SUMITOMO METAL MINING

Date of Teleconference: May 10, 2023
(English translation released on June 13, 2023)

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

I. General Briefing

The following is an overview of SMM's financial results for the year ending March 2023 (FY2022) as announced today. Please take a look at the cover summary on the earnings report.

1. Consolidated Accounting Results for the Year Ended March 2023 (FY2022): Overview of Business Performance

1) Consolidated operating results for this fiscal year

(1) Sales increased to ¥1,423.0 bn, an income increase of ¥163.9 bn year-on-year.
(2) Profit before tax decreased by ¥127.5 bn to ¥229.9 bn year-on-year.
(3) Profit decreased by ¥128.1 bn to ¥170.4 bn year-on-year.
(4) Profit attributable to owners of the parent company decreased by ¥120.4 bn to ¥160.6 bn year-on-year.

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

2) Overview of consolidated financial results for the year ended March 2023

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.

<Foreign exchange and metal prices>

The foreign exchange rate saw the rapid progression of a weakening of the yen 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, there was a strengthening of the yen 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, and growing concern about financial systems after bank failures in Europe and the US. Despite these factors, the yen depreciation started again towards the end of FY2022 because of the prospect that the US would continue with interest rate increases. The average exchange rate depreciated significantly compared to FY2021.

The average price for copper was below that of FY2021 despite showing improvements after a drop through apprehensions over a drop in demand through stagnation of China's economic activities. Nickel prices saw a rise through the end of FY2021, after which they saw a sudden drop through apprehensions related to economic recovery. However, they temporarily recovered through healthy demand for electric vehicles thanks to the promotion of decarbonization. After that, although they started to drop off due to estimates that supply would increase, the average price was above that of FY2021. After the drop in gold prices through successive policy interest rate rises in the US, they rose through the curtailment of the breadth of those interest rate rises, however, the average price was slightly below that of FY2021.

<Sales, profit and loss>

Consolidated sales for FY2022 increased compared to FY2021 by ¥163.9 bn to ¥1,423.0 bn through a substantial weakening of the yen, an increase to nickel prices, and through favorable sales of battery materials for automotive. As the gain came with the transfer of all held equity in the Sierra Gorda copper mine and the investment profits through the equity method related to the mine that was appropriated in FY2021 were not appropriated in FY2022, profit before tax saw a drop of ¥127.5 bn to ¥229.9 bn when compared to FY2021.

Profit attributable to owners of the parent company decreased compared to FY2021 by ¥120.4 bn to ¥160.6 bn through a decrease in profit before tax.

3) Individual topics

The following covers a range of topics in the financial results for FY2022. Please refer to page 7 in the Supplementary Explanation Material of 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 process plants, led to a year-on-year increase of production volume to 400 thousand tonnes.

<Cerro Verde>

Improved ore grade and improvements to operating rates for process plants brought a year-on-year increase to production volume surpassing the level of FY2021, coming to 442 thousand tonnes.

<Candelaria and Ojos del Salado>

While there was the influence of the sinkholes that appeared near the Ojos del Salado mine, production volume was still on par with FY2021 at 147 thousand tonnes.

(2) CBNC (Coral Bay)

While there was inclement weather leading to reduced production, production volume was still on par with FY2021 at 17.9 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 28.9 thousand tonnes.

(4) Materials business

While the sale of battery materials for automotive, which are seeing healthy demand backed by decarbonization, was favorable, the effect of reduced sales for materials used in electronic components caused by a drop in demand for smartphones worldwide including China led to a year-on-year sales increase of ¥39.4 bn to ¥317.4 bn compared to FY2021.

2. Full-Year Consolidated Results Forecast for Fiscal Year Ending March 2024 (FY2023)

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 Material of Financial Summary.

<u>1) Sales and profit and loss</u>

(1) Sales will drop by ¥57.0 bn year-on-year to ¥1,366.0 bn compared to FY2022
(2) Profit before tax will drop by ¥77.0 bn year-on-year to ¥152.9 bn compared to FY2022
(3) Profit attributable to owners of the parent company will decrease by ¥118.6 bn year-on-year to ¥42.0 bn compared to FY2022

Regarding the metal prices and exchange rate used as a premise for the operating results forecast, when compared to FY2022, we estimate that copper, nickel and gold prices will drop and the exchange rate will see a strengthening of the yen.

The FY2022 financial result reflected the tailwind of healthy metal prices in addition to a weakening of the yen, and profit was boosted by the inventory evaluation and the foreign exchange differential. However, FY2023 is going to see profit falls with a drop in metal prices and a stronger yen. In the bottom half of page 1 of the Supplementary Explanation Material of Financial Summary, the effect of these factors is reflected in "Metal Price/Exchange," which is expected to decrease by ¥72.1 bn, and "Other exchange gain / loss," which is expected to decrease by ¥19.1. In addition, the decrease of ¥21.3 bn in "Materials Business" also takes these factors into account.

Additionally, in equity in earnings of affiliated companies, we forecast that there will be a temporary deterioration. Operators for the relevant project have not announced profit and loss forecast for FY2023, however, we have calculated profit and loss in line with the new accounting standards based on the information that we have been able to ascertain. Included in the forecast are not just the costs during startup and test operation that occurs temporarily, which is required to be included in profit and loss, but even the interest costs related to the loans made by our consolidated subsidiary companies towards the companies that operate this project. Regarding equivalents to the relevant interest costs, as they will be appropriated simultaneously as interest earned in the consolidated profit and loss statement, please be aware that the deterioration of the equity in earnings of affiliated companies will not clearly show up as is in our consolidated results.

Profit before tax in the FY2023 forecast is estimated to stop at ¥77.0 bn, a drop of ¥152.9 bn compared to FY2022. However, if temporary losses due to the drop in the exchange rate and metal prices and other one-factors are removed, we estimate that yearly profit and loss will be around ¥130.0 to 140.0 bn.

2) Individual topics

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

(1) Hishikari Mine

In our 2021 3-Year Business Plan, from FY2022, we planned on having yearly gold production volume at 4.4 tonnes to move to a production system geared towards sustainable production aimed at extending mine life.

Normally, we conduct boring at mines while mining and we make revisions to operational plans every time, however, as a result of revising operational plans at the Hishikari Mine based on new boring results, we changed the FY2023 yearly production volume for gold to 4.0 tonnes.

(2) Overseas copper mines

<Morenci>

Through insufficient leaching reserves caused by delays in the mining plan, we estimate that production volume for FY2023 will see a year-on-year decrease of 20 thousand tonnes to 380 thousand tonnes.

<Cerro Verde>

Through increased processing and improvements to grade ore, we estimate that production volume for FY2023 will see a year-on-year increase of 15 thousand tonnes to 457 thousand tonnes.

<Candelaria and Ojos del Salado>

We estimate that production volume for FY2023 is going to be 140 thousand tonnes, a decrease of 6 thousand tonnes compared to FY2022, due to the effect of the sinkholes that appeared near the Ojos del Salado mine.

(3) CBNC (Coral Bay)

The FY2023 production volume plan is 20.0 thousand tonnes, and we estimate that there will be a production increase of 2.1 thousand tonnes compared to FY2022, which saw inclement weather and trouble with a portion of equipment.

(4) Taganito HPAL

The FY2023 production volume plan is 31.0 thousand tonnes, and we estimate that there will be production increases of 2.1 thousand tonnes compared to FY2022, which saw trouble with a portion of equipment.

3. Dividends

This section concerns dividends.

Please take a look at the cover summary on the earnings report and the “Revision of FY2022 (98th Term) Dividend Forecast” that was disclosed today.

Our dividend policy during the period of the 2021 3-Year Business Plan is to “set consolidated dividend payout ratio at 35% or higher.”

Based on the full-year consolidated results disclosed today, we have increased the year-end dividend forecast by ¥3/share to ¥205/share, compared to the previous dividend forecast. This divided forecast is the second highest in our history.

Additionally, based on the forecast of consolidated operating results, the dividend forecast for the year ending March 2024 (FY2023) is at ¥54/share (dividend payout ratio of 35.3%), a drop from the year ending March 2023 (FY2022).

Demand for the non-ferrous metals (copper, nickel, etc.) in which we conduct business is estimated to have healthy growth in the mid to long term, however, as non-ferrous metal assets are depleted as they are mined, we need to regularly replace them. Further, as prices are decided in the markets in which we deal, such as the London Metal Exchange (LME), one of the characteristics of our profit and loss is that it is heavily influenced by the state of the market, including economic trends.

Additionally, the severity of the business environment surrounding us is growing with each year. Competition over the acquisition of limited quality resources is intensifying, and even in the development of new resources, difficulty is increasing due to cost increases in addition to those resources being in increasingly higher elevations and in deeper areas. This is why we take time and review investment decisions from a variety of angles before carefully conducting them, however, once a decision is made, we’ll immediately need expenditures in units of ¥100.0 bn. Further, the reaping of the rewards of these decisions needs to be thought of in units of several years, and without a sound financial position that can withstand these, we will not be able to continue business nor will we be called on as candidates for partnerships.

Amid these business characteristics and business environment, in order to maintain a healthy financial position to succeed in our growth strategy, we will move forward while maintaining the shareholder return policy of setting the “consolidated dividend payout ratio at 35% or higher.”

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

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

1. The results/forecast comparison on page 1

1) FY2022 financial results vs. FY2021 financial results

The table at the top of page 1 shows a year-on-year financial results comparison for this and the previous fiscal year and a comparison with the previous operating results forecast disclosed in February.

See the notes【Diff of FY2022 Result vs FY2021 Result ①-②】below the table for the analysis of fluctuations in profit before tax.

Of the factors behind the ¥127.5 bn decrease in profit before tax, we will explain major factors other than the total loss of ¥89.0 bn, which includes ¥36.2 bn from the improvement of market factors, ¥74.4 bn from the gain from transferring Interest of the Sierra Gorda copper mine, ¥8.2 bn from equity method profit, and ¥6.4 bn from interest earned. Unit cost differential worsened year-on-year, with major domestic and foreign bases taking a hit from rising energy costs, leading to a decrease of ¥46.5 bn.

Profit and loss in the materials business segment deteriorated by ¥10.3 bn through a decrease in demand for materials aimed at electronic components, despite healthy demand for battery materials having been maintained. The decrease of ¥20.8 bn in "Others" includes a variety of factors such as the effect of profits and losses of companies to which the equity method is applied that are not included in "Metal Price/Exchange" and "Materials Business."

2) FY2022 financial results vs. FY2022 full-year results forecast (as of February)

Next, under that, see the analysis of fluctuations in profit before tax in【Diff. of FY2022 Result vs Forecast in Feb. ①-③】.

Of the factors behind the ¥1.9 bn increase to profit before tax, we will explain factors other than the deteriorations to market factors that accounted for a decrease of ¥9.1 bn. First, the improvement of ¥3.7 bn is a result of profit and loss fluctuations of companies to which the equity method is applied and other segments that are not included in "Metal Price/Exchange" and "Materials Business." "Others," which shows an increase of ¥8.3 bn, includes the difference between the several billions of yen for risk factors related to business and the actual amount, which was included in the February operating results forecast.

3) FY2023 forecast vs. FY2022 financial results

Please see the table in the lower half of the page and the analysis of fluctuations in profit before tax【Diff. of FY2023 Forecast vs FY2022 Result ①-②】in the notes below the table which describes the comparison between the FY2023 operating results forecast and FY2022 results.

Of the factors behind the ¥152.9 bn decrease to profit before tax, we will explain factors other than the market factors that accounted for the ¥72.1 bn decrease.

As for the unit cost differential, while there were variations in energy prices and average unit cost for operation materials, we estimate that the deterioration of ¥1.3 bn will put it at the same level as FY2022. LME prices are the benchmark for Resources and Smelting and Refining segments, and it is difficult to pass on the cost increase. Additionally, as time is going to be needed for energy conversion, we are going to continue to engage in cost reductions and improvements to productivity as a manufacturing company.

For the materials business, in addition to profit and loss being pushed down through the effect of a drop in metal prices for battery materials, there has also been a drop in demand for materials aimed at electronic parts in advanced materials, leading us to forecast a deterioration of ¥21.3 bn.

Additionally, we forecast a drop of ¥30.0 bn for companies to which the equity method is applied and the "Others" segment, which are not included in "Metal Price / Exchange" and "Materials Business." The details of these segments are as explained earlier.

The decrease of ¥2.9 bn in "Others" includes a variety of factors.

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 Mineral Resources segment was ¥73.6 bn, a profit decrease of ¥17.8 bn. As shown in the explanation of differences in the middle of the page, the Hishikari Mine and overseas mines saw exchange rate differential improvements through the weakening of the yen. However, in addition to the price drop and a worsening of the unit cost differential for overseas copper mines because of rising costs for energy and operation materials, the quantity differential through reduced production at the Hishikari Mine is having an effect.

Gross profit in the Smelting & Refining segment was ¥138.9 bn, a profit increase of ¥14.2 bn. As shown in the explanation of differences lower on the page, the copper-related entities increased by ¥7.5 bn and the nickel-related entities decreased by ¥7.5 bn. The unit cost differential led to 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, 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 ¥63.1 bn to ¥199.0 bn through healthy demand and rising metal prices. Other advanced materials saw demand aimed at electronic parts drop, seeing income drop by ¥23.7 bn to ¥118.4 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, FY2022 equity in earnings of affiliated companies was affected positively by improvements to the foreign exchange differential through the weakening of the yen at Cerro Verde and Candelaria, however, a drop in metal prices and a worsening of the unit cost differential led to a decrease in profit. And the falloff of ¥8.2 bn in profit as a result of the Sierra Gorda divestment led to a ¥21.0 bn decline in profit to ¥36.5 bn.

5. Page 5: Comparison of results forecast by segment FY2023 operating results forecast vs FY2022 results

Please look at the top of page 5. This is a segmented comparison of the FY2023 forecast and the FY2022 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 ¥60.0 bn, a forecasted profit decrease of ¥13.6 bn. As shown in the explanation of differences in the middle of the page, we estimate that Hishikari Mine and overseas copper mines, mainly Morenci, will see a drop in volume, which has led us to forecast that the unit cost differential will show a year-on-year deterioration. Further, the Hishikari Mine switched to an operation policy with importance placed on sustainability from FY2022, the first year of the 2021 3-Year Business Plan. The FY2023 operation plan was revised with up-to-date information based on that policy, and we are planning on having gold sales drop by 0.4 tonnes to 4.0 tonnes from last year.

Gross profit in the Smelting & Refining segment is ¥57.0 bn, a forecasted profit decrease of ¥81.9 bn. As shown in the explanation of differences lower on the page, profits for the copper-related entities are forecast to decrease by ¥49.3 bn, and nickel-related entities by ¥23.2 bn. In addition to the deterioration of the unit cost differential for copper-related entities through the effect of reduced production via large-scale maintenance shut-down, we forecast a deterioration to inventory evaluation profit due to our estimation of the appreciation of the yen in the exchange. In nickel-related entities, while we estimate improvements to the unit cost differential through a drop in energy prices, we forecast a downturn to profit through dropping prices negatively affecting the condition differential and the inventory evaluation. "Others" consists mainly of internal segment deletion of transactions between group companies as noted.

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 ¥335.0 bn, an income increase of ¥17.6 bn. Battery materials are forecast to increase by ¥25.0 bn to ¥224.0 bn through healthy demand.

In advanced materials, while we expect a drop in sales through the November 2022 the assignment of Sumiko Tec Co., Ltd., we forecast that demand for electronic parts is going to gradually recover in the latter half of the year.

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 forecast that the overall equity in earnings of affiliated companies will decrease by ¥22.0 bn to ¥14.5 bn.

We estimate that Cerro Verde will see increases to sale volume and that Candelaria will see improvements to the unit cost differential.

The decrease of ¥26.5 bn in “NECC/NK/MSZ/others,” as we explained earlier, includes the results of our trial calculations of the temporary costs from starting up in-development projects, doing test operations, and other such costs. However, these calculations are based on the information we were able to accumulate and have been calculated in line with the new accounting standards. Additionally, as mentioned earlier, included in these calculations are not just the temporary costs during startup and test operation that are required to be included in profit and loss, but even the interest costs related to the loans made by our consolidated subsidiary companies towards the companies that manages a project. Regarding equivalents to the relevant interest costs, as they will be appropriated simultaneously as interest earned in the consolidated profit and loss statement, please be aware that the deterioration of the equity in earnings of affiliated companies will not clearly show up as is in our consolidated results.