

Date of Teleconference: May 10, 2022

Accounting Results for the Year Ended March 2022 (FY2021) Teleconference
Questions and Answers

[Questioner 1]

- Q: As the first point, I'd like it if you could tell me about the difference in the profit before tax forecast in the first half of the year and the second half of the year.
- A: The FY2022 difference in the forecast between the first and second half of the year is that the second half will show slightly more profit. While we haven't disclosed a breakdown by segment, one of the reasons is that we are seeing trends pointing to slightly increased volume in the second half of the year in overseas mines.
- Q: As the second point, can you break down the decline in profit forecasted for the Materials business that also seems to be affected by inventory and metal prices?
- A: Regarding the decline in profit in the FY2022 forecast for the Materials segment, major factors include battery materials and powder materials, with battery materials in particular being subject to a slightly larger impact of the metal price differential and the metal price differential between the timing of receipts and payments. Additionally, we estimate that increases to the unit cost differential for raw material costs and to energy costs are going to lead to a deterioration of the unit cost differential. Each advanced material product like powder materials, package materials and crystal materials is estimated to have unit cost differential deteriorations, including deteriorations to fixed costs such as labor.
- Q: As the third point, I'd like it if you could tell me about the fluctuations in Others for Smelting and Refining business, including the current state of sulfuric acid prices.
- A: Regarding Others for Smelting and Refining, assuming that you are pointing to the Others for copper-related entities that would be a negative ¥12.0 bn, we estimate one of the factors to be the decline of sulfuric acid price. In the FY2021 results, one of the factors behind the improvements was the increase of the price of sulfur. The effect of the decline of palladium price is also included in Others.
- Q: Is Quebrada Blanca having any effect this year? Additionally, regarding the Materials business, even without the effect of the metal price differential between timing of receipts and payments, are things actually moving in the direction of a decline in profit due to high costs?
- A: Regarding Quebrada Blanca 2, there has been no change in the planned start of production in the latter half of 2022. While this period will be the start of production, we do not estimate any major profit or loss. For the Materials business, as you pointed out, it is moving towards a decline in profit. This is largely due to the metal price differential between timing of receipts and payments differential, however, in addition, increases to the unit cost differential for raw material costs and energy costs are factors behind the decline in profit.

[Questioner 2]

- Q: In equity in earnings of affiliated companies on page 6, the outlook is showing a decline in profit for nickel related companies despite the metal price going up. Additionally, the copper smelting related companies are showing declines in profit. Further, N.E. Chemcat is also showing a decline in profit. I'd like it if you could tell me what led to this.
- A: Equity in earnings of affiliated companies is forecast to show a decline in profit for nickel-related entities, as well as for copper-related entities. This, in combination with the effect of the increase to metal prices being included in the FY2021 results, leads to the FY2022 forecast showing a drop when a comparison is made. For "Others" ,N.E. Chemcat, Nippon Ketjen and MS Zinc, N.E. Chemcat, and others, among the these companies, for example N.E. Chemcat was doing well in FY2021 in chemical catalysts. While we estimate steady sales in the FY2022 forecast as well, there will be a drop when compared to FY2021. Additionally, while Quebrada Blanca, it is included in these, and we estimate that there will be an increase in costs here, as well.
- Q: As the second point, capital expenditures for the Cote Gold Project have grown in this year's capital expenditures plan. What's going on with the increase to initial expenses announced recently?
- A: The Cote Gold Project's CAPEX is in an on-going status, and there was an announcement of an amount increase from IMG. However, as we have not finished our review, we have not included it in our FY2022 capital expenditures plan.
- Q: Regarding Figesbal and NAC, the increase to metal prices is said to be included in FY2021, but the price in the FY2022 forecast shows an increase. How should we take this?
- A: The effect of the improvements, including the end of year price increases, are included in the FY2021 results. Compared to this, the FY2022 forecast shows a decline.

[Questioner 3]

- Q: I'd like it if you could tell me what is behind the plan for FY2022 shown on page 7 of the Supplementary Explanation, which shows production volume in nickel-related entities regarding THPAL, CBNC and electrolytic nickel looking weak compared to full operation. I'd also like it if you could tell me the reason behind the year-on-year decrease for nickel sulfate in FY2022.
- A: In production volume for nickel-related entities, the FY2021 results for electrolytic nickel saw an increase in production compared to the previous forecast through receiving an increased volume of raw materials at the end of the year. We plan for FY2022 to see a production increase of 3.1 thousand tonnes compared to the FY2021 results through the difference in volume of MS raw materials received. On the other hand, the FY2022 plan for THPAL has a delay in the restarting of operations in the first half of the year following a shut-down, which will lead to reduced volume through a reduced number of operating days. Nickel sulfate will decrease by approximately 2 thousand tonnes compared to the results for FY2021 and this is due to insufficient inventory of MS raw materials at the beginning of the year. This is largely due to reduced production at THPAL in particular in FY2021, leading to insufficient inventory of MS raw materials at the start of FY2022 which will cause the decrease in production.

Q: Electrolytic nickel, for example, seems to have a capacity of about 60,000 tonnes. Should I take it that the insufficiency is a result of the effect of MS raw material supply insufficiencies caused by delays at the start of the year in the restarting of operations from maintenance at THPAL?

A: (In the sense that there are insufficient raw materials,) Yes, this is as you say.

[Questioner 4]

Q: I just want to confirm some things regarding the recent announcement that feasibility study on the Pomalaa Project had been discontinued. It was initially planned to make up over half of the capex related to Smelting and Refining business in the 2021 3-year Business Plan, and while there was no schedule for money to be spent right away, it seems like the investee that had approximately ¥100.0 bn as its scale has disappeared. While it may not be included in this fiscal year, is there going to be an effect on financial and cashflow strategies against this gap in how the investment destination for this portion of the capital is blank? For example, what sort of effect is there going to be on the shareholder returns, such as stock buybacks? In any case, regarding a scenario in which the strengths of a consistent supply chain are pushed in the long-term strategy for nickel, my assumption is that you'll keep looking for business opportunities but I'd like you to allow me to confirm what you're preparing against battery material growth.

A: As the Pomalaa Project was discontinued, roughly half of the ¥293.0 bn Smelting and Refining investment amount planned in the 2021 3-year business plan is presently going unused. However, we're searching for resources to take the place of the Pomalaa Project, so if we can earmark investments for those, we will. Cash for the 2021 3-year Business Plan is going to decrease by ¥150.0 bn, so the loss of the Pomalaa Project does not mean that we're going to have cash left over.

The overall strategic policy for nickel and battery materials remains unchanged: We're going to strengthen the nickel and battery material value chain, and further accelerate the nickel resource investigations that were already being promoted alongside Pomalaa. While we don't have any substantive items at the moment, this is our general policy.

Q: Fundamentally, the plan is a long-term one where battery material facilities are being strengthened, with progress being made in phases. The policy included combining raw materials that SMM possesses and those that were purchased, but as you're able to make due with purchased raw materials for the time being, is this going to have any effect on the schedule later on?

A: Regardless of the current state of things, the main parts of our battery material and nickel strategies remain unchanged. We're going to use the nickel and cobalt that we produce, in addition to that which we can acquire through external purchase utilizing our nickel business network.

[Questioner 5]

- Q: As the first point, the analysis for fluctuations in the FY2022 forecast on page one of the Supplementary Explanation explains negative ¥5.1 bn is coming from the price and conditional differential of nickel, referring to the nickel price of \$9.35/lb for last year and \$9.5/lb this year. In the profit analysis for the fluctuations in the equity method profit and loss earlier, it was explained that nickel was seeing a decrease in profit despite the fact that the price of nickel was up due to a rise in nickel that went through the end of last year. Should I think of this ¥5.1 bn decrease in profit in the same way? Can sensitivity when future operating results forecasts are conducted externally be calculated with the sensitivity listed on page 8?
- A: The ¥5.1 bn decrease in the nickel price and conditional differential is, as explained with the equity method, based on the thought process that FY2022 is going to see a drop compared to the results of FY2021, which included the effect of improvements such as the year-end rise.
- Q: Nickel currently sits at \$13/lb, for example, and calculating using the sensitivity on page 8 of the Supplementary Explanation brings a differential of about \$3.50, and should I multiply this?
- A: It's possible to calculate it as you state.
- Q: Regarding the Materials business for the second point, factors like crude oil market condition costs, increases to energy costs and increases to the costs of commodities in general have the FY2022 forecast seeming to indicate that there will be a decline in profits compared to FY2021's results, but just how much attention are you paying to the conditions of the crude oil market? I'd like you to comment on whether it's possible to transfer the energy and commodity cost increases to product prices, and whether or not this is something you're working towards.
- A: Regarding the energy costs for the Materials business, we haven't disclosed our assumptions for crude oil; however, we believe that transferring these costs to the price of products would be fundamentally difficult.

[Questioner 6]

- Q: The assumption for metal prices seems lower than the current price. I'd like it if you could tell me about any risks related to a sharp decline or on the demand front moving forward.
- A: We see trends towards easing in the supply and demand for copper and while this most recent April has shown copper holding at a high price, there are no fixed materials and we think the rise in crude oil is bringing a rise in other raw materials. The price for copper is currently about \$9,200 and getting closer to our forecast. On the other hand, copper fundamentals are seeing favorable demand for copper through global decarbonization, clean energy and the move to electric vehicles. The price forecast for nickel is difficult. Russia as a country is a major supplier of nickel, covering approximately 10% of nickel metal production. Since March, the LME nickel market has become unstable and the effect a sudden increase of the current nickel price would have on the market, as well as the effect of China's lockdowns, make forecasting difficult. Nickel price forecasts from analysts having it sitting largely at \$9 to 10/lb, and we support that take with our number at \$9.5/lb. In April's INSG forecast, the supply and demand balance had an estimate with an oversupply of 67,000 tonnes. Indonesia's NPI production volume is increasing. Regarding consumption, in addition to supply towards Chinese and Indonesian stainless steel maintaining a high level, global demand for batteries is increasing. However, there is a risk that demand will fall if COVID-19 drags on.