SUMITOMO METAL MINING

Date of Teleconference: November 12, 2024
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Questions and Answers Script of Teleconference
for Consolidated Financial Results for the Second Quarter of the Year Ending March 2025 (FY2024)

[The Effect of Large Scale Projects on Profit Contribution]

Q) The effect that large scale projects will have, a ¥22.5 billion increase compared to FY2023, did not change in the May 2024 announcement of the FY2023 financial results, nor in the August 2024 announcement of the Q1 financial results. Why is that?

A) We made revisions based on the recent situation, but there were no changes from what we previously announced. While metal prices are rising, increasing costs are what is keeping the effect of large scale projects at the same level. Currently, we are focusing on ramping up so that by the end of December 2024, the Quebrada Blanca Copper Mine reaches 100% design capacity, with Cote Goldmine reaching 90%. While things are difficult, both are proceeding according to plan.

Q) Are the effects of the two large scale projects, QB2 and Cote, included in the sensitivity (Supplementary Explanation Material of Financial Summary p. 18) based on the FY2024 November operating results forecast?

A) Yes, they are.

[Profit Fluctuation Analysis]

Q) Why was there a deterioration in profit and loss before tax from the first half of the year to the second?

A) A major deterioration factor was the impact of the expected appreciation of the yen from October to March. That is why we expect the foreign exchange differential and the inventory evaluation to deteriorate. Additionally, the first half of the year has continued to see the upward trend in January-to-June copper prices that are used by companies that settle accounts in December, which led to an increase in profit through adjustments of the copper price differential. There is no such factor expected in the latter half of the year.

On the other hand, we expect the startup of the Quebrada Blanca Copper Mine and the Cote Goldmine over the course of the latter half of the year to make contributions and act as positive factors. Additionally, we expect both the quantity differential and the unit cost differential to improve thanks to plans to increase production at THPAL in the Philippines compared to the first half of the year and the plans to mine high grade sections at the Candelaria copper mine. In addition to this, the scheduled exercise of repurchase option of a portion of interests we hold in the Cote Goldmine, as shown in the press release released by IAMGOLD, is included in this impact.

Q) How should we think profit and loss exclude temporary factors in the second half of the year?

A) If we exclude the one-off market factors, such as metal prices, the foreign exchange and other special factors from the operating results forecast for the second half of the year, we believe that we will see an increase in profit and loss exclude temporary factors compared to the first half of the year. This is because we expect to see contributions made by large scale projects like Quebrada Blanca Copper Mine and Cote Goldmine, an increase in production volume at Candelaria copper mine through the mining of high-grade sections, and an increase in production in the latter half for THPAL, which saw reduced production in the first half of the year.

Q) What about prospects for next fiscal year?

A) While we cannot say anything substantial about the next fiscal year, as we are yet to move into the planning stage, we are expecting Quebrada Blanca Copper Mine and Cote Goldmine to bring increased production. Additionally, current demand for battery materials is healthy, and we are progressing with the startup of our new plant according to plan.
On the other hand, the increase in production volume from the mining of the high grade sections of the Candelaria copper mine this fiscal year are one-off factors in FY2024, and we forecast that levels will return to normal in FY2025.

[Mineral Resources Segment Profit and Loss]

Q) In the comparison between the November and August full-year forecasts, there is no change in gross profit. On the other hand, segment profit and loss is improving by ¥14.0 bn. Why is that?

A) The impact of the exercise of repurchase option of a portion of Cote Goldmine interests by IAMGOLD is having a significant impact.

Q) What are the trends in mining costs for the mines by region?

A) While the South American region is stable compared to the North American region, North America's Morenci copper mine is being impacted by increasing costs of material, labor and subcontracting. Additionally, repair costs to keep equipment running stably are increasing. These high costs are an important theme for the management of the operator, and we are working to keep them down.

[Smelting and Refining Segment Profit and Loss]

Q) Why is profit and loss before tax in the red for the latter half of the year?

A) The impact of the conditions in the market is significant. First, the impact of the market on inventory evaluations through expecting an appreciation of the yen from October to March is significant. Further, we expect prices to drop for nickel and cobalt, which will also have an impact.
From an operation standpoint separate from conditions of the market, our primary nickel smelting and refining plant and Toyo Smelter & Refinery, which saw its first furnace repair in 12 years in FY2023, are operating smoothly. Additionally, production at THPAL is planned to increase in the latter half of the year. We will ensure that we take advantage of factors leading to an increase in profits, like a decline in costs of electric power, which are significant factors in production costs, as well as the cost of materials per unit.

Q) Why is the deterioration of the unit cost differential for nickel when compared to the August forecast?

A) The impact of two of our bases in the Philippines seeing reduced production and sales was significant against the August forecast. At THPAL, we are planning for recovery in the latter half of the year. However, we do not expect that we will be able to entirely make up for the reduced production caused by bad weather and other issues in the first half of the year. At CBNC, we were using mineral ore that was difficult to process in the first half of the year, and we expect that to continue into the latter half of the year. However, overall downward trends in material costs per unit for both bases are making contributions to unit cost differential improvements.

Q) Is there going to be an impact in FY2024 from the reduced TC/RC in copper?

A) We have three to four months' worth of inventories, so we do not see any significant impact this fiscal year. Additionally, we have stakes in copper mines, and we are smelting and refining copper concentrates from the interests we own in them. So the difference will be based on whether we calculate TC/RC fluctuations into profits for the resource business or the smelting and refining business, and looking at our company as a whole, we see the impact of the reduction as limited.

Q) What is the reason for the fluctuations in equity in earnings of affiliated companies for the smelting and refining segment?

A) This is the result of the Figesbal and NAC which own nickel mines being impacted by the drop in nickel prices.

[Materials Segment Profit and Loss]

Q) Why is profit and loss before tax in the red for the latter half of the year? Assuming there are no fluctuations in the conditions of the market after customer inventory adjustments come full cycle, what sort of profit level should we expect?

A) The primary reason for the decline in profit is the significant impact on the income and expense differential brought about by the drop we expect for metal prices. Additionally, the substantial upfront costs for silicon carbide (SiC) in advanced materials and battery materials are also having an impact. Hypothetically, if the conditions of the market were to recover and we were to assume that metal prices would hold at a certain level, we believe that we would be able to achieve profit before tax at ¥12.0 bn to ¥13.0 bn if these upfront costs are absorbed. However, it is difficult to predict how much the conditions in the advanced materials market will recover in FY2025.

Q) The number of EVs sold globally from July to September in 2024 was up for the first time in a while. However, if we look at it from January to September, the sales are still at a level below that of what we saw in the same period of last year, which makes the EV market feel somewhat soft. While you are currently working to reinforce battery materials production capacity, is there a risk that this could lead to excess?

A) We are aware of a slowing down in the spread of EVs globally. But we believe demand is inconsistencies across the board. Either way, demand is currently healthy for our battery materials business, and we are bringing the schedule forward for some of the lines at our new plant to meet customer demand. We are also in talks with potential customers for the remaining lines.