

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

I. General Briefing

The following is an overview of SMM's financial results for the nine months ended December 31, 2022 as announced today. Please take a look at the cover summary on the earnings report.

1. Consolidated Financial Results for the nine months ended December 31, 2022: Overview of Business Performance**1) Consolidated operating results for the nine months ended December 31, 2022**

- (1) Sales increased by ¥153.2 bn to ¥1,075.7 bn year-on-year.
(Gross profit increased by ¥45.3 bn to ¥226.2 bn year-on-year.)
- (2) Profit before tax increased by ¥23.2 bn to ¥218.6 bn year-on-year.
- (3) Quarterly gross profit decreased by ¥20.1 bn to ¥160.8 bn year-on-year.
- (4) Profit for this quarter attributable to owners of the parent company decreased by ¥17.3 bn to ¥152.8 bn.

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

2) Overview of cumulative consolidated financial results for the nine months ended December 31, 2022

The following is an overview of the cumulative consolidated financial results for the nine months ended December 31, 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 yen that was significantly weaker compared to the dollar through an increase of the interest rate differential via a difference in financial policies between Japan and the US and an increase of Japan's trade deficit. Further, while there were improvements through a reduction of the interest rate differential following curtailments to the breadth of interest rate increases in the US and an expansion of the breadth of the fluctuation allowance for long-term interest rates in Japan, there was a significantly weaker yen year-on-year in terms of the average exchange rate.

Copper prices saw a year-on-year drop despite showing slight improvements after recovering following a drop through apprehensions over a drop in demand through stagnation of China's economic activities. Nickel prices saw year-on-year improvements through the end of the last consolidated fiscal year, after which they saw a sudden drop through a deceleration of business conditions. Following that, the situation became more favorable thanks to healthy demand holding strong, leading to a year-on-year increase. The downward trend for gold prices continued through successive policies in the US that increased interest rates, and while it seemed like there was going to be a recovery through the curtailment of the breadth of those interest rate increases, the prices were below the same period previous year.

<Sales, profit and loss>

Consolidated sales in the nine months ended December 31 increased year-on-year by ¥153.2 bn to ¥1,075.7 bn through a substantial weakening of the yen and an increase to average nickel prices, and through increased sales of materials for automobile batteries. While there was a drop in investment profits through the equity method, consolidated profit before tax in this quarter saw a year-on-year increase of ¥23.2 bn to ¥218.6 bn due to improvements to finance income through the weakened yen. This is in addition to increased income.

While consolidated profit before tax in this quarter increased, 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 leading to a year-on-year decrease of ¥17.3 bn to ¥152.8 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 end of operational reductions to processing plants, led to a year-on-year increase of production volume to 304 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 326 thousand tonnes.

(2) 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 13.1 thousand tonnes.

(3) Taganito HPAL

While there was equipment trouble leading to reduced production, production volume still saw a year-on-year increase, coming to 22.8 thousand tonnes.

(4) Materials business

While demand for materials for electric parts dropped in China, increased sales for materials for automobile batteries, for which healthy demand is backed by decarbonization, saw a year-on-year sales increase of ¥37.9 bn to ¥241.6 bn.

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

The full-year consolidated results forecast was revised and disclosed in the previous November; however, we have again revised our cumulative results forecast for the fiscal year. Please take a look at the lower part of the cover summary of 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 ¥1,405.0 bn, an income increase of ¥28.0 bn compared to the November forecast
- (2) Profit before tax will increase by ¥27.0 bn to ¥228.0 bn compared to the November forecast
- (3) Profit attributable to owners of the parent company will be ¥158.0 bn, an increase of ¥21.0 bn when compared to the November 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, nickel and gold will be above what were forecast in November, and that the average exchange rate will show the yen appreciating when compared to the November 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 sale volume under this plan is at 4.4 tonnes. Sales for the nine months ended December 31 were at 3.4 tonnes.

Further, as we disclosed on January 23, we introduced a self-driving underground loader (LHD) and a remote control system to load and transport mineral ore, and have begun trial operation on-site ahead of the start of full use. Through these initiatives, we will work to improve safety, reduce costs, and achieve Working Style Reform among other effects, and shall strive to establish an operational system that focuses on sustainability and provides long-term stability.

(2) Overseas copper mines

<Morenci>

Production volume will be slightly below that which was planned in November due to the effect of equipment trouble, however, we are largely continuing smooth operation.

<Cerro Verde>

Covering of the temporary downward trend in grade with processing volume is progressing smoothly, and we estimate that yearly production volume will be at that which was planned in November.

<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 November, we are largely continuing smooth operation.

(3) CBNC (Coral Bay)

While operations have generally progressed smoothly in the second half of the year, we estimate that yearly production volume will be slightly below that which was planned in November due to a portion of the equipment experiencing trouble.

(4) Taganito HPAL

While operations have generally progressed smoothly in the second half of the year, we estimate that yearly production volume will be slightly below that which was planned in November due to heavy rains that occurred at the end of the year.

3. Dividends

This section concerns dividends.

Please take a look at the cover summary on the earnings report and the “Revisions Made to Dividend Forecast for the 98th Fiscal Year Ending March 31, 2023” that was disclosed today.

We have amended the full-year consolidated results forecast. This, in turn, has allowed us to revise the end of year dividend forecast based on our FY2021 3-Year Business Plan (applicable period: FY2022 to FY2024) profit allocation policy of “surplus dividends shall be 35% or more of consolidated dividend payout ratio in principle.”

As a result, the year-end dividend forecast increased by ¥27/share to ¥112/share, compared to the previous forecast of ¥85/share.

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/Q3 Results vs FY2021/Q3 Results (financial results for the nine months ended December 31, 2022 vs financial results for the nine months ended December 31, 2021)

The upper table on page 1 is a comparison of the results for the nine months ended December 31, 2022 against the FY2021 results for the same period.

See the table footnotes [Diff of FY2022/1-3Q Result vs FY2021/1-3Q Result (1) - (2)] analysis of fluctuations in profit before tax.

Of the factors behind the ¥23.2 bn increase to profit before tax, we will explain factors other than the improvements to market factors that accounted for ¥71.1 bn. Cost differential worsened year-on-year, with major domestic and foreign bases taking a hit from rising energy costs, leading to a decrease of ¥38.1 bn. The decrease in profit of ¥8.2 bn at Sierra Gorda is the result of a one-off factor, erasing the profit that was present last year. The other decrease of ¥9.2 bn includes a variety of factors such as profits and losses of companies to which the equity method is applied not included in factors related to markets and materials business, and the effect of by-products.

2) New and Old Forecast of FY2022 (in Feb. vs in Nov.)

Please see the table in the lower half of the page and the [Diff. of FY2022 Forecast in Feb. vs Forecast in Nov. (5) - (6)] analysis of fluctuations in profit before tax in the footnotes below the table which describes the FY2022 full year results forecast and the comparison between the revised February forecast and the previous forecast disclosed in November.

Of the factors behind the ¥27.0 bn increase to profit before tax, we will explain factors other than the improvements to market factors that accounted for ¥20.5 bn. It's forecasted that the cost differential will deteriorate by ¥5.0 bn. The materials business is forecasted to see an increase in profit of ¥5.0 bn, centered largely around battery materials due to rising metal prices. The other increase of ¥6.6 bn includes a variety of factors such as profits and losses of companies to which the equity method is applied not included in factors related to markets and materials business, and delays to research & development costs.

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

For the comparison between the revised FY2022 second-half forecast and the Q2 cumulative results (for the six months ended September 30, 2022), please see the table in the lower half of the page and the [Diff. of FY2022 2H Forecast in Feb. vs 1H Result (4) - (1)] analysis of fluctuations in profit before tax in the footnotes below the table.

Of the factors behind the ¥110.2 bn decrease to profit before tax, we will explain factors other than the market factors that accounted for the ¥46.5 bn decrease. It's forecasted that the cost differential will deteriorate by ¥9.4 bn. For the materials business, in addition to a worsening that came as a reaction to the positive income and expense differential for battery materials in the first half of the year, advanced materials saw a drop in demand for electronic parts and an extension of inventory adjustments, which led to us forecasting a deterioration of ¥18.4 bn. The other decrease of ¥8.5 bn includes a variety of factors such as profits and losses of companies to which the equity method is applied not included in factors related to markets and materials business.

2. Page 3: Comparison FY2022 result vs FY2021 result 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 ¥55.7 bn, a profit decrease of ¥12.0 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, quantity differential through reduced production at the Hishikari Mine, in addition to a worsening of the unit cost differential and a drop in prices, are having an effect.

Gross profit in the Smelting & Refining segment was ¥133.8 bn, a profit increase of ¥52.1 bn. As shown in the fluctuation explanation lower on the page, the copper-related entities increased by ¥27.4 bn and the nickel-related entities by ¥15.9 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 the effect of 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 vs FY2021 results by segment (net sales for materials business by product subsegment)

We explain the sales by product subsegment for the materials business at the top of page 4. Battery materials increased by ¥52.6 bn to ¥149.0 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 ¥14.7 bn to ¥92.6 bn.

4. Page 4: Comparison FY2022 results 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 was affected positively by increased production at Cerro Verde and Candelaria and the weakening of the yen, however, a drop in metal prices led to a decrease in profit. And, as was the case in the second quarter, the falloff of ¥8.2 in profit as a result of the Sierra Gorda divestment led to a ¥16.2 bn decline in profit to ¥24.8 bn.

5. Page 5: Comparison of results forecast by segment FY2022 forecast in February vs November

Please look at the top of page 5. This is the segmented comparison between the November forecast and the revised February 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 ¥74.0 bn, a forecasted profit increase of ¥6.0 bn. As shown in the fluctuation explanation in the middle of the page, while we estimate that overseas copper mines, mainly Morenci, will see a drop in production volume, price increases coupled with costs not increasing as much as forecasted in November have led us to forecast that profits will increase. Additionally, Hishikari Mine has operated as predicted in November, and with price increases we forecast that profits will increase.

Gross profit in the Smelting & Refining segment is ¥147.0 bn, a forecasted profit increase of ¥3.0 bn. As shown in the fluctuation explanation lower on the page, the copper-related entities are estimated to decrease by ¥5.4 bn, but nickel-related entities are forecast to see an increase in profit of ¥10.5 bn. In addition to the deterioration of the unit cost differential for copper-related entities, we forecast a decrease to inventory evaluation profit through an estimated appreciation of the yen in the exchange. In nickel-related entities, while there is the effect of increased costs through rising energy prices, we estimate an upturn to profit through rising prices positively affecting the condition differential and the inventory evaluation. 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 ¥319.0 bn, an income increase of ¥4.0 bn. We estimate that the market for advanced materials is going to deteriorate beyond what we forecast in November, leading to an income of ¥119.0 bn, a drop of ¥3.0 bn. On the other hand, income for battery materials is forecasted to increase by ¥7.0 bn to ¥200.0 bn through healthy demand and rising metal prices.

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 increase by ¥6.0 bn to ¥32.5 bn.

While Cerro Verde felt the effects of rising energy prices, it will see profit increases through rising metal prices. Nickel-related entities will also see a ¥2.0 bn increase in profit through rising metal prices, with the total equity in earnings of affiliated companies estimated to see a ¥6.0 bn increase in profit.