IR Meeting on Financial Results for FY2024 Q3: Questions and Answers

[Date]	February 4, 2025	
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<Questioner 1>

Regarding Ambatovy, the presentation on page 30 details a one-off loss of ¥18.9 billion. Could you provide a breakdown of this loss and the assumptions behind the revised business plan? Additionally, please explain how long the committed but not yet contributed ¥8.6 billion will cover.

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As for the breakdown of the loss of ¥10.3 billion which already contributed with ¥6.3 billion for working capital, including a prior year. This includes ¥4.7 billion of shareholder loans which were assumed as recoverable at the end of FY23 and ¥1.6 billion additionally contributed within this fiscal year. The additional contributions cover production shortfalls due to slurry pipeline damage and falling nickel prices, while another ¥4.0 billion in funds to buy senior debt from lenders. Thus, the total allocated amount is ¥10.3 billion.
As for the committed but not yet contributed ¥8.6 billion, the restructuring plan was approved based on a $100 million commitment from two shareholders, representing our company's share. This amount is included in the total ¥18.9 billion loss, as it may be required in the future with no expected recovery. Assumptions include nickel production of 35,000 tons in FY25, with mid-to long-term production ranging from 35,000 to 40,000 tons and nickel prices in the low $8 range. Detailed inspections of the slurry pipeline will begin in February, with business plan revisions expected after Q1 FY25.

<Questioner 1>

At the FY24 Q2 IR meeting, CEO expressed some kind of confidence in achieving around ¥600.0 billion for FY25 which would be a linear growth toward ¥650.0 billion in FY26. Considering the recent upward revision, could you please share your insights and confidence regarding this linear growth?

<Morooka>

As of Q2, the forecast excluding one-off items was ¥510.0 billion, with one-off profits of ¥40.0 billion. Including a ¥20.0 billion buffer for uncertainties in the second half, the total forecast was ¥530.0 billion. The uncertainties include delays in the recovery of tubular products, construction and mining systems, and agribusiness, as well as potential decreased gain from the sale of T-Gaia and

additional losses related to Ambatovy.
This time, the expected profit improvements in agribusiness and construction and mining systems did not materialize, and Ambatovy recognized a net loss of ¥6.0 billion, resulting in a total shortfall of just under ¥30.0 billion compared to the forecast, exceeding the ¥20.0 billion buffer by about ¥10.0 billion. On the other hand, Energy Transformation, Mineral Resources, Transportation, and Automotive performed well, resulting in an upward revision of about ¥30.0 billion. Additionally, new one-off profits of approximately ¥10.0 billion are expected, leading to a gross upward revision of about ¥40.0 billion.
In summary, the net upward revision is ¥30.0 billion, bringing the forecast for FY24 to ¥560.0 billion. Looking ahead to FY25, the businesses that performed well are seen as having fundamentally improved. In FY24, profits are concentrated in the second half, with an estimated ¥270.0 billion excluding one-off items. If we simply double this recent half-year performance, the full-year result would be in the mid-¥500.0 billion range. Adding the expected profit improvements in steel, construction and mining systems, and agribusiness, along with the organic growth of strong businesses, we see a path to ¥600.0 billion next fiscal year. By executing business restructuring and strategic initiatives, we aim to achieve a growth trajectory towards ¥650.0 billion.

<Questioner 2>
While it appears that the steel industry showed signs of recovery in Q3, the rig count has not significantly changed. Could you provide an update on the current situation and whether we can expect improvements heading into next year?

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Compared to the Q2 forecast, there are minor adjustments due to the delay in expected one-off profits, but the performance excluding one-off items is progressing as anticipated. Outside of North America, tubular products are seeing strong demand driven by offshore gas development, particularly in the Middle East. Additionally, we expect large shipments of line pipes to the Middle East.
In North America, tubular prices bottomed out in Q3, and some mills have announced price increases for January-March and April-June, indicating market recovery. This recovery is becoming more certain as we move into the new year. Discussions on the outlook for FY25 will follow.

<Questioner 2>
Regarding the upward revision of ¥11.0 billion in the Energy Transformation business excluding one-off items, could you specify what exactly contributed to this increase? Additionally, during the Q2 IR meeting, it was mentioned that the actual performance value was between ¥80.0 billion and ¥85.0 billion. Has there been any change in this outlook?

<Fuse>
The Q3 profit excluding one-off items is almost at the same level as Q2, and for Q4, despite the impact of revised exchange rate assumptions, we expect similar levels to continue. In the overseas IPP/IWPP business, Asia's operating rates remain stable, and we anticipate steady profits in Q4. At PACIFIC SUMMIT ENERGY, the cold wave in the U.S. has boosted gas trade revenues, leading to an upward revision. Currently, we estimate the actual performance value to be slightly higher than the Q2 forecast, at around ¥85.0 billion to 90.0 billion.

<Questioner 3>
Regarding the contribution of ¥1.6 billion in FY24 for Ambatovy, is the current cash flow level sufficient to cover its cash demand as a premise of the full-year forecasted production volume of just under 30,000 tons and a nickel price assumption of $7.75? Also, from the next quarter onwards, under the recent plan used for loss calculation with a production volume of 35,000 to 40,000 tons and a nickel price assumption in the low $8 range, will additional contributions be unnecessary? What is the basis for the calculation of the committed amount of ¥8.6 billion?

<Fuse>
The amount of ¥1.6 billion was contributed by December. This was included in the book value as of Q3 and has been impaired. Currently, we can inform you that the cash cost is $7.8 per pound. Based on this, cash flow will be determined considering the actual production volume, nickel price, etc. Regarding the extent to which we can cover cash flow, including additional contributions, we would like to inform you based on the detailed inspection of the slurry pipe.

< Questioner 3>
Is the cash cost of $7.8 based on the actual performance for this term or on the outlook for future terms? If it is based on actual performance, can we expect the cash cost to decrease slightly before considering the slurry pipe since the production volume is assumed to increase in the future?

<Takayama>
Based on the actual performance for this term. Theoretically, that is correct.

<Questioner 3>
I would like to ask about the idea of ¥600.0 billion for FY25. The current forecast, excluding one-off factors, is ¥520.0 billion for FY24, so an additional ¥80.0 billion is needed. What are the profit-increasing factors you are envisioning?

<Morooka>
Excluding one-off factors, the current performance for FY24 is expected to be ¥140.0 billion for Q3 and ¥130.0 billion for Q4. Although real estate is skewed towards the second half, some businesses

have declined in the second half, and considering the overall balance, the level for the half-year is approximately ¥270.0 billion. Doubling this figure results in an annual profit level of ¥540.0 billion.
In the current mid-term management plan, we see eight businesses driving growth among the focus areas: steel, construction systems, leasing, diverse urban development, digital, healthcare, agribusiness, and energy transformation. Among these, the steel, construction systems, and agribusiness have seen little growth or even negative growth compared to FY23, but simply returning these to FY23's level can improve profits and losses by more than ¥10.0 billion. The entire company is working towards recovery.
Among the growth businesses, leasing, diverse urban development, digital, and healthcare are expected to grow through both organic growth and new investments. Additionally, improvements are already visible in areas undergoing restructuring, such as the fresh produce business in Europe and the Americas and the mushroom business in North America, and we aim to continue making improvements in the future.

<Questioner 4>
I consider the investment amount of ¥600.0 billion per year as a guideline for the three-year plan of ¥1.8 trillion. Given that there have been large projects, can we see this well on track? Taking into account the acquisition of Net One Systems by SCSK, I would like to hear how you see the progress of the investments.

<Morooka>
The investment performance for Q3 was influenced by the acquisition of Net One Systems, totaling ¥600.0 billion. Although the current mid-term management plan indicates over ¥1.8 trillion, we are progressing smoothly at about one-third of this target. Despite having a large pipeline of investment projects, we have been quite selective, and thus no other major projects apart from Net One Systems have been realized so far. A considerable number of projects are under consideration, and we expect good projects to materialize towards FY26. We anticipate that new investments will contribute to earnings towards FY26.

<Questioner 4>
In the current mid-term management plan, it appears that management resources are being allocated to sectors such as real estate and renewable energy, which are expected to build relatively stable earnings bases over the medium to long term. However, to aim for a profit level of ¥650.0 billion, it is important to increase the turnover rate of assets. I would like to hear your company's thoughts on this direction.

<Morooka>
Regarding the points you raised, for instance, in real estate, we are discussing ways to improve asset efficiency while actively investing, considering factors such as the scale of projects, the

timeline for monetization, and the holding period of assets. The same applies to other businesses like infrastructure. We are working to enhance asset efficiency while keeping the timeline in mind.

<Questioner 5>
I would like to ask about the background of the favorable performance of aluminum and the future outlook.

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Excluding one-off factors, the performance of the Mineral Resources group has been revised upwards by ¥9.0 billion compared to the forecast at the end of Q2. One of the reasons for this is aluminum. Due to the rise in aluminum prices, the trade business saw increased profits in Q3 and the forecast was revised upwards. Additionally, in the aluminum smelting business in Malaysia, the initial forecast at the end of Q2 accounted for the impact of a fire. However, the swift recovery led to an improved outlook.

<Questioner 5>
Regarding tubular products, it has been confirmed through information from external parties that tubular prices are rising in the United States. How do you perceive the background of this price increase? I would also like to ask about the impact of the Trump administration on the tubular business.

<Morooka>
The import volume of oil country tubular goods has been on a declining trend. Domestic mill capacity in the United States is becoming increasingly filled, leading to a tightening of supply and demand. Additionally, market inventories have decreased slightly, improving the oversupply situation. As a result, tubular prices have bottomed out and market conditions are showing signs of improvement.
Regarding the impact of the Trump administration, there are mixed views. Some believe that the rig counts and focus on the financial discipline of developers will not change immediately, resulting in demand not increasing significantly in the future. On the other hand, there are optimistic views expecting recovery due to the lifting of regulations on new LNG exports and the growing demand for gas for power generation driven by data centers.
Looking ahead for the tubular business, while market conditions are expected to recover, it is anticipated that there will not be a surge in market prices as seen in FY22.

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