

Yamato Kogyo Co., Ltd.**Financial results briefing for the six months ended September 30, 2022
Q&A session Summary**

Q01. Will the economic slowdown caused by monetary tightening have an impact on performance next fiscal year?

A01. We believe that depends on the structural steel demand in the countries and regions where we do business globally. There are concerns about an economic recession in the United States, but demand is expected to be supported by infrastructure investment, etc. from next fiscal year. We forecast that supply and demand will remain tight, and that the performance of NYS, which continues to drive consolidated performance, will not drop off significantly.

Q02. I would like to ask about US business. While market conditions deteriorate significantly for sheet products, market conditions remain steady for structural steel. What do you think this is backed by? I think it is due to limited suppliers and import tariffs, but I would like to ask you about this including whether there are any risks such as competitors' plans for production capacity expansion.

A02. As you understand, the greatest factor is that the supply side is limited to the three major companies: Nucor Group, Gerdau, and SDI. We have not heard about capital investment aimed at increasing supply volume and it is our view that demand has been somewhat strong due to the balance between supply and demand being maintained for some time. In terms of price, due to the price reductions of sheet products and the increase of imports into the United States, NYS recently lowered prices to maintain competitiveness as a leading supplier. It is indeed a price reduction, but scrap prices have also come down, and we believe that we will be able to maintain performance without significantly reducing our margin.

Q03. I have a question about the US/NYS. You explained that distributors are cautious about placing orders, but do you think there is a risk of a downturn in demand?

A03. In response to the hike in interest rates, distributors are showing signs of caution about accumulating inventory. Distributor orders tend to slow down around the end of every year to avoid inventory tax. With regard to actual demand, there is a solid number of contracts with fabricators who are the so-called end users, and in addition to non-residential construction, infrastructure demand is expected to underpin the business as a whole from next year, so we do not believe that there will be a significant drop.

Q04. With regard to the US business, there was an explanation in the Nucor Investor Day presentation that private-sector non-residential construction demand would decrease because demand was too strong in 2022. Does this suggest that NYS would face issues from demand?

A04. Even if there is some slowdown in the non-residential sector, demand will be underpinned by infrastructure investment, and we do not believe there will be a significant drop.

Q05. Please provide a detailed explanation of the capital investment plan for Thailand/SYS. Also, you have stated that you aim to expand in Asia, but is there a risk of oversupply?

A05. SYS's investment is to replace the existing equipment rather than increasing capacity. It is investment aimed at updating aging equipment and improving safety and quality rather than increasing volume, so it is not investment that will lead to oversupply.

Q06. What is the amount for capital investment in Japan/Yamato Steel?

A06. As shown in the part on cash allocation policy on page 25 of the financial results briefing materials, we plan for strategic capacity expansion of existing equipment totaling 30 billion yen in Japan.

Q07. I have a question about shareholder returns. Please provide your view on the possibility of maintaining an annual dividend of 300 yen and the conditions and timing of share buybacks considering the cash position and share price level.

A07. We raised the annual dividend amount to 300 yen per share this fiscal year. We decided on 300 yen in accordance with the 30% guideline that has been indicated in our dividend policy, based on the cash position taking into account future investment, and the level of performance of this fiscal year. With regard to continuation from next fiscal year, we believe it is best to continue because we have indicated the policy of stable dividends, but the actual decision on the amount of dividends will be made considering conditions such as the business plan for next fiscal year, cash position, and investment plans. For this reason, we cannot say anything definite at this time.

Q08. There may be a decrease in earnings next fiscal year, but would you reduce dividends proportionally to profit if there is a decrease in earnings?

A08. The outlook for next fiscal year is that overall demand will slow down due to the possibility of Chinese exports increasing again and rising interest rates in various countries. However, supply and demand are expected to remain tight in our main markets, namely, the US and Japan; therefore, we do not believe there will be a significant decline in profitability. (Note: Refer to A07 above for the question on the dividends.)

Q09. I have a question about the business environment in Vietnam. Based on information from another company, the business environment in Vietnam seems challenging. Could you provide a supplementary explanation on this?

A09. As you know, conditions continue to be challenging in Vietnam in the second half of the fiscal year. The economy as a whole has been pulled down by the slowdown of the Chinese economy, but we have made discussions with PY VINA and our partner POSCO so that we can increase the earnings level in the next year.

Q10. I would like to ask your view of the impact of the deterioration in Chinese steel supply and demand on the Vietnam business. Is the impact less than in the past due to the introduction of anti-dumping? I would like an explanation from the perspective of a comparison with past situations where there was a deterioration in supply and demand in China.

A10. Chinese steel exports were quite constrained from last year to this year, and this led to a stable export market to Southeast Asia and strong performance of Thailand/SYS and Vietnam/PY VINA. However, we have already received reports confirming inflows of low-priced exports from China in some regions. As you know, major real estate developers in China continue to face a management crisis. It is our view that there is a possibility of sizable Chinese steel coming out of the country unless progress is made in land development projects that creates domestic demand for steel.

Q11. What were the results for orders at US/NYS for Econiq, the decarbonization brand of Nucor? I would also like to know about its outlook.

A11. Econiq brand applies to all Nucor products such as sheet and structural steel. We have heard that the Nucor Group has made deliveries, probably sheet steel, to auto maker GM. US/NYS has also made some structural steel sales in response to customers' requests.

Q12. I would like to ask about US business. Will the Mississippi River drought have an effect on performance?

A12. It depends on the how serious the drought is, but if there is any impact at all, it would be in the transportation of scrap. Barges on the Mississippi are used for the transportation of scrap. We will take steps to ensure that operations are not affected if the drought conditions become more serious.

Q13. What is your approach to overseas M&A? The yen is currently weak, but if global demand slows down, this could be a good time for acquisitions. It appears that you are hurrying to strengthen your existing locations overseas, but I would like to hear about the possibility of acquiring new mills.

A13. In addition to strengthening existing locations, we are constantly making various studies including the acquisition of new mills. However, we are considering brown field investment by participating in an existing steel business rather than green field investment launching a plant from scratch. We are considering how much we can get involved in existing capacity instead of aiming to increase supply.

Q14. I would like to ask about the impact of increases in electricity prices.

A14. Electricity prices are the largest cost for manufacturers using electric furnaces, and as you know, electricity prices are also rising as gas and oil prices rise. Japan/Yamato Steel performs manufacturing in one location in Himeji, and electricity costs, etc. vary significantly depending on the electricity source mix of KEPCO, our supplier. We have heard that KEPCO is considering a variety of options for the electricity source, but an increase in the number of nuclear power plants in operation would not only stabilize electricity prices, but also increase the utilization of clean energy, and we are looking forward to this.

Q15. As electricity prices and energy expenses increase, I think the production carried out by Yamato with energy saving will be a strength, but what is your view of this?

A15. Pursuit of production with less energy is a never-ending issue. Reducing electricity consumption is a permanent issue for EAF steel producers, and we are constantly engaged in a variety of initiatives. Since the scrap used as raw material and our steel products are commodities, we are unable to control the price; however, we will continue to focus on lowering our cost which is under our control to be competitive.

Q16. I would like to hear about the market conditions for H beams in Japan.

A16. As scrap prices rose last fiscal year, we struggled to transfer that increase to product sales prices, but we were finally able to increase the prices this fiscal year. Although scrap prices remain high, they have not risen further. As a result, we have been able to secure a comparative margin.

Q17. I would like to hear about current conditions and the outlook for the next fiscal year and beyond for the Middle East business. What impact does the balance between iron ore prices and scrap prices have at present? I would also like to hear about the outlook for demand.

A17. In our Middle East business, sales of finished products, semi-finished products, and DRI have all performed well, and profitability is also improving. There are restrictions on exports of Chinese steel and there was a reduction of inflow of South Korean steel into the Middle East market as their priority is on the U.S., and we believe that stable product prices were a factor in the improvement of profitability. The DRI price is correlated to scrap prices, and earnings can be expected if scrap prices rise and the price of iron ore is much lower. However, the scrap prices are currently decreasing, and we do not think we are in a situation where we will increase DRI sales in future.

Q18. I would like to hear about the timing, volume, and what areas you expect demand for infrastructure investment in the United States.

A18. Based on information from NYS, specific inquiries are gradually being made. Examples of areas of demand include reconstruction of bridges, and I think a certain degree of volume can be expected if they are steel bridges. I am unable to quantify the volume, but we have very high expectations for demand from infrastructure projects in the United States.

Q19. Manufacturers using blast furnaces in Japan are proceeding to switch to EAFs, and I would like you to explain the impact of the shift from blast furnaces to EAFs based on perspectives such as competitiveness of products and environmental measures.

A19. It is our understanding that producers using blast furnaces that are currently proceeding with plans to introduce EAFs are basically moving in the direction of using it to make sheet steel. Nippon Steel's Hirohata Works near our company has already introduced an electric furnace, and we have heard that they basically intend to manufacture electromagnetic sheet steel, so they will not be in direct competition with structural steel. However, with regard to the scrap used as raw material, although Hirohata Works is basically expected to use scrap generated within the facility, we may be subject to an indirect impact due to rising market prices if it begins sourcing their scrap from the market.

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