

November 17, 2022

Financial Results Briefing Session for the Six Months Ended
September 30, 2022
Q&A (Summary)

(Q1) Regarding the recovery from the electric furnace incident at Hachinohe, could you tell us what the timeline is for the resumption of operation and full operation? What is your estimate for the impact on the production volume, and the costs associated with the incident?

(A1) As explained on pages 10 and 14 of the Briefing Material, with regard to the restoration of the electric furnace that has been shut down due to the leakage accident, we expect to have its production facilities itself restored to an operational state by the end of the third quarter of this fiscal year (ending March 31, 2023). The timing of the resumption of operations has been changed to the next fiscal year (ending March 31, 2024) due to a shift in policy to strategic volume curtailment that ensures a certain level of profitability. Normally, it would take about one and a half months from the start of energization to full operation.

Currently, we are unable to provide information on costs related to the accident because we have not yet received all the necessary information, but we expect that its impact on this fiscal year's results will be minor, factoring in the payment coverage by the insurance provider.

The production volume after the resumption would be the same as that for the current fiscal year (13,000 tons), assuming the current environment continues, but it does depend on the environment.

We will promote measures to ensure profitability, such as cost reductions and operational improvements, while working to quickly recover the production volume.

(Q2) Could you update us on the competitive landscape for nickel pig iron (NPI)?

(A2) With regard to production volume, as shown on page 7 of the Briefing Material, the combined NPI production volume in China and Indonesia in 2021 increased year on year, with Indonesia's increase more than offsetting the decline in China, and this trend is expected to remain unchanged in 2022.

Furthermore, given the sharp rise in ferronickel production costs due to the recent surge in resource and energy prices, we have been forced to refer to the NPI price as a pricing indicator for ferronickel, making sales growth challenging.

Under these circumstances, it appears that Chinese NPI producers in Indonesia and Korean ferronickel producers are planning to convert NPI into nickel matte and nickel sulfate, a raw material for LIB (lithium-ion battery) materials, which may curb production of NPI as a stainless steel raw material.

In addition, the Indonesian President stated that the Indonesian government will impose an export tax on some nickel products, and recently, information on export tax formulas has been circulating, making the introduction of this tax more plausible.

If this materializes, it may have a significant impact on NPI exports from Indonesia and could lead to a scenario involving a tightening of ferronickel and NPI supplies.

In this environment, we aim to recover and expand demand, and increase earnings by proposing green products to customers through carbon neutrality efforts, which we are currently promoting, thereby differentiating our products from NPI in Indonesia and other countries where environmental measures are not well developed.

If the NPI export volume from Indonesia slows down, ferronickel and NPI producers in other countries may turn to the Philippines to procure ores, but the impact of this demand increase is expected to be limited because those mines cannot significantly increase their annual mining volume.

(Q6) Could you share your thoughts on how new HPAL Project operations in Indonesia and other Southeast Asian countries will impact the Company and its equity method affiliates?

(A6) Since the project aims to produce high-purity nickel, a raw material for LIB materials, we do not expect it to have a direct impact on us.

(Q7) I understand that you include NPI prices as a reference when calculating ferronickel sales prices, but what percentage of customers do you apply such prices to? And is there a possibility that this percentage will rise in the future?

(A7) We set price levels partially based on the NPI price as a reference, but since contract details may differ depending on the customer, we will refrain from answering this question.

(Q8) If you refer to NPI prices when calculating ferronickel sales prices, to what extent would the sales price fall compared to when you refer to only LME nickel prices?

(A8) The base of the price formula is the LME price, where the NPI price is also incorporated in some cases as a reference. We will refrain from answering with regard to price range since contract details may differ depending on the customer.

(Q9) Is there room to pass on higher costs, such as electricity and coal prices? Also, is there room to do more on your side such as reducing costs?

(A9) The base of the price formula is the LME price, where the NPI price has been recently incorporated in some cases as a reference. With regard to passing on higher prices, it is difficult to directly pass on costs to customers, but we will maintain a close dialogue with customers so that they can understand the quality of our products, then we will seek their understanding regarding our pricing.

Regarding room for cost reduction, we believe that there is much room for operational improvement, which we have been working on to date. We also believe that there is room to reduce logistics costs by devising appropriate measures.

(Q10) Regarding CO₂ emission reduction from ferronickel smelting, could you tell us about your current efforts and your medium- to long-term approach to developing technologies to respond to this?

(A10) As shown on page 21 of the Briefing Material, we are promoting initiatives to reduce greenhouse gas (GHG) emissions. We are still in the research stage for the content listed there, but we are also promoting fuel conversion and other measures.

Although this is not directly related to the GHG emission reduction, as described on page 20 of the Briefing Material, we are working to reduce overall GHG emissions by focusing on recycling-related technologies and developing our resource-recycling business.

As for the target timing, we aim to reduce GHG emissions by 46% in FY2030 compared to FY2013.

(Q11) On comparing the first and second half results of the year listed on page 13 of the Briefing Material, although the sales environment seems worse in the second half of the year, is there a possibility of further curbing sales?

(A11) While our business performance has worsened due to a recent sudden change in the environment, we have set the optimal production and sales volume at approximately 13,000 tons per year to minimize losses to the greatest extent possible. Since this is the optimal volume at this point, any further change in the volume may increase the cost burden. If the environment changes significantly in the future, we will flexibly respond to such changes and consider changing the quantity accordingly.

(Q12) Regarding the increase in NPI production in Indonesia on page 7 of the Briefing Material, does it include the NPI that has been converted to nickel matte and nickel sulfate?

(A12) The graph on page 7 of the Briefing Material shows data on NPI production volume only.