

Consolidated Financial Report for The Second Quarter of Fiscal Year Ended December 2018 < Supplemental Materials (Q & A) >



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Forecast of business performance

Q : Why did you revise your forecasts downward?

A : We expect lower profits due to rising manganese ore prices, something counter to initial expectations, and rising manufacturing costs, together with expectations of falling sale prices on high-carbon ferromanganese in the second half.

Q : What future conditions do you expect in the high-carbon ferromanganese and manganese ore markets?

A : The recent product and ore market conditions are shown below. We don't expect any major changes in these conditions.

<July 2018 market conditions >

Product price : \$1,138/t

Ore price : \$7.10/DMTU

Forecast of business performance

Q : What are the main causes of the slowdown in the ferroalloys market?

A : Supply-demand conditions are easing as production increases worldwide in response to the favorable market conditions observed last year.
However, these conditions are not expected to be long-term trends.

Q : Do you expect ore prices to fall?

A : We see little likelihood of further downward pressure in the future. The supply capacity for high-grade manganese ore, which is essential to the production of high-carbon ferromanganese, our main product, is limited.

Forecast of business performance

Q : Is there a reason you can't simply raise sales prices to respond to the rising price of raw materials in the ferroalloys business?

A : Each of manganese ore and high-carbon ferromanganese, our product, are subject to prevailing international market conditions. Raw material purchase prices and product sale prices are determined through negotiations with suppliers and buyers based on these international market conditions. That makes it hard to set prices that deviate too far from market prices.

Q : What impact are the rising metal manganese prices in China having on your company?

A : This rise does affect the prices of super-low-phosphorus (SLP) ferromanganese, but it doesn't directly affect high-carbon ferromanganese.

Forecast of business performance

Q : Is the ferroalloys business likely to record losses, given various market conditions?

A : The ferroalloys business may record losses over the short term, as in 2015 and 2016, depending on trends in product markets, ore markets, and exchange rates. But these are merely temporary factors. Over the medium to long term, the business should be capable of securing operating profits averaging roughly 3 billion yen per year and returns on sales (ROS) averaging roughly 7 % per year.

Ferroalloys are essential to the progress of our industrial society. We regard ensuring a stable supply to be our most important mission. ※See p. 22 of the explanatory materials for the Second Quarter.

<Reference>

Average operating profit/ROS : 2.7 billion yen/ 6.3 % (2010-2017)

4.2 billion yen/10.0% (2010-2017)

3.1 billion yen/ 7.8 % (2010-2017)

Not including 2008 (operating profit: 21.3 billion yen)

Forecast of business performance

Q : Do you expect harsh business conditions next year in light of current forecasts for the ferroalloys and ore markets?

A : In product markets, results from the previous quarter affect the results for the following quarter. On the other hand, since ore stocks are maintained for a half-year to eight-month period, market conditions in October and later can impact performance through the first half of the following year.

Q : What are the main reasons for the losses forecast for the second half in the Environment business?

A : We don't expect to record sales from any large-scale projects in the environmental systems business. In the melting and solidification of incineration ash business, we expect lower volumes of processed incinerator ash than initially forecast. Another factor behind the decreased earnings is an increase in depreciation and other fixed costs. For these reasons, we plan to enhance sales activities to secure new customers during this fiscal year and the next.

Forecast of business performance

Q : What are the main reasons for worsening profit margins in the second half in the functional materials business?

A : We expect profit margin to fall in the second half due to various factors, including an expected decline in the sales of certain products and rising raw material prices.

Q : Are business performance forecasts related to decreased dividends?

A : We revised our forecast dividends based on our dividend policy, which targets a consolidated dividend payout ratio of roughly 30 %.

Progress on the Medium-Term business plan

Q : Business performance has declined.

Will this affect projections for achieving targets?

A : We expect profits to fall considerably this year compared to last year, due to temporary factors like raw material prices and stock prices. Nevertheless, by implementing the plan based on steady efforts to address individual topics in each of the Four Cores, we're confident we'll achieve the final targets for 2020.

We're currently diligently addressing each topic.

※See p. 32 of the explanatory materials for the Second Quarter.

Progress on the Medium-Term business plan

Q : What progress have you made on measures to build up the foundation for the company's survival?

- A :
1. On capital investment, we've achieved about 40% of our plans. We plan to implement measures flexibly in response to future environmental changes.
 2. We've launched Denko Way activities.
 3. We've initiated measures to increase corporate value by enhancing human resources and strengthening the ESG perspective.

We're making steady progress on measures to build on the foundations for the company's survival. Based on these results, we expect to achieve various objectives in 2020.

※See p. 33-35 of the explanatory materials for the Second Quarter.