

Sanyo Special Steel Co., Ltd.
IR Briefing Regarding the Business Results for the FY2024 3Q
Q&A Summary

Date : Friday, January 31, 2025

Speaker : Takashi Yatsunami, Director, Member of the Board and Managing Executive Officer

** Please be noted that the actual Q&A session was in Japanese and this English translation is prepared for reference purpose only.*

Q . Regarding personnel streamlining at OVAKO, how do you plan to respond to future demand recovery? In addition, can we expect the cost reduction effects of personnel rationalization to materialize in FY2025?

A . Although our current priority is strengthening of cost structure, it is possible to hire a certain number of employees if demand recovery becomes evident. Sweden has an excellent social security system and mechanisms that make it easier for people to move from one workplace to another. Cost reduction effects are expected to fully materialize in about a year and are anticipated to exceed the costs associated with annual inflation-linked wage increases.

Q . Regarding OVAKO's technologies for hydrogen utilization, is it possible to implement them at Sanyo's plant in Japan?

A . OVAKO operates the largest private owned hydrogen plant in Europe and the re-heating furnace is able to switch its fuel between hydrogen and LPG easily as well. As the next step, we are considering introducing similar technologies at other OVAKO's sites. We believe that it will also be feasible to implement such technologies at Sanyo's site in Japan if we can secure cost-competitive hydrogen.

Q . OVAKO's sales volume for FY2024/4Q is projected to increase from the previous quarter. Although sales volume in 4Q tend to show quarter-on-quarter increase due to seasonality, the rate of increase in the latest forecast is higher than that of FY2023/4Q. Could you share your thoughts on this?

A . Based on information provided by our customers, we believe that there was considerable destocking in Europe during FY2024/3Q. Even though economic activities in Europe remain sluggish, we expect a certain level of restocking that should support demand in FY2024/4Q. On the other hand, considering the current state of the European economy, the risk of fluctuations in sales volume still exists. Therefore, we will move forward with cost reduction measures, such as personnel streamlining, to meet profit targets.

Q . Demand for specialty steel continues to be sluggish both in Japan and Europe. Do you think demand will ever return to its previous level?

A . Although there are some industries, such as semiconductor-related ones, where demand growth can be expected, it is necessary to consider measures based on the assumption that overall demand may not return to its previous level. We aim to enhance margins, further strengthen our competitiveness, and realize robust structure that enables us to earn profits even in a challenging demand environment.

Q . We believe the introduction of the carbon border adjustment mechanism (CBAM) is beneficial for OVAKO. Regarding this, is there possibility of consolidating European business within Nippon Steel Group to OVAKO in the future? Also, could you share your insights on potential benefits from the introduction of CBAM in European markets?

A . The introduction of CBAM is combined with the phasing out of free allowances of GHG emissions in EU ETS. We believe that the elimination of free allowances will be more burdensome for competitors than for OVAKO with already low level of GHG emissions. The introduction of CBAM is also expected to reduce inflow of non-green steel from outside Europe.

Although Sanyo and Nippon Steel's current export sales from Japan to Europe are limited in volume, there is a possibility for transition of sales to OVAKO's green steel. We believe this emissions-related development will enhance OVAKO's competitive advantages and will be beneficial for the whole Nippon Steel Group.

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