SUMITOMO METAL MINING

Date of Teleconference: November 8, 2023
(English translation released on December 25, 2023)

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

I. General Briefing

At the start of this explanation, we would like to inform you that based on the opinions and requests of our investors, we have added a graph that will enable you envisage the trends in metal prices and exchange rates that form a basis for understanding our results to page 16 and 17 of Supplementary Explanation Material for the Financial Summary. Please note that the material is organized in a different way from previous materials.

The following is an overview of SMM's financial results for the six months ended September 30, 2023 as announced today. We covered the business environment, etc., in the summary of consolidated financial results.

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

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

From the left in the table at the top of the page, ① shows the consolidated results for the six months ended September 30, while ② shows the results for the same period in the previous year. Please take a look at [Diff. ①-②] on the right. Year-on-year, metal prices in the consolidated operating results for the six months ended September 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.

Consolidated sales saw a year-on-year increase of +¥6.5 bn to ¥717.1 bn through increased sales of battery materials for automobile batteries.

Consolidated profit before tax saw a year-on-year drop of -¥115.3 bn to ¥53.8 bn. This is due to a drop in copper and nickel prices and decreased sources of one-off profit factors, such as foreign exchange profits brought about by a rapid depreciation of the yen during the same period in the previous year.

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

Next, please see page 3. Here, we announced the revision of full-year operating results forecast. From the table at the top, see ③, ⑤, and ③-⑤ on the right.

Regarding the metal prices and exchange rate on which our November operating results forecast in ③ is estimated, when compared to the August forecast in ⑤, we estimate that copper and nickel prices will drop while gold prices will rise and that the yen will become weaker.

As a result, in comparison to the August forecast, the November forecast is for consolidated sales increasing by +¥27.0 bn to ¥1,430.0 bn and consolidated pretax profit increasing by ¥2.0 bn to ¥86.0 bn as shown in ③-⑤ on the right.

3.Fiscal Year Ending March 2024 (FY2023) Profit and Loss Exclude Temporary Factor

Profit and loss exclude temporary factor is shown on the right side of the graph at the bottom of page 3. Taken from the FY2023 full-year operating results forecast (November), this shows pretax profit and loss that is divested of one-off factors occurring through fluctuations in the market, primarily metal prices and foreign exchange, and other one-off factors. In other words, under the current forecast for the business environment in FY2023, this is the profit/loss before tax that is estimated on the metal prices and exchange rate shown in ③ in the table at the top of page 3 continuing throughout the year and there being no other one-off factors.

Profit and loss exclude temporary factor in the November operating results forecast is ¥120.0 bn to ¥110.0 bn. This represents a downward revision by approximately -¥20.0 bn from the profit and loss exclude temporary factor of ¥140.0 bn to ¥130.0 bn forecast in May, with the main factors being a fall in the metal prices on which the forecast was estimated, and an increase in unit cost mainly at overseas copper mines.

For example, while it is difficult to make a simple comparison, a breakdown of the main factors behind the decrease of around -¥20.0 bn profit and loss exclude temporary factor includes a deterioration of ¥18.4 bn in price and condition differential, an upturn of ¥12.1 bn in foreign exchange, and a deterioration of ¥12.5 bn in unit cost differential as shown in [Comparison No. 3] (middle of page 3) that sets out a comparison of the November forecast and the May forecast.

The price of metals and foreign exchange are not things that we can control, and the deterioration of -¥12.5 bn in unit cost differential includes an increase in unit cost accompanying a decline in sales volume from overseas copper mines and other mines as well as the manifestation of energy costs higher than market price for inventory reasons (meaning the current market price is not reflected in the costs due to inventory). Therefore, we believe that this does not necessarily mean SMM's production capabilities have significantly decreased. Going forward, we shall continue to work to ensure continued stable operation, improved production efficiency, reduced costs, and other such things, and shall strive to increase profit.

4.Topics (Production Trends)

Here we will explain the difference in production and sales volume in comparison to the previous year and the fiscal year forecast announced in May. Please take a look at pages 12 and 13 of the Supplementary Explanation Material of Financial Summary.

<u>Overseas Copper Mines</u>

<Morenci>

- Year-on-year comparison (Diff. ①-②):
  - Consolidated production volume for the six months ending September 30, 2023 was below what we saw for the same period in the previous year due to factors including a drop in mining volume.
- Comparison with May forecast (Diff. ③-④):
  - We expect reduced production for similar reasons to the year-on-year comparison.

<Cerro Verde>

- Year-on-year comparison (Diff. ①-②):
  - Consolidated production volume for the six months ending September 30, 2023 was above what we saw for the same period in the previous year due to factors including an increase in processing volume and improved ore grade.
- Comparison with May forecast (Diff. ③-④):
  - While we expect a slightly reduced production compared to the May forecast, we forecast it to be almost as per the plan.

<Candelaria and Ojos del Salado>

- Year-on-year comparison (Diff. ①-②):

  Consolidated production volume for the six months ending September 30, 2023 was below what we saw for the same period in the previous year due to the impact of a sinkhole that occurred near the Ojos del Salado mine.

- Comparison with May forecast (Diff. ③-④):

  We forecast it to be almost as per the plan.

<u>Smelting and refining in Japan</u>

<Electrolytic copper>

- Year-on-year comparison (Diff. ①-②):
  - Consolidated production volume for the six months ending September 30, 2023 was below what we saw for the same period in the previous year due to a lack of reserves of intermediate products caused by increased operational difficulty prior to scheduled furnace repairs.
- Comparison with May forecast (Diff. ③-④):
  - Although the impact of the first half will result in reduced production, the second half is forecast to be almost as per the plan.

<Nickel>

- Year-on-year comparison (Diff. ①-②):
  - Consolidated production volume for the six months ending September 30, 2023 was above what we saw in the previous fiscal year.
- Comparison with May forecast (Diff. ③-④):
  - Despite the impact of operation trouble in the first half (now resolved), the forecast is almost as per the plan.
  - Ferronickel continues to face a harsh business environment, and we are now coordinating production.

<u>Overseas Smelting and Refining</u>

<CBNC / THPAL>

- Year-on-year comparison (Diff. ①-②):
  - THPAL operations were almost as per the planned. CBNC was impacted by equipment trouble (now resolved), and production volume was at the same level as the previous fiscal year.
- Comparison with May forecast (Diff. ③-④):
  - While THPAL will be below the initial plan, it is forecast to be almost as per the planned.
  - CBNC is forecast to be below the May plan in both the first half and second half due to equipment trouble and other factors.

5.Dividends

This section concerns dividends.

We have confirmed the consolidated results for the six months ended September 30 and have amended the full-year consolidated results forecast. This, in turn, has allowed us to revise the interim 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 "surplus dividends shall be over 35% of consolidated dividend payout ratio in principle."

As a result, the forecast for the annual dividend per share in FY2023 has risen from the forecast announced in May by ¥17 to ¥71. Dividends for the six months ended September 30, 2023 that will comprise the interim dividends will be half of this, and have risen by ¥8 from what was previously announced to ¥35/share. Additionally, the year-end dividend forecast increased by ¥9 to ¥36 over the previous forecast.

[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 carefully review investment decisions from a variety of angles before conducting them. However, once a decision is made, we will immediately need expenditures in units of ¥100 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

This time, we have performed analysis from five cross sections.

1) FY2023 2Q Cumulative Result vs FY2022 2Q Cumulative Result

See the footnotes under the table at the top of page 2 [Diff of FY2023/1-2Q Result vs FY2022/1-2Q Result ①-②] analysis of fluctuations in profit before tax.

Of the factors behind the -¥115.3 bn decrease to profit before tax, we will explain factors other than the deterioration to market factors that accounted for -¥45.6 bn and foreign exchange losses that accounted for -¥27.7 bn. Page 4 shows a breakdown of the inventory evaluation, and the breakdown of other foreign exchange profit/loss is shown at the bottom of page 7. The lingering impact of energy prices that had a significant impact in FY2022 and temporary maintenance cost increases for equipment at overseas copper mines, and other factors resulted in a unit cost differential deterioration of -¥7.8 bn.

Profit and loss in the materials business segment deteriorated by -¥14.9 bn through a fall off of the income and expense differential that had greatly pushed up the figure 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. The -¥6.6 bn deterioration in by-products is due to impacts such as a fall this fiscal year in the price of sulfuric acid that had spiked the previous fiscal year. Sierra Gorda related expenses were those recorded as a risk factor in the August forecast, and were incurred due to the occurrence of adjustments in the transfer price included in the Sierra Gorda copper mine divestment agreement as a result of the promulgation of the new mining royalties law in Chile. -¥5.7 bn of other deterioration included delayed adjustments in consolidated accounting, deletion of intra-group dealings, and a variety of other factors.

2) Cumulative Results for the Six Months Ended September 30, 2023 vs Forecast (August)

See the table footnote [Comparison: FY2023/2Q Cumulative Results (for the six months ended September 30, 2023) vs. Forecast (August) ①-③].

Of the factors behind the +¥4.8 bn improvement in profit before tax, we will explain factors other than the improvement in market factors that accounted for +¥4.3 bn and foreign exchange losses that accounted for -¥5.5 bn. The +¥3.8 bn improvement in the materials business is due to battery materials income and expense differential and an improvement over the forecast for advanced materials. ¥5.9 bn in other improvements offsets the -¥4.9 bn in Sierra Gorda related expenses that were recorded under [Other] as risk factors in the August forecast.

2.Page 3: Financial Forecast Comparison

5) FY2023 Forecast (November Forecast vs May Forecast)

We will explain the comparison with the FY2023 full-year results forecast. The most recent full-year operating results forecast was disclosed in August, but the August fiscal year forecast, as explained during the disclosure, uses the forecast for the first half based on the results for the three months ended June 30 and the forecast for the three months ending September 30 created by adding up estimates of all elements as the starting point. And second half production and sales volume use the plan disclosed in May for the main mines, smelters, and battery materials, and significant market impacts on operating results were calculated using sensitivity.

As such, we will explain the changes from the May forecast, for which comparison on the same basis as the November forecast is possible.

Table ③ at the top of page 3 is the November forecast that we revised here, and ④ on the right is the May forecast. Please take a look at ③-④ on the right.

Regarding the metal prices and exchange rate on which our November forecast in ③ is estimated, when compared to the May forecast in ④, we expect that copper and nickel prices will drop while gold prices will rise and that the yen will become weaker.

As a result, in comparison to the May forecast in ④, the November forecast in ③ is for consolidated sales increasing by +¥64.0 bn to ¥1,430.0 bn and consolidated pretax profit increasing by +¥9.0 bn to ¥86 bn.

See the analysis of fluctuations in profit before tax in the footnote [Comparison No. 3: Diff in PBT of FY2023 Full Year Forecast (Nov. vs May) ③-④] directly under the table at the top of page 3.

Of the factors behind the +¥9.0 bn increase in profit before tax, we will explain factors other than the improvement in market factors that accounted for +¥18.1 bn and foreign exchange losses that accounted for -¥5.1 bn. Please refer to the breakdown of the inventory evaluation on page 6 and the breakdown of other foreign exchange profit/loss at the bottom of page 7.

First, we will explain the improvement of +¥30.0 bn for equity method companies / "Others" segment (not included in "metal price / exchange" or Materials Business), and the -¥17.5 bn deterioration in interest income (after offsetting interest payable). The QB2 project improvements of roughly +¥27.0 bn that we found through trial calculations are included in the +¥30.0 bn improvement. This is because what our May calculations had assumed to be costs, such as ramp-up costs and interest costs for the group, were judged and confirmed to be assets by parties concerned and recorded as such. However, we expect not to be able to appropriate some of the interest income included in this amount this fiscal year. We are unable to provide details, but you can consider almost all of the factors behind this -¥17.5 bn deterioration in interest income (after offsetting interest payable) to be attributable to the impact of this.

Next, it is estimated that profit and loss in the Materials Segment will be the same level as in the May forecast. In the six months ended September 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 the May forecast helped us achieve a profit of ¥2.8 bn in the sector. However, the second half is forecast to see a major decline in profit given the forecast for an increase in income and expense differential for battery materials resulting from a fall in metal prices and other such things in the second half and an inventory adjustment for advanced materials that is forecast to be drawn out longer than was envisaged.

Regarding the unit cost differential deterioration of -¥12.5 bn, while energy prices at the time of transaction, unit cost of main materials, and other factors will mostly be below the level in the May forecast, temporary increases expected in things such as maintenance costs at overseas copper mines, have resulted in a forecast for a large deterioration.

The improvement of +¥2.4 bn for others is the result of a fall in the sales cost compared to the May forecast, and increase in dividends received compared to the May forecast, and other such factors.

4) Second-Half Forecast (November) vs 2Q Cumulative Result

See the analysis of fluctuations in profit before tax in the table footnote [Comparison No. 4: Second-Half Forecast (November) vs. Q2 Cumulative Results ②-①].

This is a comparison between first half results and second half forecasts. Of the factors behind the -¥21.6 bn deterioration in profit before tax, the deterioration of -¥16.3 bn from market factors that play a highly significant role is down to a forecast fall in the price of nickel and gold despite the price of copper being forecast to remain at the same level as indicated in Diff. ②-① in the third column from the right in the table at the top, and a strong yen forecast in foreign exchange. The quantity differential deterioration of -¥3.7 bn is mainly down to the Hishikari Mine, because while the annual sales volume remains unchanged at 4.0 tonnes, most sales were undertaken in the first half in consideration of the scheduled furnace repairs at the Toyo Smelter & Refinery planned for the second half. Deterioration in unit cost differential is due to deterioration in unit cost differential at overseas copper mines, reduced sales from the Hishikari Mine, and other such factors. Other factors of increase and decrease are more or less as described in Comparison No. 3.

5) FY2023 Forecast (November Forecast vs August Forecast)

Regarding the table footnote [Comparison No. 5: Diff in PBT of FY2023 Full Year Forecast (Nov. vs Aug) ③-⑤] profit before tax change analysis, the difference between the November forecast and the August forecast is largely as per the explanation for Comparisons No. 3 and 4.

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

See the Financial Results Comparison FY2023 2Q Cumulative Results vs FY2022 2Q Cumulative Results on page 4.

Gross profit in the Mineral Resources segment was ¥34.4 bn, a profit decrease of -¥8.1 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, 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, in addition to a temporary increase in maintenance costs for equipment.

Gross profit in the Smelting & Refining segment was ¥42.8 bn, a profit decrease of -¥58.2 bn. As shown in the explanation of differences lower on the page, copper-related entities deteriorated by -¥25.4 bn and nickel-related entities by -¥23.4 bn. This is largely because, as shown in the Inventory evaluation P&L table at the bottom of the page, while the inventory evaluation profit that came with the fluctuations in the price of both copper and nickel as well as foreign exchange in the six months ended September 30 for FY2022 pushed profits up, the same period in FY2023 saw a fall in the price of both copper and nickel, 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 Philippines in the six months ended September 30 for FY2022, but the same period in FY2023 saw operations go largely according to plan despite reduced production resulting from factors including equipment trouble at CBNC.

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 +¥27.5 bn to ¥121.4 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 -¥13.7 bn to ¥52.1 bn.

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

Equity in earnings of affiliated companies for the first six months of FY2023 is shown in the center of page 5. Production has continued smoothly at both Cerro Verde and Candeleria. But they experienced the negative impact of factors including falling copper prices and a temporary increase in maintenance costs, resulting a decline in profit of -¥3.5 bn to ¥16.2 bn.

6.Page 6: FY2023 Full-Year Financial Forecast Comparison by Segment (in Nov. vs in May)

Please turn to page 6. This is a segmented comparison of the FY2023 full year forecast in November 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 ¥58.0 bn, a forecast profit decrease of -¥2.0 bn. As shown in the Explanation of Diff. in Gross Profit in the middle of the page, an improvement of +¥4.8 bn is forecast due to higher gold prices and a weaker yen than in the May forecast.

However, while we have confirmed that there are downward trends for energy prices at the time of transaction for overseas copper mines, we believe that factors including a temporary increase in maintenance costs in addition to poor production performance will lead to a deterioration of the unit cost differential. The other deterioration of -¥1.3 bn is the result of delayed adjustments between segments.

Gross profit in the Smelting & Refining segment is ¥64.0 bn, a forecast profit increase of +¥7.0 bn. As shown in the explanation of differences, we forecast that copper-related entities will increase by +¥23.4 bn, while nickel-related entities will decrease by -¥16.9 bn. For copper-related entities, we forecast an increase to inventory evaluation profit through a depreciation of the yen that is even greater than estimated in the May forecast. A deterioration in profit is forecast for nickel-related entities due to a deterioration of the condition differential caused by a forecast drop in prices that is greater than the May forecast. The unit cost differential deterioration for nickel-related entities is due to reduced sales from CBNC, while the unit cost differential has improved beyond the May forecast at THPAL, which has enjoyed a fall in energy prices and other such things. “Others” consists mainly of internal segment deletion of transactions between group companies as noted.

7. Page 7: FY2023 Full-Year Financial Forecast Comparison by Segment (in Nov. 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 be ¥341 bn. Demand remains healthy for battery materials. However, we forecast that the sales environment for advanced materials will be worse than we anticipated in the May forecast.

8.Page 7: FY2023 Full-Year Financial Forecast Comparison by Segment Forecast (in Nov. 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 forecast that the overall equity in earnings of affiliated companies will increase by +¥22.0 bn to ¥36.5 bn.

We estimate that Cerro Verde and Candelaria will see price drops and deteriorations to the unit cost differential.

The improvement of +¥27.0 bn for others, 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.

Further, page 19 shows a close-up view of the new battery materials plant currently under construction in Ehime Prefecture and of the construction work for the Cote Gold Project currently underway in Canada’s Ontario province.