May 17, 2023

Financial Results Briefing Session for Fiscal Year Ended March 31, 2023
Q&A (Summary)

(Q1) Why were the results for your company, which is a leading ferronickel manufacturer, in the red even though the results of other companies in the same industry and stainless steel manufacturers were relatively strong? If this situation continues, will the business remain in the red going forward? Do you have a remedy for restoring profitability?

(A1) The reason our results grew worse is that raw fuel prices and electricity prices soared due to the global rise in resource prices, which drove up our manufacturing costs. Due to the structure of our selling price, passing on these costs to customers is difficult, which forced us to reduce sales as a policy measure, and we therefore recorded an inventory write-down.

In addition, due to the slump and reduction in global stainless steel production, demand for stainless steel raw materials like ferronickel and nickel pig iron (NPI) has weakened, and since the price of nickel pig iron, which is over-supplied, is partially reflected in our selling price, the price has slumped.

On the other hand, many of domestic stainless steel producers are passing on surging raw material prices—including nickel, whose price has gone up—to customers in the prices for their core products like stainless steel and advanced materials, and this has been accepted on the demand side, leading to increased income and profits.

In the near future, the surging global raw fuel prices and electricity prices of the past few years are expected to return to stable market rates, which should lead to a recovery in stainless steel production and ferronickel demand, which slowed in 2022. We will then continue to push forward with further strengthening our business base.

(Q2) With nickel production to increase in Indonesia in the future, how will you differentiate your products?

(A2) It is recognized that there are certain differences from nickel pig iron (NPI) in terms of the stability of quality of components, but in order to further differentiate our products, we believe it is necessary to shift toward making green products with decreased use of fossil fuels, in response to the global demand for decarbonization and carbon neutrality.

Specifically, we are researching and considering converting to fuel with lower CO_2 emissions and pursuing electrification by converting the energy for the heat sources in our drying and calcination processes from coal, which is the energy source we use that has the most CO_2 emissions, to a highly energy-efficient heat source like microwaves.

Furthermore, in the case of coal, which we cannot avoid using for reduction, we believe it is effective to use CCUS technology for treating the waste gas generated in the manufacturing process, and we are currently conducting a study for the purpose of introducing it.

(Q3) If nickel prices decrease significantly in the future, it is possible that it would no longer be possible to cover losses with equity method income, which would be very detrimental to your balance sheet. What do you think you should do to prevent harm to your balance sheet?

(A3) Nickel prices drop when demand for stainless steel or the like fluctuates significantly, and as indicated in your question, the nickel business is significantly affected by the prices and volume. While the nickel business is our core activity, we are accelerating our investment in developing new business as our second core activity.

(Q4) The TSE has demanded that companies whose PBR is below 1 take steps to improve it. What specifically do you think should be done?

(A4) We believe that achieving our management plan and resolving a range of issues will contribute to improved corporate value.

We expect that the results will be fairly reflected in our share prices, but we are being asked to indicate our policy and specific targets for improving PBR, which is below 1.

Measures such as acquiring treasury shares for the purpose of improving capital efficiency could be considered, but in terms of continued effect, the priority is to increase the return on equity. Achieving our medium-term business plan, including restructuring our business base and developing new business, is our number-one priority, but we are also considering our capital policy.

(Q5) We have heard that Class 1 nickel production will increase significantly in Indonesia in the future. How should we view the impact of this on Class 2 nickel supply and demand?

(A5) The Indonesian government has shown its intention to curtail new domestic nickel pig iron (NPI) projects and push smelting business for LIB materials, so we forecast that the growth of Class 2 nickel production in Indonesia will slow down. In addition, global stainless steel production is starting to show signs of recovery in 2023, including China, so we believe that the market is moving toward a tight supply and demand environment for Class 2 nickel. However, at present, it is difficult to predict how much impact this will have.

(Q6) Could you tell us about changes in the competitive landscape surrounding Pacific Metals?

(A6) In relation to nickel pig iron (NPI) in Indonesia, senior government officials have stated that the country will prioritize compliance with environmental conservation-related laws and regulations and that it will abolish corporate tax exemption measures for new nickel pig iron smelting plants, but it is difficult to predict how much of an effect such policies and measures will have on reducing nickel pig iron production. Assuming that they have the effect of reducing production to some extent, the nickel pig iron market supply volume will grow tighter, so this might lead to materials that will improve our selling environment. On the other hand, there is news that Indonesia will postpone discussion of levying export taxes on nickel pig iron. Nickel pig iron prices are dropping at present, so this may be for the purpose of protecting domestic producers.

In terms of prices and logistics, nickel pig iron, which has a price advantage, is available in the Asia region, but in Europe, due to the situation in Russia and Ukraine, stainless steel producers are showing a marked avoidance of Russia and seem to be shifting to the use of high-grade ferronickel instead of Russian-made nickel metal. In terms of the main suppliers, South American ferronickel is the most popular, but as environmentally friendly decarbonization initiatives move forward, more attention is being paid to increasing the scrap usage rate as well as ferronickel with a low carbon footprint.

(Q7) Going forward, will you continue to reference nickel pig iron (NPI) prices in the formula for setting your ferronickel selling price? How do you reference them in concrete terms?

(A7) We refer in part to nickel pig iron (NPI) prices when determining our price level, but since contract details may differ depending on the customer, we will refrain from answering this.

The impact of the invasion of Ukraine on LME and supply and demand has calmed down for the time being, and in the future, we believe that we will return to a price format based on normal economic conditions and the impact of stainless steel demand. While returning to the previous fair prices depends in part on the growth of the nickel pig iron market, we expect that in conjunction with the recovery of stainless steel demand, the price difference between the price based on our LME formula price and nickel pig iron will become smaller.

(Q8) Could you indicate in quantitative terms what impact energy costs (coal, crude oil, and electricity prices) have had on profit or loss during the past three years? Also, what do you anticipate for the fiscal year ending March 31, 2024?

(A8) Over the past two years in particular, the natural resource and energy environment has changed greatly, and the Russian invasion of Ukraine has deepened the energy crisis, causing an unprecedented price surge. Since we are in an industry that consumes a lot of electricity, this has had an extremely large impact.

Since this is an area that relates to the details of our costs, I will refrain from answering in quantitative terms, but energy resource prices are having a heavy impact on costs. It is more than double what it would be in normal times, and reducing costs is also extremely challenging.

Coal prices seem to have calmed down for a period of time, but with respect to electricity prices, we believe the current situation will continue for the time being.

In the fiscal year ending March 31, 2024, we do not expect the environment will change suddenly from the fiscal year ended March 31, 2023, and we have forecast the results by carefully considering the current environment that I have just mentioned.

(Q9) The domestic sales volume in the second half of the fiscal year ending March 31, 2024, is significantly higher than in the first half of the year. What kind of scenario are you assuming?

(A9) In the second half of the fiscal year ended March 31, 2023, the domestic sales volume slumped considerably. This was because stainless steel production decreased globally, and the situation was the same in Japan.

In terms of the current situation (for the fiscal year ending March 31, 2024), while we do not expect production to rebound immediately, we have assumed a scenario which anticipates that stainless steel production will recover from its slump and that global raw fuel prices and electricity prices, which have soared in the past few years, will return to stable market rates.

In addition, based on discussions with our customers, stainless steel demand is expected to recover in the second half of the fiscal year ending March 31, 2024, so we have forecast the sales volume as shown on page 17.