April 30, 2024

Company name:	Kyoei Steel, Ltd.
Representative:	Yasuyuki Hirotomi, President and Representative Director (Stock code: 5440, TSE Prime Market)
Inquiries:	Akinori Masuda, Executive Officer and General Manager of Corporate Planning Dept. (Tel. 06-6346-5221)

Kyoei Steel Group's Medium-Term Business Plan, "NeXuS II 2026"
~ ONE KYOEI, aiming to be a 100-year company ~

We are pleased to announce that the Kyoei Steel Group has formulated "NeXuS II 2026," a new medium-term business plan covering three years through fiscal 2026.

1. Review of previous medium-term business plan

Since fiscal 2021, the group has worked to strengthen the Domestic Steel, Overseas Steel, and Material Recycling businesses with the aim of establishing a global tripolar structure under a long-term scenario of "becoming an essential company that contributes to the realization of a resource-circulating society" as set out in "NeXuS 2023," a medium-term business plan covering a period through fiscal 2023 ("previous MTBP").

We have worked on a growth strategy to achieve final-year quantitative targets, including 4 million tons in product shipments, 290 billion yen in net sales, and 18 billion yen in ordinary profit. Although we fell short of the product shipment target, we did exceed the net sales and ordinary profit targets, reaching 321 billion yen and 21 billion yen, respectively, in the final fiscal year. The key driver was significant profits recorded in the Domestic Steel Business. We believe we generally managed to reach our goals for the key measures despite facing setbacks amid the COVID-19 pandemic. On the other hand, in the Overseas Steel Business, issues remained for our endeavor to establish a stable profit structure, affected by a significant deterioration in our Vietnamese operation due to the impact of an unexpected slump in the local property market since the second half of 2022. In addition, we have concluded that issues remain in terms of safe and stable operation due to the occurrence of accidents at both Japanese and overseas plants.

In terms of qualitative aspects, under the key word of "NeXuS," we worked to strengthen the three "powers for connections," namely, the power for connections among group companies, the power for connections outside the Kyoei Steel Group, and the power to advance to the next stage. We have worked to strengthen collaboration between group companies, promote joint research projects with universities, etc. and researchers, and build new training programs through the Human Resource Development Section, which have begun to bear fruit in some areas. Yet, these are efforts that take a long time, and we think issues still remain. We will continue to work to increase the Kyoei Steel Group's overall strengths, increase external cooperation and partnerships, and create more value that is not readily visible, including intangible assets, under the key word of "NeXuS."

I	**The power for connections among group companies**	**▶**	**Increase the Kyoei Steel Group's overall strengths**
▶	**Increase the Kyoei Steel Group's overall strengths**	**▶**	**Increase external cooperation and partnerships**
III	**The power to advance to the next stage**	**▶**	**Create more value that is not readily visible**

Thus, the previous MTBP has left us with issues that we still need to address, but we have concluded that we have achieved reasonable results overall.

2. External environment

While the situation caused by the COVID-19 pandemic is returning to normal globally, geopolitical risk and country risk are increasing, including the Russian invasion of Ukraine and the situation in the Middle East. In addition, people are turning their attention to corporate social responsibility efforts to combat climate change. Furthermore, Japan is transitioning from an aging society to a society with a dwindling population, and a labor shortage is expected. In addition, with the arrival of an era of inflation, prices are expected to remain on the rise for some time. Meanwhile, IT will continue to evolve, and digital transformation efforts, such as generative AI, are expected to accelerate. With regard to our business environment, the global demand for steel is expected to increase over the medium to long term, driven by increases in demand from the construction industry stimulated by infrastructure investment in Asian and other emerging economies. By contrast, demand for construction-use steel materials is expected to contract in Japan over the medium to long term, dragged down by declining housing investment caused by a shrinking population, although nonresidential investment for businesses and public civil engineering investment are expected to remain resilient.

3. Priority policies

Based on our review of the previous MTBP and given the external environment, the Kyoei Steel Group has formulated "NeXuS II 2026," our new medium-term business plan covering a period through fiscal 2026 ("this MTBP").

Under this MTBP, we are focusing on the following six priority policies.

<Initiatives for business growth>

(1) Overseas Steel Business: Strengthening North American business and restructuring Vietnamese business

We are working to establish a global tripolar structure with a "glocal niche strategy," believing that the group's growth strategy should be to take advantage of its strength in cost competitiveness and sales capabilities of the Domestic Steel Business to expand its business horizontally into the growing global market. However, the Overseas Steel Business has fallen into deficit, affected especially by a deteriorated business environment in Vietnam, and we believe that rebuilding the global tripolar structure is our top priority. Thus, we will shift the focus of the investment strategy for the Overseas Steel Business to the North America business from the Vietnam business, where major investment projects have largely been completed. In the Vietnamese business, we aim to strengthen cost competitiveness by commencing operation of a new rolling line that is currently under construction (completion of an integrated steel-making and rolling production structure) in the northern part of the country and, in the southern part of the country, we aim to strengthen quality and rebuild the business by mitigating the risk of fluctuations in business performance through low-inventory operation with controlled output. In the North American business, we plan to spend about 60 billion yen to capture solid demand and boost sales in both the United States and Canada. We will work to increase revenues by strengthening our cost competitiveness, improving productivity, and increasing output and shipments, with M&A as an option and with a primary focus on addressing the aging of facilities in the U.S.

(2) Domestic Steel Business: Strengthening connections and improving quality through a four-division domestic structure

In March 2024, Kyoei Steel, Ltd. merged with Kanto Steel Ltd., a consolidated subsidiary, and made it its Kanto Division. Having thus established a four-division domestic structure, we aim to improve efficiency of the sales structure through stepped-up coordination and develop a stable product supply structure, and work to boost our presence in the Kanto region, which provides the largest demand for our products. Furthermore, we will work to maintain stable revenues through upstream strategies, including diversified procurement of iron scrap, which is our main production material; a downstream strategy of strengthening value-added products, such as processed products; and measures that contribute to quality improvement, such as the strengthening of delivery functions.

(3) Material Recycling Business and peripheral steel businesses

In the Material Recycling Business, we aim to once again showcase the strengths we have developed over the 35 years in which we have made steel and processed waste in an integrated manner and the amount of waste we process In particular, we will strive to strengthen the handling of difficult-to-treat waste that has become a social issue, such as asbestos, taking advantage of our track record as a pioneer in electric furnace melting treatment and the many licenses and permits we hold. We will also strengthen our circular-economy initiatives to help realize a resource-circulating society.

In peripheral steel businesses, we will strive to ensure stable growth of the casting business we operate in Japan and Vietnam.

<Strengthening foundations that support growth>

(4) Strengthening efforts for intangible-asset investment

We will strive to improve our corporate value by actively investing not only in financial capital and manufacturing capital but also in intangible assets such as human capital and brand value, which carry "invisible" value. With regard to human capital investment, we will return to the basics as represented by the saying, "A company is its people," implement measures that enable employees to feel material benefits, self-fulfillment, a sense of solidarity, and empathy for our corporate philosophy, increase their engagement, and strengthen the three powers for connections. Specifically, we will work on projects to construct new offices and welfare facilities, promote labor-saving and safety investments, hire diverse personnel, enhance training programs, revitalize the trainee system, and promote health and productivity management. With regard to brand value, we aim to increase the brand recognition of our business model, which is "a resource recycling business that simultaneously conducts Steel and Material Recycling businesses with electric furnaces at its core," and spread this brand awareness among a wide range of stakeholders, thereby increasing our corporate value.

(5) ESG-oriented corporate management aiming for a "100-year company"

As part of our environmental efforts, we aim to reduce CO_2 emissions from our domestic plants by 50% from fiscal 2013 levels by fiscal 2030 for the eventual target of "carbon neutrality by 2050." As specific measures, we will continue to work on initiatives to reduce CO_2 emissions, including fuel conversion, the installation of solar panels, and consideration of the use of renewable energy electricity. We will also continue our efforts to achieve the recycling of the by-products of steelmaking.

As part of our social initiatives, we will promote activities that contribute to local communities, such as the MESSCUD Medical Treatment Safety Fund and other donation activities, and olive tree planting activities near our Yamaguchi Division, and will allocate about 0.5% of our consolidated net profit for these activities.

In terms of our efforts on corporate governance, we will work to maintain diversity on the Board of Directors, strengthen our risk management system by further enhancing the Corporate Risk Management Committee, and strengthen our information security system.

(6) Strengthening the management base

In response to the accident that occurred during the period covered by the previous MTBP, we will strengthen our efforts toward safe and stable operations. Specifically, we will set up an engineering division, prevent problems by conducting regular inspections of factories in Japan and overseas, and promote transfer of technology through education for younger engineers.

While we have worked to strengthen our sales foundation by standardizing and systematizing the flow of operations as as part of our sales operation reforms under the previous MTBP, under this MTBP, we will also advance our efforts to turn the production bases into smart factories, and work on “manufacturing-driven digital transformation” that utilizes data and digital technology in all aspects of manufacturing, sales, and management.

In addition, we will consider diversifying our funding sources in order to support our investment plans to actively carry out measures, maintain financial discipline, and maintain our current credit rating.

4. Quantitative targets under NeXuS II 2026 medium-term business plan

The quantitative targets and KPIs for fiscal 2026, the final year of the period covered by this MTBP, are as follows.

[Financial KPIs]

Net sales	380 billion yen
Ordinary profit	25 billion yen
Shipment volume	4 million tons (1.6 million tons in Japan / 2.4 million tons overseas)
ROE	At least 8.0%
Equity to total assets	At least 50%
Net debt equity ratio	No more than 0.5
Dividend payout ratio	30% to 35%
Investment plan	110 billion yen/3 years

[Nonfinancial KPIs]

CO_2 emissions	Reduction of 50% (Fiscal 2030 target vs. fiscal 2013: 4 domestic plants)
Ratio of female career-track employees	At least 15% (nonconsolidated basis)
Ratio of females in managerial positions	At least 3.0% (nonconsolidated basis)
Education and training costs/person	150,000 yen (nonconsolidated basis) *1.5 times the amount for fiscal 2022
Social contribution activity expenditures	About 0.5% of consolidated net profit

With regard to capital expenditures, in addition to investments for maintenance and updating of equipment, we plan to invest a total of about 110 billion yen over three years, mainly including strategic investments to strengthen the Overseas Steel Business, particularly in North America, investments in intangible assets, including human capital and brand value, and environmental investments to help reduce CO_2 emissions, as well as investments under the previous MTBP that were postponed.

5. Measures to help realize corporate management that takes into account capital costs and share prices

The Company’s ROE for the year ended March 31, 2024 reached 7.4%, exceeding the target of at least 7.0% set under the previous MTBP. It also exceeded the cost of equity of about 7%. However, affected in part by the decline in earnings of the Overseas Steel Business associated with a deteriorated business environment in Vietnam, the valuation of the Company’s shares has not yet reached sufficient levels, with the price-to-book ratio (PBR) remaining at a low level of below 1.0.

Given these circumstances, we are giving top priority to the restructuring of the Overseas Steel Business, including the Vietnam business, and, by implementing each of the "Initiatives for business growth" outlined in the above "Priority policies," we aim to achieve ROE (return on equity) of at least 8.0% and establish a stable earnings base. At the same time, we will revise the dividend policy to strengthen shareholder returns, raising the dividend payout ratio to "30%-35%" from the previous "25%-30%." We will also invest in intangible assets, including human capital and branding, as part of our efforts to strengthen the foundations that support growth, and work to improve PBR by stepping up our IR activities. We believe these efforts will lead to sustainable management toward a "100-year company" and to realizing the long-term scenario of "becoming an essential company that contributes to the realization of a resource-circulating society."