

May 16, 2024

Financial Results Briefing for Fiscal Year Ended March 31, 2024
Q&A (Summary)

(Q1) Could you tell us specifically what kind of strategy you have developed for recovering revenues and returning to profitability?

(A1) With regard to our ferronickel production, the temporary rise in energy prices seems to have calmed down, and while there will be a lag before this is reflected in the inventory cycle and electricity fees, we expect an improvement in production costs due to the normalization of energy prices. Nevertheless, there is a significant gap between production costs for nickel pig iron (NPI) produced in Indonesia and our ferronickel. On the other hand, for local NPI production in Indonesia, there are restrictions on constructing new smelters due to the issue of ore resource quantities and rising raw material costs to consider. Increasing environmental costs due to environmental problems are also becoming an issue.

We produce ferronickel while meeting strict environmental standards. Furthermore, we are aiming to drive demand recovery and growth and to increase revenue by offering green products to customers that address carbon neutrality requirements—for example, since last year, we have been moving forward with researching and developing the use of microwaves for the purpose of reducing fossil fuels in the calcination process. We are currently working on this carbon neutrality measure which will reduce coal consumption in our R&D. If we can reduce coal consumption, we will also be able to reduce coal-derived impurities. By contributing significantly to the reduction of manufacturing costs, this will enable us to produce competitive products. We are strongly pursuing the development of overseas business, the production of raw materials for LIB materials, new metal smelting business based on seafloor resources, and restructuring of our recycling business, which are priority measures in our Medium-term Management Plan. By developing businesses that are less likely to be impacted by changes in market conditions, we will create a stable revenue platform.

(Q2) At present, a lot of your sales are to Japan, but are prices still linked to LME nickel bullion prices as in the past? Or is cheap nickel pig iron impacting prices?

(A2) We refer in part to NPI prices when determining our price level, but since contract details may differ depending on the customer, we will refrain from answering this question. With regard to the earlier forecast about returning to a price level linked to LME, we believe that it will be difficult due to the growth of the NPI market, but going forward, we expect that the difference between LME and NPI prices will become smaller as stainless steel demand recovers due to factors such as the projected growth of the stainless steel market and improvement of the Chinese economy.

(Q3) Could you tell us about the impact of cost changes in the new fiscal year for nickel ore, electricity, coal, etc.?

(A3) The price of nickel ore, which is a key raw material, and the price of raw fuel and electricity are expected to remain at a high level. We do not see any changes in the environment in the fiscal year ending March 31, 2025, and we expect this will have a major impact in terms of price.

(Q4) The only countries for which sales are forecast in the fiscal year ending March 31, 2025, are Japan and Taiwan. Will this situation continue?

(A4) There are no changes in the current sales environment. There continues to be excess supply due to increased production of Indonesian NPI, and the sales environment has become markedly worse for various Fe-Ni producers. Due to this environment, we have decided to concentrate sales on Japan and Taiwan in the fiscal year ending March 31, 2025. At the present time, we are not expecting any sudden improvement in the environment, so for the time being, we will maintain the volume reduction system while taking profitability into account.

(Q5) Could you tell us about the operating results forecast for the current fiscal year if you were to stop nickel smelting in order to curb losses? Could you also explain what the non-financial impact would be?

(A5) Fixed costs would be incurred, but since hypothetical information may be misinterpreted, we will refrain from answering this question. Stopping production operations with electric furnaces as a method of preventing increased losses only has a temporary effect. Stopping and starting up an electric furnace requires a certain amount of time in order to thoroughly check its condition while considering safety, which incurs lost profit and incidental start-up expenses. We will implement substantial volume reduction while the business environment is slumping, but we will avoid stopping production.

(Q6) Are you considering withdrawing from nickel smelting in the future?

(A6) The nickel business is our core business. At the present time, there is no thought of withdrawing from it. As also explained in our latest IR materials, we are pursuing the creation of new businesses that leverage the smelting technology we have developed to date and also actively engaging in business areas other than the nickel business.

(Q7) From a medium-term perspective, could you tell us what means you will use to restore the company's profitability besides new metal smelting projects?

(A7) In the nickel business, we are considering the production of green nickel, which reduces GHG emissions, etc. We have been considering this for some time as an initiative aligned with the global sustainability trend. To establish a stable revenue platform, we will focus on creating new businesses that leverage our smelting technology, and at the same time, we are moving forward with increasing added value in our existing businesses.

(Q8) What is the amount of capital investment for new metal smelting projects?

(A8) We have concluded a memorandum of understanding with The Metals Company (TMC) and are currently in the process of considering capital investment. We expect that capital investment in the Hachinohe Works will become clear once the final project assessment is completed, so at present, we are not in a position to tell you an amount.

(Q9) The sales volume for the fiscal year ending March 31, 2025, will be around the same as the volume in the previous year and, in the forecast, both LME and foreign exchange rates are expected to be negative factors. Given this, could you explain why your operating loss will decrease?

(A9) In the fiscal year ended March 31, 2024, there was a devaluation of inventory, but for the fiscal year ending March 31, 2025, we formulated the plan based on the assumption that there will be a reversal of the inventory valuation due to factors such as a decrease in inventory.

(Q10) In FY2024, you included around 3.6 billion yen of investment in overseas business and resources. Could you tell us the purpose and effect of this?

(A10) This investment was planned in accordance with the priority measures indicated in the PAMCO-2024 Medium-term Management Plan. The purpose was to acquire partial interest in overseas mining and smelting projects. The acquisition of mining interests will lead to securing resources, while investment returns may be expected from smelting projects.

(Q11) With regard to the priority measures explained on page 20, could you tell us about your capital policy, including any likely future investments?

(A11) The details explained in the priority measures are indispensable to our strategic growth, and we plan to pursue investment that prioritizes them. They will contribute to improving our corporate value, and we believe they will also lead to shareholder returns. With the aim of sustained growth investment, we aim to enhance and strengthen our business structure while maintaining our financial health. This includes sustainable initiatives, and we intend to secure capital for investment in consultation with various parties.

(Q12) Could you tell us the purpose of registration as an electricity retailer on March 29? And could you explain the impact that being an electricity retailer will have on operating results?

(A12) We registered as an electricity retailer for the purpose of reducing costs by diversifying our suppliers of electricity, which is a key energy source used by our company. Due to this, it will be possible to procure electricity directly from electricity producers and the Japan Electric Power Exchange. For the time being, the purpose is to procure electricity for our own use, but in the future we plan to consider supplying electricity to other nearby companies, etc. The impact on operating results depends on the electricity procurement market, so we cannot necessarily calculate it, but we expect that it will not only reduce electricity costs but also mitigate the impact that electricity cost increases have had on our operating results until now.