

# KYOEI STEEL REPORT 2021



## KYOEI STEEL

<https://www.kyoeisteel.co.jp/>

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**Management Philosophy**

# Spirit of Challenge

**At the Kyohei Steel Group, we strive to become a corporate group in harmony with society through resource circulation business that focus on the steel business and that contribute to the development of the national economy and local communities.**

**Action Guidelines**

We act with fairness and integrity in accordance with high ethical standards.  
 We cultivate a corporate culture imbued with a spirit of enterprise and innovation, eager to embrace challenges, and are enthusiastically committed to the accomplishment of ambitious goals.  
 We are practical and realistic.  
 We aspire to be a company where people and technologies are valued, and where work is a source of pride and satisfaction.

**Editorial Policies**

This report was prepared to communicate the environmental activities, social contributions and governance systems of Kyohei Steel Ltd. and its consolidated subsidiaries to all stakeholders.

The 2021 edition includes an overview of our NeXuS 2023 medium-term business plan, and information disclosure as specified by the TCFD.

The name of this report has been changed from "Environmental Report", as first published in 2019, to "Kyohei Steel Report", which covers our approaches to sustainability.

**Period covered**

This report covers in full the period from April 2020 to March 2021, but also includes some information from outside this period.

**Reference guidelines**

IIRC  
 GRI  
 SASB

**Report publication date**

January 2022

**Inquiries**

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**Organizations included**

This report mainly applies to Kyohei Steel Ltd. and its consolidated subsidiaries. However, the environmental data on page 21 applies to Kyohei Steel Ltd. and Kanto Steel Ltd.

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**Kyohei Steel Group's ESG Criteria**

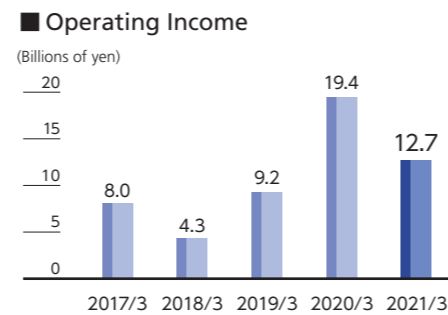
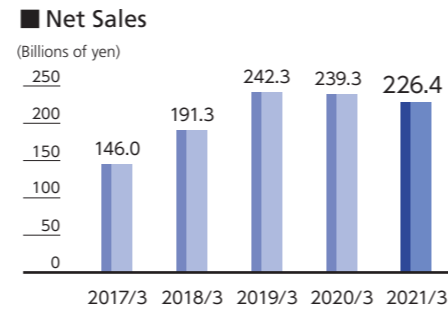
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# Expanding Operations Internationally Through Our Global Tripolar Structure

## Company Profile (as of March 31, 2021)

<b>Corporate Name</b>	KYOEI STEEL LTD.
<b>Head Office</b>	1-4-16 Dojimahama, Kita-ku, Osaka, Japan
<b>Established</b>	August 21, 1947
<b>Representative</b>	Yasuyuki Hiroto, President & Representative Director
<b>Capital</b>	18.516 billion yen
<b>Number of Employees</b>	3,985 (consolidated: full-time employees)
<b>Main Businesses</b>	(1) Manufacture, processing, and sale of billets and steel products. (2) Collection, transportation, and treatment of general, industrial, and medical waste. Recycling of automobiles and industrial waste. (3) Processing and assembly of rebars and threaded rebars. (4) Designing of steel production plants and sale of steelmaking technology.
<b>Group Companies</b>	Kanto Steel Ltd., Kyoei Industrial Co., Ltd., Kyoei Mesona Inc., Kyoei Recycling Co., Ltd., Kyoei Fabricated Steel Sales Co., Yodoshi Corporation, Vina Kyoei Steel Co., Ltd., Kyoei Steel Vietnam Co., Ltd., Vietnam-Italy Steel JSC, Thi Vai International Port Co., Ltd., Vina-Japan Engineering Ltd., Vinton Steel LLC, AltaSteel Inc., Nakayama Steel Products Co., Ltd.



## Business Segments



### Steel Business

The steel business, which melts steel scrap in EAF, transforming it into new steel products, is the core business of the Kyoei Steel Group. The Group provides a stable supply of high-quality steel products by using technological capabilities nurtured for more than 70 years. Our mainstay product, concrete reinforcing bar (including threaded rebar), accounts for 80% of production volume.



### Material Recycling Business

Kyoei Steel is the first company to succeed in completely detoxifying difficult-to-treat industrial waste and infectious medical waste using EAF, which reaches temperatures of thousands of degrees Celsius. By doing so, we have been steadily expanding our business. Our MESSCUD System for completely detoxifying and melting medical waste has been deployed throughout Japan.



Please watch this video, which explains our businesses clearly.

[URL] <https://youtu.be/K8blpgdmU94>



## Main Bases

### Domestic Bases



#### Nagoya Division

Our base in the Chubu region. The Nagoya Division has the first Consteel system to be introduced into Japan, enabling continuous preheating and charging of scrap steel. As well as producing rebars in a full range of sizes, the Nagoya Division focuses on manufacturing high-strength threaded rebars for a variety of purposes, and on environmental recycling. It has a development center that develops technologies for our Group companies. It is ISO 9001 and ISO 14001 certified. Tobishima Village, Ama District, Aichi Prefecture



#### Hirakata Division

Our base in the Kansai region. The Hirakata Division specializes in the production of small bars, adopting a closed system to prevent pollution. The division has facilities that take advantage of limited space; for example, an underground tunnel directly connects the steelmaking and rolling mills. Rebars, round bars and structural round bars are produced in these facilities. The mill is also used for materials recycling. It is ISO 14001 certified. Hirakata City, Osaka Prefecture



#### Yamaguchi Division

Our base for the Chugoku, Shikoku and Kyushu regions. A wide variety of products are manufactured in many sizes. Products include full-size rebars, structural round bars, flat bars, I-shaped bars and equal angle bars. The Yamaguchi Division was an early investor in industrial waste treatment, and some of its technology has been used to develop our MESSCUD System. It is ISO 9001 and ISO 14001 certified. Sanyo Onoda City, Yamaguchi Prefecture

#### Nakayama Steel Products Co., Ltd.

An affiliated company jointly owned by Kyoei Steel and Godo Steel in a 50/50% partnership. It produces a variety of products including rebars, round bars and threaded rebars. It is ISO 9001 and ISO 14001 certified. Nishiyodogawa-ku, Osaka City <http://www.nspweb.co.jp/>



#### Kanto Steel Ltd.

Established in 1994, Kanto Steel is a consolidated subsidiary serving as a base for the Kanto region and aims to play a pivotal role in local recycling. The company produces rebars and structural round bars, while also operating an industrial waste treatment business. It is ISO 14001 certified. Tsuchiura City, Ibaraki Prefecture <http://www.kantosteel.co.jp/>

### Overseas Bases



#### Vietnam-Italy Steel JSC

Located in northern Vietnam, this company became a consolidated subsidiary in May 2018. It has a rolling mill (annual production capacity: 300,000 tonnes) alongside its head office in Hung Yen, and a melt shop (annual production capacity: 450,000 tonnes) in Hai Phong. The company produces rebars and wire rods. It is ISO 9001 and 14001 certified. Hung Yen Province, Vietnam <http://vis.com.vn/>



#### Kyoei Steel Vietnam Co., Ltd.

Located in northern Vietnam, this company started operating in March 2012. It produces rebars and wire rods on a rolling line (annual production capacity: 300,000 tonnes). It is ISO 9001 certified. Ninh Binh Province, Vietnam <http://ksvc.com.vn/>



#### Vina Kyoei Steel Co., Ltd.

Located in southern Vietnam, this company was established in 1994 and started rolling mill operations in 1996. A new integrated EAF mill started operating in 2015. The annual production capacity of both mills is now 900,000 tonnes. The company produces rebars, round bars, flat bars, equal angle bars and wire rods. It is a JIS certified mill and is ISO 9001 and 14001 certified. Ba Ria-Vung Tau Province, Vietnam <http://www.vinakyoeisteel.com.vn/>



#### Thi Vai International Port Co., Ltd.

Located in the Cai Mep Thi Vai harbor district in southern Vietnam, this company started port operations in January 2018. It mainly handles steel scrap that is used as raw materials by Vina Kyoei Steel Co., Ltd. in Phu My 1 Industrial Park, adjacent to the port, and also the products of steel manufacturers adjacent to the port. Ba Ria-Vung Tau Province, Vietnam <http://thivaiport.vn/>

#### AltaSteel Inc.

Located in western Canada, this company was acquired in March 2020. It has an integrated steelmaking and rolling plant with an annual production capacity of 270,000 tonnes. It produces rebars, flat bars, square bars, round bars, ball stock and grinding rods. It is ISO 9001 and 14001 certified. Alberta, Canada <http://www.altasteel.com/>

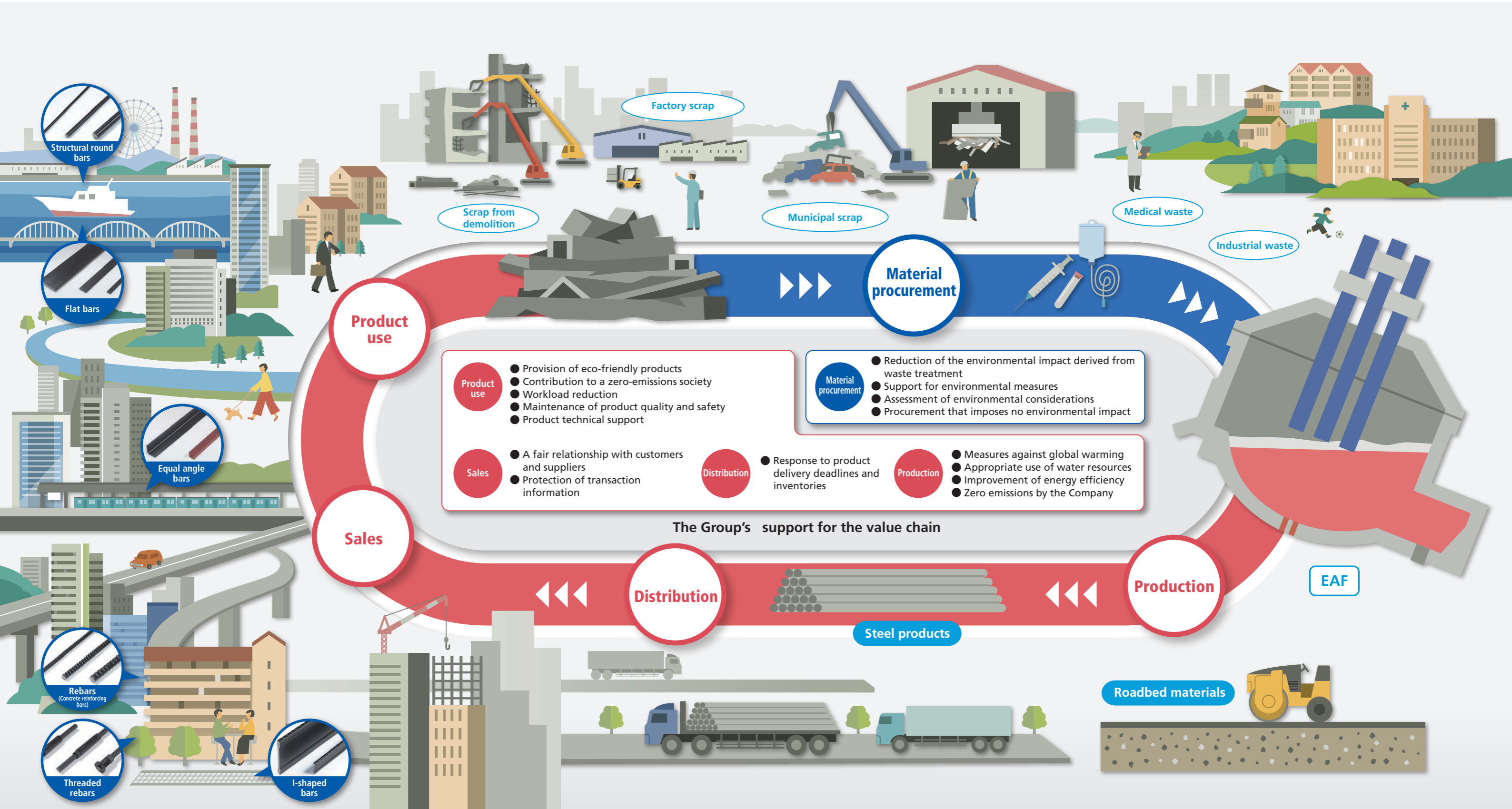


#### Vinton Steel LLC

Located in Texas, USA, this company was acquired in December 2016. It has an integrated steelmaking and rolling plant with an annual production capacity of 230,000 tonnes. It produces rebars and ball stock. It is ISO 9001 certified. Texas, USA <http://www.vintonsteel.com/>



# Value Chain and Social Roles of Kyoei Steel Group





# Becoming a company that contributes broadly to society through steelmaking

**“Wishing to contribute to the reconstruction of Japan through steelmaking”**

**“Wishing to show Japan’s excellence to the world”**

**“Aspiring to contribute to the reconstruction of Vietnam”**

**“Wishing to contribute to global environmental conservation through business”**

Historic events

Treaty of San Francisco (1951)

After World War II, national land reform and industrial reconstruction were called for across the country. Demand for steel grew as the need for construction rose.

Jinmu Boom (1954 to 1957)  
Iwato Boom (1958 to 1961)  
Izanagi Boom (1965 to 1970)  
First oil shock (1973)  
Second oil shock (1979)

Pollution problems; two oil shocks

Bubble Boom (1986 to 1991)  
Bubble burst (1991 to 1993)  
Asian currency crisis (1997)

Higher consumption and more growth in production due to the Bubble Boom increased the amount of waste.

Izanami Boom (2002 to 2008)  
Kyoto Protocol officially enacted (2005)  
Global financial crisis (2008)

Individual legislative acts for recycling were founded on the Basic Act on Establishing a Sound Material-Cycle Society. With the aim of building a resource circulation society, a legal framework was developed, and environmental awareness increased across society.



First integrated steel mill built (Hirakata Division)



Technical advisory service provided overseas



Vina Kyoei Steel Co., Ltd. established



Medical waste treatment business started

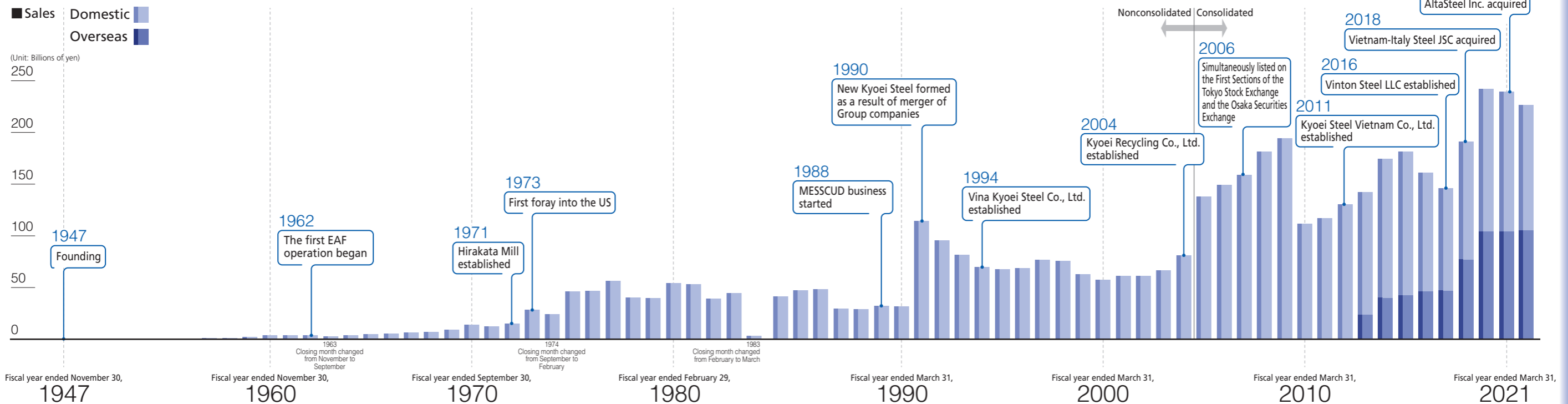


Listed on the First Sections of the Tokyo Stock Exchange and the Osaka Securities Exchange



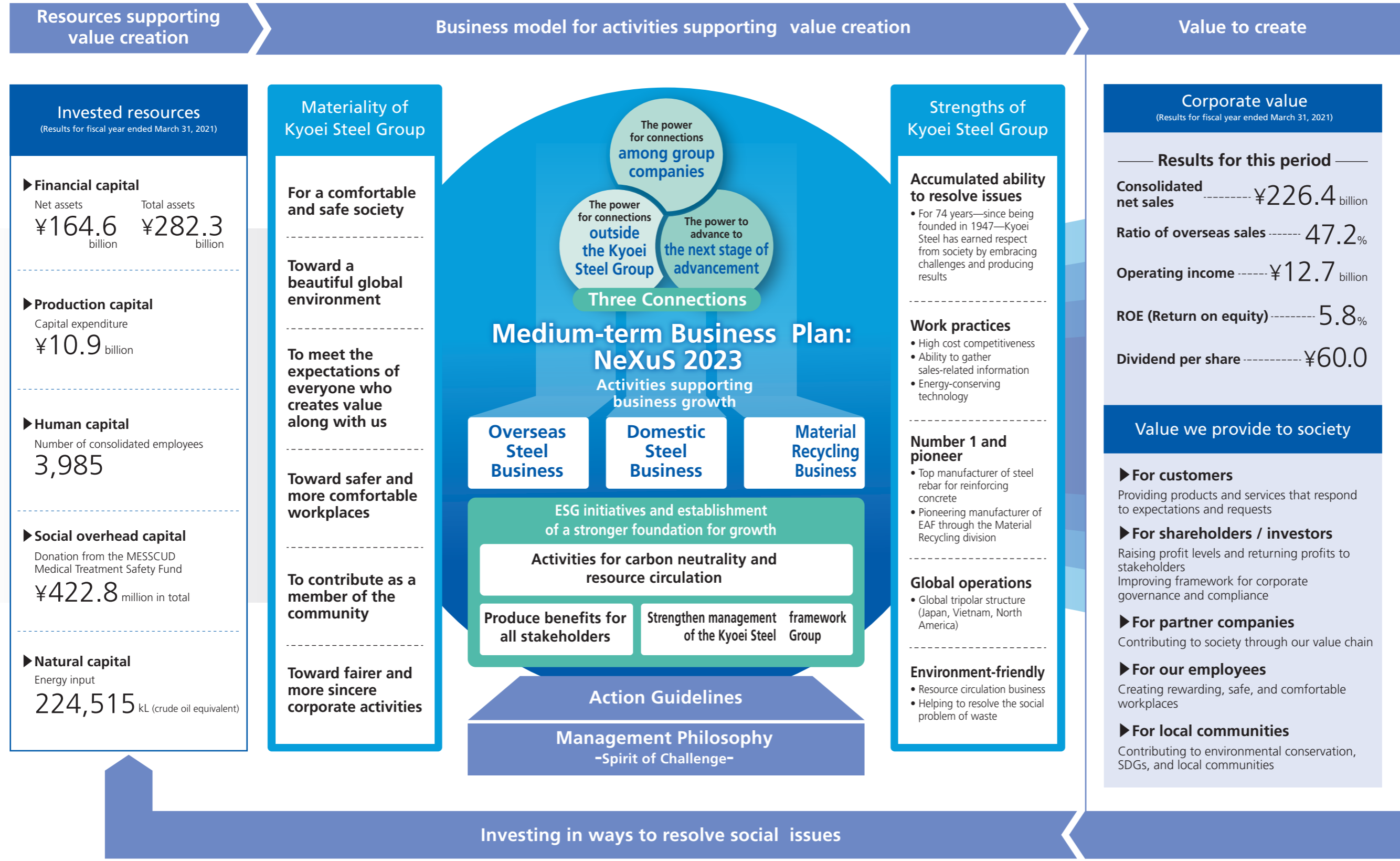
AltaSteel Inc. acquired

Timeline of Kyoei Steel



Our company is approaching its 100th year

# Value creation process of Kyoei Steel Group



## Resources supporting value creation

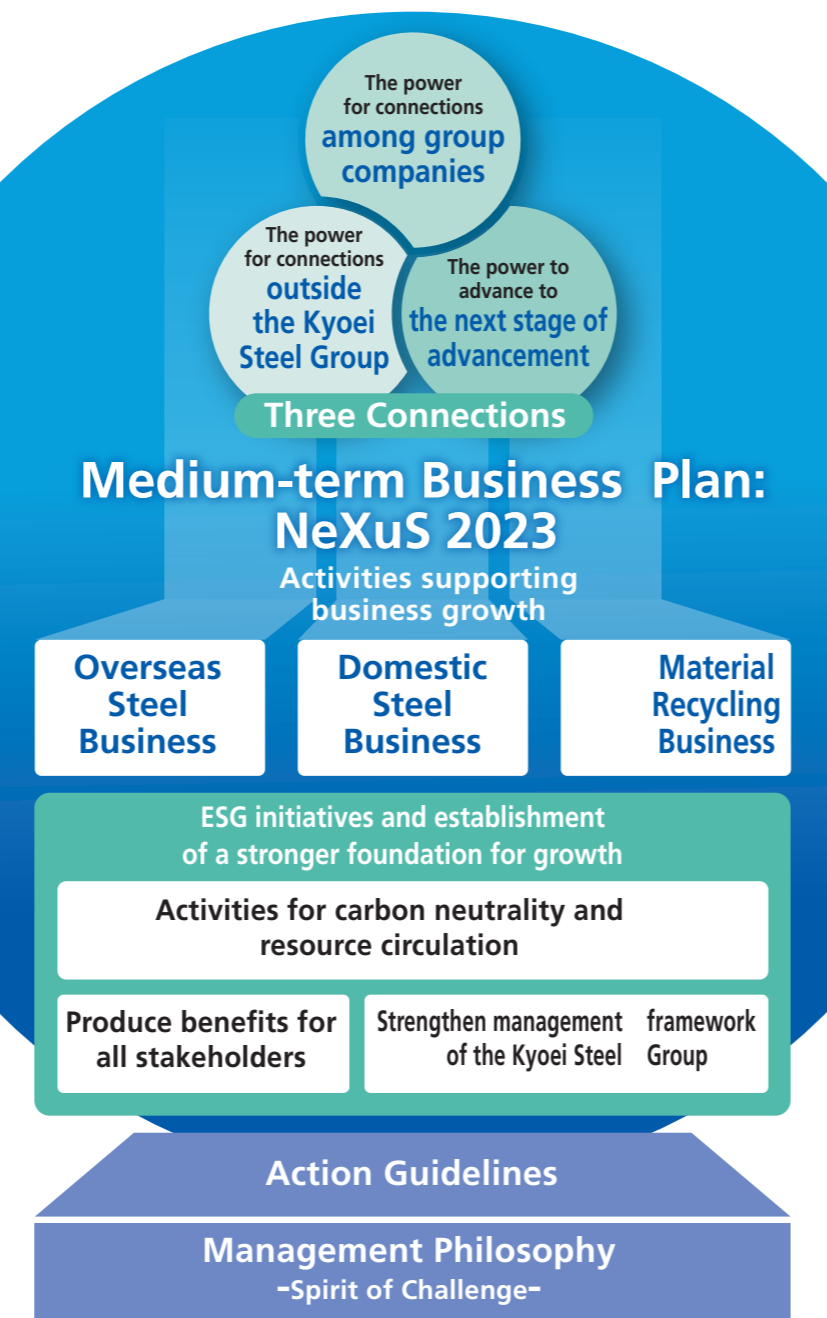
**Invested resources**  
(Results for fiscal year ended March 31, 2021)

- Financial capital**  
 Net assets: ¥164.6 billion  
 Total assets: ¥282.3 billion
- Production capital**  
 Capital expenditure: ¥10.9 billion
- Human capital**  
 Number of consolidated employees: 3,985
- Social overhead capital**  
 Donation from the MESSCUD Medical Treatment Safety Fund: ¥422.8 million in total
- Natural capital**  
 Energy input: 224,515 kL (crude oil equivalent)

## Materiality of Kyoei Steel Group

- For a comfortable and safe society
- Toward a beautiful global environment
- To meet the expectations of everyone who creates value along with us
- Toward safer and more comfortable workplaces
- To contribute as a member of the community
- Toward fairer and more sincere corporate activities

## Business model for activities supporting value creation



## Strengths of Kyoei Steel Group

- Accumulated ability to resolve issues**  
 • For 74 years—since being founded in 1947—Kyoei Steel has earned respect from society by embracing challenges and producing results
- Work practices**  
 • High cost competitiveness  
 • Ability to gather sales-related information  
 • Energy-conserving technology
- Number 1 and pioneer**  
 • Top manufacturer of steel rebar for reinforcing concrete  
 • Pioneering manufacturer of EAF through the Material Recycling division
- Global operations**  
 • Global tripolar structure (Japan, Vietnam, North America)
- Environment-friendly**  
 • Resource circulation business  
 • Helping to resolve the social problem of waste

## Value to create

**Corporate value**  
(Results for fiscal year ended March 31, 2021)

— Results for this period —

- Consolidated net sales: ¥226.4 billion
- Ratio of overseas sales: 47.2%
- Operating income: ¥12.7 billion
- ROE (Return on equity): 5.8%
- Dividend per share: ¥60.0

**Value we provide to society**

- For customers**  
 Providing products and services that respond to expectations and requests
- For shareholders / investors**  
 Raising profit levels and returning profits to stakeholders  
 Improving framework for corporate governance and compliance
- For partner companies**  
 Contributing to society through our value chain
- For our employees**  
 Creating rewarding, safe, and comfortable workplaces
- For local communities**  
 Contributing to environmental conservation, SDGs, and local communities

An essential company that contributes to social progress and harmony with the global environment

Investing in ways to resolve social issues

# Response to Sustainability Issues

## Sustainability policy

### Challenges for the future

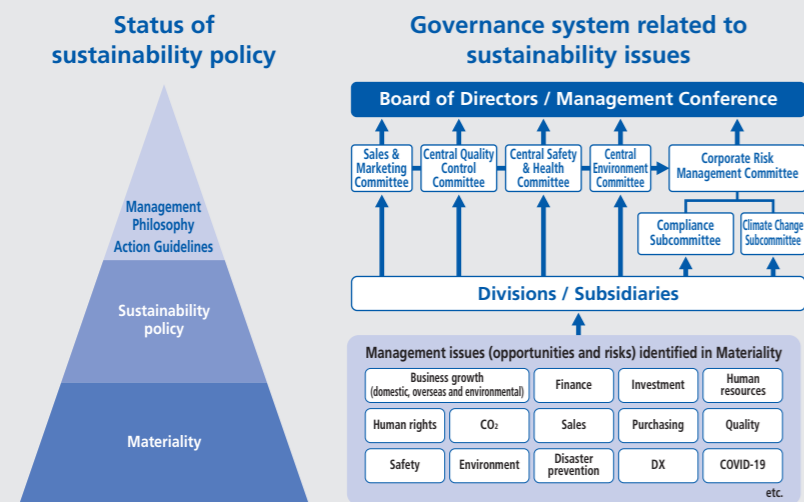
In accordance with the Group Management Philosophy, we aim to be an essential company that contributes to social progress and harmony with the global environment, while continuing to move forward through resource circulation business to contribute to realizing a sustainable society.

To implement our policy for sustainability, we are confident that it is important to identify the materiality that the Group should focus on, determine goals and KPIs to resolve the issues, and promote concrete measures to do so.

In this context, our goals, KPIs, and concrete measures in response to the materiality identified from the viewpoint of our stakeholders and the Group have been incorporated in our NeXuS 2023 medium-term business plan, which was put in place in FY2022.

In FY2022, the Group will improve its company-wide governance system to achieve the KPIs, and each business operations division will respond to individual issues and accelerate actions through discussions in committee and subcommittee meetings.

The board of directors will receive progress reports at regular intervals and supervise the materiality initiatives.



## Materiality

Materiality	Goals and KPIs for NeXuS 2023	Concrete measures	Relevant SDGs
<b>For a comfortable and safe society</b>	<ul style="list-style-type: none"> <li>Net sales: ¥290 billion</li> <li>Operating income: ¥18 billion</li> <li>Shipment volume: 4,000,000 tonnes (domestic: 1,700,000 tonnes; overseas: 2,300,000 tonnes)</li> </ul>	<ul style="list-style-type: none"> <li>Domestic steelmaking: Sales promotion of value-added products and capital investment to respond to aging, save labor and human resources, and improve distribution efficiency</li> <li>Overseas steelmaking: Establishment of production/sales increase structure through large-scale investment</li> <li>Material recycling: Improvement of treatment for difficult-to-treat industrial waste, and increase of waste treatment capacity</li> <li>Peripheral steel businesses: Strengthening of processed product business and new businesses</li> </ul>	
<b>Toward a beautiful global environment</b>	<ul style="list-style-type: none"> <li>Reduction of CO<sub>2</sub> emissions by 50% from FY2014 by FY2031</li> <li>Improvement of energy intensity by 1.0% per year</li> <li>No steelmaking byproducts to be disposed of in landfill</li> </ul>	<ul style="list-style-type: none"> <li>Measures to reduce CO<sub>2</sub> emissions                             <ul style="list-style-type: none"> <li>Promotion of energy saving and fuel conversion within each division</li> <li>Photovoltaic power generation and self-consumption</li> <li>Planting olive trees</li> </ul> </li> <li>Information disclosure based on TCFD recommendations</li> <li>Making effective use of slag</li> </ul>	
<b>To meet the expectations of everyone who creates value along with us</b>	<p>We intend to contribute to society through our value chain by providing products and services that meet the varied expectations and requests of our customers and business partners, as well as by procuring raw materials and processed materials that have a low impact on the environment.</p>	<ul style="list-style-type: none"> <li>Reform of sales operations (mission-critical system standardization)</li> <li>Development and sales of new Color Angle (Eco74) product</li> <li>Development and sales of high-strength shear reinforcement bars</li> <li>Acquisition of Ecoleaf EPD</li> <li>Research on waste treatment according to the needs of the source of emissions</li> </ul>	
<b>Toward safer and more comfortable workplaces</b>	<ul style="list-style-type: none"> <li>No occupational injury</li> <li>Acquisition of Health and Productivity Management Organization certification</li> <li>11% of female employees in general management positions (in FY2024)</li> <li>Paid leave rate (in FY2024): 70% for managers and employees in general management positions 85% for production engineers and general office workers</li> </ul>	<ul style="list-style-type: none"> <li>Introduction of forefurnace temperature sampling robot</li> <li>Automation control of gunning repair according to the wear amount on the refractory of the EAF</li> <li>Reduction of slinging by introducing a new automated warehouse</li> <li>Implementation of a health campaign</li> <li>Implementation of health seminars for managers and female employees</li> <li>Five females out of employees to be employed for general management positions in April 2022</li> <li>Consideration of establishing new offices, welfare buildings and training/research facilities</li> </ul>	
<b>To contribute as a member of the community</b>	<p>We aim to make the Group indispensable to the community by contributing through various activities, including disaster prevention.</p>	<ul style="list-style-type: none"> <li>Total amount of donations: Approx. 0.5% of nonconsolidated net income</li> </ul>	
<b>Toward fairer and more sincere corporate activities</b>	<p>We aim to earn the trust of society by building an organizational structure and a highly transparent management system that quickly respond to changes in the business environment, as well as by practicing fair and sincere corporate activities.</p>	<ul style="list-style-type: none"> <li>Functional enhancement of the board of directors: increasing the numbers of external and female directors, and disclosing the skills matrix</li> <li>Response to the revised Corporate Governance Code: strengthening the risk management system and reviewing the committee</li> </ul>	



## Working to bring about sustainability in society through resource circulation business



**Yasuyuki Hirotoni**  
President & Representative Director

### The previous medium-term business plan, Quality Up 2020

#### Issues remain, but both quantitative and qualitative progress has been made

In March 2020, the Kyoei Steel Group completed a three-year medium-term business plan called Quality Up 2020 that started in FY2019. Although shipments of products and net sales fell short of the plan's final year targets, operating income in the second year (FY2020) was 19.4 billion yen, surpassing the 14.5 billion yen target, and the cumulative operating income was also far higher than the target over the plan's three years. We were able to establish a global tripolar structure with Japan representing our domestic steel business and Vietnam and North America our overseas business, but we were unable to meet targets, and earnings overseas fell into the red in the final year, where we still need to strengthen our earnings capacity.

The business plan also included three Quality Up goals to guide the Company toward being a top-tier company as we plan for the future to eventually reach our 100th year in business. We

implemented various initiatives to enhance capabilities in management, work practices, and personnel in our Group companies. This included the establishment of the Central Quality Control Committee and hosting of Jishu Kanri (self-management) conferences with overseas group company participation. But we are still in the midst of making improvements. In the area of strengthening our governance and compliance systems, we introduced more outside directors and had the presidents of our overseas subsidiaries join our management meeting as observers. In these and other ways we are striving to maintain transparency in our management. Plus, we have been working to enhance our risk and compliance management system. These extensive efforts have led to commensurate results, but we still face issues that call for further improvements. (See p. 17 Medium-term Business Plan NeXuS 2023, Assessment of the previous medium-term business plan)

### Environmental change in the age of COVID-19

#### Business management based on the “new normal”

The ongoing COVID-19 pandemic has not only had a major impact on the economy, it has brought about a transformation in existing social structures, values, and lifestyles. Large numbers of people are beginning to wake up to the fact that extreme capitalism and irresponsible capitalism have led to widening global inequality and worsening environmental problems. It is therefore becoming ever more urgent in corporate management to fundamentally reexamine first-world corporate globalization solely for the pursuit of profit. We need to find solutions for the social and environmental imperative of resource circulation and carbon neutrality. Also, with the accelerating pace of digital transformation (DX) brought on through progress in information technologies, great changes are taking place in the way people work and how companies manage their business. We are entering an age in which how we put to use those technologies will determine how competitive we will be. In creating our new medium-term business plan, we have identified five key changes in the group's external environment—the arrival of the carbon-neutral world; the arrival of the circular economy; a new type of globalization; the acceleration of DX; and changes of shareholder capitalism. These five changes are intertwined, and together are coming to define the “new normal,” based on which our new medium-term business plan was created.



### The new medium-term business plan, NeXuS 2023

#### Aiming to be an essential company for a resource circulation society

Our new medium-term business plan, NeXuS 2023, carries forward the results and issues from the previous three-year plan, and clarifies the group progress direction in over the next three years in light of changing times and both domestic and international steel markets.

The Kyoei Steel Group was established in 1947 based on the philosophy of “contributing to social progress through steelmaking.” We have pursued that ideal to the present day. The world in which we live in the twenty-first century requires progress to take the form of achieving carbon neutrality and resource circulation society, among other endeavors to protect

the planet. In the 1970s, when pollution was a big issue in Japan, our de facto founder Koichi Takashima, was early to adopt anti-pollution technologies such as dust collection and the re-use of water in a closed factory system. The spirit that we have inherited from him is not to rely on the planet's abundant





self-healing power, but to employ our steelmaking expertise to help in achieving harmony with the global environment. Our core EAF business is actually a resource circulation business that turns steel scrap into products, helping to bring sustainability to society. By 2030, we will strive to be an essential company in a world oriented toward resource circulation, driven

by a shift to the circular economy. To set milestones toward that goal, we outline in the new medium-term business plan the concepts of strengthening our core business, diversifying risk in the business of local production for local consumption, spreading our wings, and achieving harmony with the global environment.

## Growth in the business of resource circulation leads to a resource circulation society

To strengthen our focus in the domestic steel business, it is vital that we thoroughly succeed at properly recycling a wide range of scrap, thereby consolidating our position as the top manufacturer of reinforcing bar. We need to start by reducing manufacturing costs, then bring efficiencies to a range of processes in logistics, sales, and purchasing to extend our comparative advantage and competitiveness.

Not just domestically, but globally, dispersing risk in the business of local production for local consumption to promote the business of resource circulation is a critical strategy for minimizing the trade-off risk of product prices that rise and fall with domestic demand and the price of steel scrap which is affected by international market conditions.

Spreading our wings means expanding the breadth of our business domains. Toward this end we are putting effort into the material recycling business, casting business, the port operations in Vietnam, and the processed product business.

With regard to achieving harmony with the global environment to bring sustainability to society through our core businesses, we have set the specific target of reducing CO<sub>2</sub> emissions by 50% by

FY2031 (compared with FY2014). We are also promoting energy-saving measures, implementing a fuel conversion from heavy oil and kerosene to LNG, as well as expanding the use of solar panels. One other specific measure we have begun is a tree-planting project to cultivate olives. (See pp. 19-20 Medium-term Business Plan NeXuS 2023, Specific measures.)



## Our FY2022 Results

### Domestic steel business is in difficult times, but is being supported through group strength

With the price of steel scrap rising sharply, our Group's performance in the first half of FY2022 was 142.2 billion yen in net sales, with an operating income of 5.6 billion yen. There was an increase in revenue and a decrease in income from the previous period, but even as the price of steel scrap rose and product prices dropped, we surpassed our initial targets and were able to improve results to some degree.

In terms of COVID-19's effects on business, an extended period of time is required to see the effect on demand for structural steel, from planning to the start of construction to project completion, so fluctuations in economic conditions are relatively slow to appear. For that reason, demand in the domestic steel business

was not so bad in the previous fiscal year, but this year will be the toughest. In the overseas steel business, last year the coronavirus spread in our North American plants, and operations were impacted temporarily, but this fiscal year both sales and income are recovering well. Still, from July forward this year, a COVID variant spread in Vietnam, causing the government to implement a lockdown that was especially strict in the south, which had a significant impact on VKS (Vina Kyoei Steel). Once the lockdown was lifted, operations moved again into the black. The material recycling business is going strong and we expect to maintain continued growth as we use the group's overall strength to create a system to fortify the business.

## Efforts in Materiality

### Taking steps to achieve the SDGs through specific activities

In the previous fiscal year, we identified the important management issues (materiality) that have high relevancy to the SDGs and incorporated them into NeXuS 2023. We have been actively taking specific actions, especially with regard to "toward a beautiful global environment." We set medium- to long-term targets for the reduction of CO<sub>2</sub> emissions and also declared our endorsement of the TCFD (Task Force on Climate-related Financial Disclosures) program. (See pp. 23-26 ENVIRONMENT, Actions Based on TCFD Recommendations.) We are also engaging in efforts to achieve zero emissions by utilizing steel byproducts effectively and recycling completely. Regarding "to meet the expectations of everyone who creates value along with us," we manufacture

"Color Angle" equal angle bars at our Yamaguchi Division that uses water-soluble paint, which is safe for people and the environment, and have earned the EcoLeaf EPD for disclosing quantitative environmental information about our products. Regarding "to contribute as a member of the community," we have long been engaged in making donations, and are committed to spending about 0.5% of our non-consolidated net income for the year on donations to local communities. The Yamaguchi Division also opened a facility to employ people with disabilities to carry out small appliance recycling and create a hiring opportunity for graduates of special-needs schools. (See pp. 27-28 SOCIAL, For Society)

## To Our Stakeholders

### Returning to the founder's spirit, achieving both economic value and societal value

The German-born British economist E. F. Schumacher gave a fierce warning about the unending pursuit of industrialization and economic growth in his 1973 book *Small is Beautiful*. Around the same time, in 1972, the Club of Rome and Massachusetts Institute of Technology produced the *Limits to Growth* report, in which the warning was given that without some kind of limits to continued growth, the world's supply of resources will reach an impasse and 2030 will mark the start of economic collapse, population decline, and the collapse of civilization.

Last year, I had the chance to visit Okuizumo in Shimane Prefecture and see the remains of an iron works that once used the traditional method of ironmaking known as "tatara." I felt the high level of expertise in ironmaking that existed in Japan in ancient times, and also saw how ironmaking was integrated with the environment and nature, foreshadowing modern methods. After the mountains were excavated for iron sand, rice fields were then established, and there was a regular rotation of cutting of forests and replanting trees every 30 years to provide the charcoal that fueled the furnace. Japan's steelmaking has ancient roots in such a circular regeneration of resources. Koichi Takashima, aimed for achieving harmony with the global environment in tandem with offering societal value in the Company motto "taking on challenges toward the future." In Vietnam, after the Vietnam War, to build local infrastructure and help improve standards of living, we were the first Japanese company to build a plant and begin to supply steel rebar. Also, in 1988, when illegal dumping of waste became a social problem, we launched the "MESSCUD System" that uses an

ultra-high-temperature EAF to melt medical and industrial waste to render it completely harmless.

Our Group began taking steps to protect the environment and achieve the SDGs ahead of other companies. In fact, steelmaking using an EAF is itself a business that circulates resources, and meeting the needs of the times in that way gives it inherent value. Returning to the founder's spirit, we will be working to raise our corporate value, responding to the expectations of our stakeholders and meeting the needs of the times as an essential company.

I wish to thank all of our stakeholders for your continued support as we strive to develop our businesses further.



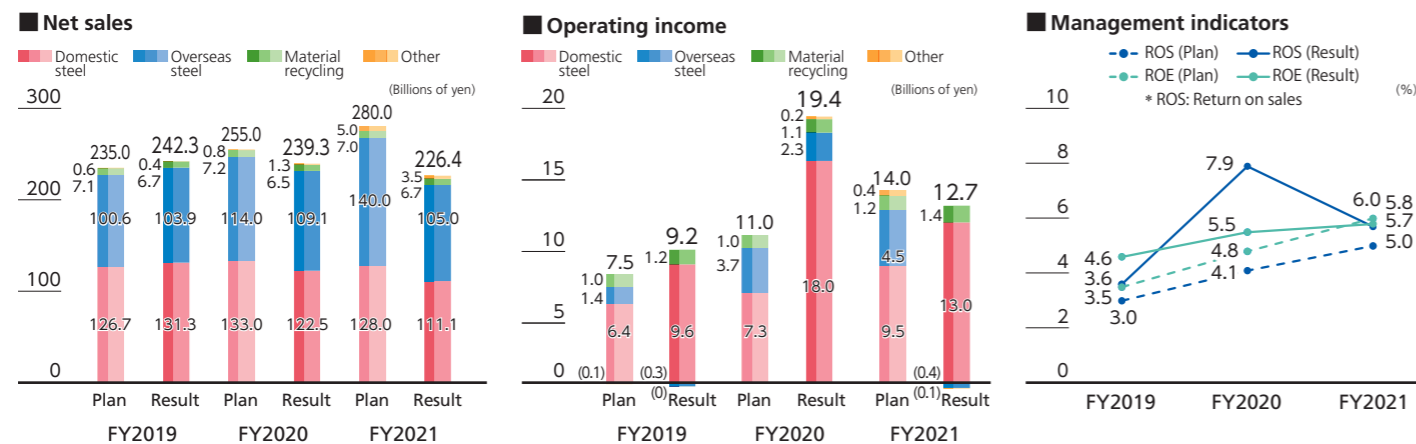
# Established new medium-term business plan NeXuS 2023

## To become an essential company in a resource circulation society

### Assessment of the previous medium-term business plan: Quality Up 2020

#### Evaluation of numerical targets

- The Company was unable to achieve its net sales targets, either domestically or overseas.
- The income target was exceeded in the second year. The three-year total income target was also significantly exceeded.
- The operating income target of the domestic steel business was significantly exceeded, but the overseas steel business did not achieve its target.



#### Evaluation by segment

Segment	Important measures	Progress
Domestic Steel Business	Strengthening competitiveness Improving productivity	<ul style="list-style-type: none"> <li>○ Reviewing business methods has allowed optimization of sales contracts throughout the Company, enabling it to secure appropriate margins.</li> <li>○ New warehouses at Yamaguchi Division have made shipping more efficient.</li> <li>○ Daytime operation has been implemented at Kanto Steel, ahead of other companies in the industry.</li> </ul>
Overseas Steel Business	Increasing shipments Improving earning power	<ul style="list-style-type: none"> <li>○ Our North American business has been expanded through corporate acquisition, and shipments have been increased by establishing a global tripolar structure.</li> <li>△ Competition has become fiercer in Vietnam. In North America, it has been difficult to secure stable income due to the significant impact of the COVID-19 pandemic.</li> <li>△ In northern Vietnam, profitability has been regarded as the top priority, so part of our planned capital investment to increase production has been postponed.</li> </ul>
Material Recycling Business Other Business	Expanding opportunities for income	<ul style="list-style-type: none"> <li>△ The Company considered increasing its waste treatment capacity, but this has not been implemented.</li> <li>△ In our casting business, we are attempting to improve productivity by constructing new factories in Vietnam, but are struggling due to the impact of the COVID-19 pandemic in Japan.</li> <li>○ Our port operations in Vietnam are stable.</li> </ul>

#### Evaluation of qualitative goals

Three Quality Up initiatives	Progress
Work practices	<ul style="list-style-type: none"> <li>○ JK (self-management) activities have been strengthened and expanded to include the Group companies overseas.</li> <li>△ This Quality Up initiative was partly postponed due to the COVID-19 pandemic. However, a safe and comfortable workplace environment is being established by eliminating heavy manual work, automating operations and introducing mechanization.</li> <li>△ Sales operations are being transformed through mission-critical system standardization.</li> </ul>
People	<ul style="list-style-type: none"> <li>○ A fair and transparent "new personnel system" has been introduced.</li> <li>○ Various types of training are being implemented to improve employees' capabilities.</li> <li>○ There has been greater mid-career recruitment of people with specialized knowledge.</li> </ul>
Management	<ul style="list-style-type: none"> <li>○ The number of external directors has been increased to more than one third of all directors.</li> <li>○ The organizational structure related to compliance, safety and quality has been strengthened by establishing a risk/compliance committee and a central quality control committee.</li> <li>○ Our sound financial structure (rating "A-") has been maintained.</li> </ul>

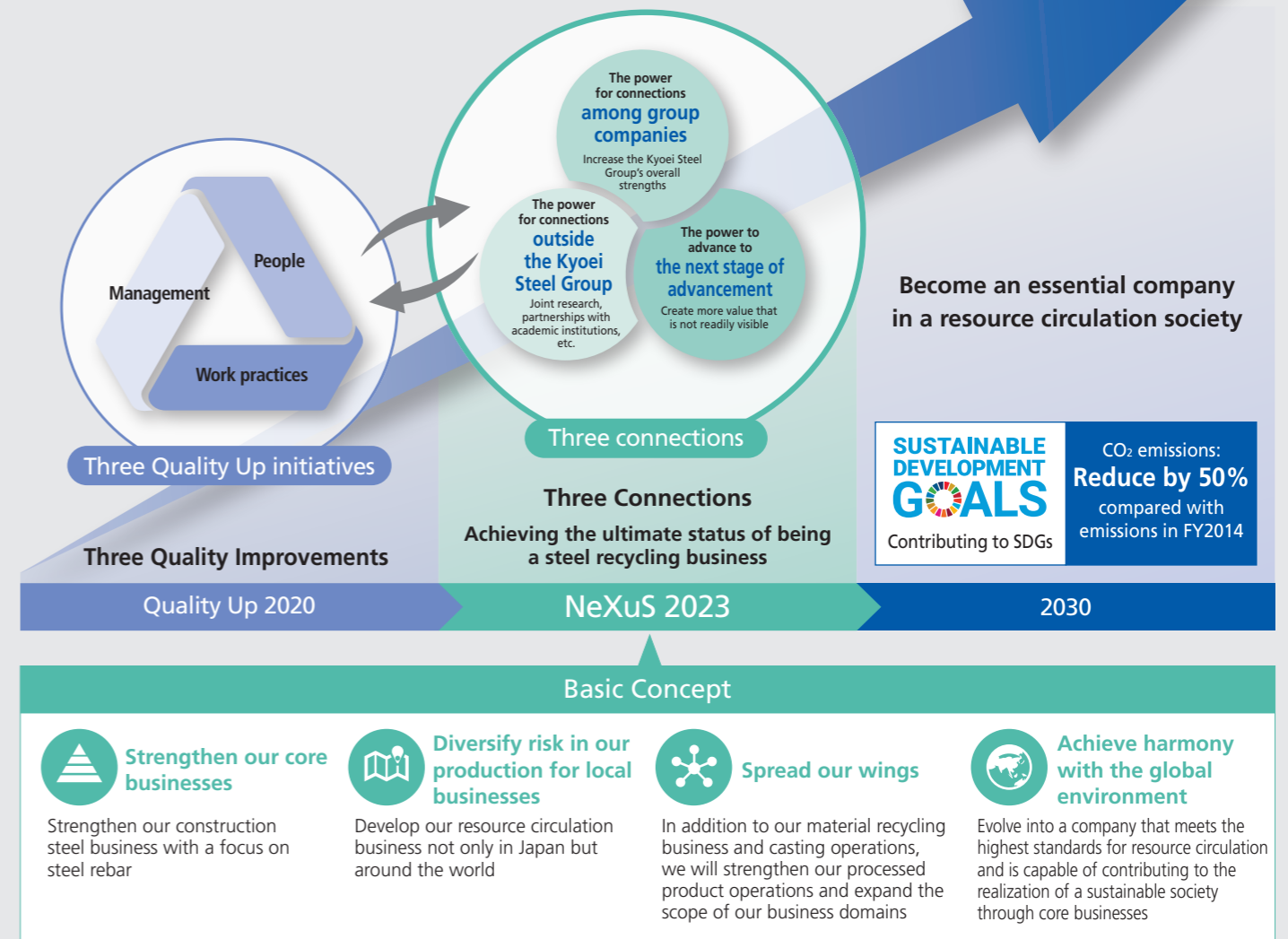
### Changes to circumstances surrounding the Kyoei Steel Group

- 1 Arrival of carbon neutral society
- 2 Arrival of circular economy
- 3 Increased globalization
- 4 Acceleration of digital transformation (DX)
- 5 Changes in shareholder capitalism

### The "new normal" in the age of COVID-19

### New medium-term business plan: NeXuS 2023

NeXuS: Guiding us toward a 100-year company  
Strengthening our three Quality Up initiatives with "three connections"





# New medium-term business plan NeXuS 2023

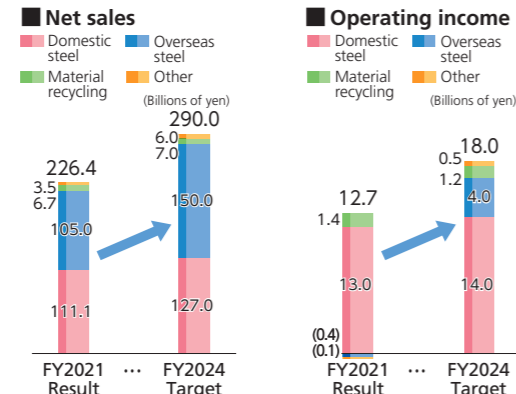
## Numerical targets and measures to achieve them

### Numerical targets

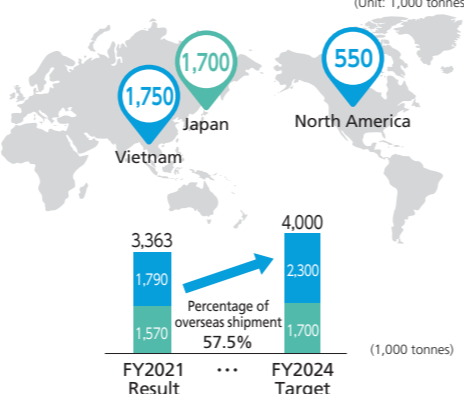
#### Final targets (KPIs) for FY2024

Net sales	¥290 billion
Operating income	¥18 billion
Shipment volume (Tonnes)	4,000,000 (domestic: 1,700,000; overseas: 2,300,000)
ROE	7% or more
ROS	6% or more * ROS: Return on sales
Equity to total assets	50% or more
Net debt equity ratio	0.25 times or less
Dividend payout ratio	Approx. 30%

#### Net sales and operating income by segment



#### Shipment volumes by area



### Specific measures to grow businesses

#### 1 / Overseas Steel Business: Become more profitable and build a base for growth

##### Strengthening earning power

Establishing a system that makes it possible to overcome issues with existing bases and record stable income

##### 2.3-million tonne system

Organizing a system that increases production and sales by measures such as improving productivity and increasing equipment capacity

##### Preparing for growth and expansion

Preparing for future expansion of scale using global and local niche strategies

	Vietnam	North America
Issues	<ul style="list-style-type: none"> <li>Demand is growing but supply capacity is also rising, intensifying competition.</li> <li>Our BF and IF are more expensive than those of our competitors.</li> </ul>	<ul style="list-style-type: none"> <li>There are issues with productivity and safety due to equipment aging and inadequate operation technology.</li> <li>The Company is struggling with mining products due to the significant impact of the COVID-19 pandemic.</li> </ul>
Measures	<ul style="list-style-type: none"> <li>Strengthening our steelmaking cost competitiveness</li> <li>Integrated management for northern bases</li> <li>Increasing shipment volumes through pricing policies in the southern region</li> </ul>	<ul style="list-style-type: none"> <li>Improving safety, quality and technical level by strengthening cooperation with Kyoei Steel</li> <li>Stable operations and productivity improvement via equipment upgrades</li> </ul>
	<ul style="list-style-type: none"> <li>Challenges to development and sales expansion of new sizes and new product/steel types</li> <li>Establishing a system to increase production/sales ⇒ 1.75 million tonnes in Vietnam, 0.55 million tonnes in North America</li> </ul>	

#### 2 / Domestic Steel Business: Become more competitive and upgrade equipment for more progress in the future

##### Strengthening competitiveness

Aiming to remain a top rebar manufacturer with 1.7-million-tonne shipments, and striving to improve productivity and sales capabilities, and reduce costs

##### Upgrading equipment for the future

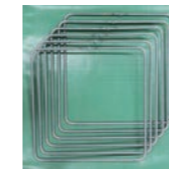
Considering large-scale capital investment to accommodate aging at each base and to maintain operations in the future

	Domestic
Issues	<ul style="list-style-type: none"> <li>There is excess supply capacity in Japan, where demand is expected to decline.</li> <li>Responding to diverse customer needs</li> <li>Factory facilities are aging.</li> </ul>
Measures	<ul style="list-style-type: none"> <li>Securing appropriate spreads and strengthening cost competitiveness by improving sales capabilities and reviewing business practices</li> <li>Expanding sales of value-added products such as high-strength rebars</li> <li>Considering large-scale investment in equipment upgrades for the future</li> </ul>
	<ul style="list-style-type: none"> <li>Deliveries may be adversely affected by driver shortages or other factors.</li> <li>Human resources must be secured and employee safety improved.</li> <li>Improving distribution efficiency, e.g. by constructing warehouses</li> <li>Making an aggressive investment to save labor and manpower</li> <li>Proactive actions to reorganize the industry and establish business partnerships</li> </ul>

#### 3 / Material Recycling Business and peripheral steel businesses: Increase opportunities to earn income

##### Expanding opportunities for income

The Company will strengthen its approach to new businesses while also investigating income opportunities for existing businesses by constructing new processing facilities or increasing processing capacities.



High-strength shear reinforcement Kyoei Ring 685 (released April 2021)

	Material Recycling Business	Peripheral steel businesses
Issues	<ul style="list-style-type: none"> <li>There are limits to the melting capacity of EAF.</li> </ul>	<ul style="list-style-type: none"> <li>The steel business accounts for a high percentage of sales and profits.</li> </ul>
Measures	<ul style="list-style-type: none"> <li>Increasing waste treatment capacity</li> <li>Constructing environmentally friendly waste treatment facilities</li> <li>Mergers and acquisitions (M&amp;A) and capital tie-ups</li> <li>Improving difficult-to-treat waste treatment</li> <li>Vehicle-mounted lithium-ion batteries, carbon fibers, asbestos, and other materials for which treatment needs are expected to rise</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening the processed product business, e.g. by expanding sales of high-strength shear reinforcement</li> <li>Developing products to cater for new construction methods</li> <li>Strengthening the earning power of the casting business and port operations</li> <li>Strengthening approaches to new businesses: searching for "business seeds"</li> </ul>

### ESG initiatives and establishment of a stronger foundation for growth

#### 4 / More activities for carbon neutrality and resource circulation

##### Medium- to long-term goals

To aim for virtually zero CO<sub>2</sub> emissions by 2050

**CO<sub>2</sub> emissions by FY2031 Reduced by 50%**

(compared with FY2014 at domestic production bases)

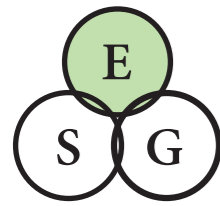
CO <sub>2</sub> emissions reduction	<ul style="list-style-type: none"> <li>Reducing energy intensity</li> <li>Fuel conversion (from heavy oil to LNG)</li> <li>Expanding solar panel installations</li> <li>Expanding our tree planting activities (olive tree planting started in August 2021)</li> <li>Use of renewable energy based electricity</li> </ul>
Zero emissions	<ul style="list-style-type: none"> <li>Zero emissions of steelmaking byproducts</li> <li>Effective use of slag, and developing applications for it (jointly with external organizations)</li> </ul>
Other measures	<ul style="list-style-type: none"> <li>Information disclosure based on TCFD recommendations (compliance declared in April 2021)</li> </ul>

#### 5 / More activities that produce benefits for all stakeholders

Our employees	We aim for zero occupational injuries and strive to establish a safe and pleasant workplace environment. We aim to improve our employees' health and benefits, and are working on "health management." We aim to establish a workplace environment where female employees can take an active role.
Shareholders / investors	We work to improve disclosure of information, including non-financial information. We intend to make our Group management strategies consistent with the expectations of our investors, through active dialogue with them.
Customers	We work to strengthen quality control, and to respond to new construction methods as requested by customers.
Partner companies	We work to strengthen our supply chain to ensure stable procurement of raw and auxiliary materials, and to establish business continuity management (BCM).
Local communities	We continue donations with respect to community issues such as medical care, the environment, education and culture.

#### 6 / Strengthen management framework of the Kyoei Steel Group

GOVERNANCE	DIGITAL TRANSFORMATION	FINANCE
<p><b>Fairer and more sincere corporate activities</b></p> <ul style="list-style-type: none"> <li>Strengthening and improving risk management and internal audits</li> <li>Strengthening information security systems and IT audits</li> <li>Improving compliance education</li> </ul>	<p><b>Promoting digital transformation (DX)</b></p> <ul style="list-style-type: none"> <li>Transforming sales operations through mission-critical system standardization</li> <li>Paperless and adoption of robotic process automation (RPA) for routine tasks</li> <li>Promotion of the Smart Factory: improving operational efficiency and labor savings through best use of digital technologies</li> </ul>	<p><b>Measures to strengthen our financial base</b></p> <ul style="list-style-type: none"> <li>Diversifying financing, e.g. by issuing corporate bonds</li> <li>Adhering to financial discipline to maintain our "A" rating</li> </ul>



# - ENVIRONMENT - For Reduction of Environmental Impact

Contributing to environmental conservation is a basis of our business management. Through initiatives to promote efficient use of resources and material recycling, we are committed to the reduction of environmental impact and the recycling of resources.

## Kyoei Steel Group's approach to carbon neutrality

### 50% less CO<sub>2</sub> emissions by FY2031 (compared with FY2014 emissions for Kyoei Steel and Kanto Steel combined)

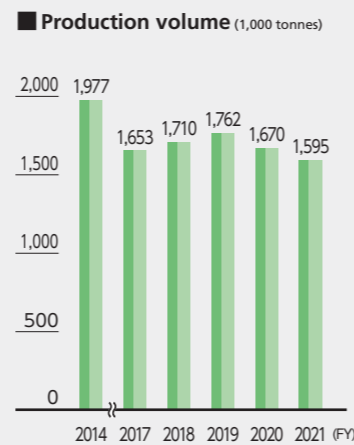
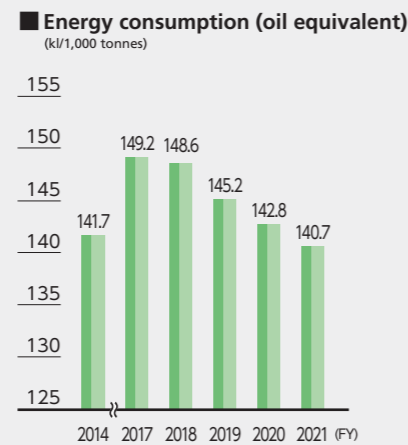
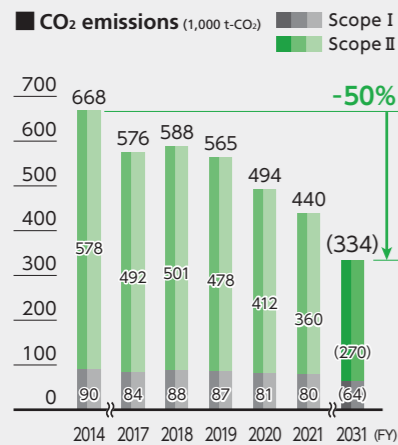
In accordance with government targets, which envisage virtually zero greenhouse gas emissions by 2050, the Group has created its own target to reduce CO<sub>2</sub> emissions by 50% by FY2031, compared with FY2014 emissions at all domestic production bases. Firm measures to achieve this reduction have been incorporated into our new medium-term business plan NeXuS 2023.

The closure in March 2016 of the Hirakata Division's Osaka Shop, which used to manufacture and sell billets, has reduced CO<sub>2</sub> emissions and increased energy intensity. The Group has been introducing energy saving technologies such as regenerative burners, which achieve both energy savings and low NO<sub>x</sub> emissions, and a "direct rolling process", which obviates the need for a reheating process for billets. The Group will seek to

implement further energy saving activities. We will also reduce CO<sub>2</sub> emissions by replacing fuels with a high CO<sub>2</sub> emission factor, such as heavy oil and kerosene, which are currently used for some of our operations, with fuels with a low environmental impact such as city gas and LNG. We will also proceed with other eco-friendly activities such as use of in-house photovoltaic power generation, and tree planting.

In considering the configuration of Scope I and Scope II of our CO<sub>2</sub> emissions, we should not ignore the CO<sub>2</sub> emission factor from electricity. The Group's carbon neutral activities will use 0.37 kg of CO<sub>2</sub> per kWh (FY2031) as the CO<sub>2</sub> emission factor from electricity, in accordance with the Federation of Electric Power Companies of Japan's "Action Plan for Achieving a Low Carbon Society in the Electric Power Industry (2015)."

Current environmental data and targets for FY2031 (Kyoei Steel + Kanto Steel)



### Promoting tree planting

We intend to reuse developed land adjacent to the Yamaguchi Division to grow, process and sell olives, creating new jobs in the local area. Olive trees are evergreens with many leaves, so are expected to absorb CO<sub>2</sub> all year round.

In April 2021, we held an olive tree planting ceremony to launch our CO<sub>2</sub> reduction program. More than 50 people, including employees' families, attended and planted 80 olive trees. We planted a further 212 olive trees in November, and plan to plant more than 1,000 over the next three years.



## Recycling system contributing to global environmental protection

### Recycling diverse resources

Taking advantage of EAF melting technology developed by our steel business, the Group has been working on an "material recycling business" to carry out various types of waste treatment. In 1988, the Group developed a safe and secure processing method that melts and detoxifies medical waste using extremely hot EAF. Thus began our "MESSCUD System"

#### Industrial waste treatment

We have deployed throughout Japan a MESSCUD System that collects, transports and treats medical waste such as syringes and needles. We have also obtained a permit for all industrial waste management services except for treating PCB waste. We offer treatment services fulfilling a range of needs, from difficult-to-treat waste such as asbestos to waste containing confidential information such as carbon fibers and vehicle-mounted lithium-ion batteries.

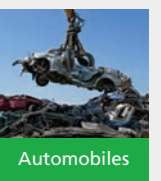


Medical waste

business. We now detoxify various kinds of industrial waste using EAF operation technology. We also recycle byproducts from steel production by converting them for other uses, such as raw materials for roadbeds. We are committed to contributing to global environmental protection through appropriate waste treatment and resource recycling.

#### Automobile recycling

We have obtained all necessary permits related to the Recycling of End-of-Life Vehicles Law. End-of-life vehicles are recycled by separating them into steel, which is used as raw materials for steel products, non-ferrous metals, which have significant resale value, and shredded fragments, which are subject to thermal recycling. We also dismantle and sort vehicle-mounted lithium-ion batteries.



Automobiles

#### Destructive treatment of CFCs

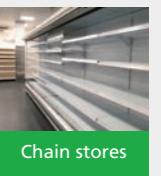
We provide destructive treatment for CFC gases used as refrigerants in air conditioners, refrigerators and freezers, as well as treatment of SF<sub>6</sub>, PFC and halon gases which other treatment facilities tend to avoid. These activities contribute to the prevention of global warming.



CFC destructive treatment equipment

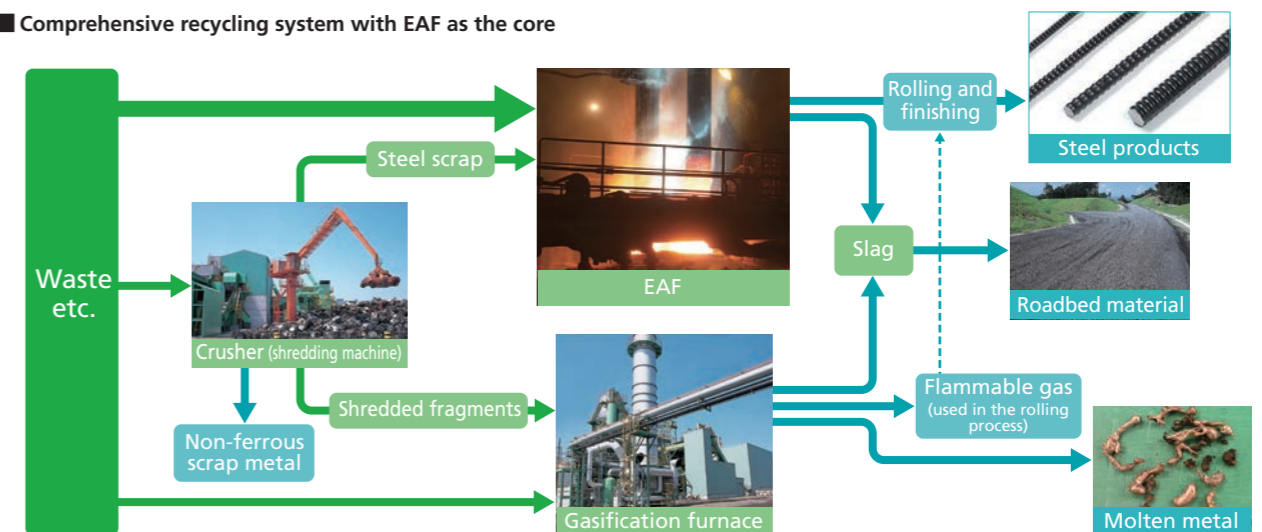
#### Collecting and recycling steel

We collect and dismantle display shelves and showcases (removed during closure or renovation of chain stores), vending machines and other large machines, and recycle them separately according to resource type. We have also obtained ministerial certification according to the Promotion of Small Home Appliance Recycling Law. We elaborately disassemble used computers, digital cameras and other electronic devices, recycling scarce resources such as steel, copper and rare metals.

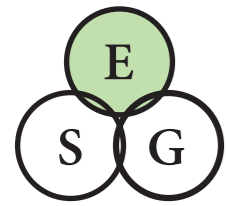


Chain stores

### Comprehensive recycling system with EAF as the core







# - ENVIRONMENT -

## Actions based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)



The Group has made our response to climate change one of our important management issues, and has taken a number of steps to advance it. In accordance with TCFD recommendations, from now on we will expand information disclosure about climate-change-related risks to and opportunities for our business.

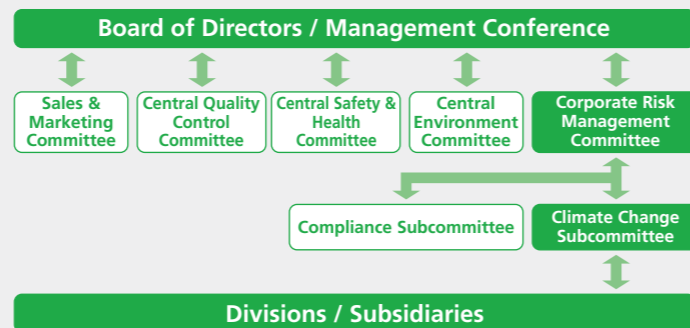
### What is the TCFD?

TCFD stands for "Task Force on Climate-related Financial Disclosures". It is a task force established by the Financial Stability Board (FSB) in which the central banks and financial regulators of major countries participate. To reduce the risk of instability in financial markets, the TCFD recommends that enterprises disclose information about the possible financial impact of climate-change-related risks to and opportunities for their businesses, alongside strategies and actions that will be taken to address them.

Governance	Risk Management	Strategy	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities	Disclose how the organization identifies, assesses, and manages climate-related risks	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's business, strategy, and financial planning where such information is material	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material

### Governance

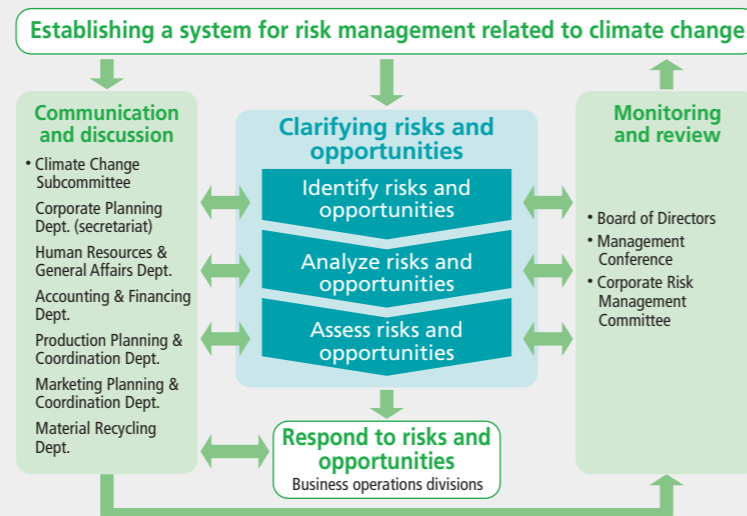
We have established a Corporate Risk Management Committee (CRMC), chaired by our president. We have also set up various subcommittees, including a Compliance Subcommittee and a Climate Change Subcommittee, which report to the CRMC. We have created a system that allows us to assess and evaluate climate-change-related business risks at regular intervals. Risks and opportunities that are identified will be shared with the business operations divisions and/or subsidiaries concerned, so they can accelerate planning and implementation of countermeasures. The CRMC will report at regular intervals to the Board of Directors and Management Conference, which will supervise measures to be implemented.



### Risk Management

The Group understands that climate change issues are important to our business, and recognizes that the risks and opportunities associated with climate change must significantly influence our business strategies. We have introduced the following processes into our organization to implement, support and maintain climate-related risk management as a matter of course.

- 1 The Climate Change Subcommittee, whose secretariat is the ESG Promotion Section of the Corporate Planning Department, clarifies and assesses climate-change-related risks and opportunities for the entire Group.
- 2 The Climate Change Subcommittee formulates policies and action plans pertaining to risk management related to climate change for the Group.
- 3 Business operations divisions take appropriate actions, which may include risk avoidance, risk reduction or relocation, in accordance with the plans.
- 4 The Climate Change Subcommittee reports the effects and results of risk management to the CRMC at regular intervals.



### Strategy

#### Defining scenarios

With reference to SSP1-2.6 and SSP5-8.5—two of the five scenarios identified in the Sixth Assessment Report of the IPCC\* corresponding to, respectively, 2°C and 4°C increases in the average temperature of the Earth—we used the Six Forces Model to define changes in society surrounding the Group in 2050.

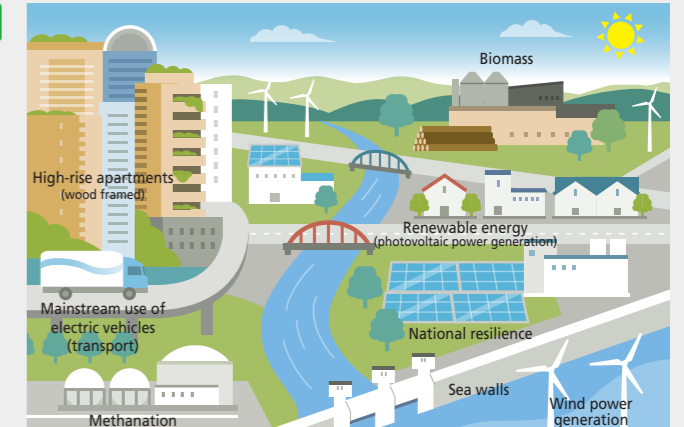
	Near term: 2021 to 2040		Medium term: 2041 to 2060		Long term: 2061 to 2100	
	Central estimate (°C)	Very likely range (°C)	Central estimate (°C)	Very likely range (°C)	Central estimate (°C)	Very likely range (°C)
SSP1-1.9	1.5	1.2-1.7	1.6	1.2-2.0	1.4	1.0-1.8
SSP1-2.6	1.5	1.2-1.8	1.7	1.3-2.2	1.8	1.3-2.4
SSP2-4.5	1.5	1.2-1.8	2	1.6-2.5	2.7	2.1-3.5
SSP3-7.0	1.5	1.2-1.8	2.1	1.7-2.6	3.6	2.8-4.6
SSP5-8.5	1.6	1.3-1.9	2.4	1.9-3.0	4.4	3.3-5.7

\* IPCC: Intergovernmental Panel on Climate Change

#### [2°C scenario] Decarbonization progresses as demanded by society and by government regulations to mitigate climate change

##### Changes in society surrounding the Group

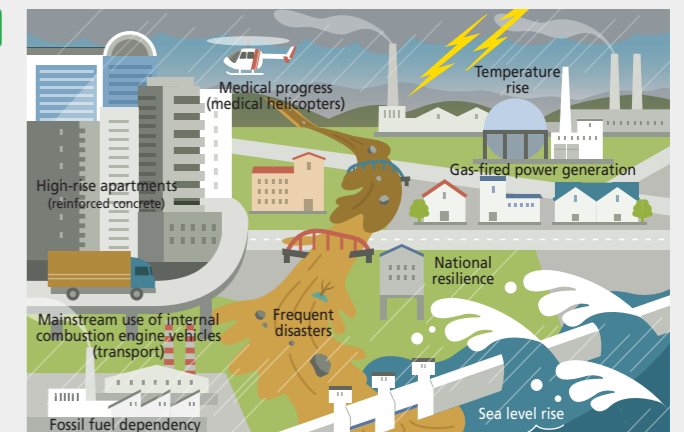
- **Government requests and regulations aiming to implement decarbonization**
  - Fuel prices will rise due to the introduction of carbon pricing, e.g. carbon taxes.
  - Electricity prices will rise temporarily due to an increase in the percentage of renewable energy, but will fall again by 2050.
- **Intensifying stakeholder demand for decarbonization**
  - Decarbonization in cooperation with value chains will become important for businesses, and appropriate information disclosure and support will become important for trading.
  - Adequate information disclosure and dialogue requested by shareholders and investors will become important.
- **Mainstreaming of ESG evaluation by customers**
  - Countermeasures against climate change and other environmental issues will become mainstream and customers' requests for disclosure and improvement of environmental performance data will intensify.
- **Increase in natural disasters**
  - By 2050 the average temperature is approximately 1.3 to 2.2°C higher, so the number of natural disasters such as typhoons and floods will increase.



#### [4°C scenario] Adapt to productivity declines due to the impact of serious disasters and heat loads

##### Changes in society surrounding the Group

- **Limited government policies and regulations for decarbonization**
  - Mass consumption and fossil fuel dependency continue and fuel prices soar due to exhaustion of and competition for fossil fuels.
  - Dependency on fossil fuel power generation increases electricity prices.
- **Intensifying requests for business continuity management (BCM) by stakeholders**
  - BCM linked to value chains will become important for businesses, and adequate information disclosure and support will become important for trading.
- **Products and services adapted to climate change**
  - It will become important for businesses to adapt products and services to changes to life circumstances and the work environment.
- **Intensifying natural disasters**
  - By 2050, the average air temperature rises by approximately 1.9 to 3.0°C, and natural disasters such as typhoons and floods intensify.



### Scenario analysis

We evaluated the risks and opportunities for the Group under the 2°C and 4°C scenarios according to their potential impact (major/medium/minor) on our company in the near, medium and long term. We concluded that reputational risk would be only limited within our industry but that there would be risks from natural disasters such as typhoons and floods. The risks of sea level rise to the Group would be limited.

To strengthen our resilience in the face of the 2°C and 4°C scenarios, we will consider further our responses to risks and opportunities toward 2050.

Evaluation of importance  
 ▼▼▼: Major risks    ▼▼: Medium risks    ▼: Minor risks  
 ▲▲▲: Major opportunity    ▲▲: Medium opportunity    ▲: Minor opportunity

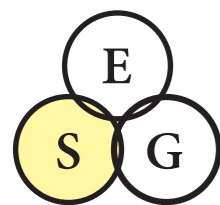
		Important risks and opportunities	Importance level	Countermeasures in NeXuS 2023	
2°C	Transition risks	Policy and Legal Promoting decarbonization policies	▼▼▼	<ul style="list-style-type: none"> <li>•Business costs increase due to the introduction of carbon pricing, an increased renewable energy levy, and the strengthening of a Promotion of Measures to Cope with Global Warming Law.</li> <li>•Competition for LNG and LNG prices soar due to the transition to low-carbon fuels, triggered by restrictions on the use of petroleum fuels.</li> </ul>	
		Technology Demanding decarbonization and energy saving technologies	▼▼▼	<ul style="list-style-type: none"> <li>•Development and promotion of decarbonization and energy saving technologies</li> <li>•Development of technologies to assist the transition from heavy oil and kerosene to city gas and LNG</li> <li>•Improving technologies for collecting and sorting scrap suitable for recycling and transforming it losslessly into new steel products</li> </ul>	
		Market Increasing awareness of decarbonization in society	▼▼	<ul style="list-style-type: none"> <li>•Markets and demand for products and services contract due to dematerialism and population reduction.</li> <li>•Competition intensifies due to a transition from BF to EAF.</li> <li>•Demand declines due to a transition from concrete to wood, triggered by changes in developers' values.</li> <li>•Sales opportunities are lost due to failure to fulfill decarbonization requirements in value chains.</li> </ul>	
	Physical risks	Market Rising energy costs	▼▼▼	<ul style="list-style-type: none"> <li>•Electricity costs increase due to an increase in the percentage of renewable energy use in power generation.</li> </ul>	
		Acute risks Rising energy costs	▼▼	<ul style="list-style-type: none"> <li>•Divisions and sites shut down due to natural disasters such as typhoons and floods.</li> <li>•Material procurement becomes difficult due to natural disasters.</li> </ul>	
		Opportunities	Products and services Expanding markets for products	▲	<ul style="list-style-type: none"> <li>•Becoming known as a "resource circulation business" opens up new markets for a company's products.</li> <li>•Increased demand and sales opportunities for products giving rise to low CO<sub>2</sub> emissions: steel manufacturing using EAF, "green steel", and products with EPD</li> <li>•Increased demand and sales opportunities for "national resilience products" offering protection from natural disasters.</li> <li>•Increased demand for discrete products such as threaded rebars and PC construction method, because labor savings on construction sites are required due to rising average temperatures.</li> </ul>
				▲	<ul style="list-style-type: none"> <li>•Enhancing external evaluation, such as ESG ratings, by actively disclosing ESG information</li> <li>•Increasing waste treatment capacity by installing new facilities</li> <li>•Developing new products for new construction methods, such as high-strength rebars and PC construction</li> <li>•An energetic approach to new businesses, such as customer specific processed products</li> </ul>

		Important risks and opportunities	Importance level	Countermeasures in NeXuS 2023
4°C	Transition risks	Policy and Legal Promoting national resilience	▼▼	<ul style="list-style-type: none"> <li>•Sales opportunities lost due to delays in addressing building and civil engineering standards being revised in response to growing demand for "national resilience products".</li> </ul>
		Technology Demand for national resilience	▼▼	<ul style="list-style-type: none"> <li>•Sales opportunities lost due to delays in developing disaster resistant high-strength steel materials and technology.</li> </ul>
		Market Exhausting petroleum fuels	▼	<ul style="list-style-type: none"> <li>•Energy and material costs rise due to exhaustion of petroleum fuels.</li> </ul>
	Physical risks	Acute risks Rising average temperatures	▼	<ul style="list-style-type: none"> <li>•Working conditions deteriorate due to rising average temperatures: it becomes difficult to ensure human safety.</li> </ul>
		Acute risks Intensifying natural disasters	▼▼▼	<ul style="list-style-type: none"> <li>•Divisions and sites shut down due to natural disasters such as typhoons and floods.</li> <li>•Material procurement becomes difficult due to natural disasters.</li> </ul>
	Opportunities	Products and services Expanding markets for products	▲▲	<ul style="list-style-type: none"> <li>•Increased demand and sales opportunities for "national resilience products" offering protection against natural disasters.</li> <li>•Increased demand for discrete products such as threaded rebars and PC structural elements, because labor savings on construction sites are required due to rising average temperatures.</li> <li>•Increased medical waste—caused by an increase in medical care due to deteriorating living conditions—and an increase in waste resulting from disasters increase the demand for recycling businesses.</li> <li>•Economic development and an increase in international demand increases sales opportunities globally.</li> </ul>
			▲▲	<ul style="list-style-type: none"> <li>•Developing new products for new construction methods, such as high-strength rebars and PC construction</li> <li>•An energetic approach to new businesses, such as customer specific processed products</li> <li>•Increasing waste treatment capacity by installing new facilities</li> <li>•Continued consideration of overseas site acquisitions</li> </ul>

### Metrics and Targets

We believe it is important for the Group to determine how to reduce CO<sub>2</sub> emissions, especially in light of our measures against transition risks in the 2°C scenario and mitigation of physical risks to society in the 4°C scenario. We have therefore established CO<sub>2</sub> emissions as our key measurement criterion, and have set a target of a 50% reduction in emissions by FY2031 (compared with FY2014), with an eventual ambition to achieve virtually zero CO<sub>2</sub> emissions by 2050. (See p. 21 ENVIRONMENT, Kyoei Steel Group's approach to carbon neutrality.)





— SOCIAL —

# For Society

We face our stakeholders with honesty and strive to build better relationships with them through dialogue, while fulfilling our corporate responsibilities. Aiming to become a company that can continue to provide value while gaining the trust of society, we value our relationships with our stakeholders.

## For Customers

### Environmental Product Declarations (EPDs) Certified

EPD program uses Life Cycle Assessment (LCA) methodology. It is a system for quantitatively visualizing the environmental data of a product across its entire life cycle from the extraction of resources to its manufacture, distribution, use, and disposal or recycling.

We employ the EcoLeaf Environmental Labeling Program run by the Sustainable Management Promotion Organization (SuMPO) for four products—rebars, structural round bars, equal angle bars, and flat bars. U.S.-based Vinton Steel LLC has gained certification for rebars under the EPD program run by SCS Global Services.

With such systems in place, customers are able to evaluate the

products they are using for environmental impact quantitatively and objectively, or use the information to make an informed purchase of eco-friendly products. In buildings, when a certain amount of the products being used are certified through an environmental declaration, there is additional merit in applying for LEED certification. LEED is the U.S.-based, globally recognized green rating system for buildings and cities, and such products can be an asset to customers who wish to acquire LEED certification.



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JR-AJ-21003E  
JR-AJ-21004E



SCS-EPD-05755

## For Employees

### Hirakata Division The Completion of a New Product Warehouse

This new warehouse has approximately double the storage capacity of the existing one at 30,000 tonnes, which allows the storage of an expanded range of products. It will help the Company to achieve faster shipping and more flexible operations. Before the new warehouse, a low product storage capacity caused workers to work even during standard holiday times in Japan—Golden Week, Obon, and the year-end/New Year holiday. Now, production can be adjusted so that our employees can take planned time off. The greatest advantage of the new warehouse is the use of a laser-based image processing system that enables a crane equipped with sensors to scan a three-dimensional pile of products and automatically pick up and carry items to be piled in the correct location. Manual slinging is no longer needed, which saves labor and eliminates dangerous work.



### Recipient of the "HATARAKU-Yell 2021" award for employee welfare

In March 2021, Kyoei Steel received the "HATARAKU-Yell" award, a commendation system for organizations that devote energy to employee welfare. We will continue to strengthen our efforts to support employee work styles that form the basis for the company's growth.



### Recycle Kobo Nijiuro—a Small-Appliance Recycling Work Shop

In December 2020, within the Yamaguchi Division, a work shop was opened for disassembling small appliances and sorting the parts, named "Recycle Kobo Nijiuro." The employees were newly hired from a local organization that supports people with disabilities. Small appliances, primarily PCs and smartphones, are dismantled by hand and the parts sorted into rare metals, circuit boards, batteries, etc. These separate resources are sold to specialized dealers for recycling.

The name "Nijiuro" means "the colors of the rainbow," and just as a rainbow is made up of multiple colors, the endeavor aims to build a gracious society that accommodates all types of individuals.



### Health Management

In April 2021, the Kyoei Steel Group announced a health declaration. The declaration states that the health of every employee is at the core of the Company and takes top priority in our efforts to grow into an "essential company" that contributes to social progress and a harmonization with the global environment. Going forward, we will be taking specific measures to further expand and promote the health of our employees and their families.

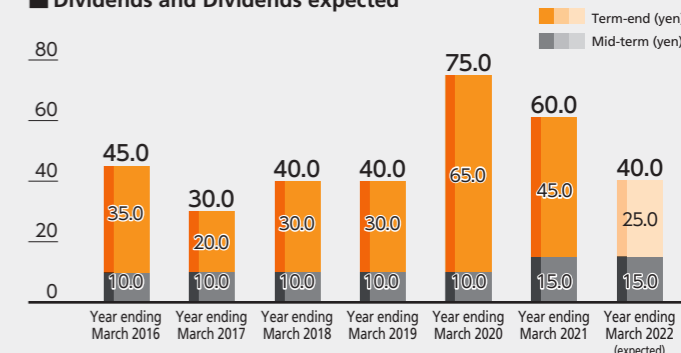
## For Shareholders/Investors

### IR Data Disclosure and Dividends per Share

We accept accountability, and as part of our efforts to raise corporate value, we strive to disclose in a timely, appropriate fashion, information about the Company to shareholders and investors. The means to do so include explanatory meetings, dialogues with investors, various publications, and the Company website.

With regard to shareholder return, we take a long view and our policy is to produce an adequate level of return while ensuring business growth and maintaining internal reserves necessary for strengthening our business structure. Specifically, our basic policy is to produce a consolidated payout ratio of about 25–30% annually, but with an annual dividend lower limit of 30 yen per share.

#### Dividends and Dividends expected



## For Local Communities

### MESSCUD Medical Safety Fund

The MESSCUD Medical Safety Fund donated by companies that collect, transport, and process medical waste for proper treatment contributes to the advancement of medical services to benefit society and the environment. FY2021 marks the 19th annual donation. This year, a total of 14 million yen in donations was given to 11 medical organizations nationwide, bringing the total amount donated to 420 million yen. The fund's donations in Yamaguchi Prefecture were given to Yamaguchi Prefectural Grand Medical Center and Nagato General Hospital, both certified as essential medical institutions for COVID-19. Donations from the fund were similarly given to the city of Sanyo-Onoda, focusing on

stopping the spread of the coronavirus. The MESSCUD Medical Safety Fund will continue to contribute to society and local communities while supporting protection of the global environment.



MESSCUD Medical Safety Fund Presentation Ceremony (Yamaguchi Prefectural Grand Medical Center)

## For Partner Companies

### Declaration of Partnership-building

We are setting up new partnerships by promoting collaboration and prosperous coexistence with our supply chain partners and value-creating enterprises. Toward that end, we declare the following items as priority measures.

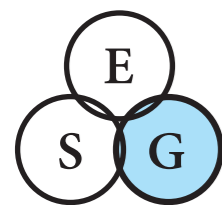


#### 1. Prosperous coexistence throughout the supply chain and new partnerships regardless of company scale, corporate affiliation, etc.

We will take measures to improve added value throughout the supply chain by exerting influence on direct suppliers, and we intend to create prosperous coexistence throughout the supply chain using partnerships that go beyond existing business connections, corporate size, etc.

#### 2. Observance of Promotion Standards

We will observe the Promotion Standards defined under the Act on the Promotion of Subcontracting Small and Medium-sized Enterprises set up as good trade practices between subcontracting enterprises and subcontractors, and will actively take measures to correct trade or business practices that obstruct the establishment of partnerships with suppliers.



# - GOVERNANCE - For Sustainable Management

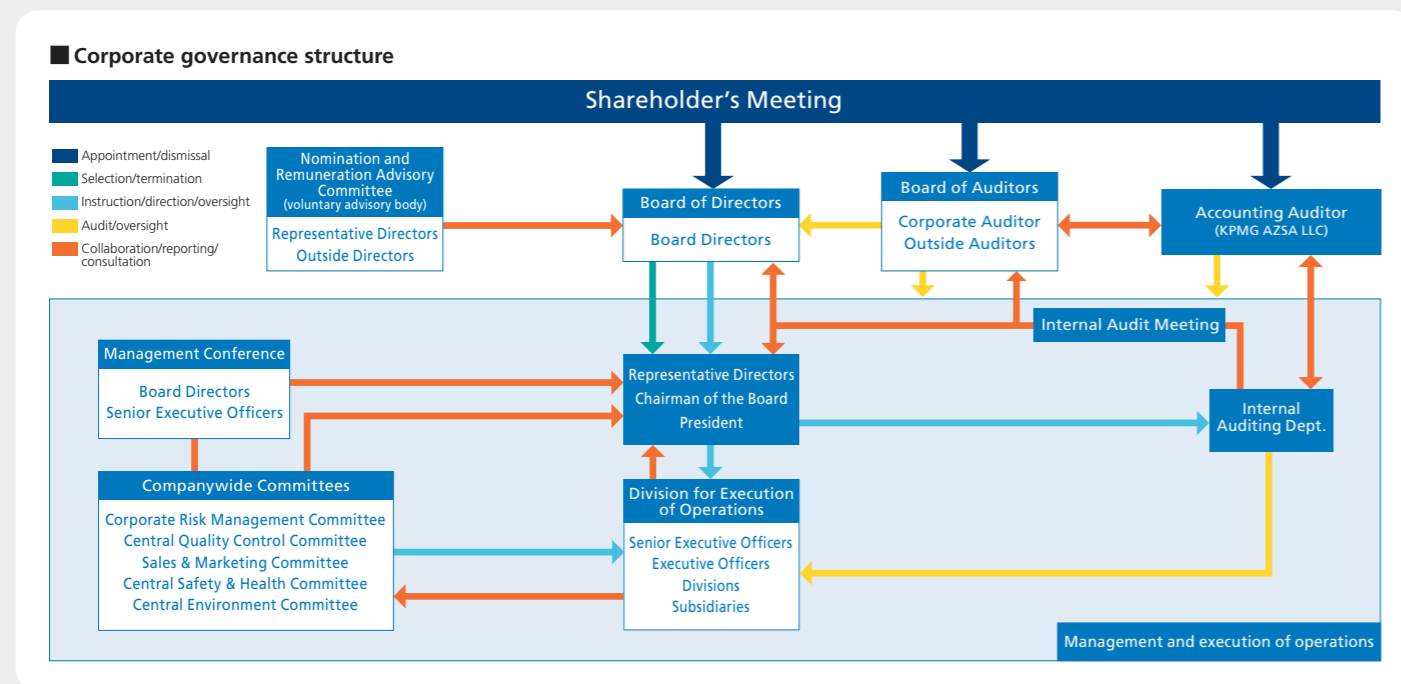
We recognize that expediting management decision, highly transparent management system and strict compliance is crucial for increasing our corporate value. Based on this recognition, we have established a corporate governance system to systematically ensure compliance.

## Corporate governance system

The main objectives of our corporate governance system are:

- ① To ensure continuous and thorough compliance with an awareness of corporate social responsibility;
- ② To maintain highly transparent management through fair and prompt disclosure of information to our shareholders, employees and other stakeholders;
- ③ To ensure accountability for the processes and results of management decisions; and
- ④ To pursue management efficiency based on rational management decisions.

We aim to earn the trust of shareholders and investors by working as effectively as possible to perform the functions of monitoring management and operations through the auditing capacity of corporate auditors, the restraints imposed by a division of duties, and timely disclosures. Also, to strengthen our management oversight, we welcome the presence of independent outside directors.



## Board of Directors

The Board of Directors is stipulated to consist of a maximum of 15 members, and that the board director nominees be selected on the basis of their principal skills and career, with a balance between the number of directors and their fields of expertise taken into consideration, in light of the company's organizational structure. Internal directors must be composed of directors who are thoroughly acquainted with the company's business, who can grasp the corporation as a whole, and who have a balanced outlook and ability to make decisions. Outside directors must be independent and able to oversee corporate management from diverse perspectives, and have good judgment and substantial experience and expertise. Of the ten members currently serving on the Board of Directors, four are outside directors (3 men and 1 woman). In addition, the Company has established the Nomination and Remuneration Advisory Committee, which consists of at least three members (the majority of whom are independent outside directors) who are independent outside directors and representative directors selected by resolution of the Board of Directors. It is an advisory body established to deliberate on the nomination and compensation of representative directors, directors, corporate auditors, and executive officers, and to provide advice and recommendations to the Board of Directors. The committee ensures the objectivity and transparency of procedures related to decisions on nomination and compensation. With respect to the appointment and independence of outside directors and outside auditors, we have established our own standards of independence in addition to the standards set forth in the Companies Act and by the Tokyo Stock Exchange.

## Skills Matrix for Board Directors

The following table shows the areas where expectations for board directors are particularly strong, so that our Board of Directors can effectively fulfill its decision-making and supervisory functions.

Position	Name	Corporate management	Business strategy / Environmental management	Manufacturing / Technology / Development / Quality control	Sales / Marketing	Treasury / Accounting / Finance	Legal / Risk management	Globalization / Overseas business	Personnel / Labor relations / Human resources development	Independence / Objectivity
Chairman & Representative Director	Hideichiro Takashima	✓	✓	✓	✓			✓		
President & Representative Director	Yasuyuki Hiroto	✓	✓		✓	✓		✓	✓	
Board Director & Senior Executive Managing Officer	Shogo Sakamoto	✓	✓	✓	✓				✓	
Board Director & Executive Managing Officer	Hiroshi Kunimaru	✓	✓		✓	✓			✓	
Board Director & Senior Executive Officer	Masahiro Kitada	✓	✓			✓		✓	✓	
Board Director & Senior Executive Officer	Kenji Kawai		✓	✓	✓				✓	
Board Director	Tetsuya Yamao						✓			✓
Board Director	Tatsuya Kawabe	✓	✓							✓
Board Director	Takehiko Yamamoto	✓	✓					✓		✓
Board Director	Kimiko Funato						✓			✓

(Note) This does not represent all the skills, experience, and other knowledge and background of each person.

## Board of Auditors

The Board of Auditors consists of two corporate auditors who are familiar with internal operations, one external auditor who is familiar with management in the steel industry, and one external auditor who is a certified public accountant with extensive knowledge of finance and accounting. Through regular meetings of the Board of Auditors, the auditors collaborate with one another to conduct highly effective audits of directors.

## Outline of the systems for internal control and risk management

The Internal Auditing Dept., established as a department under the direct control of the president, conducts regular audits to ensure that the management activities of the company and Group companies are carried out appropriately, based on legal and internal corporate regulations and standards. The department works with the corporate auditor and accounting auditor to conduct internal control audits of financial reports. The Board of Directors incorporates ideas from the audit results into the company-wide risk management system. Another way we are strengthening the system is by establishing committees and subcommittees under the Board of Directors and Management Conference to examine the separate areas of corporate risk management, compliance, safety & health, quality control, the environment, and other issues.

## Efforts Toward Sustainability

The Group recognizes the addressing of sustainability issues as an extremely important management issue, and has identified six materiality issues (key management issues) for 2020. From the perspective of sustainable growth and enhancement of the Group's corporate value over the medium to long term, the divisions in charge of business operations are actively addressing specific topics through discussions at the committee and subcommittee level, setting targets and KPIs to address these materiality issues. In addition, the Board of Directors regularly receives reports on these efforts and supervises the materiality initiatives. (See pp. 11-12 Response to Sustainability Issues.)