

November 16, 2023

Financial Results Briefing Session for the Six Months
Ended September 30, 2023
Q&A (Summary)

(Q1) It seems that the downward trend in sales volume has not stopped. Please tell us about the outlook for the future and the measures you are taking to overcome the situation.

(A1) The full-year forecast for production and sales volume is affected primarily by a decrease in stainless steel demand due to inflation resulting from the energy crisis and the economic slump, as well as a decline in sales prices due to the subsequent competition with nickel pig iron (NPI).

We intend to ascertain the changes in the business environment accurately and continue to optimize our production and sales structure according to the situation, with a view to increasing production.

(Q2) It seems that some companies are using recycled raw materials. Please tell us about your company's future initiatives for the decarbonization of ferronickel smelting.

(A2) In addition to our conventional energy-saving initiatives, we are working to shift to raw materials and fuels with lower greenhouse gas emissions and to investigate the introduction of new technologies. In particular, among such new technologies, we are investigating an electrification process utilizing microwaves to significantly reduce the amount of coal used in the nickel ore calcination process. We have confirmed the anticipated response in the laboratory level test, which has led to our decision to move on to a larger scale test.

(Q3) I believe that prices of general coal and electricity have hit their peaks. Please tell us how energy and other cost levels will change from the first half of the fiscal year to the second half of the fiscal year.

(A3) Especially in the recent two years, the resource and energy environment has changed dramatically. Russia's invasion of Ukraine has exacerbated this energy crisis and caused unprecedented price hikes. Being a heavy power consuming industry, we are significantly affected.

Energy resource prices weigh more than twice as heavily on costs as in normal times, making cost reductions extremely difficult.

For the second half of the fiscal year, the trend has been relatively calm, and we have applied a price range based on the current levels in our financial results forecast.

(Q4) Please tell us about your measures to increase earnings to improve financial results.

(A4) We have reduced production to reduce losses, but we recognize that this is a relatively short-term measure.

We produce ferronickel in compliance with strict environmental standards. Furthermore, since last year, we have been promoting the use of microwaves to reduce the use of fossil fuels in the calcination process and have been conducting research and development on this. By proposing carbon-neutral green products to our customers, we aim to recover and expand demand and increase earnings.

In addition to these initiatives, we are strongly promoting the development of overseas business, the creation of new businesses, and the restructuring of the recycling business as prioritized measures in the medium-term business plan. We will build a stable earnings base by developing businesses that are less susceptible to the market conditions.

(Q5) Please tell us about the impact of exchange rate fluctuations on your earnings.

(A5) I will refrain from explaining the amount of the impact since it is a matter of sensitivity. However, in principle, it will have a positive impact as we procure raw fuel overseas, produce ferronickel, and sell it in dollars.

(Q6) Please tell us about the likelihood of incurring new impairment losses in the future, as well as your measures for a recovery in your financial results and for cost reductions.

(A6) As for the likelihood of incurring impairment losses, the Company will consider the valuation of fixed assets in accordance with accounting standards when operating losses continue.

As for cost reductions, we are working on all possible measures to reduce production costs, including the reduction of procurement costs of raw materials and goods, logistics cost, electricity costs, production intensity, capital investment, fixed cost, energy savings, and the procurement of recycled nickel resources.

(Q7) When will the financial results bottom out? What are the grounds for your prediction?

(A7) With regard to our ferronickel production costs, we expect it to be improved on the ground of inventory turnover and normalization of electricity prices since the one-time spike in energy prices has subsided, even though there will be a time lag before energy price stability is reflected in electricity prices. As for your question about the timing, I ask that you forgive me for not answering as multiple factors are involved.

(Q8) I know LIB recycling is a business that other companies have expressed interest in entering. What are the features and capabilities of LIB recycling planned by Emulsion Flow Technologies Ltd.?

(A8) The LIB recycling business concept that Emulsion Flow Technologies is pursuing involves a major recycling company that can provide as a partner a stable supply of black mass, which is the raw material. The technological capabilities lies in the use of emulsion flow technology in the process of separating and refining rare metals from black mass.

This emulsion flow technology is more than ten times more efficient in production than conventional technologies, bringing the advantage of downsizing facilities as well as reducing running costs.

(Q9) As for the new metal smelting project, how much benefit and positive impact do you expect from outsourcing smelting?

(A9) We have concluded a memorandum of understanding with The Metals Company, and we are currently considering the utilization of the facilities at the Hachinohe Works and the smelting technology we have developed through various ferro-alloy manufacturing businesses since our foundation. We cannot provide details at this point, but we will continue to promote the project in a way that will surely benefit us.

(Q10) You have greatly reduced the sales volume in this period, but the impact is not so evident in terms of the sales volume in the consolidated ordinary profit and loss analysis for the financial results for the six months ended September 30, 2023. I suspect that the reduced volume resulted in a loss.

(A10) The table of analysis for the financial results for the six months ended September 30, 2023 is based on the profit and loss for the previous period, and the profit and loss up to the current period are compared by factor to show the trends. Since the environment changes on a daily basis, the level of unit sales prices and unit purchase prices for the previous period and the current period are not the same. For example, a comparison of the unit sales prices for the previous and current periods shows that the unit sales price for the previous period is slightly higher. Since the sales volume in the current period is small, the range of the decrease in earnings would be larger if the previous period is used as the basis. As for the volume control policy in the current period, we have decided to reduce it because, at the unit price level of the current period, reducing the sales volume works better in terms of earnings compared to increasing the sales volume.

(Q11) Please tell us about the recent market trend of nickel (Class 1 and Class 2) in a straightforward way, especially the situation in China, where panic selling has not occurred.

(A11) The products that are currently experiencing large production and sales increases in the Class 1 nickel market are nickel sulfate and nickel metal for use as raw materials for electric vehicle batteries. The production and sales of these products are increasing year by year, mainly in China. In addition, Indonesia, a major producer of Class 2 nickel NPI, is accelerating the conversion of NPI to nickel matt, the raw material for Class 1 nickel. Although demand is currently weakening in China, where the economy is on a downward trend, preparations are steadily underway to meet the demand for the shift to electric vehicles, which is expected to accelerate worldwide in the future.

On the other hand, demand for Class 2 nickel, as represented by NPI and FeNi, is currently weakening in China, which is a major producer of stainless steel. However, we expect to see a certain degree of tightening of supply and demand for Class 2 nickel due to the expansion of the use of such nickel in electric vehicles and an increase in demand following the expected recovery of the Chinese economy.

(Q12) How do you view the capital costs? How do you consider the efficiency of the prioritized measures?

(A12) Our target financial indicators are highly sensitive to external factors that are particularly unpredictable such as commodity markets, currency exchange rates, and resource nationalism due to the nature of our business. In addition, new businesses that utilize or apply smelting technologies require relatively long-term discussions, depending on the scale of the investment. Therefore, we have not set any target figures, etc., but we consider and recognize efficiency that exceeds the capital cost to be one of targets we need to pursue. Information on the latest business environment and financial results, and prioritized measures will be shown at financial results briefing sessions, etc.

(Q13) How much is the difference between the NPI nickel price and the LME nickel price? What do you expect the difference to be in the future?

(A13) Even though there is a time lag, the NPI price is generally linked to rises and falls in the LME price, stainless steel market conditions, the supply of and demand for stainless steel raw materials, and exchange rates. However, the NPI price is not as volatile as the LME price. The NPI price has been stable at around \$17,000 for the past few years, but there was a time when the price difference between NPI and LME was as large as \$8,000 to \$10,000 due to the volatility in the LME price.

Currently, the LME price is on a downward trend, while the NPI price is on an upward trend, resulting in a narrowing of the price difference to the \$4,000 level. Although the current demand situation is difficult, we believe that NPI will gain momentum as a raw material for electric vehicles and demand will expand in the future. The price difference will depend on the LME price, but we do not expect to see a large difference.