

May 10, 2022

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## **Teleconference Explanation Script for Consolidated Accounting Results for the Year Ended March 2022 (FY2021)**

### **I. General Briefing**

The following is an overview of SMM's financial results for the year ending March 2022 (FY2021) as announced today. Please take a look at the cover summary on the earnings report.

#### **1. Consolidated Accounting Results for the Year Ended March 2022: Overview of Business Performance**

1) Consolidated operating results for this period are as shown below, income and profits saw year-on-year increases and we saw record highs in sales and profit.

(1) Sales increased by ¥333.0 bn to ¥1,259.1 bn year-on-year.

(Gross profit increased by ¥106.9 bn to ¥257.8 bn year-on-year.)

(2) Profit before tax increased by ¥234.0 bn to ¥357.4 bn year-on-year.

(3) Profit increased by ¥199.8 bn to ¥298.5 bn year-on-year.

(4) Profit attributable to owners of parent increased by ¥186.4 bn to ¥281.0 bn year-on-year.

2) Overview of consolidated financial results for the year ended March 2022

The following is a general briefing on the consolidated financial results for this fiscal year. Please take a look at page 2 of the attachment to the earnings report.

##### **<Metal prices and foreign exchange>**

The price of copper continued to rise from the previous period to the beginning of this period. After that, while being affected by the spread of COVID-19, it maintained a high level of price ranges thanks to stable demand. Nickel prices largely maintained their upward trend thanks to the recovering world economy. The price of gold largely maintained a fixed level throughout the fiscal year, moving towards an upward trend at the end of the year. Additionally, the invasion into Ukraine by Russia saw a sudden jump in prices for non-ferrous metals. As a result, prices for both copper and nickel saw year-on-year increases, while gold prices were largely the same year-on-year.

In the foreign exchange market, the trend towards the weakening of the yen and strengthening of the dollar through the end of the year has become more significant along with a conversion of monetary policies like America's reduction of quantitative financial easing and its dissolution of zero-interest policies to rein rapidly increasing inflation in America. This has led to a year-on-year depreciation of the yen in the average exchange rate.

#### <Sales, profit and loss>

Consolidated sales in this period increased year-on-year by ¥333.0 bn to ¥1,259.1 bn through copper and nickel prices being higher than the previous period, and through increased sales of automotive battery materials and powder materials that are supported by healthy demand.

Consolidated profit before tax in this period saw a year-on-year increase of ¥234.0 bn to ¥357.4 bn through sales increases and improvements to share of profit of investments accounted for using the equity method, as well as the transfer of all held equity in the Sierra Gorda copper mine.

Profit attributable to owners of parent increased year-on-year by ¥186.4 bn to ¥281.0 bn through an increase in consolidated profit before tax for this period.

### 3) Individual topics

The following covers a range of topics in the financial results for the year ended March 2022. Please refer to page 7 in the Supplementary Explanation for Financial Summary for information on production volume.

#### (1) Transfer of all held equity in interests in the Sierra Gorda copper mine

Along with a company-wide revision of the asset portfolio, we decided to transfer all held equity in interests in the Sierra Gorda copper mine to Australia's South32 Limited through its subsidiary, and the transfer was completed on February 22, 2022 (date based on local time in Chile). The ¥74.4 bn in profit that came with the transfer has been appropriated into the resources segment profit for this period.

#### (2) Overseas copper mines

##### <Morenci>

As we implemented planned reduced operations, like the suspension of a portion of mills (mineral ore milling machinery), to account for the effect of the spread of COVID-19, production volume saw a year-on-year decrease. With the reduced impact of the spread of COVID-19, mining volume was increased from April and the process plant scheduled to restart in 2022 was restarted in July with 50% of its processing capacity. Due to the impact of a powerful monsoon season that lasted longer than average years, the ramping-up from July through September was temporarily sluggish, but the mining volume gradually recovered from October onward, and the full-year production volume was 397 thousand tonnes.

##### <Cerro Verde>

We have largely continued smooth operation based on annual plan, which took the effect of the spread of COVID-19 into account. Along with operations to cover the declining grade with processing volume, production volume this period was 402 thousand tonnes, an increase when compared to last year, which had a temporary transition to a care and maintenance status due to the spread of COVID-19.

(3) Taganito HPAL

Boiler trouble that occurred in the first half of the year, the power outage caused by Typhoon Rai in December, and other factors led to a production volume for this period of 24.8 thousand tonnes, a year-on-year decrease.

(4) CBNC (Coral Bay)

Operations saw a temporary drop in September due to the spread of COVID-19, and with shortages of some materials among other factors, this resulted in production volume for this period of 18.1 thousand tonnes, a year-on-year decrease.

(5) Materials business

Sales in the materials business segment for this period marked an increased sales of ¥66.5 bn year-on-year to ¥278.0 bn due to factors including decarbonization-backed increased demand for battery materials when compared to last year, which saw a temporary period of stagnant demand, in addition to ongoing favorable demand in powder materials. Profit for the segment was ¥27.6 bn, marking a ¥17.1 bn year-on-year increase.

## 2. Consolidated Results Forecast for FY2022

Please take a look at the lower part of the cover summary of the earnings report, pages 5-6 of the attachments to the earnings report and the bottom of page 1 in the Supplementary Explanation for Financial Summary.

### 1) Sales and profit and loss

Full-year consolidated business performance forecast for FY2022

(1) Sales will increase to ¥1,331.0 bn, a year-on-year income increase of ¥71.9 bn

(Gross profit will be ¥222.0 bn, a year-on-year decline in profit of ¥35.8 bn.)

(2) Profit before tax will decrease by ¥163.4 bn to ¥194.0 bn year-on-year

(3) Profit attributable to owners of parent will be ¥137.0 bn, a year-on-year decrease of ¥144.0 bn

The metal prices and exchange rates used as the foundation for the operating results forecast are as shown on page 5 of the attachments to the earnings report and the lower part of page 1 of the Supplementary Explanation for Financial Summary.

Metal prices are maintaining a high level due to uncertainty towards supply chain fragmentation and supply restrictions through the Russian invasion of Ukraine. This is in addition to an influx of capital into the market based on estimates of long-term increases in demand. However, it is also forecasted that there is the risk of a sudden drop in those prices moving forward. We forecast that prices in FY2022 will be at \$9,000/t for copper and \$9.50/lb for nickel.

We forecast that profit before tax in FY2022 will be ¥194.0 bn, a year-on-year decrease of ¥163.4 bn. However, main factors for the decreases in profit are the ¥74.4 bn gain on sale from Sierra Gorda (a one-off factor in this period), ¥11.1 bn from market factors, ¥15.5 bn from cost differential, ¥17.6 bn from materials business and ¥11.1 bn from other foreign exchange differential profit and loss.

## 2) Individual topics

The following covers a range of topics in the full-year consolidated results forecast for FY2022. Please refer to page 7 in the Supplementary Explanation for Financial Summary for information on production volume.

### (1) Hishikari Mine

As announced in our 2021 3-Year Business Plan, we're planning on having yearly gold production volume at 4.4 tonnes (2021 results were 6.1 tonnes) to move to a production system geared towards sustainable production aimed at extending mine life from FY2022.

### (2) Overseas copper mines

#### <Morenci>

The process plant that was restarted in July 2021 with 50% of its processing capacity was restored to 100% capacity in March 2022, and we estimate that production volume for FY2022 will see a year-on-year increase by 40 thousand tonnes to 437 thousand tonnes.

#### <Cerro Verde>

Through increased processing and improvements to grade ore, we estimate that production volume for FY2022 will see a year-on-year increase of 49 thousand tonnes to 451 thousand tonnes.

#### <Candelaria>

The FY2022 forecast shows a yearly production volume of 133 thousand tonnes and we estimate a year-on-year production increase.

### (3) Taganito HPAL

The FY2022 production volume plan is 32.2 thousand tonnes, and we plan that there will be production increases compared to this year, which saw issues with equipment troubles and power outages due to typhoons.

### 3. Dividends

This section concerns dividends.

Please take a look at the cover summary on the earnings report and the “Notice Regarding Amendments to the Dividend Forecast for the Year Ending March 2022 (97th period)” that was disclosed today.

Based on the full-year consolidated results disclosed today, the year-end dividends are forecast to increase by ¥43/share compared to the previous dividend forecast, and we have amended it as ¥188/share. As a result, we expect that the annual dividend is going to be a record high of ¥301/share.

Further, included in the consolidated results for the year ending March 2022 (FY2021) is the gain on sale that came with the Sierra Gorda divestment. However, included in this gain on sale is an amount equivalent to the cumulative impact (amended IAS28 “Investments in Affiliated Companies and Joint Ventures”) of the allowances for doubtful debts against the loans, etc., for Sierra Gorda S.C.M. that were reversed. This amount was coordinated with the FY2019 balance of retained earnings at the beginning of the period. The equivalent to this reversal, when the allowance for doubtful debts was confirmed, was not appropriated as a loss in FY2019. Instead, it was coordinated at the beginning of the fiscal year to reduce retained earnings and appropriated as such. As it has not undergone profit and loss accounting, it will not be included in the amended dividend forecast calculations. The SMM shareholder return dividend payout ratio is at least 35%, assuming this exclusion.

Additionally, based on the consolidated results forecast, the dividend forecast for the year ending March 2023 (FY2022) has the interim dividends at ¥87/share, the year-end at ¥88/share and the full-year at ¥175/share (dividend payout ratio of 35.1%). This is a decrease from the yearly dividend forecast for the year ended March 2022 (¥301/share), but it is forecast as being the second highest level on record.

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

From here, we will go over main points for the Supplementary Explanation for Financial Summary.

### 1. The results/forecast comparison on page 1

#### 1) FY2021 financial results vs. FY2020 financial results

The tables at the top of page 1 show a comparison of the FY2021 consolidated financial results to the FY2020 results, as well as to the operating results forecast disclosed in February.

See the table footnotes [Year-on-Year Comparison (1) - (2)] analysis of fluctuations in profit before tax.

Of the factors behind the ¥234.0 bn increase to profit before tax, we will explain factors other than the improvements to market factors that accounted for ¥167.4 bn and the ¥74.4 bn from the gain on sale that came with the Sierra Gorda divestment. Quantity differential worsened year-on-year for Morenci with reduced sales, electrolytic nickel, THPAL, and others, leading to an overall decrease of ¥4.4 bn. While the cost differential improved greatly due to the Sierra Gorda results up to Q2, it worsened for THPAL, CBNC, Morenci, electrolytic copper and others,

which saw year-on-year production reductions, as well as at Cerro Verde, which saw a drop in grade, leading to an overall decrease of ¥20.2 bn. The materials business saw an increase in sales and income for battery materials, powder materials and others year-on-year, in addition to an improvement to the market price differential through an increase to metal prices, which led to a profit increase of ¥17.1 bn. The ¥6.2 bn profit increase for the QB2 construction suspension cost and the ¥8.6 bn impact of the allowance for doubtful debts from Sierra Gorda are one-off factors as both the suspension cost and the reversal on doubtful debts appropriated in the last period were not appropriated for this period. The other decrease of ¥7.6 bn includes things like the effects of unrealized profit, the effect of palladium, and the fall off of profit and loss in the previous period related to PTVI.

## 2) FY2021 financial results vs. FY2021 full-year results forecast (as of February)

Continuing, please look at [comparison (1) - (3)] operating results forecast that was disclosed in February.

Of the factors behind the ¥43.4 bn increase to profit before tax, we will explain factors other than the improvements to market factors that accounted for ¥23.1 bn. The materials business saw a ¥4.6 bn increase in profit through increased income in businesses like battery materials when compared to the February forecast, as well as improvements to the market price differences through an increase in metal prices. The other increase of ¥9.9 bn includes a variety of factors such as market factors, profits and losses of companies to which the equity method is applied not included in materials, and the effects of and improvements to by-products, palladium and zinc, etc.

## 3) FY2022 forecast vs. FY2021 financial results

Next, please see the table at the bottom of the first page and the analysis of fluctuations in profit before tax in the footnotes which describes the full-year operating results forecast for FY2022 and the comparison versus the FY2021 financial results.

Of the factors behind the ¥163.4 bn decrease in profit before tax, we will explain major factors other than the ¥11.1 bn from the worsening of market factors, the ¥74.4 bn from the Sierra Gorda gain on sale and the ¥8.2 bn equity method profit for this period. For the quantity differential, there were estimates of deteriorations through the reduced production and sales at the Hishikari Mine. On the other hand, Morenci, Cerro Verde, THPAL, CBNC, electrolytic nickel and others are estimated to see improvements through increased sales, leading to a forecasted improvement totaling ¥13.5 bn. Other profit and loss in the foreign exchange differential, which saw huge improvements this period, is expected to reduce with a year-on-year deterioration of ¥11.1 bn. For cost differential, in addition to an expected deterioration in unit cost differential at Hishikari, Morenci, and other entities, we forecast an overall deterioration of ¥15.5 bn due to factors including expectations of worsening of cost differential through rising energy costs at each base. The materials business is forecast to see a ¥17.6 bn decline in profit due to factors like an estimated deterioration of the market price differential and unit cost differential in battery materials and powder materials. For interest earned, we estimate that there will be a ¥6.4 bn

deterioration/decline through the Sierra Gorda divestment. The other decrease of ¥32.6 bn includes a variety of factors such as market factors, profits and losses of companies to which the equity method is applied not included in Materials segment, and the effects of and deteriorations to sulfuric acid, zinc, etc.

2. Page 3: Comparison FY2021 result vs FY2020 result by segment (change in gross profit)

Please look at the results comparison with FY2020 by segment on page 3.

Gross profit in the Mineral Resource segment was ¥91.4 bn, a profit increase of ¥32.7 bn. As shown in the fluctuation explanation in the middle of the page, the greatest factor is the improvements to the price differential that came with an increase in the price of copper at overseas copper mines, mainly at Morenci.

Gross profit in the Smelting & Refining segment was ¥124.7 bn, a profit increase of ¥60.1 bn. As shown in the fluctuation explanation lower on the page, the copper-related entities increased by ¥26.7 bn and the nickel-related entities by ¥36.2 bn. The main reason for the fluctuations was the deterioration of unit cost differential, which was caused by the year-on-year reduced production for electrolytic copper, THPAL, CBNC, etc., resulting in unit cost differential deteriorations to copper-related entities and nickel-related entities. However, in addition to great improvements to price and condition differential for nickel and cobalt through price increases for nickel in particular, the inventory evaluation for copper-related entities saw great improvements. Others also saw improvements, with improvements etc. for sulfuric acid etc. at copper-related entities, and the impact of foreign exchange etc. for nickel-related entities.

3. Page 4: Comparison FY2021 result vs FY2020 result by segment (net sales for materials business by product subsegment)

On the top of page 4, in sales for materials business by product subsegment, sales for battery materials saw a year-on-year increase by ¥40.3 bn to ¥135.9 bn against a backdrop of a recovery and increase in demand. Powder materials increased by ¥14.0 bn to ¥51.2 bn due to favorable demand.

4. Page 4: Comparison FY2021 results vs. FY2020 results by segment (equity in earnings of affiliated companies)

In the table at the center of page 4, equity in earnings of affiliated companies increased year-on-year by ¥48.8 bn to ¥57.5 bn. At Cerro Verde, production and sales increased when compared to the previous year, and when combined with improved copper prices, profits increased by ¥21.4 bn to ¥26.6 bn year-on-year. Due to factors such as increased copper prices, Candelaria and Ojos del Salado also saw income increase by ¥8.5 bn to ¥10.4 bn. For Sierra Gorda, application of the equity method was stopped from Q3, and profit for this period only goes up to Q2. However, profit increased year-on-year by ¥11.7 bn to ¥8.2 bn.

5. Page 5: FY2022 forecast by segment comparison with FY2022 forecast vs. FY2021 financial results  
Please turn to page 5. This is a segmented comparison of the FY2022 operating results forecast and the FY2021 financial results. Note that the operating results forecast figures are rounded to the nearest billion yen.

Gross profit in the Mineral Resources segment is estimated at ¥84.0 bn, a forecasted profit decrease of ¥7.4 bn. As shown in the fluctuation explanation in the middle of the page, the primary factors are the expected improvements to the quantity differential through increased sales at overseas copper mines, mainly Morenci, while the quantity and unit cost differentials are expected to deteriorate due to reduced sales and production at the Hishikari Mine, in addition to the cost differential at Morenci which is also expected to deteriorate.

Gross profit in the Smelting & Refining segment is ¥108.0 bn, a forecasted profit decrease of ¥16.7 bn. As shown in the fluctuation explanation lower on the page, the copper-related entities are forecasted to decrease by ¥25.6 bn and the nickel-related entities to increase by ¥9.2 bn. In copper related entities, a decline in profit is forecast through an estimated deterioration in inventory evaluation, in addition to the estimated impact of deterioration in sulfuric acid, etc., in others. In nickel-related entities, the price and condition differential mainly saw a sudden sharp rise in the price of nickel at the end of FY2021, and we did our estimate with the decline as a prerequisite. On the other hand, we estimate improvements to the quantity differential and the unit cost differential with increased sales and production for electrolytic nickel, THPAL, CBNC, etc., which is why we forecast an increase in profits.

6. Page 6: Comparison with FY2022 forecast for Materials business (sales by product subsegment)  
At the top of page 6, in the sales for materials business by product subsegment, we forecast that there will be an income increase of ¥42.0 bn to ¥320.0 bn in overall net sales in the Materials business when compared with the results from this period. Of these, battery materials are forecasted to see an increase in income of ¥41.1 bn to ¥177.0 bn, while powder materials are forecasted to see a decrease of ¥2.2 bn to ¥49.0 bn.

7. Page 6: Comparison with FY2022 forecast by segment (equity in earnings of affiliated companies)  
The figures for equity in earnings of affiliated companies at the center of page 6 are rounded to the nearest 0.5 bn yen.

It is forecasted that the overall equity in earnings of affiliated companies will decrease by ¥18.5 bn to ¥39.0 bn when compared to the results of this period.

The main factors for the decrease in profit are copper-related entities, and it's estimated that profit will be ¥39.0 bn, a decrease of ¥12.0 bn. The majority of this is through the ¥8.2 bn profit fall off this period from Sierra Gorda. For Cerro Verde and Candelaria and Ojos del Salado, we forecast profit and loss that is equivalent to this period as improvements to the quantity differential through increased sales are going to cancel out price differential deteriorations.