

SMM Posts Record Sales and Profit on Higher Metal Prices, Aims for Further Growth

This is a transcription of the SMM FY2021 Progress of Business Strategy briefing held on May 18, 2022.

<Speaker>

SUMITOMO METAL MINING, President and Representative Director, Akira Nozaki

FY2021 Progress of Business Strategy

Akira Nozaki: Good morning, everyone. I am Nozaki, the president. Thank you very much for coming to our business strategy briefing today. We would like to express our sincere gratitude to all of you for your continued understanding and support of our company business. Then, I will proceed according to the document.

We have already reported the financial results for FY2021 and the forecast for FY2022, but I will briefly touch on them later.

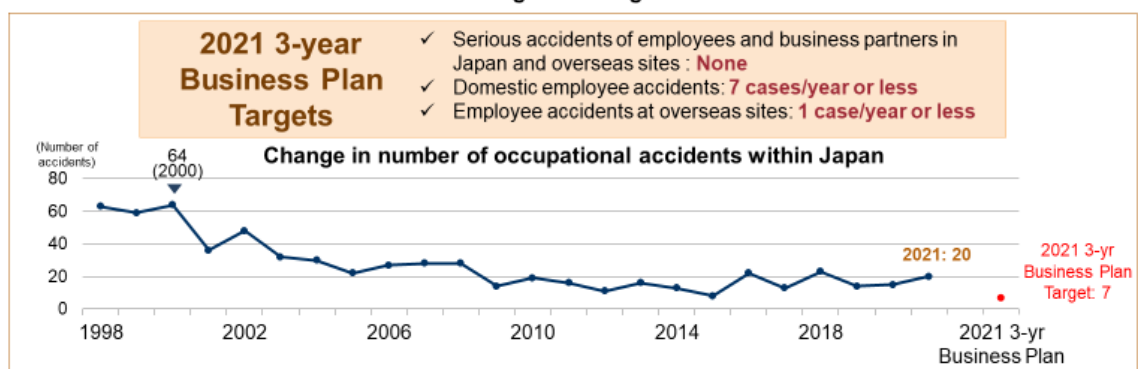
1. FY2021 Summary: (1) Safety initiatives

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<Domestic occupational accidents> 2018 3-year Business Plan Target:

5 accidents or less → **2021 result: 20**

Emphasis placed on preventing "serious accidents" (absence from work for 3 months or more) & reducing "recurring accidents"



*Recurring accidents: Recurrence of accidents that have occurred within the SMM Group over the past 20 years.

As a review of important issues, I would like to talk about our summary of FY 2021. First of all, concerning safety initiatives, we, unfortunately, failed to achieve our targets in FY2021 for domestic and occupational accidents.

Many similar accidents which happened in the past, we call them "recurring accidents," occur repeatedly in recent years and we have a sense of challenge. In the past ten years, the number of occupational accidents has leveled off, but considering the fact that our safety performance has not changed despite the facility's physical safety has improved, it makes me think this is a people or organizations-oriented problem.

I am not blaming people or the organization. It is natural that people change and memories fades in an organization. How to establish and maintain the safety awareness in this, however, is the key, and we are working on rebuilding the guidance methods and leadership skills of the managers and supervisors.

Also, I will discuss later, but we have begun a new initiative with the labor union to strengthen our cooperative system ensuring employees' safety further.

1. FY2021 Summary: (2) Production / Sales / Large Projects

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Production / Sales

- ◆ Mineral Resources / Smelting and Refining
 - ✓ Despite production decreased due to the impacts of COVID-19 at some overseas plants and natural disasters (typhoons), production and sales have been progressing generally well.
- ◆ Materials
 - ✓ With strong customer demand, production continues at full capacity for many products.

Large projects

- ✓ Decision to sell the **Sierra Gorda copper mine** in October 2021 (as part of portfolio reshuffling)
→ Closing in February 2022
- ✓ Decision to **discontinue consideration of Pomalaa project** in April 2022.
- ✓ **The Quebrada Blanca 2 projects and Cote gold project** progressing smoothly.
- ✓ **Battery materials production capacity enhancement:** Announced in July 2021 to construct a new plant
On May 1, 2022, we take over the LFP materials business from Sumitomo Osaka Cement Co. Ltd.

In terms of production and sales, I believe that we have been able to adhere to the basic principle to maintain producing and selling products in each business. However, as I mentioned on the slide, there were some facilities and production disruptions due to the impacts of COVID-19 and the typhoon in the Philippines.

In particular, in the Northwest Pacific region, which includes Japan and Asia, although the number of typhoons is low, research results have recently shown that storms tend to increase in scale due

to air pollution. We will pay close attention to this influence in the future.

In terms of large projects, this was a year we made a clear decision on overseas projects whether continue or discontinue. While we made progress in its Quebrada Blanca 2 and Côté gold projects despite the struggles in the COVID-19 situation, we decided to sell its Sierra Gorda copper mine.

We have also decided to discontinue the feasibility study of the Pomalaa Project, which had been underway for many years. More on that later. In this way, we relocate our company's resources and redirect our strategy to the next project.

As for battery cathode materials, we decided to start a business to increase the production of nickel-based cathode materials while taking over the LFP cathode materials business, which we didn't have, to acquire the LFP business, technologies, and related engineers. We look forward to expanding the scope of technological development of battery materials in the future.

1. FY2021 Summary: (3) Financial results / dividends / cashflows / financial position

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Financial results / dividends

- ◆ In addition to being helped by the metal price increase and yen depreciation, we posted a profit on the sale of Sierra Corda mine, which has led to the record highs in net sales (1,259.1 billion yen) and profit (Profit before tax: 357.4 billion yen)
→ **Annual dividend paid (301 yen/share) also achieved a record high.**
- ◆ Materials business posted **a record-high profit of 27.6 billion yen**
→ Achieved the long-term vision target of 25.0 billion yen for the first time

Cash flows / financial strength

- ◆ Continued stable financial strength with favor profit
- ◆ Investment expenditures prepared for the Pomalaa project will be allocated to new projects.

Next is financial results, dividends, and cash flows. We posted its highest profit level ever. Dividends are also as shown on the slide.

As for the payout ratio, in the 18 3-year Business Plan, we stated that the payout ratio would be 35% or more. There was the gain on reversal of allowance for doubtful accounts recorded in profit for this fiscal year, we have decided not to include in dividend calculation. Excluding this, the payout

ratio is set at 35%. Of course, internal performance evaluations, compensation, and bonuses for executives and employees are calculated on the same basis.

As for the Materials business, the profit level of the Materials business was at an all-time high, but I think it is still necessary to expand the business if we can achieve this profit level consistently.

As for cashflows, our financial position is at a level where we can maintain soundness. We will continue to search chances of investment and opportunities to expand our interests, but we believe that we are ready to respond promptly.

1. Global Economy

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FY2022 Outlook (Topics)

The effects of monetary and fiscal policies in various countries and the progress of the COVID-19 vaccinations are expected to help achieve a certain level of economic expansion. However, there are many downside risks, and uncertainty is increasing.

Downside Risk Factors

- ◆ Prolonged Russian invasion of Ukraine
- ◆ Energy price hikes
(Our FY2022 forecast has estimated a negative impact of about 15.0 billion yen on Mineral Resources and Smelting & Refining compared to FY2021.)
- ◆ Slowdown in the global economy
- ◆ Shortage of industrial materials and supplies such as semiconductors, etc.
- ◆ Another spread of COVID-19; and lockdown in major Chinese cities

IMF's forecast on global economic growth

Year 2020	Year 2021	Year 2022
Result	Result	Forecast as of April 2022
-3.1%	+6.1%	+3.6%

As for our outlook for FY2022, let me start with the global economy. At the beginning of this year, countries were adopting ultra-loose monetary policies against the influence of COVID-19 on economy, but this led to a shift in monetary policy later. On the other hand, Japan decided to continue its current monetary policy, for the time being, resulting in a trend of a stronger dollar due to the difference in interest rates.

We had forecasted that the price of nonferrous metals will go down when the dollar tends to rise, from what we experienced in the past. Currently, however, there are concerns about cost-push inflation due to the soaring energy prices caused by the Russian invasion of Ukraine and the fact that resource prices and logistics costs are still high.

There are concerns that the shortage of industrial materials, especially semiconductors, could lead to a decline in manufacturing operations. Under these circumstances, it is said that China is about to lift the lockdown, but I believe that the Chinese economy, which has been the backstop of the world economy, is now showing a slight slowdown, which is a risk factor.

2. Metals supply and demand forecast

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FY2022 Outlook (Topics)

Copper: Supply and demand easing

- ◆ Supply: Copper mines have escaped the effects of COVID-19, and new and expansion projects are contributing to increased production.
Smelting capacity is also expected to grow at a high rate.

- ◆ Demand: Russia's invasion of Ukraine, lockdown of major Chinese cities, etc. are expected to restrict consumption growth.

✓ Fundamentals are helped by the demand for copper.
(global decarbonization, clean energy, EV shift, etc.)

Cu (kt)	ICSG Forecast		
	2020 Announced 21/10	2021 Announced 22/5	2022 22/5 Forecast
Production	24,510	24,825	25,883
Usage	24,989	25,264	25,742
Balance		-479	+142

Nickel: Supply and demand easing

- ◆ Supply: Significant increase mainly in Indonesia NPI
- ◆ Demand: Strong applications of stainless steel in China and Indonesia. In addition, the demand for batteries is increasing globally. Yet, Supply also growth is significant.

✓ Possible decline in demand due to prolonged impact of COVID-19 in China, the largest consumer country.

Ni (kt)	INSG Forecast (Apr 2022)		
	2020	2021	2022
Production	2,490	2,608	3,082
Usage	2,390	2,776	3,015
Balance	+99	-168	+67

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This is an outlook for the supply and demand of non-ferrous metals related to us. The supply and demand forecast by external agencies, ICSG for copper and INSG for nickel, is expected to shift from a negative balance in 2021 to a positive in 2022.

Especially for copper, the supply side includes the development of new mines and the start of operations. However, if you look at the supply-demand, there is no significant bias, so I think it is almost balanced.

For nickel, as you can see in the slide, there has been a significant increase in Indonesia's nickel pig iron (NPI). In terms of demand, we state that "Strong applications of stainless steel in China and Indonesia." As I mentioned earlier, there are some signs of concern.

In this circumstance, the balance of supply and demand for nickel is almost well balanced worldwide. However, although this is just a guess, we think that there may appear an excess or deficiency in terms of regional or application.

To be specific, there is a solid momentum to increase production of Class 2 nickel for stainless steel applications. However, there is a slight concern over whether the supply of pure nickel, mainly for batteries or for high-alloy applications, will be balanced regionally considering the problem in Russia.

3. Metal price estimation for FY2022 forecast

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FY2022 Outlook (Topics)

<Copper> **\$9,000/t** (2022 April average: **\$10,183/t**)

- ◆ Supply and demand are easing. Strong dollar is also a easing factor.
- ◆ Ukraine situation has an insignificant impact on supply and demand.

<Gold> **\$1,750/toz** (2022 April average: **\$1,934/toz**)

- ◆ Higher interest rates and a stronger U.S. dollar due to tighter U.S. monetary policy are easing factors.
- ◆ However, uncertainty in the global economy is providing firm support for the price.

<Nickel> **\$9.5/lb** (2022 April average: **\$15.10/lb**)

- ◆ Supply and demand are easing. However,
 - ✓ Supply: Russia is a major producer of refined nickel, accounting for about 10% of the global production.
 - ✓ Demand: COVID-19's impact (lockdown, etc.) in China, the country with the largest demand, is unknown.

This is the metal price estimation. Copper is \$9,000 per tonnes, gold is \$1,750 per ounce, and nickel is \$9.50 per pound.

From January to March 2022, we saw a gradual upward trend, and we finished our fiscal year in March when the metal prices are in high range. As you can see on the slide, it remained high in April.

On the other hand, the metal prices we set for FY2022 forecast are below from the level in April. As I mentioned earlier, the assumption at the beginning of the year was that funds would flow out of resource-rich countries or commodities, associated with the end of monetary easing and tightening in the United States and Europe.

I don't think this big trend has changed if you just look at monetary policy, but we're looking at the impact of the geopolitical risks emerging.

4. Nickel/battery strategy (1)

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FY2022 Outlook (Topics)

April 2022: Decision to discontinue consideration of Pomalaa project

- ◆ Differences in views with the schedule-oriented partner became apparent.
 - ✓ As the study protracted under the COVID-19 crisis, the partner chose to negotiate with other companies.
 - ✓ We will now apply the resources and time we have available to search projects for other nickel deposits and new projects that we have been proceeding with in parallel.
 - ✓ No impact is expected on other products such as battery materials in the short term.
In the long term, we aim to cover the impact with other new projects, etc.

I would like to explain the discontinue of the feasibility study of the Pomalaa Project. We began studying the Indonesian Pomalaa Project in 2013. In 2015, when I was the General Manager of the Non-Ferrous Metals Division, I made my first on-site inspection, and I remember I decided “let’s locate the plant here.” It was a project we were very focusing on.

Even during the pandemic, the project members tried tirelessly to obtain permits and promote the plan. However, because there was a discrepancy between our company’s planned construction schedule and the partner’s, we decided not to proceed further consideration.

As we have stated, production of Pomalaa was expected to start towards the end of the 2020s, and the investment amount would roughly be several billion dollars. We are ready to invest this time and money into other nickel projects, so we will re-start up and promote exploring new areas.

4. Nickel/battery strategy (2)

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FY2022 Outlook (Topics)

Search for upcoming projects

Identifying needs for undeveloped projects by leveraging our industry network
Secure raw materials through collaboration with existing projects that can utilize our technology



- ✓ **Combination of hydro/pyro metallurgical technologies that we have developed in addition to HPAL**
 - Consider processing and producing MHP (hydroxide) not only MS (sulfide)
 - Develop hard-to-process ore projects utilizing our technology
- ✓ **Strengthen the value chain through the collaboration between the three businesses (nickel/batteries) including recycling.**



Select and implement projects that take full advantage of our strengths.

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Then, what kind of new nickel project we have on mind, even when we were considering the Pomalaa Project, it was obvious that "post-Pomalaa must be considered," so we pursued exploring nickel ore sources in parallel.

As shown in the slide, as for the line "Identifying needs for undeveloped projects by leveraging our industry network," we do not rule out the possibility of our company's technical capabilities being involved in existing projects where optimization is possible.

In addition, mixed sulfide (MS) produced by HPAL and refined by MCLE at Niihama Nickel Refinery is the so-called ironclad line of nickel production in our company. But put that obsession aside and we would like to consider producing easy-to-make intermediates, such as MHP by HPAL. MHP is a mixture of nickel and cobalt which is hydroxides. Of course, if the intermediates change, we will have to consider the refining process change, but we will also focus on this development.

Over the medium to long term, we will also use LIB recycling to recover nickel and cobalt.

5. Reduction of recurring accidents

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FY2022 Outlook (Topics)

<2021 3-year Business Plan: Safety Initiatives>

Emphasis on preventing “serious accidents” (absence from work for 3 months or more) & reducing “recurring accidents”



In addition to promoting the company measures, labor and management confirmed that “all employees will work together to achieve annual goals shared by labor and management, and that the labor union will strongly support the goals set and the measures to achieve them, thereby fostering a new culture of mutual joy in achieving them.

<Scope of the initiatives> All SMM Group sites in Japan and domestic subcontractors

<Target> **“Reduction of recurring accidents” (8 or fewer per year at all domestic sites)**

<Period of the initiatives> Three years through April 2025, where 12 months from May 2022 to April 2023 is one year

*Recurring accidents: Recurrence of accidents that have occurred within the SMM Group over the past 20 years.

This is our labor-management initiative aimed at reducing recurring accidents. The discussion between our company, management, and the union is not necessarily limited to the annual spring labor offensive, but the debate between all the management and the union is limited to the spring labor offensive.

This is the result the labor union responded to the management's call, “we want you to think of a system in which labor and management work together to find concrete solutions to the problems we are facing, not only talking about economic negotiations.” As you can see on the slide, we have set goals to make substantial progress on safety.

Of course, there are safety activities on the part of our management, but this initiative includes actions to eliminate “recurring accidents” at the production sites and a system to provide incentives for and the results of such activities.

1. Change in financial results (FY2017 – FY2022 forecast)

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(Billions of yen)	International Financial Reporting Standards [IFRS]					
	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022 (forecast)
Net sales	929.7	912.2	851.9	926.1	1,259.1	1,331.0
Profit/loss before tax	108.3	89.4	79.0	123.4	357.4	194.0
Equity method profit/loss	12.3	-4.9	6.2	8.7	57.5	39.0
Segment profit	Mineral resources	58.0	47.3	37.9	63.1	208.5
	Smelting & refining	47.8	40.9	48.2	53.0	114.8
	Materials	7.1	13.8	53	10.5	27.6
	Other	-7.4	-2.0	-9	-2.8	-0.9
	Diff. Adjustment	2.8	-10.6	-11.5	-0.4	7.4
Net income attributable to owners of parent	90.2	66.8	60.6	94.6	281.0	137.0
Copper (USD/t)	6,444	6,341	5,860	6,879	9,691	9,000
Nickel (USD/lb)	5.06	5.85	6.35	6.80	9.35	9.50
Gold (USD/toz)	1,285	1,263	1,462	1,824	1,818	1,750
Cobalt (USD/lb)	30.64	31.64	15.76	16.62	27.46	30.00
Exchange (JPY/\$)	110.86	110.92	108.74	106.07	112.39	120.00

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Next is financial results. The table above shows the results for the past five years and the forecast for FY 2022. In FY2021, metal prices and foreign exchange rates were high, and we took advantage of the tailwind by maintaining production and sales.

FY2007 was the previous record high. At that time, the profit equivalent to the current net income attributable to owners of the parent was 137.8 billion yen, which is almost double when compared. As a matter of course, prices of non-ferrous metals were high in FY2007 at the resource super cycle. In FY2021, however, we believe that there are not only price fluctuation factors but also medium- and long-term strategic effects during this period, in other words, our operation scale has expanded.

2. FY2021 Financial Results and FY2022 Financial Forecasts

2. FY2021 Financial Results and FY2022 Financial Forecasts

(Billions of yen)		FY2021 result (A)	FY2020 result (B)	Change (A)-(B)	FY2022 forecast (C)	Increase / Decrease (C)-(A)
Net sales		1,259.1	926.1	+333.0	1,331.0	+71.9
Sales total profit		257.8	150.9	+106.9	222.0	+35.8
Profit/loss before tax		357.4	123.4	+234.0	194.0	-163.4
Equity method profit/loss		57.5	8.7	+48.8	39.0	-18.5
Segment profit	Mineral resources	208.5	63.1	+145.4	99.0	-109.5
	Smelting & refining	114.8	53.0	+61.8	86.0	-28.8
	Materials	27.6	10.5	+17.1	10.0	-17.6
	Other	-0.9	-2.8	+1.9	-2.0	-1.1
	Diff. Adjustment	7.4	-0.4	+7.8	1.0	-6.4
Net income attributable to owners of parent		281.0	94.6	+186.4	137.0	-144.0
Copper (USD/t)		9,691	6,879	+2,812	9,000	-691
Nickel (USD/lb)		9.35	6.80	+2.55	9.50	+0.15
Gold (USD/Toz)		1,818	1,824	-6	1,750	-68
Cobalt (USD/lb)		27.46	16.62	+10.84	30.00	+2.54
Exchange (JPY/\$)		112.39	106.07	+6.32	120.00	+7.61

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This is a comparison of results for FY2021 and forecasts for FY2022. From left to right, the table shows FY2021, FY2020, and FY2022. The metal prices which we set based on the idea I explained earlier are stated below of the table.

Except for copper price, which is declining, other metal prices are almost flat. I heard some of you asked "Is the metal price refracted to the profit consistently?" at the time of financial results announcement.

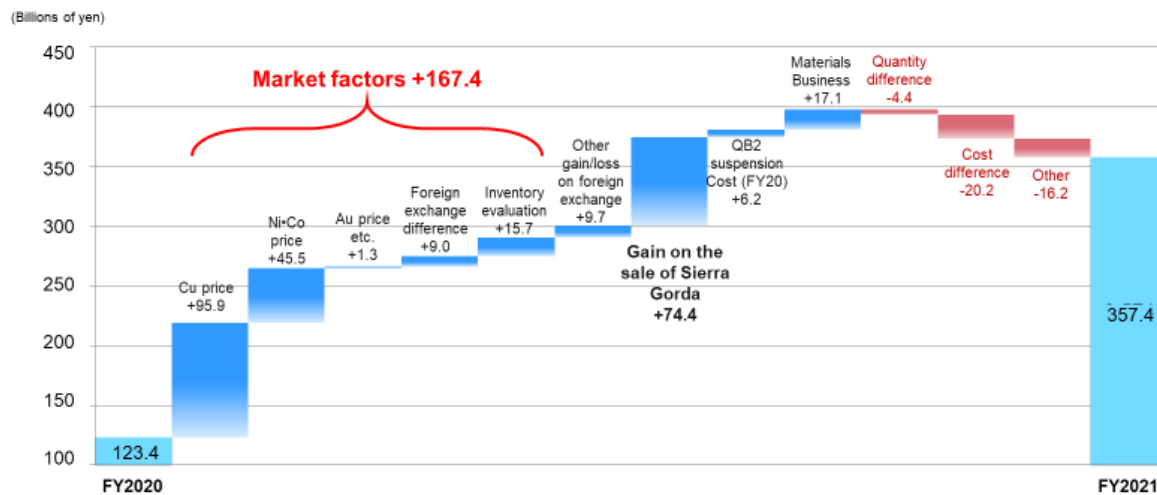
It is challenging to analyze in detail, but there is a business practice for non-ferrous metal price transactions, I mean transactions with each customer or raw material transactions, and it depends each which month's metal price is referred to. Our company's financial results are from April to March, but sales prices are not always in line with April to March.

If the price rises from January to March, especially raised at the end, it is necessary to record the anticipated profit and the raw material cost at the highest price in March.

If we uniformly change the metal price as we set in forecast from April, the metal price is to cause a drop. This kind of modification is included in the FY2022 forecast and it is a kind of impact. We believe that the situation will become clearer once the first-quarter results are completed.

3. Profit before tax analysis FY2021 results vs. FY2020 results

3. Profit before tax analysis FY2021 results vs. FY2020 results



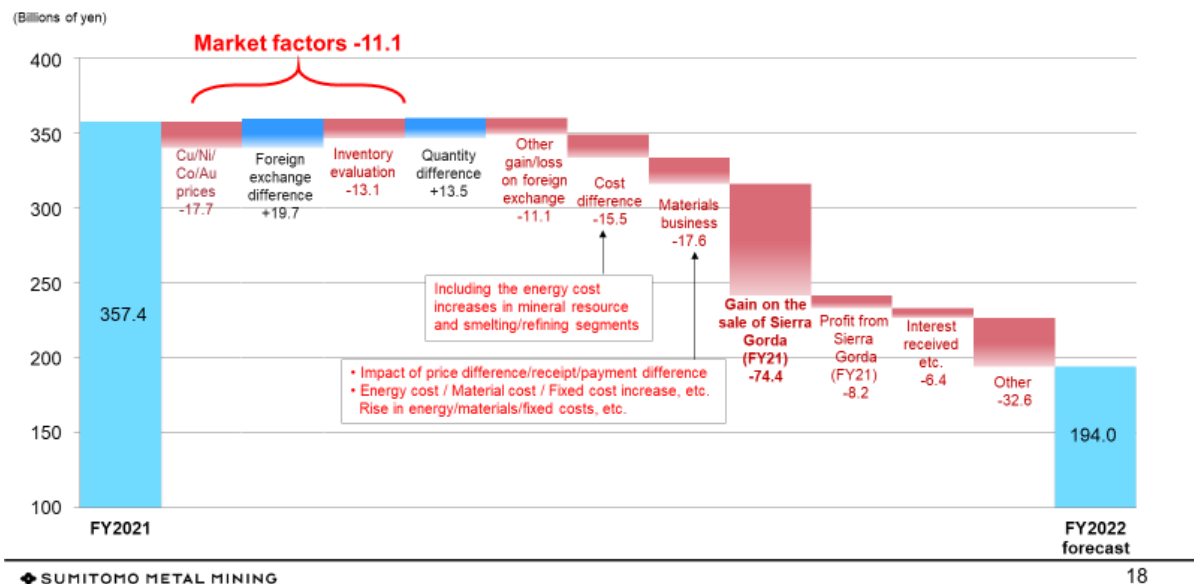
This is a waterfall chart of results for FY2021 compared to the previous year. Almost one-off factors or market factors explain the change in profit or loss. On the other hand, it is true that there were some operational problems, but we were able to maintain production and sales levels close to the plan.

However, the factors that hindered production such as typhoons have also impacted costs, and the rise in energy costs and other factors, including overseas mines, have already begun to have some impacts. This is the result of FY2021.

Looking only at the changes in the plan for this single fiscal year, it can be said that there is no additional strategic effect, but this is very natural as we have been talking "The onset of strategic effects is expected in the next interim period" in the 18 3-year Business Plan.

4. Profit before tax analysis FY2022 forecast vs. FY2021 results

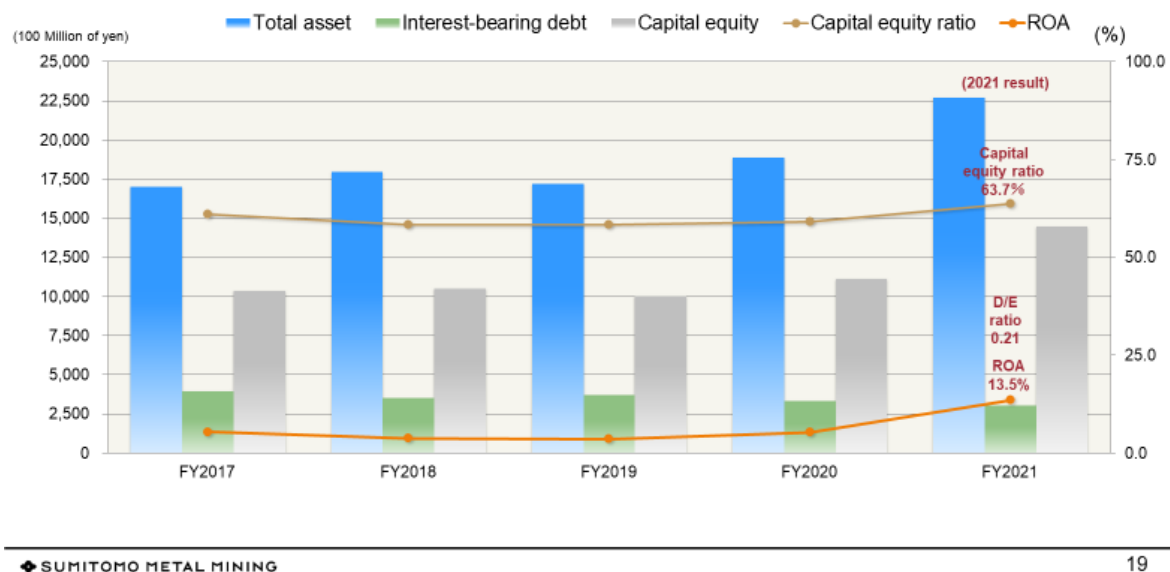
4. Profit before tax analysis FY2022 forecast vs. FY2021 results



This is comparison between FY2021 and FY2022 forecast. Again, one-off factors or market factors have a slight influence.

5. Financial position changes

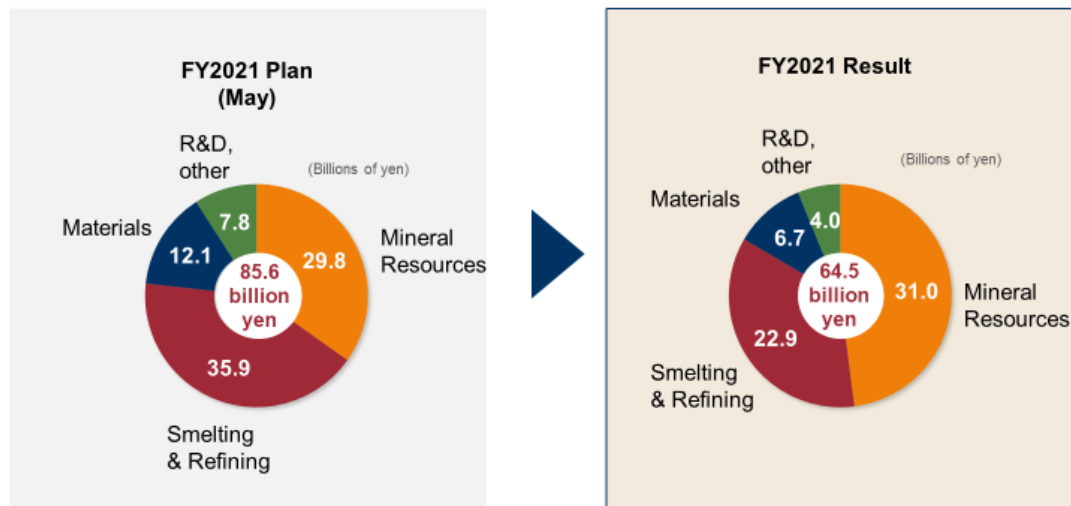
5. Financial position changes



This is our transition of financial position. We met our targets for the 18 3-year Business Plan, including the capital adequacy ratio. Sales have also grown significantly over the previous year.

6. Capital expenditure results (FY2021 Results vs. FY2021 Plan)

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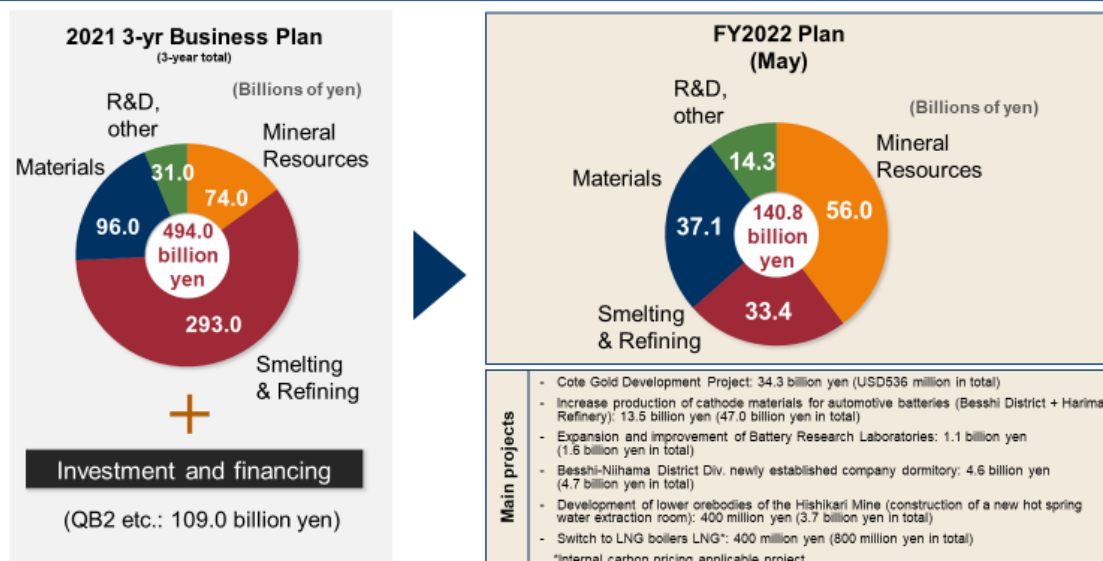
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This is our result and plan for capital expenditure in FY2021. In FY2021, we planned 85.6 billion yen, but the actual amount was 64.5 billion yen, a decrease of almost 20 billion yen. By sector, capex of Smelting and Refining segment decreased, but there were no canceled projects, which was due to the timing difference.

7. Capital expenditure plan (FY2022)

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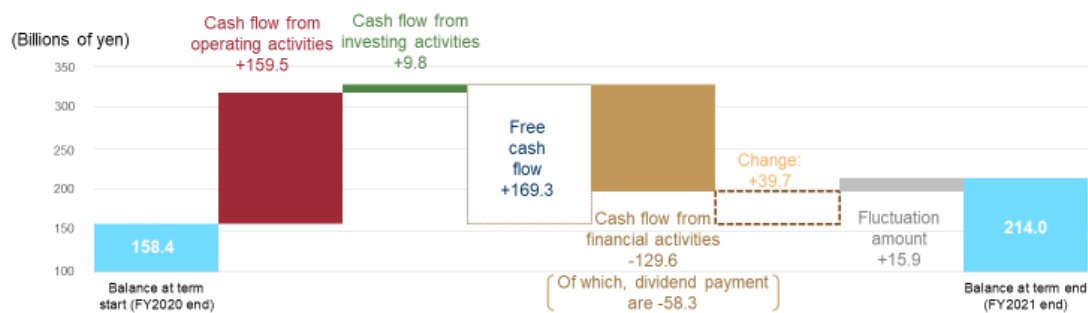
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This is our capital expenditure plan for FY2022. The figure on the left side of the slide is 21 3-year Business Plan, and the total amount of investment and financing is planned to be about 600 billion yen over three years. In FY2022, we plan to invest approximately 140 billion yen. The details of the projects are as announced at the time of closing of the accounts and are shown on the right side of the slide.

8. Cash flow (FY2021 results)

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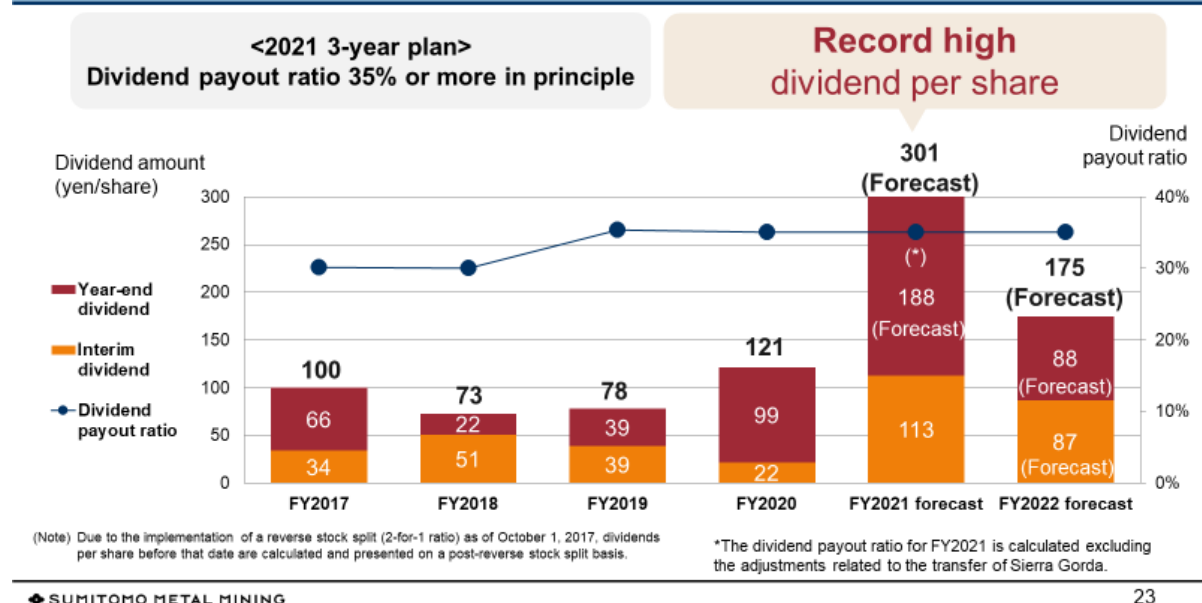
- Cash flows improved due to the favorable net income and the impact of yen depreciation.
- Continue to implement the growth strategy set forth in the 3-yr Business Plan
- Maintain sufficient capital reserves for future investment growth

This is our cash flow. As shown in the slide, cash balance at the beginning of FY2021 amounted to 158.4 billion yen, adding or subtracting the operating, investing, and financing activities, result at the term end was 214.0 billion yen. This is partly due to the impact of the capital expenditure I mentioned earlier, but there is a gap between the time of acceptance on the company's account and actual spending.

Cash flows from investing activities of 9.8 billion yen were extremely small, but this was because gain on the sale of the Sierra Gorda copper mine was included here. Although we have ample cash on hand, we plan to generate a negative cash flow of approximately 150 billion yen during our 3-year Business Plan, which runs through 2024. We plan to allocate this cash flow for future projects.

9. Shareholder return (dividend forecast: FY2021 / FY2022)

9. Shareholder return (dividend forecast: FY2021 / FY2022)



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We return profits to shareholders through dividends. Dividends are linked to business performance. The results for FY2021 are shown on the slide. In principle, we have set a dividend payout ratio of 35% for FY2022 and beyond and currently forecast a dividend of 175 yen for FY2022.

1. Review of 2018 3-Year Business Plan

1) Progress and challenges of 18 3-Year Plan's three main basic strategies

1. Review of 2018 3-Year Business Plan

1) Progress and challenges of 18 3-Year Plan's three main basic strategies

2018 3-Year Business Plan's Three Main Basic Strategies

(1) Strengthen the growth foundation of core businesses (Mineral Resources, Smelting & Refining, Materials)

Steady promotion of growth strategy and swift realization of competitiveness: Offensive investment
Minimization of lost profits and opportunity losses and consolidation of business base: Defensive investment

(2) Three-business collaboration centered on cathode materials for batteries

Leverage the integrated production structure to the max and win through overall capabilities, including battery recycling

(3) Strengthen corporate functions

Stimulate communication with stakeholders both inside and outside the company
Rebuild an open and vibrant organizational climate

- QB2 and Côté projects progressed smoothly
- Decided to sell the Sierra Gorda copper mine for a portfolio reshuffling
- Pomalaa project: Decided to discontinue consideration
- Decided to build a new battery plant in 2021 (completion is planned in the 21 3-yr plan period)
- Practical application of battery recycling technology including Cu, Ni, Co, Li
- Enhance abilities to deal with changes in the business environment through organizational restructuring
- Rebuild an organizational climate through Head Office refurbishment
- Strengthen shareholder relations activities for institutional investors

Progress made only halfway partly due to COVID-19's impact

→ **Work toward transformation under 21 3-Year Plan**

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I'd like to talk about our medium- and long-term strategy. The slide is a review of the 18 3-year Business Plan. There are several items, but I will skip the strengthening of the growing base of the core business, as I mentioned earlier.

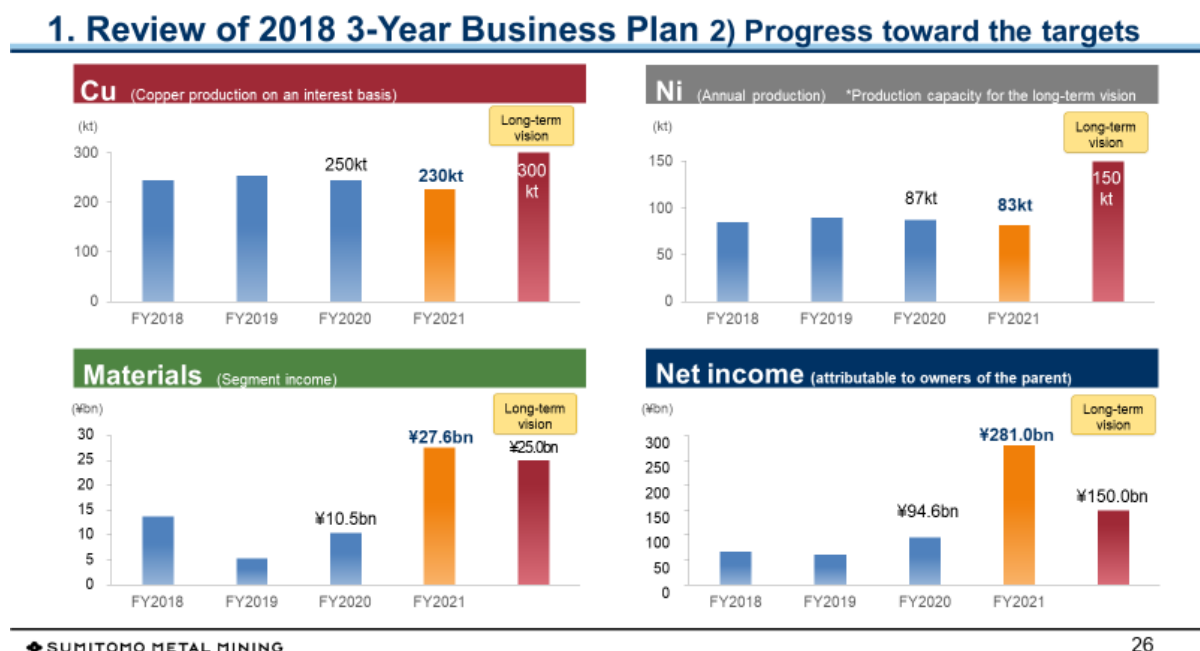
The keyword for strengthening three-business cooperation is cathode materials of battery materials. The decision to increase the battery material production capacity was delayed a little, but it was decided almost as planned.

We reorganized our organization by dividing our corporate divisions into groups and establishing a Sustainability Committee to strengthen our corporate functions. I will talk later about the reorganization of the corporate culture through the renewal of the head office.

The primary number of SR activities has not changed much, but the number of responses by top management has increased. To strengthen governance through dialogue with investors, we take several measures that you can recognize.

1. Review of 2018 3-Year Business Plan

2) Progress toward the targets



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Our targets of the long-term vision have not been changed in the 21 3-Year Business Plan, but the way to copper attributable production of 300,000 tonnes seems to have gone backward after the sale of the Sierra Gorda copper mine. However, since we are participating in the Quebrada Blanca 2 (QB2) project, and this project is expected to be expanded through Mill Expansion, I think we are

close to our goal.

As for nickel, I think new initiatives are necessary. Segment profit in the Materials business achieved the figures set out in our long-term vision, but the actual value of achieving this level is being questioned. We believe that further business expansion is necessary.

In FY2021, net income was approximately 280 billion yen, compared with the long-term vision target of 150 billion yen. However, a net income of 150.0 billion yen requires a constant profit before tax of 200 billion yen. In this regard, the core of our business is not sufficient, and we think we need to expand the scale a little more.

1. Review of 2018 3-Year Business Plan

3) Steps toward realizing our vision

1. Review of 2018 3-Year Business Plan 3) Steps toward realizing our vision

Climate change

- ◆ Disclosed the scenario analysis required by TCFD in Integrated Report 2021
- ◆ Began developing a plan toward carbon neutrality

Effective use of non-ferrous metal resources

- ◆ Completed PoC of battery recycling

Employees' occupational health & safety

- ◆ Significantly underperformed 2018 3-yr Plan targets

Rights of Indigenous people

- ◆ Create an educational video and watched in the all of district

Human rights in the supply chains

- ◆ Completed a third-party audit of refineries producing cobalt

Trail to change
Shiki-nen reform project, Change ways of meeting, refurbish head office



- ✓ Different degrees of progress among areas
- ✓ Continue enhancing efforts to realize our vision under 21 3-yr Plan

We are working toward our vision for 2030. We are steadily promoting initiatives regarding climate change, effective use of non-ferrous metal resources, employee health and safety, the rights of indigenous people, and human rights in the supply chain through the activities of each subcommittee.

In particular, our company originally had a target for climate change, but we have recently revised its target for carbon neutrality along with the government's new goal.

1. Review of 2018 3-Year Business Plan

4) FY2021 results vs. 18 3-Year Plan FY2021 trial calculation

1. Review of 2018 3-Year Business Plan

4) FY2021 results vs. 18 3-Year Plan FY2021 trial calculation

(¥bn)		FY2021 results (A)	18 3-Yr Plan FY2021 trial calculation (B)	Increase / Decrease (A)-(B)
Net sales		1,259.1	1,050.0	+209.1
Pretax profit		357.4	135.0	+222.4
Equity method profit/loss		57.5	27.0	+30.5
Segment income	Mineral resources	208.5	47.0	+161.5
	Smelting/refining	114.8	65.0	+49.8
	Materials	27.6	25.0	+2.6
	Others/Adjustments	6.5	-2.0	+8.5
Net income attributable to owners of the parent		281.0	97.0	+184.0
Copper (USD/t)		9,691	6,500	+3,191
Nickel (USD/lb)		9.35	7.00	+2.35
Gold (USD/Toz)		1,818	1,300	+518
Cobalt (USD/lb)		27.46	27.50	-0.04
Exchange rate (¥/USD)		112.39	105.0	+7.39

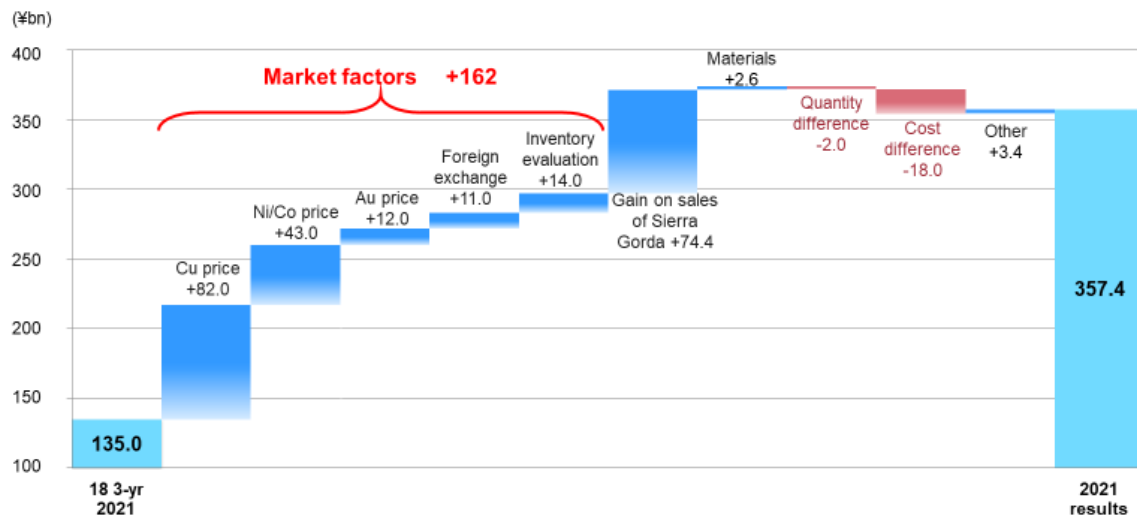
These are the factors of results. Profit before tax was 357.4 billion yen, which is more than the planned figure of 222.4 billion yen. However, if we remove the gain on the sale of the Sierra Gorda copper mine and the market price fluctuation factors from this figure, I think the actual results will be about the same. In this sense, production and sales proceeded as planned.

1. Review of 2018 3-Year Business Plan

5) Pretax profit analysis FY2021 results vs. 18 3-yr Plan 2021 trial calculation

1. Review of 2018 3-Year Business Plan

5) Pretax profit analysis FY2021 results vs. 18 3-yr Plan 2021 trial calculation



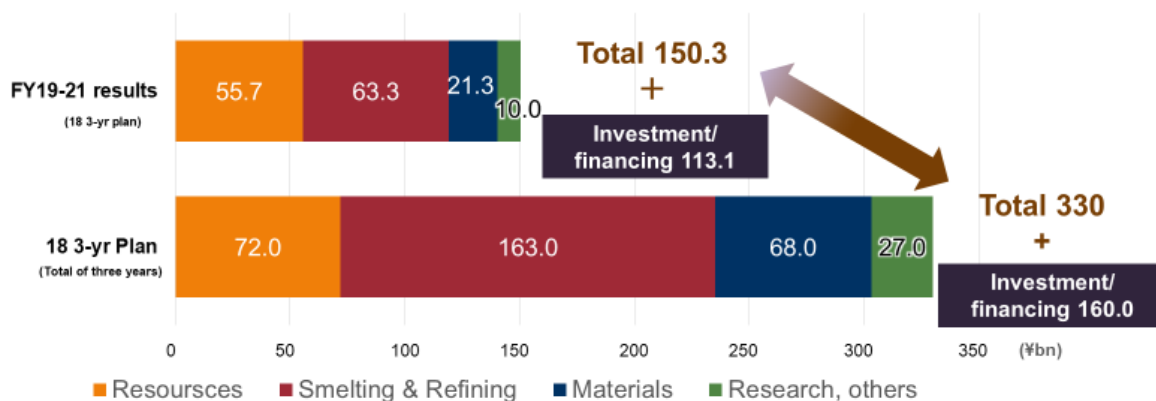
Compared to the business environment assumed in the 18 3-year Business Plan, the business continuity risks, including the impacts of COVID-19, were extremely high. However, due to our efforts to prevent infection and ensure proper distribution, production and sales were not seriously damaged. As a result of these efforts, market forces were directly reflected in the results.

1. Review of 2018 3-yr Business Plan

6) Capital expenditure and investment/financing results (vs 18 3-yr Plan)

1. Review of 2018 3-yr Business Plan

6) Capital expenditure and investment/financing results (vs 18 3-yr Plan)



This is the result of capital expenditure and investing/financing. Unfortunately, the plan fell far short. We have not achieved the goal of investing in the growth of our company, but we have shifted some of our resource projects from investments and loans to project finance. We also decided to increase the number of materials batteries as planned, but the timing of implementation was off, and no funds were spent.

The Pomalaa Project was planned to be an 18 3-year Business Plan, but unfortunately, it was not implemented. We will continue to deal with these CAPEX for new projects as part of the 2021 3-year Business Plan.

1. Review of 2018 3-Year Business Plan

7) Cash flow (three-year cumulative results)

1. Review of 2018 3-Year Business Plan

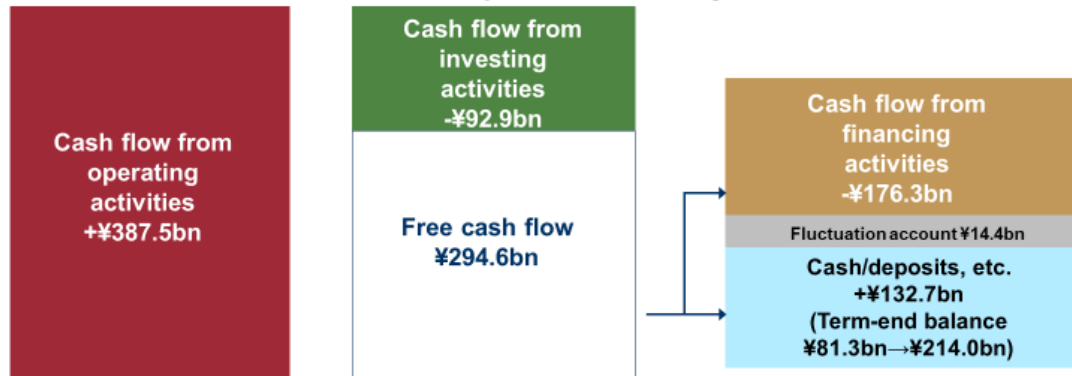
7) Cash flow (three-year cumulative results)

Cash flow during the 2018 3-Year Business Plan period

Profit improvement due to higher metal prices
Sales gain on Sierra Gorda mine

Investment activities were significantly below the plan

Cash flow improved considerably

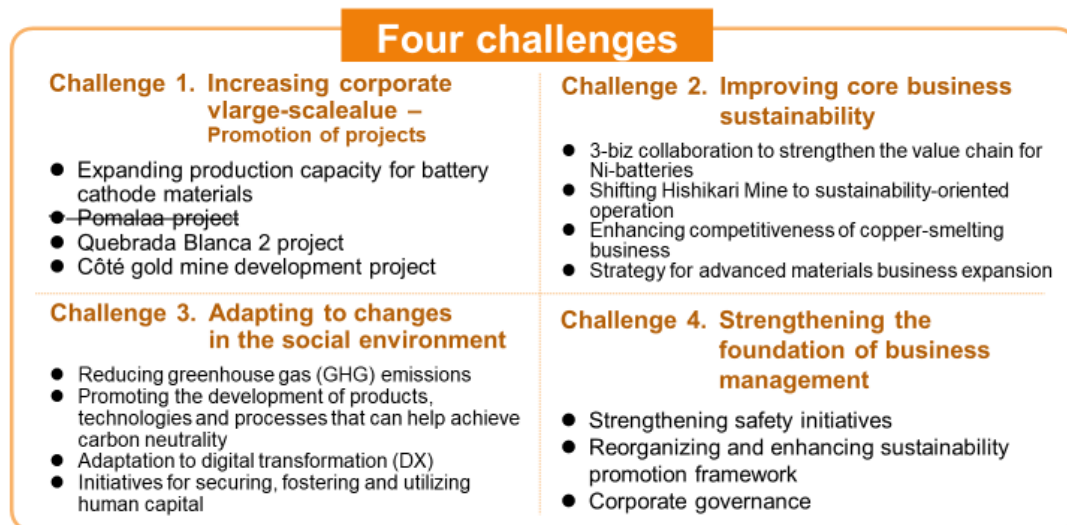


This is cash flow. The 18 3-year Business Plan projected a negative cash flow of 110 billion yen, but the actual cash flow for the same period was slightly less than 300 billion yen in positive.

Cash flows from operating activities are generally as expected. The level of earnings has undoubtedly increased, but I don't think the cash flow from operating activities has changed significantly due to the increase in working capital. Cash flows from investing activities decreased significantly.

2. 2021 3-Year Business Plan: Four Challenges

2. 2021 3-Year Business Plan: Four Challenges



I will explain the 21 3-year Business Plan. This time, we have identified carbon neutrality, DX, and human resources strategies as issues that we must address in our growth strategy, strengthen our business management foundation, and respond to changes in the social environment. The combination of these is the four challenges in the slide.

Our growth and business strategies are broadly defined, so the only thing remaining is to implement them promptly and not miss every opportunity.

On the other hand, there are ongoing issues regarding our business base and how to improve our company's profitability. It is also related to human resource strategy, but I believe that organizations change as people change. The environment surrounding us is changing, and I think it is a management theme to survive in the changing climate or build an even stronger organization.

Challenge 1. Increasing corporate value - Promoting large-scale projects

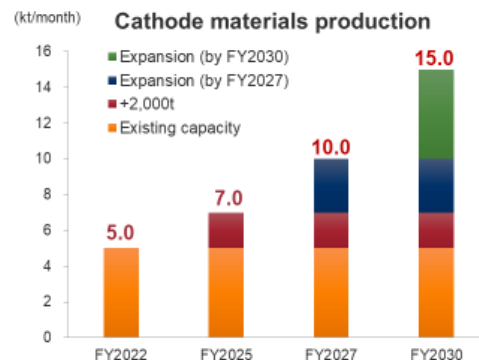
1) Battery materials

Challenge 1. Increasing corporate value - Promoting large-scale projects 1) Battery materials

21 3-yr Plan

Expanding production capacity for battery cathode materials

- ◆ Increasing the production capacity by 2,000 tonnes per month (by the end of FY2025)
Promoting the construction of a new Niihama plant DX to raise productivity and save energy
- ◆ Acquisition of LFP business
Acquired an LFP business as of May 1 and began production under SMM's name.
Aim to stably produce and sell high-quality products and strengthen R&D for the next generation.
- ◆ Toward production increase during next period
Demand trends vary in each region due to the impact of national government policies.
Production increase in the next period is under consideration including locations.



Let's look at our individual projects. First of all, battery materials. The three themes are "increasing the production capacity by 2,000 tonnes per month," "acquiring of LFP business," and "toward production increase during next period." We are in the process of increasing production capacity. While car manufacturers and car OEMs are making particular EV strategies and plans, battery cell manufacturers are also making various announcements in response to this.

Of course, we also have to consider increasing our production capacity. As for our future strategy, the third and most crucial point is "Toward production increase during next period." The challenge is how to develop the use of LFP technology.

Challenge 1. Increasing corporate value - Promoting large-scale projects

2) QB2

Challenge 1. Increasing corporate value - Promoting large-scale projects 2) QB2

21 3-yr Plan

Quebrada Blanca 2 (QB2) Project

- ◆ Production scheduled to start in the second half of 2022
- ◆ Over 80% of progress made in construction. Currently mobilizing over 12,000 construction workers.
- ◆ Mill Expansion
There is a plan to expand the mill for further lower orebody development.



This is about the Quebrada Blanca 2 (QB2) project. The plan is to start production in the second half of this year. The progress rate is over 80%, and the local camp mobilized up to 12,000 people. Mill Expansion, since broader ore bodies are expected, we will consider future expansion plans.

I hear that the construction of the port district last year was affected by the coronavirus and that it was difficult due to the bad weather, but we are promoting the project.

Mobilization of personnel is being strengthened, and at the end of the project, there are small but time-consuming works such as electrical instrumentation, so we are working hard to promote this. Of course, our company also dispatches personnel to the site and checks the situation with TECK Corporation, which is the project majority, including at the management level.

Challenge 1. Increasing corporate value - Promoting large-scale projects

3) Côté

Challenge 1. Increasing corporate value - Promoting large-scale projects 3) Côté

21 3-yr Plan

Côté Gold Mine Development Project

- ◆ Production scheduled to start in 2023
- ◆ Amount of capital expenditures is currently being examined, as it is in the trend of increasing due to COVID-19 and Ukraine situation
- ◆ Prospect drilling in areas around the mine has confirmed the presence of additional resources
 - Increasing the project's value with additional projects in the future



◆ SUMITOMO METAL MINING

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The slide shows the Côté Gold Project in Canada, scheduled to begin production in 2023. Unfortunately, due to the COVID-19 and the situation in Ukraine, there is a possibility that material prices will be affected. As you are all aware, the majority company, IAMGOLD, has issued an indication of its start-up costs, which our company is currently reviewing.

As for project management, the impacts of COVID-19 have subsided, so we are increasing the number of personnel dispatched from our company. This project is also expected to expand the surrounding orebodies. We expect the mine to be larger or have a longer life than initially anticipated.

Challenge 2. Improving core business sustainability (1)

Challenge 2. Improving core business sustainability (1)

21 3-yr Plan

3-biz collaboration to strengthen the value chain for Ni-batteries

Securing the supply of nickel resources and implementing measures to enhance collaboration among the three core businesses

- ◆ Enhancing the exploration of new nickel projects in the next period
- ◆ Securing a supply of nickel ore to CBNC and THPAL
- ◆ Start designing of battery recycling facilities

Hishikari Mine (Shifting to sustainability-oriented operations)

- ◆ Shifting to sustainable production centered on average-grade ore mining to extend the mine's life

FY2022 production volume 4.4 tonnes per year

- ◆ Promoting the development of lower orebodies



◆ SUMITOMO METAL MINING

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This is about improving the sustainability of our core business. I have talked about the smelting and refining of nickel and the value chain of battery materials so far. In particular, we are designing equipment for battery recycling in earnest to commercialize it over the medium to long term.

Changes in the operation of the Hishikari Mine were announced in the previous 3-year Business Plan. The mine was initially developed under a plan to create a mineral deposit of 1.5 million tonnes, an average grade of 80 grams per tonnes, and a gold content of 120 tonnes.

To date, approximately 250 tonnes of gold have been produced, and the mine is said to have been larger than expected. The mission of this mine is to mine approximately 160 tonnes of gold remained economically without leaving.

The goal is to match the ore grade for operation with that in the reserves. Rather than simply degrading the ore grade, we review the cost structure through labor-saving through DX and other measures.

Challenge 2. Improving core business sustainability (2)

Challenge 2. Improving core business sustainability (2)

21 3-yr Plan

Enhancing competitiveness in copper smelting and refining

- ◆ Ensuring stable operations to produce 450,000 tonnes of electrolytic copper per year
FY2022 production plan: 447,000 tonnes
- ◆ Enhance response to concentrate type change and continue efforts to reduce cost and improve yield
- ◆ Increasing the production capacity to 460,000 tonnes in the 21-3-Year Plan



Strategy for advanced materials business expansion

- ◆ Demand is expected to remain stable
- ◆ Implementing various measures to increase sales and enhance production of each product as set out in 21 3-Year Plan



◆ SUMITOMO METAL MINING

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Strategies for the copper Smelting and Refining business and the Advanced Materials business. As for copper, a stable production system of 450,000 tonnes is the priority. Due to the sale of the Sierra Gorda Copper Mine, there is a possibility that ore from the Sierra Gorda Copper Mine will be replaced by ore from the Quebrada Blanca Copper Mine in the future. As mentioned in our 3-year Business Plan, we are currently studying ways to improve distribution efficiency within our premises.

In the Advanced Materials business, demand is expected to remain stable, but demand for smartphones and other products is weakening slightly. On the other hand, the customer industry is making robust forecasts, so I think the challenge is keeping up with them.

Challenge 3. Adapting to changes in the social environment (1)

Challenge 3. Adapting to changes in the social environment (1)

21 3-yr Plan

1) Carbon neutrality

To reduce greenhouse gas (GHG) emissions, we will keep our GHG emissions below the FY2013 level, develop a plan for reaching **net zero GHG emissions no later than 2050**, and implement various necessary measures.

- Make TCFD disclosures in the Integrated Report
- Apply the internal carbon pricing (ICP) scheme to capital investments to promote investments that would reduce GHG emissions
- Promote various new products that contribute to carbon neutrality and the development of recycling technology

2) Adaptation to digital transformation (DX)

- Establish a new unit tasked with DX promotion to accelerate company-wide DX
→ Enhance competitiveness and establish infrastructure for implementing measures toward achieving our vision by leveraging DX
- Raise a digitalization awareness throughout the company
Foster an awareness to facilitate DX of operations by, for instance, sharing initiatives implemented internally

◆ SUMITOMO METAL MINING

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Three major issues are addressed in response to changes in the social environment. As for the issues of carbon neutrality and DX, this fiscal year's capex also includes investments using the internal carbon pricing (ICP) system. Our company is working steadily on what we can do.

Challenge 3. Adapting to changes in the social environment (2)

Challenge 3. Adapting to changes in the social environment (2)

21 3-yr Plan

3) Initiatives for securing, fostering and utilizing human capital

Securing: Enhance branding through, for instance, advertising
Increase mid-career recruitment

Fostering: Accelerate the rollout of 1-on-1 meetings

Utilizing: Begin reviews of various systems, allowances, etc. (partly implemented)
Head office renovation and enhancing inter-departmental communication

**Raise corporate vitality through proactive investments
in human capital**

**Expand inter-base online communication and
resume various face-to-face initiatives**

◆ SUMITOMO METAL MINING

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This is about our efforts to secure and fostering human resources. This is a universal issue, but especially in the recent trend toward the mobilization of human resources, we believe that the major theme is how to secure and develop human resources, which are the foundation of our business, and how to utilize them.

I mentioned earlier that we are working to revitalize our organization when renewing our head office. When it comes to people, revitalizing our organization is an important keyword.

Our company is implementing various initiatives to create a free and open corporate culture. In conjunction with the renewal of the head office, we plan to promote the voluntary opening of salons by employees to establish an organization that guarantees psychological safety.

Challenge 4. Strengthening the foundation of business management

1) Safety

Challenge 4. Strengthening the foundation of business management

1) Safety

21 3-yr Plan

Safety initiatives

Placing emphasis on preventing “serious accidents” (absence from work for 3 months or more) and “recurring accidents”

- (1) Promote measures related to equipment and essential safety with a focus on serious accident risks (moving parts, crashes/falls, heavy objects, heavy machinery)
- (2) Improve on-site management capability by strengthening checks on realities and actions through “work observation” and “practical risk assessment (RA)” as well as through priority-oriented initiatives
- (3) Improve risk sensitivity by introducing and practicing more effective education and training (e.g., sensory training using VR, etc.)

Targets during 21 3-yr Plan

- ✓ Serious accidents of employees and business partners in Japan and overseas sites: **None**
- ✓ Domestic employee accidents: **7 cases/year** or less
- ✓ Employee accidents at overseas sites: **1 case/year** or less

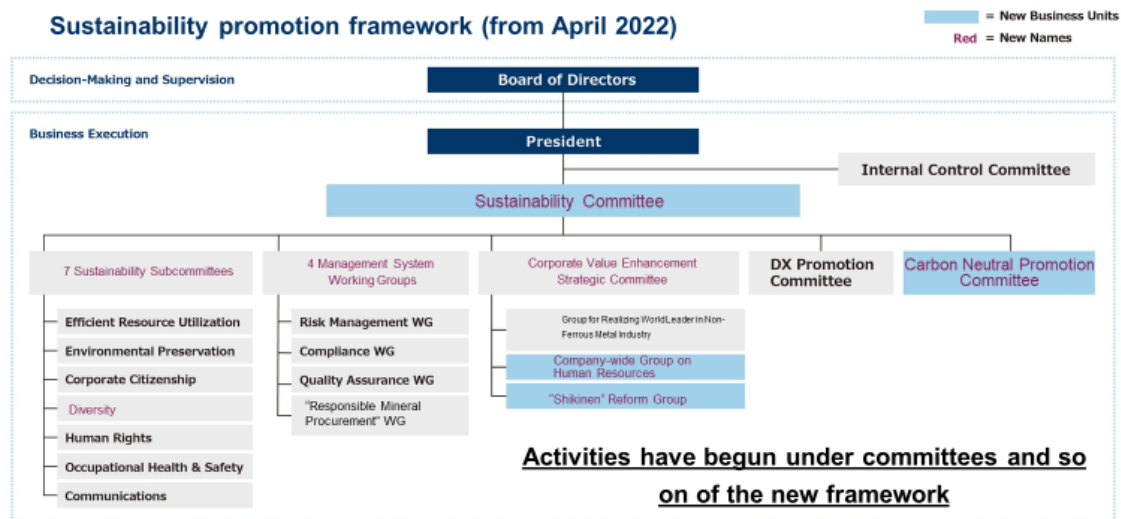
I have already mentioned our efforts for safety.

Challenge 4. Strengthening the foundation of business management

2) Promote sustainability

Challenge 4. Strengthening the foundation of business management 2) Promote sustainability

21 3-yr Plan



This is about promotion of sustainability initiatives. Traditionally, our company had called these as CSR activities based on its desire to contribute to resolving social issues through its business activities. However, because the term "CSR" is now being used in a narrow sense, we have replaced it with "sustainability" and reorganized our internal structure to make it easier to understand.

Outside of the organizational chart shown on the slide, there is management based on execution and business execution, and we have established the Sustainability Committee to regulate this. The DX Promotion Committee and Carbon Neutrality Promotion Committee, shown on the right of the slide, are set up for specific purposes each time, and we plan to move them under the Corporate Value Improvement Strategy Committee if this becomes the norm.

The three central pillars are the seven Sustainability Subcommittees, the four Management System Working Groups, and the Corporate Value Improvement Strategy Committee.

Challenge 4. Strengthening the foundation of business management

3) Corporate governance

Challenge 4. Strengthening the foundation of business management 3) Corporate governance

21 3-yr Plan

◆ Effectiveness evaluation of the Board of Directors

In FY2021, we conducted a survey with the cooperation of a law firm.

- Responses were favorable, generally considering that the Board was functioning effectively
- Some pointed out the needs for change for the Board to play the roles and functions envisioned by the company; improvement initiatives are being implemented.

◆ Effectiveness evaluation of the Audit & Supervisory Board

Conducted a survey for the first time in FY2021. An external auditing corporation analyzed and evaluated the survey. The Audit & Supervisory Board discussed it and assessed that it was functioning effectively.

◆ Skill matrix

Disclosed in the Corporate Governance Report.

Established the benchmark for skills expected of Directors. The Board of Directors discusses the items that will contribute to the governance of the company which in principle adopts a management model.

This is about corporate governance. The effectiveness evaluation of the Board of Directors, the Audit & Supervisory Board, and the skill matrix are shown on the slide.

This concludes my explanation. Thank you very much.

Questions and Answers: Reasons for Discontinuation of Feasibility study on the Pomalaa Project and Future Cash Flow Strategy

4. Nickel/battery strategy (1)

FY2022 Outlook (Topics)

April 2022: Decision to discontinue consideration of Pomalaa project

- ◆ Differences in views with the schedule-oriented partner became apparent.
 - ✓ As the study protracted under the COVID-19 crisis, the partner chose to negotiate with other companies.
 - ✓ We will now apply the resources and time we have available to search projects for other nickel deposits and new projects that we have been proceeding with in parallel.
 - ✓ No impact is expected on other products such as battery materials in the short term.
In the long term, we aim to cover the impact with other new projects, etc.

Questioner 1: I was pretty shocked when you decided to withdraw from the Pomalaa Project soon after the 21 3-year Business Plan was announced. As far as you can tell, please tell me why it ended badly. For example, I think there are various aspects such as technology, construction period, products to be manufactured, and financing. Also, please include that there is no risk that the same thing will be an obstacle when you start a project next time.

Even if projects are running in parallel, exploration, FS, and licensing take a very long time, so there is an image that the time axis is going after the 2030s. Please tell me about nickel and whether this will not happen in the future.

There was no capital expenditure plan because the next project for the Pomalaa Project was not decided, but I think it was the highlight of this 3-year Business Plan. I think the cash flow strategy will change considerably as the expenditure for the Pomalaa Project is eliminated in the 3-year Business Plan. What do you think about this?

Nozaki: The reason for the discontinuation of the feasibility study of the Pomalaa Project is due to the timeline of PT Vale Indonesia, the owner of mining area. Recently, there are many cases to build industrial parks in Indonesia, so projects are often started in a relatively short period.

Meanwhile, the Pomalaa project builds roads and plants on largely undeveloped land. Since HPAL is used, we will proceed while considering where to build the dam and how to mitigate the impact

on the surrounding residents. To proceed with things carefully, we naturally had a sense of schedule like this.

But PT Vale Indonesia wanted a little more speed, where things didn't end up. Therefore, I understand that the process, funding, and product were not significant problems, and I think the schedule was.

The reason for the extended schedule is that it took much time because of the licensing problem. This time, a new company will work on a project, but I think it's the same hurdle. As we are a shareholder of PT Vale Indonesia, I think we will be in a position to check how to mitigate the situation.

Next, I think the timeline is very different depending on where you do it or where you have a licensing system.

In the Philippines, where we first worked, Coral Bay kicked off in 2000, and I think the construction was completed in 2005. It depends on how the infrastructure is constructed, so I don't think it's necessarily after 2030. Or we might take the opposite approach and focus on the projects we can work on in the meantime.

As you pointed out, cash flow will swing in a positive direction, but our company has a negative balance, to begin with, and that will be eased.

However, it is not possible to expand the scale of a project unless it is leveraged, so we intend to allow the unused funds to be used for the next project, and we have given instructions for that to the site.

Questions and Answers: Nickel production methods and policies for projects to secure raw materials

4. Nickel/battery strategy (2)

FY2022 Outlook (Topics)

Search for upcoming projects

Identifying needs for undeveloped projects by leveraging our industry network

Secure raw materials through collaboration with existing projects that can utilize our technology



- ✓ **Combination of hydro/pyro metallurgical technologies that we have developed in addition to HPAL**
 - Consider processing and producing MHP (hydroxide) not only MS (sulfide)
 - Develop hard-to-process ore projects utilizing our technology
- ✓ **Strengthen the value chain through the collaboration between the three businesses (nickel/batteries) including recycling.**



Select and implement projects that take full advantage of our strengths.

Questioner 2: You mentioned MHP for nickel, but please tell me if you will apply a non-HPAL method.

In addition, there was an image that your company would develop new projects on its own, but in this explanation, you mentioned that you might participate in an existing project, and I thought that you might be thinking of ways other than HPAL. Please tell me the background of that change.

Nozaki: There is a difference between MHP(mixed hydroxide precipitate) and MS(mixed Sulfide), whether it contains sulfur or not, but actually, MHP is more mainstream as a product of HPAL.

Our company is producing MS because it has the advantage that impurities are removed in the process of making MS, and it is the best fit to apply this to a process called MCLE at the Niihama Nickel Refinery in our company. However, given the difficulties of production, capital costs, and operating costs, we can assume that MHP is still cheaper.

There were questions about the project approach and production process, but we will be stuck if only with a fixed mindset. We will change our nickel production facilities in our company depending on the situation, as we shifted the raw materials mainly used in Niihama Nickel Refinery's operation from nickel mattes to MS. I want to think flexibly without being bound by fixed ideas as I have in the past.

As with PT Vale Indonesia, there have been cases where minorities have joined projects, and

unfortunately, the Goro project in New Caledonia has also been withdrawn. The way to proceed with a project can be in any form as long as it is related to securing raw materials.

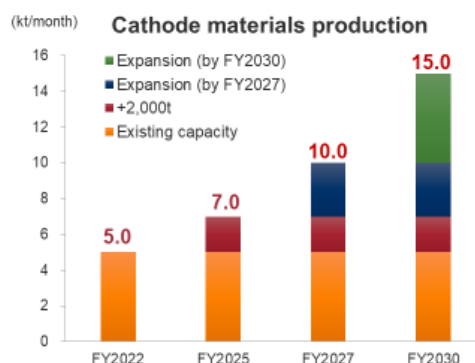
Questions and Answers: Allocation of management resources to LFP and initiatives for carbon neutrality

Challenge 1. Increasing corporate value - Promoting large-scale projects 1) Battery materials

21 3-yr Plan

Expanding production capacity for battery cathode materials

- ◆ Increasing the production capacity by 2,000 tonnes per month (by the end of FY2025)
Promoting the construction of a new Niihama plant DX to raise productivity and save energy
- ◆ Acquisition of LFP business
Acquired an LFP business as of May 1 and began production under SMM's name.
Aim to stably produce and sell high-quality products and strengthen R&D for the next generation.
- ◆ Toward production increase during next period
Demand trends vary in each region due to the impact of national government policies.
Production increase in the next period is under consideration including locations.



Questioner 3: I have a question about the battery material plan. LFP businesses added to your product mix now. Sumitomo Osaka Cement Co., Ltd. has commercialized LFP since ten years ago, and it is reported that the annual production volume is 2,000 tonnes.

Please let me confirm how you intend to allocate management resources to LFP in the battery materials plan. Will there be an investment in LFP as part of the monthly production of 15,000 tonnes, mainly of nickel materials? Please explain how you need to shift your customer foundation, how you plan to catch up with existing users who are moving in that direction, and how you plan to secure the market.

In addition, you said that you will decide on your commitment to carbon neutrality by 2023, which seems to be slower than other industries.

The 3-year Business Plan includes an investment budget of 12 billion yen, and I think the R & D and installation of actual power generation facilities are considered. Among the major mining companies, I believe that the budget for carbon neutrality and automation of mine operations is allocated, progressing with a considerably large budget.

I think you need to keep pace with them and be more actively involved in the resource business, and from the viewpoint of cash-out, I wonder if such an element will emerge. What are your views on the possibility and necessity of acceleration?

Nozaki: First of all, concerning LFP, we did not take the approach that LFP is necessary because its demand will be like this, or the market will be like this. There are various cars, from limousine types to minicars, but I think they are diversified because they are used for different purposes.

We are talking internally that it is natural that the battery needed will be different for different purposes. Our company produces mainly NCA, nickel hydroxide and others, but considering the expansion of the market in the future, it was said that our company whether we should have LFP as a lineup.

In that kind of situation, there is a company that produces LFP, and we were able to take over the business. Of course, the most important thing is to operate the plant properly with current capacity.

In addition, the LFP itself has multiple production processes. I have also heard about which processes are vital and that the LFP itself has improved to the point where it is close to the upper limit of theoretical performance, and I wonder if there is any room for research and development.

So, I think we're going to see more of an upfront investment. We haven't decided whether it will be within 15,000 tonnes per month or not, as it is natural that it will be within the range.

1) Carbon neutrality

To reduce greenhouse gas (GHG) emissions, we will keep our GHG emissions below the FY2013 level, develop a plan for reaching **net zero GHG emissions no later than 2050**, and implement various necessary measures.

- Make TCFD disclosures in the Integrated Report
- Apply the internal carbon pricing (ICP) scheme to capital investments to promote investments that would reduce GHG emissions
- Promote various new products that contribute to carbon neutrality and the development of recycling technology

2) Adaptation to digital transformation (DX)

- Establish a new unit tasked with DX promotion to accelerate company-wide DX
 - Enhance competitiveness and establish infrastructure for implementing measures toward achieving our vision by leveraging DX
- Raise a digitalization awareness throughout the company
 - Foster an awareness to facilitate DX of operations by, for instance, sharing initiatives implemented internally

As you pointed out about carbon neutrality, the movement may be slow. There are already mines with 100% renewable energy at overseas copper mines, and the automation of machinery is progressing.

This is also happening in mines where we have stakes. We often work as a minority in overseas copper mines, but as a minority, we are making progress in communicating our request and desire to work together on ESG initiatives such as carbon neutrality. Of course, many of our partners are advanced mining companies, so some are doing it on their own.

As for the process of directly reducing CO₂, there is a process in which CO₂ is emitted when reducing oxides or neutralizing acidic substances in our company. We are researching to change this process into one that can further reduce CO₂ emissions.

60% of our company's CO₂ emissions come from electricity. If liberalization of power source proceeds, we will have to think about it, but now we are proceeding with what our company can do in other areas.

Our equity attributable to owners of parent ratio is now over 60%. However, we have explained internally that a sound financial structure is necessary because the decision-making period for acquiring overseas resource interests is short, and we cannot acquire them without financial strength. However, as you have pointed out, there is a possibility that a large amount of investment will be required to approach carbon neutrality.

If failing to do so, there are risks to be eliminated in the supply chain. Naturally, this cannot be mitigated without the support of solid financial strength. Therefore, a stable financial position is an essential theme in the 21 3-Year Business Plan.

Questions and Answers: Securing Nickel Interest and Allocation of Funds

Questioner 4: I think Chinese companies are ahead of competition in securing nickel interests. I believe Chinese companies make business decisions very quickly, so please tell me how you will appeal to this competitor in acquiring interests.

Also, if there is no need for funds for nickel interests, including Pomalaa, could there be a change in the allocation of funds, including inter-segment flexibility, in the case of copper mines?

Nozaki: As you have pointed out, it is challenging to secure nickel interests, even negotiations with companies in which we have stakes, such as Pomalaa, sometimes does not go well.

Our company's approach to mineral resource development or smelting and refining is that mineral resource development must be sustainable. Once the smelter or refinery is opened, we hope to maintain it for 30 years. We are working to operate the smelter in an environmentally friendly way and adequately absorb the impact of lawsuits.

In some cases, we go directly to acquire interests, but in most cases, we form partnerships with those who have interests, so we would like to explore ways to share such values. Working in the world, I know that this is very difficult, but the most important thing is if we can develop as we do in the Philippines.

It's pretty possible that Pomalaa's financial needs are gone, and we takes them elsewhere. After all, the mineral resource industry has to have new projects because of attrition. It can be in the form of a project pipeline, it can be a project near development, or it can be a brownfield.

We can only take these when we have a chance, so we'll put them there. But I'm not going to lose the money for a nickel. Of course, it is a project development, so I think you will be looking at the timing while considering the balance of human resources.

Questions and Answers: Current status and issues of LFP and trends in nickel demand

Questioner 5: Regarding LFP, you explained that there are multiple production processes so you need to study which process is better, or you will strengthen R & D in the future because the performance has reached the upper limit of the theory. How much can you produce against the capacity of 2,000 tonnes per year, and are you not considering increasing LFP over the next 2 to 3 years?

In addition, due to the recent deterioration of the situation in Russia and Ukraine and the resulting confusion in the LME, the nickel price has become highly volatile. What is your view on the change in demand for nickel-based cathode materials, the change in demand for ferronickel for stainless steel, and whether there is any change in demand due to rising prices, or whether there is a possibility or possibility of such a change?

Nozaki: Regarding LFP, I understand that it is not operating at total capacity at present. I think the challenge is marketing, and the manufacturing cost must be reduced.

This is because most of LFP's competitors are Chinese companies, cost-competitive. I think there are other issues, but I don't think there is anything I can tell you at this stage.

For the next 2 or 3 years, as I mentioned earlier, the capacity may be within 15,000 tonnes per month, so it is difficult to say what type and shape the next battery expansion will take. The answer is that there may or may not be an increase.

If we gain more experience, we will be able to understand the business of LFP itself and talk about it in detail, so please give us some time until then.

I haven't heard about any changes in demand because of nickel prices. There is no doubt that it is volatile, but there are many opinions about the current price of around \$12, which is exceptionally high.

As the number of projects and production methods become limited and require CAPEX, it will be challenging to determine which price level is appropriate for producers in terms of investment recovery until we look at new production and production increase. I'm not worried about demand.