

Sanyo Special Steel Co., Ltd.
IR Briefing Regarding the Business Results for the FY2019
Q&A Summary

Date: Thursday, April 30, 2020

Speaker: Director, Member of the Board and Managing Executive Officer;
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** Please be noted that the actual Q&A session was in Japanese and this English translation is prepared for reference purpose only.*

Q. Mahindra Sanyo Special Steel (MSSS), your affiliated company in India, carried out a write-off of goodwill. How much will the amount of goodwill amortization decrease from FY 2020 per year?

A. It will decrease by 400 million yen per year.

Q. If Ovako's earnings improvement would be pushed back, would there be any risk of impairment, similar to what happened at MSSS?

A. Even though Ovako had operating loss in 2019, and the business environment in Europe will be quite severe due to the effect of the COVID-19 in 2020, Ovako recorded an operating profit in FY2018. Therefore, the pre-condition of "three consecutive years of operating losses", an important benchmark to judge impairment, does not apply to Ovako. In addition, Ovako has longer goodwill amortization period (15 years) than MSSS (5years), hence Ovako has more potential to secure positive cash flows over the amortization period. Furthermore, we consider the synergy among Ovako, Sanyo and Nippon Steel to be quite significant in the future. Judging from these aspects and elements, we regard the situation of Ovako to be rather different from that of MSSS.

Q. You mentioned that Sanyo has reduced its inventory. It is expected that domestic automakers will sharply lower the production in May and June. Could you please tell about your views on Sanyo's production from April to June? Do you intend to suppress production in line with actual demand, or intend to produce above actual demand since you have mostly completed destocking in your supply chain?

A. At this point, it is very difficult to predict how the production level will be. After the 2008/2009 financial crisis, the production was considerably and radically reduced since there was abundant stock throughout the supply chain. As of today, the production level has been far lower than that of 2008, due to the progress of destocking in 2019, so we expect the drop to be not as steep as in 2008/2009. To mitigate the impact of lower production level, we have been improving production efficiency, such as by means of concentrating and limiting production hours in one day, and reducing fixed costs. As you can see from what happened after the 2009/2009 crisis, the demand recovery may be far speedier than we would imagine today, so we will pay continuous attention to capture that recovery momentum as well.

Q. Are there any synergies among Ovako, Nippon Steel and Sanyo that can be implemented ahead of schedule, such as changing manufacturing locations of bearing steel?

A. We have been and will push the progress of synergy among the three companies, especially in the current situation of austere business environment. Even though customer approval is required to switch the manufacturing site, we would like to move these procedures forward as promptly as

possible. Adding to that, in other areas, we already have commenced specific synergy actions such as joint procurement.

Q. Crude oil prices are falling sharply. Could you please tell us about the advantages and disadvantages for Sanyo and Ovako, respectively?

A. The impact of the crude oil price decline on the actual cost will be realized only after 5-6 months on electricity and fuel prices, and hence, only after 8-9 months on financial results. Since procurement volume is currently decreasing, we think the impact on cost saving would be limited to about 60% of what would have been in the past. Sanyo does not manufacture oil related pipe and tube, hence, we think it will not have a direct impact on our sales.

Ovako consumes mainly hydropower, nuclear power, and wind power generated electricity, so the impact of falling crude oil prices is even less than that of Sanyo.

Q. Could you please tell us about demand trends by sector?

A. We anticipate that demand for automobiles will fall significantly due to the standstill of production at automobile factories around the world. The demand of the sector of construction machinery has not decreased so much due to the fact that China is already recovering from the effects of the COVID-19. The sector of Industrial machinery such as robots and machine tools, and the sector of semiconductor are not affected by the virus impact so much due to demand of new investments related to automation and 5G. Since 50% of the final demand of our products is associated with the automotive sector, we consider the trend of the automobiles to be the key point.

Q. Could you please tell us more about the " A full-scale trial using hydrogen to heat steel before rolling " that Ovako announced on April 28, 2020?

A. Ovako's steelmaking plant in Hofors, Sweden, currently using LPG (liquefied petroleum gas) to heat the steel material before rolling, has succeeded in the trial run of heating using hydrogen. Ovako is actively working against global warming, partly since Ovako is based in Europe where environmental restrictions are one of the most stringent.

Ovako expects that the use of hydrogen would contribute to the reduction of carbon dioxide emissions. We will continue to confirm details such as procurement cost of hydrogen and production efficiency.

Q. You mentioned that NSSP, your affiliated company in China, was affected ahead of other production sites by the COVID-19. Could you please tell us about the current situation and future outlook of the NSSP's business?

A. The operation of NSSP resumed in February 2020, and all the restrictions have been lifted since March. We expect that the operating rate of NSSP will be about 60 to 70% of its full capacity for the coming months.

Q. Could you please tell us about the cost outlook such as for electrodes, in FY2020?

A. The price of the electrode rocketed suddenly in FY2018. Then it dropped in the second half of FY2019 to some limited extent. We think that the price level is still too high, so we will continue to work to reduce prices. In addition, we will relentlessly push ourselves to reduce fixed costs, such as repair and maintenance costs and other expenses, and to bring down variable costs, by further concentrating the actual operation to midnight shift.

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