

Sanyo Special Steel Co., Ltd.  
IR Briefing Regarding the Business Results for the FY2022 2Q  
Q&A Summary

Date : Monday, October 31, 2022

Speaker : Katsuhiro Miyamoto, Representative Director and President

Kozo Takahashi, Director, Member of the Board and Managing Executive Officer

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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.*

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**Q . Regarding transient factors in ordinary income of OVAKO, could you tell us the actual numbers for 22/1Q and 2Q and the forecast for the second half of the year, including their breakdowns.**

A . The amount of transient factors was 2.1 billion yen in FY22/1Q and 1.4 billion yen in 2Q, in total, 3.5 billion yen in the first half of FY2022. The amount in the second half of FY22 is expected to be 0.5 billion yen, and the effect in FY22 is estimated to be approximately 4 billion yen. Their breakdowns include the positive impact of price differences by iron scrap market and foreign exchange rates, almost by the same amount. The positive impact of refund of surplus from the Swedish Health Insurance Organization was included in FY22/1Q only.

**Q . Could you tell us the development of price increase and applying surcharge mechanism at Sanyo, on non-consolidated basis, and OVAKO?**

A . Sanyo has successfully amended the surcharge system with more appropriate iron scrap price index and more frequent application term, in addition to applying surcharge mechanism to more types of alloys. The energy surcharge is applied separately from the base price increase, and almost all customers accepted the application of energy surcharge or quasi energy surcharge mechanism.

OVAKO has been applying energy surcharge since the beginning of this fiscal year to basically all of its customers. The climate surcharge has also been in place since January of this year, plus a base price increase. While there is a possibility that some price adjustments will be made from the viewpoint of securing volume while observing the supply and demand environment in Europe, we expect the pressure to lower prices may not be that strong due to the ongoing inflation in Europe.

**Q . While most of European steelmakers are experiencing weak financial performance, OVAKO's performance is relatively strong. Is this because the company's CN initiatives have made it relatively difficult for demand to fall?**

A . We believe this is due to the early introduction of the climate surcharge and a small amount of alternative demand for Russian material from OVAKO's main customers.

**Q . Could you explain the factors behind the improvement in margins despite rising costs domestically as well?**

A . Compared with the same period of the previous year, the impact of the time lag due to the decrease in iron steel scrap prices was one positive factor, but mainly the application of energy surcharges or quasi energy surcharge system, the amendment of the iron scrap price index and shortening the time lag of the iron scrap surcharge system enabled us to pass on the cost increase to sales prices.

**Q . Energy prices are skyrocketing in Northern Europe, but is there no need to view this as a risk at this time?**

A . Price levels have been covered by applying energy surcharges. We consider securing energy supply is also important, and although the direct supply of natural gas from Russia to Finland has been disrupted in Finland, supply is now secured via Estonia and other alternatives such as LNG are being secured as well. Investments in energy conservation will also progress ahead of schedule.

**Q . Is surcharge mechanism including energy surcharge applied to Sanyo's all domestic customers? Could you also tell us about the situation in OVAKO, including the climate surcharge?**

A . Sanyo has applied surcharge mechanism to most of customers except some small number of customers such as distributors, for them we ask sales price increase to cover the increasing material costs. OVAKO has applied energy surcharge to almost all customers and applied climate surcharge to all customers unanimously.

**Q . Which will OVAKO intend to prioritize, sales volume or sales price, to safeguard and improve profit margin, in view of the expected risk of a decline of demand in Europe?**

A . We will make decisions based on the balance between both sales volumes and sales prices. The revised business forecast includes sales prices adjustment to secure sales volume necessary for optimum operations, but the pressure to lower prices is not expected to be as strong as before due to strong inflationary trends.

**Q . Could you tell us about the impact of gas and electricity shortages, demand to save electricity and energy and other factors in Europe on OVAKO's production in the future?**

A . OVAKO has successfully secured energy including alternative suppliers from other regions, therefore there is no particular impact on OVAKO unless something unexpected happens.

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