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## **The Kyoei Steel Group “Quality Up 2020” Medium-term Business Plan “Taking on new challenges to make the Kyoei Steel Group even stronger”**

Kyoei Steel, Ltd. has established a new medium-term business plan called “Quality Up 2020” that covers the three-year period ending in March 2021 (FY2021).

The global economy is expected to continue to post solid growth due to the consistent expansion of the U.S. and Chinese economies and the effect of economic activity benefits from increasing populations in Asia and Africa. In Japan, the outlook is for slow economic growth as the population declines along with the increasing number of older people and falling number of children. Furthermore, the outlook for the global economy requires caution regarding excessive trade protectionism, the tendency of countries to put their own interests first and geopolitical risk.

Enormous social changes are taking place worldwide. The primary reason is the remarkable speed of technological progress that is often referred to as the fourth industrial revolution. Advances are taking place in artificial intelligence, the Internet of things, electric vehicles, self-driving cars and many other fields.

One more key trend is the need for companies around the world to contribute to the creation of a sustainable society. For example, companies need to support the Sustainable Development Goals of the United Nations and play a role in achieving the goals of the Paris Agreement for reducing greenhouse-gas emissions that was reached at the Paris climate change conference 2015 (COP21).

In the integrated and electric-arc furnace steel industries, global steel demand was 1.59 billion tons in 2017 and the long-term outlook is for steady growth in demand. Building and infrastructure construction in emerging countries in Asia, Africa and other regions will probably be a major source of growth of steel demand. In Japan, the demand for steel is expected to remain firm for the time being. Demand will be supported by legacy effects of the 2020 Tokyo Olympics, expenditures to update and replace urban infrastructures, and investments for redevelopment projects. However, the business climate in Japan will eventually become challenging because of the country’s declining population.

Kyoei Steel celebrated its 70th anniversary in December 2017. Having reached this milestone, we are now looking ahead to the 100th anniversary of our establishment in 2047. By reaffirming our dedication to our “Spirit of Challenge” management philosophy, which was at the heart of our founding, we are determined to be a high-quality corporate group that can be even more trusted and earn an even better reputation among customers, the public and all other stakeholders. To accomplish this goal, we have established a vision for our group that has four central elements. First is to contribute to the creation of sound infrastructures and a better environment worldwide. Second is to increase earnings and give back to all stakeholders. Third is to place emphasis on compliance and quality. Fourth is to provide workplaces that are stimulating, pleasant and safe.

The “Quality Up 2020” medium-term business plan (“the medium-term plan”), which has the slogan “taking on new challenges to make the Kyoei Steel Group even stronger,” is structured to make this vision a reality.

## 1. Business Plan

“Quality Up 2020” has the following targets for the plan’s final year, which is the fiscal year ending in March 2021.

	FY2018 (Results)	FY2019 (Forecast)	FY2021 (Plan)
Net sales (Billion yen)	191.3	235.0	280.0
Ordinary profit (Billion yen)	4.1	7.0	14.0
Shipment volume (Tons)	2,970,000	3,260,000	4,000,000
(Japan)	1,680,000	1,740,000	1,800,000
(Overseas)	1,280,000	1,520,000	2,200,000
ROS	2.1%	3.0%	5% or more
ROE	2.5%	3.5%	6% or more
Dividend payout ratio	49.8%	Approx. 30%	Approx. 30%
Capital expenditures and business investments	10.4 billion yen	45.0 billion yen/ 3 years	

- Notes: 1. The FY2018 dividend payout ratio includes a commemorative dividend of 10 yen per share for Kyohei Steel’s 70th anniversary.  
2. Capital expenditures and business investments of 45 billion yen during the three-year medium-term plan include expenditures already made during the first half of FY2019.

## 2. Basic Policy

To become a corporate group that is trusted even more by stakeholders and has an excellent reputation among stakeholders, the medium-term plan has “quality up” goals for the management, work practices and people of group companies.

Management	Reinforce governance, place priority on compliance and build a stronger quality management framework
Work practices	Use advanced steel mill operating technologies, strengthen sales capabilities, and improve the quality of customer services
People	Cultivate human resources to be self-reliant, recruit and fully utilize many types of people

## 3. Initiatives

Each business segment has core objectives. The domestic steel business aims to become more competitive and improve productivity. The overseas steel business is focusing on increasing the volume of shipments and becoming more profitable. The material recycling business and peripheral steel business is working on increasing opportunities to earn profits. Furthermore, the entire group is taking steps to strengthen the management foundation to support these initiatives.

### (1) Domestic Steel Business – Become more competitive and improve productivity

- Establish an infrastructure for annual shipments within Japan of 1.8 million tons and increase earnings per ton.
- Lower the cost of manufacturing by building more efficient production systems, using more advanced mill operating technologies and making other improvements.
- Improve sales capabilities by increasing the skills of all sales personnel, upgrading customer services, and implementing business process reforms for purchasing, sales and shipping.
- Make investments to replace or reinforce older production equipment. Develop products that reflect the increasing diversity of building construction methods.

- Retain an open mind regarding industry realignment and business alliances in order to maintain a proper competitive environment for Japan's electric arc furnace steel industry and contribute to the sound advancement of this industry.
- (2) Overseas Steel Business – Increase the volume of shipments and become more profitable
- Increase the earnings of this business to about 30% of total group earnings by building a framework for annual shipments of 2.2 million tons and raising earnings per ton.
  - Make capital expenditures in Vietnam and the United States for increasing production and sales, cost-cutting, and manufacturing steel products more efficiently.
  - In Vietnam, unify the operations of the two companies in northern Vietnam and have steel operations and harbor operations in southern Vietnam work more closely together.
  - Continue to seek opportunities to expand the U.S. operations and to start operations in other areas of the world.
- (3) Material Recycling Business and Peripheral Steel Businesses – Increase opportunities to earn profits
- Increase the earnings of these two businesses so they can consistently account for about 10% of total group earnings.
  - In the material recycling business, provide high-quality waste processing by using electric arc furnaces for melting that makes waste materials completely harmless. Also strengthen management capabilities to earn greater trust among customers and make the Kyoei Steel brand more powerful.  
In addition, consider making investments in waste material treatment equipment, forming alliances with other companies, and starting operations in other countries.
  - In the peripheral steel business, improve the profitability of subsidiaries, develop new products, diversify business activities and seek opportunities to start new businesses.
- (4) Strengthen the management foundation
- Reinforce the governance framework to earn the long-term trust of stakeholders and an excellent reputation. Also make compliance a priority and take steps for upgrading quality management.
  - Give people, who will be vital to the Kyoei Group's growth, the knowledge and skills to be self-reliant, recruit and fully utilize many types of people. Also provide workplaces that are stimulating, pleasant and safe.
  - Increase ties among business sites in Japan and subsidiaries in Japan and other countries in order to build a structure that can take full advantage of the Kyoei Steel Group's strengths and resources.
  - Automate and use machines more in other ways for workplace safety and the use of fewer or no people. Also start utilizing artificial intelligence and the Internet of things for next-generation steel mill operations and other business processes.
  - Increase measures to consume less energy and reduce CO2 emissions and expand corporate social responsibility activities.
  - Establish and implement the most suitable investment and financial strategies in order to maintain financial soundness while taking into account the cost of capital.