

May 17, 2022

Financial Results Briefing Session for Fiscal Year Ended March 31, 2022  
Q&A (Summary)

**(Q1) Could you share with us the background of the rise in the LME nickel price and its future outlook?**

(A1) Behind the rising LME nickel price, there are causes such as a recovery in demand resulting from the reopening of economic activities in countries around the world, rising demand for application for EV batteries and geopolitical risks.

Regarding the outlook for the price down the road, the demand for nickel is likely to further rise due to an increase in production of batteries for EVs and the continued global expansion of production of stainless steel in China and other countries. Accordingly, we find it difficult to imagine a scenario in which the price will fall significantly.

**(Q2) Do you think that the formula in which ferronickel selling prices are linked with the LME nickel price will remain effective? Or will a certain kind of discount be determined as a result of the gap in demand between Class 1 and Class 2 nickel?**

(A2) We are going to maintain the formula that employs LME as the pricing indicator. Additionally, we have continued to adjust prices in accordance with change in demand for nickel sources for stainless steel, fluctuations of the LME price and the like.

**(Q3) Regarding the new fiscal year plan, could you tell us about the impact of cost increases including fuel and electricity prices, and key figures as preconditions (crude oil, steam coal, exchange rates, etc.)?**

(A3) Currently, various raw material prices have been surging. We incorporated these as cost liabilities under certain premises. Since figures set as preconditions are connected with sensitive details, we refrain from commenting.

**(Q4) Could you tell us about your decarbonization efforts for ferronickel smelting?**

(A4) We are in the middle of drawing up a concrete roadmap to realize net zero CO<sub>2</sub> emissions in FY2050. At the moment, we are exploring measures and technologies necessary for this reduction. We will shortlist feasible ideas and incorporate them in the roadmap by taking into account our GHG emissions, measures and the timing of adopting technologies.

**(Q5) Could you update us on the leak of molten substance from an electric furnace? That is, the scale of damage, the prospect of restoration and the inclusion of the necessary costs in the operating results.**

(A5) Firstly, with respect to the scale of damage, although the operation of all production facilities was suspended at one point in time, two electric furnaces out of the total of three—one of which had caused the leak—restarted production one week after the accident, and in this way we have managed to minimize the impact.

In regard to the outlook for the restoration of the electric furnace with the leak, we plan to restart production in the third quarter of the fiscal year ending March 2023 since the deliveries of materials and so on will span an extended period of time due in part to ongoing supply chain disruptions. Although there will be an impact on production and sales volumes down the road, we will deal with the situation by making up for the shortage with the two operating furnaces and inventory as much as possible. We are still calculating exactly how much the restoration will cost, but we have already included the costs that we were able to compute in the plan.

**(Q6) Could you share with us the preconditions for nickel prices for the fiscal year ending March 2023 and the sensitivity to price fluctuations? In particular, prices surged toward the end of the fiscal year. So, if profit or loss was generated in an unusual way, could you explain it?**

(A6) Regarding the preconditions for the plan, we were considering a medium-term business plan before the invasion of Ukraine. Accordingly, the current situation is different from the environment that we regarded as the premise, as the situation has deviated from the current market tendency. However, the price has been determined against the background of a variety of impacts during the past few months. Since there remain a number of unclear points about whether this price level will continue or not, we have a conservative outlook. Consequently, our plan is based on the premise that we are in a usual environment. As this matter is sensitive, we will refrain from answering since we are practically a single firm.

**(Q7) Could you share with us the current geopolitical environment and risks in China, Russia, Ukraine, Indonesia and other countries?**

(A7) Our recognition is that the global environment has changed due to Russia's invasion of Ukraine. At the moment, our procurement of raw materials will not become more difficult, but the movements of natural resource prices have become more unclear, and there are questions, such as where will countries turn to as the source of their procurement? It is extremely difficult to forecast what changes will occur.

Regarding the regional geopolitical risks that the shareholder asked about, we recognize that after the invasion of Ukraine, no special changes have occurred in regions other than ones involved in the invasion. However, going forward, we will closely watch for risks involved in sales and raw material procurement.

**(Q8) Could you share with us the trends in and competitive landscape of nickel pig iron (NPI)?**

(A8) The global nickel supply and demand situation, which had suffered an oversupply due to a rapid expansion of NPI production in recent years, has currently shifted to an undersupply. The main reasons are that economic activities in the world are recovering from the COVID-19 pandemic and returning to normal, and that stainless steel production is picking up in Japan and overseas. Accordingly, the LME price is on an upward trend.

While a further NPI production increase in Indonesia is causing signs of softening in the supply and demand of nickel as a raw material for stainless steel, our ferronickel products are securing a certain level of demand by leveraging their edge over NPI in terms including quality.

**(Q9) Could you share with us at which particular point you have placed importance concerning the contents of the Medium-term Business Plan?**

(A9) We raised issues relating to materials in this Medium-term Business Plan. Just now, I narrowed them down and outlined priority measures. We consider of all their contents to be important. However, from the perspective of the destination of funds or investments, the key lies in investing in domestic business candidates, and in overseas business, which are laid out in the Investment Plan on page 24 of Briefing Material. (Corresponding to "③ Promotion of overseas smelting projects and start-up of production" and "④ Promotion of production and sales of raw materials for LIB materials" in Priority Measures on page 20 of the Briefing Material.)

**(Q10) Various HPAL projects are set to be launched in Southeast Asia. Could you tell us about how we should interpret their impact on the nickel supply and demand situation?**

(A10) Many of the planned HPAL projects are intended to produce Class 1 nickel for LIBs and the like. Therefore, we suppose that they will not affect supply and demand for nickel for stainless steel considerably.

Additionally, although we do not think that all of the projects that have been announced to date will materialize as planned, we suppose that they will increase supplies of nickel for LIB applications substantially.

**(Q11) Could you tell us whether you will be able to pass on the rise in raw material costs (ore prices, coal, etc.) and logistics costs in your selling prices?**

(A11) In the business structure of ferronickel, selling prices and production prices are basically established by different markets, etc. The business is not structured to directly and immediately pass the recent surge in raw materials and fuel costs to selling prices. In terms of sales, however, we have established a system that allows us to have conversations flexibly, including with regard to customers' demands, in addition to diverse conditions, the supply and demand situation and the like.

**(Q12) Regarding page 27 of the Briefing Material, the factors in raw material price increases (minus 9.1 billion yen) are bigger than the factors in the LME price rise (plus 7 billion yen). Could you share that background with us?**

(A12) "The LME price, etc." among the factors in ferronickel net sales on page 27 of Briefing Material is mainly changes in the LME price. "Raw material prices, etc." among the factors in the cost of ferronickel sales also includes fluctuations in the prices of ore, coal, heavy oil, energy, etc. other than the LME price. While our plan is based on an LME price that is higher than in the previous term, the ongoing surge in raw material and fuel prices have been factored in.

**(Q13) On page 15 of the Briefing Material, you wrote "Minimize risks." Could you share with us any specific measures or ideas you may have?**

(A13) Regarding "Initiative to minimize risks and exploit opportunities" on page 15 of Briefing Material, as described on page 20 of Briefing Material, which was explained previously, competitors' production has become extremely high in Indonesia as a ferronickel-related risk. To tackle this, we are considering the possibility of expanding into overseas smelting in Indonesia, as mentioned in Priority Measures ③ on page 20 of the Briefing Material.

Simultaneously, regarding production in Japan, we plan to use nickel sources for cost reduction and raise the usage rate of substances other than nickel ores. In respect of carbon neutrality, which is often in the headlines, as CO<sub>2</sub> emissions are high in the production process of ferronickel, particularly when coal is used, we plan to convert them to forge low-carbon ferronickel products, take that as an opportunity and sell those products.

Furthermore, sulfurized nickel and sulfurized cobalt are raw materials for the positive electrode of lithium-ion batteries (LIB). In order to supply these elements, we have made progress in R&D and are pushing forward with efforts to commercialize them. In respect of recycling-related matters as well, we concluded a capital and business alliance agreement with AMITA HOLDINGS last year, and we hold a monthly council to come up with and look into several ideas for the creation of new business.

We will take existing risks as opportunities including pending issues from our previous Medium-term Business Plan "PAMCO-2021" and solve these issues in our New Medium-term Business Plan "PAMCO-2024."

**(Q14) According to page 22 of the Briefing Material, sales volume even for the fiscal year ending March 2025 will be at a level similar to those of the fiscal year ended March 2022. Is there any scenario or possibility that can have an impact on market share and competitiveness?**

(A14) With respect to our production capacity, production volume itself may be steadily reaching the limit even when a three-furnace system is in operation as the nickel grade in ores gradually lowers. Therefore, it will make sense that we will win customers by supplying products of better quality instead of in greater volumes. With the top priority given to supplies for the Japanese market, we will look into buyers by taking into account the environment surrounding prices and demand. At the moment, particularly, we are not thinking of a scenario in which production volume are increased at a stroke in the future.

**(Q15) Regarding "Production and sales of raw materials for LIB materials" on page 20 of the Briefing Material, if you have supplementary explanations, such as the key overview, timeline, partners and an idea of contribution to revenue, could you share them with us?**

(A15) We have drafted various plans and are making preparations for them. However, we will refrain from divulging details here, in consideration of the circumstances of our partner companies. However, we plan to announce such plans one by one, once they are ready to be publicized.