatives were mostly implemented, delays to the plan have been an issue.

Net sales and operating income by region (FY2019)



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Three-year plan reflecting our vision for 10 years into the future



Slogan



Provide the customers with added value
by manufacturing seamlessly from materials to products



What we aim to be

- Achieve higher profitability and stabilize earnings by exercising the comprehensive capabilities of the Group
- Develop products keeping a half-step ahead of customer needs and provide them with the products as new value



Key performance indicators (KPI)

- Net sales: JPY**150** billion
- Operating income: JPY**7** billion
- ROE: **8%** or more



Three main directions

- ① Restructure our overseas businesses
- ② Strengthen our product appeal further
- ③ Expand our business model, producing materials and final products

Key performance indicators (KPI)

	(JPY100M)		
	2015 result	2019 result	2022 targets
Net sales	1,065	1,171	1,500
Operating income	43	4	70
Ordinary income	33	△3	63
ROE ^{*1}	4.2%	△27.7%	8% or higher
Operating profit margin	3.9%	0.4%	4.7%
Net D/E ratio ^{*2}	△0.1	0.7	0.5
Equity capital ratio	48%	30%	36%
Investment ^{*3}	303 during four years		150 during three years
Depreciation expenses	180 during four years		122 during three years

*1 ROE = Net income/equity (starting/ending average)

*2 Net D/E ratio = (Interest-bearing debt – cash and deposits – short-term securities) / equity

*3 Investment = Increase in tangible and intangible fixed assets + increase in shares of subsidiaries and associates

1. Restructure our overseas businesses

<urgent needs for swift upgrading of the profitability of our overseas bases>

- Achieve profitability at our Indonesian subsidiary JATIM and stop loss-posting by our North American subsidiary MSSC and turn it around promptly
- Integrate, shut down or merge overseas businesses and bases

2. Strengthen our product appeal further

<products keeping a half-step ahead of customer needs>

- Reinforce our comprehensive ability to obtain customer feedback promptly and reflect it in products
- Expedite development by revising technology development items flexibly

3. Expand our business model, producing materials and final products

- Exercise the strength of the Company's seamless production from materials by deploying our business model of seamless production of lightweight springs using steel materials from Mitsubishi Steel Muroran Inc. and JATIM material-based leaf springs to construction machinery springs and stabilizer bars
- As a seamless production model, strengthen the Formed & Fabricated Products Business that has to date had a standalone-centric product lineup, including its upstream and downstream segments

Initiatives	Specific measures	Related divisions
① Pursuit of synergies between springs and steel bars	Enhancing the integrated production business model for leaf springs using JATIM materials and deploying horizontally to other products	Spring Steel Bar
② Restructuring the production capacity of Springs business facilities	Consolidating production of North American MSSC from the US to Canada and Mexico; optimizing the two plants in the Philippines after ascertaining future risks and incentives	Spring
③ Improving manufacturing strengths	Enhancing manufacturing strengths in Japan and transplanting them overseas Strengthening the function of the mother plant Sharing information with management from the order receipt stage	Spring Steel Bar Formed & Fabricated Products
④ Improving product development strengths	Improving marketing strengths Timely development of products suited to customer needs Successively sharing development strategies with management	R&D Center* Sales
⑤ Improving MSR's cost competitive strengths	Implementing strategic investment to help reduce manufacturing costs Improving production efficiency by strengthening joint efforts within the Muroran Works	Steel Bar
⑥ Shifting to a two-pillar production facility structure for steel bars	Strengthening sales expansion in ASEAN through quality improvements and cost cutting at JATIM, the only Japanese-affiliated special steel bars manufacturer in the ASEAN region	Steel Bar

Initiatives	Specific measures	Related divisions
⑦ Building an integrated production model for the Formed & Fabricated Products business	Accelerating mass production of products from the materials development stage after the completion of the Chiba mother plant	Formed & Fabricated Products
⑧ Measures in environment-related businesses	Expanding businesses such as renewable energy-related machinery, magnetic separators, lightweight springs, and turbocharger components	Spring Machinery Formed & Fabricated Products
⑨ Structural reforms in procurement	Consolidating functions such as procurement strategy and new supplier development in the Head Office Procurement Department Shifting to a procurement structure utilizing trading companies and other external organizations instead of relying solely on in-house supplier development	Corporate
⑩ Visualization of business risks	Strengthening the investment and credit committee and received order screening functions Supporting business divisions by strengthening the capabilities needed to identify signs of business risks	Corporate
⑪ Restoration of financial foundations	Restrained capital investment until recovery of earning power Continuing Companywide cost reductions	Corporate

I. Introduction

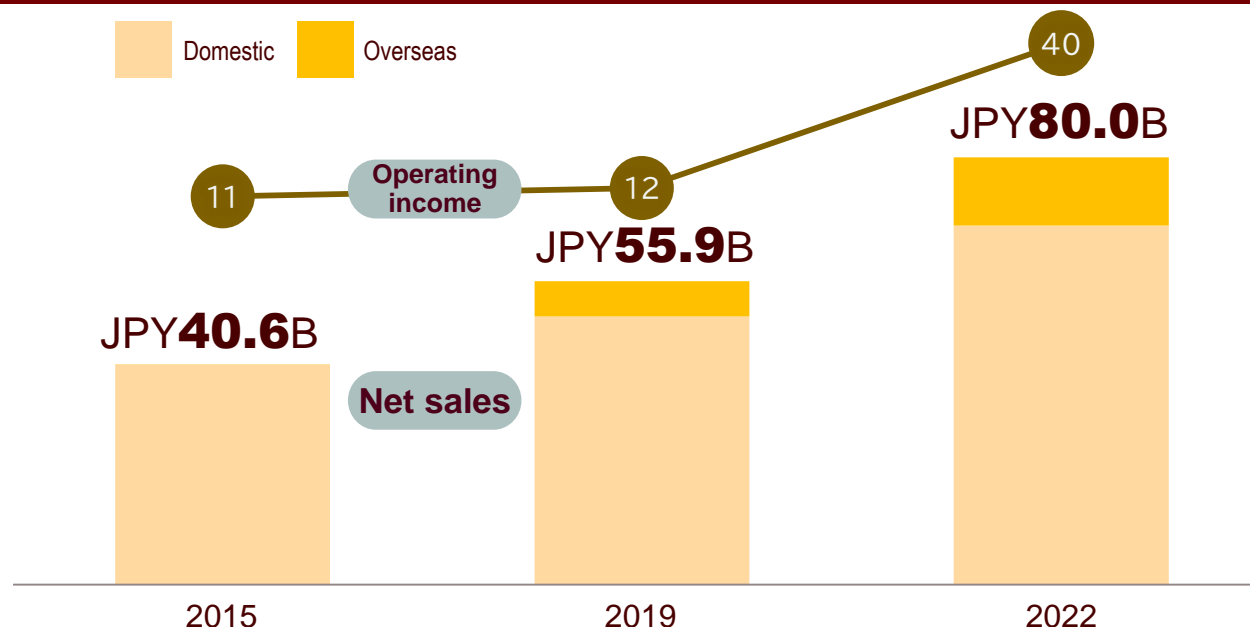
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Initiatives in the Special Steel Bars business

IV. Initiatives in
Individual Divisions



【Key Initiative ①】 Pursuit of synergies between springs and steel bars

- ✓ Horizontal deployment of the integrated production model for leaf springs using JATIM materials for construction machinery springs, stabilizers, and other products

【Key Initiative ③】 Improving manufacturing strengths

- ✓ Making progress at MSR on quality improvements and the production of high-value-added materials
- ✓ Pursuing quality improvements at JATIM through capital investment

【Key Initiative ⑤】 Improving MSR's cost competitive strengths

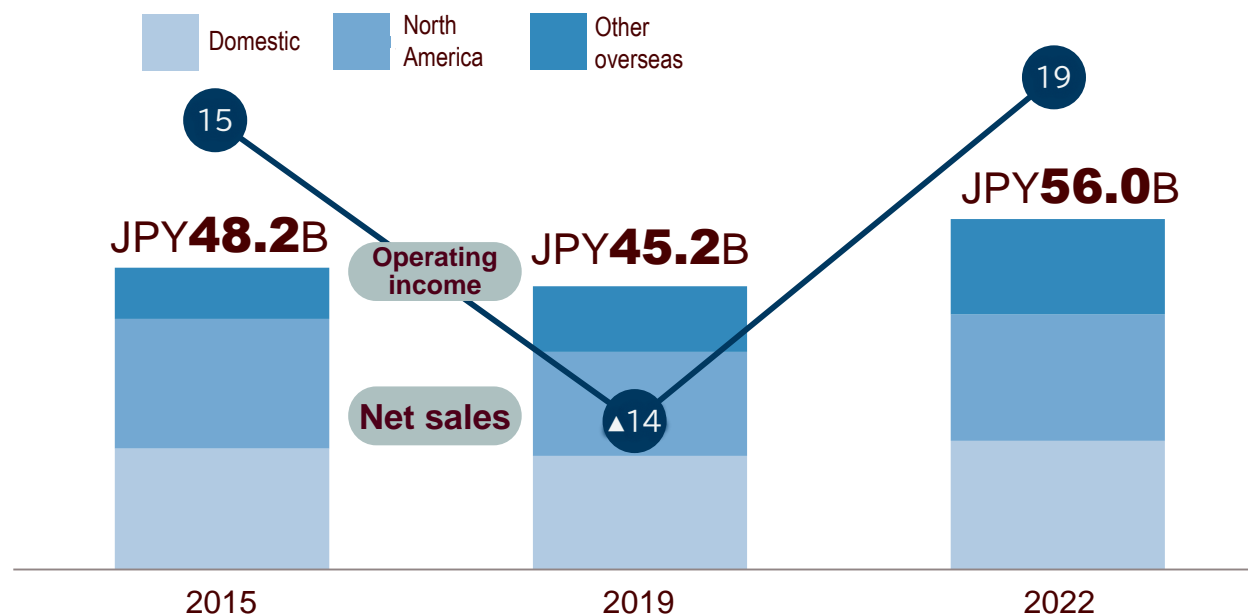
- ✓ Reducing costs through strategic investment; improving production efficiency by intensifying joint efforts at Muroran Works

【Key Initiative ⑥】 Shifting to a two-pillar production facility structure for steel bars

- ✓ Achieving a two-pillar structure by reestablishing JATIM
- ✓ Growing sales at JATIM through products of Japanese quality and cost savings through the stabilization of mass production

Initiatives in the Springs business

IV. Initiatives in
Individual Divisions



【Key Initiative ②】 Restructuring the production capacity of Springs business facilities

- ✓ In North America, consolidating production of stabilizers in addition to coil springs in Canada and Mexico to increase utilization rates
- ✓ Ceasing investment in automotive springs in Europe
- ✓ Optimizing operations at Cebu and Manila plants in the Philippines after identifying future risks and incentives associated with the environment and administration in both areas

【Key Initiative ③】 Improving manufacturing strengths

- ✓ Shifting from facility construction to improving manufacturing strengths (shifting human resources to manufacturing)
- ✓ Supporting manufacturing process improvements at overseas plants from the Chiba mother plant

【Key Initiative ①】 Pursuit of synergies between springs and steel bars

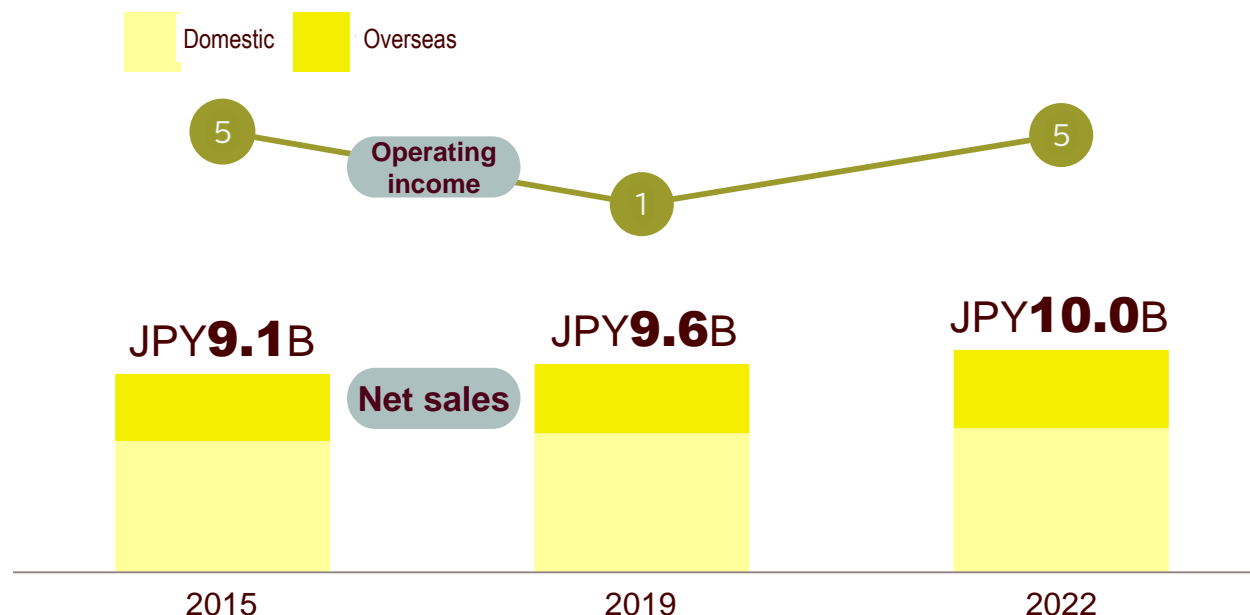
- ✓ Horizontal deployment of the integrated production model using JATIM materials for construction machinery springs, stabilizers, and other products; enhancing cost-competitive strengths

【Key Initiative ④】 Improving product development strengths

- ✓ Promoting development to enhance our own unique strengths into the future, based on the recognition that we have caught up with competitors in lightweight technologies

Initiatives in the Formed & Fabricated Products business

IV. Initiatives in
Individual Divisions



【Key Initiative ③】Improving manufacturing strengths

- ✓ Strengthening cost improvements through distribution of responsibilities, with plants specializing in mass production and the Chiba AMC* concentrating on technological development and improvements in production processes
- ✓ Enhancing the growing powders business and Chiba AMC by injecting resources made available by the withdrawal from the magnet business

【Key Initiative ④】Improving product development strengths

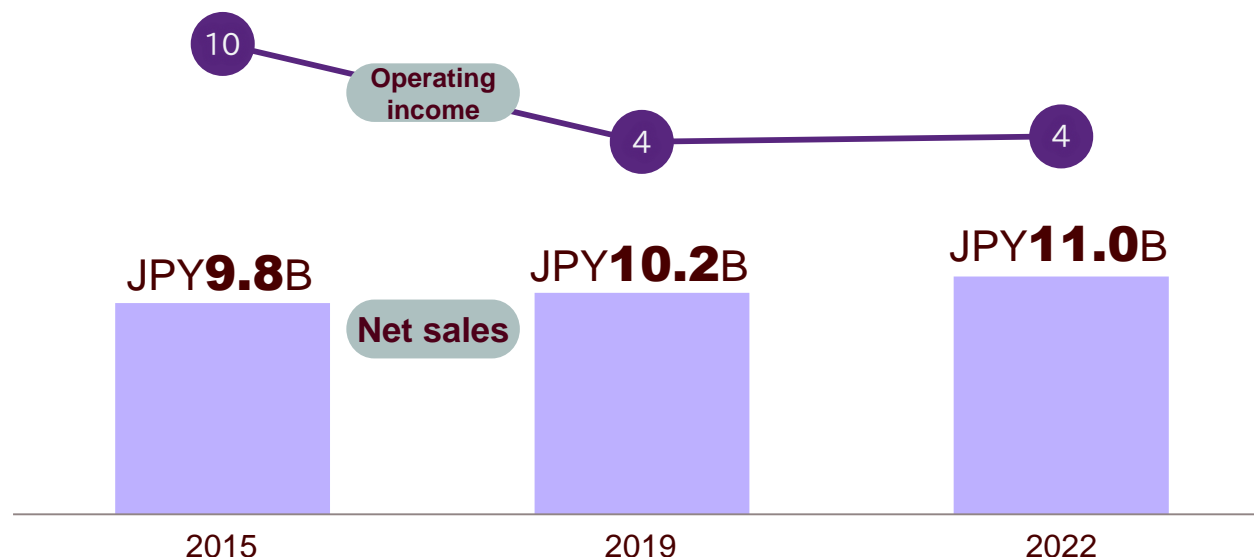
- ✓ Establishing mass production technologies for metal powders for applications such as 3D printers and electrification using gas atomization and water atomization
- ✓ Improving product strengths through new product development based on materials development using Chiba AMC's VIM furnace

【Key Initiative ⑦】Building an integrated production model for the Formed & Fabricated Products business

- ✓ Producing and supplying master ingots for turbine wheels and materials for precision machined products using Chiba AMC's VIM furnace
- ✓ In parallel with the establishment of mass production technologies for metal powders, examining potential ventures into secondary product markets, including alliances

【Key Initiative ⑧】Measures in environment-related businesses

- ✓ Producing products suited to lighter weight, more efficient turbocharger components that help reduce environmental impact through improved fuel consumption of gasoline engine and hybrid vehicles



Policy ①: Establishing a highly profitable structure by improving production efficiency and competitive strengths

- ✓ Establishing a new second plant specializing in small and mid-sized products, thereby increasing production efficiency by allowing the main plant to specialize in large products

Policy ②: Building new business foundations

- ✓ Drawing on core technologies to build new business foundations in areas such as equipment related to offshore wind power generation, ultrahigh pressure equipment, and steelmaking machinery

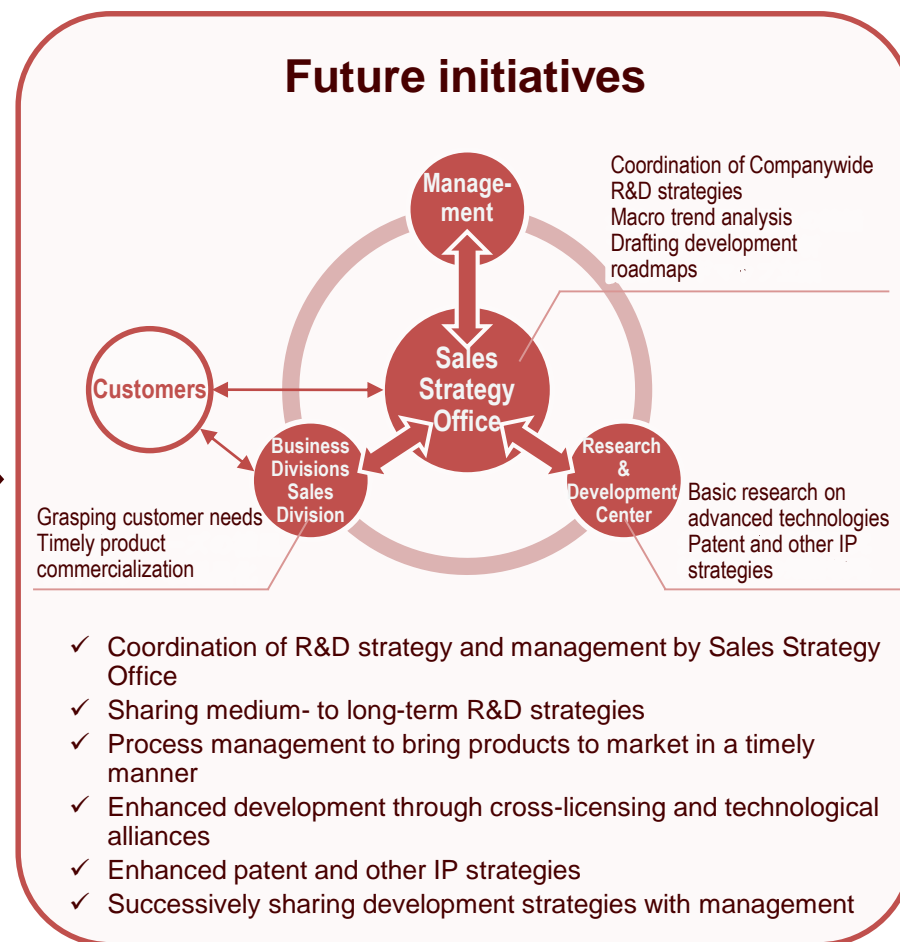
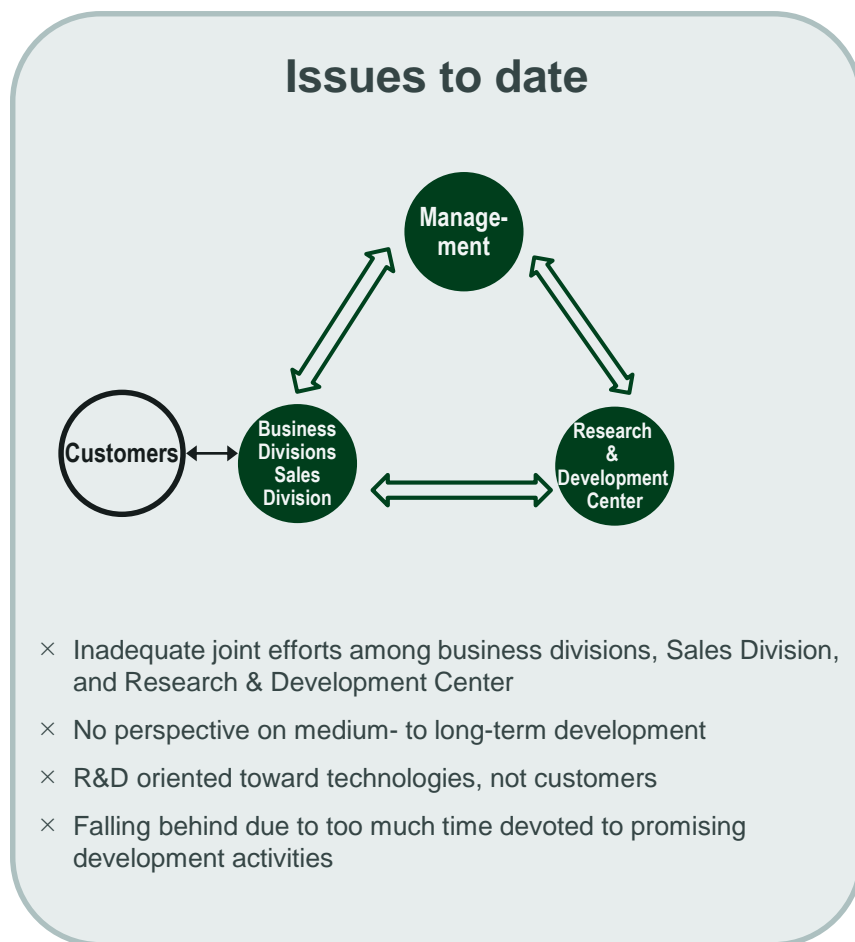
Policy ③: Taking on the challenges of next technologies

- ✓ Seeking to mass produce intermediate storage containers for nuclear power plant facilities in three to four years
- ✓ Advancing the development of packages for sorting lines based on the development of anti-vibration equipment for high-speed presses and the adoption of color sorting machines

【Key Initiative ⑧】 Measures in environment-related businesses

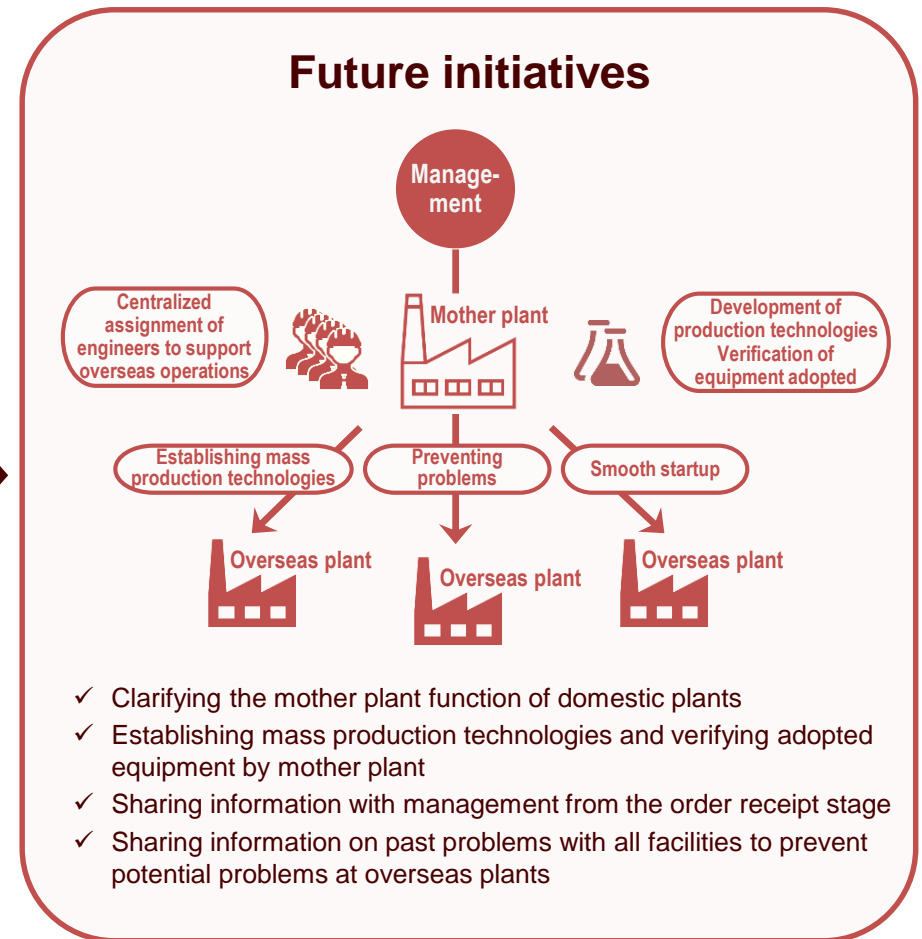
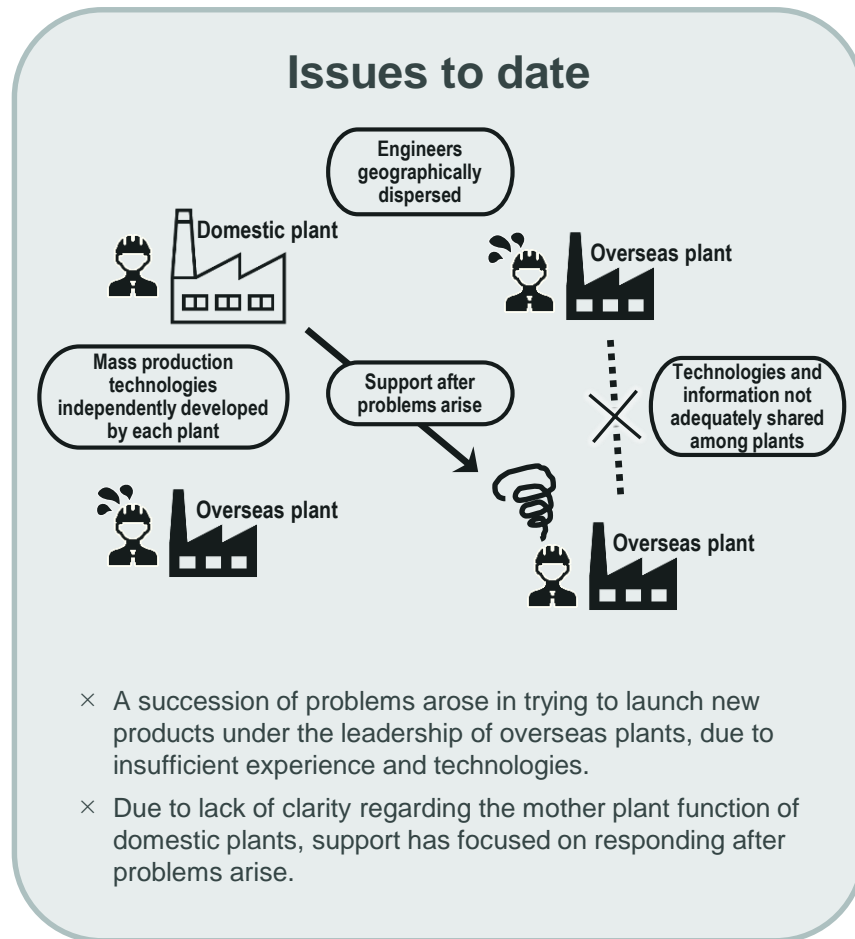
- ✓ Growing sales of machinery for offshore wind farm construction SEPs*
- ✓ Reducing costs by shifting the production of anti-vibration equipment and magnetic separators to China; enhancing sales in the Chinese market

【Key Initiative ④】 Improving product development strengths



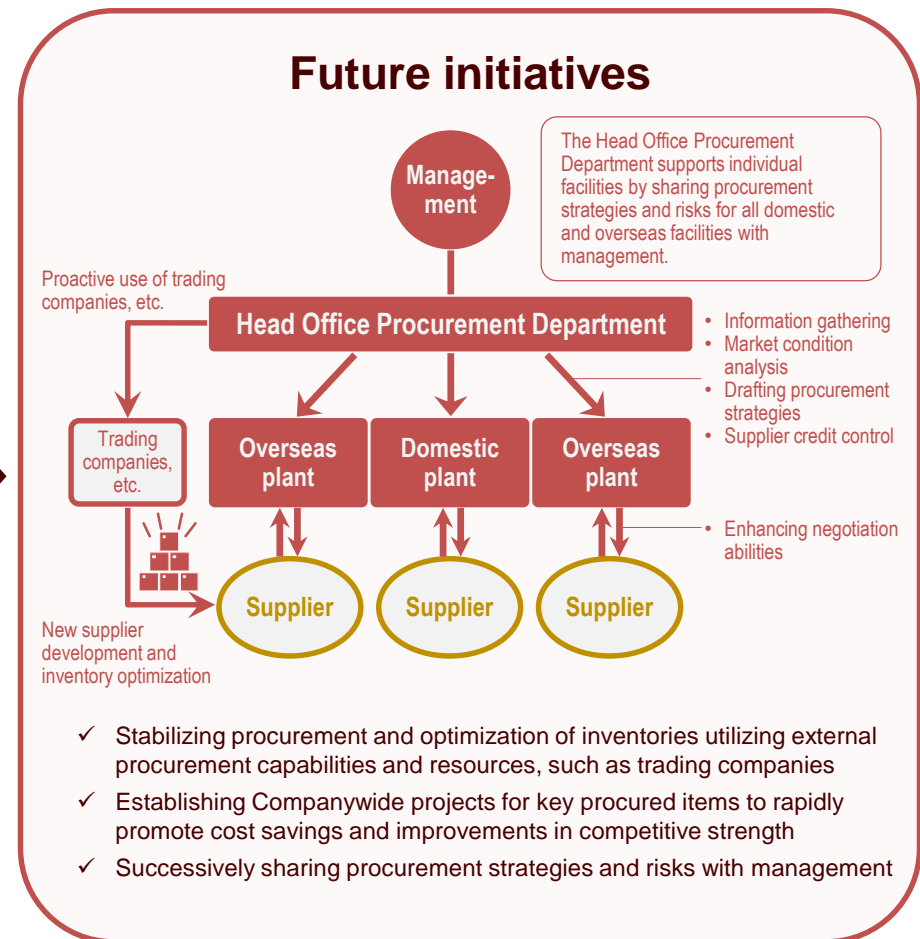
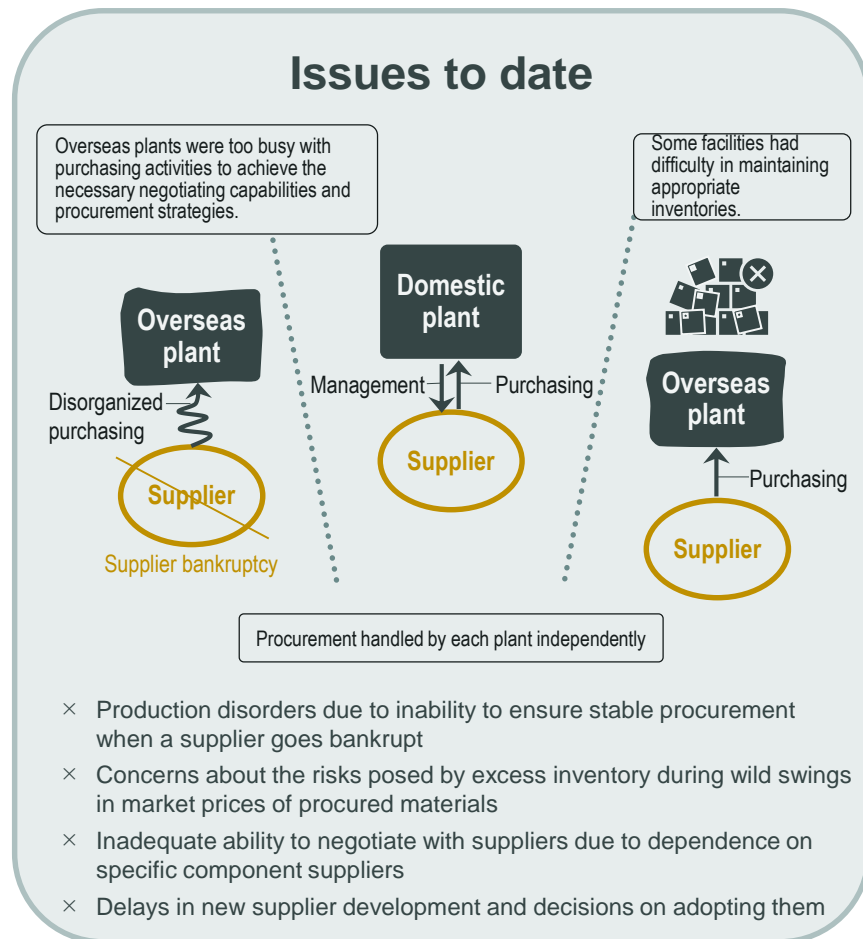
Establishing the new Sales Strategy Office to implement systematic enhancements ranging from grasping and analyzing information through new product development and mass production

【Key Initiative ③】 Improving manufacturing strengths



Clarifying the mother plant function of domestic plants to shift from a structure based on responding after problems arise to one based on problem prevention

【Key Initiative ⑨】 Structural reforms in procurement



Consolidating procurement strategy functions at the Head Office Procurement Department to support each plant from a global perspective

【Key Initiative ⑩】 Visualization of business risks

- ✓ Strengthening functions such as preventive management, investment and financial decision-making, and screening of orders received

【Key Initiative ⑪】 Restoration of financial foundations

- ✓ Cutting 1,250 positions (including temporary personnel), chiefly at JATIM and in the US, the Philippines, and Thailand
- ✓ Selling dormant assets
- ✓ Investment planning
 - Investment planning based on a varied approach, focusing on investments to enhance product strengths while postponing the opening of new facilities
 - Plans to invest a total of approximately JPY15 billion over the three years of the Mid-term Business Plan, while considering the restoration of financial foundations (vs. approximately JPY30 billion invested during the four years of the previous Mid-term Business Plan)

Uncertainty regarding the global economy due to the novel coronavirus pandemic continues to grow. However, numerical targets for FY2022 do not reflect the effects of the pandemic. For this reason, the Company could potentially revise the target as required.



Note on forward-looking statements

These materials are meant solely to provide investors with information and are not to be interpreted as solicitations. The forecasts provided in these materials are based on targets and projections and do not constitute promises or guarantees of future performance. Please refer to this information with the understanding that the Company's future performance may differ from this business outlook. While these earnings materials were prepared based on data believed to be reliable, we cannot guarantee their accuracy or reliability. The Company assumes no liability for these materials, regardless of the purpose for which they are used by investors. We encourage all investors to make their final investment decisions based on their own judgment.