Sanyo Special Steel Co., Ltd.
IR Briefing Regarding the Business Results for the FY2018 1Q and
Sanyo Special Steel Co., Ltd. (Sanyo) Becoming a Subsidiary of
Nippon Steel & Sumitomo Metal Corporation (NSSMC)
Q&A Summary

Date: September 10, 2018

Speaker: Representative Director and President;
Shinya Higuchi (Sanyo Becoming a Subsidiary of NSSMC)
Director, Member of the Board and Managing Executive Officer;
Kozo Takahashi (Business Results for the FY2018 1Q)

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

＜Sanyo Becoming a Subsidiary of NSSMC＞

Q. As the acquisition of OVAKO shares is financed through third party allotment, major stock dilution will be caused. Did you consider any other options such as combination of capital increase and external debt?

A. While even under the current structure, D/E ratio on a consolidated basis after making OVAKO a subsidiary of Sanyo will be 0.5x, if all necessary funds to acquire OVAKO shares are procured through external debt, it will be 1.2x. Considering that level of D/E ratios of other Japanese special steel companies are around 0.4x, we thought that we need to keep our D/E ratio at or around 0.5x and this is why we chose to finance only through third party allotment.

Q. In terms of timeline of realization of synergies, which items are realized at an early stage and which items take time in your view?

A. Please note that the deliberation of details of synergy can only be made after March 28, 2019, the scheduled date of the acquisition of OVAKO shares, after obtaining approvals from the competition authorities and shareholders through the extraordinary general shareholders meeting. With that said, we believe that it is possible to rearrange manufacturing sites sooner for customers whose approval has been obtained and who has been procuring materials from both Sanyo and OVAKO, for example. On the other hand, if it is necessary to obtain customer's new approval, it will take at least two years to rearrange the manufacturing sites. With respect to the sharing of operational know-how, although know-how is in nature considered difficult to share, we believe that some of such know-how can be shared in short time.

Q. Although the business results of OVAKO were not well in the past, you are assuming OVAKO's future earnings performance based on this year's year-to-date performance, which was good. Is this the right presumption? How sustainable do you think are the results of this year's year-to-date performance?

A. The performance of OVAKO has been improving even recently because of the effect of streamlining the operation and cost reduction initiatives implemented during the previous periods when OVAKO was being controlled by a fund shareholder, and reduction of interest rates through refinancing of borrowings and bonds. We, therefore, believe this improvement is sustainable. In addition, as in Japan, there has been increasing demand for special steel in Europe, and we believe this will also continue to contribute to the improvement of OVAKO's profitability.

Q. Is it possible, for example, for Japanese bearing manufacturers to switch easily to Sanyo (OVAKO) products in Europe in future?

A. Speaking of cutting-edge products, there are differences in usability depending on products. Some products and processes may require additional improvement. Although these differences are not clear without examining product details and costs, we consider that it may take long time in some cases to switch products.

Q. It seems that the average unit sales price of OVAKO products is higher than that of Sanyo. Is it correct to consider that the base margin of OVAKO is superior compared to Sanyo?

A. Currently, Sanyo and OVAKO are competitors, and details including unit sales price will be examined after March 28, 2019. Having said that, based on our impression through public data, it is possible that both unit sales price and cost of OVAKO are higher than those of Sanyo. Since reducing costs makes it possible to increase the margin, we aim to reduce the cost in OVAKO.

Q. Is it possible for OVAKO to reduce its costs with existing equipment?

A. We consider that there could be some improvement on operation that may be realized simply by modifying existing facilities as necessary.

Q. Regarding fund procurement, although maintaining D/E ratio was mentioned as a reason for adopting the third party allotment, the entire Japanese special steel industry seems to be over capital, which is leading to low Price Book-value Ratio ("PBR"). Based on such circumstances, shareholders of Sanyo could be expecting Sanyo to operate its business with higher leverage. Why did you decide to dilute the shares? It seems that Sanyo's financials can be improved if inventory is reduced and the delay in collecting accounts receivables is improved.

A. As we are adopting the scrap surcharge system, accounts receivables will increase if the prices of raw materials and fuel increase. With respect to the large amount of inventory, we also recognize this issue. The reason for increasing amount of inventory is the increase in the raw materials and fuel unit prices, but we believe that it is now improving. Regarding PBR, as you pointed out, it seems to be low in the Japanese special steel industry. We believe there is an investment need to consider for Mahindra Sanyo Special Steel Pvt. Ltd. in India and for renovation of our factory in Himeji even after the period in 10th Medium-Term Business Plan. In order to retain future financing flexibility, we selected this scheme.

Q. If it is necessary to raise funds in the future, you should first raise the share price by increasing profits through investment before raising funds. Doing a third party allotment at such a low price like in this case makes shareholders feel that they have a loss.

A. There seems to be various views on whether the price of this third party allotment is adequate or not. We believe that JPY 2,800 is not necessarily low as it is at 19% premium compared to Sanyo's share price at the previous date of publication of this transaction on March 15, 2018.

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