Date of Teleconference: August 8, 2022
(English translation released on September 6, 2022)

Questions and Answers Script of the Teleconference for Consolidated Financial Results for the First Quarter of the Year Ending March 2023 (FY2022)

[Questioner 1]

Q: I'd like it if you could once again go over the explanation for the conditions of the market acting as assumptions used in the operating results forecast, both for the first half of the year and the full year. While assumptions for copper prices in the second half of the year are at $8,200/t, I'd like to know to which period of the year do they apply for companies that settle accounts in March, on the one hand, and in December, on the other. Additionally, while we're seeing profit from the inventory evaluation, in what way is this related to copper prices?

A: Every year, SMM creates the operating results forecast for the six months ending September 30 by the time the financial results for Q1 are announced, and this forecast is created after revising each and every assumption, like the conditions of the market, pricing and sales volume.

In contrast, the full-year operating results forecast we just announced uses the six-month period up to the end of Q2 as the start point for the operating results forecast. The operating results forecast for the latter half of the year was created on the assumption that production and sales for major mines, smelters and battery materials will be as estimated in the May plan, despite the uncertainty in the economic environment. In addition to this assumption, to calculate the operating results forecast, we used sensitivity factors for estimates of conditions of the market and pricing which will significantly affect our results.

Copper prices for overseas mines, which are companies that settle accounts in December, are at $7,000/tonnes in the period from July to September, and $8,200/tonnes from October onward. Companies that settle accounts in March have the $8,200/tonnes rate applied from October to March. Further, overseas mines in the Mineral Resources segment are companies that settle accounts in December, so nearly all results for the period between January and June are included.

The inventory evaluation included price fluctuations up until Q2, but we view it flattening out in the latter half of the year in line with data that shows no fluctuations in prices.

Q: I'd like it if you could explain the profit movements from Q1 to Q2 for each segment. In particular, I'd like to know why Cerro Verde is showing a drop in profit in FCX financial results.

A: Regarding movements between Q1 and Q2, the Mineral resource segment saw a deterioration of the price differential as, in addition to seeing a quantity differential at the Hishikari Mine, overseas mines saw a drop in metal prices for Q2 (April to June) compared to Q1 (January to March). The effect of the metal prices is going to change per individual contract, and it is felt not only in the month of sale, but also when we make exact calculations that settle prices. The price differential is seeing a large deterioration as we are currently facing price drops. We do not know every detail of the FCX financial results, but presumably, the situation is the same at Cerro Verde. When we make exact calculations, if the price of metals drops from the provisional metal price we used when provisionally calculating the proceeds, it will negatively affect the final figures. We believe that the drop in profit is due to the timing at which the metal price was settled.

[Questioner 2]

Q: Regarding the increase in cost, what's the reason behind the increase compared to what was disclosed in May? Energy costs have gone up since March, but I have to imagine those were taken into account to some extent. I'd understand if it was a recent increase due to cost increases tied to coal in general, but can you tell me what you think? Additionally, does the HPAL project in the Philippines rely on steam coal for its electricity?

A: The rise in costs is an increase over what was disclosed in May. Main factors include the cost of coal, heavy oil and external electric power, in particular. Coal in particular is affected. Increases for the Smelting and Refining segment is mainly tied to coal, whereas it's diesel oil for overseas mines. With regard to the HPAL project, while we haven't disclosed the details, the affects you pointed out are included, to an extent.

Q: You announced that the initial capital expenses for the Quebrada Blanca 2 Project were going to increase, but I'd like to know what's behind this. You made a similar announcement regarding the Cote Gold Project last week, but IMG has already said in May it was planning on increasing the initial capital expenses for the project. Does this mean there will be even more increases? Where does last week's announcement fit in the overall scheme of things?

A: The Quebrada Blanca 2 Project will see an increase to CAPEX that includes the effect of COVID-19, according to last week's announcement of TECK's financial results. TECK explained that the increase has to do with the effect of COVID-19, as there's fundamentally no difference if that is removed. We confirmed that and calculated an overall Quebrada Blanca capital expenditure amount that included the effect of COVID-19. Regarding the Cote Gold Project, IMG is making disclosures based on standards for resource projects in Canada. This is why those disclosures will not always match up with the timing of our reviews. IMG announced that they are estimating an increase to initial capital expenses, but we're going to continue with our review process and will make an announcement once that review is completed. Moreover, we're keeping in close communication with IMG at all levels. We're going to make our disclosure after making necessary adjustments between the two companies.

[Questioner 3]

Q: Regarding the announcements of yearly operating results forecasts in May and August, the Smelting and Refining segment was revised to show a profit increase of ¥35.0 bn. However, the inventory evaluation profit for the first half of the year is showing an increase of ¥39.0 bn. So, is it okay to take this substantially as a downward revision? While nickel price assumptions are rising from what they currently are, the cost increases mentioned earlier seem to be having a large effect. Am I correct in assuming this as the rationale behind the downward revision? Basically, the Smelting and Refining segment is making the most of the weak yen and the inventory evaluation profit, but the increased cost of things like coal is going to bring things back down, right? Also, what is the effect of the exchange rate on the inventory evaluation?

A: The large increase in the inventory evaluation profit is due to the effect of the progressive weakening of the yen. The latter half of the year is moving towards a reduction with movements towards a strengthening of the yen based on assumptions about the exchange rate, and the cost differential for coal is worsening, leading to a reduction.

Q: You announced the cost increases for the Quebrada Blanca 2 Project, but the copper resource was also given an upward revision to go along with this. How should I regard the profit estimates for the project in light of the increases to development fees and the copper resource?

A: We consider the increase in resources to be something that will contribute to future development plans. As construction fees for the project have increased, there will be long-term deteriorations from a profit standpoint when compared with the initial situation, but we believe that there is sufficient profitability if we take into account the copper prices in the mid- to long-term.

[Questioner 4]

Q: I'd like you to confirm something for me with the inventory evaluation. Assumptions about the conditions of the market have undergone a downward adjustment for the latter half of the year compared to the May disclosure. Am I right in assuming that the inventory evaluation showing an increase is as the number includes the effect of the yen-based exchange rate, not as a result of a change in the thought process surrounding the inventory evaluation?

A: The inventory evaluation is converted to yen, and you are right to reason that the effect of the exchange rate is larger than that of metal prices. In particular, the inventory evaluation profit was largely impacted by copper-related entities, and the increase from the exchange rate effect was large. Further, numbers for sensitivity factors did not include the exchange rate effect on inventory evaluation, and the inventory evaluation for the latter half of the year was not calculated using sensitivities.

Q: Nickel production volume in the Philippines is expecting a recovery compared to last fiscal year. However, the downstream domestic electrolytic nickel and nickel sulfate production volume totals show fluctuations, and they seem largely the same as last year. Does this mean there is going to be an increase in the usage of raw material produced by the company?

A: While the production volume at overseas refineries fell slightly last fiscal year, we produced as much as we could domestically, so the raw material inventory for the first half of the year dropped slightly. The production volume for the latter half of the year is using the numbers from the May plan. While we have not yet performed estimates, you are correct in your understanding that overall, we slightly overused some of our own inventory of raw materials during the last fiscal year.

[Questioner 5]

Q: Of the full-year profit before tax values that were revised, the price and condition differential was showing a drop of ¥15.0 bn. Could you tell me the breakdown of metals in this?

A: We have not disclosed the breakdown of metals for the drop of ¥15.0 bn. Essentially, it was as the price assumption revision amount for copper was larger.

Q: Why is there such a large drop off in profit in the Materials segment from Q1 to Q2? Additionally, when comparing the first half of the year and the second half, the second half of the year is in the red due to the inventory differential. This may simply be limited to battery materials, but is this possible solely because of the inventory differential? Can you explain how profit is moving?

A: Battery materials have their profit affected by the difference in metal prices between when we buy the raw material and when we process it and sell it to customers. Lately, nickel and cobalt have both seen prices rising at an extremely rapid rate. Thus, Q1 saw a substantial profit from the inventory differential, and we think there will also be profitable in Q2. On the other hand, while the price for cobalt was about \$39/lb in May, it is forecasted to be \$25/lb in the second half of the year. Nickel was \$14/lb in April, but from July on, we estimate that it will be \$9.5/lb. While there was profit from the inventory differential in Q1, we estimate we will see it turn into weakened in Q2 and then rapidly weakened of the second half of the year. Advanced materials are being affected by the lockdowns in China, and the conditions of the market are deteriorating mainly in semiconductor-related factors. This is likely also explained in the financial results of electronic parts makers. SMM's advanced materials are showing signs of incurring those effects, as well. The slowdown in the second half of the year is due to both the effects of battery materials and advanced materials.