



**Conference Call Regarding  
“Acquisition of Ovako (Making It a Subsidiary)” and  
“Commencement of Discussions Regarding Making Sanyo Special Steel  
a Subsidiary of Nippon Steel & Sumitomo Metal and Other Matters”  
(held on March 22, 2018)  
Summary of Q&A**

Note: This document is based on information available at the time of the briefing.

Representative from NSSMC  
Katsuhiro Miyamoto, Managing Executive Officer

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**Q You mentioned that the acquisition amount of Ovako AB (Ovako) cannot be disclosed but could you give us some kind of figures, such as an expected range of EV/EBITDA ratios? In addition, does your evaluation in amount take into account pension liabilities and other items? Lastly, considering that Ovako has been recording consecutive losses and has significant interest-bearing debts, are you projecting generation of goodwill?**

A The acquisition amount cannot be disclosed due to the agreement with the seller. Having used various evaluation methods, including EV/EBITDA ratio, DCF, and peer comparisons, we believe that we have agreed on a reasonable, economically-justified amount. Pension liabilities and others have also been taken into consideration. Although acquisition was by competitive bidding and the seller had considered an IPO as one option, we think we have been able to obtain agreement at a reasonable acquisition amount. As Ovako has limited capital, a certain amount of goodwill is likely to be generated.

One of the reasons behind past consecutive losses is the company's debt at high interest rates. As for the scope of disclosed information, for example, Ovako carries a significant interest burden with its €310 million corporate debt at the interest rate of 5%. This corporate debt will be redeemed upon acquisition and, combined with the shareholders' equity that Nippon Steel & Sumitomo Metal Corporation (NSSMC) will invest, we are expecting Ovako to become more sound financially and be able to raise funds on its own.

**Q You said that the method of making into a subsidiary is yet to be decided and various methods are contemplated. When you commenced discussion on making Nisshin Steel Co., Ltd. (Nisshin Steel) a subsidiary, the briefing materials at the time stated tender offer as the first option and third-party allotment as second. This time, however, the briefing materials stated third-party allotment first and tender offer second. Please explain meaning or nuance of this difference in order between these two statements. Also, is it possible that Sanyo Special Steel Co., Ltd. (Sanyo Special Steel) may purchase shares of Ovako?**

A NSSMC will purchase Ovako shares and make it a fully-owned subsidiary, and also make Sanyo Special Steel a subsidiary. We intend to then consider optimal formats for cooperation by the three companies. There are various options, such as to make Sanyo Special Steel and Ovako fellow subsidiaries within the NSSMC Group, and to make a corporate reorganization of Sanyo Special Steel and Ovako, using Ovako shares purchased by NSSMC. We thus believe that the potential methods of making a subsidiary can be diverse, including third-party allotment, tender offer, and reorganization procedures under the Companies Act.

**Q My impression is that the acquisition may not necessarily be entirely by cash. Is it the correct understanding?**

A Such an understanding would be all right. As I mentioned, various options, including corporate reorganization and use of treasury stock, are available.

**Q Will you elaborate more on Ovako's business situation, in addition to what you have disclosed? What about Ovako's users, brands, positioning in the special steel and bearing steel market in Europe, and growth potential?**

A Ovako's sales are 90% in Europe and 10% in Asia and North America. Sales in Europe are roughly comprised of 35% in North Europe, 45% in West Europe, and about 10% in East Europe. Bearing steel is one of Ovako's major products and at one point in the past, a major bearing maker SKF owned Ovako. Ovako also has strength in wind power generator and other industrial machinery.

Considering demand for special steel, some people argue that an increase in production of electric vehicles (EVs) could result in a decline in special steel consumption per vehicle. However, production of the overall conventional and other

vehicles will continue to increase. Moreover, the rotation number of motors is much higher for EVs (about 10,000-20,000rpm) than for gasoline vehicles (about 3,000-6,000rpm) as the EV's motors are smaller but have a higher requirement to generate torque. The higher the number of rotations is, the greater the demand for durability and other features. We thus anticipate an increase in need for high-grade bearing steel and find this market attractive.

**Q Let me ask about how the special steel business is positioned in NSSMC. I assume that special steel is a difficult business with manufacturing in small quantities, large varieties, and serving diverse customers. However, you have decided to go ahead with this investment. Does this mean that you have a strategy to enhance the special steel business area and to raise the ratio of this business in your total profit?**

A We think that special steel is an extremely important area. Demand in the high-end area, in particular, is robust and is expected to remain most tight in terms of supply and demand conditions. As we will make Ovako and Sanyo Special Steel our subsidiaries and focus on how efficiently to manufacture and sell special steel, we believe that our sales can become greater than the simple sum of the three companies. As you pointed out, special steel is manufactured in small quantities and large varieties, but NSSMC has developed technology and know-how to manufacture special steel, using a blast furnace method, in Muroran and Kokura. By welcoming Ovako and Sanyo Special Steel in our group, we will have additional top-class technology, which will enable us to further enhance our efficiency and competitiveness. To control the top-end market is strategically important, in our view. We also find it strategically significant to expand our channels to European customers, with whom we had not had a large share up to now, and to acquire European industrial standards. Users of such top-end special steel in the world are either Japanese or Europeans. Acquiring access to these two user segments will be extremely beneficial.

**Q What kind of synergies are you assuming? Sanyo Special Steel is currently operating at full capacity with no underutilized capacity to be consolidated with existing capacity elsewhere in your organization. Ovako is geographically far away from Japan. In light of such conditions, will you explain specific details of**

**anticipated synergies? In the case of making Nisshin Steel a subsidiary, there are synergies such as switching of chrome stainless steel and nickel stainless steel between Nisshin Steel and Nippon Steel & Sumikin Stainless Steel Corporation. This time, are you thinking about switching of steel for machine structure and bearing steel among three companies?**

A Specific synergy effects will be considered as we go forward. After being approved by the competition authorities, we will seek mutual benefits by sharing business strategies and examining business of each of the three companies. Switching of products, plans for raising output of the three companies in aggregate, and other diverse ideas will be examined. But I am afraid I must refrain from saying anything specific this time.

**Q You explained that you will gain channels to European makers in the special steel business. Will this be beneficial to your main business of ordinary steel?**

A Ovako does not use trading companies as sales agencies but has its own sales bases in Italy, France, Germany, Holland, and other countries in Europe. These bases, each having about 30-40 staff members, can be utilized in various ways. With consideration for our alliance contract on steel sheets for vehicles with ArcelorMittal, we will determine the best course of action.

**Q Ovako's business results have not always been favorable and the company had difficult business results in 2015. Will you explain the background and factors behind it? You mentioned that some investment fund has owned Ovako for some time but how did that fund manage the company? Did the fund restructure it? In addition, will you also tell us why you made the decision to buy at this time and since when have you been considering this deal?**

A Since the global financial crisis in 2008, Ovako's business had deteriorated with a decline in demand in Europe. The fund acquired Ovako in 2010 but did not implement major restructuring and other measures for some years. In 2015, the management, including the CEO, was reshuffled, and measures such as personnel rationalization, cost reduction, and closure of some small plants were executed. Subsequently, along with recovery of the European economy, a pick-up in production volume led to a recovery in earnings. While the fund has held Ovako's shares for a relatively long time, it might have begun to think about sale or an IPO, along with a recovery in Ovako's

business. The real process for the sale began in the fall of 2017. A negotiation team of the fund, a seller, included a member who happened to have represented the seller of Garphyttan AB, that had been acquired by NSSMC. It was by coincidence but we negotiated with someone we have known and dealt with in the past. We have done due diligence, have visited and checked Ovako's plants, and negotiated and agreed with the fund.

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