SUMITOMO METAL MINING

Date of Teleconference: August 7, 2023
(English translation released on September 8, 2023)

Explanation Script of Teleconference for Consolidated Financial Results for the First Quarter of the Year Ending March 2024 (FY2023)

I. General Briefing

Before we start the explanation, we would first like to talk about the revisions to the composition of the Supplementary Explanation Material of Financial Summary that we made based on the opinions and requests of all of our investors. We will cover the details at each juncture, but to give an example, we have included a waterfall chart to make it easier to grasp the overall picture of the profit and loss before tax analysis. Additionally, we have reexamined the FY2023 profit and loss exclude temporary factor that we explained in May's briefing on the progress of business strategy, and have included that result. Further, please take note that metal prices and the foreign exchange have been moved to page 11, and trends in production and sale of smelting and refining and resources have been moved to page 12.

The following is an overview of SMM's financial results for the three months ended June 30, 2023 as announced today. We covered the business environment, etc., in the earnings report, so please look at it when you get a chance.

1. Consolidated Financial Results for the three months ended June 30, 2023: Overview of Business Performance

The following is an overview of the consolidated financial results for the three months ended June 30, 2023. Please take a look at page 2 of the Supplementary Explanation Material of Financial Summary.

Year-on-year, metal prices for the three months ended June 30, 2023 saw an increase for gold, but a drop for copper and nickel, while the foreign exchange rate saw a depreciation of the yen.

Sales saw a year-on-year increase of ¥11.5 bn to ¥369.2 bn through increased sales of battery materials for automobile batteries.

Consolidated profit before tax in this quarter saw a year-on-year drop of ¥76.9 bn to ¥27.1 bn. This is due to a drop in nickel prices, shrunken foreign exchange profits brought about by a rapid depreciation of the yen, and depleted sources of one-off profit factors such as the inventory evaluation profit.

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

Please take a look at page 3 of the Supplementary Explanation Material of Financial Summary. We have revised the forecast of cumulative operating results for the six months ended September 30, 2023 and the full-year operating results forecast. Before we discuss the results, we would like to first explain our approach to the operating results forecast.

1) Our approach to the cumulative operating results forecast for the six months ended September 30, 2023

Starting from the consolidated results for the three months ended June 30, 2023, we reflected fluctuations in production and sale volume and revised our forecasts after revising the factors that form the basis of our forecasts. Those are, namely, the prices of main non-ferrous metals and the foreign exchange, and were based, respectively, on the supply and demand balance and on the current level of exchange.

2) Our approach to the operating results forecast for the second half of the year

Starting from the cumulative operating results forecast for the six months ended September 30, the operating results forecast for the second half of the year was created on the assumption that production and sales for primary mines, smelters and battery materials will be as estimated in the plan disclosed in May. We revised non-ferrous metal prices and the foreign exchange for the nine months ending December 31 and onward based, respectively, on our forecasts for the future supply and demand balance and on what we believe will be the future level based on the current foreign exchange, and calculated the amount of their effect using sensitivity.

Further, in addition to reflecting the fluctuations in production and sale volume that are currently known, we have also conducted trial calculations as much as we could for the settlement differential of overseas copper mines brought about by market price fluctuations that are not included in the sensitivity and for the inventory evaluation (QP differential, etc.) that will occur as a result of inventory for smelting and refining at the end of September, and have inserted these. Additionally, with regard to costs for resources and smelting and refining, we have confirmed a drop in energy costs at the time of transaction and prices for a portion of operation materials. We did trial calculations based on the information we are able to ascertain and have reflected this at a scope that seems reasonable.

3) Consolidated Results Forecast for FY2023

We will explain the overview of FY2023's full-year forecast of consolidated operating results. Please take a look at the table at the top of page 3 and ③ and ④ on the right side of the Supplementary Explanation Material of Financial Summary. Regarding the metal prices and exchange rate on which our August operating results forecast in ③ is premised, when compared the May forecast in ④, we expect that copper and nickel prices will drop while gold prices will rise and that the exchange rate will see a weakening of the yen.

As a result, we forecast that profit before tax in FY2023 will be ¥84.0 bn, and increase of ¥7.0 bn compared to the May forecast. As shown in the graph on the bottom of page 3 of the Supplementary Explanation Material of Financial Summary, the foreign exchange differential increase of ¥6.6 bn and the inventory evaluation increase of ¥6.4 bn will cover the drop for nickel.

Regarding the increase of ¥7.6 bn for others, while we have included a decline in profit of several billion yen in the event that any of a variety of risks happen to materialize, our calculations expect improvements of several billion yen in the QB2 project both in the first half and second half of the year. This is the result of confirmations and judgements by related parties and of the effect of the capitalization of a portion of ramp-up costs that we believed would be appropriated costs.

4) FY2023 Profit and Loss Exclude Temporary Factor

The right side of the graph on page 3, taken from the FY2023 full-year operating results forecast (August), shows pretax profit and loss that is excluded one-off factors occurring through fluctuations in the market, primarily metal prices and the foreign exchange, and other one-off factors.

Compared to the May forecast, while the unit cost differential deteriorates and the metal prices acting as assumptions trend downwards, we have confirmed that the ¥130.0 to ¥140.0 bn for profit and loss exclude temporary factor in May has not changed, as the yen is still trending downward in the foreign exchange.

3. Topics (Production Trends)

The following covers a range of topics in the financial results for 1Q FY2023. Please refer to page 12 in the Supplementary Explanation Material of Financial Summary for information on production and sale volume.

Hishikari Mine

Production volume for 1Q FY2023 was 1.2 tonnes, and while we plan on a production volume of 2.2 tonnes for 1H FY2023, there are no changes to the yearly gold sale volume of 4.0 tonnes.

Overseas Copper Mines

<Morenci>

Production volume for 1Q FY2023 was below what we saw in the previous year, ending at 90 thousand tonnes through a drop in mining volume. Production volume for 1H FY2023 is predicted to be 183 thousand tonnes.

<Cerro Verde>

Production volume for 1Q FY2023 was above what we saw in the previous year, ending at 111 thousand tonnes through an increase in mining volume. Production volume for 1H FY2023 is predicted to be 228 thousand tonnes.

<Candelaria and Ojos del Salado>

Production volume for 1Q FY2023 was roughly the same year-on-year, ending at 38 thousand tonnes. Production volume for 1H FY2023 is predicted to be 74 thousand tonnes.

Overseas Smelting and Refining

<CBNC (Coral Bay Nickel Corporation)>

Production volume for 1Q FY2023 was roughly the same year-on-year, ending at 4.1 thousand tonnes through operations proceeding largely according to plan. Production volume for 1H FY2023 is predicted to be 9.6 thousand tonnes.

<Taganito HPAL>

Production volume for 1Q FY2023 was roughly the same year-on-year, ending at 7.7 thousand tonnes through operations proceeding largely according to plan. Production volume for 1H FY2023 is predicted to be 14.0 thousand tonnes.

4. Dividends

This section concerns dividends.

Firstly, we are aware that recently the stock market has seen increased attention being paid to shareholder return (dividend) policies; however, there are no changes to the “set consolidated dividend payout ratio at 35% or higher” dividend policy that we promised in our 2021 3-Year Business Plan.

When we announced our financial results in May, we performed trial calculations for the dividend amount based on the yearly forecast of consolidated operating results, and our yearly dividend forecast is 54 yen/share.

Now, while we have revised our operating results forecast, only three months have passed since our May 10 disclosure, and moreover, there has recently been high volatility in non-ferrous metal prices and in the foreign exchange, and there is a strong sense of uncertainty moving forward. So, this time, we have decided not to revise the dividend forecast for the revised operating results forecast.

We are planning on revising the yearly dividend amount as we always have in the forecast for fiscal year operating results disclosed during the announcement of the financial results for the six months ending September 30.

[Excerpt from Teleconference Explanation Script for Consolidated Accounting Results for the Year Ended 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 will immediately need expenditures in units of ¥100.0 bn. Further, it will take several years to reap the rewards of these decisions. Without a financial foundation 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 foundation 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 only go over main points for the Supplementary Explanation Material of Financial Summary.

1. Page 2: Financial Results Comparison

1) FY2023 1Q Result vs FY2022 1Q Result

The table at the top of page 2 shows a year-on-year financial results comparison for the three months ended June 30.

See the table footnotes [Comparison No.1 : Diff in PBT of FY2023 1Q Result vs FY2022 1Q Result ①-②] for an analysis of fluctuations in profit before tax.

Of the factors behind the ¥76.9 bn decrease to profit before tax, we will explain factors other than the deterioration to market factors that accounted for ¥46.0 bn. Of the cost increases that had a significant impact in FY2022, energy prices dropped in the latter half of the year, but their effect is still felt at major bases domestically and abroad in FY2023, leading unit cost differential to a decrease of ¥6.7 bn.

Profit and loss in the materials business segment deteriorated by ¥8.2 bn through a fall off of the income and expense differential that had propped up profit and loss in the previous fiscal year and a decrease in demand for materials aimed at electronic components, despite healthy demand for battery materials having been maintained. QB2 project improvements are included in the ¥3.4 bn improvement for companies to which the equity method is applied and other segments that are not included in “Metal Price/Exchange” and “Materials Business.” This is largely due to costs that occurred in the previous fiscal year not reoccurring. The other deterioration of ¥3.2 bn includes a variety of factors such as the effect of by-products.

2. Page 3: Financial Forecast Comparison

1) FY2023 August Forecast for the Six Months Ending September 30, 2023 vs FY2023 May Forecast for the Six Months Ending September 30, 2023

See the analysis of fluctuations in profit before tax in [Comparison No.2 : Diff in PBT of FY2023 1H Forecast (in Aug. vs in May) ①-②] directly under the table at the top of page 3.

Of the factors behind the ¥6.0 bn increase to profit before tax, we will explain factors other than the improvements to market factors that accounted for ¥11.3 bn.

We will start with improvements. The QB2 project improvements we found through trial calculations are included in the ¥6.5 bn improvement for companies to which the equity method is applied and other segments that are not included in “Metal Price/Exchange” and “Materials Business.” Substantively, this is the result of confirmations and judgements by related parties, and, of the capitalization of ramp-up costs that we believed would be appropriated costs in our May trial calculations.

The materials segment saw an improvement of ¥1.0 bn. First, in the three months ended June 30, while customer inventory adjustments are continuing for advanced materials, a temporary increase in demand and improvements to the income and expense differential for battery materials against forecasts helped push us into the black. However, for the six months ending September 30, the inventory adjustments are going to take longer than we anticipated, and earnest recovery is also falling behind, so cumulative forecasts for that period have topped out at improvements of ¥1.0 bn.

Next, we have negative factors.

The deterioration of ¥7.8 bn to the unit cost differential is a result of the first half of the year seeing a unit cost that is higher than what we had in May’s full-year forecast, even though there was a downward trend for energy costs at the time of transaction and prices for a portion of operation materials.

The deterioration of ¥0.8 bn for others is the result of the inclusion of a decline in profit of several billion yen in the event that any of a variety of risks forecast in August happen to materialize, even though sale costs are down compared to the forecast and dividends have seen improvements compared to the forecast.

2) FY2023 forecast (August forecast vs May forecast)

See [Comparison No.3 : Diff in PBT of FY2023 Full year Forecast (in Aug. vs in May) ③-④] for an analysis of the fluctuations in profit before tax in the middle of page 3.

The yearly operating results forecast is as we explained already. However, starting from the consolidated operating results forecast for the six months ending September 30, the operating results forecast for the second half of the year was created on the assumption that production and sales for primary mines, smelters and battery materials will be as estimated in the plan disclosed in May. We revised non-ferrous metal prices and the foreign exchange for the nine months ending December 31 and onward based, respectively, on our forecasts for the future supply and demand balance and on what we believe will be the future level based on the current foreign exchange, and calculated the amount of their effect using sensitivity.

Further, in addition to reflecting the fluctuations in production and sale volume that are currently known, we have also conducted trial calculations as much as we could for the settlement differential of overseas copper mines brought about by market price fluctuations that are not included in the sensitivity and for the inventory evaluation (QP differential, etc.) that will occur as a result of inventory for smelting and refining at the end of September, and have reflected these. Additionally, with regard to costs for resources and smelting and refining, we have confirmed a drop in energy costs at the time of transaction and prices for a portion of operation materials. We did trial calculations based on the information we are able to ascertain and have reflected this at a scope that seems reasonable.

We will explain the difference between the August forecast where trial calculations were done with these assumptions and the May forecast, and factors other than the improvements to market factors that accounted for ¥3.2 bn in the ¥7.0 bn increase to profit before tax.

As we explained earlier, we have done everything we can to estimate cost improvements in our trial calculations for the unit cost differential based on the May forecast and have reflected these. However, the unit cost differential still remains ¥2.9 bn lower than the May forecast. We will continue to keep a close eye on unit cost differential trends.

While we believe that battery materials will continue to see healthy demand, we also believe that the effect of the income and expense differential will remain, leading to a small increase of ¥1.0 bn for the materials business. Further, with the recovery for smartphones in particular being slow, we do not believe that advanced materials will see a recovery in earnest within the fiscal year.

While others includes a decline in profit of several billion yen in the event that any of a variety of risks estimated in Q2 happen, improvements such as sale costs dropping compared to the forecast, dividends improving compared to the forecast, and the capitalization of ramp-up costs that we considered appropriated costs in the QB2 project have led us to see an overall improvement of ¥7.6 bn.

3. **Page 4: Financial Results Comparison by Segment (Fluctuations in Gross Profit)**

See the Financial Results Comparison FY2023 1Q Result vs FY2022 1Q Result on page 4.

Gross profit in the mineral resources segment was ¥18.7 bn, a profit decrease of ¥6.3 bn. As shown in the fluctuation explanation in the middle of the page, while the Hishikari Mine and overseas copper mines saw exchange rate differential improvements through the weakening of the yen, there was a deterioration to the quantity differential and the unit cost differential through a revision of the Hishikari Mine's annual gold sale volume from the FY2022's 4.4 tonnes to FY2023's 4.0 tonnes.

Factors behind a deterioration at overseas copper mines include Morenci copper mine's quantity differential through reduced sales, the price differential through a drop in copper prices, and the unit cost differential that is still influenced by rising energy and operation material prices.

Gross profit in the smelting and refining segment was ¥10.4 bn, a profit decrease of ¥53.0 bn. As shown in the explanation of differences lower on the page, copper-related entities deteriorated by ¥19.7 bn and nickel-related entities by ¥30.7 bn. This is largely because, as shown in the Inventory evaluation P&L table at the bottom of page 4, while the inventory evaluation profit that came with the price fluctuations for both copper and nickel in the three months ended June 30 for FY2022 pushed profits up, the same period in FY2023 saw a drop for both copper and nickel prices, resulting in a large gap. Additionally, nickel-related entities saw a significant deterioration of the condition differential through a drop in prices.

Nickel-related entities were affected by inclement weather in the three months ended June 30 for FY2022, but the same period in FY2023 saw operations go largely according to plan.

4. **Page 5: Financial Results Comparison by Segment (net sales for materials business by product subsegment)**

We will now move on to explain the sales by product subsegment for the materials business at the top of page 5. Battery materials increased by ¥24.1 bn to ¥64.5 bn due to continued healthy demand. On the other hand, advanced materials saw demand aimed at electronic parts drop, which had a significant effect, and with the effect of the subsidiary that was transferred in FY2022, we saw income drop by ¥8.3 bn to ¥26.6 bn.

5. **Page 5: Financial Results Comparison by Segment (equity in earnings of affiliated companies)**

Equity in earnings of affiliated companies on the center of page 5. Cerro Verde and Candelaria were both affected by the drop in prices, but saw smooth production. Additionally, others saw an increase of ¥3.1 bn, much of which was from improvements in the QB2 project as we explained previously, and while we cannot disclose the details, the increase is because the costs that were appropriated in FY2022 did not occur.

6. Page 6: Financial Forecast Comparison by Segment FY2023 Q2 Cumulative Forecast in August vs May

Please turn to page 6. This is a segmented comparison of the FY2023 Q2 cumulative forecast in August and in May. Note that the business performance forecast figures are rounded to the nearest billion yen.

Gross profit in the mineral resources segment is estimated at ¥34.0 bn, a forecasted profit increase of ¥4.0 bn. As shown in the Explanation of Diff. in Gross Profit in the middle of the page, the Hishikari Mine is scheduled to see an increase of 0.2 tonnes compared to the May forecast for gold sale volume of 2.0 tonnes, leading to improvements for the quantity differential. Please note this is in preparation for the scheduled shut-down of the Toyo Smelter & Refinery in the second half of the year, and there are no changes to the yearly gold sale volume of 4.0 tonnes.

While we have confirmed that there are downward trends for energy prices at the time of transaction for overseas copper mines, it is still higher than the unit cost used in the yearly forecast for Morenci, and we believe this we lead to a deterioration of the unit cost differential. The other improvement of ¥2.0 bn is, as it has been until now, the result of accounting adjustments.

Gross profit in the Smelting & Refining segment is ¥32.0 bn, a forecasted profit increase of ¥4.0 bn. As shown in the explanation of differences, we forecast that copper-related entities will increase by ¥11.7 bn, while nickel-related entities will decrease by ¥8.4 bn. For copper-related entities, we forecast an increase to inventory evaluation profit through an estimated depreciation of the yen in the exchange. In nickel-related entities, we estimate that there will be a decline in profit. This is because, firstly, the unit cost being higher than what we used in the yearly forecast is still having an effect, and we forecast that the unit cost differential will deteriorate. Secondly, a drop in price will negatively affect the condition differential and suppress profits. “Others” consists mainly of internal segment deletion of transactions between group companies as noted.

7. Page 7: Financial Forecast Comparison by Segment FY2023 1H Forecast (in Aug. vs in May) (sales by product subsegment)

At the top of page 7, in the sales for materials business by product subsegment, we forecast that overall net sales in the materials business will remain almost the same at ¥173 bn. Demand remains healthy for battery materials. However, the sales environment for advanced materials is worse than we anticipated in the May forecast.

8. Page 7: Financial Forecast Comparison by Segment FY2023 1H Forecast (in Aug. vs in May) (Equity in earnings of affiliated companies)

The figures for equity in earnings of affiliated companies at the center of page 7 are rounded to the nearest 0.5 bn yen. It is forecasted that the overall equity in earnings of affiliated companies will increase by ¥1.5 bn to ¥19.5 bn. We estimate that Cerro Verde and Candelaria will see price drops and deteriorations to the unit cost differential.

The improvement of ¥4.5 bn for others was, as we have already explained, is greatly affected by the effect of the capitalization of a portion of ramp-up costs that we believed would be appropriated costs in the QB2 project.

9. **Page 6: FY2023 Full year Forecast (in Aug. vs in May)**

Finally, please look at the bottom of page 6. This is the segmented comparison between the May forecast and the revised August forecast for the full-year results. Note that the operating results forecast figures are rounded to the nearest billion yen.

Presuppositions for the August full-year forecast are as we have already explained.

While the mineral resources segment is going to see an appreciation of the yen in the foreign exchange from Q3 and on, we are estimating increasing metal prices, improvements to the unit cost differential and improvements to the QB2 project. These, along with the improvements in the first half of the year, have led us to estimate yearly improvements of ¥14.0 bn. On the other hand, while we are estimating improvements in the second half of the year for unit cost in the smelting & refining segment, we also see a drop in metal prices for nickel-related entities, so we believe that the price differential is going to deteriorate considerably. Along with this, as we estimate that the foreign exchange is going to shift towards an appreciation of the yen, copper-related entities in particular are going to see losses grow in inventory evaluation, leading us to estimate a yearly deterioration of ¥3.0 bn.

In the materials segment, we see difficulties in advanced materials due to delays in the inventory adjustments. Additionally, the effect of the income and expense differential for battery materials is leading us to estimate that the yearly improvement will top out at around ¥1.0 bn.

Additionally, in addition to foreign exchange profit/loss, we included in Diff. Adjustment a potential decrease of a few billion yen that might surface in the event of the realization of various risks.

Further, page 16 shows a close-up view of the new battery materials plant currently under construction in Ehime Prefecture and that of a mineral processing building for the Cote Gold Project currently under construction in Canada’s Ontario. Please give them a look afterwards to see how we are progressing on construction.