FY2021 Mineral Resources Group Business Segment IR Meeting: Q&A

【Date】	Thursday, December 9, 2021 13:15～14:45 JST	
【Attendees】	Group CEO	Norikazu Tanaka
	General Manager, Group CEO Office	Keiichi Shiobara
	Division COO, Mineral Resources Trading Div.	Koichi Seri
	Division COO, Mineral Resources Investment Div.	Satoshi Koyama
	General Manager, Natural Gas & Mineral Resources Administration Dept.	Hiroshi Kawamoto
	General Manager, Head of Investor Relations	Tatsuhiko Terada

＜Q&A＞

Q. You mentioned battery materials such as lithium and nickel, as well as platinum, are new growth areas with high potential. Is it possible to enter these areas where mineral deposits are geographically concentrated and the market is consolidated by major mining companies?

A.

- Yes, we believe it is possible. This is especially so for lithium, which has a relatively low entry barrier. There is a good chance for us to play a role, while the supply network is being developed as global demand grows in the future. On the other hand, the nickel business seems somewhat harder to enter compared to lithium. The platinum business will be more long-term, but we believe the entry barrier is higher than lithium due to the consolidated nature of the market.

- Generally speaking, it can be said that these businesses are consolidated and hard to enter. However, based on our past experience, we know that as industries develop, quality assets can be put on offer in the market, due to their owners facing certain situations. We will make necessary preparations so that we can capture such opportunities.

Q. The pricing of metallurgical coal has been highly volatile this fiscal year. What is your outlook on future pricing, and what assumptions are you using in your business plans?

A.

- The FOB Australia index price was 110 dollars / ton at the start of this fiscal year, then soared to 400 dollars / ton, and has adjusted to around 340 dollars / ton in December. In the short term, China's unofficial import restrictions on Australian Coal will have a significant impact on the market, and we expect the restrictions to continue for the time being. We will not comment on our future pricing assumptions, but we do note that recent price levels have remained high.

Q. MC's copper assets are located in Peru and Chile. Could the political instability in these countries be a cause for concern regarding the option to maintain or expand production volume? The development options of Anglo American Sur have been tabled for some time, but what are the challenges in advancing forward?

A.

- In Chile, we will be closely monitoring the outcome of the upcoming run-off of the Presidential election, while in Peru we will see what kind of policies the new President will implement with regards to mineral resources including copper.

- The development option of Anglo American Sur is currently in the pre-feasibility study ("Pre-F/S") phase. We need to see how discussions on new legislation such as the glacier law in Chile will proceed, as it may affect the development of the option. However, the amount of resources near to the existing operation has already been confirmed, and advantages of sharing infrastructure with it can be expected. We will continue to work on the Pre-F/S.

Q. What is your outlook on the timing of the Final Investment Decision ("FID") and the commencement of production at new mining sections within the development options of Anglo American Sur?

A.

- The best-case scenario is to develop the new mining sections one by one, once every 5-6 years after the start of operations in Quellaveco.

- However, because the investment decision will be made after confirming the economics with all the partners after the Pre-F/S and the ensuing feasibility study ("F/S"), the FID timing is not fixed as of today.

Q. In this fiscal year, the demand/supply balance for metallurgical coal is extremely tight, causing a steep rise in prices. What is your outlook on the supply volume of Australian coal for the next fiscal year, compared to this fiscal year?

A.

- One of the reasons for the FOB Australia index price reaching the peak of above 400 dollars / ton at one point is the supply constraints due to accidents and production issues etc. at some Australian suppliers, excluding BMA.

- As for BMA, there was significant impact this year from China's unofficial import restrictions on Australian coal. BMA's annual production volume (100% basis) exceeds 60 million tons, which makes up approximately 30% of the global seaborne market, and the sales to China accounted for 30% of the total volume before import restrictions were imposed. Due to the import restrictions, prices fell to close to 100 dollars / ton in early 2021, but BMA rebuilt its sales portfolio within one year, by switching the volume that used to be sold to China to other countries. Thanks to such efforts, BMA's total production volume was not seriously affected, despite the switch in customers.

- This fiscal year, there were concerns regarding metallurgical coal supply capability in multiple countries. Recovery in production of these countries will require close monitoring. Based on the assumption that the supply situation of major supply countries, such as Canada and Mongolia, recover to normal levels along with Australian production, global supply may increase from this fiscal year.

Q. The fall in Australia's supply capability was not just due to China's import regulations, but also because of Covid-19, as well as a roof-fall at another underground mine. I hear that Australia's iron ore industry has been affected by factors such as restrictions on foreign workers entering the

country due to the pandemic, but is the same thing happening in the metallurgical coal industry?

A.

- Supply volume declined in mines near BMA, due to operational issues as well as the roof-fall.

- As of today, the impact from Covid is less serious in Central Queensland, where BMA's mine sites are located, compared to Western Australia. Although we believe some of the workers in Australian coal mines have been affected, especially those who work as the so called fly-in / fly-out style in which workers travel from other cities by plane and work for a certain period and then take a holiday, the overall impact so far on metallurgical coal operators has been not significant at present.

Q. In terms of your revenue structure on page 14 of the presentation material, the ratio of "Decarbonization" falls to less than half in your future image, but are you considering asset divestitures in this field? If the overall revenue is going to grow, are you expecting the CO2 emission volume for the Mineral Resources Group to increase?

A.

- Since booking the impairment in FY2015, we have thoroughly executed and fully completed the portfolio optimization to which we committed. From now on, we see ourselves as being in the growth phase, in which we proceed with transforming the portfolio, including the addition of new commodities. Therefore, we have no plans to divest assets, including "Decarbonization"-related assets.

- In the graph showing the future image of our revenue breakdown, you can see how the overall pie is expanding. The ratio of "Decarbonization" will decline not because we will shrink the business, but because "Electrification" will grow and its ratio will increase.

- We believe carbon neutrality is achievable even as we move ahead with the transformation of our portfolio. The current volume of CO2 emissions by the Mineral Resources Group is approximately 3.8 million tons[*1], based on our stakes in projects. Through reduction initiatives on site such as shifting power sources to renewable energy, and operating heavy machinery without relying on diesel fuel, we expect to reduce the

3.8 million tons to around 0.8 million tons*2 by 2050.

*1 Calculation based on equity stake

*2 Estimate based on Greenhouse Gas Emission Calculation and Reporting Manual (Ministry of the Environment and Ministry of Economy, Trade and Industry)

Q. What expertise and strengths of MC can you utilize when promoting initiatives in new domains, such as Direct-Reduced Iron (DRI), battery materials and precious metals?

A.

- As explained, this fiscal year marks the end of the portfolio optimization phase, and we are now about to enter the growth phase. As we move on to the growth phase, we strongly feel we need to accurately grasp changes that are taking place in society. For example, it is hard to imagine the demand for metallurgical coal disappearing in the next 10, 20 years, but in the more long-term, the industry structure is expected to change, such as the emergence of a hydrogen economy. We must adjust our portfolio so that we can generate cash for that time. We expect our core products at that time to be copper, iron ore and aluminum, but we must also be mindful of the tide of the times, and focus on businesses related to the "Circular Economy".

- DRI is a new business area for us, while CCUS, which we are working on as part of our "Decarbonization" initiatives, may also seem to be a new challenge for us. On the other hand, we have experience in a project to develop nickel, which is a battery material, and we are involved in the trading business of precious metals and have established a certain level of presence in the industry. However, we were not able to engage in these businesses at a large scale due to capital restrictions. The businesses may seem to be new areas, but we plan to engage in them once again, based on our determination to find new seeds of growth, in accordance with the tide of the times.

- We believe we have a certain level of expertise in "Electrification" and "Circular Economy". As for "Decarbonization", we will fulfill our responsibility to stably supply metallurgical coal and iron ore, while expanding into areas such as DRI and CCUS.

Q. What is your business outlook for DRI? What value can MC provide?

A.

- Production volume of DRI is still around 100 million tons, and only makes up a small part of total crude steel production. However, with the anticipated rise in the ratio of electric furnaces, we expect the production of DRI to increase. Moreover, the mainstream method of production today is to use natural gas as the reducing agent, but we expect natural gas to be replaced with hydrogen in the future.

- In order to ramp up production of DRI, there will be a further need for high quality iron ore. IOC, our Canadian iron ore business, has been supplying materials for DRI over many years. We therefore believe we can leverage on our strengths in the DRI business through the supply of materials.

Q. Today, there is a surge in the pellet premium and metallurgical coal prices. What is your long-term perspective on costs, considering the future price of hydrogen?

A.

- We must carefully consider the level of carbon pricing and the pellet premium. However, our iron ore businesses in Canada (IOC) and Chile (CMP) have been producing pellets for around 50 years, and we believe we have a certain level of competitiveness. Moreover, even more value will be placed in high quality iron ore in the future.

Q. What is your business strategy for metallurgical coal in the future, including from an ESG perspective? Will you consider joint ownership with domestic steel companies?

A.

- As long as the steelmaking method of using metallurgical coal as the reducing agent continues to exist, the metallurgical coal business will continue to be a core business to us, and we do not plan to divest metallurgical coal assets. Our basic policy for the metallurgical coal business is to continue our efforts to provide stable supply, as long as we can accommodate the needs of society.