

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

I. General Briefing

The following is an overview of SMM's financial results for the nine months ended December 31, 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 nine months ended December 31, 2023: Overview of Business Performance

The following is an overview of the consolidated financial results for the nine months ended December 31, 2023. Please take a look at page 2 of the Supplementary Explanation Material of Financial Summary.

Year-on-year, metal prices in the consolidated operating results for the nine months ended December 31, 2023 saw an increase for gold, but a drop for copper, nickel, and cobalt, while the foreign exchange rate saw a depreciation of the yen.

Consolidated sales saw a year-on-year increase of ¥9.3 bn to ¥1085.0 bn through increased sales of battery materials for automobile batteries.

Consolidated profit before tax declined ¥131.2 bn year-on-year to ¥87.4 bn.

As shown in the graph on page 2, the main factors behind the decline in profit include a fall in the price of nickel and cobalt and the accompanying impact on inventory evaluation, a fall off in year-on-year recorded foreign exchange profits, a negative impact from income and expense differential in the battery materials business, and a deterioration in business performance in the materials segment due to a slump in demand in the advanced materials business.

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

We will explain the overview of FY2023's forecast of consolidated operating results. Please take a look at page 3 of the Supplementary Explanation Material of Financial Summary.

The consolidated profit before tax revised here is forecast to be ¥77.0 bn, which is a ¥9.0 bn decline in profit compared to the November forecast. The main factors behind the decline in profit of ¥9.0 bn are as set out in the graph at the bottom of page 3, but the "Other -¥6.7 bn yen" impact in the fourth column from the right is large and here risk factors with the potential to be occurred in this fiscal year are included.

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

Profit and loss exclude temporary factor is again shown on the right side of the graph at the bottom of page 3. Taken from the latest operating results forecast, this shows profit and loss exclude temporary factor that is divested of one-off factors occurring through fluctuations in metal prices and the foreign exchange, and other one-off factors. In other words, under the business environment in FY2023 (the external environment and internal circumstances at SMM), this is the FY2023 profit and loss exclude temporary factor that is premised on the metal prices and exchange rate shown in (5) 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 here is ¥110.0 bn to ¥100.0 bn, marking a downward revision of ¥10.0 bn from the ¥120.0 bn to ¥110.0 bn of profit and loss exclude temporary factor in the November forecast. The primary factor behind the downward revision is a fall in metal prices (copper/nickel) that formed the assumptions, and while this is unavoidable, profit and loss is being pushed downward due to aspects such as production quantity and sales quantity in the area of manufacturing area, making it an area in which SMM needs to take swift action.

Due to the nature of SMM's business, although fluctuations in business performance in response to changes in the metal prices and exchange rates that form our assumptions are inevitable, we will continue to work to maintain stable operations, improve production efficiency, and take our growth strategy forward in order to maximize profits on the basis of these assumptions.

4. Dividends

In its 2021 3-Year Business Plan, SMM has set out the policy of maintaining a consolidated equity ratio of 50% or more as a basic financial strategy, and principle of a consolidated dividend payout ratio of 35% as its dividend policy.

As previously mentioned, SMM's business performance is significantly impacted by metal prices and foreign exchange given the nature of its business, and so as our dividend policy is linked to business performance, the dividend amount also varies greatly depending on the market. As part of our action to implement management that is conscious of cost of capital and stock price, we have added DOE as a minimum indicator and changed our dividend policy to one where dividends of retained earnings are 35% or more of the consolidated dividend payout ratio in principle and the minimum indicator is a DOE of 1.5% with the aiming of mitigating the impact on dividends when SMM's business performance greatly deteriorated due to market factors and other such factors. This new dividend policy shall be applied from year-end dividend for the year to March 2024.

A DOE of 1.5% shall be applied to the annual dividend amount for the year to March 2024 as a DOE of 1.5% is expected to be larger than a dividend payout ratio of 35%, and the year-end dividend forecast shall be increased by ¥27/share to ¥63/share compared to the previous forecast of ¥36/share. As a result, we expect that the annual dividend is going to be ¥98/share.

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

We will only go over main points for the Supplementary Explanation Material of Financial Summary.

1. FY2023 3Q Cumulative Result vs FY2022 3Q Cumulative Result

1) Page 4: Financial Results by Segment Fluctuations in Gross Profit

See FY2023 3Q Cumulative Results vs FY2022 3Q Cumulative Results on page 4.

Gross profit in the Mineral Resources segment was ¥41.6 bn, a profit decrease of ¥14.1 bn. As shown in the «explanation of diff. in gross profit» 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.

In terms of overseas copper mines, with Morenci copper mine as the main cause, quantity differential is due to factors such as a decrease in mining volume and lower ore grade. Deterioration in unit cost differential is due to factors including increases in operational materials prices and increased repair costs, in addition to reduced sales.

Gross profit in the Smelting & Refining segment was ¥59.0 bn, a profit decrease of ¥74.8 bn. As shown in 2. Smelting and Refining toward the bottom of the page, copper-related entities deteriorated by ¥22.3 bn and nickel-related entities by ¥45.6 bn. One major cause was inventory evaluation, and this is as shown in the inventory evaluation P&L table at the bottom of the page. In the cumulative results for the nine months to December 31, 2022, while the inventory evaluation profit that came with the increases in the price of both copper and nickel as well as a weakening yen pushed profits up, the cumulative results for the nine months to December 31, 2023 indicated a downward trend in the price of both copper and nickel, resulting in a large gap.

With regards to other factors, we will provide an explanation starting from copper-related entities. The deterioration in quantity differential is due to the implementation of scheduled furnace repairs at the Toyo Smelter & Refinery in 2023 3Q. Next, the deterioration in unit cost differential is due to factors such as the impact of reduced sales and cost for scheduled furnace repairs at the Toyo Smelter & Refinery. Condition differential is due to an improvement in processing revenue (TC/RC). The other main cause of the deterioration is a decrease in the price of sulfuric acid, which is a by-product.

Next, we will look at nickel-related entities. With regards to the improvement in quantity differential, inclement weather in the Philippines in FY2022 had an impact and sales had to be reduced, but the same period in FY2023 saw Niihama Nickel Refinery and THPAL operate largely according to plan despite reduced production at CBNC resulting from factors including equipment trouble, and this resulted in increased sales. As such, the unit cost differential improved thanks to the effects including a decline in energy costs and operational materials prices in addition to the aforementioned effect of increased sales. Conditional differential was a significant factor in the deterioration, and this was due to a fall in the price of nickel and cobalt.

2) Page 5 Sales by Product Subsegment for Materials Business

We will now move on to explain the sales by product subsegment for the materials business at the top of page 5. Battery materials is seeing continued healthy demand.

However, there is also an ongoing decrease in demand for electrical components. The drop in income figures for crystals, building materials, connectors, and other deletions includes the impact of subsidiary transfer in FY2022.

3) Page 5 Equity in Earnings of Affiliated Companies

Equity in earnings of affiliated companies is shown in the center of page 5. Cerro Verde saw smooth production. Candelaria saw a small decline in profit due to factors including production volume being lower than the FY2022 Q3 accumulated figures due to deterioration in ore grade among other things, and increased repair costs.

QB2 project improvements are included in the other ¥6.0 bn of improvements.

2. FY2023 Full-year Forecast (February Forecast vs November Forecast)

1) Page 6: Financial Results by Segment Fluctuations in Gross Profit

Please take a look at FY2023 Full-year Forecast (February Forecast vs November Forecast) on page 6.

Gross profit in the Mineral Resources segment is estimated at ¥55.0 bn, a forecast profit decrease of ¥3.0 bn. As shown in the fluctuation explanation in the middle of the page, deterioration in price differential due to a fall in the price of copper and a deterioration in unit cost differential are expected for overseas copper mines.

For overseas copper mines, the Morenci copper mine has experienced a further drop in ore grade, which, among other factors, has led to a forecast deterioration in both quantity differential and unit cost differential.

Gross profit in the Smelting & Refining segment remains unchanged at ¥64.0 bn. However, as per the fluctuation explanation at the bottom of the page, for gross profit at copper-related entities, while inventory evaluation profit and loss is forecast to improve due to a revision of exchange rate levels towards a weaker yen, a deterioration in gross profit for nickel-related entities is forecast for both the conditional differential and inventory evaluation profit and loss due to the revision of the nickel price level in a downward direction.

2) Page 7 Sales by Product Subsegment for Materials Business

We will now move on to explain the sales by product subsegment for the materials business at the top of page 7. Battery materials are expected to see continued healthy demand.

However, the electronic components market is experiencing ongoing harsh conditions, and while some products are seeing an improvement in sales, a drop in income from the November forecast is expected.

3) Page 7 Equity in Earnings of Affiliated Companies

Equity in earnings of affiliated companies is shown in the center of page 7. The improvement at Candelaria is thanks to production volume exceeding the November forecast due to factors including an improvement in ore grade.

4) Page 6 Segment Profit and Loss Diff. Adjustment

The diff. adjustment amounts for segment profit and loss in the top right of page 6 indicates an expected ¥7.0 bn deterioration from the November forecast. This is a risk factor with the potential to be occurred in this fiscal year as described at the start, and has been incorporated from the February forecast. The amount is expected to be around several billions of yen.

Further, page 19 shows a close-up view of the Cote Gold Project currently underway in Canada's Ontario province, so please take a look later.