Sanyo Special Steel Co., Ltd.
IR Briefing Regarding the Business Results for the FY2018 2Q
Q&A Summary

Date: November 16, 2018

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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. It seems that Sanyo is making a business forecast for FY2018 where it is operating at full capacity and orders are strong, but there are concerns that the global economy may slow down a little. Special steel is an industry that reportedly takes long processing time, and historically, inventory adjustment often starts suddenly at the beginning of a recession. What are your current demand trends and do you have such contingency at this time?

A. Inventory adjustment of machine tools and manufacturing equipment for semiconductor has been continuing for a while. We think that the impact of the recent decline in Chinese car sales is beginning to appear, but believe that it is not that serious. However, inventory adjustments might take longer than previously expected and continue during the current fiscal year.

Presently, we are unable to meet all of the demand, and at this point we do not think that shipments will fall sharply this fiscal year. Even if this happens, iron scrap prices have been softening these days, and if this price level continues, the negative impact of the time lag of the iron scrap surcharge in the second half of the fiscal year will be reduced than expected, and we believe that this could cover the situation.

Q. As for the integration effect with Nippon Steel & Sumitomo Metal Corporation (NSSMC) and OVAKO, it is thought that the cooperation effect with the Bar & Wire Rod Unit of NSSMC in Japan will come out early, but how will the integration effect with OVAKO overseas be produced specifically?

A. We have not discussed the matter in detail because we have not obtained the approvals of the competition authorities yet, but we believe a synergy that is expected to emerge relatively early between Sanyo and OVAKO is in the area of operational improvement. On the other hand, it will take more time to rearrange and optimize the manufacturing sites because the customer’s new approval will be required and certification process will take time. Sanyo currently have a mutual OEM relationship with NSSMC, and believe that if Sanyo become a subsidiary of NSSMC, we will be able to do the OEM more extensively, and therefore generate synergies earlier.

Q. What do you think of additional sales price increase? It is thought that the costs will continue to rise in the second half of FY2018.

A. Products that adopt surcharge systems are subject to price revisions based on agreements. In the current fiscal year, we requested a base sales price increase of 5,000 yen/ton due to the cost increase of electrodes, etc., and obtained approval from most of our customers by the end of September. In the second half of the fiscal year, we plan to ask for price revisions and change of process only for unprofitable products. Should additional base sales price increases substantiate, they would be implemented from next fiscal year.

Q. How is this year's profit for Mahindra Sanyo Special Steel Pvt. Ltd. (MSSSPL) in India, excluding the effect of Sanyo's goodwill? What are the prospects?

A. PBIT of MSSSPL for the first half of this fiscal year is in surplus, although there is a three-month gap when reflecting in the consolidated result. On the other hand, PBT is in deficit because of high interest rates in India, and it is expected to be same this fiscal year. Since India is also experiencing a rise in raw material, fuel and electrode prices, and the sales price improvement is being delayed in MSSSPL, an achievement of positive PBT is expected to be after next fiscal year.

Q. What are the specific one-off factors in the second quarter of FY2018 (July-September) and the second half of FY2018 (forecast)?

A. One-off factors in the second quarter of FY2018 (July-September) are the time lag of the iron scrap surcharge of about 150 million yen, and the remaining factors are the delay in shipments from September to October due to the typhoon, expenses related to the acquisition of shares incurred for the process of becoming a subsidiary, and the negative factors of the half-year end physical inventory. One-off factors in the second half of the fiscal year (forecast) include the time lag of the iron scrap surcharge of 500 million yen, and expenses related to the acquisition of shares incurred for the process of becoming a subsidiary of NSSMC and other matters, and the registration and license tax.

Q. What are the key points of the high-cleanliness steel manufacturing process announced in July 2018? What kind of possibilities are there?

A. We have developed the Sanyo Ultra Refining Process (SURP), marking additional progress in Sanyo New Refining Process (SNRP). SNRP not only reduces the volume of inclusions, it also controls (reduces) the size of large inclusions. Additionally, SURP helps to reduce the frequency of large non-metallic inclusions. It can be used in more severe environments such as high-speed railways and wind power generation, and is expected to meet the needs for maintenance-free operation.

Q. In the Ordinary Income Variance Analysis from the second half of FY2017 to the first half of FY2018, the impact due to rising price of raw materials and fuels was negative 2.6 billion yen. What is the breakdown? Is there any effect due to the rising price of vanadium?

A. Approximately half of the negative 2.6 billion yen is due to iron scrap, remaining 40% is due to alloy iron, and the other 10% is due to energy costs. Alloy iron include nickel, molybdenum, and vanadium. Vanadium is mainly used in tool steel, but not in large quantities. Therefore, even though the vanadium price is rising, the impact on overall profit or loss is not significant.

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