

Yamato Kogyo Co., Ltd.**Financial results briefing for the fiscal year ended March 31, 2022****Main points from the Q&A session**

Q01. In the event that the performance of the Middle East business improves and balance sheet exposure to the business is reduced, can we expect to see further changes in the balance sheet strategy or an acceleration in new investment?

A01. We have seen some improvements in the business environment for the Middle East operations, but our perception is that the situation will not allow for optimism for quite some time yet. Taking that into account, we believe it is too early to incorporate a reduction in exposure to the Middle East into our plans. Our current cash allocation policy assumes that Middle East exposure will not increase, but that it will not decrease either. However, as you mentioned in your question, if exposure were to fall then yes, we would take that portion of cash and proactively use it for growth investments.

Q02. It has been reported in the media that the issue of lowering tariffs on imports from China is being discussed within the US as a means of dampening inflation. In the event of such a reduction in steel tariffs, would this have a negative effect on the US business?

A02. With regard to the lowering of tariffs on Chinese imports, it is a fact that these discussions have been held, but so far no concrete details or figures have appeared. Recently robust demand has been continuing and we also have an order backlog, so for the rest of this year we expect favorable conditions to be maintained. China has introduced export restrictions and other measures, and internal policy of China is also having impact on the situation. Exports from China are a cause of market volatility not only for the United States but also Southeast Asia, so we will continue to watch the situation carefully going forward.

Q03. Will the recent weakness in steel scrap prices be a positive factor for performance in the short term?

A03. Your perception is correct; the recent decline in steel scrap will have a positive impact. However, beyond that it is difficult to anticipate how prices will fluctuate. Since the start of May, scrap prices have fallen by nearly ¥7,000 in Japan but the prices of sub-materials other than scrap have continued to rise, and we have not yet begun considering moving selling prices based on lower prices for scrap. For that reason, it is indeed the case that a short-term decline in scrap prices will result in an expansion of margins.

Q04. In the US, Nucor has cut prices for wire rods in response to lower scrap prices. Does this have negative implications for selling prices of structural steel?

A04. Market conditions differ according to the product, and unlike wire rods, the structural steel market in US is what can be described as a “comfortable environment” for supply side. Even the information from our JV partner Nucor suggests that they see non-residential construction demand remaining strong, and recent orders have been good, so we think that strong conditions will continue. Based on these points, our view is that we will not see a decline in selling prices during this phase.

Q05. Demand for steel products in China is weak. Will this have any negative impact on the business in Thailand and Vietnam?

A05. There is concern that weakness in demand within China itself will lead to Chinese products flowing into the export market, and such movements are something that we always view as a threat and monitor closely. In the medium to long term there is the possibility that such flows will increase, but in terms of recent market situation we have not heard that there has been a rise in Chinese products. To an extent this does depend on the trend in anti-dumping tariffs and so on for Chinese products that have been introduced by various countries, but if we take the Southeast Asia market as a whole, at least for now, it has not yet reached the point where there has been an increase in products from China.

Q06. Kobe Steel has begun selling low-CO2 steel materials, and in the US Nucor is selling Econiq. Does Yamato Kogyo have any intention of getting involved in the sale of low-CO2 products?

A06. In the US, there are systems that enable investments in renewable energy generation via instruments such as VPPA (Virtual Power Purchase Agreement) to be used to achieve carbon offsetting, but there has still been little progress in such systems in Japan. If customers were to ask us for “green” steel we would like to respond to such requests, but in Japan there are no systems in place for achieving carbon neutrality. For that reason, we explain to customers that steel from an electric furnace produces only one-quarter of the amount of CO2 as steel made in a blast furnace, and that Yamato Steel has managed to cut this to one-sixth of the amount. At this point, sharing this information with customers and letting them be the judge is how we are dealing with this issue.

Q07. You said that you are aiming to increase volumes in the ASEAN region. Am I right to think that this will be primarily H-beam products?

A07. Your perception is correct. Our aim is to grow production volume of H-beams. In order to achieve this, we are considering upgrading facilities at Thailand/SYS, and adding to the small to medium-sized rolling line at Vietnam/PY VINA to increase in volume, primarily of H-beams.

Q08. My perception is that performance in the Thailand business improved significantly in FY2021, but is it sustainable? Will the key issue here be exports to ASEAN countries?

A08. In terms of the factors behind the positive performance in the Thailand business, one extremely significant element of that has been the stabilization of the export market due to a reduction in exports from China to the ASEAN region. In the event that exports from China increase, it will to some extent depend on the scale of the volume and the price levels involved, but it is possible that the currently stable export market will soften, so we are watching trends in China carefully. Going forward, if exports from China do not rise much, then we can expect similar year to FY2021, and our view is that these favorable conditions are likely to continue.

Q09. Rising energy prices are becoming an increasingly serious issue in Japan. What is the situation with regard to energy costs in other regions in which you are active?

A09. The situation varies from location to location, but basically the trend of rising electricity costs is continuing. In the United States/NYS, which is a cornerstone of our earnings, because the US is self-sufficient in energy there has been no major impact from higher energy costs. In other regions the situation is that we are seeing a gradual rise in costs.

Q10. With regard to demand for H-beams in Japan, Tokyo Steel Manufacturing has plans to significantly increase sales volumes but there is a view that demand for structural steel used in construction is weak. How do you see demand developing this year?

A10. With regard to domestic demand, there has been recovery in large projects but we do not think that it likely that overall demand will grow much. From our perspective, there seems to be a movement among blast furnace steel manufacturers to focus on steel sheet products, so we intend to concentrate on capturing demand from that movement.

Q11. You seem to perceive there to be a disparity between the capital markets' assessment of Yamato Kogyo and your own assessment of the company. What do you think is the cause of this divergence?

A11. Our price-to-book ratio is about 0.7x, so naturally that is not a level that we find satisfactory. Going forward we will work to increase this level. We think that one of the reasons for this disparity is that we have been bundled together with the entire steel industry for the purposes of assessment, and we feel that this may be because we have not explained ourselves sufficiently to the market. Going forward we will work to promote understanding of the fact that the H-beam market is formed by only a few leading suppliers in the US, and that compared to steel sheet it is a relatively stable market. In order to be assessed as an independent company rather than an undifferentiated part of the steel industry as a whole, we will make efforts to strengthen our ability to convey such information.

Q12. Is there enough demand in Vietnam/PY VINA to justify the rolling capacity?

A12. With regard to the plans for adding to the small to medium-sized rolling line at PY VINA as part of our investments going forward, we and our JV partner POSCO are considering the issue you raise, which is that of domestic demand in Vietnam. Some may take the view that if there is little demand or that the industry is dependent on cheap imports then things will be difficult, but the fact that we manufacture within Vietnam is one of our strengths, and if it is the case that the industry is dependent on imported products then we will likely take a proactive approach to this. For Thailand/SYS, the fact that we manufacture locally is one of our strengths when doing business in that country. If we can confirm a certain level of demand, then after consulting with POSCO we will move forward with plans to add small to medium-sized rolling line.

Q13. What is the situation regarding supply pressure from Malaysia in H-beams?

A13. Alliance Steel in Malaysia, which used to be a source of H-beam exports, seems to have been focusing on wire rods for the Chinese market recently, and we have been able to confirm hardly any H-beam exports. If that company returns to the export market it would be a threat, so we are monitoring its movements carefully.

Q14. In the US business, given that demand is strong are you not considering investments to increase capacity? Or is that up to Nucor?

A14. We have in the past consulted with our partner Nucor when considering whether to move forward with capex. At NYS we conducted upgrades for the QST (Quenching and Self Tempering) line and the No.2 rolling mill in 2017 and 2020, and as a result of making those capex up front we are in the situation of being able to supplement the recent demand. The US market for H-beams is comfortable from the perspective of the supply side, and NYS is not considering capex to increase capacity. Our competitors Gerdau and SDI have not announced plans to invest for the purpose of capacity increases either.

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