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Consolidated Financial Results for Q3 FY2020 Teleconference

Questions and Answers

[Questioner 1]

Q: With regards to profit in the February forecast, it was my understanding that as the accounting year for overseas copper mines runs until the end of December the conditions of the market were to some extent incorporated into the forecast, but I feel that the profit increase is greater than the company's sensitivity. From the perspective of profit before tax in the next fiscal year, can we expect that it will be around the level of four times the Q4 results after the reversal of allowance for doubtful debts of ¥9.1 bn is subtracted if we make a rough assumption that there will be no change in the conditions of the market? Or will there be any other one-off factors? I'd also like to hear a comparative analysis of Q4 and Q3.

A: In Q4 itself, the impact of copper price rises has been very much incorporated for each overseas copper mine. On the other hand, there is also the factor of Q4 profit being booked somewhat conservatively given that by Q3, Hishikari had already produced five tonnes of the planned production of 6 tonnes - meaning it had greatly exceeded the normal 4.5 tonne level of production for Q3.

With regards to the absolute values for Q4 profit, if we exclude the aforementioned impact of Hishikari, I think the figures largely reflect the production quantity at each overseas copper mine with a positive impact from price differential.

And with regards to the difference between Q3 and Q4, gross profit in the mineral resources segment decreases approximately ¥6 bn from ¥21.7 bn in Q3 to ¥15.7 bn in Q4, it is mostly due to the difference in production volume at the Hishikari Mine in Q3 and Q4. Regarding segment profit (profit before tax) as well, there is an upturn of some ¥7 bn from ¥22.3 bn in Q3 to ¥29.3 bn in Q4, and this includes the profit increase due to rise in copper price at overseas copper mines to which the equity method is applied.

Q: Does the mineral resources segment profit include the reversal of allowance for doubtful debts for Sierra Gorda?

A: Yes.

Q: Even if the reversal of allowance for doubtful debts of ¥9.1 bn is excluded, when one considers that the Q4 forecast also includes the negative factor of the difference in production quantity at Hishikari there is still ¥30 bn of real income (profit before tax) in the quarter, and while there is the potential for cost deterioration factors such as the price of crude oil to have an impact, if we assume that the conditions of the market continue unchanged can we consider that four times this amount for the year is by no means impossible?

A: I think such understanding is largely fine.

[Questioner 2]

Q: With regards to the profit before tax in the materials segment, can you tell me about the background to the ¥4 bn increase in profit compared to the forecast disclosed in November? Sales also has an increased income of ¥4 bn, so I'd like an explanation including the relation between the increased income and increased profit.

A: In comparison with expectations as of November, it has become clear that automobile-related markets are recovering. For the advanced materials product subsegment as well, the fact that smartphone-related markets are recovering means there is a trend towards increased income and increased profit, and this forms the background to the revised forecast.

Q: Regarding other profit increase factors for copper-related and nickel-related smelting and refining entities in the comparison of the forecasts disclosed in February and November on page five of the supplementary materials, I'd like to know if there are any particularly large factors.

A: Other factors for copper-related smelting and refining entities include the positive impact of revenue from byproducts such as palladium and sulfuric acid. Other factors for nickel-related entities is an accumulation of small factors.

Q: Why has foreign exchange sensitivity increased? Is this because profit from overseas is increasing?

A: US dollar-based profit forms the main part of our profit, so foreign exchange sensitivity has increased due to US dollar-based profit being impacted by the increase in metal prices.

[Questioner 3]

Q: Please tell me the factors behind the profit before tax in the smelting and refining segment from Q3 to Q4.

A: Gross profit in the smelting and refining segment declines ¥3.3 bn from ¥16.3 bn in Q3 to ¥13 bn in Q4. One reason for this is because in copper-related entities, the Toyo Smelter & Refinery receives mineral ore from the Hishikari Mine and processes it into gold, but the mineral ore received in the first half when the price of gold was high was evaluated using the Q3 and Q4 assumed price before shipment, so the decline in profit includes the minus impact of the difference with the actual market price of gold.

Another factor is a kind of price adjustment factor in nickel-related entities; an intermediate raw material called mixed sulfides (MS) is sent from the Philippines to the Niihama Nickel Refinery where it is made into nickel metals, and the expectation for the applied price differs at different points in this process. In terms of segment profit (pretax profit), while there is greater difference between Q3 (¥17.7 bn) and Q4 (¥10.3 bn), this is not due to so-called cost factors, and it is actually because Q3 included a one-off factor in the form of a gain from the valuation of derivatives.

Q: Please tell me about the background to the reduced production at CBNC and THPAL compared to the previous forecast, and the outlook concerning production volume stability for next fiscal year.

A: The reduced production at CNBC compared to the previous forecast disclosed in November is down to a deterioration in nickel grade in the mineral ore, and there are no particular problems with the actual smelting operations. The main factor at THPAL is a change in mineral ore properties such as moisture content resulting from heavy rain, and here as well there have been no problems with equipment in operations. As long as there are no one-off factors I think the production volume will come back to what it was, but the production forecast is not yet fixed at the moment I cannot provide you with any specific quantities.

Q: Is the gain from valuation of derivatives in smelting and refining a one-off gain?

A: Yes, it is a one-off gain.

[Questioner 4]

Q: Please tell me about the factors behind the increase in profit in the materials segment from Q2 to Q3 and the decline in profit from Q3 to Q4.

A: The increase in profit from Q2 to Q3 was mainly down to a recovery in automobile and smartphone-related markets. For the decline in profit from Q3 to Q4, in terms of gross profit, one factor is the impact of the metal price that is applicable to the raw material for powder materials such as nickel paste. And in terms of profit before tax, movements in profit at materials-related companies to which the equity method is applied mean that there is somewhat of a decline in profit in Q4.

Q: I understand that you are working towards expanding sales of battery materials. Has there been any progress on this front?

A: Since the decision to boost NCA monthly production from 4,550t to 4,850t as disclosed last year, there have been no concrete updates to speak of.

Q: If you have any information that you can disclose about operating rate in Q3 and Q4 for battery materials, please can you tell me about it.

A: While we are steadily returning to full production, we are paying attention to the situation, including the impact of reduced production due to a lack of semiconductors on the automobile market.

And while we do have to pay attention to semiconductors and other materials over which there are concerns, we think that the production level in Q3 and Q4 will recover greatly.

[Questioner 5]

Q: Comparing quarters, there are again large variations in production volume at THPAL this year. While it seems there are some periods that have a production volume at a level close to 36kt when projected over the course of the year, can we consider the capacity to achieve a level of 36kt to be there if there are no problems in terms of mineral ore properties, weather, equipment, or other such things?

A: Firstly, in this fiscal year there was a prolonged shut-down due to the COVID-19 pandemic. Also, this fiscal year has seen changes in the regular shut-down periods with the shut-down that normally takes place in September being shifted to October and consideration being given to moving the subsequent planned shut-down from March to April among other things. This among the other factors is what has led to increases and decreases between quarters.

Equipment problems that occurred in the past are being improved through countermeasures including preventive maintenance, and as long as there are no one-off factors, the aim to achieve production volume at a level close to designed capacity will remain unchanged. A production of 33kt was originally planned for fiscal 2020, and as I explained just before, one-off factors and other factors mean in the current situation production will be somewhat reduced.

Q: There was a press release detailing the discovery of a high-grade ore vein at Cote, and if this will have any impact on the already released plans I would like to hear about it, including the background to the announcement.

A: The January 22 press release was a progress announcement concerning the results of the exploration of a separate deposit located slightly away from the main deposit in the vicinity of the Cote project. The announcement was made as a deposit with a relatively high grade had been acquired and the result of the exploration was good, but it was no more than a progress announcement of the result of an exploration of a nearby deposit away from the main deposit. Going forward, we will check the volume of minable ore after further exploration and test borings, so as things stand there is no change in reserves, production volume, or any other aspect of the Cote project.