

Questions and Answers Script of Teleconference
for Consolidated Financial Results for the First Quarter of the Year Ending March 2024 (FY2024)

[Questioner 1]

- Q) Could you map out your approach towards the full-year operating results forecast released in August? As I understand, the forecast for the latter half of the year is fundamentally as it was in the original May forecast, and modifications were made, to the best of your knowledge, wherever there were changes to assumptions about volume and prices, but I would like you to once again summarize what changed.
- A) The August forecast was fundamentally created as it always has been, by adding up estimates of all elements for the first half of the year to make the forecast. For the second half of the year after that point, it is fundamentally based on the May forecast and has trial calculations for price fluctuations, settlement differential and inventory evaluation done to the extent possible and included. What changed significantly this time was that we capitalized a portion of the costs that we thought we would incur in QB2. Revisions to prerequisite conditions for prices are as shown in the table at the top of page 3 of “Supplementary Explanation Material of Financial Summary (for Telephone Conference)”. Price assumptions have also been set for both the second quarter and the second half of the year. The price of copper is as shown, \$8,300/t in the second quarter, returning to \$8,600/t in the second half of the year. On the other hand, nickel will move from \$9.75/lb to \$9.5/lb. We also expect yen strengthening on the foreign exchange, moving from ¥140 a dollar to ¥135 a dollar. This five yen difference on the foreign exchange will have a significant impact on inventory evaluation for Smelting and Refining segment, and is one of the reasons results in the second half of the year are not seeing the growth you anticipated.
- Q) Pretax profit and loss exclude temporary factor is ¥130.0 bn to ¥140.0 bn, so what sort of one-off factors are leading to the difference between the pretax profit and loss you just disclosed and the numbers in the operating results forecast? Additionally, am I right to assume that, despite changes in the price assumptions, recalculations of pretax profit and loss exclude temporary factor have produced the same results?
- A) There are no changes to any of the items that were removed from the operating results forecast since our explanation in May. Primary factors are the settlement differential that occurred in copper mines in Mineral Resources segment, inventory evaluation for Smelting and Refining segment, income and expense differential for battery materials and one-off foreign exchange profit/loss. In addition to this, deducting the few billion yen for risk factors that were included in the operating results forecast as negative factors and the one-off costs from the QB2 project, we arrive at ¥130.0 bn to ¥140.0 bn.
- Q) Recently, Teck explained that, due to construction delays in the QB2 project, while they will be able to start production by the end of the year, production volume would see a significant drop from what was in the original plan. I am asking because I do not understand the IFRS accounting method, but given that costs will be reduced if we are not seeing growth in sales, is it safe to assume that the lack of growth in production announced by Teck means there will be no new costs? I have heard that the IFRS accounting criteria have changed and that both sales and costs will be recorded, so I wanted to check.
- A) Regarding your questions as to whether new costs will be appropriated as sales for QB2 will not be appropriated, as far as we are concerned, we included a set amount in our profit and loss forecasts, so the only way we see things deteriorating moving forward is if there are more construction delays.

[Questioner 2]

- Q) To what extent are the new assumptions for the QB2 project having an effect on profit and loss?
- A) Teck has not announced to what extent things have improved at an equity in earnings of affiliated companies level, so we cannot exactly go into the details, but we believe that things will improve for profit and loss by a few billion yen. We have included estimates for approximately ¥4.0 bn in the first half of the year and a few billion yen in the second half of the year.
- Q) Why were there delays in the QB2 project's construction? There was not a detailed explanation from Teck, so I would like if you could tell us as much as you are able to. I believe there are actual construction and commissioning processes, but is there any delay in the commissioning process?
- A) We are not able to answer about the construction delay as we were not made aware of the details. A variety of construction was underway aiming at yielding first copper at the end of last year, but that was pushed back to March of this year, so our guess is that construction overall is slightly behind schedule. Amid this, it is our understanding that the first line is now up and running and that the second line will be established by the end of this year. As for commissioning, we are in the final stage in many ways, so we imagine there are some do-overs, as well.
- Q) There are some things I would like to check about the unit cost differential, which has deteriorated slightly compared to the May forecast. Operation material fees maintained a price level that was in line with the full-year forecast, but are there still some things that are on the expensive side? For example, Morenci has its financial results settled in December, and you could have included a portion of those results from January to March in the forecast.
- A) The full-year unit cost forecast is slightly leaning toward the expensive side, and while our assumption is that this will eventually settle at a fair level, the first half of the year is still seeing some things on the expensive side. With regard to Morenci, I take your point that we could have included a portion of the results and that our forecast was optimistic. We are going to take another look at how we include these from the next forecast.

[Questioner 3]

- Q) The estimates for profit and loss exclude temporary factor in the August forecast were at ¥130.0 bn to ¥140.0 bn, and there were no changes from the May forecast, so I would like to ask about that. While you said that costs for the QB2 project are going to be appropriated as assets, if we remove the effect of that and pull out metal price factors and the unit cost differential, the estimate for profit and loss exclude temporary factor seems to have deteriorated. How is SMM summing up pretax profit and loss?
- A) I believe the gist of this question is "is your profitability dropping?" Cost factors have, as you pointed out, negative factors and the quantity differential is also negative. With the deterioration of the unit cost differential and the negative quantity differential, there are some portions in which we have seen a drop, but the end result is going to be in line with the May forecast.
- Q) I would like to ask about the results for the Material segment. Between the battery materials and advanced materials, you say advanced materials are particularly weak, but are you seeing any signs of recovery?
- A) The recovery for advanced materials is taking longer than we thought when making the May forecast. In the May forecast, we expected the recovery to take place, gradually in the latter half of this year and in earnest in FY2024. However, even recent financial results from Japanese electric parts manufacturers are showing that things have not returned to normal, and this is what we have seen as well. Additionally, inventory adjustments are still ongoing, and we have included that in the forecast.

[Questioner 4]

- Q) It seems like results from the first quarter for the materials business are profitable, but the second quarter forecast is deteriorating. I believe that, in addition to the inventory adjustments for advanced materials you mentioned previously, this is due to the inclusion of the income and expense differential for battery materials in the first and second quarters, but what do the estimates look like?
- A) That we are profitable in the first quarter is due to a temporary return of demand, and leaving aside the income and expense differential, we thought of it as a reprieve. However, the inventory adjustments are continuing into the second quarter. For battery materials, volume is healthy but through the second quarter, while it depends on the raw materials we stocked, the income and expense differential is going to be worse than the first quarter. Advanced materials, too, were good in the first quarter, but will not be as such in the second quarter. In the third and fourth quarters, we estimate that demand for battery materials will be healthy, and that the income and expense differential will not be as bad as in the May forecast, but that the difficulty surrounding advanced materials is going to increase and continue as such. As a result, profits for the materials segment are topping out at ¥1.0 bn when compared to the May forecast.
- Q) I would like to ask about the one-off factors, cost appropriation and asset capitalization for the QB2 project. Was a quarter of the yearly estimated amount appropriated as costs in the first quarter? Or is it going to come out as a whole in a single quarter? I would also like to ask about the effect on how we view these numbers. Additionally, is what we are seeing now certain from an accounting perspective? While I believe that the effect of fluctuations in the foreign exchange is still being felt, and that rounded estimates were shown at the start, is it safe to assume that volatility is no longer present?
- A) We thought costs of the QB2 project would be appropriated once production began. Production is yet to start in the first quarter, from January to March, so those costs would not occur. Production is going to move forward from the second quarter to the fourth, so those costs would come out in great numbers. That is what we thought in May. Production has actually started from the second quarter. A portion of the costs that we thought we would incur were capitalized, which is a positive factor for the first half of the year. We estimate that a portion of the commissioning costs in the second half of the year will also be capitalized. So we have also included them as positive factors in the second half of the year. QB2 project estimates are being performed with trial calculations to the best of our knowledge. After this, there is going to be the impact of startup speed, so we are hoping that things progress smoothly.

[Questioner 5]

- Q) I would like to ask about production and sale volume forecasts for Mineral Resources segment and Smelting and Refining segment. This time, while the production and sales plan is the same as it was in May, progress for the first six months against this plan shows that while the sales volume for Morenci is good, production volume is behind. Candelaria is on track to exceed full-year expectations. I would like you to tell me about upturns and downturns with regard to the full-year plan.
- A) Fundamentally, our understanding is that things are largely moving forward according to the plan. Morenci, as we have been explaining since last year, has seen delays in leaching mineral ore accumulation, and reduced production for cathodes is continuing. In that sense, we may appear to be slightly behind. While we did not have a full-year forecast discussion this time, whether this will recover or remain behind is not something we can answer at this point. While Candelaria saw delays in mining last year, those problems are being solved, and mining this year is progressing smoothly with high operability. Our understanding is that things are going according to plan. Around March, the operational pace for Cerro Verde temporarily dropped. However, the strike that has been making the headlines recently has not actually had any impact and we believe that things will proceed according to the full-year plan.

- Q) Regarding your approach to nickel price assumptions, your stance is that nickel prices are going to drop in the second half of the year, but I am also aware that you are bullish on class 1 nickel. What is your take on the current supply and demand environment for class 1 nickel, and how did it affect your decision to lower price assumptions?
- A) Our approach towards nickel prices is that there was a little much supply in our FY2023 supply and demand balance. We expect an excess of supply for both class 1 and 2. Moreover, particularly due to an increase in the production of cathodes in China, we forecast that the nickel price is going to top out and remain so. These considerations form the basis of our assumptions for the second quarter and second half of the year.
- Q) What is the sense of scale of the few billion yen buffer for the realization of various risks?
- A) The sense of scale is somewhere in the area of five or so billion yen.

[Questioner 6]

- Q) Regarding the shareholder return, revisions are going to be made when settling the second quarter financial results as per usual. Given the foreign exchange forecast for the second half of the year, I believe that its upsides are going to remain in the forecast for that period. If that is the case, what effect will this have on the dividend forecast for the first and second half of the year? What sort of calculations should I do for the shareholder return at the timing of the next financial result settlement?
- A) Shareholder returns have a yearly dividend payout ratio of 35% or more in principle, so dividends for the first half of the year are going to be half of the full-year forecast. Revisions to the forecast will be made again in November, and the full-year forecast will be based on that.
- Q) Why did you choose to include the risk buffer at this time?
- A) At present, it is not yet at a level where we should appropriate the allowance for it, but the likelihood of occurrence has increased, so we chose this timing. Currently, we are not able to explain the details.