

Explanation Script of Teleconference
for Consolidated Financial Results for the Second Quarter of the Year Ending March 2025 (FY2024)

I. General Briefing

The following is an overview of SMM's consolidated financial results for the six months ended September 30, 2024 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 six months ended September 30, 2024: Overview of Business Performance

Let us begin with an overview of the consolidated financial results for the six months ended September 30, 2024. Please take a look at page 2 of the Supplementary Explanation Material of Financial Summary.

We will explain metal prices and the exchange rate for the six months ended September 30, 2024.

For companies that settle their accounts in March, average copper and gold prices rose year-on-year for the period of April to September, while nickel and cobalt prices fell and the foreign exchange rate saw a depreciation of the yen.

On the other hand, for companies that settle their accounts in December, copper prices rose year-on-year for the period of January to June, and the foreign exchange rate saw a depreciation of the yen.

Consolidated sales saw a year-on-year increase of ¥83.0 bn to ¥800.1 bn.

Consolidated profit before tax increased ¥19.2 bn year-on-year to ¥73.0 bn.

As shown in the graph on page 2, while there were negative factors, like a fall in the price of nickel and cobalt and a deterioration of the unit cost differential at copper mines, primary factors for the increase in profit included rising copper and gold prices, a depreciation of the yen and the impact on inventory evaluation those brought.

2. Consolidated Results Forecast for FY2024

Next, we will explain the overview of the revised consolidated operating results forecast for the fiscal year under review. Please take a look at page 3 of the Supplementary Explanation Material of Financial Summary.

Consolidated profit before tax in the (3) November forecast anticipates a decline of ¥15.0 bn in profit to ¥96.0 bn when compared to the (4) August forecast. Primary factors in the fluctuations are as shown in the graph at the bottom of page 3. Specifically, although we expect rising copper and gold prices, we still expect a decline in profit due primarily to a drop in nickel and cobalt prices, an appreciation of the yen, and the impact on inventory evaluation those will bring, as well as a worsening of the unit cost differential for smelting and refining of nickel-related entities.

While the Quebrada Blanca Copper Mine (Chile) and the Cote Goldmine (Canada), which are currently being ramped up and which were previously shown as the "effect of large scale projects" in the previous operating results forecast, had their profit and loss revised based on the recent situation, there are no changes from the previous forecast.

Additionally, we reexamined and revised the risk factors that could materialize during this fiscal year and adversely affect profits, which we explained in the August forecast, and included the resulting increased amount (that is the decline in profit) in Other.

3. FY2024 Profit and Loss Exclude Temporary Factor

The forecast for the profit and loss exclude temporary factor for FY2024 is shown on the right side of the graph at the bottom of page 3. Here, the November FY2024 operating results forecast is divested of one-off factors occurring through fluctuations in metal prices and the foreign exchange, and other special factors.

Profit and loss exclude temporary factor in this forecast is at the same level as in the previous forecast, ¥120.0 bn to ¥110.0 bn.

An increase in copper and gold prices are positive factors, whereas negative factors include a drop in nickel and cobalt prices, an appreciation of the yen on the foreign exchange and a deterioration of the unit cost differential, leading to a profit and loss exclude temporary factor that is at the same level as last time.

While the fluctuations in metal prices are unavoidable, the negative factors in manufacturing, such as the quantity differential and the unit cost differential, are areas in which we are going to have to continue to take action.

Due to the nature of SMM's business, although fluctuations in the profit and loss exclude temporary factor 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

This section concerns 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 the principle of a consolidated dividend payout ratio of 35% for surplus dividends with a minimum indicator of a DOE of 1.5% as its dividend policy.

Based on the revised forecast of consolidated operating results, we revised the FY2024 annual dividend forecast. As a result of that, a DOE of 1.5% is expected to be larger than a consolidated dividend payout ratio of 35%. The annual dividend forecast calculated with this DOE of 1.5% is ¥99/share, so the interim dividend for this period is half that, at ¥49/share.

This dividend forecast amount is a revised one based on our latest results forecast and calculated in line with our dividend policy, but there is actually no change from what was disclosed in May.

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. FY2024 1H Result vs FY2023 1H Result

First, we will explain FY2024 1H financial result vs FY2023 1H financial result comparison.

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

Please take a look at the Gross Profit box on the upper left of FY2024 1H financial result vs FY2023 1H financial result on page 4.

First, we will look at gross profit in the mineral resources segment.

[Gross Profit in the Mineral Resources Segment] ¥29.0 bn, a profit decrease of ¥5.4 bn.

As shown in <<Explanation of Diff. in Gross Profit *Excluding Cote Goldmine>> in the middle of the page, copper mines saw a substantial decline in profit.

(1) Hishikari Mine

- a) Positive factors: Foreign exchange differential improved due to a depreciation of the yen and the price differential due to a rise in gold prices.

b) Negative factors:

- Quantity differential: Reduced production and sales (gold sales volume will see a year-on-year reduction of 0.4 tonnes) due to the impact of mining order

There is no change from Hishikari Mine's planned FY2024 gold sales volume of 4.0 t/year.

(2) Copper mines (primarily Morenci Copper Mine)

a) Positive factors: For companies that settle accounts in December, the price differential and the foreign exchange differential improved due to, respectively, a rise in copper prices and the depreciation of the yen from January to June.

b) Negative factors:

- Quantity differential: Reduced mining volume due to insufficient staff and degradation in ore grade have continued.
- Unit cost differential: In addition to reduced production and sales, labor, subcontracting and repair costs increased.

Next, we will look at the smelting and refining segment.

[Gross Profit in the Smelting and Refining Segment] ¥41.7 bn, a profit decrease of ¥1.1 bn.

As shown in gross profit for smelting and refining toward the bottom of the page, copper-related entities saw improvements, but nickel-related entities saw a decline in profit.

(1) Copper-related entities

a) Positive factors: The yen depreciated and metal prices rose to bring improvements to the inventory evaluation.

b) Negative factors:

- Unit cost differential: Increasing energy costs
- Other: A drop in the price of the sulfuric acid by-product and a fall-off of the temporary profit increase factors that occurred last year

(2) Nickel-related entities

a) Positive factors:

- Other: Improvements to processing revenue through a depreciation of the yen and a fall-off of the temporary profit decrease factors that occurred last year

b) Negative factors

- Condition differential: Nickel and cobalt prices fell.
→ A system called "sharing" in which revenue from processing is linked to metal prices is applied to nickel-related entities, so fluctuations in the price of metal have a major impact on results.

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 saw continued healthy demand, but sales dropped as there was a decrease in prices for metals.

Regarding advanced materials, there are inconsistencies across the board, but sales increased overall thanks to the progress made in electrical parts inventory adjustments that have been going on for a while and the recovery in demand.

3) Page 5 Equity in Earnings of Affiliated Companies (in the middle of page 5)

(1) Cerro Verde, Candelaria

Overview: Both saw an increase in profit. While there was a reduction in production and sales brought about by a reduction in ore grade, a rise in copper prices and a deterioration of the yen from January to June, for companies that settle their accounts in December, led to an improvement of both the price differential and the foreign exchange differential.

(2) N.E. Chemcat, Nippon Ketjen, MS Zinc, and Others

The significant deterioration is mainly due to the start of production at the Quebrada Blanca Copper Mine which is included others. This brought the posting of various associated costs (for ramping up, etc.) and the recording of profit and loss related to operations, that did not occur in the same period last year.

2. FY2024 Full-year Forecast November vs August

Next, this is the comparison between the August forecast and the revised November forecast for FY2024. We estimate that the average annual metal prices that are used as assumptions are going to see copper and gold rise while nickel and cobalt drop when compared to the August forecast, and we estimate that the foreign exchange will see an appreciation of the yen.

1) Page 6: Comparison with August forecast by segment

Please take a look at the Gross Profit box on the upper left of the FY2024 November forecast vs August forecast on page 6. We expect the mineral resources segment to stay at the same level, and a decline in profit in the smelting and refining segment and materials segment.

Please note that the few billion yen that we mentioned at the start for risk factors that could materialize during this fiscal year and adversely affect profits are appropriated into the gross profit for Diff. Adjustment.

First, we will look at gross profit in the mineral resources segment.

[Gross Profit in the Mineral Resources Segment] Estimated at ¥68.0 bn, the same level as the August forecast.

Gross profit for the Cote Goldmine (included in the consolidated statements), which is currently ramping up, is included in the gross profit for the mineral resources segment. Ramping up is proceeding according to plan, and the level of gross profit for the mine has not changed significantly from the August forecast. Additionally, there is no change to our expectation that it will make contributions to profit in the latter half of 2024.

Now, look at the <<Explanation of Diff. in Gross Profit *Excluding Cote Goldmine>> fluctuation explanation in the middle of the page.

(1) Hishikari Mine

a) Positive factors: Price differential improvements are expected due to rising gold prices.

(2) Copper mines (primarily Morenci Copper Mine)

a) Negative factors:

- Unit cost differential: Morenci copper mine is expected to see an increase in repair costs and subcontracting costs.

[Gross Profit in the Smelting and Refining Segment] Estimated at ¥37.0 bn, a profit decrease of ¥30.0 bn.

(1) Copper-related entities

a) Negative factors:

- Inventory evaluation: While there is an increase in the gold price, we expect to see a deterioration due to the appreciation of the yen in the foreign exchange.

(2) Nickel-related entities

a) Negative factors:

- Price and condition differential: We expect a decrease in nickel and cobalt prices.
- Unit cost differential: We expect a deterioration through reduced production of both nickel and ferronickel.
- Inventory evaluation: We expect a deterioration through a decrease in nickel and cobalt prices and the appreciation of the yen in the foreign exchange.

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.

The battery materials business is anticipated to see continued healthy demand, and we are aiming at starting production at our new plant in Q4 of FY2024.

The advanced materials business is largely holding at the level forecast in August. Due to inconsistencies across the board in the recovery of the electrical parts market, coupled with further inventory adjustments for some groups of products, we expect the recovery to remain a modest one.

3) Page 7 Equity in Earnings of Affiliated Companies

(1) Cerro Verde, Candelaria

Assuming operations proceed according to plan, we expect improvements due to an increase in copper prices. We estimate that things will go according to plan at Candelaria copper mine, mining high grade sections in the latter half of the year.

(2) Other

While production volume for the Quebrada Blanca Copper Mine is as we previously forecast, we expect an increase in startup costs.