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Questions and Answers Script of Teleconference for Consolidated Financial Results for the Second Quarter of the Year Ending March 2024 (FY2023)

[Questioner 1]

Q) Why has profit and loss exclude temporary factor been revised downward from that announced in the Q1 financial results? Is it the impact of metal prices and foreign exchange?

A) The latest revision resulted in the profit and loss exclude temporary factor being revised downward by around 20 billion yen compared to May forecast. It is difficult to make a simple comparison, but one way of looking at it is fluctuations in the prices and foreign exchange rates that the forecast was premised on resulted in factors that led to an overall decline in profit of around 20 billion yen. In particular, deterioration in price and condition differential of 18.4 billion yen and a deterioration of 12.5 billion yen in unit cost differential despite improvement in foreign exchange differential of 12.1 billion yen. This is as set out in [Comparison No. 3: Diff in PBT of FY2023 Full Year Forecast (Nov. vs May) ③-④]. So factors like this drove down the profit and loss exclude temporary factor.

Q) The decline in profit from the first half to the second half of FY2023 is large. Please tell us about the factors behind the gross profit base, equity method profit/loss, and profit before tax.

A) I don't have a change analysis for gross profit base available. Please take a look at [Comparison No.4: Diff in PBT of FY2023/2H Forecast (Nov.) vs FY2023/1H Result ②-①] on page 3 of the Supplementary Explanation Material of Financial Summary. It is envisaged that the price of nickel and the price of cobalt that the forecast are premised on will fall, so nickel will be particularly impacted by the price and condition differential. The forecast is for a similar type of movement in inventory evaluation due to a fall in prices. Next, a matter that stands out in terms of quantity differential is gold, the Hishikari Mine. The sales plan for the FY2023 for the Hishikari Mine is 4.0 t/year, but in preparation for the scheduled furnace repairs at the Toyo Smelter & Refinery planned for the second half, many sales were made in the first half. As a result of that, there is a large quantity differential between the first half and the second half. The unit cost differential is forecast to get even worse in the second half, with deterioration expected mainly from maintenance costs at overseas copper mines into the second half. In specific terms, maintenance costs that weren't envisaged in the May forecast were incurred for main equipment at the Morenci copper mine. Maintenance costs have also increased at Candelaria. Because against the backdrop of problems with trucks in FY2022, meaning that mining did not proceed to plan, and efforts have been made since the start of 2023 to sort this out. And while the processing volume and operations at Cerro Verde are both as planned, the recovery rate has dropped. Production volume and sales volume have both been maintained, but increasing the volume of mineral ore processed results in greater costs being incurred, so the unit cost differential has deteriorated. In the materials business, while a temporary recovery in demand was seen in the first half, the second half forecast is for a deterioration of 9.6 billion yen from the first half on the premise that the recovery will be slower than the original forecast.

[Questioner 2]

Q) Profit and loss in the smelting and refining segment was 31.8 billion yen in the first half (1Q: 6.1 billion yen, 2Q: 25.7 billion yen), whereas in the second half it is around 6 billion yen. Please tell us about this movement in profit.

A) A major factor is a fall in the price of nickel, and the impact of the deterioration in price and condition differential for nickel is large. Furthermore, there is also a large impact from deterioration in inventory evaluation of copper-related entities as the forecast is for a strong yen in foreign exchange. Regarding unit cost differential, while copper-related entities will see a deterioration due to an increase in things such as some repairment costs in the second half, we believe that operation at nickel-related entities will be mostly as planned and will see an improvement, as there will also be a fall in occurred based energy cost.

Q) You explained that the recovery in demand in the materials business will be slower in the second half, and comparing the first half and second half, we see there is a decline in profit of roughly 9 billion yen. Rather than due to a slower recovery in demand, if there was no decline in demand from the first half to the second half, wouldn't it be the case that such a difference would not occur?

A) I can't say anything about the amount, but we forecast that the deterioration of the income and expense differential for batteries will reach a certain level. In addition, we also forecast a reactionary fall in advanced materials, which had at one point recovered in the first half, and with this combination, we are expecting a large decline in profit.

[Questioner 3]

Q) You explained that while the forecast profit before tax on the page 3 of the Supplementary Explanation Material of Financial Summary was 86 billion yen, profit and loss exclude temporary factor will be 120 to 110 billion yen. What is the cause of this difference? The impact of inventory evaluation profit and loss and QB2 costs does not seem large, so can you explain the details? And if the profit and loss exclude temporary factor for the year of 120 to 110 billion yen were to be divided between the first half and second half, what would the distribution be?

A) In the latest profit and loss exclude temporary factor, the impact of settlement differential for overseas copper mines, inventory evaluation for smelting and refining, income and expense differential for batteries, and foreign exchange differential is not that large. Most of it is down to one-off factors specific to this year. For example, in the May forecast, there was around a 60 to 50 billion yen difference between 140 to 130 billion yen profit and loss exclude temporary factor and the profit before tax of 77 billion yen in the operating results forecast. More than half of it was down to the impact of inventory evaluation. Here, while metal prices have come down, the yen is tending to become weaker, so amounts that occur as inventory evaluation have become relatively small.

Q) Assuming the impact of inventory evaluation, foreign exchange, and income and expense differential for batteries not very large, is there a range of factors to the details of this discrepancy? If there are any unique factors, could you please share them with us?

A) For example, the -4.9 billion yen in costs related to Sierra Gorda is a significant item. The others are an accumulation of costs related to QB2 construction and small one-off factors.

Q) If the profit and loss exclude temporary factor is divided between the first half and second half, I believe the second half is lower. Would this be correct?

A) Although this time we haven't split them into first half and second half, the prices and unit cost differential that form the premise of the operating results forecast are tending toward deterioration in the second half. Profit and loss exclude temporary factor is affected by market factors, so we envisage a deterioration in the second half.

[Questioner 4]

Q) I would like to hear an explanation about the difference between the May forecast and the November forecast regarding the QB2 profit and loss estimate. And how will the profit and loss contribution change from the next fiscal year as a result of this?

A) The May forecast envisages -32 billion yen at the equity method profit/loss stage, while the November forecast envisages around -5 billion yen. The difference is down to costs being transferred to fixed assets and inventories in the course of the relevant parties checking accounting standards and other such matters, and thus not being recorded as costs for the current year.

Let me offer a simplified explanation with rough figures to make it easier to understand the situation. I explained at the start that almost all of the -17.5 billion yen in interest income (after offsetting interest payable) is down to the impact of this, so if we assume that the equivalent of -17 billion yen of the -32 billion yen in equity method profit/loss is interest paid to us, this means the remaining -15 billion yen is ramp-up costs and other project running costs. As explained in the previous briefings, the -17 billion yen that I just mentioned is recoded as a loss at the equity method profit/loss stage, but this is interest that is paid to us. It had no impact on our profit and loss. The -15 billion yen not related to interest was incorporated in the final profit and loss in the May forecast, but the November forecast envisages a deterioration of around -5 billion yen at the equity method profit/loss stage, so the scenario is one in which there is a roughly 10 billion yen improvement.

Q) Is the explanation you just gave included in the breakdown of the difference between the profit and loss exclude temporary factor and the operating results forecast? And is it OK to consider that Sierra Gorda-related costs and QB2-related costs form the content of the difference?

A) Two make up a large part of it.

Q) I'd like to confirm the current situation for QB2. And how should we consider the level of contribution to profit from next year onward?

A) Firstly, the current situation. The opening ceremony of the mine was held on October 26, local time. As per the most recent announcement of financial results from Teck, commissioning of both mineral processing lines has been completed and the facility is running at around 70% of capacity, and efforts are being made toward reaching full production at the end of December. The work remaining is the construction of a plant to separate molybdenum contained in copper mineral ore and the construction of a harbor for shipping concentrate. The former is heading for completion at the end of December, while the latter is heading for completion between January and March 2024. The guidance envisages a copper production volume of 80,000 t/year in 2023.

Turning to the estimate for the next fiscal year, production of 285,000 to 315,000 t/year is expected after full production on a 100% basis. This fiscal year, ramp up costs and other such things that were allocated to inventories and assets will be incurred. Teck's 3Q financial results announcement includes $19 million Canadian dollars of profit, albeit gross profit before depreciation, so we believe that it is competitive as a mine as per the explanations given up to this point. Going forward, it is a matter of leveraging full production capacity and seeing how fast it can be made a cost-competitive mine. Our engineers are also working on this task along with Teck.

[Questioner 5]

Q) You explained when the 1Q financial result were announced that several billion yen for risk factors was incorporated, so are the Sierra Gorda-related costs incurred here one of those risk factors?

A) Yes.

Q) Does this operating results forecast incorporate risk factors in the same way as they were for 1Q?

A) There are no factors that are incorporated as a risk factor.

Q) Please tell us why other profit/loss before tax and adjustments fluctuate between the first half and second half.

A) The major component of the -12 billion yen “Diff. Adjustment” for segment profit and loss in 2Q cumulative financial results for FY2023 on page 4 of the Supplementary Explanation Material of Financial Summary is an exchange gain/loss of -9.9 billion yen as noted in the “main changes in financial income/cost and other income/cost” at the bottom of page 5 in the Supplementary Explanation Material of Financial Summary.

On the other hand, the major component of the -4 billion yen “Diff. Adjustment” in the Q2023 full year forecast (November) on page 6 of the Supplementary Explanation Material of Financial Summary is a -5.1 billion yen from “main changes in financial income/cost and other income/cost” at the bottom of page 7 in the Supplementary Explanation Material of Financial Summary. If you work out the difference between these, you will see that the forecast for main changes in finance income/cost, and other income/cost for the second half is 4.8 billion yen. The main factors are those due to the operating results forecast assuming the exchange rate would proceed in the direction of a stronger yen, and in specific terms, the major factor of “other income/cost (exchange gain/loss from settlement of other assets and liabilities)” is exchange gain/loss pertaining to settlement as noted, so you can consider that this is down to settling liabilities recorded during weak-yen period after it has strengthened.

Q) I have a question about the disclosed sensitivity on page 18 of the Supplementary Explanation Material of Financial Summary. The finance income and other such things occurring due to a strong yen, but does the sensitivity include this?

A) The sensitivity does not include temporary things such as foreign exchange gain/loss or inventory evaluation impact that occurs due to temporary fluctuations in the market.