

This is a transcription of Sumitomo Metal Mining Co., Ltd. Announcement of Financial Result for the Year Ended March 31, 2017 / Progress of Business Strategy held in 17 May, 2018.

**Sumitomo Metal Mining, major improvement over the previous fiscal year and record high dividend talks about efforts towards next medium term**

**Announcement of Financial Result for 2017 Fiscal Year / Progress of Business Strategy**

Yoshiaki Nakazato : Good morning, everyone. Today, thank you for attending Announcement of Financial Result for 2017 Fiscal Year / Progress of Business Strategy by our Sumitomo Metal Mining. Let's get started this briefing.

**I. Summary**

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- 1. FY2017 Business Performance
  - 1) Performance
    - Large upturn in year-on-year results / highest ever dividend
  - 2) Management issues coming to light
    - > Operational level issues
- 2. FY2018 Outlook
  - 1) State of company management
    - (1) Enhancement of management foundations
    - (2) Development of growth strategy
      - > Increased importance in next 3-Year Plan
  - 2) Strategy implementation capabilities
    - (conceptualization/implementation capabilities)
  - 3) Improvement of on-site and production capabilities
    - > Human resource development, strengthening of organization

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Today's topics are summarized in page 3, please view them while I talk.

I only have two chances in a year to talk in front of analysts and investors, so this is a very important opportunity for me.

Probably you might want to know "How executives read data" and not just the data we show. I'll try to explain things so.

Keeping that point in my mind, I would like to explain why the top-level managers of Sumitomo Metal Mining are considering with those data as showed in the summary on page 3.

## 1) Trend of Business performance

1) Trend of Business performance

(JPY100M)		2012	2013	2014	2015	2016	2017	2018Forecast [IFR\$]
Net Sales		8,085	8,305	8,213	8,554	7,881	8,335	8,500
Operating Income		853	754	1,253	597	784	1,102	—
Recurring Profit		1,150	1,144	1,742	-123	-18	1,249	—
Profit before tax		1,225	1,110	1,233	8	-80	1,053	1,210
Equity Method profit		171	283	239	-732	-380	114	90
Segment Profit	Mineral Resources	881	891	533	-443	-538	580	510
	Smelting & Refining	408	291	313	253	333	515	510
	Materials	33	111	129	80	121	153	150
	Other	18	18	-1	-3	-1	2	-80
	Ditt. Adjustment	34	35	283	10	87	19	—
Net Income (Profit attributable to owners of parent)		388	303	911	-3	-135	918	940
Copper (\$t)		7,355	7,104	8,554	5,215	5,154	8,444	8,500
Nickel (\$t)		7.89	8.51	7.82	4.71	4.58	5.08	5.00
Gold (\$t/oz)		1,854	1,327	1,243	1,150	1,253	1,235	1,300
Cobalt (\$t)		12.29	12.87	13.89	11.73	13.87	30.84	35.00
Exchange (¥/\$)		83.11	100.24	109.93	120.15	103.40	110.38	105.00

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First of all, please see page 5 of the document. This is the trend of our business performance.

As you see on the second column from the right (2017), we achieved a rapid recovery. This is a surplus after an interval of three years, recurring profit had a substantial improvement of 124.9 billion yen from the deficit of 1.6 billion yen in the previous fiscal year (2016).

The profit attributable to owners of parent is 91.6 billion yen, which is the third highest score in our history. Also, as you can see in the segment profit, the Mineral Resource business has improved drastically, and the materials business shows growth of 15.3 billion yen from the previous year's figure of 12.1 billion yen.

As a result, shareholders will be paid dividend of 100 yen per year based on the standard after the consolidation of shares. If we convert the dividend for 2014 fiscal year to the number after the consolidation of shares, the dividend per share will be 96 yen, but this fiscal year (2017) will be 100 yen, which is a significant improvement in the performance. We are planning to pay a record high.

As you see, these results seem to be good, but I myself am not satisfied with them. Toward our operational divisions, we conveyed that it was rather an unwilling result.

However, confirming firmly our management issues for the future and sharing it throughout the company at this point was very good for us.

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So what exactly is the management task? This was also explained in the fall of last year, it is an expansion of lost profit and opportunity loss.

Due to the calculations performed with various management calculation methods, answers depend greatly on people. But I myself consider it shows that there were opportunity losses and lost profits exceeding 20 billion yen.

As a matter of course, I am sure it can be recovered. Let me explain "why I draw such figures in my head".

Firstly, we have some problems in the achievement of the strategy we have set up.

In other words, we are not going well with accomplishing the task with our strategy in operational level, not having a strategic difficulty. However, overcoming this "operational-level issue" is a tremendous thing for manufacturing companies.

Well, now I would like to explain what exactly this is with my ideas I have.

Let me start with a case of Sierra Gorda. Its business start-up plan did not work well and caused a delay. What was worse, due to the delay the profit supposed to be earned was lost. Now Sierra Gorda gradually decreased the amount of deficit and improved its operational results, but it has not been realized yet as compared with the original start-up plan.

Roughly estimated, we anticipate there is still room for about 8 billion yen.

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Next one is our delayed response to markets and customers. For example, loss by inventory evaluation and impairment loss on materials business. With regard to the valuation loss of inventory assets, in particular, we are posting actual losses of almost 3 billion yen in the materials business.

The third one is the failure of daily management. The target of the operating rate and actual yield rate as not been reached. As a result, the production volume and sales volume have not yet reached. Especially, in the past one or two years, the market has remained very solid, and the condition "product-and-sold" continues.

Due to the failure of Taganito's machinery, the reduce production and the accompanying reduce production at the Niihama Nickel Refinery, also in the copper business, Toyo Smelter & Refinery has also reduced production in the same way, and the fact that Hyuga Smelting is also reducing production. Originally, if we could operate as planned, we believe that we could earn nearly 5 billion yen profit by combining these figures.

I think that result of 2017 fiscal year shows that we need to review many points.

In addition, we are steadily showing a certain improvement in safety, compliance and quality control, which is the management foundation, but we are still not satisfied with our goal yet.

In the newspaper few days ago, I read Toyota's financial results announcement. There I saw president Toyota's comment; "Toyota production system (TPS) and cost reduction, these two are our essence. 2018, we are going to brush up them throughout the year".

I sympathized deeply with his words and asked myself "What is the strength of SMM (Sumitomo Metal Mining)". And the answer is always "Accurate Accomplishment".

Bringing back this ideal and regain confidence in the operational sites once more. This is our primary task for us in the future.

When thinking about corporate strategy, we naturally put the theme "what we want to do" and "what we should do" as a theme. It is obvious that the external environment will become more and more complex situation especially on mine development. At the same time, both "what we want to do" and "what we should do" become more harder to start working on. Being aware of gap between these two is also key for us as the manufacturing company.

In this financial result, we could understand our current problems: breakthrough by a mountain of discussion, necessity and significance of technology and business structure innovation, and a basic availability of manufacturing to discuss, plan and realize.

By looking at the issues like this as a major issue, I would like to expand my horizons as much as possible and move toward the next growth strategy.



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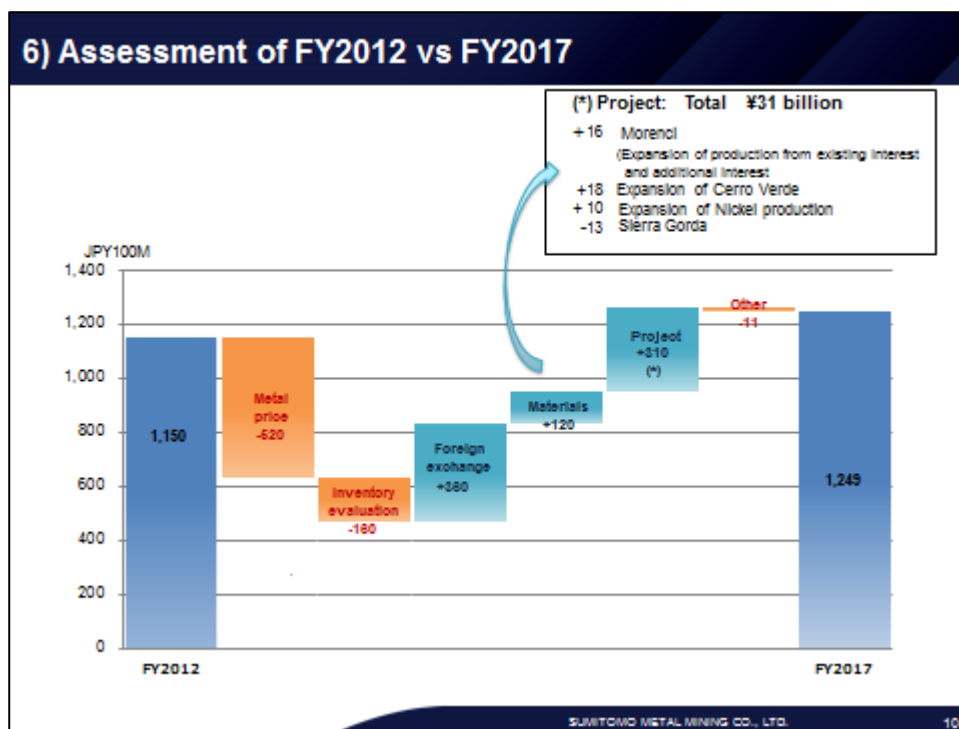
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Another point, I would like to talk about the settlement of 2017 fiscal year. I believe it was a year that I could organize strategic issues at the headquarters level for many years to some extent.

In the materials business, business restructuring has been completed. And in metal business too, we have realized to increasing production capacity of Taganito's 30,000 tonnes to 36,000 tonnes with an investment of only 300 million yen in a short period of time.

Also at the headquarters department, we have been reforming one after another; such as an integrated report or transition to IFRS (International Financial Reporting Standards) from 2018 fiscal year, or our start of the Governance Committee which I will mention later.

## 6) Assessment of FY2012 vs FY2017



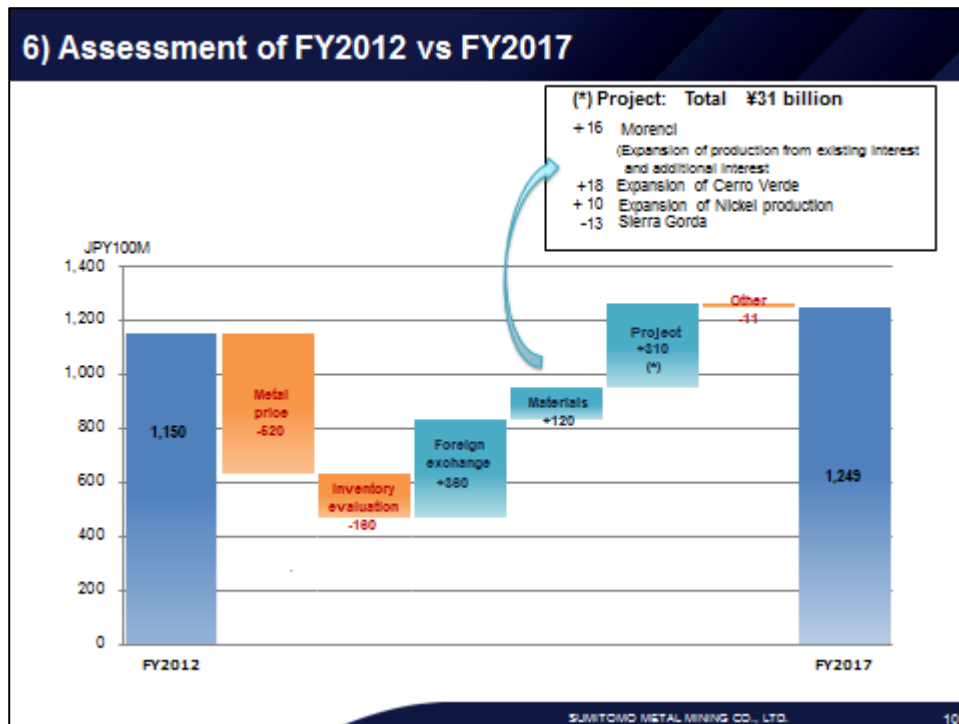
Please see page 10. This is a comparison table of our financial result for 2012 fiscal year and 2017 fiscal year.

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Then going back on page 5, you can see that the metal price for 2012 fiscal year was higher than in 2017 fiscal year. Foreign exchange is slightly weaker against the yen, but taking into consideration the positive impact of the yen's depreciation of the metal price and the exchange rate, it is forced to deteriorate by about 32 billion yen by external factors. Such a situation has appeared in the comparison of 2012 fiscal year.



However, the result (of the 2017 fiscal year ordinary profit), 124.9 billion yen in excess of 2012 fiscal year in which metal prices are very high.

These results are driven by the project effect. This is, for example, increasing production of Morenci or additional acquisition of interests. Macroscopically, in 2012 fiscal year, the amount of copper produced in Molencée was around 300 thousand tonnes on the basis of 100% interest, in 2017 fiscal year it was 464,000 tonnes. In addition to the conventional ratio, this means that the returns on additional interest has increased from zero as a whole.

Likewise, in Cerro Verde, the production increased considerably from 270,000 tonnes to 482,000 tonnes. Our production of electric nickel has also increased from 42,000 tonnes to 61,000 tonnes. Unfortunately, Sierra Gorda has a negative deficit.



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In short, we are recognizing from this figure that it is important to ensure the way of growth strategy in order to meet the expectations of stakeholders.

Who run a business of metal mining and materials like us, we can make profits for the current term with benefits that come from existing interests without any investment. But the amount of ore for one year will decrease and the machine will be damaged accordingly. Just maintaining the status quo leads to degeneration.

Under such circumstances, "how to realize the next growth" is a tremendously important point for those who run this business. This is why we always emphasize that growth strategies are important.

Let me summarize two things what I am considering about the financial result of 2017 fiscal year. One is to make our employees confident how to regain the important "manufacturing capabilities" to support future growth strategies, how to regain it once more. Second, how important growth strategy is? We recognized this again.

Next, I would like to describe the outlook of 2018 fiscal year.

First, talking about enhancement of management foundation, safety is the most important thing. Unfortunately, a death occupational accident in Sierra Gorda on May 15 as reported in some newspapers.

Of course we stopped the operation immediately then. Since operation has recovered in one day, I believe there were not any major impact. We can't secure stable operation unless operational staff's safety is guaranteed, so that safety is the first priority. This was really regrettable occupational accident.

Secondly, an important thing in strengthening a basis of management is corporate governance. We have been discussing with three outside directors. And for this replacement of president, we are planning to keep as fair and transparent as possible while interacting with the governance committee.

Next, it is a change in the environment. Things about it are always mentioned. External environment becomes increasingly complicated and investment environment does more difficult: including resource nationalism and difficulty of acquiring social license to operate. On the other hand, changing markets and society, such as Ai, IoT, automation of cars, and EV. In this situation, we will secure non-ferrous metals supply. It is one of the points of our external environment that such requests from customers is increasing.

In addition, I would like to pay more attention to non-ferrous big companies, or so-called resource big companies. They have made considerable progress in reforming their financial structures in the past one or two years.

Almost improving the financials, they think It's time to plan and act the next strategy to grow up. There is a limit of expansion of current business. So, it's time for them to aim at the next growth.

As for the seeds of resource development, if you can find it yourself, it has not been better than that, but finding it in reality is quite difficult. Since we found Pogo (gold mine), we have not been able to discover or develop new veins and mines by ourselves.

In such circumstances, I think that luck does not appear only by waiting. I think the time has come to show how executives make a move to develop resources for our future.

We recognize that it is extremely important to raise the results of strategies to strengthen the structure of the three core businesses of mineral resource, smelting and refining and materials. In such a meaning, the next 3-years business plan that can show the next growth strategy enters formulation this fiscal year, but I regard the plan very important.

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The third (outlook for 2018 fiscal year) is finally (2), but it is the development of growth strategy.

Let me start with mineral resource business. In this division, we purchased additional interests of Morenci two years ago. We believe this would be our hope in the future.

Also, last year, we took part in Cote (gold mining development) project in the stage of the pre-FS (preliminary survey). And now we started to formulate the final FS (corporate survey). We hope to learn various methods and concepts of mineral resource development overseas by doing the final stage of FS with partner IAMGOLD.

The smelting and refining business is developing reliably. Our Harima Refinery had a drastic change; the production of nickel sulfate has been increased to 49,000 tonnes, and handles lead, zinc to nickel sulfate, and precursor for battery materials.

To strengthen HPAL (High Pressure Sulfuric Acid Leaching), we will further enhance cost competitiveness by recovering by-products such as Scandium and Chromite while at the same time enhancing the capacity of Taganito.

At the same time, to pursue the possibility of expansion of the next new nickel business, we are planning to formulate the definitive FS of the plan of Pomalaa from full scale this fiscal year.

As always mentioned, the key words of the materials business are "independence and autonomy". We almost completed "selection and integration." What the business headquarters have to think is about how we should run business, how we will grow up each products and what we will select or abandon.

The other key is the entry into the silicon carbide business. Now we are running this business in medium scale, which suits our business scale, but in future this business might grow into piece parts business or assembly in the end. Such expansion to many-sided businesses including module would form our business domain. We believe this seed sown would be an idea of how we can expand our business.

As mentioned above, that is the points in 2018 fiscal year. We recognized the difficulty of making the next 3-years business plan and understood the situation that the importance of it was increasing too much.

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In such situation, there are important things: human resource development and strengthening organization to develop strategies for the changing future and brushing them up. And then I'm sure that trying to face challenges and discuss much by those who involved in each business are important. So we'll sophisticate the strategy, in other word "rousing strategy."

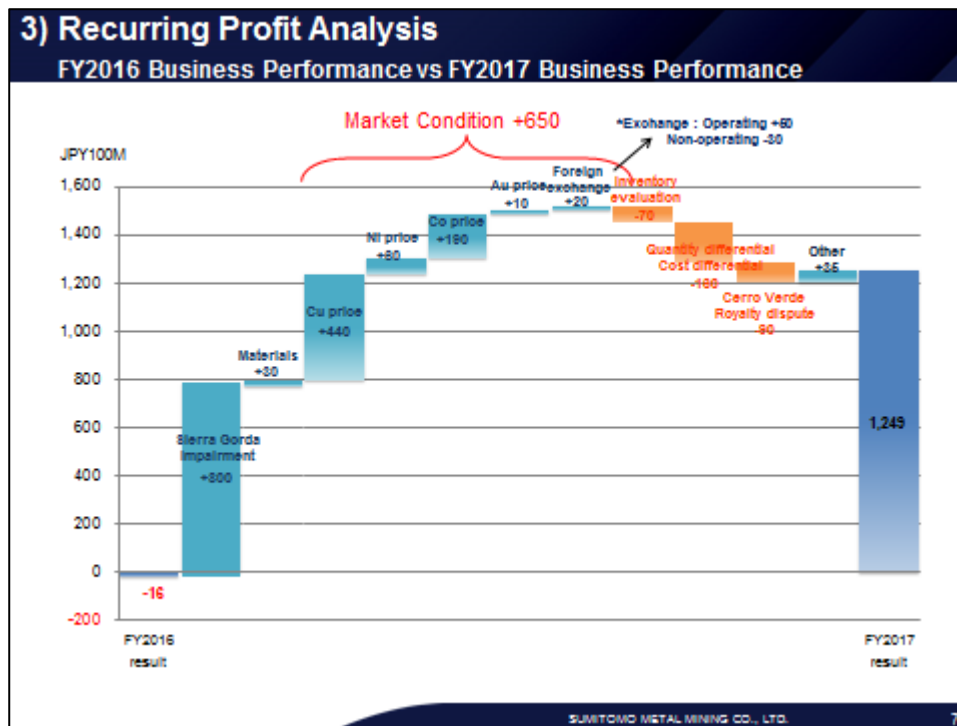
I mean I've been trying to make a free and culture in the company. I want the next president to take it over.

Totally, the next year will be more stable in spite of some uneasy things in the world economy. Regarding to conditions of the market of metals, fundamentals are not so bad.

We would appreciate it if you could support and cooperate with us for this year to challenge the problem to be solved and to realize another growth.

Now, picking up some points in this data I want to introduce.

### 3) Recurring Profit Analysis FY2016 Business Performance vs FY2017 Business Performance



Please see page 7. This is the result of profits and loss in 2016 fiscal year and 2017 fiscal year with fluctuation analysis.

There were 65 billion yen increase influenced by the market condition in 2016 fiscal year and 80 billion yen increase by cleaning the impairment loss of Sierra Gorda.

On the other hand, there were 16 billion yen decrease by cost and reduce production and 9 billion yen decrease by royalty dispute at Cerro Verde, a temporary cost. I just explained what I thought about it.

And, let me explain the situation of overseas copper mines we have interest. Each mine digs lower grade area than the original plan. I went to the Morenci copper mine last month (April 2018), and that mined a deposit called Western Copper. In the past the copper grade was about 0.4% to 0.5%, but now just over 0.3%.

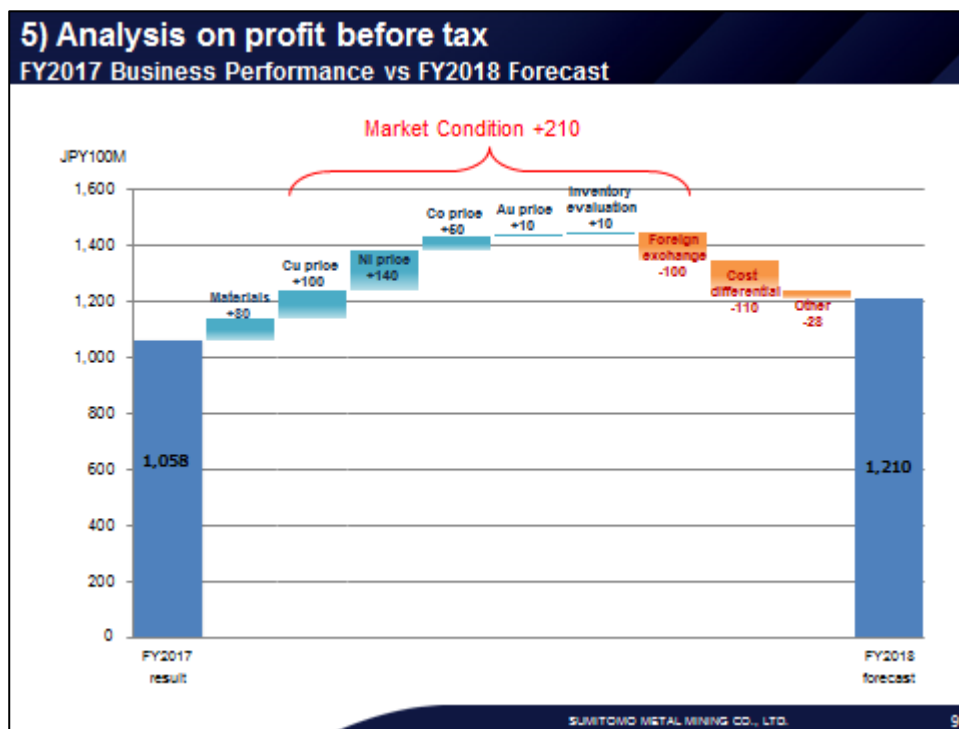
Unfortunately, temporarily, the ore grade in Cerro Verde, another main mine, is going down with Morenci. Therefore, the production is decreasing. Certainly, this is loss and profit in sales for this year's production and inventory, but we guess the reduce production are not going to live long according to the resource business head office.

In Morenci, the main deposit will shift to other than Western Copper in a few years. Perhaps, there will be minimum score for one or two years. Regarding to Candelaria copper mine, we reduced production greatly from 150,000 tonnes in 2017 to 100,000 tonnes. That's because they could mine limited areas by a wall slide happened in the pit in 2017 autumn.

The slides happened just upon a high ore grade area because the mine is smaller than others. We plan to manage to recover it step by step for collecting copper.

We estimate it would take about one year to recover. Thus we expressed this data.

##### 5) Analysis on profit before tax FY2017 Business Performance vs FY2018 Forecast



Next, it is page 9. This is the result of 2017 (of profit before tax) and the forecast of 2018 fiscal year.

Getting better with market factors, but the cost difference comes out as a negative factor. This is because, as I mentioned earlier, the ore grades of main mines, Cerro Verde and Morenci, worsened and unit costs rose due to reduce production. The cost will come back into line as the ore grades better.

## 8) ROA Performance by Segment

8) ROA Performance by Segment				
	Mineral Resources	Smelting & Refining	Materials	Overall
FY2013	21.5%	4.4%	7.8%	5.5%
FY2014	14.3%	11.7%	7.8%	5.5%
FY2015	-12.3%	3.7%	3.2%	0.0%
FY2016	-13.7%	5.0%	6.1%	-1.1%
FY2017	11.9%	7.8%	6.9%	5.4%

(Remark) ROA by segment is based on recurring profit or loss.  
ROA for the whole company is based on net income or loss.

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Then, it is 12 pages. ROE of 2017 fiscal year is 9.2%. This means recovery to about the same level just as compared with 2013 and 2014. The reason is a rising of ROA to 5.4% in 2017 fiscal year in total. As your information, in 2013, it was 5.5%.

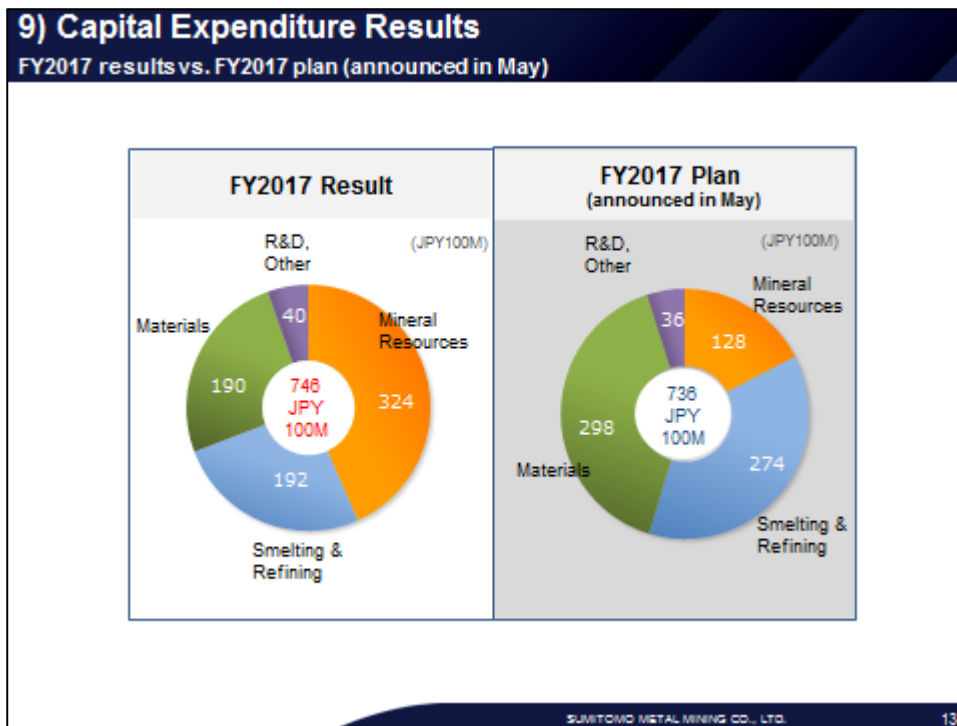
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As in page 5, let me tell you repeatedly that we acquired this profit percentage in such a high fluctuation of metal prices.

## 9) Capital Expenditure Results FY2017 results vs. FY2017 plan (announced in May)

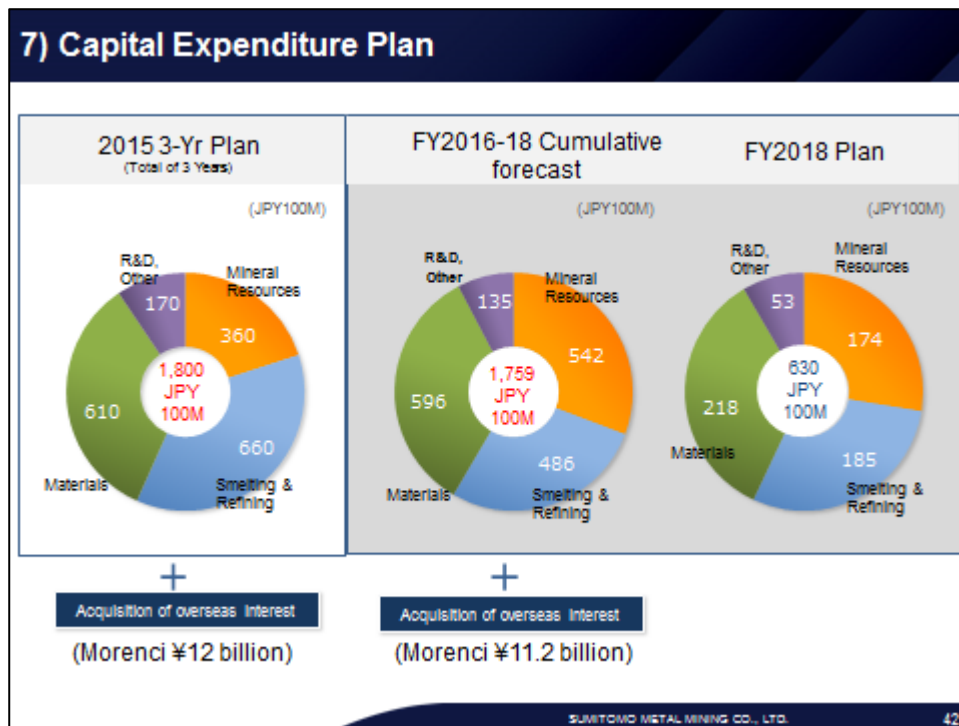


Then please see page 13. This is a capital investment plan and results for 2017 fiscal year, and we have been able to invest almost as planned.

There are some key investments: 21.9 billion yen in Cote (gold development project), about 10 billion yen in facility expansion and reinforcement of NCA of battery material business, and 3 billion yen in scandium. And depreciation for the current fiscal year were 46.9 billion yen.



## 7) Capital Expenditure Plan



Page 42 is about the plan of capital expenditure.

2018 fiscal year will be the last year of 2015 3-years business plan; the result forecast of the three years FY2016 to FY2018 is just over is just lower 4 billion yen than the total of 3-years plan (1.8 trillion yen). We think it as within the margin of error.

About mineral resource segment, the result will be over about 18.2 billion yen if it goes on the plan of 2018 fiscal year; 36 billion yen in the three-year plan and 54.2 in these three years. The reason is just Cote. We will have invested 22.7 billion yen in total for these three years.

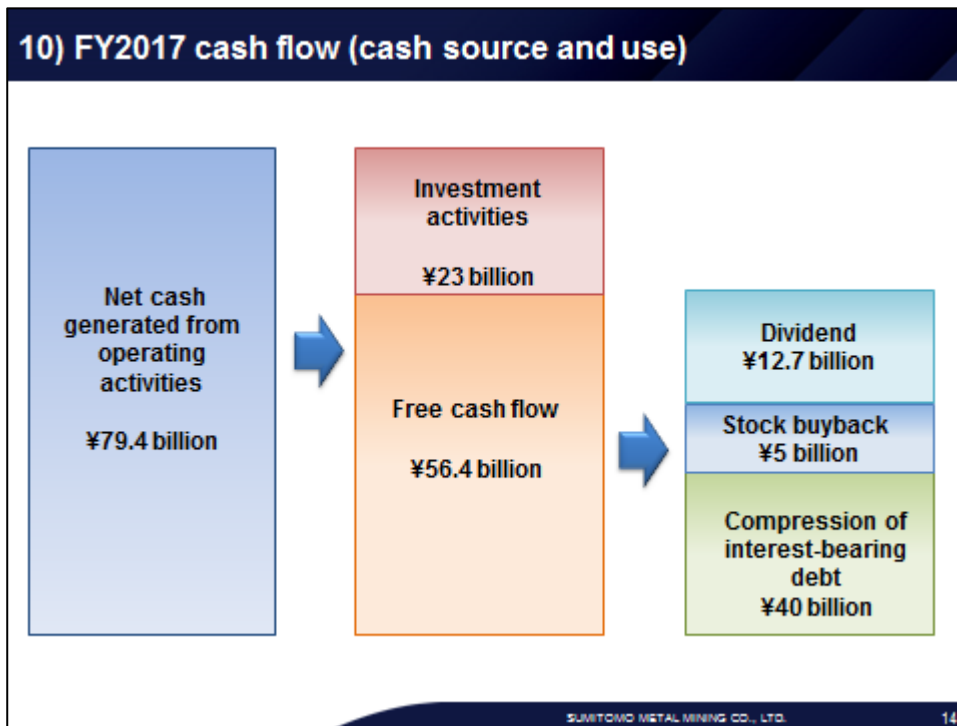
And about smelting and refining segment, the result will be 48.6 billion yen, that is, 17.4 billion yen lower than the 66 billion yen plan. That's because of our investment policy about efficiency - Minimum investment and maximum result. For example, the investment in nickel operations in Philippines was about 10 billion yen lower.

And investment in materials proceeded as planned: 59.6 billion yen in real to 61 billion yen in the plan. But looking at its breakdown, it contains capex reduction due to withdraw from lead frame business: about 11.6 billion yen.

On the other hand, the investment in battery business increased 5.4 billion yen than planned. In addition, we also had a capex reduction plan in other businesses when we planned. Unfortunately, the reduction plan didn't go as planned; excess capex counted about 6 billion yen. These factors consist the total capex outlook for FY2018 material business.

Now, I would like you to think about whether our company could make a profit of 3 billion yen as planned by investing in lead frame business or not. In my opinion, the shift to battery business is right. Because current popularity of semiconductor is only in the category of power semiconductor rather than IC like Logic and Memory. That is like an artificially intelligent car and Internet of Things. Lead frame in those fields is different from our detailed multi-pin one at all. If we had carried out investment in lead frame for IC, in a sense of getting late start, we would have been swamped with sufferings.

#### 10) FY2017 cash flow (cash source and use)



Next, please see page 14. I would like to introduce only one point in relation to funds.

This shows a way of use of free cash flow that subtracts investment activity (cash flow) from operating cash flow. As for the big epoch making in FY2017, we repaid the loan of 100 billion yen for the with subscription rights to share.

There are three funds: 30 billion yen of convertible bonds (with subscription rights to share) denominated in yen on the euro market, 30 billion yen in syndicated loans, and 40 billion yen as cash on hand.

As a result, interest bearing debt decreased by 40 billion yen.

## 11) Shareholder return

**11) Shareholder return**

- **Dividend results and forecast**

**FY2017 year-end dividend forecast ¥66/share**  
(FY2017 intermediate dividend results ¥17/share)

Calculation of intermediate dividends based on the standard after share consolidation (Oct 1, 2017) gives an annual dividend amount for FY2017 of ¥100/share

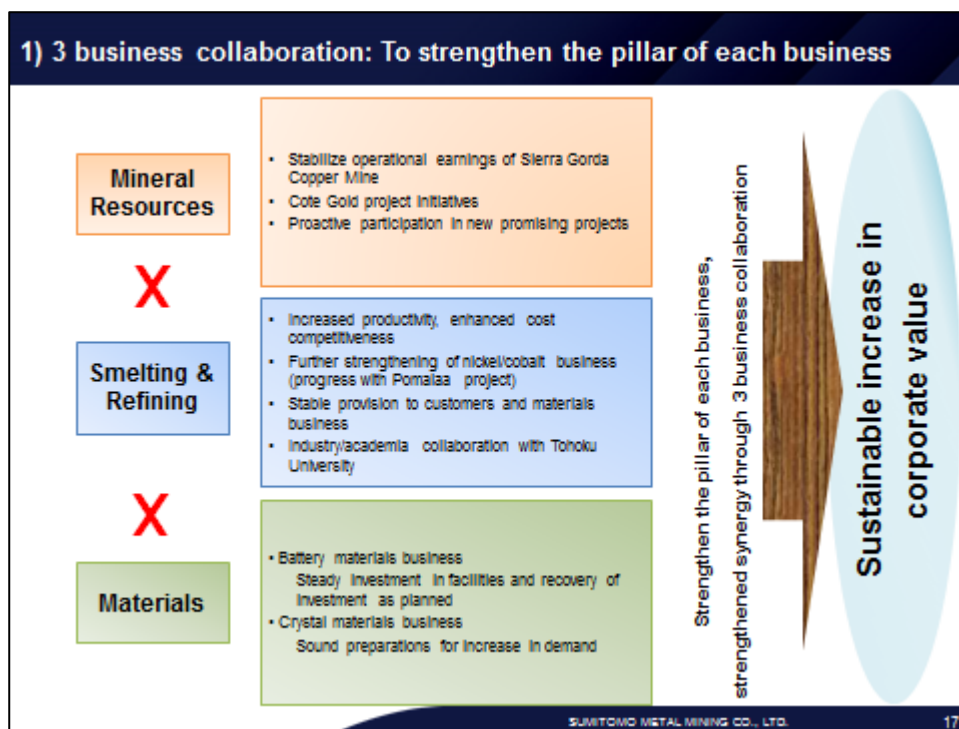
**Dividend payout ratio 30.1%**

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As for the dividend of end of fiscal year on page 15, we've been promising a dividend payout ratio of 30% or more. So we plan 66 yen per share.

Converted into ratio after the consolidation of shares, the annual dividend will be 100 yen per share, which is the highest dividend we have ever recorded. The dividend payout ratio has cleared 30% as promised.

### 1) 3 business collaboration: To strengthen the pillar of each business



Next, please see page 17. In the meantime, I think that the fundamental part of the strategy will not change.

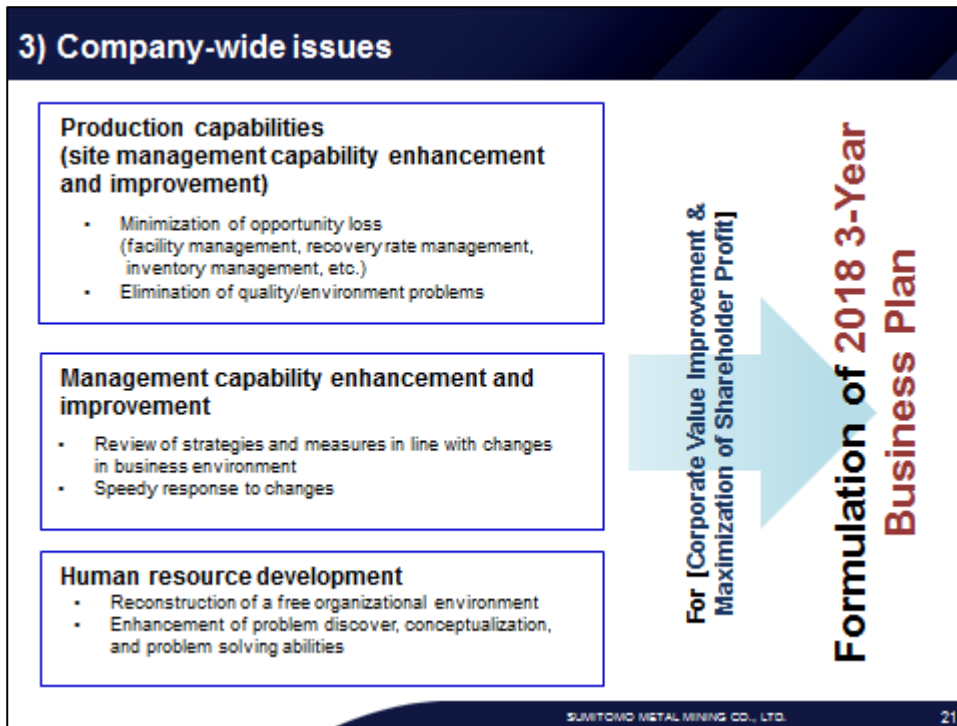
Our basic strategy is strengthening our mineral resource, smelting and refining, and materials business by making them support each other and fully exploit their advantage.

As I mentioned before, recently General Manager of Corporate Planning Dept. and General Manager of Technology Div. joined General Manager of three main divisions monthly dialogue and discussion.

This made the Non-Ferrous Metals Division supply raw material very smoothly to battery material business, and customers of materials have been purchasing from other companies until now buy copper and nickel from our Non-Ferrous Metals Division.

We are thinking that we want to make such a synergistic effect stronger.

### 3) Company-wide issues




Would you please see page 21?


I will summarize our management problems thus: manufacturing capability, improving business management and human resource development. Very important points in 2018 fiscal year will be that business and head office division achieve this for the next 3-year business plan.

## 1) Mineral Resources (1) Expansion of overseas mine interests

### 1) Resources (1) Expansion of overseas mine interests

- **Additional acquisition of Morenci copper mine interest**  


**May 31, 2016**  
Held interest 12% -> 25%

<<Acquired amount>>	<<Operating income from additional interest>>
¥112 billion (1 billion USD)	FY2016 ¥3.7 billion FY2017 ¥11.7 billion
- **Participation in Cote Gold project (Canada)**  


**June 2017**  
**Acquisition of 27.75% of interest in the project**

  - ✓ Acquired amount: USD\$195 million (approx. ¥21.5 billion)
  - ✓ Mine life: 17 years approx.
  - ✓ Total planned production: 168 t of gold
  - ✓ Planned start of production: 2021

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Below, I will explain each points.

On page 23, both the acquisition of additional interests in Morenci and Cote Gold project are going very well.

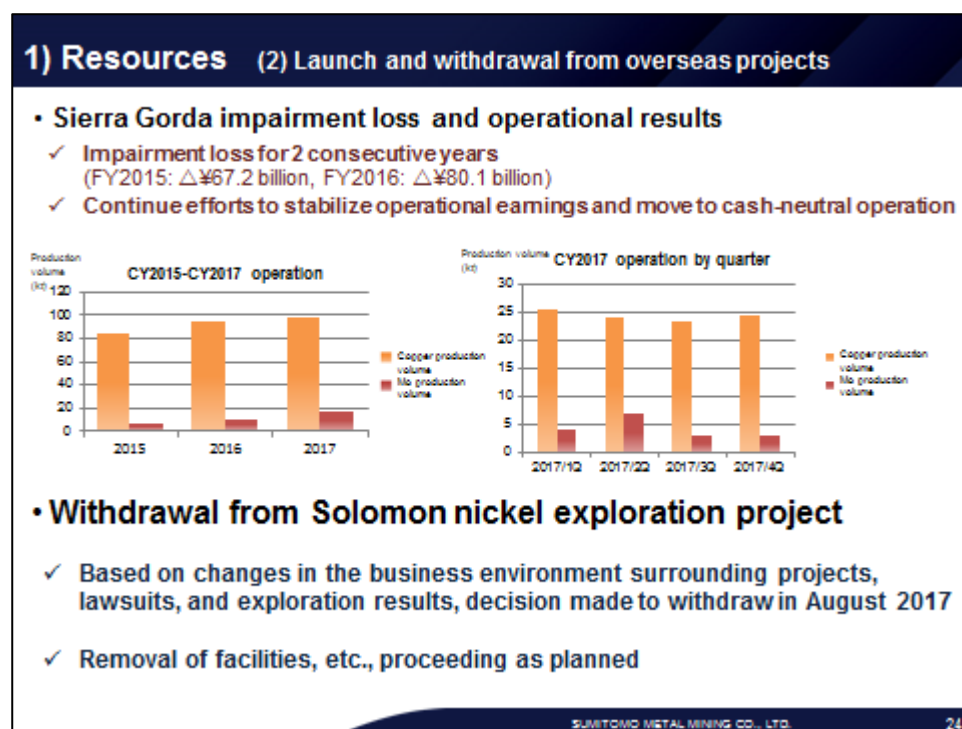
Repeatedly, in Morenci, Western Copper deposit is ongoing. Although the ore grade goes down a little, there is no problems for the whole plan.

As to the Cote Gold project, we are implementing the final feasibility study. Current progress is 51% and late for 54% in the plan, but we will have discussed and made decision of whether construction or not with a report of the study by 2018 autumn.

We were already acquired environmental permits but some permission has to be renewed. That update will be done by this autumn. I think there are no worries at now. It is going well.

Especially regarding to Morenci, the recent increase in the copper price reflected and our funds were fully repaid that we had loaned to the local subsidiary in the US.

## 1) Resources (2) Launch and withdrawal from overseas projects



Regarding to Sierra Gorda on page 24, we are very sorry to make you worry very much, but the performance itself is getting very good. However, unfortunately, we've been not able to figure data to plan stably yet.

I will tell you the main figures. First of all, on the operating rate, the results were 83.9% in 2016 fiscal year and 84.3% in 2017 fiscal year.

We succeed in improving the production in some points: increasing from 94,000 tonnes in 2016 fiscal year to 97,000 tonnes in 2017 fiscal year in copper, from 10,000 tonnes in 2016 fiscal year to 16,200 tonnes in 2017 fiscal year in Molybdenum.

As a result, the operating cash flow almost reached zero target of minus 26 million dollars. We are going to get to the balance in a current price level of copper.

Originally, we planned phase 2 to increase the copper production from 110,000 tonnes to 220,000 tonnes but it was difficult. So we think about revising down and start a project of debottlenecking.

Let me explain what the debottlenecking is. Each process is designed to have a capacity with a little allowance

However, some processes have too little allowance and we are going to strengthen that through the debottlenecking, and increase the whole production capacity. I hope we can finish this investment by the end of March in 2019. As an economic scale, it will be very small: less than 10 billion yen.

## 5) Globalization of head office divisions (1) Strengthening of governance

### 5) Globalization of head office divisions

(1) Strengthening of governance

#### Corporate governance structure

Multiple outside directors and increased ratio of outside directors  
Independent outside directors among all 8 directors.  
From 2015 2-person structure  
→ From 2016 3-person structure (1/3 or more outside directors)  
→ From 2018 Appointment of female director (planned)

Evaluation of Board of Directors' effectiveness  
• In 2016 Discussion of "Ideal" for Board of Directors  
• Periodic evaluation of Board of Directors' effectiveness  
(Board of Directors discussion based on aggregation of results of director/company auditor self assessment and analysis and evaluation by external lawyers → for further improved effectiveness)

Outside director (outside company auditor) support structure enhancement  
• Implement an "Outside Officers Discussion Panel" formed entirely of outside directors and outside company auditors, and meetings for outside officers and top management to exchange opinions  
• Systemization of observation of SMM Group domestic bases by outside directors

#### Strengthening of engagement

- Strengthening of engagement with shareholders, etc. by company management
- Continue direct dialogue by top management and explanation of business strategy to investors, etc. by persons responsible for businesses
- Hold new explanatory sessions for individual investors



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The page 31 is the globalization of the head office division.

I think there are two points in 2017 fiscal year: new active Directors and governance innovation. First, three outside directors took part in us and activated the board of the directors.

Activity in current board of directors is a high-level dialogue among me and them: a professional lawyer in labor law, a university professor and an ex-executive in resource business. They question to me with each perspectives, and sometimes I'm not ready to answer their sharp questions.

Secondly, we have set a new committee, or Governance Committee, in 2016 fiscal year, which composed of chairman and three outsider directors I often consult for advices on allocation, evaluation, compensation and replacement of officers.

In 2017 fiscal year, I and outsider directors discussed responsibility and thoughts about president replacement and recording impairment loss many times.




## 5) Globalization of head office divisions (2) Integrated reports brush up

### 5) Globalization of head office divisions (2) Integrated reports brush up

#### 2nd year after shifting to integrated reports

**FY2016 edition (first year)**

**FY2017 edition (2nd year)**



- ✓ SMM group risk and opportunities, and a concrete plan for such
- ✓ Initiatives for work style reform from a long-term perspective
- ✓ Round table talks with stakeholders
- ✓ Transitions in SMM's governance

**FY2018 edition (direction for 3rd year)**

- ✓ Maximizing the corporate value through the collaboration of 3 core businesses
- ✓ SMM's Board of Directors from the perspective of an outside directors
- ✓ Human resource development issues and initiatives
- ✓ Applying GRI standard (management approach)
- ✓ Reviews based on external reviews and opinions

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On page 32, we have transitioned from annual report to integrated report.

## 5) Globalization of head office division (3) Voluntary application of International Financial Reporting Standards (IFRS)

### 5) Globalization of head office division (3) Voluntary application of International Financial Reporting Standards (IFRS)

#### Decision made to apply International Financial Reporting Standards (IFRS)

- Revenue and profit structure became more globalized with the expansion of SMM's business in overseas

↓

- Enhance management foundations / response to globalization
- Applying the desirable financial reports as a company "aiming to be a non-ferrous leader and an excellent company in Japan"

Accounting period		Disclosure documentation	Applied accounting standards
FY2017 (year ended March 31, 2018)	End of year	Consolidated Financial results*, consolidated accounting documentation, annual securities report	Japanese standards
FY2018 (year ended March 31, 2019)	1st - 3rd quarters	Consolidated Financial results, quarterly securities report	IFRS
	End of year	Consolidated Financial results, consolidated accounting documentation, annual securities report	IFRS

(\*Remark) Forecast of consolidated operating results for the year ended March 31, 2019 is based on IFRS

Anton Salash@stockfolio

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Page 33 is about adoption of International Financial Reporting Standards as I mentioned in the press conference in my being appointed.

Especially our integrated report was highly regarded and award-winning from various institutions. This was just a proof that the head office division could achieve a high goal.

I will continue to keep sophisticating our globalization as the head office divisions relating management and safety environment.

## Next president

### Next president

## Akira Nozaki



April 1984	Joined Sumitomo Metal Mining Co., Ltd.
June 2007	General Manager of Nickel Sales and Raw Materials Department, Non-Ferrous Metals Division
July 2010	Deputy General Manager of Corporate Planning Department
May 2012	Deputy General Manager of Administration Department, Sierra Gorda Project Division
June 2013	Executive Officer Senior Deputy General Manager of Non-Ferrous Metals Division
June 2014	DirectorExecutive Officer General Manager of Corporate Planning Department
June 2015	Director Executive Officer General Manager of Non-Ferrous Metals Division
June 2016	Director Managing Executive Officer General Manager of Non-Ferrous Metals Division

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Page 34 introduces Akira Nozaki, the next president. As I mentioned earlier, in the discussion through the Governance Committee, it was decided that he takes over me.

He has a very broad background, calm mental to deal with any troubles and intimate knowledge of all our businesses. I really trust him and I am at ease to replace of top executive. And I feel happy with the evaluation for him in the governance committee.

That's about all the explanations in this briefing. Thank you very much for your attention.

## **Q & A: About mineral resource business**

Questioner You skipped a topic about mineral resource business. That was probably because it was a prearranged plan. But considering your long-term target toward a balanced portfolio, there are some challenges of takeover, finding other mines and making good deals. Especially about gold, there are some obstacles like cost. Nickel is, too, in your expansion plan in spite of weaker conditions of the market . I'd like to ask your vision.

Nakazato About nickel, we have a big seed of Pomalaa Project. Growing up the seed is important.

And MCLE (Matte Chlorine Leaching Electrowinning) is one of our strengths. Certainly, HPAL (High Pressure Acid Leach) is more spotlighted, but both are great processes. We give weight to advancement in technology; we could achieve the next breakthrough like we did in MCLE and HPAL.

For stable management, it's necessary to make such a technological innovation once in about ten years: like a shift from electrolyzation to electrowinning method.

The cost of MCLE is very low. We've made efforts to study; nevertheless an alternative low-cost method hasn't been found. In such circumstances, we should use selectively two different colors of domestic and overseas for a total balance. So now, about nickel, I'm waiting for the feasibility study result of Pomalaa by Non-Ferrous Metals Div..

In Pomalaa Project, we are going to determine whether to invest by the result of feasibility study. While improving the study over and over again, I hope we can introduce to you as a technological breakthrough in some way.

And certainly, the bottleneck in the longest mid-term vision is gold. In fact, there is few matters of it. As I mentioned before, existing gold mines are extremely expensive for Internal Rate of Return but according to circumstances, we'll take it.

Unfortunately, now, there is nothing. So, in 2017 and 2018, we are specializing in gold exploration as much as possible.

Our current answer to stakeholders concern about gold is not much attractive. We think there is no choice but to make steady efforts to explore. On the other hand, about copper, as you all know, we've advanced several large-scale projects in the world.

As I explained at the beginning, we do not think anybody supposes a metal price like the one in the Super Cycle at the top of the copper company in this sector. Therefore, we've discussed approaches to proceed a copper project in the price for a few years, and I just expect that several projects will break out.

## About battery materials business

Questioner I'm slightly concerned about the delay of production of your end customers in battery materials business. Of course, you would switch the production to another customer if going wrong but I'm worried about a short-term risk.

Nakazato We are also aware of the fact through our customer Panasonic. Yet, now, we do not see it as a problem. In this supply chain, each company goes hand-in-hand in various ways: for example, we have one customer buy our products temporarily.

There are two points I want to emphasize: monetization of materials battery and automation weakness of electric vehicle companies. First, the supply chain is not stable yet. I'm often asked about revenue and profit of battery, but at this moment, we're on the course of monetization. Why have we been paid attention much? Probably because, unlike our traditional materials business, we invested management resources in one stroke.

In this industry, as you know, customers will not look at a small-scale business. Then we increased the capacity from 850 to 4,550 tonnes in NCA monthly production. I think there was no other investments in materials business in the last one or two years.

Thus, we attracted attention, I think. We discussed what goal did we set in this business and how could we carry out dialogue with customers on an equal footing. And we decided to put enlarging the scale first for that.

Perhaps, there was a question in Announcement of Financial Result for 2<sup>nd</sup> Quarter of 2017 Fiscal Year / Progress of Business Strategy in 2017 autumn: "How do you think about things in the future?" I answered "I think about profitability." Not strong is a supply chain composed of parts with a loss. In short, making further efforts is needed in this supply chain in cooperation with each others including end customers.

Secondly, I have an opinion about new electric vehicle companies; they are very different from us in a way to make products.

I feel tremendously they'll try to make breakthroughs one after another, or they don't do business unless there's a breakthrough. Of course, I did not see the process of end customers in practice, but according to a story I heard, they made up an alternative production line out of an traditional way of car assembly. I imagine they might prioritize the efficiency. You know, automation. The weakness of it is to take a long time to reversion when so many changes happen one by one.

It is totally my opinion. As you think, there is no need to grasp this situation seriously. As a matter of course, we see it as the most important thing to share such information with our customers.

### **Q & A: About improving revenue and profit in Sierra Gorda**

Questioner In Sierra Gorda, please tell me about how much revenue and profit and how many problems will debottlenecking improve and solve.

Nakazato There is no point without increasing production by debottlenecking. We'll invest not for increasing production but effective utilization of current machines with enough capacity.

And we're now considering further utilization. We will get and announce the result of available production capacity in the near future.

So, the plan and consensus among owners have not been decided yet. Now considering in the project. Of course we are trying to figure data to run, but it's not detailed or sophisticated yet.

Either way, as I said earlier, the amount of investment will not be a very large amount, and I think that it is no doubt that the owners will decide it soon. At that point, I think I will probably announce what how further will we extent the ability.

### **Q & A: How to avoid opportunity loss / lost profits?**

Questioner You reflected lost profits in the explanation; inventory management, operating and recovery percentage and failure to deal with change of customers. Of course you will get the loss back and account it in this analysis of variation in profit. Just in case, please tell me about efforts and approaches to avoid lost profits.

Nakazato Things about lost profits are what I've mentioned for a year through my presentation. We set our own key goals in an interview with executive officers and president. In a case of General Manager of Non-Ferrous Metal Div., he suggests three goals and General Manager of Administration Dept., working under him, also lays out three.

All the problems about lost profits and opportunity loss are selected in three goals of General Manager of Administration Dept., It's significant to determine each performance evaluation and critical as a commitment to executive officers.

There is another important thing about balance. Both a growth strategy and market analysis are spoiled by a radical shift to safety only because of an unsavory situation. As a result, dealing with a problem would be delayed. This is like one pattern. It's hard to care about balance, but we've prioritized lost profits and opportunity loss in redressing the balance.

#### **Q & A: About investment plan**

Questioner I want to know about some hints of investment plan including the next 3-years business plan earlier. In my opinion, the circumstance of business will change, finance of other big companies in resource business will be better, and then their chances to take the offensive will come on.

It might be more difficult to success in the project of mineral resource business. I think, as a strategy, much wider kinds of markets would be needed in material business too.

How are you thinking about how you will enlarge a scale of investment and how you will take a balance among mineral resource, smelting and refining and materials?

Nakazato I'm sorry I can not mention the plan at this stage. We've discussed it in officer camp many times. We recognized each business faced each turning point. In such an extremely important term, one of the main subjects of the next 3-years business plan is how we will use our resources. I haven't said about that yet because we've been discussing in the whole company.

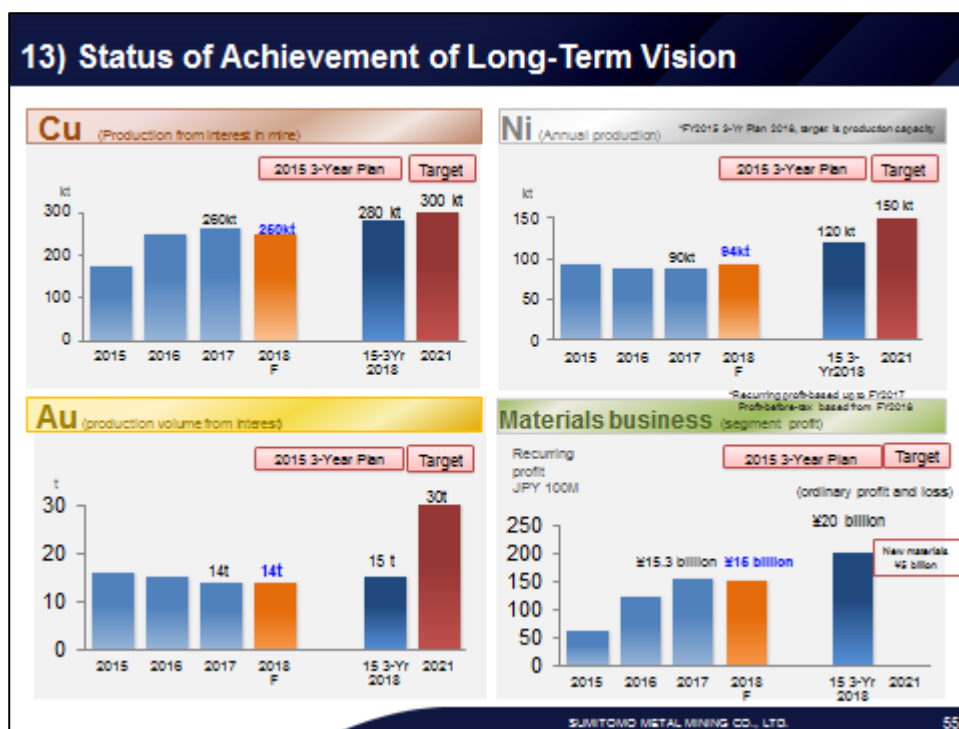
#### **Q & A: About medium-term expansion of battery materials**

Questioner In a perspective of medium-term expansion of battery materials, Toyota and Panasonic are going to corporate with each other in battery business. Could you sell to other customers than NCA? How are you thinking about building relationship with customers?

Nakazato NCA, impossible to deal to any companies because there is a certain regulation in sale through Panasonic. Instead, there is close relationship between us and Toyota. I mean a key point is how Toyota will utilize lithium ion battery: ternary including NCA, NMC and others.

We've tried to push our cathode material as possible and developed together. Things must be good in future.

## Q & A: About Capital Expenditure and shareholder return



Questioner In Page 55, you said about gold that was unreached most. Although I just interpreted that you would not do things of gold without profitability, nickel also seemed to be unreached to 150,000 tonnes goal. How are you going to achieve the target?

Regardless to that, about CAPEX, the amount of Morenci is increasing for last three years more than expected. I would like to know the plan of CAPRX.

This data of free cash flow shows dividend payout ratio is 30%. Investors are concerned about partition between CAPEX and shareholder return.

Nakazato First, I'll explain about 150,000 tonnes production structure of nickel. At present, we could achieve only 10 tonnes. In 2017, because of machine failure, we had to reduce the operation Taganito. In 2018 of Taganito, we are now trying to increase the production to the degree of 36,000 tonnes. And basically, we are going to advance Pomalaa Project. Things never happen that we would get 50,000 tonnes scale nickel mine, so we have to focus on growing up the seed of Pomalaa.

Therefore, we are now doing the final feasibility study. As a total, because the production of ferronickel decreases, I cannot say that it'll be just 150,000 tonnes.

To us, the chance of Pomalaa is seen as an ideal approach or step to 15 tonnes for now.

Secondly, about CAPEX, lady luck won't smile to those who doesn't make efforts to get the interests of mineral resources by themselves. I've mentioned it so many times. Everyone below the top of the company, if they make a commitment for real and seriously go out and get involved, such things will not be available. Or, find themselves by exploration.

We've been exploring for about 20 years, but nothing has been found yet. Although constantly seeking to buy rights and interests while we are exploring, the timing depends on the decision of sellers. If lucky another case like Morenci would found or not.

Either way, unless we go for it, we'll get no outcomes even if we decide to buy in 3-years business plan. That's just pie in the sky. Depending on others, it's hard to control the plan. What we place priority to three core businesses: Mineral Resource, Smelting and Refining and Materials. And we regard three key metals as things to deal with seriously in taking the interests at all time.

Finally, the situation of CAPEX in the future. As an answer, I think that it is exactly the same as those of the previous question: we are just discussing. As you said, the cost of expansion are getting higher than before. I would like to decide how to plan capital expenditure over the past three years for officers' camps, etc., for the next medium term in the future.

According to the plan, we could decide the next shareholder return and explain our plan of monetization. Please wait for a little time.