

August 7th, 2020

(English translation released on September 4th, 2020)

Explanation Script of Telephone Conference for Consolidated Financial Results for the First Quarter of the Year Ending March 2021 (FY2020)

I. General Overview

The following is an overview of SMM's consolidated financial results for the first quarter (Q1) of the year ending March 2021 (FY2020) as announced today. Please take a look at the cover summary on the report of consolidated financial results.

1. Consolidated financial results for Q1 FY2020: Overview of business performance

1) Consolidated business results for Q1 FY2020

The consolidated business results for Q1 FY2020 saw a drop in income figures and a decline in profit year-on-year.

- ① Sales dropped by ¥10.1 bn to ¥196.9 bn year-on-year.
(Gross profit dropped by ¥4.3 bn to ¥18.7 bn year-on-year.)
- ② Pre-tax profit dropped by ¥14.4 bn to ¥3.5 bn year-on-year.
- ③ Profit for this quarter attributable to owners of parent dropped by ¥14.1 bn to ¥0.2 bn year-on-year.

2) General briefing

The following is a general briefing on the financial results for the first quarter of this fiscal year. Please take a look at the cover summary on the summary of consolidated financial results or the top of page 1 in the Supplementary Explanation for Q1 FY2020 financial results.

[Consolidated Financial Results for Q1 FY2020, Performance Briefing & Comparison with Q1 FY2019]

① Metal prices in Q1 FY2020

Regarding copper and nickel prices, this quarter started with significant declines following concerns about economic activity due to the spread of the COVID-19 from Q4 FY2019. However, economic activity restarted in China, Europe, and the United States during the quarter and prices hit the bottom and started to recover. On the other hand, gold prices remained on an upward trend due to uncertainty about the outlook for the global economy following the outbreak. As a result, although copper and nickel prices recovered this quarter, the average price was lower than the same period last year, and the gold price was higher than the same period last year.

② Status of Q1 FY2020 consolidated pre-tax profit

In this quarter, under the metal price environment mentioned above, although the market factors improved year-on-year by ¥2.8 bn due to the rise in the gold price and by ¥1.7 bn due to the upward trend in the nickel applied price, they decreased by ¥15.2 bn due to the large

drop in copper price. The market factors as a whole have deteriorated by -¥11.1 bn. In addition, there were deteriorating factors such as a cost differential of -¥3.0 bn, foreign exchange loss of ¥1.1 bn, and a decline in profit of the materials business of ¥0.9 bn. On the other hand, although the quantity differential was +¥1.9 bn, as a whole, due to the deterioration of market factors, this quarter's consolidated pre-tax profit decreased by ¥14.4 bn to ¥3.5 bn year-on-year.

3) Individual Topics

The following covers a range of topics in the consolidated financial results for the first quarter of this fiscal year.

① Overseas copper mines

Excluding Cerro Verde, where its operation had temporarily transitioned to a care and maintenance status in the middle of March following the declaration of national state of emergency due to the COVID-19 outbreak, the impact of the COVID-19 on the production at each mine this quarter was minimal, and production improved year-on-year. On the other hand, the profit and loss at each mine in this quarter saw a large year-on-year decrease mainly due to the impact of falling copper prices.

Morenci

In terms of the production volume for the current quarter, leaching operations were strong following on from FY2019, and due to the continued high level of cathode production, it increased by 4 thousand tonnes to 109 thousand tonnes year-on-year. On the other hand, due to the decline in copper prices and a worsening cost differential, gross profit in this quarter decreased year-on-year.

Sierra Gorda

Due to continued stable operations and improved copper grade, the mineral ore processing volume increased, and the production volume this quarter increased by 7 thousand tonnes to 34 thousand tonnes year-on-year. On the other hand, equity method profit and loss in this quarter was significantly affected by falling copper prices and decreased by ¥2.0 bn to -¥3.4 bn year-on-year.

Cerro Verde

Due to its operation being temporarily transitioned to a care and maintenance status on March 16 following the declaration of national state of emergency resulting from the COVID-19 outbreak, the production volume in this quarter decreased by 26 thousand tonnes to 92 thousand tonnes year-on-year. Also, the equity method profit and loss in this quarter declined by ¥5.0 bn to a year-on-year loss of ¥0.9 bn due to the production cuts and lower copper prices.

② Taganito HPAL

Since the planned shut-down period was partially extended as the COVID-19 outbreak expanded, the production volume for this quarter decreased by 2.1 thousand tonnes compared to 7.0 thousand tonnes year-on-year. It should be noted that although the planned shut-down

period was extended, operations restarted earlier than expected at the time of the financial results announcement in May.

③ CBNC (Coral Bay)

The impact of the COVID-19 was minimal and the production volume this quarter increased year-on-year by 0.7 thousand tonnes to 5.3 thousand tonnes.

④ Materials business

Full-year sales increased by ¥3.6 bn to ¥54.5 bn year-on-year.

On the other hand, profit and loss for the materials business segment decreased by ¥0.9 bn to a year-on-year loss of ¥0.2 bn due to factors such as deterioration of inventory evaluation of battery materials.

2. Consolidated business performance forecast for FY2020

1) Overview of full-year consolidated business performance forecast

The full-year consolidated business performance forecast was undetermined as of the financial results announcement for FY2019 given in May of this year. At this time, we estimated what we believe to be a reasonable scope based on the information available at present and performed our calculations accordingly, giving consideration to the most recent level of prices for the main non-ferrous metals and with a basis in the most recent results of production volume and sale volume of our main products.

Please take a look at the lower part of the cover summary on the summary of consolidated financial results, page 5 of the attachments to the summary of consolidated financial results, or pages 5-6 of the supplementary materials to the financial results.

Regarding the full-year consolidated results, we forecast that:

- ① Full-year sales will drop by ¥37.6 bn year-on-year to ¥835.0 bn.
- ② Pre-tax profit will drop by ¥31.0 bn year-on-year to ¥48.0 bn.
- ③ Profit for this fiscal year attributable to owners of parent will drop by ¥28.6 bn year-on-year to ¥32.0 bn.

The metal prices and exchange rates from Q2 onward used as the foundation for forecasting the business performance are: copper \$6,000/t, gold \$1,800/toz, nickel \$6.0/lb, cobalt \$13.5/lb, exchange rate ¥107/\$. This is described on page 5 of the attachments to the summary of consolidated financial results and the lower part of page 1 of the supplementary materials to the financial results.

Since metal prices are expected to decline year-on-year except for gold prices, the consolidated full-year pre-tax profit is forecast to be: price and condition differential -¥15.5 bn, exchange rate -¥1.8 bn, inventory evaluation -¥5.0 bn, meaning that we anticipate a significant deterioration of -¥22.3 bn in market factors as a whole. We also anticipate a temporary decrease in profits of ¥9.0 bn due to the one-off nature of the gain on sale of fixed assets for Taihei Metal Industry Co., Ltd.

from which we earned profits in FY2019. Adding this factor explains the overall profit decline. In terms of other factors, there was a ¥3.1 bn decline due to deterioration in quantity differential, and in the materials business, although demand for 5G infrastructure and PC-related products is strong, for sales of products for smartphones and in-vehicle there was a decrease in profit of ¥3.3 bn due to the difficult situation. Also, while there is a temporary factor such as Quebrada Blanca II suspension cost of -¥8.0 bn associated with the COVID-19 outbreak, in terms of cost differential, this will be offset by a +¥16.9 bn profit increase factor.

From the above, we expect the full-year consolidated pre-tax profit to be ¥48.0 bn, a year-on-year decrease of ¥31.0 bn.

2) Individual Topics

The following covers a range of topics in the full-year consolidated business performance forecast.

① Overseas copper mines

Although the full-year production volume is expected to decrease year-on-year for Cerro Verde, for which temporarily transitioned to the care and maintenance status in the first half of the fiscal year, and Morenci, for which we reviewed the operating plan for FY2020, the production volume for all the other mines for the full year is expected to be about the same or higher than FY2019. On the other hand, excluding Sierra Gorda, we expect a decrease in the profit and loss for each mine year-on-year mainly due to the impact of falling copper prices.

Morenci

In terms of the forecast for full-year production volume, while we are continuing a high-level of cathode production thanks to favorable leaching operations, given the impact of the COVID-19 and in anticipation of economic uncertainties, we have reviewed the operation plan for FY2020 and now anticipate a year-on-year reduction of 31 thousand tonnes to 430 thousand tonnes due to reduced operating rate and investment activities. However, the reference production volume announced in May will be exceeded by 10 thousand tonnes.

On the other hand, in terms of expected sales volume, since the full-year production volume for FY2019 greatly exceeded the initial plan causing some sales to be delayed to FY2020, the full-year sales volume for this fiscal year will exceed the production volume and is expected to increase year-on-year by 26 thousand tonnes to 463 thousand tonnes. This means that the reference sales volume announced in May will be exceeded by 15 thousand tonnes.

In terms of the gross profit for the full year, the increase in sales volume will also be greatly affected by the decline in copper prices and we expect a slight year-on-year decline in profit.

Sierra Gorda

Due to continued stable operations and high copper grade, the ore processing volume increased, and the production volume this quarter is expected to increase year-on-year by 36 thousand tonnes to 144 thousand tonnes, making it the same level as the reference quantity announced in May. Equity method profit and loss for this quarter is expected to increase by

¥3.9 bn year-on-year to -¥8.0 bn due to increased production and sales.

Cerro Verde

As mentioned above, after transitioned to care and maintenance status on March 16, we resumed operation on May 21 upon government approval. However, since the operation plan for FY2020 was reviewed, full-year production is expected to decrease year-on-year by 96 thousand tonnes to 359 thousand tonnes. This means that the reference production volume announced in May will be missed by 21 thousand tonnes. This fiscal year's equity method profit and loss is also expected to decrease year-on-year by ¥7.6 bn to ¥2.0 bn due to reduced production and the impact of falling copper prices.

② Taganito HPAL

As mentioned above, although operations had started earlier than expected at the time of the financial results announcement in May, operations did not fully recover throughout the year and the production volume for FY2020 is expected to decrease year-on-year by 1.3 thousand tonnes to 31.0 thousand tonnes. This means that the reference production volume announced in May will be exceeded by 1.1 thousand tonnes.

On the other hand, the sales volume for the full year is expected to exceed the production volume as it has been brought forward, and we expect to see a year-on-year increase of 5.0 thousand tonnes to 33.9 thousand tonnes. This means that the reference sales volume announced in May will be exceeded by 3.5 thousand tonnes.

③ CBNC (Coral Bay)

Since we anticipate smooth operations for the full fiscal year compared to FY2019, we expect the production volume for FY2020 to increase year-on-year by 2.4 thousand tonnes to 21.5 thousand tonnes. This means that the reference production volume announced in May will be maintained at the same level.

④ Materials business

Full-year sales for the entire materials segment are expected to decrease year-on-year by ¥5.6 bn to ¥223.0 bn.

Profit and loss for the materials business segment is expected to decrease year-on-year by ¥3.3 bn to ¥2.0 bn mainly due to reduced sales.

⑤ Status of impact of the COVID-19 outbreak in the current fiscal year

Regarding the impact of the COVID-19 outbreak on the Group's business, although there are various aspects such as production operations, demand sales, and impact on the progress of projects, here, we will highlight the major impacts related to production operations such as shut-down of operations. The specific contents are as follows:

By business type	Company/Base	Details and extent of impact
Minereal Resource: Overseas copper mine	Cerro Verde	Reduced production due to its operation being temporarily transitioned to a care and maintenance status from March 16 to May 20 2020
Smelting and refining: Overseas base	Taganito HPAL	Partially extended planned March/April shut-down period

3. Dividends

This section concerns dividends.

Please take a look at the lower part of the cover summary on the summary of consolidated financial results and the “Notice Regarding Earnings and Dividend Forecast” that was announced today.

Regarding the dividend for FY2020, we will apply a dividend payout ratio linked to business performance of 35% or more based on our expected business performance of net income ¥32.0 bn, a decrease compared to FY2019. We expect that the dividend will be reduced compared to FY2019 with an interim dividend of ¥10/share and an end of year dividend of ¥31/share, giving a total of ¥41/share.

II. Breakdown of Gross Profit and Segment Profits, and Other Details

Please look at the Supplementary Explanation for the Financial Summary of the Q1 FY2020 Financial Results.

1. Q1 FY2020 results/comparison with FY2019 result and FY2020 forecast in Aug on page 1

1) Q1 FY2020 financial results vs. Q1 FY2019 financial results

The upper table is a comparison of Q1 FY2020 cumulative financial results vs. Q1 FY2019. In particular, please note the changes (1) – (2).

Metal prices and exchange rates are as shown at the bottom of the tables.

Copper was \$5,341/t, a \$773/t decrease year-on-year. After that, it rose against the backdrop of supply concerns due to expansion of the COVID-19 outbreak in South America, and the price is currently in the mid \$6,400 range.

Nickel was \$5.53/lb, a \$0.03 decrease year-on-year. It recovered to \$6 in early July and is currently rising to the mid \$6 range against the backdrop of improving economic indicators in China and Europe (LME+SHFE inventory was 257 thousand tonnes at the end of March→270 thousand tonnes at present).

Gold was \$1,710/toz, a significant \$400 increase year-on-year. Gold has been on an upward trend in Q1 FY2020 due to the impact of the COVID-19 outbreak, and has continued to rise since then due to the inflow of speculative funds following the expansion of the outbreak. Buying is

continuing with the highest ever recorded prices in the gold market, such as hitting the \$2,000/toz range on August 5, and gold is trending at historically high prices.

Cobalt was \$14.97/lb, a \$0.25 decrease year-on-year. The price was around \$15 in Q1 FY2019, meaning that it was generally stable, but Q1 FY2020 showed a somewhat soft price movement and the average price saw a year-on-year decrease. The price for Standard-Low in the most recent Metal Bulletin from August 6 was \$14.60/lb.

The average exchange rate was ¥107.62, representing a ¥2.29 year-on-year increase in the strength of the yen. Although economic activity resumed in regions such as China, Europe, America, and Japan in Q1 FY2020, the yen appreciated slightly and the dollar weakened due to concerns about a second wave of the COVID-19. In terms of the average exchange rate in Q1 FY2020, the yen appreciated year-on-year. It is currently hovering at around ¥106.

Next, we will examine the business performance. Sales for Q1 FY2020 dropped by ¥10.1 bn compared to Q1 FY2019 to ¥196.9 bn, resulting in pre-tax profits of ¥3.5 bn, marking a ¥14.4 bn year-on-year decline in profit.

As per the footnotes for the table, change analysis shows that the impact of market factors was -¥11.1 bn. A breakdown of this reveals that the impact of metal price and exchange differential was -¥11.1 bn, which includes -¥15.2 bn from copper, +¥2.8 bn from gold, +¥1.7 bn from nickel, and -¥0.5 bn from cobalt among other factors. It can be seen that most of the impact was due to the negative effect of the decline in copper prices. Foreign exchange had an impact of -¥0.4 bn, and inventory evaluation resulted in a year-on-year increase of +¥0.4 bn.

Quantity differential showed a positive improvement of +¥1.9 bn. This is thanks mainly to a year-on-year increase in sales for the Hishikari Mine, which continues to operate smoothly aiming for annual sales of 6t. Regarding other foreign exchange gain and loss, in terms of the ¥1.1 bn deterioration and cost differential caused by yen appreciation, due to the copper production reduction at Cerro Verde compared to Q1 FY2019 following the COVID-19 outbreak, and because the unit cost deteriorated at THPAL and Morenci copper mine, it deteriorated by ¥3.0 bn.

The materials business saw a ¥0.9 bn year-on-year decline in profit. This is mainly due to the impact of deterioration in inventory evaluation of battery materials and reduced sales of in-vehicle products despite a year-on-year increase in sales of battery materials and powder materials, etc.

2) FY2020 expected financial results (as of Aug) vs. FY2019 financial results

Next, please see the table at the bottom of the first page which describes the full-year financial forecast for FY2020 announced at this time and the difference versus the FY2019 financial results.

The metal prices and exchange rate used for the business performance forecast are described at the bottom of the table.

After Q2 FY2020, we assume copper to be \$6,000/t, nickel \$6.00/lb, gold \$1,800/Toz, cobalt \$13.5/lb, exchange rate ¥107/\$. As a result, for the full-year FY2020 financial forecast announced in August shown in column (1), we assume copper to be \$5,835/t, nickel \$5.88/lb, gold \$1,778/Toz, cobalt \$13.87/lb, exchange rate ¥107.16/\$.

Comparing with the actual values in FY2019, copper reduced by \$25 from \$5,860, nickel reduced by \$0.47 from \$6.35, and cobalt reduced by \$1.89 from \$15.76, with each metal showing a downward trend, while gold increased by \$316 from \$1,462. Also, regarding the exchange rate, we assume that the yen will rise by ¥1.58 from ¥108.74.

Based on these assumptions, the forecast for the full-year financial results for FY2020 shows that pre-tax profit is expected to decline year-on-year by ¥31.0 bn to ¥48.0 bn, as shown by the changes (1) – (2). This change analysis is as per the footnotes for the table.

First, the influence of market factors is -¥22.3 bn. A breakdown of this reveals that the impact of metal price and exchange differential was -¥15.5 bn, which includes -¥11.1 bn from copper, +¥6.0 bn from gold, -¥7.2 bn from nickel, and -¥3.9 bn from cobalt among other factors. We expect the effect of the exchange rate to be -¥1.8 bn and inventory evaluation to be -¥5.0 bn.

We expect the effect of the quantity differential to be -¥3.1 bn. This is mainly due to the impact of an expected year-on-year decrease in sales at the Cerro Verde copper mine as well as negative results to be recorded, as far as analysis is concerned, for the Sierra Gorda copper mine due to continued losses despite an expected year-on-year sales growth. In terms of cost differential, due to improvement in unit cost at Sierra Gorda copper mine (which we expect to increase production year-on-year), Toyo Smelter & Refinery, and CBNC, etc., we expect a turnaround of +¥16.9 bn.

For the materials business, we expect a year-on-year decline of ¥3.3 bn in profit. Although demand for 5G infrastructure and PCs is strong, the situation regarding sales of products for smartphones and in-vehicle is difficult.

Furthermore, the profit of ¥9.0 bn recorded in FY2019 from the sale of fixed assets of the former subsidiary Taihei Metal Industry Co., Ltd. will no longer be a factor and appear as a corresponding decline in profit in FY2020. Also, as a temporary factor, in the Quebrada Blanca II project, since the suspension costs from the COVID-19 outbreak were recorded as period costs, we expect a profit reduction factor of ¥8.0 bn.

2. Page 3: Results comparison with Q1 FY2019 by segment (change in gross profit)

Next, please turn to page 3. It shows a comparison with Q1 FY2019 by segment.

First, gross profit in the mineral resources segment shown in the upper left table was ¥9.7 bn, about the same level as Q1 FY2019.

The center and below on the same page show an explanation of changes in gross profit. The Hishikari Mine saw a year-on-year upturn of ¥5.3 bn. The quantity differential improved by ¥2.1 bn as sales volume saw a year-on-year increase of 0.6 tonnes to 1.9 tonnes, and the price differential improved by ¥2.6 bn thanks to a rise in the gold price.

On the other hand, overseas copper mines, mostly consisting of Morenci copper mine, were down by ¥5.1 bn. A fall in the price of copper that resulted in a ¥2.9 bn drop and a ¥2.1 bn drop in unit cost differential resulted in worse performance year-on-year.

Next, gross profit in the smelting and refining segment was ¥8.4 bn, marking a ¥0.3 bn year-on-year decline in profit. A breakdown of this is shown in the table at the bottom, with copper-related profits improving by ¥0.8 bn and nickel-related profits falling by ¥0.6 bn.

The main elements of the ¥0.8 bn improvement in copper-related profits are as follows: the unit cost differential deteriorated by ¥0.4 bn, inventory evaluation improved by ¥1.7 bn, and other factors deteriorated by ¥0.4 bn. Foreign exchange losses of ¥0.1 bn were recorded under others.

The main elements of the ¥0.6 bn deterioration in nickel-related profits are as follows: the quantity differential improved by ¥0.5 bn due to increased year-on-year sales at THPAL and other factors, and the condition differential improved by ¥0.7 bn. Due to prolonged shut-down of operations, production volume at THPAL saw a year-on-year reduction in Q1 FY2020. However, due to delayed shipments, sales volume increased year-on year, causing the quantity differential to improve. Inventory evaluation deteriorated by ¥1.2 bn and other factors deteriorated by ¥0.5 bn. Foreign exchange losses of ¥0.2 bn were recorded under others.

3. Page 4: Results comparison with previous year of materials business (sales by product subsegment)

Next, please turn to page 4. We will explain the sales by product subsegment for the materials business.

Sales in the materials business overall were ¥54.5 bn, marking an increased income of ¥3.6 bn year-on-year.

Sales of battery materials increased by ¥0.8 bn to ¥28.0 bn year-on-year since we were in the process of launching the NCA production increase system in Q1 FY2019. Regarding powder materials and crystal materials, while there were impacts from inventory adjustments in Q1 FY2019, due to factors such as the rapid recovery from COVID-19 in China (the main market) this quarter, income from powder materials increased by ¥1.2 bn to ¥8.0 bn, while income from crystal and other businesses increased year-on-year by ¥0.6 bn to ¥13.3 bn. Income figures also increased to ¥5.2 bn for package materials due to a ¥1.0 bn rise in sales.

Gross profit for material segment, shown on page 3, declined by ¥1.1 bn year-on-year to ¥3.6 bn

and segment profit and loss declined by ¥0.9 bn to -¥0.2 bn year-on-year.

4. Page 4: Results comparison with FY2019 by segment (equity in earnings of affiliated companies)

Next, we will explain the table at the bottom of page 4 showing equity in earnings of affiliated companies.

Overall equity in net income of affiliates saw an ¥8.4 bn year-on-year decrease in profit to -¥3.6 bn.

The major negative factor was copper. Profit decreased by ¥8.7 bn to -¥4.4 bn year-on-year mainly due to the impact of falling copper prices.

Among copper-related entities, at Cerro Verde, production fell and sales decreased year-on-year due to the impact of transitioning to care and maintenance status. When combined with the lower copper prices, profits decreased by ¥5.0 bn to -¥0.9 bn year-on-year. Regarding Candelaria and Ojos del Salado, Candelaria saw increased year-on-year production and sales, but profit decreased by ¥0.6 bn to ¥0.2 bn. At Sierra Gorda, production increased due to operational improvements and stabilization and sales also increased. However, due to the impact of falling copper prices and other factors, profit declined by ¥2.0 bn to -¥3.4 bn. Regarding Acids and others, given that Jinlong Copper and Mitsui Sumitomo Metal Mining Brass & Copper experienced a decline in profit, profit declined by ¥1.1 bn to -¥0.3 bn year-on-year. PTVI and other nickel-related entities saw a ¥1.0 bn year-on-year increase in profit to ¥0.6 bn. N.E. Chemcat and other companies saw a ¥0.7 bn year-on-year decline in profit to ¥0.2 bn.

5. Page 4: Main changes in finance income/cost, and other income/cost

Beneath equity in earnings of affiliated companies is [Main changes in financial income/cost and other income/cost], but there were no special factors during the first quarter of FY2020, so the explanation is omitted here.

6. Page 5: Comparison with forecast by segment FY2020 expected financial results (as of Aug) vs. FY2019 financial results

Next, please turn to page 5.

This shows a comparison of the business performance forecast for FY2020 with the financial results for FY2019.

Note that the business performance forecast figures are rounded to the nearest billion yen.

First, please look at the gross profit in the table at the top, focusing on the fiscal year (1) and the changes (1) – (2).

Gross profit in the mineral resources segment was ¥46.0 bn, marking a ¥4.6 bn year-on-year increase in profit.

The center and below on the same page show an explanation of changes in gross profit.

Production and sales at the Hishikari Mine were unchanged at 6 tonnes annually, but due to the impact of the gold price increase, the price differential improved by ¥6.0 bn and profit is expected

to increase by ¥5.8 bn.

Among the overseas copper mines Morenci and Northparkes, Morenci had the largest effect. Production reduced year-on-year but due to a review of the operational plan, unit cost differential is expected to improve by ¥1.4 bn and quantity differential is expected to improve by ¥0.6 bn due to higher sales. However, due to lower copper prices, the price differential is expected to worsen by ¥3.1 bn, causing profit to decrease by ¥1.4 bn.

Next, gross profit in the smelting and refining segment is expected to be ¥44.0 bn, marking a ¥7.4 bn year-on-year decline in profit.

A breakdown of this is shown in the table at the bottom, with copper-related profits falling ¥2.9 bn and nickel-related profits falling ¥6.7 bn. For copper, Toyo Smelter & Refinery, which had a regular shut-down in FY2019, showed a year-on-year production increase, meaning that the unit cost differential is expected to improve by ¥3.8 bn. However, due to a ¥1.3 bn worsening in the price condition differential and a ¥4.2 bn worsening in inventory evaluation, profit is expected to decrease by ¥2.9 bn. Note that, within the -¥1.5 bn for others, the exchange rate difference is -¥0.3 bn.

For nickel, THPAL and electrolytic nickel are expected to increase in terms of year-on-year sales, meaning that the quantity differential is expected to improve by ¥3.0 bn. CBNC is expected to increase in production year-on-year, meaning that unit cost differential is expected to improve by ¥3.7 bn. On the other hand, due to the impact of falling nickel and cobalt prices, price condition differential is expected to worsen by ¥11.1 bn, causing profit to decline by ¥6.7 bn. Note that, within the -¥1.5 bn for others, the exchange rate difference is -¥0.7 bn.

7. Page 6: Comparison with forecast for materials business (sales by product subsegment)

Next, please turn to page 6. We will explain the sales by product subsegment for the materials business.

Sales in the materials business overall are expected to be ¥223.0 bn, marking a reduced income of ¥5.6 bn year-on-year.

In terms of full-year sales, the crystal and other businesses are expected to increase year-on-year by ¥6.0 bn to ¥61.0 bn. This is because sales of crystal materials, which are expected to hit the bottom in Q2, are expected to increase after this thanks to recovery in smartphone sales and higher uptake of 5G devices. For powder materials, although an adjustment will be made in Q2, sales were supported by demand for base stations and we expect an increase in income of ¥3.7 bn to ¥33.0 bn. On the other hand, battery materials were affected by customer inventory adjustments, and both production and sales are expected to decrease by Q2. Although we assume that the automobile market will recover after Q3 and assume full production and sales, we forecast a significant sales reduction for the full year and expect sales to fall by ¥13.9 bn to ¥113.0 bn year-on-year. Income figures also dropped by ¥1.4 bn for package materials to ¥16.0 bn.

Gross profit for the materials segment, shown on page 5, declined year-on-year by ¥2.1 bn to ¥18.0 bn, and segment profit and loss is expected to decline by ¥3.3 bn to ¥2.0 bn year-on-year.

8. Page 6: Comparison with forecast by segment (equity in earnings of affiliated companies)

We will explain the equity in earnings of affiliated companies shown at the bottom of the page. Here, the figures are rounded to the nearest 0.5 bn yen.

First, for overall equity in earnings of affiliated companies we expect profit to decrease by ¥10.2 bn year-on-year to -¥4.0 bn.

The major negative factors are copper-related entities and N. E. Chemcat and other companies. Copper-related entities saw a ¥4.3 bn decline in profit year-on-year to -¥2.5 bn.

At Cerro Verde, as a result of transitioning to care and maintenance status temporally, production reduced significantly year-on-year and sales also decreased. Combined with the impact of lower copper prices, profit is expected to decline year-on-year by ¥7.6 bn to ¥2.0 bn. At Sierra Gorda, due to increased production resulting in significant improvement in cost differential, we expect the deficit to be reduced year-on-year by ¥3.9 bn to -¥8.0 bn.

N.E. Chemcat and other companies are expected to see a ¥6.8 bn decline in profit year-on-year to -¥5.0 bn. Sales and profits at N.E. Chemcat are expected to decline due to a fall in demand for automotive catalysts. In addition, the forecast includes ¥8.0 bn of expected project construction interruption costs due to the COVID-19 as described above for the Quebrada Blanca II project.

9. Page 6: Main changes in finance income/cost, and other income/cost

Regarding [Main changes in finance income/cost, and other income/cost], this refers to the aforementioned impact of exchange rates and profit from the sale of fixed assets accompanying the business withdrawal of Taihei Metal Industry Co., Ltd. in FY2019, so the explanation is omitted here.

10. Page 9: Financial status (cash flow)

Finally, from the financial status presented on page 9, we will explain the cash flow shown at the bottom.

Cash and cash equivalents at the beginning of the first quarter of FY2020 were ¥155.5 bn. Cash flow from operating activities was +¥41.1 bn, cash flow from investing activities was -¥27.3 bn, and free cash flow for the first quarter of FY2020 was +¥13.8 bn. Since cash flow from financing activities was -¥12.2 bn, cash and cash equivalents at the end of the quarter including the exchange rate difference were the same as at the beginning of the quarter at ¥155.5 bn.

End