



# Overview of Business Results

for the 1<sup>st</sup> Quarter of Fiscal Year Ending March 31, 2021  
(April 2020 → June 2020)

 **SANYO SPECIAL STEEL Co., Ltd.**

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# Outline of Statements of Income

## 1. Outline of 2020FY1Q Result

Sanyo's sales volume (non-consolidated) was very stagnant comparable to the 2008 financial crisis period. Demand deteriorated due to the expansion of COVID-19 infection. To improve the financial performance, Sanyo introduced profit improvement measures such as reducing overtime, utilizing the unemployment insurance scheme for temporary leave, voluntary partial returning of executive compensation and manager's salary, cutting other expenses, etc. In addition, Sanyo changed the depreciation methods (ref. P13). Nevertheless, We regrettably recorded an ordinary loss in FY20/1Q of 1.8 billion yen, deteriorating by 4.1 billion yen from FY19/1Q.

(Reference) 2020FY/1Q Sales Volume (for Ovako and MSSS; January 2020 to March 2020) (Thousands of ton)

	FY20/1Q (A)	FY19/1Q(B)	Change(B) → (A)	FY19/4Q(C)	Change(C) → (A)
<b>Sales Volume</b>	<b>335</b>	<b>479</b>	<b>-144(-30.1%)</b>	<b>332</b>	<b>+2(+0.7%)</b>
(Sanyo)	137	255	-118(-46.3%)	172	-35(-20.2%)
(Ovako)	173	196	-23(-11.9%)	141	+32(+22.5%)
(MSSS)	25	28	-3(-10.4%)	19	+5(+28.2%)

## 2. Statements of Income (FY20/1Q vs FY19/1Q)

(Unit : Billion yen)

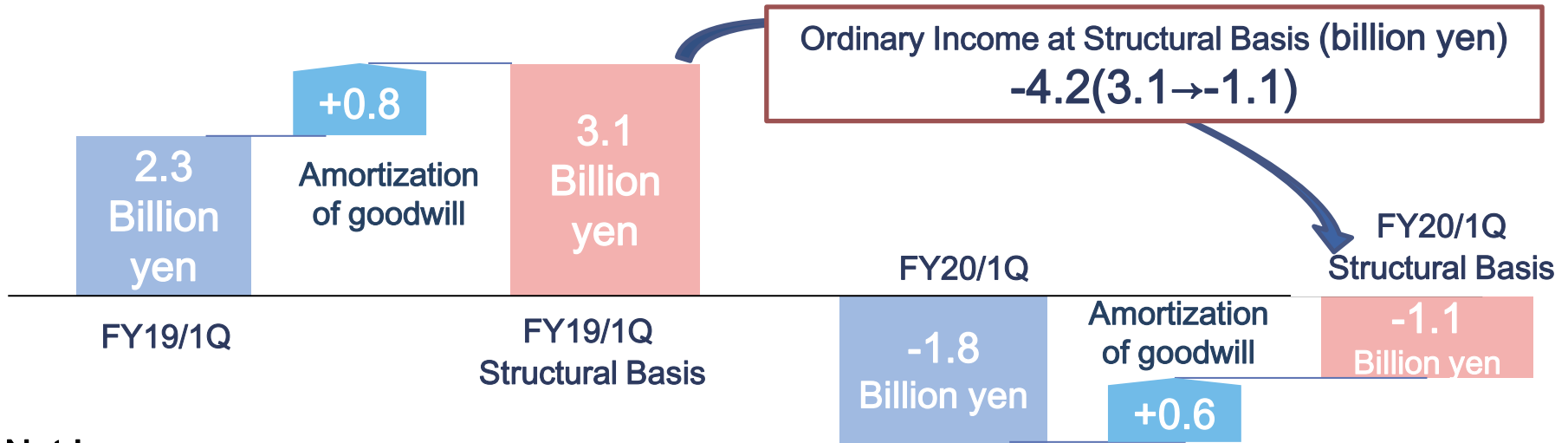
	FY20/1Q (A)		FY19/1Q(B)		Change(B) → (A)	
	Amount	Ratio(%)	Amount	Ratio(%)	Amount	Ratio(%)
Net Sales	53.0	100.0	77.2	100.0	-24.2	-31.3
Operating Income	-1.2	-2.2	2.5	3.2	-3.6	-
Ordinary Income	-1.8	ROS -3.3	2.3	ROS 3.0	-4.1	-
(Sanyo)	-0.8	-	2.5	-	-3.3	-
(Ovako)*1	0.5	-	1.1	-	-0.5	-52.0
(MSSS)*1	-0.3	-	-0.3	-	+0.1	-
(Amortization of goodwill)	-0.6	-	-0.8	-	+0.1	-
Net Income*2	-1.5	-2.8	1.8	2.3	-3.3	-
Net Income (Structural Basis)*3	-0.8	-1.6	2.6	3.3	-3.4	-

\*1 The consolidated accounting period for Ovako and MSSS is January to March 2020. \*2 Profit attributable to owners of parent

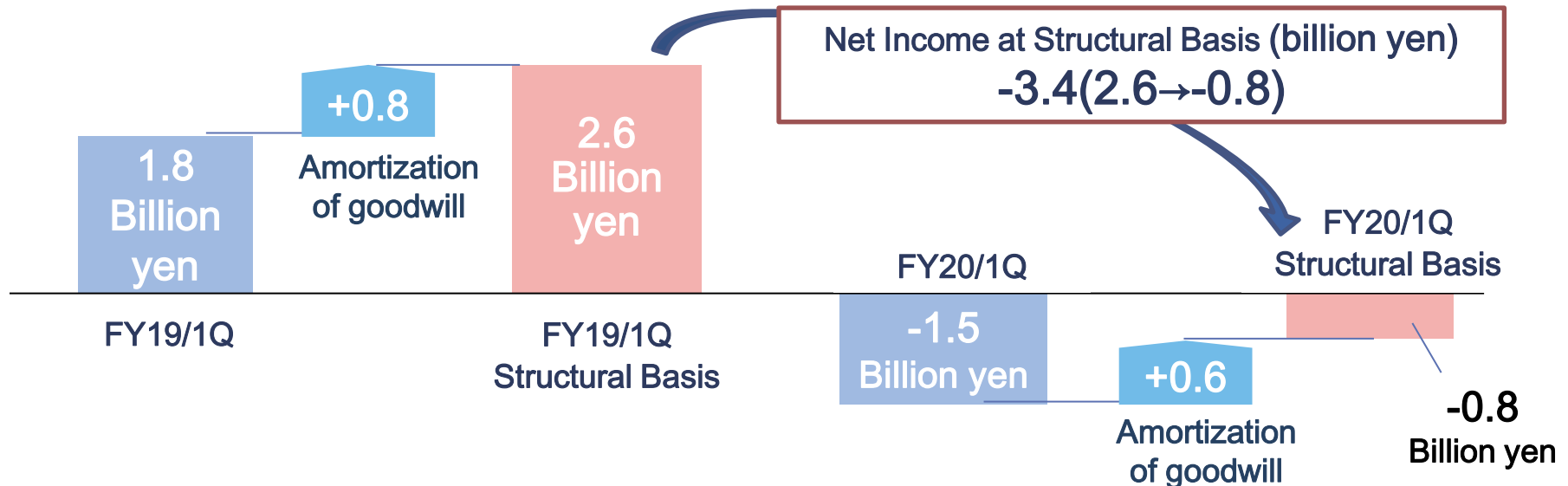
\*3 Adjusted by amortization of goodwill

# Income (Structural Basis) FY19/1Q vs. FY20/1Q

## Ordinary Income

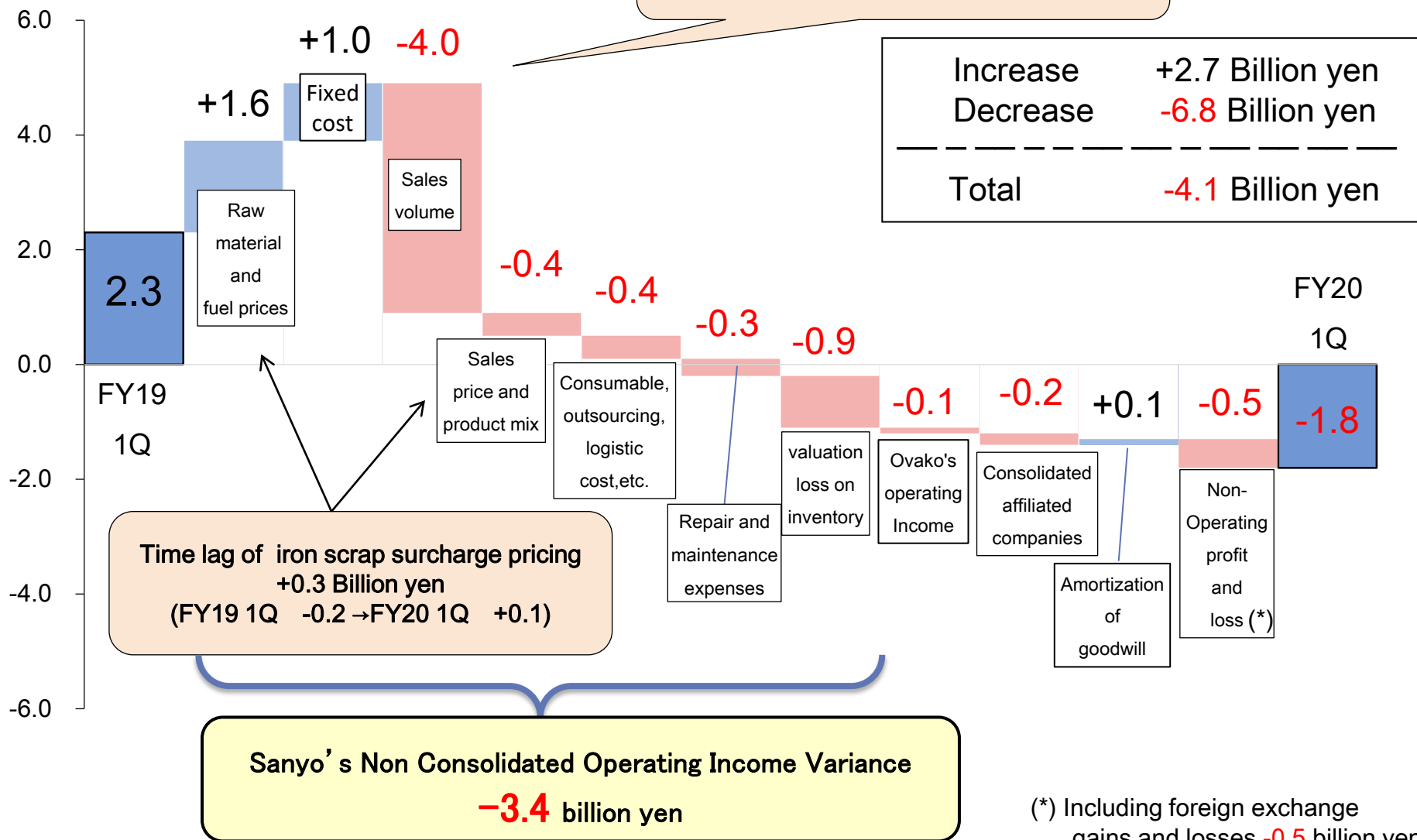


## Net Income



# Ordinary Income Variance Analysis (FY19 1Q → FY20 1Q)

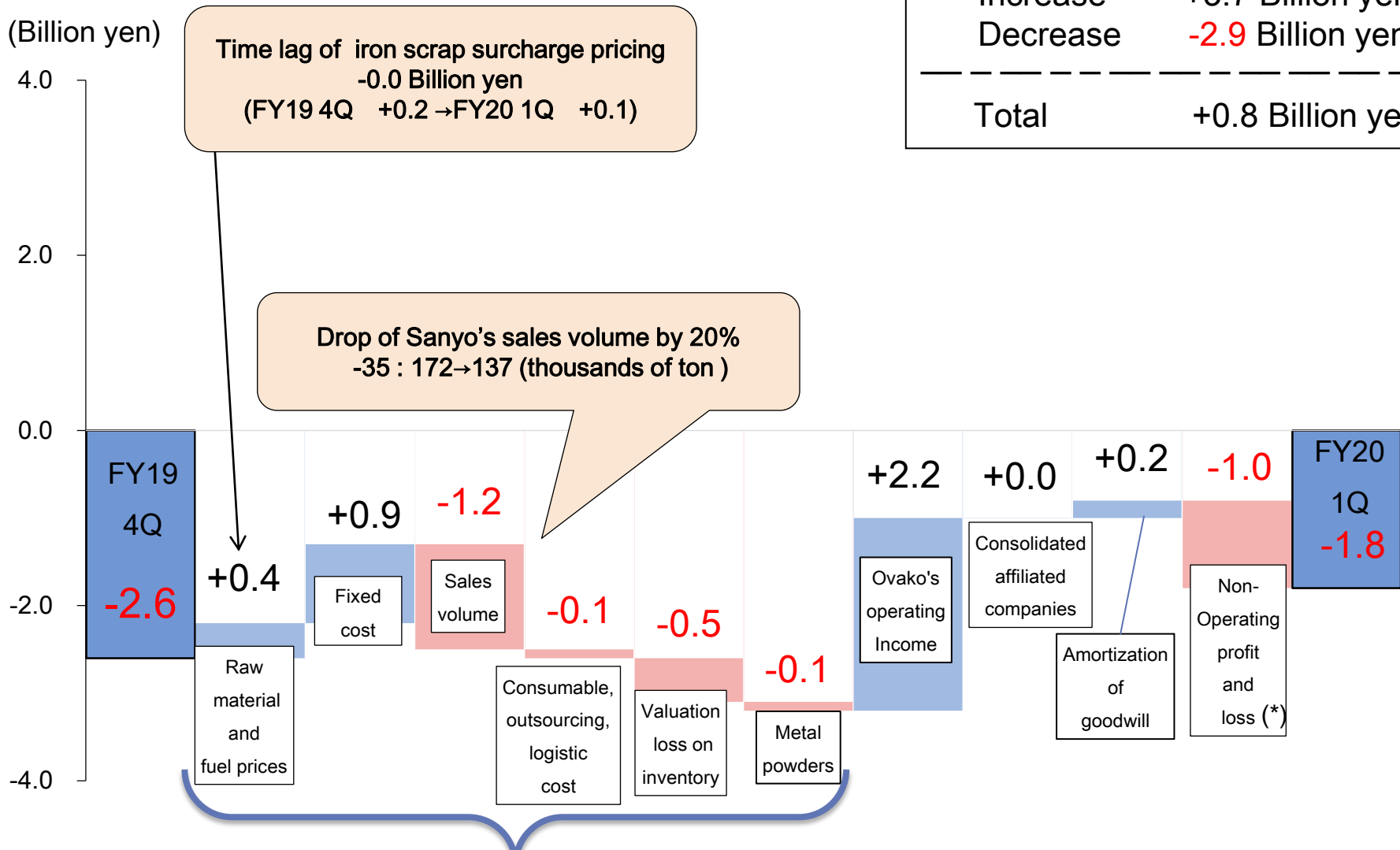
(Billion yen)



(\*) Including foreign exchange gains and losses -0.5 billion yen

# Ordinary Income Variance Analysis (FY19 4Q → FY20 1Q)

Increase	+3.7 Billion yen
Decrease	-2.9 Billion yen
<hr/>	
Total	+0.8 Billion yen

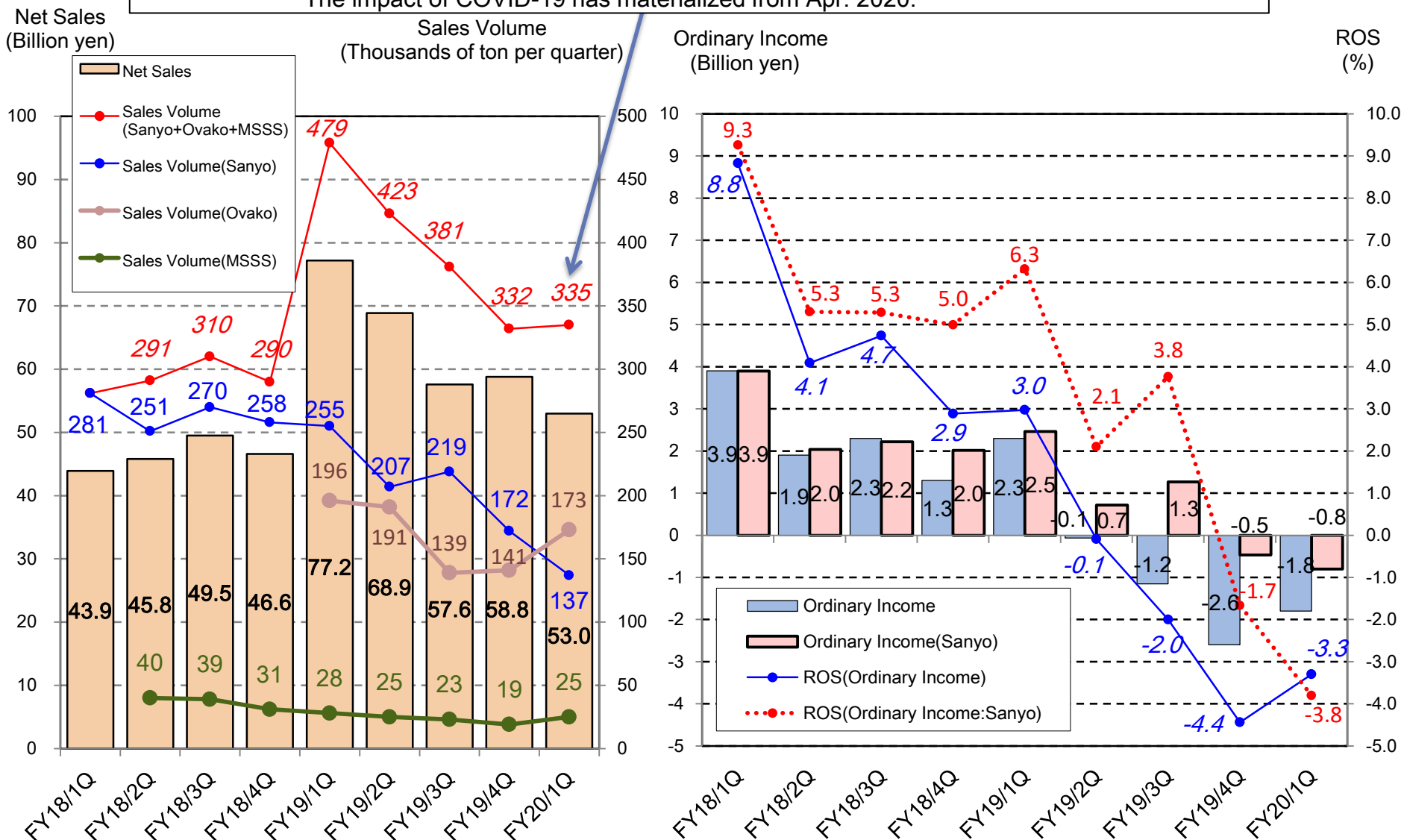


Sanyo's Non Consolidated Operating Income Variance **-0.6** billion yen

(\*) Including foreign exchange gains and losses **-0.9** billion yen

# Net Sales and Income (quarterly)

Sanyo ; Sales volume decreased in Apr. - Jun due to the impact of COVID-19.  
 Ovako,MSSS ; Sales volume increased in Jan. - March 2020 from Oct. – Dec. 2019.  
 The impact of COVID-19 has materialized from Apr. 2020.



# Review of Performance <Sanyo>

## Overview of FY 2020

### (Until 2019)

Acceleration of destocking in main customer industry;  
a) Machine tool, b) Robot, c) Automotive, d) Industrial machinery,  
d) Construction machinery.

↓  
Pursuing optimum production and cost minimum operation &  
Implementing emergency profit improvement measures from FY19/4Q

↓  
Inventory adjustment was expected to mostly complete at the end of FY19/4Q,  
and profit improvement measures were taking effects.

### COVID-19 Impact

Due to the decline of demand, the customer industry re-entered into a destocking phase (see figure on the right). resulting into a significant drop of sales volume.

### (FY20/1Q result)

The ordinary loss was 0.8 billion yen due to the negative effects from the drop of sales volume (down 46% compared to FY19/1Q) and valuation loss on inventory (-0.8 billion yen) by COVID-19 impact.

Positive effects from “emergency profit improvement measures and actions” and “reduction of depreciation expenses by change in depreciation methods” contributed to offset the above mentioned negative effects.

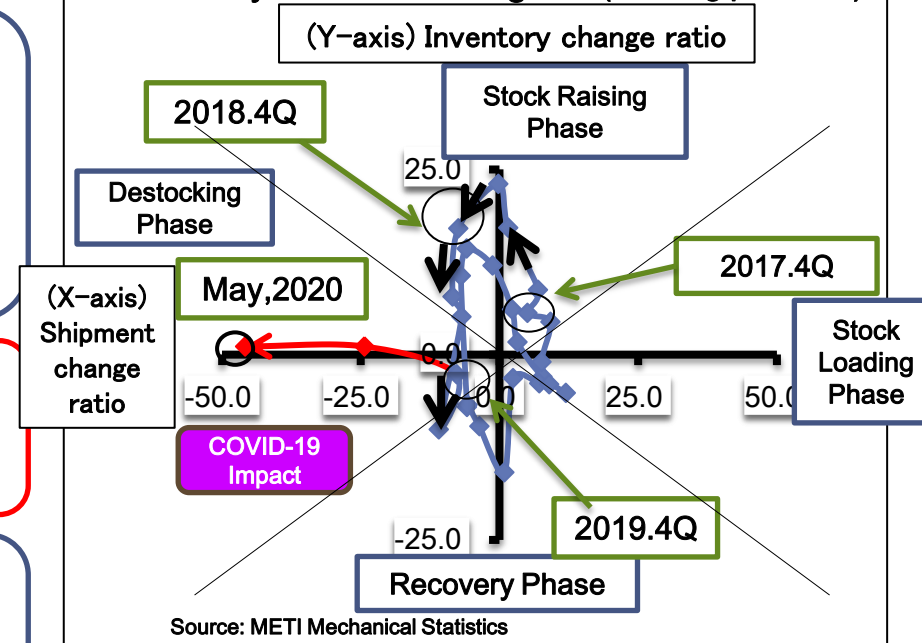
### (FY20 forecast)

The ordinary loss of the 1st half FY20 is expected to be 2.9 billion yen due to the negative effects from further sales volume drop in FY20/2Q. Some of the negative effects are offset by additional positive effect from “the reduction of depreciation expenses by change in depreciation methods”.

The ordinary income of the 2nd half FY20 is expected to be positive, 4.1 billion yen, due to gradual recovery of sales volume compared to the 1st half of FY20, though some of COVID-19 impact will linger until Dec. 2020.

Consequently, the ordinary income for the full FY 20 is expected to be 1.2 billion yen positive.

## Inventory circulation diagram (Bearing products)



## Profit improvement measures and actions

### (1) Acceleration of profit improvement measures

We will further promote the followings to strengthen financial soundness.

- Practicing voluntary partial return of executive compensation and manager's salary as planned.
- Additional reductions in overtime and further utilization of the unemployment insurance program for temporary leave.
- Additional reduction of repair and maintenance expenses and others.

### (2) Effort to lower break-even point

We will bolster the corporate robustness by further pursuing cost minimum operation and through additional reduction of fixed cost, to enable Sanyo being profitable even if production and sales does not return to high level.



Headquarter : Stockholm, Sweden Manufacture and sale of special steel bars, pipes, rings, etc.  
Manufacturing sites in Sweden and Finland. An affiliated company of Sanyo since March 2019.

### Overview of FY 2020

#### Recent trend of market

Since autumn 2018, the demand for special steel in Europe has been stagnant mainly due to U.S.-China trade dispute, Brexit, and automobile sales plunge triggered by WLTP. Nevertheless, the destocking process was completed by end 2019, and the market started to show some signs of recovery in January 2020.

#### Result of 2020 1Q (January to March 2020)

The demand for special steel in Europe recovered in 2020/1Q;Jan.-Mar.2020, and the COVID-19 impact on sales was still limited. Ovako's sales volume for the 1Q was 173kt(+23% increase from 2019/4Q;Oct.-Dec.2019), and Ovako's ordinary income for Jan.-Mar. 2020 was 0.5 billion yen.

#### Forecast for FY2020 (January to December 2020)

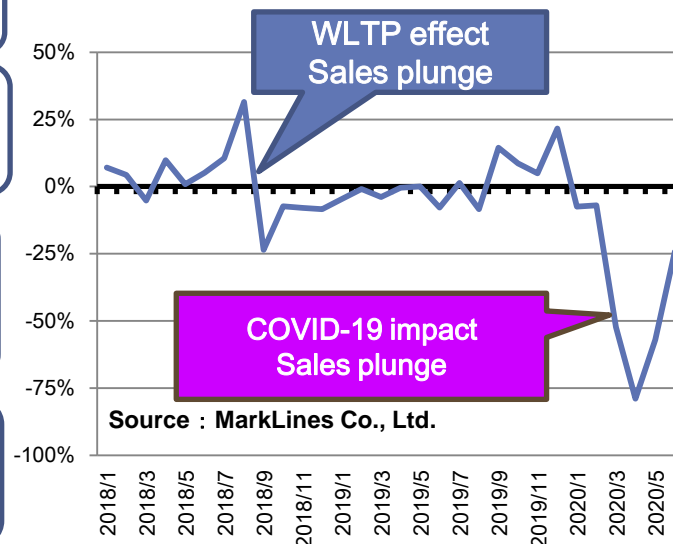
Although the COVID-19 impact started to materialize from 2Q;Apr.-Jun.2020, Ovako's ordinary income for the 1st half;Jan.-Jun.2020, will be in surplus by 0.4 billion yen. However, the COVID-19 impact will peak in 3Q;Jul.-Sep.2020, and together with the effect of regular maintenance outage in July and December, the sales volume for the 2nd half;Jul.-Dec.2020 will drop significantly, resulting in an ordinary loss of 4.1 billion yen. Consequently, Ovako's ordinary loss for FY20 will be 3.7 billion yen.

#### Profit improvement measures and actions

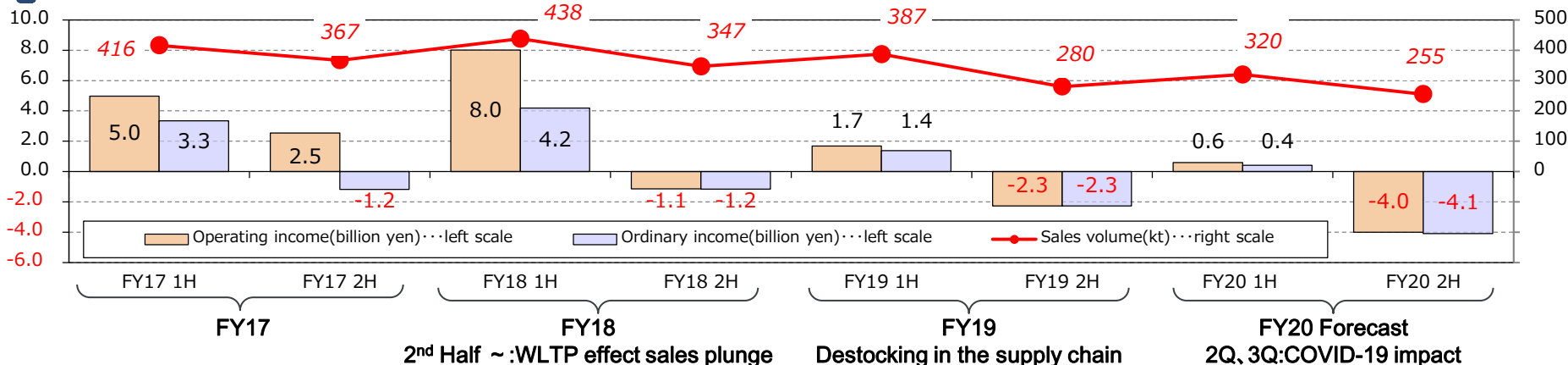
- Ovako will vigorously continue to pursue the followings to regain profitability and increase competitiveness.
- Reduction of fixed cost, partly by utilizing the unemployment compensation scheme for temporary lay off
  - Maximizing synergies among the 3 companies, Ovako, Sanyo and Nippon Steel
    - a)Sales promotion activities
    - b)Reduction of operational cost
    - c)Reduction of procurement cost

### Units of automobile sales in Europe

(Year-on-year rate)



### Trend of Operating income, Ordinary income and Sales volume



### Overview of FY 2020

#### Domestic car sales in India

Since 2018/11 YoY negative trend

2019/08 YoY ▼30%

2019/10~12 sales volume bottoms out

→ Destocking was predicted to end

MSSS recorded a ordinary loss of 0.3 billion yen in 1Q (January-March 2020), though the sales volume increased by 28% from 4Q of the previous year, partly owing to the recommencement of shipments to railways.

#### Impact of COVID-19

- Lockdown of the surrounding region of MSSS site, Khopoli, Maharashtra, from March 23 until May 3.
- Ordered to halt operation from late March to mid May.
- Demand for automobiles at low level, even after operations resumed

#### MSSS earnings outlook

##### (First half)

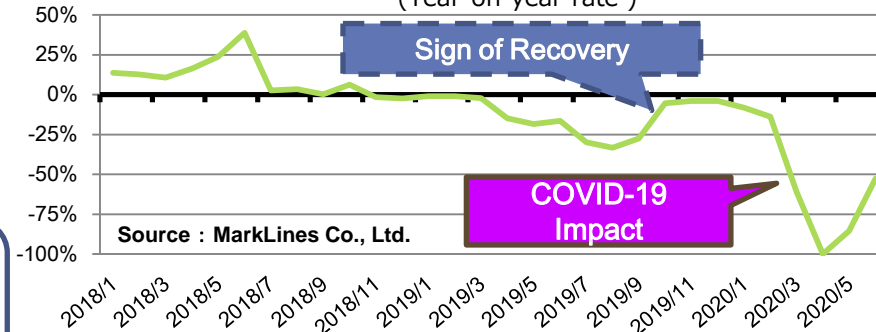
Sales volume in 2Q (April-June) dropped by 60% compared to 1Q. Ordinary loss for the 1H is expected to be 0.8 billion yen.

##### (Second half)

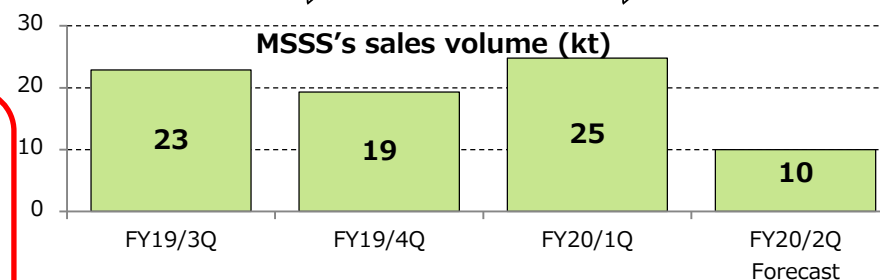
The drop of sales volume will bottom out in April-June, but the impact of COVID-19 will prevail throughout the year 2020. Ordinary loss for the 2H is expected to be 0.8 billion yen as well.

### Units of automobile sales in India

(Year-on-year rate)



### MSSS's sales volume (kt)



### Profit improvement measures and actions

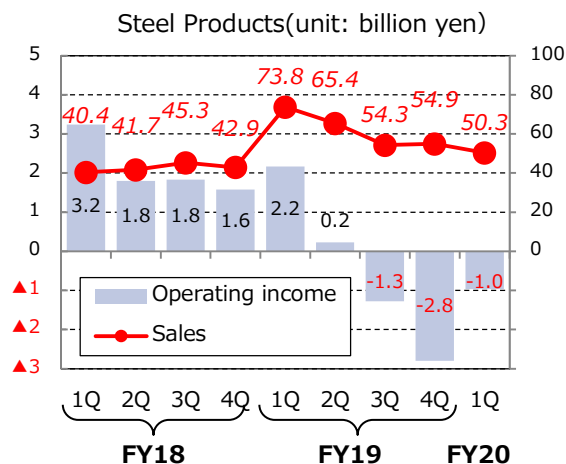
- Reducing operation cost by improving energy intensity and efficiency, and reducing procurement cost by use of low-cost raw materials.
- Intensifying sales network, securing higher sales volume and increasing orders of higher margin products.
- Securing stable orders for railways. (expected to be 2,000 t/month)
- Reducing labor cost including optimization of manning.

# Earnings by Business Segment

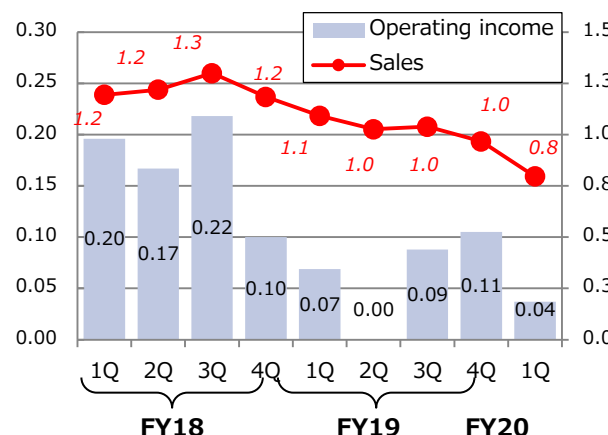
(Unit : Billion yen)

	FY20/1Q(A)			FY19/1Q(B)			Change (B) → (A)		
	Net Sales	Operating Income	ROS (%)	Net Sales	Operating Income	ROS (%)	Net Sales	Operating Income	ROS (%)
Steel Products	50.3	-1.0	-1.9	73.8	2.2	2.9	-23.4	-3.1	-4.8
Metal Powders	0.8	0.0	4.7	1.1	0.1	6.3	-0.3	-0.0	-1.6
Formed and Fabricated Materials	3.1	-0.2	-7.9	4.6	0.2	4.1	-1.5	-0.4	-12.0
Sub-total	54.2	-1.2	-2.2	79.5	2.4	3.1	-25.3	-3.6	-5.3
Other	0.3	0.0	1.8	0.3	0.0	0.2	+0.0	+0.0	+1.6
Adjustments	-1.5	0.0	—	-2.6	0.0	—	+1.1	-0.0	—
Consolidated Total	53.0	-1.2	-2.2	77.2	2.5	3.2	-24.2	-3.6	-5.4

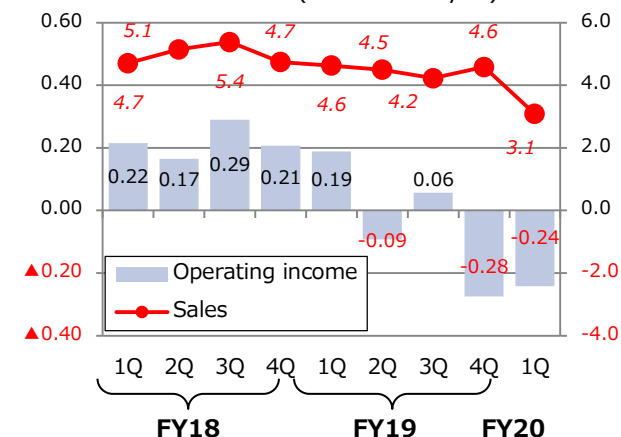
Change in Business Segment



Metal Powders(unit: billion yen)

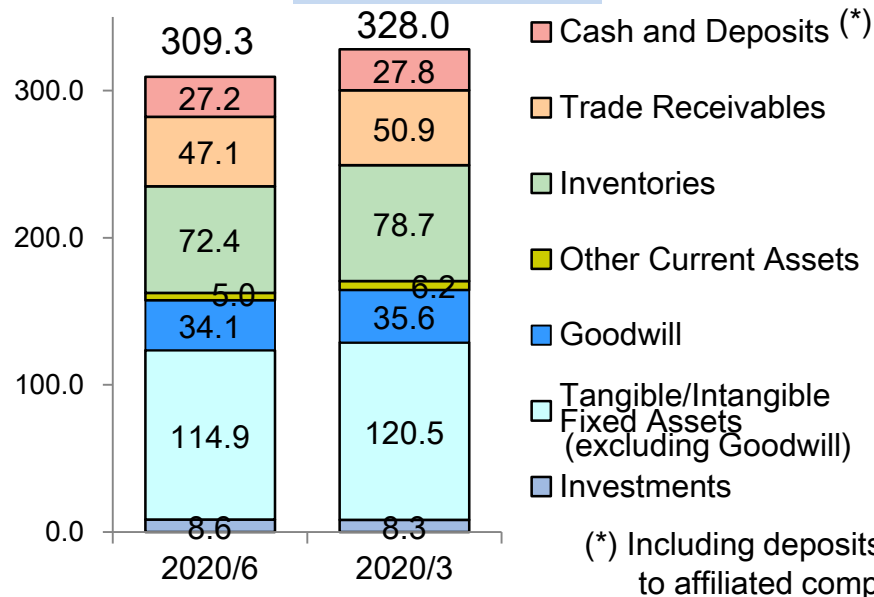


Formed and Fabricated Materials (unit: billion yen)

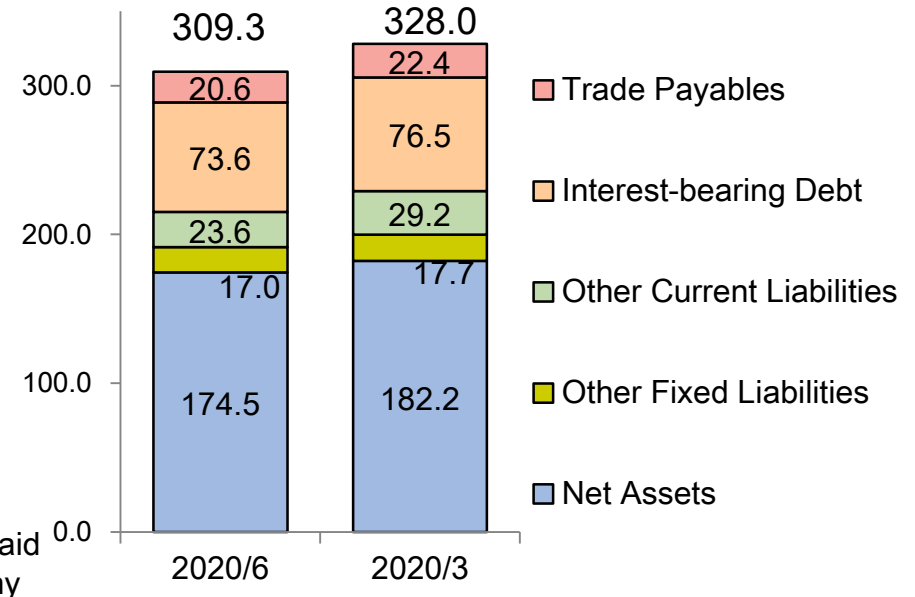


# Balance Sheets

(Billion yen)



(Billion yen)



Major changes in Assets	- 18.6 billion yen (-6%)
Trade Receivables	- 3.9
Inventories	- 6.3
Goodwill	- 1.5

Major changes in Liabilities and Net Assets	- 18.6 billion yen (-6%)
Net Assets	- 7.7

(Reference) Assets of Sanyo, Ovako and MSSS (non consolidated basis)  
Sanyo 242.1 billion yen, Ovako 83.6 billion yen, MSSS 12.9 billion yen

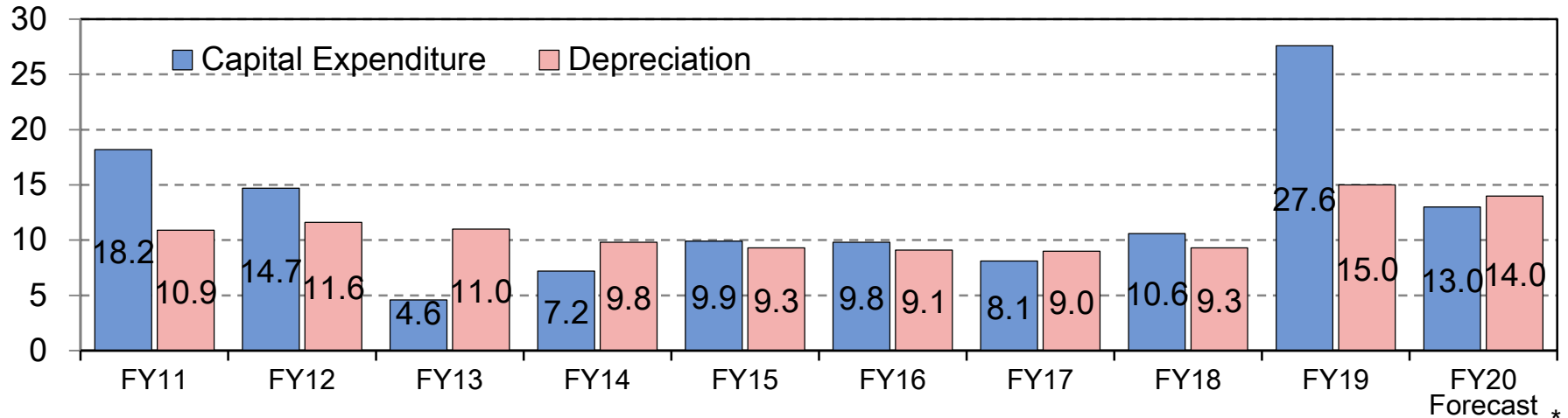
Equity Ratio	2020/6	2020/3
	55.3%	54.4%

## ■ Ovako's goodwill

- According to the accounting standard for impairment of fixed assets, it would be "Indicators of impairment", in case Ovako fails to achieve a positive EBIT of more than 2.5 billion yen in FY21 to exceed the amount of annual goodwill amortization, since Ovako is expected to be negative in EBIT for two consecutive years by -0.6 billion yen in FY19 and -3.5 billion yen in FY20.
- Nevertheless, even if Goodwill would be fully impaired, Sanyo continues to maintain the strong financial robustness, with the equity ratio nearly to 50% and the D/E ratio around 0.3 to 0.4 after full impairment of Ovako's goodwill.

# Capital Expenditure and Depreciation

(Billion yen)



\*Capital Expenditure of 13.0 billion yen in FY20 forecast includes following

1) 8.6 billion yen for Sanyo (including 4.9 billion yen for Sanyo Factory Renovation to resolve bottlenecks at No.2 Bar & Wire Rod Mill)

2) 3.3 billion yen for Ovako 3) 0.7 billion yen for MSSS

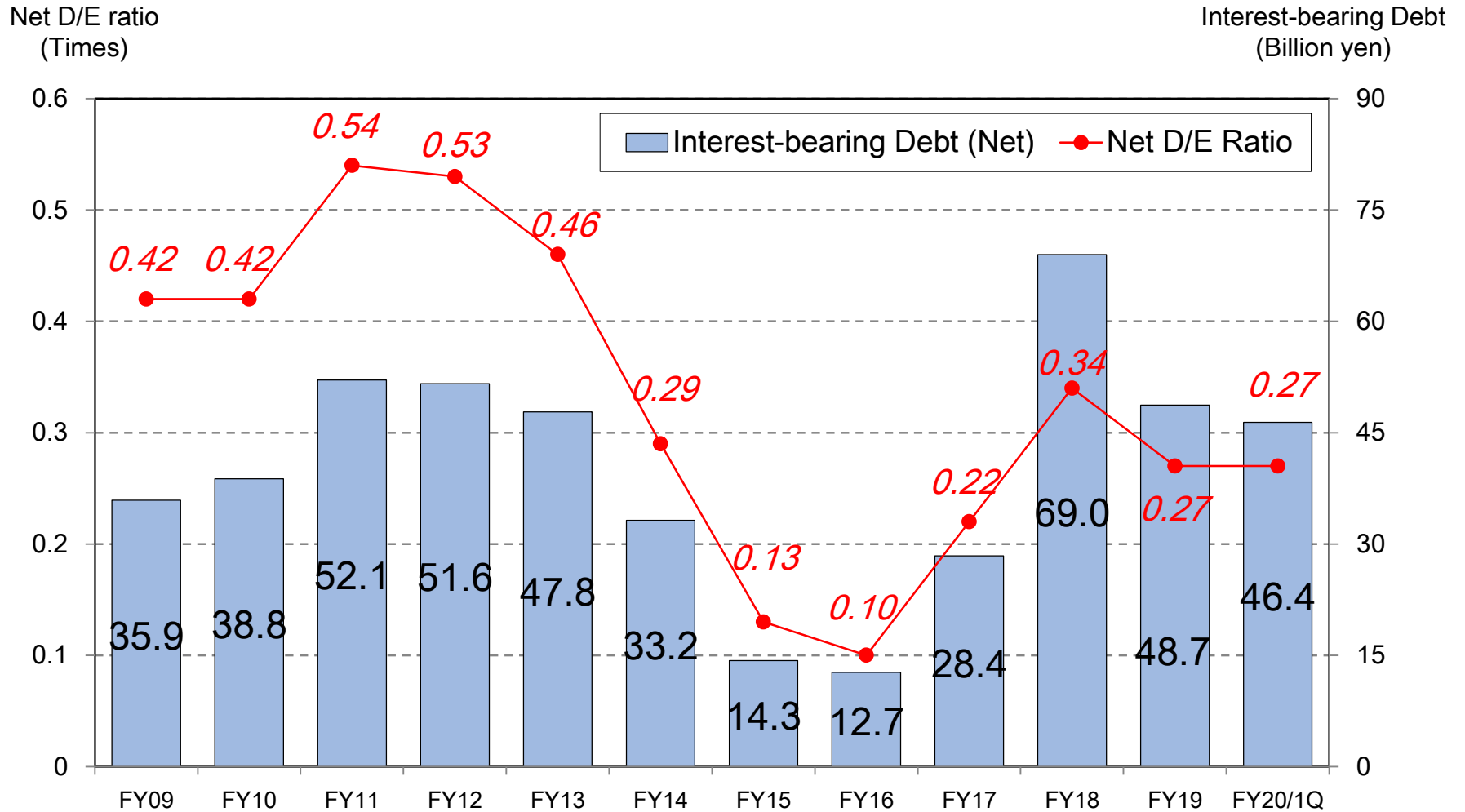
Depreciation of 14.0 billion yen in FY20 forecast includes

1) 7.0 billion yen for Sanyo and 2) 5.1 billion yen for Ovako and 3) 0.4 billion yen for MSSS.

## Changes in depreciation methods

- ◆ Since FY20, Sanyo and domestic subsidiaries have changed the depreciation method. (declining balance method → straight-line method)
- ◆ The reason for this change is unifying our group accounting policies on global basis.
- ◆ We considered following issues to change the depreciation method.
  - The facilities used by our group are expected to operate steadily in the future
  - There is little risk that our products and equipment will become obsolete due to changes in the market environment or technology.
  - Timing of changes in depreciation methods
    - Synchronizing with start of full-scale operation of new facilities in the No.2 Bar & Wire Rod Mill
- ◆ Depreciation in FY20 will decrease by 2.4 billion yen and profit improvement effect will be 2.0 billion yen compared to previous method.

# D/E Ratio



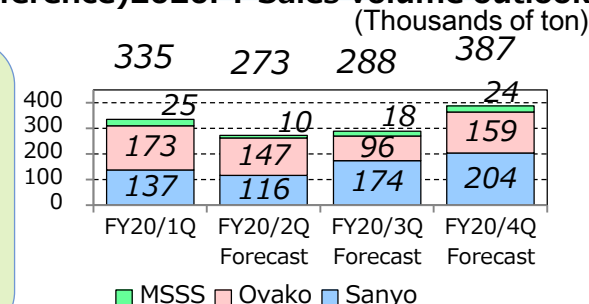
\* Interest-bearing Debt(Net) = Interest-bearing Debt – (cash + deposits paid to affiliated company)

# Business Forecast for FY20 (Announced on July 31, 2020)

## 1. 2020FY Outlook

- The drop of sales volume due to COVID-19 is expected to bottom out in July-September, even though sales volume will be relatively stagnant until December, 2020. The consolidated accounting period of Ovako and MSSS has a lag of three months, hence the COVID-19 impact for Ovako and MSSS will materialize after FY20/2Q.
- Ordinary loss for FY20 1<sup>st</sup> half will be 5.4 billion yen due to additional drop of sales volume.
- Ordinary loss for FY20 2<sup>nd</sup> half will be 2.6 billion yen as a result of deficit of Ovako and MSSS partly offset by surplus of Sanyo.
- Consequently, Ordinary loss for FY20 will be 8.0 billion yen. We have carried out and will continue to implement profit improvement measures in order to recover the consolidated earnings.

## (Reference) 2020FY Sales volume outlook



## 2. 2020FY Forecast

(Unit : Billion yen, %)

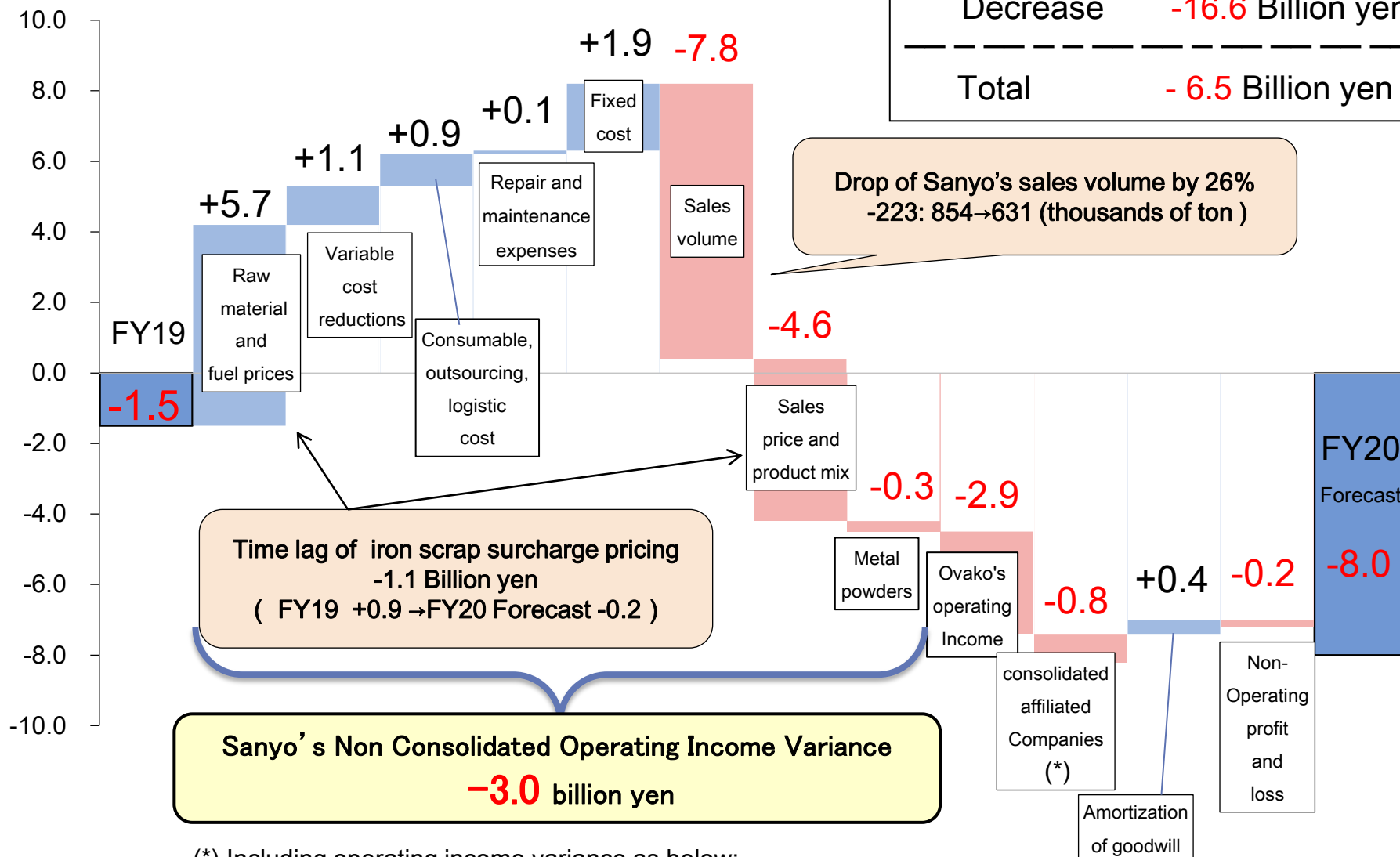
	FY20 1H	FY20 2H	FY20(A)		FY19(B)		Change(B) → (A)	
	Amount	Amount	Amount	Ratio(%)	Amount	Ratio(%)	Amount	Ratio(%)
Net Sales	95.0	105.0	200.0	100.0	262.5	100.0	-62.5	-23.8
Operating Income	-5.4	-2.3	-7.7	-3.9	-1.4	-0.5	-6.3	-
Ordinary Income	-5.4	-2.6	-8.0	ROS -4.0	-1.5	ROS -0.6	-6.5	-
(Sanyo)	-2.9	4.1	1.2	-	4.0	-	-2.8	-69.8
(Ovako)	0.4	-4.1	-3.7	-	-0.9	-	-2.8	-
(MSSS)	-0.8	-0.8	-1.6	-	-1.4	-	-0.2	-
(Amortization of goodwill)	-1.2	-1.2	-2.5	-	-2.9	-	+0.4	-
Net Income	-4.8	-2.3	-7.1	-3.6	-3.7	-1.4	-3.4	-
Net Income (Structural Basis)	-3.6	-1.1	-4.6	-2.3	0.5	0.2	-5.1	-
Sales Volume (Thousands of ton)	608	675	1,283	(per month) 107	1,615	(per month) 135	-332	-20.6
(Sanyo)	253	378	631	53	854	71	-223	-26.1
(Ovako)	320	255	575	48	667	56	-92	-13.8
(MSSS)	35	42	77	6	95	8	-18	-18.9

Major assumptions after July 2020

· Scrap iron July-Sept. 22,800 yen/t , Oct.- 26,000 yen/t (H2 market price in Himeji area)  
 · Crude oil(Dubai) 40\$/BL · Exchange rate 105 yen/US\$, 118 yen/€

# Ordinary Income Variance Analysis (FY19 to FY20 Forecast)

(Billion yen)



Drop of Sanyo's sales volume by 26%  
-223: 854→631 (thousands of ton)

Time lag of iron scrap surcharge pricing  
-1.1 Billion yen  
( FY19 +0.9 →FY20 Forecast -0.2 )

**Sanyo's Non Consolidated Operating Income Variance**  
**-3.0 billion yen**

(\*) Including operating income variance as below:

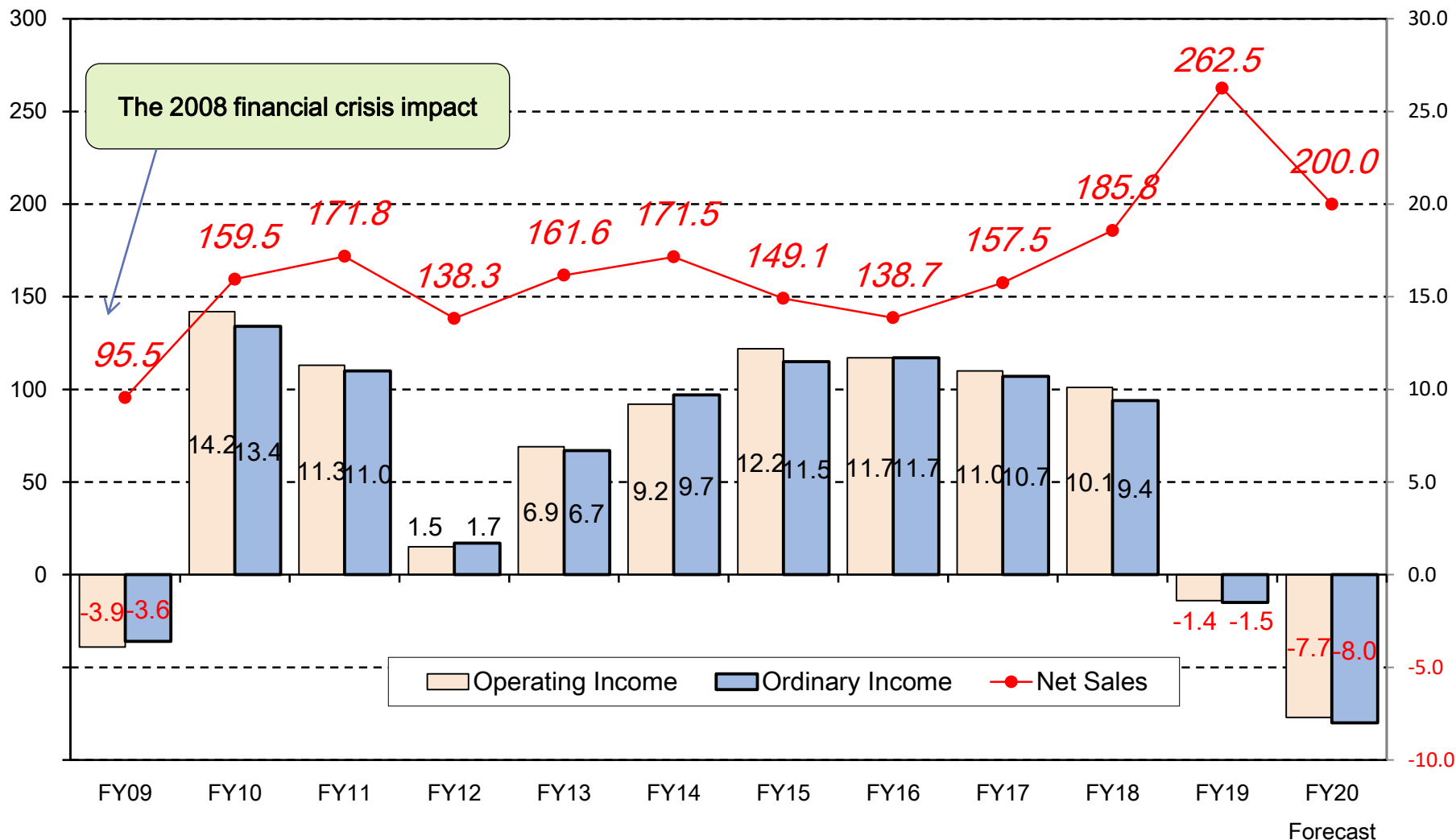
MSSS -0.2 billion yen, Other affiliated companies of formed and fabricated materials section -0.4 billion yen.



# Net Sales and Income (fiscal)

Net Sales  
(Billion yen)

Operating Income  
Ordinary Income  
(Billion yen)

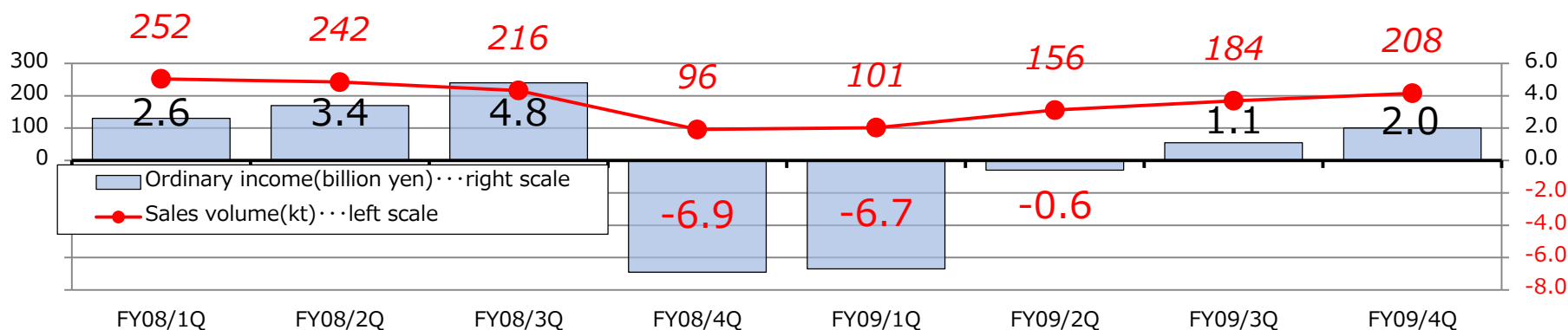


\*MSSS has been consolidated since FY18/2Q, and Ovako has been consolidated since FY19/1Q for profit and loss.

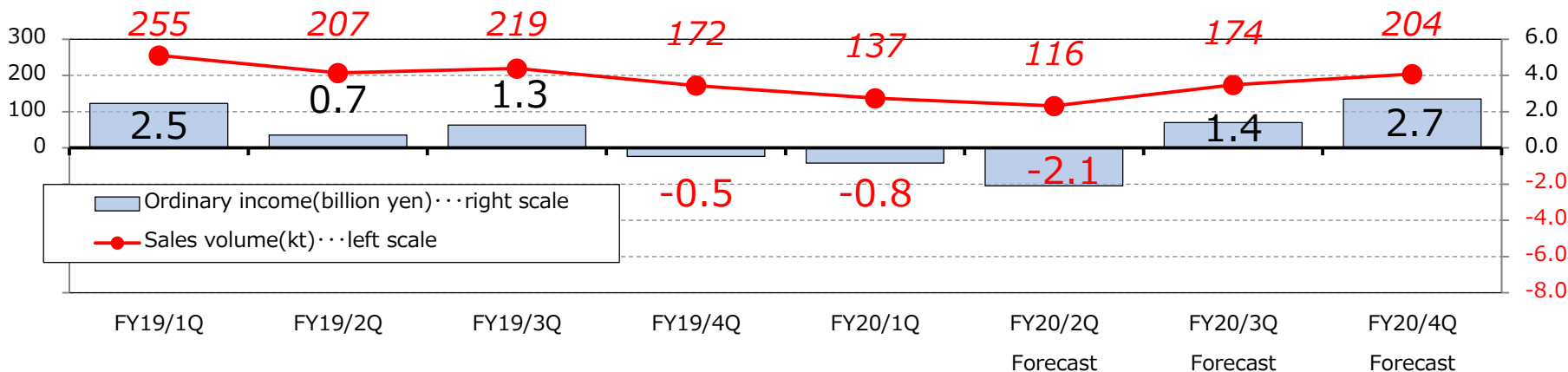
## Sales Volume and Ordinary Income at the 2008 Financial Crisis

During the era of financial crisis from September 2008, Sanyo's earnings deteriorated significantly in FY08/4Q and FY09/1Q. Reasons were; a) substantial drop of sales volume, b) significant decline of sales price due to iron scrap surcharge pricing (Scarp price; 2008 2Q; over 70K yen/t → 2008 4Q approx. 20K yen/t, c) huge valuation loss of inventory triggered by considerable drop of production volume.

Sanyo's non-consolidated sales volume and ordinary income from FY08 to FY09 (after the 2008 financial crisis)



(Reference) Sanyo's non-consolidated sales volume and ordinary income from FY19 to FY20 (around the COVID-19)



# Dividend Forecast for FY20 (Announced on July 31, 2020)

To our deepest regret, we will cease the dividend payment for FY20, in accordance with our negative business forecast of a net loss of 7.1 billion yen in FY20.

(Reference) Dividend for FY19

		FY19	
		After amortization of goodwill	Before amortization of goodwill
Net Income	Billion yen	-3.7	0.5
Earnings per share	¥/share	-67.1	9.3
Annual dividend	A ¥/share	15.5 (Interim 15.5 Year-end 0.0)	
<i>Payout ratio</i> *1	times	-	1.7
Dividend	Billion yen	0.9	
Repurchase of Shares (1,730,000 shares) *2		2.5	
Total Return to Shareholders		3.4	
Total Return Ratio *3	times	-	6.5

\*1 Payout Ratio · · Dividend / Earnings Per Share

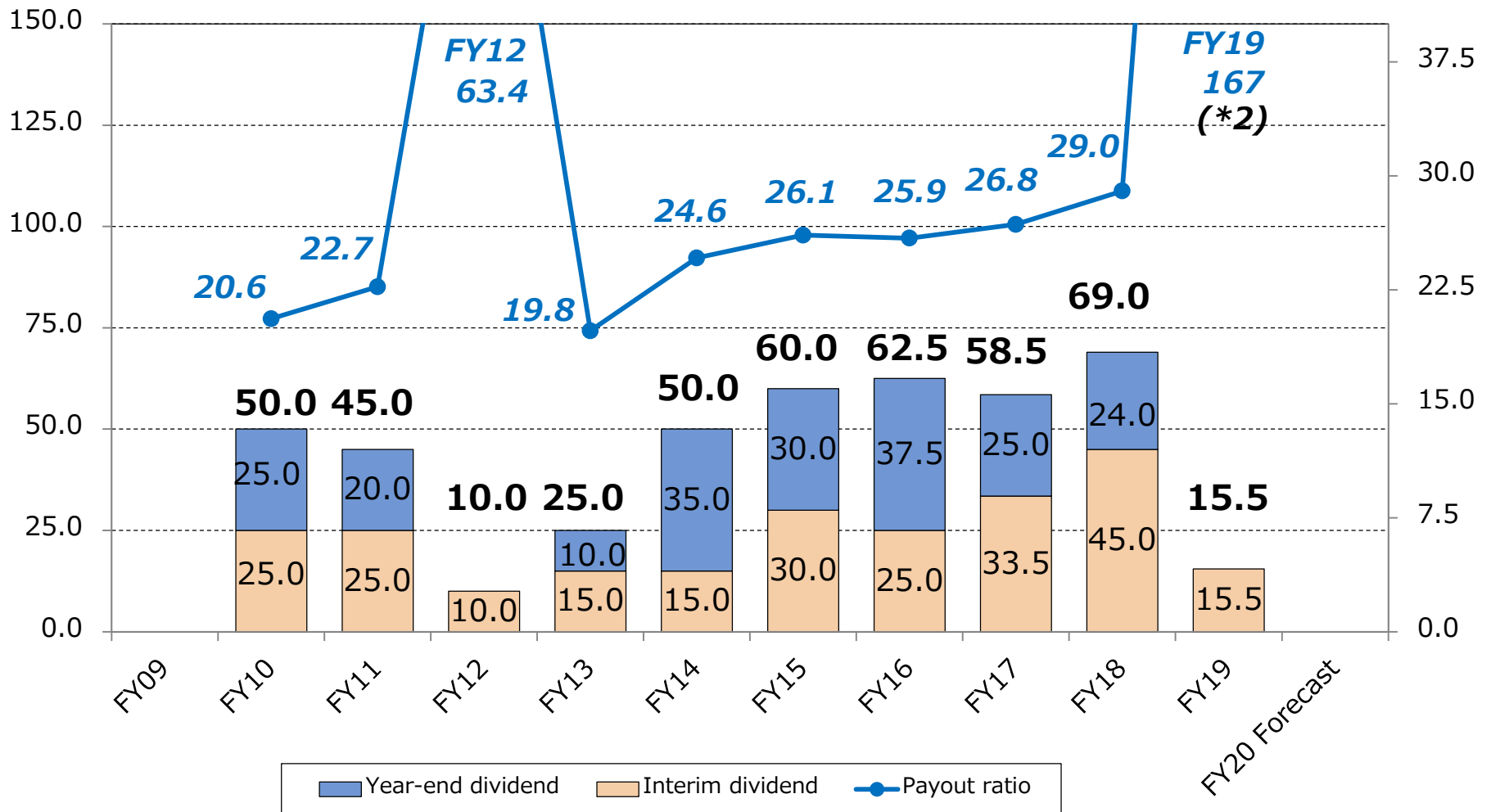
\*2 A total treasury stock of 2,930,000 shares (former possession 1,200,000 shares + repurchase 1,730,000 shares) was cancelled on December 27, 2019. It is 5.1% of the total number of issued shares before cancellation.

\*3 Total Return Ratio · · · Total Return / Net Income

# Dividend Trend

(Yen per share)

(%)



\*1 We conducted a one-for-five reverse stock split of our company's shares effective on October 1, 2017. Dividend is adjusted after the one-for-five reverse stock split .

\*2 Calculated by Earnings Per Share before goodwill amortization

# Impact of COVID-19 Infection

## 1 . Operating status of the Sanyo Group

NSSP, our affiliated company in China, was ordered to halt operation from January to mid-February, and MSSS in India from the end of March to mid-May. Other companies do not have similar problems, but capacity utilization is significantly depressed due to decline of demand.

## 2 . Impact on demand for special steel

### (1) Trends to date

20/1-3 : Demand declines, mainly in China. Although operation of NSSP was halted temporarily, the impact on P/L was limited.

20/4-6 : The spread of COVID-19 has stalled customer production activities. The consolidated sales volume dropped significantly.

### (2) Outlook

20/7-9: Customers, mainly in automobiles, have restarted production activities. Our sales volume will hit the bottom and start to recover gradually.

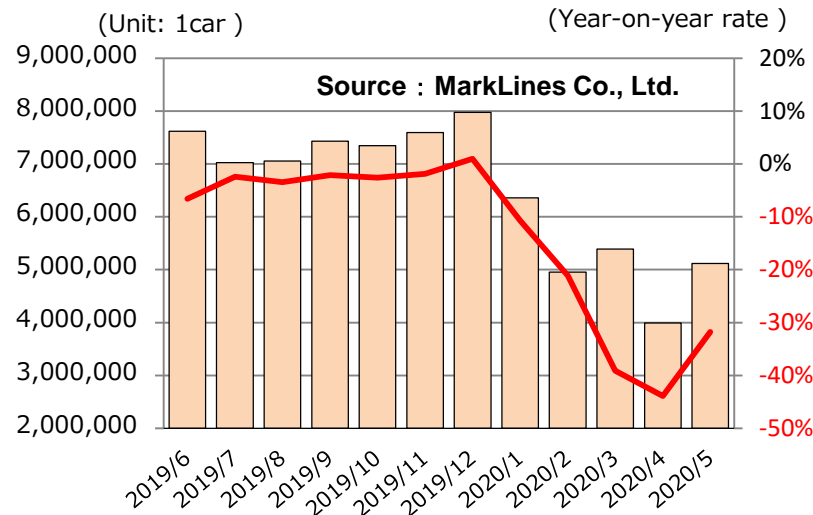
20/10-12 : The demand is expected to continue to gradually recover, but COVID-19 impact will remain until the end of 2020, and sales volume will remain muted.

21/1-3 : Sales volume will recover to the same level as the second half of FY 2019, when destocking was ongoing.

## 3 . Our views for the post-corona era

We consider the required time frame needed for recovery of special steel demand back to the pre-corona levels to be substantially long. We will closely monitor the market trend to capture the recovery of demand promptly, and simultaneously continue to lower the break even point by improving the product mix and reducing cost.

### World automobile sales



# Countermeasures of COVID-19 Infection (as of July 31,2020)

## Countermeasures in Japan

- Upgraded telework environment. Promoting working from home.
- Implementation of staggered working hours.  
(Only 4% of the employees commute to Himeji head office by public transportation)
- Implementation of staggered lunch time.
- Installing alcohol disinfectants to each workplace and distributing masks to all employees.
- Installing thermography camera and thermometer at workplace.
- Individual measurement of body temperature before entering workplace.
- Promoting periodical hand-washing, mouth rinsing, disinfection with alcohol, and wearing of masks.
- Frequent ventilation of room air, maintaining inter-personal distance during work.
- Restricting of face to face conferences, recommendation of web meetings.
- Prohibition of foreign business trips in general.
- Limiting domestic business trips based on travel areas and customer's policy.

## Countermeasures in overseas' affiliates

- All measures and actions in accordance with the laws, regulations and policy of each country.
- Collecting information of each country and supporting the representatives and their family.
- Supporting Japanese representatives to return to their global workplace, based on the situation of medical care, living condition and immigration of each country.  
(Representatives already returned to Finland in June 2020, to China and Indonesia in July 2020. Planning to return to Thailand and Sweden after August 2020.)
- Individual measurement of body temperature before entering workplace.
- Promoting periodical hand-washing, mouth rinsing, disinfection with alcohol, and wearing of masks.

# Emergency Profit Improvement Measures and Actions

Emergency profit improvement measures and actions to realize a swift recovery (Announced on January 31, 2020)

	Measures		Term
① Voluntary partial return of executive compensation(*)	Representative Director and President	20% of monthly compensation	From February 2020 for the time being
	Director and Managing Executive Officer	10% of monthly compensation	
	Fellow Executive Officer		
	Executive Councilor	7% of monthly compensation	
② Utilizing the unemployment insurance for temporary leave program	Planning to utilize the unemployment insurance for temporary leave program about two days furlough in a month for all employees working at Head Office/Plant.		From March 2020 for the time being
③ Voluntary partial return of manager's salary	General Manager Position	5% of monthly salary	From February 2020 for the time being
	Group/Section Manager Position	3% of monthly salary	
	Other Manager	1% of monthly salary	
④ Reduction of other expenses	Promoting operational efficiency and reduce expense to the minimum, such as implementing intensive cost-minimization operations, and curbing non urgent expenditures and investments.		

(\*) Full-time Audit & Supervisory Board Members have voluntarily offered to return 10% of monthly compensation in the same period as well.

- Estimated profit improvement for year ; 0.5 Billion yen
- Additional profit improvements of 0.5 billion yen in FY2019, and 1.0 billion yen in FY2020 (+0.5 billion yen from FY2019) by reductions in bonuses and overtime.
- Further profit improvement measures and actions being implemented by affiliated companies, including Ovako and MSSS .

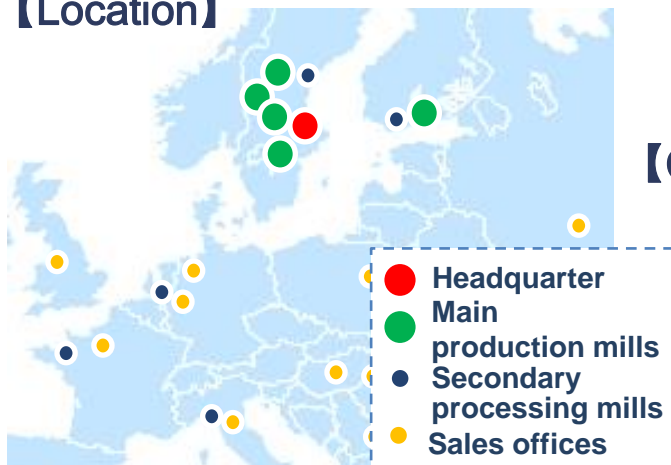
## After the expansion of COVID-19 impact (from March 2020)

- Utilizing the unemployment compensation scheme for temporary lay off for employees of branch offices, in addition to employees of Himeji Head Office/Plant.
- Higher compensation rate applied, based on the introduction of the Special Measures against Corona Act of the government.
- More reductions in overtime by drop of production and enhancing operational efficiency. Decrease of business trip expenses.
- Utilizing the unemployment compensation scheme for temporary lay off in Ovako, Sweden since April, 2020.

# Outline of Ovako

## OVAKO

### 【Location】



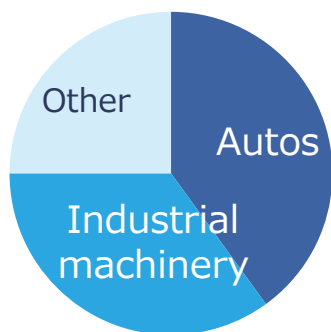
### 【History】

- 17th Century : Entered in steel business in Sweden
- 1916 : Purchased by SKF (world-leading bearing steel maker in Sweden)
- 2010 : Acquired by Triton Fund
- 2018 : Acquired by Nippon Steel
- 2019 : Become our affiliated company

### 【Characteristics】

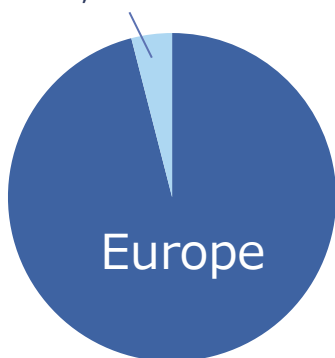
- Five major production mills (Three steel making mills and two rolling mills)
- 26 subsidiaries and 1 affiliated company.
- Leading manufacturer of Bearing steel. Main customer areas are automobiles and industrial machinery.
- Sales volume about 80% of Sanyo (non-consolidated) but total assets only approx. 1/3 of Sanyo.
- Trade Receivables are approx. 1/3 of Sanyo, and Tangible/Intangible fixed asset approx. half of Sanyo.
- Structural drop of sales in the second half of the year due to the effect of regular maintenance outage in July and December.
- World's first steel mill to be successful in use of hydrogen-based steel heating, to reduce CO2 emission

### 【Customers】



### 【Sales】

Asia, North America





# Topics

## (1) Ovako first in the world to heat steel using hydrogen

- Ovako has conducted a full-scale trial in Hofors plant using hydrogen to heat steel before rolling together with Linde Gas AB at first in the world.
- This historic development proves that carbon dioxide emissions from rolling can be eliminated with a great positive effect on the environment.
- The existing LPG combustion system was upgraded to handle hydrogen and LPG as fuels.
- Heating with hydrogen does not affect the quality.
- According to Ovako's estimate, this development would save 20,000 tons of carbon dioxide in Hofors plant each year.



# Topics

## (2) One-third of the total directors to be independent outside directors, and establishment of the Nomination and Compensation Advisory Committee

- We appointed three independent outside directors after the election of the 108th General Meeting of Shareholders held in June 2020 and the number of independent outside directors becomes one-third of the total nine directors.
- The board of directors established “The Nomination and Compensation Advisory Committee” as a non-compulsory advisory-council, consisting of representative director and all independent outside directors.
- We intend to strengthen independence, objectivity and accountability of the board of directors, and to enhance the corporate governance by getting appropriate involvement and advice from independent outside directors about particularly important matters including executive appointment or compensation.

## (3) Live streaming of General Meeting of Shareholders

- In June 2020, we held the 108th General Meeting of Shareholders and streamed it live on the web.
- We provided opportunities for shareholders to watch the meeting with personal computers to prevent the further spread of COVID-19 and to ensure shareholders’ safety.
- We uploaded the meeting video on our website. It will be available by the end of September 2020.



General Meeting of Shareholders streamed on the web

# Topics

## (4) Provision of steel for a local industrial high school

- In June 2020, we provided steel for an industrial high school in Himeji, for their practices using the turning machine.
- It was the sixth provision and the attempt has been highly appreciated by schools, because that contributes to improvement of students' skills.
- Through this activity, we promote our products and secure young workers, essential for the business continuity.



Students using the steel materials

## (5) New exhibition room of seamless pipes and tubes

- We established the new exhibition room of seamless pipes and tubes within the No.1 Plant.
- We gathered exhibitions that had been scattered in the plants. Sanyo is the only special steel manufacturer in Japan that has seamless pipes and tubes manufacturing equipment.
- We improved exhibitions to make it understandable to the customers about advantages of our manufacturing processes, facilities and products.



The new exhibition room



Model of Assel mill

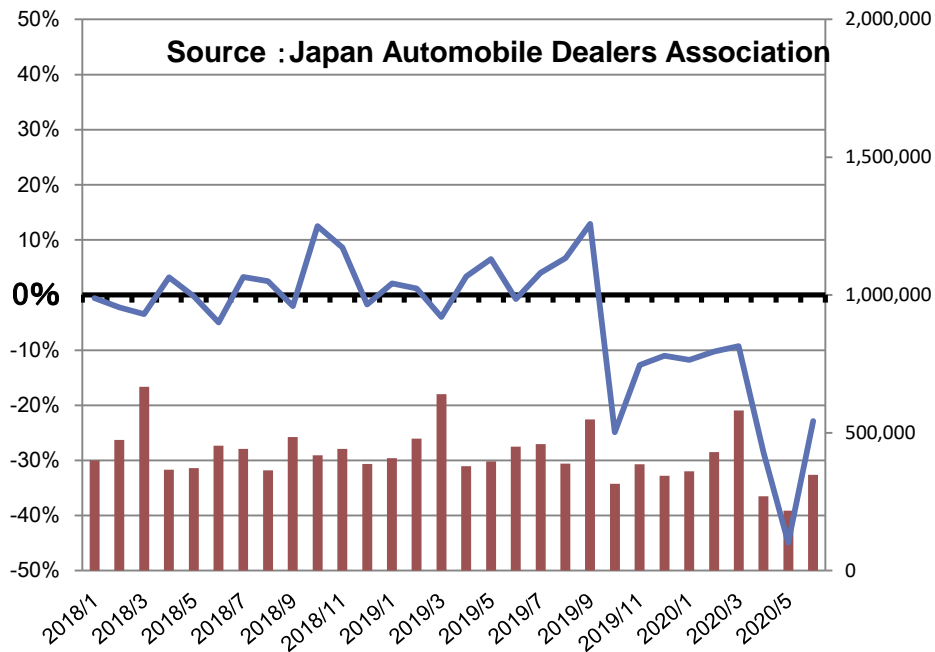


# Trends in Automobile Market

## Units of automobile sales in Japan

(Year-on-year rate )

(Unit : 1car)

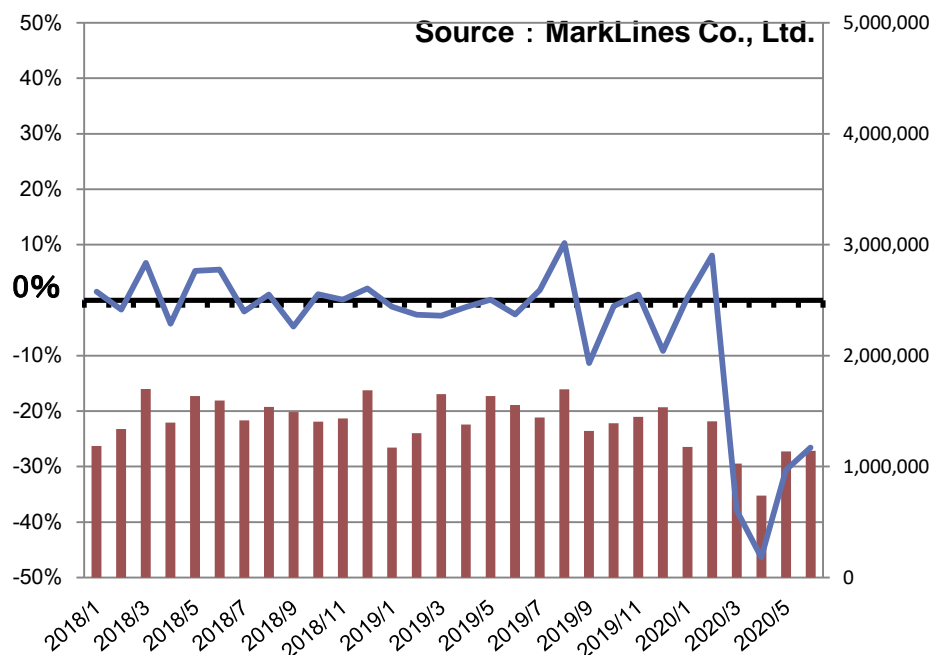


2019/7-9; Demand rush before VAT raise.  
 2019/10 ; ▼25% on YoY basis after VAT raise  
 and easing decline of sales until 2020/3  
 2020/5 ; ▼45% on YoY basis due to COVID-19 impact  
 2020/6 ; easing decline of sales from 2020/5

## Units of automobile sales in U.S.

(Year-on-year rate )

(Unit : 1car)



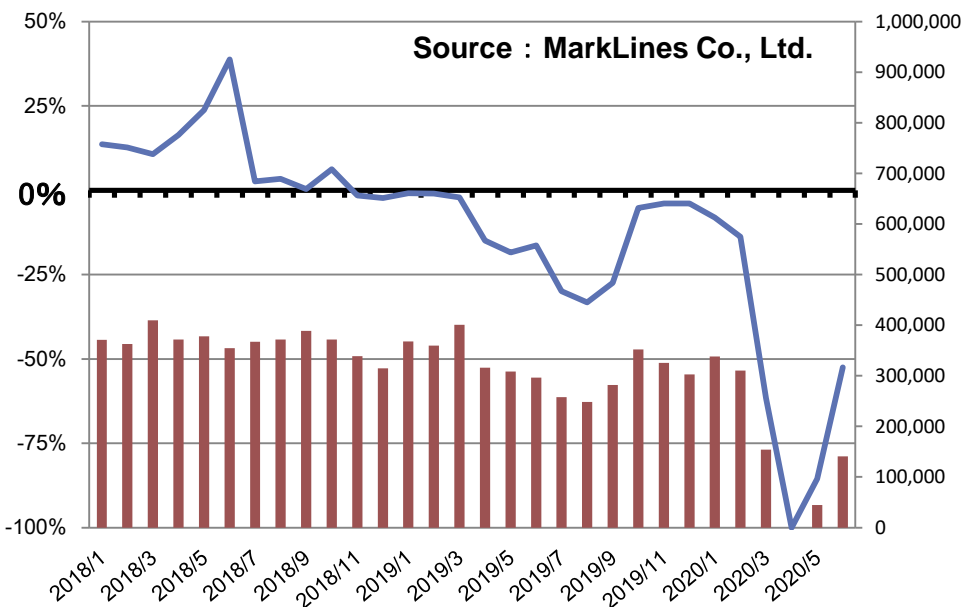
2018; Stable sales  
 2019; Slowing sales due to the effects of labor strike  
 and others  
 2020/2 ; there is the sign of recovery  
 2020/3 ; ▼38% on YoY basis due to COVID-19 impact  
 2020/4 ; ▼46% on YoY basis due to COVID-19 impact  
 2020/5~ ; easing decline of sales

# Trends in Automobile Market

## Units of automobile sales in India

(Year-on-year rate )

(Unit : 1car)

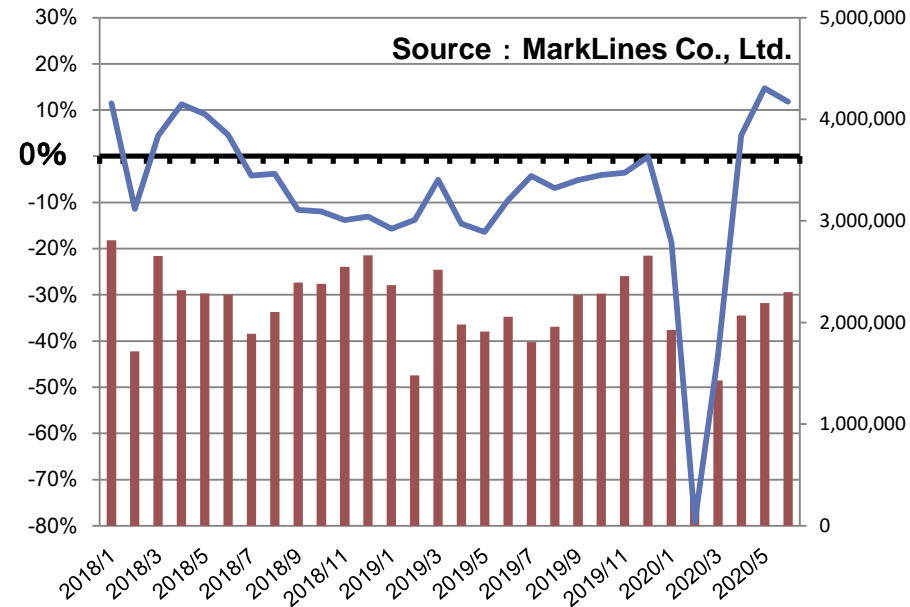


Continuous drop since 2018/07 due to;  
 a) higher insurance premiums, b) higher fuel prices, c) tightening automobile loans, and d) deterioration of employment.  
 2019/10~ ; easing decline of sales  
 2020/3 ; ▼62% on YoY basis due to COVID-19 impact  
 2020/4 ; ▼100% on YoY basis due to lockdown resulting from expansion of COVID-19  
 2020/5 ; sales activities resume

## Units of automobile sales in China ( Factory shipment base )

(Year-on-year rate )

(Unit : 1car)

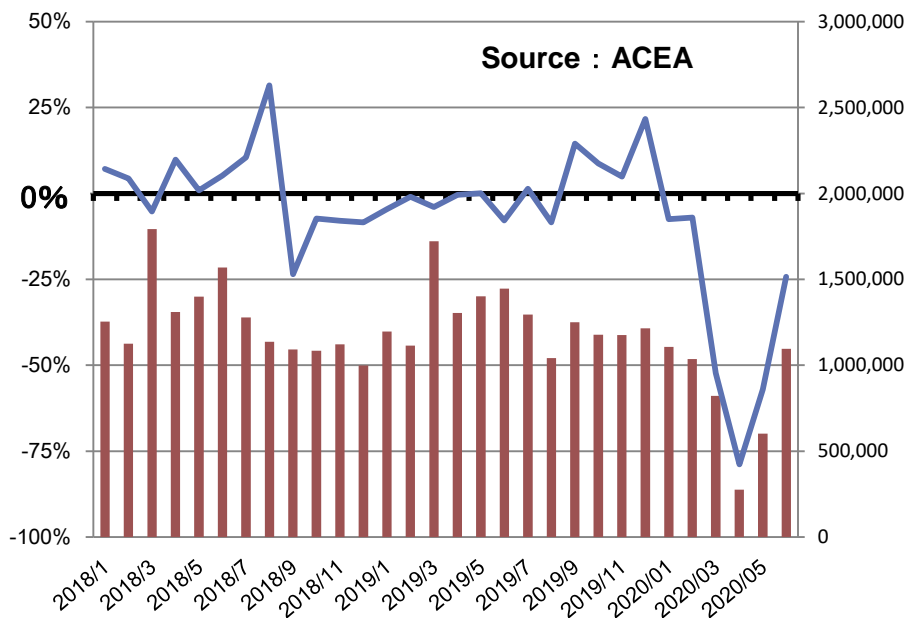


Continuous drop due to; a) the effects of the U.S.-China trade dispute, and b) introduction of new emission restrictions in urban areas.  
 2019 summer ~ ; easing decline of sales  
 2020/2 ; ▼79% on YoY basis due to COVID-19 impact  
 2020/3~ ; recovering sales  
 2020/5 ; +15% on YoY basis

# Trends in Automobile Market

## Units of automobile sales in Europe

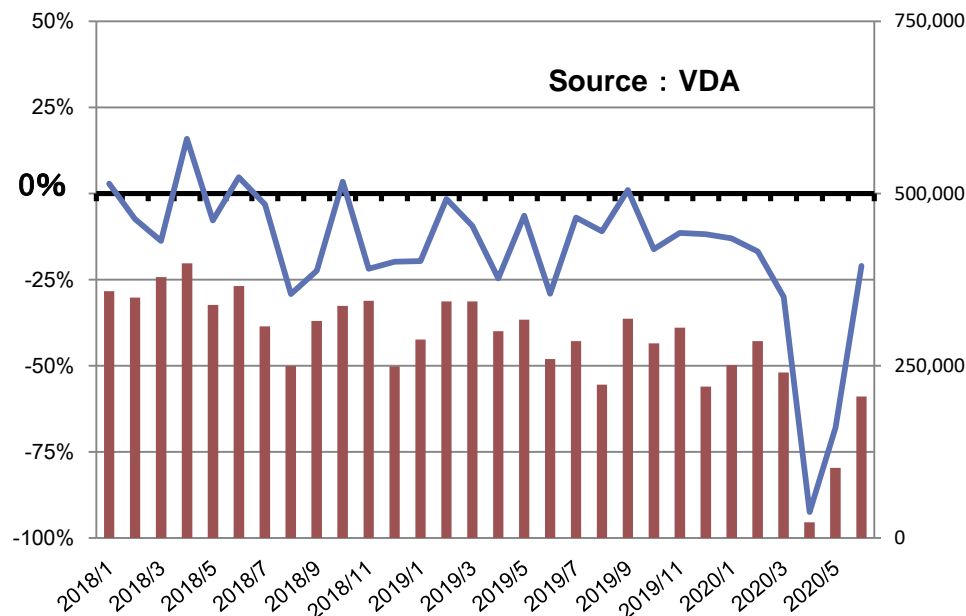
(Year-on-year rate )  
(Unit : 1car)



2018/9; Huge fluctuation due to WLTP.  
Stagnate tendency due to concern of Brexit, and U.S.- China trade dispute.  
Sign of recovery from 2019/9 though absolute number of units sold is mediocre.  
2020/4 ; ▼79% on YoY basis due to COVID-19 impact  
2020/5~ ; easing decline of sales

## Units of automobile export from Germany

(Year-on-year rate ) (Unit : 1car)

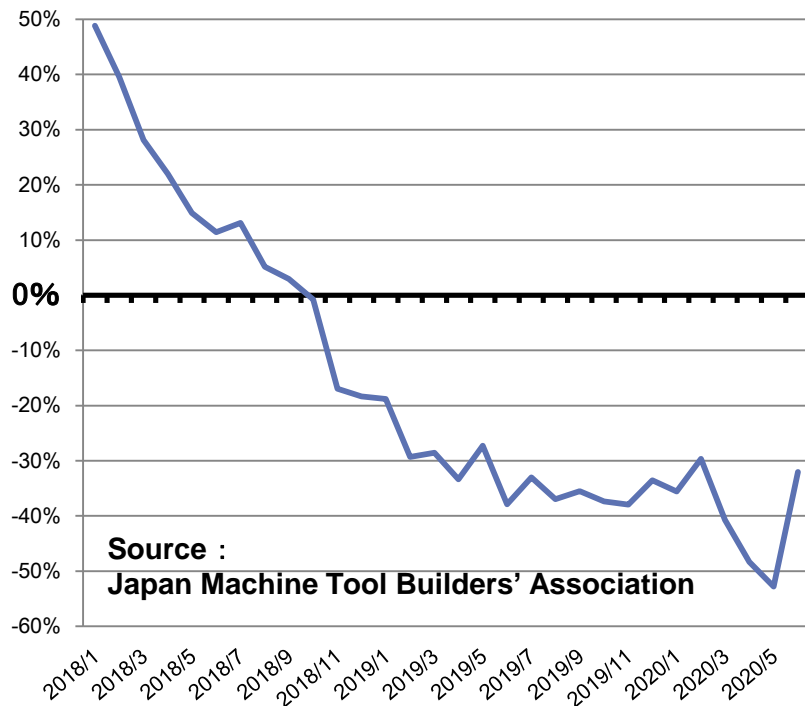


Continuous drop due to;  
a) demand decrease in China affected by the U.S.- China trade dispute.  
b) inventory adjustments.  
2020/4 ; ▼ 92% decrease on YoY basis  
2020/5~ ; easing decline of export

# Trends in Industrial Machinery Market

## Sales amount of machine tool orders ( Japan )

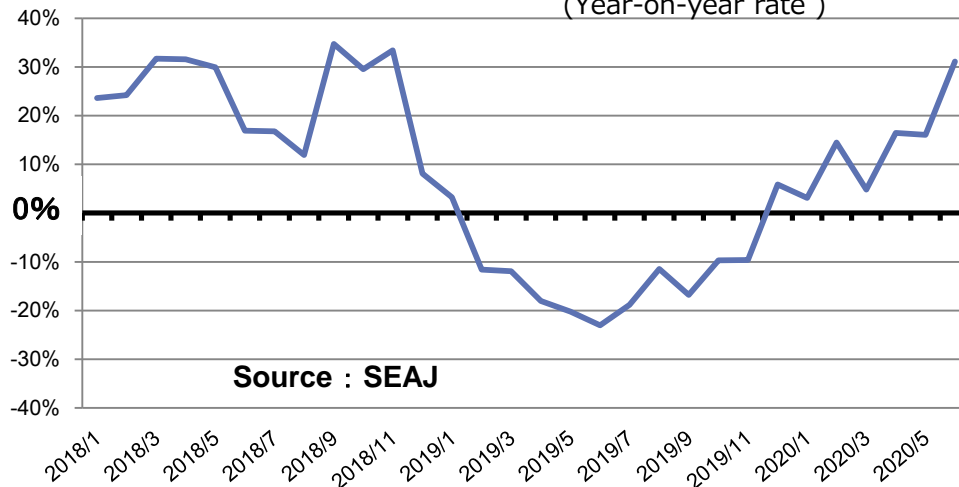
(Year-on-year rate )



2017 to 2018 1<sup>st</sup> Half; strong demand due to expanding production of smartphones in China.  
 2018/10 ~ ; continuous drop due U.S.-China trade dispute, affecting multiple industries.  
 Drop rate on YoY basis stays between ▼30% to ▼40% from 2019/2 to 2020/3.  
 2020/5 ; ▼53% on YoY basis due to COVID-19 impact  
 2020/6 ; ▼32% on YoY basis

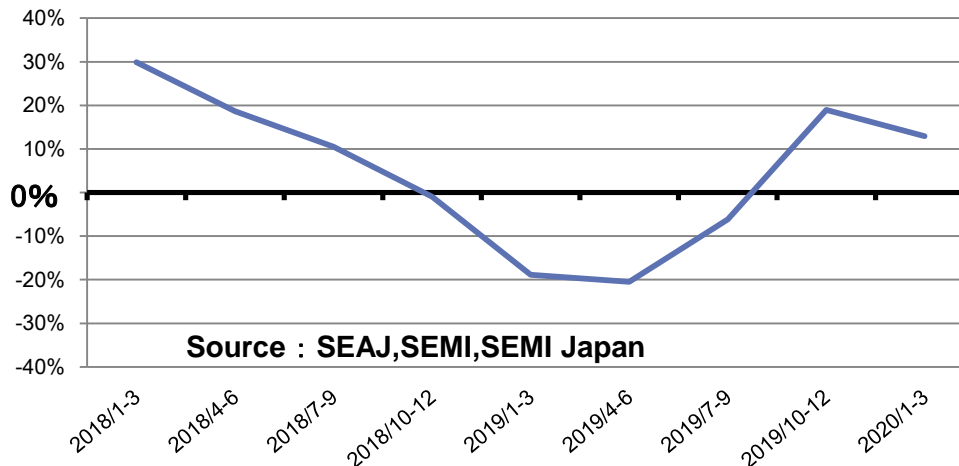
## Sales amount of semiconductor manufacturing equipment (Japanese equipment)

(3 month moving average)  
(Year-on-year rate )



## Sales amount of world wide semiconductor equipment

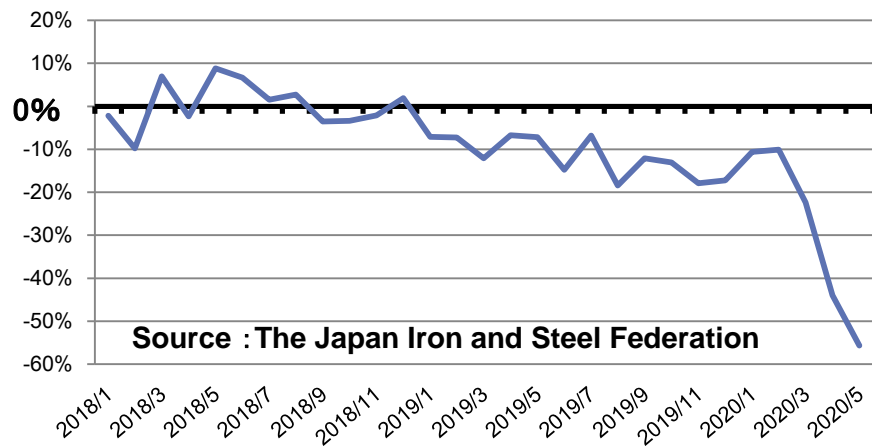
(Year-on-year rate )



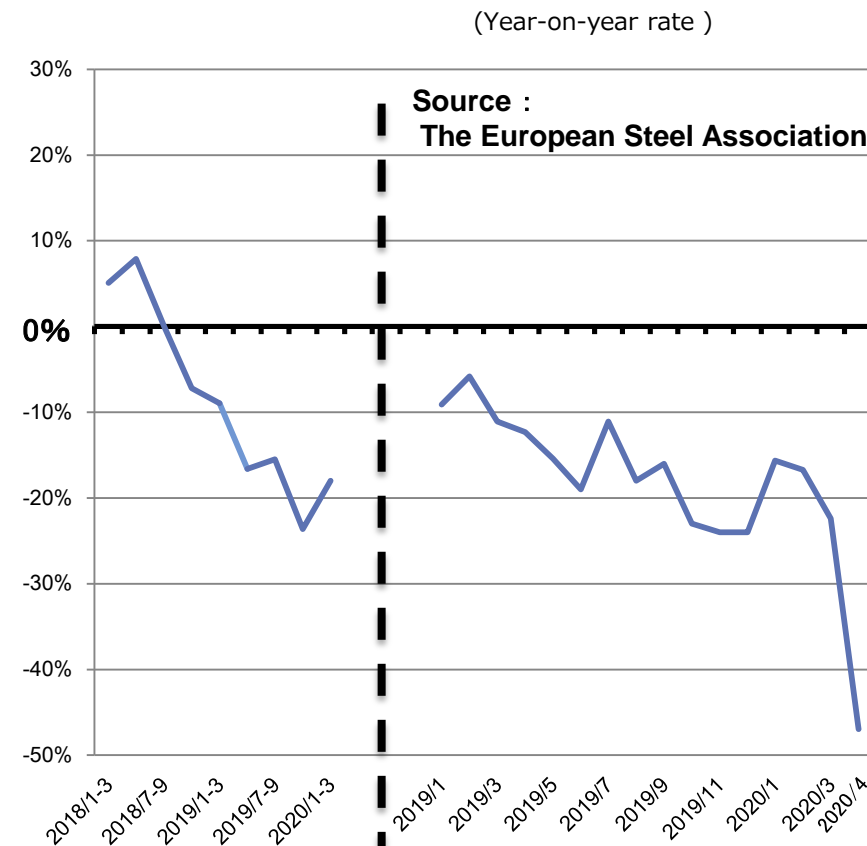
Through 2018; continuous drop due to U.S.-China trade dispute. Recovery from autumn 2019 attributable to increase of 5G and data-center related demand.

# Trends in Special Steel Market

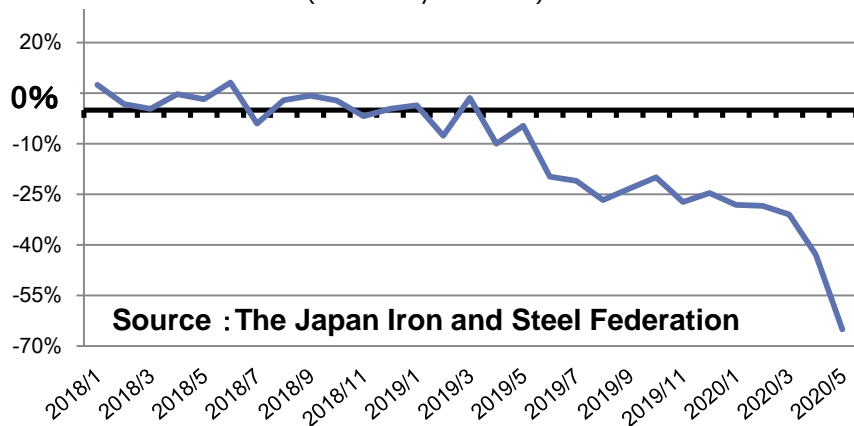
**Volume of order booked (Specialty steel products)**  
(Year-on-year rate )



**Volume of European deliveries : Bars and Flats / Alloy Engineering Steel**  
(Year-on-year rate )



**Volume of order booked (Bearing steel)**  
(Year-on-year rate )

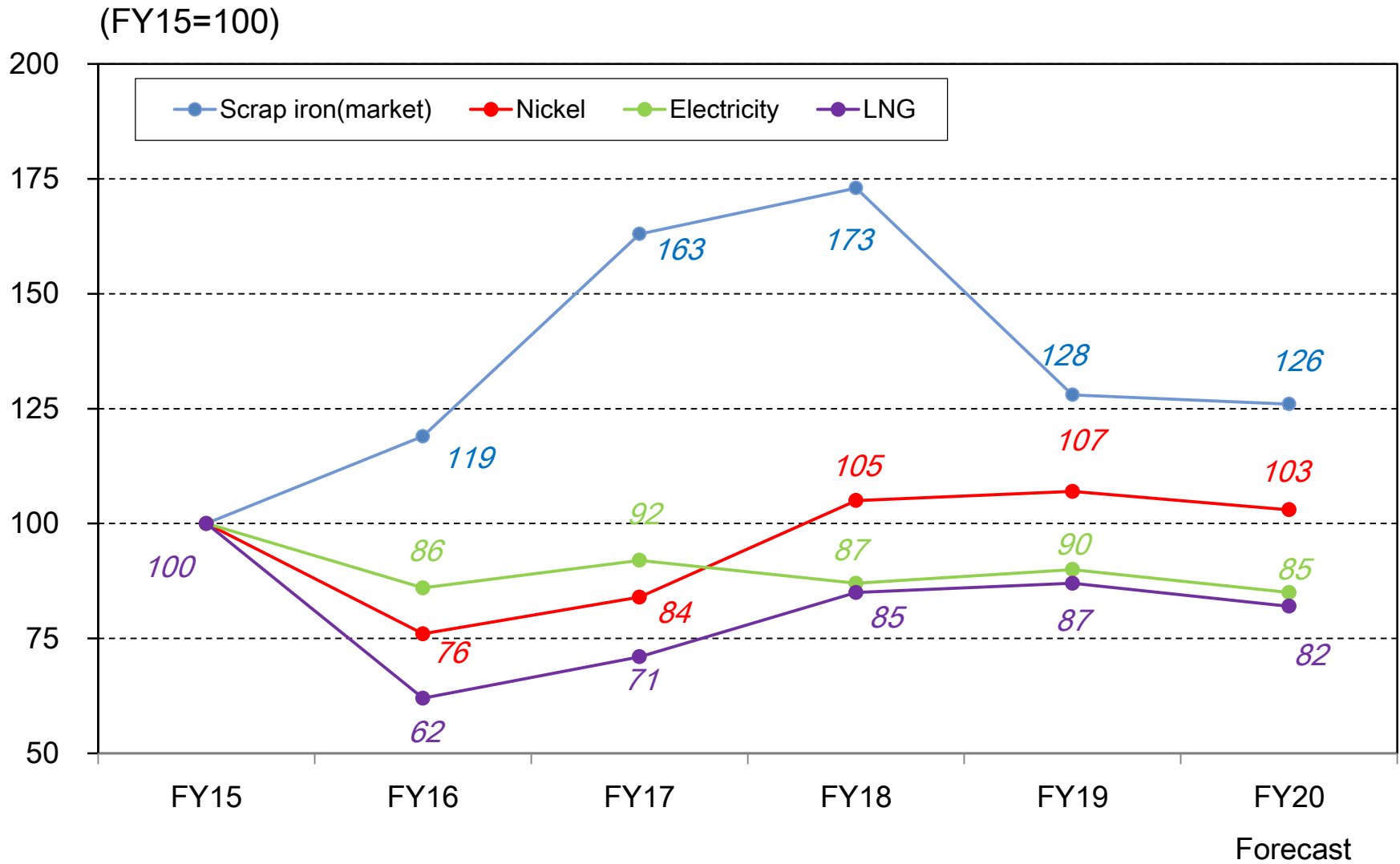


Regarding bearing steel, big negative trend from summer 2019 due to 1) Sluggish global demand in the domestic automotive, construction machinery, industrial machinery, and semiconductors sectors, 2) Huge inventory adjustment, and 3) COVID-19 impact. 2020/5 ; ▼65% on YoY basis

2018/10 ~ ; negative trend due to 1) Sluggish demand in the European automotive sector, 2) Inventory adjustment in supply chain, and 3) COVID-19 impact. 2020/4 ; ▼47% on YoY basis



# Raw Materials and Fuel Prices



\* Based on purchase price

(Cautionary Statement)

Business forecasts contained in this document are based on the information available at the time of the release of this document, and actual results may differ from these forecasts due to various factors that may occur in the future. The business forecasts should not be interpreted as any commitment to or guarantee of future performance.