

November 8, 2022
(English translation released on December 8, 2022)

**Explanation Script of Teleconference
for Consolidated Financial Results for the Second Quarter of the Year Ending March 2023 (FY2022)**

I. General briefing

The following is an overview of SMM's financial results for the six months ended September 30, 2022 as announced today. Please take a look at the cover summary on the earnings report.

1. Consolidated Financial Results for the six months ended September 30, 2022: Overview of Business Performance

1) Consolidated operating results for the six months ended September 30, 2022

- (1) Sales increased by ¥112.7 bn to ¥710.6 bn year-on-year.
(Gross profit increased by ¥54.1 bn to ¥168.8 bn year-on-year.)
- (2) Profit before tax increased by ¥47.4 bn to ¥169.1 bn year-on-year.
- (3) Quarterly gross profit increased by ¥5.3 bn to ¥125.5 bn year-on-year.
- (4) Profit for this quarter attributable to owners of the parent company increased by ¥5.3 bn to ¥119.1 bn.

As shown above, we saw an increase in income figures and profit year-on-year.

2) Overview of cumulative consolidated financial results for the six months ended September 30, 2022

The following is an overview of the cumulative consolidated financial results for the six months ended September 30, 2022. Please take a look at page 2 of the attachment to the earnings report.

<Foreign exchange and metal prices>

The foreign exchange rate saw a significantly weaker yen year-on-year in terms of the average exchange rate due to a rapid weakening of the yen through a purchasing of the dollar and a sale of the yen that followed an increase of the interest rate differential through a difference in financial policies between Japan and the US and an increase of Japan's trade deficit.

Copper prices saw a downward trend throughout the six months through a deceleration of the growth of the global economy and decreased year-on-year. Nickel prices saw a sharp year-on-year increase through the end of the last fiscal year, after which they saw a downward trend through a deceleration of the growth of the global economy. Following that, healthy demand holding strong led to a year-on-year increase. While gold prices saw a downward trend through policies in the US that increased interest rates, they were largely able to hold at the same level as the previous year.

<Sales, profit and loss>

Consolidated sales in the six months ended September 30 increased year-on-year by ¥112.7 bn to ¥710.6 bn through a substantial weakening of the yen and an increase to average nickel prices, and through increased sales of materials for automobile batteries. Consolidated profit before tax in this quarter saw a year-on-year increase of ¥47.4 bn to ¥169.1 bn due to improvements to finance income through the weakened yen. This is in addition to increased income.

Profit for this quarter attributable to owners of the parent company, in comparison to the same period last year which had deferred tax assets related to the Sierra Gorda copper mine appropriated, saw an increase in income tax expenses, but as consolidated profit before tax in this quarter also increased, there was a year-on-year increase of ¥5.3 bn to ¥119.1 bn.

3) Individual topics

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

(1) Overseas copper mines

<Morenci>

An end to COVID-19 countermeasures, like the operational reductions to mills, led to a year-on-year increase of production volume to 204 thousand tonnes.

<Cerro Verde>

Improved ore grade and improvements to operating rates for processing plants brought a year-on-year increase to production volume, coming to 217 thousand tonnes.

(2) Taganito HPAL

While there was equipment trouble leading to reduced production, production volume still saw a year-on-year increase, coming to 14.2 thousand tonnes.

(3) CBNC (Coral Bay)

While there was inclement weather leading to reduced production, production volume still saw a year-on-year increase through the shortening of regular maintenance days, coming to 9.3 thousand tonnes.

(4) Materials business

While demand for materials for electric parts dropped in China, increased income for materials for automobile batteries, for which healthy demand is backed by the accelerating shift of initiatives towards carbon neutrality, saw a year-on-year sales increase of ¥26.2 bn to ¥159.7 bn.

2. Full-Year Consolidated Results Forecast for Fiscal Year Ending March 2023

We disclosed in August that we had made revisions to the full-year results forecast, but we have revised these again. Please take a look at the lower part of the cover summary of the earnings report, page 5 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

The Full-Year Consolidated Results Forecast for FY2022 has been revised as follows:

- (1) Sales will increase to ¥1,377.0 bn, an income increase of ¥20.0 bn compared to the August forecast
- (2) Profit before tax will decrease by ¥17.0 bn to ¥201.0 bn compared to the August forecast.
- (3) Profit attributable to owners of the parent company will be ¥137.0 bn, a decrease of ¥11.0 bn when compared to the August forecast.

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. We estimate that metal prices for copper and gold will be below what were forecasted in August. However, we estimate that nickel will stay largely the same and that the average exchange rate will show the yen depreciating when compared to the August forecast.

2) Individual topics

The following covers a range of topics in the results forecast. 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, starting from FY2022, we are planning to move to a production system geared towards sustainable production aimed at extending mine life. Annual gold production volume under this plan is at 4.4 tonnes. Sales for the six months ended September 30 were at 2.4 tonnes. Further, as disclosed on November 4, we are using equipment to lower the water level of a hot spring in the underground pit that is 80 meters below sea level by drawing water from the spring. As this has allowed us to exploit the orebody that was below that water level, we have begun mining that.

(2) Overseas copper mines

<Morenci>

We expect there will be reduced production compared to what was planned for the year in May, as mining did not reach planned levels due to COVID-19 and inclement weather in the summer.

<Cerro Verde>

We are continuing to make up the temporary downward trend in grade with processing volume, and while production volume will be slightly below that which was planned in May, we are largely continuing smooth operation.

<Candelaria>

There was the effect of the sinkholes that appeared near the Ojos del Salado mine, and while production volume will be slightly below that which was planned in May, we are largely continuing smooth operation.

(3) Taganito HPAL

Through the reduced production that occurred due to the equipment trouble that occurred in the second quarter, production will be slightly below that which was planned in May. However, we are largely continuing smooth operation and we estimate that the second half of the year will see a slightly higher production volume than that which was planned in May.

(4) CBNC (Coral Bay)

Due to the reduced production that occurred due to inclement weather in the first quarter, production volume will be slightly below that which was planned in May. However, we are largely continuing smooth operation and we estimate that the second half of the year will see production according to that which was planned in May.

3. Dividends

This section concerns dividends.

Please take a look at the cover summary on the earnings report and the “Notice regarding Payment of Dividend from Retained Earnings as well as Revisions Made to Dividend Forecast for the 98th Fiscal Year Ending March 31, 2023” that was disclosed today.

We have confirmed the consolidated results for the six months ended September 30, 2022 and have amended the full-year consolidated results forecast. This, in turn, has allowed us to revise the end of quarter dividend amounts and the end of year dividend forecast based on our FY2021 3-Year Business Plan (applicable period: FY2022 to FY2024) profit allocation policy of “dividends shall be over 35% of consolidated dividend payout ratio in principle.”

As a result, we expect that the annual dividend is going to be the same amount as what was announced previously, ¥175/share. As a result of determining allocation of interim dividends and end-of-year dividends comprehensively, dividends for the six months ended September 30, 2022 that will comprise the interim dividends have risen by ¥3 from what was previously announced to ¥90/share. Additionally, the year-end dividend forecast decreased by ¥3 to ¥85 compared to the previous forecast of ¥88/share.

Further, while the annual dividend forecast of ¥175/share is a drop of ¥126 from FY2021’s annual dividend of ¥301/share (interim ¥113, end of year ¥188), the dividend amount is still the second highest in our history.

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

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

1. The results/forecast comparison on page 1

1) FY2022/Q2 Results vs FY2021/Q2 Results (financial results for the six months ended September 30, 2022 vs financial results for the six months ended September 30, 2021)

The upper table on page 1 is a comparison of the results for the period ended September 30, 2022 against the FY2021 results for the same period.

See the table footnotes [Diff of FY2022/1H Result vs FY2021/1H Result (1) – (2)] analysis of fluctuations in profit before tax.

Of the factors behind the ¥47.4 bn increase to profit before tax, we will explain factors other than the improvements to market factors that accounted for ¥60.8 bn. Cost differential worsened year-on-year, with major domestic and foreign bases taking a hit from rising energy costs, leading to an overall decrease of ¥22.3 bn. The materials business is being affected by the stagnation of economic activities due to the lockdown of Chinese cities, but there are also improvements in market price differentials through improvements to metal prices, leading to an increase in profit of ¥4.7 bn. As for the decrease in profit of ¥6.1 bn at Sierra Gorda, this is a one-off factor that is a result of the closing of the divestment in February 2022, erasing the profit that was present last year. The other decrease of ¥5.3 bn includes a variety of factors such as by-products, as well as profits and losses, such as those of companies to which the equity method is applied, that are not included in market factors or materials.

2) FY2022 Cumulative Results for the Six Months Ended September 30, 2022 vs FY2022 August Forecast for the Six Months Ended September 30, 2022

For the comparison between the FY2022 results for the six months ended September 30, 2022 vs the FY2022 August forecast, please see the table at the top of the page and the footnotes under it to find an analysis of fluctuations in profit before tax for [Diff of FY2022/1H Result vs FY2022/1H Forecast in Aug. (1) – (3)].

Of the factors behind the ¥20.1 bn increase to profit before tax, we will explain factors other than the improvements to market factors that accounted for ¥2.1 bn. As was the case in the same period last year, the cost differential deteriorated by ¥3.1 bn largely due to increases to things like energy costs. Materials saw an increase in profit of ¥4.2 bn, centered largely around battery materials due to rising metal prices. Selling and administration costs saw a ¥2.7 bn increase to profit due to things such as the research and development time differential. The other increase of ¥7.1 bn includes a variety of factors such as the removal of unrealized profit, as well as profits and losses, such as those of companies to which the equity method is applied, that are not included in market factors or materials.

3) FY2022 forecast (November forecast vs May forecast)

For the comparison between the FY2022 November forecast and the May forecast, please see the table at the bottom of the page and the footnotes under it to find an analysis of fluctuations in profit before tax for [Diff of FY2022 Forecast (in Nov. vs in May.) (3) - (4)].

Of the factors behind the ¥7.0 bn increase to profit before tax, we will explain factors other than the improvements to market factors that accounted for ¥43.2 bn. It is forecasted that the quantity differential will deteriorate by ¥9.7 bn primarily through reduced sales of electrolytic nickel and ferronickel. It is forecasted that the cost differential will deteriorate by ¥36.7 bn due to the effect of rising energy costs. It is forecasted that interest expenses, etc., will deteriorate by ¥5.3 bn due to the rise in policy interest rates and conversion of the weakening yen. The other decrease of ¥5.4 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 effect of by-products.

4) FY2022 Second-Half Forecast (November Forecast) vs Cumulative Results for the Six Months Ended September 30, 2022

For the comparison between the FY2022 second-half forecast and the Q2 cumulative results (for the six months ended September 30, 2022), please see the table at the bottom of the page and the footnotes under it to find an analysis of fluctuations in profit before tax for [Diff of FY2022/2H Forecast in Nov. vs FY2022/1H Result (2) – (1)].

Of the factors behind the ¥137.2 bn decrease to profit before tax, we will explain factors other than the market factors that accounted for the ¥67.8 bn decrease. For other profits and losses from the exchange rate differential, forecast for the exchange rate assumes a weakening of the yen in the second half of the year compared to the Q2 cumulative results for the six months ended September 30, 2022. However, as we do not see the yen weakening as much as it did during the six-month period, we forecast a deterioration of ¥17.4 bn. For materials, in addition to a worsening of the income and expense differential for battery materials, advanced materials saw a drop in demand for electronic parts and an extension of inventory adjustments, which led to us forecasting a deterioration of ¥23.1 bn. For by-products, we forecast a deterioration of ¥9.0 bn due to a drop in prices for sulfuric acid. The other decrease of ¥9.0 bn includes a variety of factors such as the effect of the removal of unrealized profit, as well as that of profits and losses, such as those of companies to which the equity method is applied, that are not included in market factors or materials.

5) FY2022 forecast (November forecast vs August forecast)

For the comparison between the FY2022 November forecast and the August forecast, please see the table at the bottom of the page and the footnotes under it to find an analysis of fluctuations in profit before tax for [Diff of FY2022 Forecast (in Nov. vs in Aug.) (3) – (5)].

The August forecast, as explained during the disclosure of results for the three months ended June 30, uses the forecast for the six months ended September 30 as the starting point. Regarding the production and sales volumes for primary mines, smelters and battery materials, the forecast uses the figures disclosed in May. However, the sales volume forecast for advanced materials, which are currently experiencing the effects of a stagnant economy in China, used the revised sales volume for the second half of the year. Additionally, we have calculated the effect of the conditions of the market, which will significantly affect our results, using beta factors. This calculation also takes into account the effect of price increases in operating materials and resources, such as energy, and those one-off factors that were ascertained at that time.

Of the factors behind the ¥17.0 bn decrease to profit before tax, we will explain factors other than the improvements to market factors that accounted for ¥4.0 bn. It is forecasted that the quantity differential will deteriorate by ¥5.0 bn, primarily due to the drop in volume at overseas copper mines. As it is estimated that energy costs are going to rise more than we forecasted in August, the cost differential is forecasted to deteriorate by ¥17.0.

2. Page 3: Results comparison with FY2021 by segment (change in gross profit)

Please look at the results comparison with FY2021 by segment on page 3.

Gross profit in the resource segment was ¥42.5 bn, a profit decrease of ¥3.3 bn. As shown in the fluctuation explanation in the middle of the page, while the Hishikari Mine and overseas mines saw exchange rate differential improvements through the weakening of the yen, primary factors are the quantity differential through reduced production at the Hishikari Mine and a worsening of the unit cost differential at the Hishikari Mine and overseas copper mines.

Gross profit in the Smelting & Refining segment was ¥101.0 bn, a profit increase of ¥45.7 bn. As shown in the fluctuation explanation lower on the page, the copper-related entities increased by ¥24.6 bn and the nickel-related entities by ¥11.2 bn. The unit cost differential saw reduced profit through rising energy prices for both copper-related and nickel-related entities. On the other hand, the price and condition differential was improved through an increase to the price of nickel-related entities. Additionally, in the inventory evaluation, great improvements were seen for copper-related entities through a weakening of the yen and for nickel-related entities through price increases and a weakening of the yen.

3. Page 4: Comparison FY2022 results forecast vs FY2021 results 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 increased by ¥31.3 bn to ¥93.9 bn through healthy demand and rising metal prices. Other advanced materials saw demand aimed at electric parts drop due to factors such as China's city lockdowns, seeing income drop by ¥5.1 bn to ¥65.8 bn.

4. Page 4: Comparison FY 2022 results forecast vs. FY2021 results by segment (equity in earnings of affiliated companies)

In the table at the center of page 4, year-on-year equity in earnings of affiliated companies increased through increased production at Cerro Verde and Candelaria and through the weakening of the yen, but as was the case in the first quarter, the falloff of ¥6.1 in profit as a result of the Sierra Gorda divestment led to a drop of ¥4.7 bn to ¥19.7 bn.

5. Page 5: Comparison of results forecast by segment FY2022 forecast (November) vs (May)

Please look at the top of page 5. This is the segmented comparison between the May forecast and the revised November forecast for FY2022. Note that the operating results forecast figures are rounded to the nearest billion yen.

Gross profit in the mineral resources segment is estimated at ¥68.0 bn, a forecasted profit decrease of ¥16.0 bn. As shown in the fluctuation explanation in the middle of the page, we estimate that overseas copper mines, mainly Morenci, will see a drop in prices, cost increases and reduced sales, which have led us to forecast that profits will be reduced. On the other hand, the Hishikari Mine was not hit with a cost increase that was at the level assumed in May, and we estimate that the yen will continue to be weak, so we forecast an increase in profit. Further, there are no changes to the annual sale volume of 4.4 tonnes at the Hishikari Mine, so we plan to adjust production volume in Q3 and Q4.

Gross profit in the Smelting & Refining segment is ¥144.0 bn, a forecasted profit increase of ¥36.0 bn. As shown in the fluctuation explanation lower on the page, the copper-related entities are estimated to increase by ¥43.6 bn, but nickel-related entities are forecast to see a decline in profit of ¥16.4 bn. While the unit cost differential for copper-related entities is forecasted to deteriorate, we estimate significant improvements for the inventory evaluation through the weakening of the yen in the exchange. Even in nickel-related entities, we estimate an upturn to profit through rising prices and through a favorable inventory evaluation due to the weakening of the yen in the exchange; however, increased costs due to rising energy costs, as well as reduced sales, have led to an estimate of a decline in profit. Other factors are as listed, including internal segment deletion of dealings between group companies.

6. Page 6: Comparison of full-year results 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 overall net sales in the materials business will be ¥315.0 bn, an income decrease of ¥5.0 bn. Battery materials are forecasted to increase by ¥16.0 bn to ¥193.0 bn through healthy demand and rising metal prices. On the other hand, advanced materials are forecasted to see income drop by ¥21.0 bn to ¥122.0 bn due in part to economic stagnation in China through city lockdowns.

7. Page 6: Comparison of full-year results 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 ¥12.5 bn to ¥26.5 bn.

In particular, while Cerro Verde, Candelaria and Ojos all benefitted from the weak yen in the exchange, the effect of the drop in metal prices is large and overall we estimate a decline in profit of ¥10.0 bn.