

3 October 2022

The Manager Companies
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(3 pages by email)

HENGJAYA NICKEL COMMENCES TRANSITION TO NICKEL MATTE PRODUCTION

- Nickel Industries to commence production of nickel matte, a “Class 1” nickel product for the electric vehicle supply chain.
- Angel Nickel RKEF lines now operating in excess of 130% of nameplate capacity, driving a significant increase in quarterly nickel production.
- In a difficult global macroeconomic environment, Nickel Industries’ operations expected to generate EBITDA of US\$52-55 million for the third quarter.

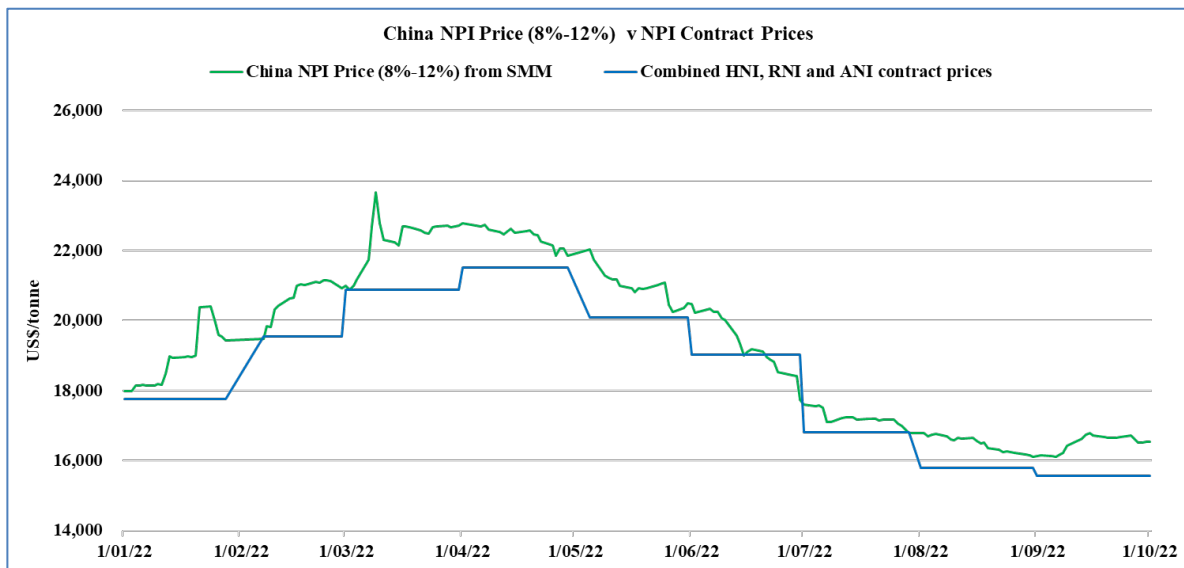
Nickel Industries Limited (‘Nickel Industries’ or ‘the Company’) is pleased to announce that its Hengjaya Nickel Project (‘HNI’) within the Indonesia Morowali Industrial Park (‘IMIP’) has commenced its transition from the production of nickel pig iron (‘NPI’) to the production of nickel matte. As a result of the innovation by our operating partner and major shareholder, Tsingshan, nickel matte produced from laterite ore is now able to be sold into the “Class 1” nickel electric vehicle battery supply chain.

While HNI’s capital modifications to produce nickel matte were completed earlier in the year the Company chose to defer switching to nickel matte production until its Angel Nickel Project (‘ANI’) within the Indonesia Weda Bay Industrial Park (‘IWIP’) reached nameplate production. ANI is now operating well in excess (over 130%) of nameplate capacity and in addition, the Oracle Nickel Project (‘ONI’) will commence the commissioning of its 4 RKEF lines in October.

HNI will produce a low grade (‘LG’) nickel matte which will be upgraded to high grade (‘HG’) nickel matte (i.e. nickel sulfide with 60-75% nickel content) by converters that have been specifically built within IMIP. A small conversion cost will be applied for the conversion from LG to HG nickel matte.

The Company is also pleased to announce that it has contracted all its HG nickel matte sales through to March 2023 to a 3rd party. The Company will receive “payabilities” against the Shanghai Futures Exchange (‘SHFE’) at a percentage of the average settlement prices of the SHFE nickel main contracts price, with a higher percentage to be received in a higher nickel price environment. The SHFE nickel price consistently trades very closely with nickel on the London Metals Exchange (‘LME’).

In contrast, as with the second quarter of 2022, the Company has seen a decrease in the NPI price (as publicly disclosed on the Shanghai Metals Market) in recent months and an associated decrease in the combined weighted average contract prices from our RKEF operations.



Source: SMM, Company information

Whilst the Company's RKEF operations have benefited from a decrease in cash costs per tonne of nickel produced from the June quarter, as well as seen increased production from the continued ramp-up of the ANI RKEF lines post the commissioning of the ANI power plant, these factors have not been sufficient to offset the falling NPI price. As a result, the Company expects EBITDA from operations for the 3rd quarter of 2022 to be in the range of US\$52-55 million¹, which is lower than the 2nd quarter EBITDA from operations of US\$103.2 million and current analysts' forecasts.

As noted above, the SHFE nickel price (which is the reference price for nickel matte) has traded closely with the LME nickel price, and as a result, along with the increased NPI production from ANI (and shortly, ONI), the Company believes now is the appropriate time to diversify our operations and commence the production of nickel matte at HNI – the introduction of another end-product (for use in the rapidly growing electric vehicle industry) provides additional flexibility for the operations.

Commenting on the Company's transition to the production of nickel matte, Managing Director Justin Werner said:

"We are very pleased to announce the transition of our two HNI RKEF lines from the production of NPI to HG matte. This makes us unique among global listed nickel producers in our ability to produce nickel products which have pricing exposure to both the Class 1 and Class 2 nickel markets, thereby providing significant diversification."

Given the very strong ramp-up of our Angel Nickel operations, which are now well in excess of nameplate capacity, and the consistently strong SHFE/LME pricing vs NPI pricing in recent months, we believe this marks the appropriate time to commence production of nickel matte. Importantly, it provides Nickel Industries with exposure to the electric vehicle battery supply chain – a market which is forecast to undergo tremendous growth in the future."

The Company is leveraging the existing sales contracts that Tsingshan, our partner and largest shareholder, has in place with a 3rd party. Over time, we will look to build relationships with other potential 3rd party buyers and partners."

¹ This estimate is preliminary and will be finalised in the coming weeks as the operating costs across our RKEF and mining operations are finalised.

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