

Sanyo Special Steel Co., Ltd.  
IR Briefing Regarding the Business Results for the FY2020  
and 2025 Medium-term Management Plan  
Q&A Summary

Date: Friday, April 30, 2021

Speaker:

Representative Director and President; Shinya Higuchi (2025 Medium-term Management Plan)  
Director, Member of the Board and Managing Executive Officer; Kozo Takahashi (Business Results)

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

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**Q . Could you please give us any ideas of business forecast for FY2021? If the negative time lag of iron scrap surcharge in FY20/4Q (-1.7 billion yen) is relieved in FY2021, I think that ordinary income of the FY2021 is expected to be higher than forecast.**

A . Although iron scrap price rose in the second half of FY 2020(Oct. 2020 to March 2021) on a purchase basis, it has not yet increased on actual cost basis. Thus we consider this negative time lag effect will remain in FY2021. Fixed costs will increase due to an increase in depreciation expenses associated with investment in No.2 Bar & Wire Rod Mill and an increase in labor costs and other expenses due to the termination of emergency profit improvement measures and actions. We consider the genuine ordinary income for FY2021 to be the sum of our business forecast 7.0 plus time lag of iron scrap surcharge 2.3 billion yen.

**Q . At the previous IR briefing in January 29, 2021, there was explanation that Ovako had strong sales inquiries because import from outside EU had decreased. Could you please tell us the current situation? Regarding a global movement toward carbon neutrality, Ovako has good reputation about their environmental awareness and how will these affect Ovako's business?**

A . Ovako still has strong sales inquiries because import from outside EU has been decreasing due to high container freight and strong domestic steel demand inside China in addition to the steady demand for mainly automobiles sector in the EU. In addition, Ovako, as Sanyo, has a long supply chain, therefore sales orders are strong due to stocking on the customer side. At present, it is difficult to express in figures the positive influence of carbon neutrality on Ovako's sales. However, we expect that the demand for Ovako, which has eco-processes, that is, high energy conservation and efficiency in production, will increase in the future. Furthermore, Ovako's customers are mostly in the EU, and Ovako has advantage from the view of local production for local consumption as well.

**Q . Could you please give us a background of recording impairment losses on fixed assets for MSSS and how to improve profit?**

A . MSSS had shown gradual but steady recovery in production and sales. However, the supply of oxygen was halted due to state order giving priority to oxygen supply to medical institutions from mid-April 2021 due to the brutal spread of COVID-19 infection in India. Last year, the oxygen shortage had resolved in two weeks, but we don't imagine to be that short this time. Accordingly, we are determined that we must take a more prudent view of when MSSS will recover its profitability, considering factors including the impact of COVID-19 on future business activities. Nevertheless, we expect that demand for specialty steels in India will continue to grow in the future, and MSSS will aim to further enhance its position in the Indian market by reinforcing its cost-competitiveness and by promoting sales of high margin, high-grade or large-diameter bearing steel.

**Q . Sanyo' s sales volume on non-consolidated basis of 75,000 tons per month in the "2025 Medium term Management Plan" is lower than the recent sales record for Sanyo. Does this figure include the effect from synergies with Nippon Steel? Could you please give us a background why the demand for special steel will decline?**

A . Sanyo' s sales volume on non-consolidated basis of 75,000 tons per month is the same level as the first half of fiscal 2019 when destocking in the supply chain just began. Positive effects from synergies with Nippon steel and Ovako are definitely included in that volume. However, we consider that specialty steel demand in Japan is expected to decrease in the future because a)social structure will change such as aging demographics, b)exports of specialty steel are expected to decline due to the growing needs of overseas consumers for local production for local consumption, and c) industrial structure such as increase of electrical vehicles will be changed. We will aim to further establish a lean and robust corporate structure to secure stable earnings in a volatile business environment.

**Q . With regards to Sanyo' s sales volume on non-consolidated basis of 75,000 tons per month in the "2025 Medium term Management Plan", could you please tell us how you evaluate the decision to have invested in No.2 Bar & Wire Rod Mill during the previous medium-term (FY2017-FY2019)?**

A . The purpose of the investment in No.2 Bar & Wire Rod Mill is to respond to customer requirements such as smaller parts and smaller diameters more cost effectively and to improve the quality of products. We installed new Reducing and Sizing Block (RSB) rolling mill, which enables us, for instance, a) producing high quality steel bars by manufacturing through higher reduction and b) corresponding to the transformation of the demand structure, without lowering production efficiency. In addition, we modified auxiliary lines such as cooling bed and cold shear, etc. to strengthen the integrated manufacturing structure. As a result, we are able to even more correspond to the stringent requirements from customers.

**Q . What do you think about CO2 emission reduction targets?**

A . We will proceed to achieve carbon neutrality by 2050 in accordance with the target set by the government of Japan. About 80% of our CO2 emissions are caused from procured electricity and city gas mainly made from fossil fuels, and the key point is whether we can use green energy in the future to reduce our emissions.

We aim to achieve carbon neutrality by 2050 with following activities a) reducing CO2 emissions in the supply chain through the promotion of "eco products", and b)eco-processes, that is, continuous energy conservation.

**Q . In the presentation paper for 2025 Medium-term Management Plan, there is an explanation "We focus on intensifying technologies that can respond to further reliability and consistency requirements in fields such as EV, wind power, railways, and hydrogen society, expected to expand globally". What kinds of concrete products do you have in your mind?**

A . For EV, we expect ECOMAX Steel, Ni- and Mo-free high-strength case hardening steel, to be suitable for gears of decelerator that are used under severe environment. For wind power generator and high speed railways, big sized or highly reliable maintenance-free bearings are required, and for demand of utilizing hydrogen, seamless stainless steel pipes and tubes for transporting hydrogen could contribute.

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