Announcement of Revision to Subsidiary’s Earnings Forecasts

Today, Sanyo Special Steel Co., Ltd., a subsidiary of Nippon Steel Corporation (the “Company”), announced revision to its earnings forecasts, as per the attachment.

The impact of the revision is immaterial with regard to the Company’s consolidated financial results.
To Whom It May Concern,

Company Name: Sanyo Special Steel Co., Ltd.
Representative: HIGUCHI Shinya, Representative Director and President
(Code Number: 5481, First Section of the TSE)
Contact: Accounting & Finance Department
(Telephone: +81-79-235-6004)

Notice Regarding Revision to Full Year Earnings Forecasts

Considering recent trends in performance, Sanyo Special Steel Co., Ltd. (the “Company”) hereby notifies that it has revised its consolidated earnings forecasts for the full year of fiscal 2019 ending March 31, 2020, which were announced on October 30, 2019. The Company also notifies that differences are expected to occur between its non-consolidated earnings forecasts for fiscal 2019 ending March 31, 2020 and the results for fiscal 2018 ended March 31, 2019.

1. Revision to Full-Year Fiscal 2019 Earnings Forecasts (April 1, 2019 – March 31, 2020)

(1) Revision to Full-Year Consolidated Earnings Forecasts

<table>
<thead>
<tr>
<th></th>
<th>Net sales</th>
<th>Operating Income</th>
<th>Ordinary Income</th>
<th>Net Income Attributable to Owners of the Parent</th>
<th>Net Income Per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previous Forecasts (A)</td>
<td>Millions of yen 277,000</td>
<td>Millions of yen 4,000</td>
<td>Millions of yen 3,000</td>
<td>Millions of yen 1,600</td>
<td>Yen 28.89</td>
</tr>
<tr>
<td>Revised Forecasts (B)</td>
<td>260,000</td>
<td>-1,900</td>
<td>-2,300</td>
<td>-2,800</td>
<td>-50.57</td>
</tr>
<tr>
<td>Increase/Decrease (B-A)</td>
<td>-17,000</td>
<td>-5,900</td>
<td>-5,300</td>
<td>-4,400</td>
<td></td>
</tr>
<tr>
<td>Change (%)</td>
<td>-6.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(For Reference)
Results for fiscal 2018 ended March 31, 2019

<table>
<thead>
<tr>
<th></th>
<th>Net sales</th>
<th>Operating Income</th>
<th>Ordinary Income</th>
<th>Net Income</th>
<th>Net Income Per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previous Forecasts (A)</td>
<td>─</td>
<td>─</td>
<td>─</td>
<td>─</td>
<td>─</td>
</tr>
<tr>
<td>Revised Forecasts (B)</td>
<td>132,000</td>
<td>3,100</td>
<td>3,400</td>
<td>2,500</td>
<td>45.16</td>
</tr>
<tr>
<td>Increase/Decrease (B-A)</td>
<td>─</td>
<td>─</td>
<td>─</td>
<td>─</td>
<td>─</td>
</tr>
<tr>
<td>Change (%)</td>
<td>─</td>
<td>─</td>
<td></td>
<td>─</td>
<td>─</td>
</tr>
</tbody>
</table>

(For Reference)
Results for fiscal 2018 ended March 31, 2019 (C)

<table>
<thead>
<tr>
<th></th>
<th>Net sales</th>
<th>Operating Income</th>
<th>Ordinary Income</th>
<th>Net Income</th>
<th>Net Income Per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previous Forecasts (A)</td>
<td>─</td>
<td>─</td>
<td>─</td>
<td>─</td>
<td>─</td>
</tr>
<tr>
<td>Revised Forecasts (B)</td>
<td>162,804</td>
<td>9,757</td>
<td>10,164</td>
<td>7,162</td>
<td>220.54</td>
</tr>
<tr>
<td>Increase/Decrease (B-C)</td>
<td>-30,804</td>
<td>-6,657</td>
<td>-6,764</td>
<td>-4,662</td>
<td></td>
</tr>
<tr>
<td>Change (%)</td>
<td>-18.9</td>
<td>-68.2</td>
<td>-66.6</td>
<td>-65.1</td>
<td></td>
</tr>
</tbody>
</table>

Company Name: Sanyo Special Steel Co., Ltd.
Representative: HIGUCHI Shinya, Representative Director and President
(Code Number: 5481, First Section of the TSE)
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(Telephone: +81-79-235-6004)
2. Reasons for the Revisions to Earnings Forecasts

(1) The main reasons for the revision to the consolidated earnings forecasts as follows.

A) Decrease in sales volume of Sanyo

The inventory adjustment that occurred since second half of last fiscal year in some industries such as machine tools, robots and semiconductor devices, has spread to all major customers including automobiles, industrial and construction machineries due to the slowdown in overseas economies caused by the protracted US-China trade dispute and the economic deceleration in emerging-countries and the uncertainty of Brexit. In such circumstances, sales orders to Sanyo have decreased rapidly since last summer.

At the time of the previous disclosure (October 30, 2019), due to taking the decrease of sales orders into consideration, the Company revised assumed sales volume estimates down to 478 thousand tons from 513 thousand tons for the second half of the fiscal year ending March 31, 2020.

However, the situation worsened, and the actual sales volume for the third quarter (October 1, 2019 to December 31, 2019) was 219 thousand tons, which has decreased 20 thousand tons (-8.4%) compared to the forecast at the previous disclosure.

Currently, trade negotiations between the U.S. and China have reached the first-stage agreement, and there has been a trend to risk mitigation of the Brexit. In addition, in some industries where adjustments have been made ahead, inventory adjustments are likely to be completed. However, due to stagnation of activity level in the major customers of our products, such as automobiles where sales remain stagnant in China, India, Southeast Asia, etc., and industrial/construction machineries showing no signs of recovery, huge inventory adjustment continue as yet, sales orders have been sluggish.

In light of these circumstances, the Company has revised down its sales volume forecast for the fourth quarter (January 1, 2020 to March 31, 2020) to 173 thousand tons (a decrease of 66 thousand tons (-27.6%) from the assumed volume at the time of the previous disclosure)

As a result, the sales volume of Sanyo in the second half of fiscal year is expected to be 392 thousand tons (a decrease of 86 thousand tons (-18.0%) from the assumed volume at the time of the previous disclosure.) Due to this effect, the operating income is expected to decrease by 3.0 billion yen compared with the previous forecast.

In addition, due to the decrease of sales volume, manufacturing costs are expected to rise because of the decrease in production. Also, profits are forecasted to decrease at domestic affiliated companies that sell Sanyo’s products, contract work, and perform secondary processing. Due to this effect, the operating income is expected to decrease by 2.0 billion yen compared with the previous forecast.

B) Rising iron scrap price

At the time of the previous disclosure, the Company expected price of iron scrap in the second half of fiscal year 2019 to be 20.3 thousand yen per ton (H2 market condition in Himeji area). Due to the rise in price from November 2019, the Company revised the assumed price in the second half of fiscal year 2019 to 23.1 thousand yen per ton.

The Company has adopted a scrap surcharge system. However, the effect of the rising in iron scrap prices will mainly be reflected to sales prices from April 2020. Due to this effect, the operating income is expected to decrease by 0.3 billion yen compared with the previous forecast.

C) Decrease in operating income of Ovako

At the time of the previous disclosure, the Company expected operating income of Ovako (before goodwill amortization) for the full fiscal year (January 1, 2019 to December 31, 2019)* to be 0 billion yen.

In spite of slight favorable factors such as timing difference in iron scrap prices change, due to the decrease in sales volume for the 4th quarter (October 1, 2019 to December 31, 2019) caused by the inventory adjustments by customers, operating income of Ovako is expected to decrease by 0.6 billion yen compared with the previous forecast.

* The consolidated accounting period for Ovako is January 1, 2019 to December 31, 2019.

Result of the above, as for the full-year consolidated earnings forecasts, the Company prospects net sales of 260 billion yen (down 6.1% from the previous forecast), operating income of -1.9 billion yen, ordinary income of -2.3 billion yen, net income attributable to owners of the parent of -2.8 billion yen.
Results of 1st Half / FY2019 | Forecasts of 2nd Half / FY2019 | Forecasts of FY2019
---|---|---
Sales Volume (Thousands of ton) | 479 | 423 | 902 | 381 | 333 | 714 | 1,616
(Sanyo) | 255 | 207 | 463 | 219 | 173 | 392 | 855
(Ovako) | 196 | 191 | 387 | 139 | 141 | 280 | 667
(MSSS) | 28 | 25 | 52 | 23 | 19 | 42 | 94
Net Sales (Billions of yen)*1 | 77.2 | 68.9 | 146.1 | 57.6 | 56.3 | 113.9 | 260.0
Operating Income (Billions of yen)*1 | 2.5 | 0.2 | 2.6 | -1.1 | -3.4 | -4.5 | -1.9
(Sanyo) | 2.3 | 0.7 | 3.0 | 1.1 | -1.0 | 0.1 | 3.1
(Ovako) | 1.2 | 0.5 | 1.7 | -1.3 | -1.0 | -2.3 | -0.6
(MSSS) | -0.2 | -0.2 | -0.4 | -0.2 | -0.3 | -0.5 | -0.9
(Goodwill Amortization) | -0.8 | -0.7 | -1.5 | -0.6 | -0.8 | -1.4 | -2.9
Ordinary Income (Billions of yen)*1 | 2.3 | -0.1 | 2.2 | -1.2 | -3.4 | -4.5 | -2.3
(Deducted Goodwill Amortization) | 3.1 | 0.7 | 3.7 | -0.5 | -2.6 | -3.1 | 0.6
Net Income*2 (Billions of yen)*1 | 1.8 | -0.4 | 1.4 | -1.3 | -2.8 | -4.2 | -2.8
(Deducted Goodwill Amortization) | 2.6 | 0.3 | 2.9 | -0.7 | -2.1 | -2.8 | 0.1

*(1) Amounts have been rounded to the nearest 100 millions of yen.
*(2) Net Income Attributable to Owners of the Parent

(As for the full-year non-consolidated earnings forecasts, due to decrease of sales volume caused by a huge drop in sales orders, the Company prospects net sales of 132 billion yen (down 18.9% from the results of previous fiscal year), operating income of 3.1 billion yen (down 68.2% from the result of previous fiscal year), ordinary income of 3.4 billion yen (down 66.6% from the results of previous fiscal year), net income of 2.5 billion yen (down 65.1% from the results of previous fiscal year).

3. Implementation of Profit Improvement Measures

Due to the second half of fiscal year expected to result in a net loss, the Company has regrettably decided to revise its year-end dividend forecast to non-dividend, as today’s announcement in the “Notice Regarding Revision of Year-End Dividend Forecast (non-dividend) for the Fiscal Year ending March 31, 2020.”

Taking this situation seriously, the Company managements have voluntarily offered to return their partial compensation. And the Company decided the implementation of measures for swift recovery such as the furlough utilizing the Employment Adjustment Subsidy System, and voluntary partial return of manager’s salary. For further details of profit improvement measures, please refer to the “Notice Regarding the Implementation of Emergency Profit Improvement Measures” released today.

Note: The above forecasts are based on information that was available on the announcement date of this release.

Actual results may differ from the forecasts due to various risks and uncertainties.