Regarding the Agreement to Make Sanyo Special Steel a Subsidiary of Nippon Steel & Sumitomo Metal and Other Matters

August 2\textsuperscript{nd}, 2018
Overview of Special Steel Business’s Integration & Reorganization

**As Is**

- NIPPON STEEL & SUMITOMO METAL (100% subsidiary)
  - Mar. 2018: Entered into share purchase agreement
  - Jun. 2018: Made OVAKO 100% subsidiary

- OVAKO (15% Equity method affiliate)
  - Mainly located in Europe

- SANYO SPECIAL STEEL Co., Ltd. (100% subsidiary)
  - Mainly located in Japan & Asia

OVAKO and Sanyo are both special steel makers with global top level technology regarding high-cleanliness steel for bearing steel etc.

**Integrate and Enhance**

1. NSSMC will underwrite Sanyo’s Third Party Allotment
   - ¥67.2bn.
   - Sanyo shares
     - 24 mil. shares (¥2,800/share)

2. NSSMC will transfer all the shares of OVAKO to Sanyo
   - OVAKO Shares
     - ¥67.2bn.

**To Be**

- NIPPON STEEL & SUMITOMO METAL (51% subsidiary)
  - 28th, Mar. 2019 (Planned)

- SANYO SPECIAL STEEL Co., Ltd. (100% subsidiary)
  - 28th, Mar. 2019 (Planned)

Maximize synergies among 3 companies
Vision and Expected Synergies

Realize synergies of ¥10 bn./year as NSSMC group by addressing globalization of customers’ business & increasing needs for high-quality special steel products

Efficient production for the NSSMC group as a whole
- Establish optimal production structure by region
- Share operation know-how
- Mutual use of logistics networks

Capability to respond to customer’s needs
- Mutual use of marketing & sales networks
- Strengthen proposal capabilities through joint R&D

Cost reduction for procurement
- Efficient material transportation
- Centralized purchasing

Combine business foundations, technical capabilities & product development capabilities

Stable management foundation
- Enhanced by NSSMC groups’ support for global management

NSSMC group’s synergy

Sanyo & OVAKO Synergy
- More than ¥5 bn./y

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Schedule

Aug 2nd, 2018 – Execution of agreements, (a) making Sanyo Special Steel a subsidiary of NSSMC, (b) transferring all the shares of OVAKO to Sanyo from NSSMC

After Aug, 2018 – Approval from competition authorities in Japan and overseas

Around Feb. 2019 (plan) – Extraordinary general shareholders’ meeting of Sanyo

Mar. 28th, 2019 (plan) – Payment date of Third-Party Allotment

Transfer all the shares of OVAKO to Sanyo

In addition, the policy is to maintain the listing of Sanyo Special Steel on the First Section of the TSE.

Trend of Sanyo Special Steel’s share price

Cf.1 Taking OVAKO into NSSMC’s consolidated accounting
BS : End of FY2018.1Q (Apr. to Jun.) ~
PL : Taking OVAKO’s FY2018.3Q (Jul. - Sep.) into NSSMC’s FY2018.3Q (Oct. - Dec.)

Cf.2 Taking OVAKO into Sanyo’s consolidated accounting
BS : End of FY2018.4Q (Jan. to Mar.) ~
Overview of NSSMC’s Special Steel Bar & Wire Rod Business

<Location>

Muroran

Special Steel Bar & Wire Rod

Other products

Yawata (Kokura Area)

Initiatives for strengthening special steel business’ competitiveness

Yawata (Kokura Area) - Optimize upstream
(announced on Mar. 30th, 2016)

- Start operating new continuous casting facility in Yawata (FY2019)
- Cease upstream processes in Kokura Area (the end of FY2020)
- Maintain Kokura’s production level of special steel bar & wire rods

Muroran - Enhance of Joint Venture (Mitsubishi Steel Muroran Inc.*) with Mitsubishi Steel Mfg. Co., Ltd.
(announced on Apr. 28th, 2017)

- Increase volume in outsourced manufacturing of steel billets to MSR*
- Establishment of organization in MSR and technology transfer from NSSMC to MSR*, to secure the quality of steel billets

*MSR = Mitsubishi Steel Muroran Inc.
Technology of Sanyo Special Steel

• Unique Manufacturing Technology for High-Cleanliness Steel ("Steel You Can Count On")

• Leading Bearing Steel Manufacturer in Japan

【Application(e.g.)】

Contributing to the Development of Society by Providing "Steel You Can Count On" which has earned a high degree of confidence from the Market in respects of Development, Quality and Stable Supply
Product Lineup of Sanyo Special Steel and OVAKO

**Bearing steel**
- High-carbon chromium steel
- Linear motion bearing
- Transmission gears
- Gears for differential

**Alloy steel**
- Shafts for auto
- Invar alloy for electric power cable
- Hot extrusion dies

**High alloy steel**
- Precision pipes and parts
- High cleanliness steel used for bearings, with higher loads, downsizing effect, and longer service life
- Isotropic and ultra clean steel with multidirectional fatigue strength. Contributes to smart solution of components.
- Wear-resistant steel with excellent formability and weldability which contributes to design flexibility and longer service life
- Low alloyed free cutting steel with exceptional toughness and fatigue strength. Contributes to operational efficiency and cost reduction of component manufacturers.

**Special Steel Market**
- Material in critical parts for various industries (autos, industrial machinery, wind power generation & robot etc.)
- Demand for high-quality special steel will continue to grow steadily.

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Main Markets & Locations of Sanyo Special Steel and OVAKO

SANYO SPECIAL STEEL Co., Ltd.

< Market >
- North America
- Europe
- Asia
- Others

< Customers >
- Autos
- Industrial machinery

< Locations >
- Mahindra Sanyo Special Steel

Sanyo Special Steel (Himeji city, Hyogo pref.)

< Market >
- Asia, North America

< Customers >
- Others
- Autos

< History >
17th Century: Entered in steel business in Sweden
1916: Bought by SKF (the largest global bearing steel maker in Sweden)
2010: Acquired by Triton Fund
2018: Acquired by NSSMC

< Locations >
- Headquarter
- Steel mills
- Secondary processing mills
- Sales offices

cf. World’s major bearing steel manufacturers
Sanyo Special Steel & OVAKO are the main suppliers for the companies below.
(1) SKF <Sweden>, (2) Schaeffler <German>, (3) NSK <Japan>, (4) NTN <Japan>, (5) JTEKT <Japan>
### Financial Highlights of Sanyo Special Steel and OVAKO

<table>
<thead>
<tr>
<th></th>
<th>SANYO SPECIAL STEEL FY2017</th>
<th>OVAKO CY2017 (130¥/€)</th>
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</thead>
<tbody>
<tr>
<td><strong>Crude steel</strong></td>
<td>1.30 MMT/year (2EAFs)</td>
<td>1.01 MMT/year (3EAFs)</td>
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<tr>
<td><strong>Sales volume</strong></td>
<td>1.07 MMT/year</td>
<td>0.78 MMT/year</td>
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<tr>
<td><strong>Net sales</strong></td>
<td>¥157.4 bn.</td>
<td>€921 mil. (approx. ¥120.0 bn.)</td>
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<tr>
<td><strong>Net profit</strong></td>
<td>¥7.0 bn.</td>
<td>€15.2 mil. (approx. ¥2.0 bn.)</td>
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<tr>
<td></td>
<td>[FY2018(E) ¥8.0 bn.]</td>
<td>[Jan.-Jun, FY2018 €26mil. (approx. ¥3.4bn.)]</td>
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<tr>
<td><strong>Total assets</strong></td>
<td>¥210.2 bn.</td>
<td>€743mil. (approx. ¥97.0 bn.)</td>
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<td><strong>Interest bearing debt</strong></td>
<td>¥28.4bn.</td>
<td>€251mil. (approx. ¥34.6 bn.)</td>
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<td><strong>Employees</strong></td>
<td>2,666</td>
<td>Approx. 3,000</td>
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**Profit**

*Sanyo’s FY18.1Q net profit incl. gain on step acquisitions of Mahindra Sanyo Special Steel (¥1.46bn.).
**OVAKO 1Q=Jan.-Mar.
***OVAKO 18.2Q

Net Profit incl. one-off costs (costs for advanced redemption of bonds etc.) (€12.2mil.)

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<th>(bn.¥/Q)</th>
<th>(million EUR/Q)</th>
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<tr>
<td>Japan</td>
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<td>India</td>
<td>2.6</td>
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<tr>
<td>Europe</td>
<td>1.5</td>
<td>29</td>
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<tr>
<td>Americas</td>
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**EBITDA before restructuring cost**

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<th>EBITDA before restructuring cost (million EUR/Q)</th>
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<tr>
<td>Global</td>
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<td>11 (***</td>
</tr>
<tr>
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<tr>
<td>India</td>
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<tr>
<td>Europe</td>
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<td>18</td>
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<td>Americas</td>
<td>3.9</td>
<td>40</td>
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<table>
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<th>(bn.¥/Q)</th>
<th>Net profit/loss</th>
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<tr>
<td>Global</td>
<td>17.</td>
<td>17.**</td>
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<tr>
<td>Japan</td>
<td>2Q</td>
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<tr>
<td>India</td>
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<tr>
<td>Europe</td>
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<td>1Q</td>
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<tr>
<td>Americas</td>
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<td>2Q</td>
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Basic Concept of Impacts on Sanyo’s Consolidated Net Profit

Cf. Targeted synergy effect
Before tax: more than ¥5.0 bn.
After tax: more than ¥3.5 bn.

Sanyo Special Steel’s outstanding shares 33 mil.

Cf. FY2018(E)
Net profit ¥8.0 bn.
incl. gain on step acquisitions of Mahindra Sanyo Special Steel (¥1.46 bn.)

Sanyo Special Steel’s Net profit

OVAKO’s Net profit

¥6.8 bn.
(annualized basis)

shares to be issued through TPA 24 mil.

Procure the funds necessary for acquiring all the shares of OVAKO

Goodwill amortization etc.

Cf. Targeted synergy effect

72% increase

OVAKO’s FY2018
Net profit
(Ref.) About Special Steel

Classification of Steel

- Ordinary Steel
  - Mild Steel
  - Rolled Steel for General Structure(SS), Rolled Steel for Welded Structure(SM), Steel Bars for Concrete Reinforcement(SR,SD), Low Manganese Non-Tempered High Tensile Strength Steel

- Special Steel
  - Structural Steel
  - Mechanical Structural Carbon Steel(S10C, S45C etc.)
  - Mechanical Structural Alloy Steel—Chromium steel(SCr), Chromium Molybdenum Steel(SCM), Nickel Chromium Molybdenum Steel(SNCM)
  - Pressure Vessel Steel—Carbon Steel for Boilers and Pressure Vessels(SB), Chromium Molybdenum Steel for Boilers and Pressure Vessels(SCMV)
  - Tool Steel
    - Carbon Tool Steel(SK), Alloy Tool Steel(SKD SKT), High-Speed Steel(SKH)
    - (Low-Alloy Steel) Spring Steel(SUP), Bearing Steel(SUJ), Free-Cutting Steel(SUM), Non-Tempered High Tensile Steel
    - (High-Alloy Steel) Stainless Steel(SUS), Heat-Resistant Steel(SUH), High-Manganese Non-Magnetic Steel
    - (Carbon Steel) Spring Steel(SUP), Piano Wire Rod Steel(SWRS)

Breakdown by special steel grade

- Stainless Steel
- High Tensile Strength Steel
- Bearing Steel
- Free-Cutting Steel
- Spring Steel
- Tool Steel
- Other

Hot-rolled steel production in Japan(FY 2017)

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