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The Kyoei Steel Group NeXuS 2023 Medium-term Business Plan **For a bright future through coexistence with earth**

Kyoei Steel, Ltd. has established a new medium-term business plan called NeXuS 2023 that covers the three-year period ending in March 2024 (FY2024).

1. Assessment of the previous medium-term business plan

In March 2021, the Kyoei Steel Group completed a three-year medium-term business plan called Quality Up 2020. All group companies used many activities in order to achieve the goals of this plan.

During this plan, there were activities based on growth strategy for reaching the numerical targets such as shipments of 4 million tons and ordinary profit of 14 billion yen in the plan's final year. Although shipments of products and sales fell short of the plan's targets, ordinary profit surpassed the target in FY2020, the plan's second year, and was far higher than the target for cumulative ordinary profit during the plan's three years. A big increase in earnings in the Domestic Steel Business was responsible for this accomplishment. In the Overseas Steel Business, the scale of operations increased because of the March 2020 acquisition of AltaSteel Inc. in Canada and other activities. However, this business was not able to achieve stable profitability because of intense competition in Vietnam, the impact of COVID-19 in North America and other reasons.

The business plan also included three "quality up" goals for the management, work practices and people of group companies. There were many accomplishments during the plan, including personnel system reforms, expanded and upgraded training programs for employees, reforms for sales activities, and daytime operation of our Tokyo area business site.

Although more work is needed regarding some of the goals of this plan, there were many significant accomplishments overall during the past three years.

2. Business climate

Dramatic changes are taking place in the traditional social structures and values because of the enormous impact on social and economic activity of the global COVID-19 pandemic. One result of these changes is the increasing public awareness in Japan and other countries of the urgency of taking actions involving the Sustainable Development Goals. There are now strong demands for companies to use their business activities for helping achieve carbon neutrality and the recycling and reuse of resources. In addition, the emergence of the weaknesses of supply chains that rely on businesses in other countries has raised interest in business models in which products are manufactured where they are consumed or used. Another important trend is the shift from conventional management that puts shareholders first to a stance that encompasses relationships with employees, communities and all other stakeholders. An increasing number of companies are basing operations on stakeholder capitalism, which has the goal of using business activities to create benefits for stakeholders. At the same time, companies need to reflect the increasing speed of the digital transformation (DX) in their operations.

The worldwide demand for steel is expected to remain high because of expanded construction activity associated with infrastructure investments in emerging countries and for other reasons. In Japan, the medium to long-term outlook is for a decline in the demand for steel due to a downturn in housing investments as the country's population falls, lower automobile production and other reasons.

3. Basic stance for NeXuS 2023

Since its inception, Kyoei Steel has been guided by the corporate philosophy of “using steelmaking to contribute to society.” The core electric arc furnace business recycles resources by enabling the use of steel scrap for the fabrication of other products. This plays an important role regarding the goal of achieving a sustainable society. With the goal of being a “100-year company,” Kyoei Steel has established a vision with the following four elements, all of which are based on the “Spirit of Challenge” management philosophy that was at the heart of our founding. First is to contribute to building infrastructure worldwide and protecting the global environment. Second is to provide benefits for all stakeholders. Third is to ensure that all workplaces are safe and pleasant. Fourth is to be a highly trusted company that places priority on compliance and quality. The overall objective is to be recognized as an outstanding company that advances in harmony with society and the global environment.

The NeXuS 2023 medium-term business plan was established for the purpose of making progress toward accomplishing these goals. The plan has the following slogan: Connections for coexistence with the world and a bright future.

The word “nexus” (connection) was selected as the name of this plan in order to express the goal of using connections to increase the following three categories of our power.

- (1) The power for connections among group companies
Increase the Kyoei Steel Group’s overall strengths
- (2) The power for connections outside the Kyoei Steel Group
Increase external cooperation and partnerships
- (3) The power to advance to the next stage of advancement
Create more value that is not readily visible

The first goal involves the use of even more interaction and cooperation between business sites worldwide as well as between these sites and the head office in order to increase the power of the Kyoei Steel Group. The second goal involves the use of alliances and joint research with other companies and partnerships with academic institutions in order to create innovative technologies. The third goal involves increasing the types of value that are not readily visible in order to be a “100-year company.” The corporate image and brand, mindset of employees and workplace culture are examples of this type of value.

4. Numerical targets of NeXuS 2023

The new business plan has the following key performance indicator targets for the plan’s final year, which ends in March 2024.

Net sales	290 billion yen
Ordinary profit	18 billion yen
Shipment volume (Tons)	4,000,000 (Japan: 1,700,000; Overseas 2,300,000)
ROE	7% or more
ROS	6% or more
Equity to total assets	50% or more
Net debt equity ratio	0.25 times or less
Dividend payout ratio	Approx. 30% (Minimum dividend per share of 30 yen)

- Capital expenditures of 60 billion yen are planned during the plan’s three years. These expenditures will be mainly for equipment maintenance and upgrades, strategic investments for increasing production capacity and sales and for starting new businesses, and investments for lowering CO₂ emissions.
- The goal for CO₂ emissions is to reduce these emissions from manufacturing operations in Japan (Kyoei Steel and Kanto Steel) by 50% compared with emissions in FY2014 by FY2031.

5. Basic policies

The new medium-term business plan has the following basic policies, all of which reflect an assessment of accomplishments during the previous plan and the current business climate.

Activities for growth

(1) Overseas Steel Business – Become more profitable and build a base for growth

There is an urgent need for activities to improve the profitability of Overseas Steel Business. The plan is to cut expenses and boost productivity by using closer ties with operations in Japan to upgrade technologies and by improving equipment at overseas bases. The goal is to generate consistent earnings at operations in Vietnam and North America. Another goal is to add production equipment and use other measures to build a framework for annual shipments of 2.3 million tons. And then, our overseas action plan “GLOCAL NICHE,” which is a strategy for both the global and local niche markets, will be used to set the stage for growth in the scale of operations outside Japan.

(2) Domestic Steel Business – Become more competitive and upgrade equipment for more progress in the future

In Japan, the Kyohei Steel Group will continue take actions aimed at cutting expenses, increasing sales capabilities and other measures to become more competitive. To maintain the future operations of the core domestic steel business, large capital expenditures will be considered at all locations in Japan to update aging equipment and improve productivity. In addition, all locations will add equipment for conserving energy and using fewer people as well as for increasing the safety and stability of operations. The goal is to maintain a framework capable of annual shipments of 1.7 million tons.

(3) Material Recycling Business and peripheral steel businesses – Increase opportunities to earn profits

In the Material Recycling Business, there have been difficulties for years concerning the expansion of processing capacity for waste materials. The reason is that the amount of materials that can be processed (melted) using electric arc furnaces is limited by the level of steel production. The plan is to increase processing capacity by building environmentally responsible processing facilities, using M&A and taking other actions. At the same time, this business will use the reliability of electric arc furnace processing, which is its greatest strength, to increase activities for waste materials that are difficult to process. Examples include automotive lithium-ion batteries or carbon fiber, for which increasing processing needs are expected, and asbestos, which have been one of social problems. All activities will focus on preserving the current high quality of services. Developing resource recycling technologies is another priority in order to become a company that meets the highest standards of recycling.

To extend activities of the peripheral steel businesses to more market sectors, the goals are the growth of the processed product business and casting operations while reflecting customers’ needs and the development of new products and other measures for diversification.

ESG initiatives and establishment of a stronger foundation for growth

(4) More activities for carbon neutrality and the recycling and reuse of resources

As a first step toward the goal of effectively eliminating CO₂ emissions by 2050, all production bases in Japan (Kyohei Steel and Kanto Steel) aim to cut their CO₂ emissions to at least 50% below the FY2014 level by FY2031. This goal is to be achieved by reducing the energy intensity of production processes and replacing currently used fuels with cleaner burning substances.

Plans for reducing CO₂ emissions also include the installation of more solar panels, planting vegetation, using electricity from renewable sources and other steps. All these activities will be accompanied by the disclosure of information in accordance with recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

Kyohei Steel Group environmental programs will also include measures to increase the amount of byproducts of

steel production that are reused and to aim for recycling all of these byproducts.

(5) More activities that produce benefits for all stakeholders

The Kyoei Steel Group is committed to using business and other activities in order to produce benefits for employees, customers, business partners, communities, shareholders and all other stakeholders. Our business operations and growth rely above all on our employees. This is why we place emphasis on “health management,” which means maintaining safe and pleasant workplaces, helping employees stay healthy, and providing a variety of benefits. Furthermore, group companies will continue to hire many types of people and upgrade education and training programs in order to give employees more and better skills while preserving a diverse and competitive workforce. Measures to enable women to have rewarding careers at the group and to provide jobs for people with disabilities are also key components of these workforce programs.

For customers and business partners, activities will focus on building even stronger relationships rooted in trust by strengthening a quality control system and rigorously implementing compliance programs.

For communities, group companies will continue activities involving the environment of areas where business sites are located, make contributions to worthy causes in these areas and provide other forms of support. All business sites aim to become an even more trusted member of the communities where they operate.

For shareholders and other investors, Kyoei Steel will continue to disclose a broad range of information, including non-financial information, and maintain strong lines of communication for dialogues with shareholders and other investors.

(6) Strengthen management framework of the Kyoei Steel Group

Activities are planned for building an even stronger framework for management in order to support measures for more growth.

One goal is to strengthen the group’s financial position by diversifying fund procurement channels, such as by issuing bonds, and following guidelines concerning financial discipline. Strengthening administrative capabilities of group companies is another goal, such as by upgrading compliance education at every group company. Reinforcing information security and IT audits will be another element of measures involving administrative capabilities.

In addition, the Kyoei Steel Group plans to complete the IT system reforms for sales operations which started during the previous plan, promote the transition to paperless operations, use robot process automation for repetitive tasks, create smart factories by using AI/IoT for production processes, and utilize digital technologies in many other ways.