

SMM Expects Tough Business Environment in FY2023; to Steadily Promote Initiatives for Achieving Profitability Earlier at Each Project

This is a transcript of Sumitomo Metal Mining Co., Ltd.'s Progress of Business Strategy briefing for FY2022, held on May 17, 2023.

<Speaker>

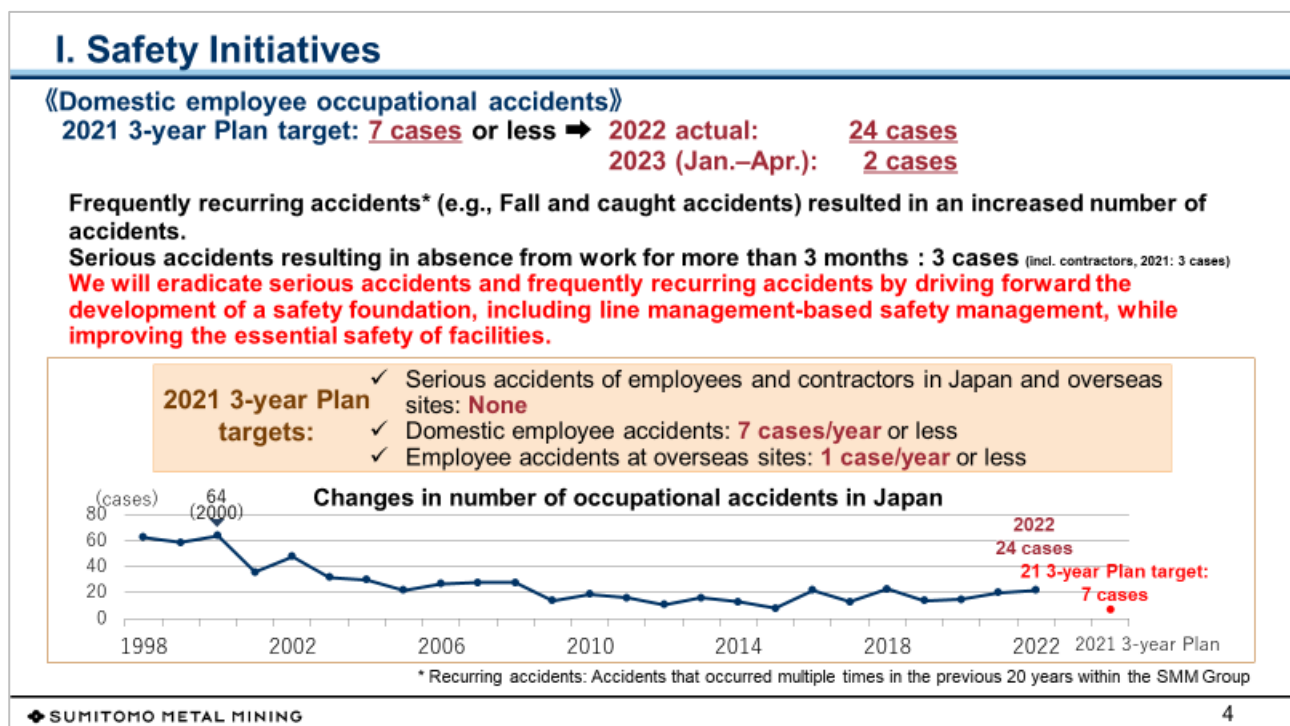
SUMITOMO METAL MINING, President and Representative Director, Akira Nozaki

FY2022 Progress of Business Strategy

Akira Nozaki: Good morning, everyone. I am Nozaki, the president. Thank you very much for attending our business strategy briefing today.

I would like to explain the progress made based on the material here.

I. Safety Initiatives



First, I would like to explain our safety initiatives. While the 2021 3-year plan target for domestic employee occupational accidents was 7 cases or below, there were 24 such cases in FY2022, exceeding the target by a large margin, which is a disappointment.

We strive to raise the level of essential safety of facilities and work observation and set forth annual targets for safety performance. Still, the reality is that there has been no improvement in the number of such cases.

In 2023, there have been two cases till April, which is a relatively low level, but in the past several years, the cases during the summer season from April to September tended to account for more than 80% of the total number of cases. The involved departments are currently examining whether these accidents had been caused by poor concentration and other factors seen in the summertime.

What we aim for, of course, is prevention of serious accidents. We are also focusing on the prevention of accidents that are similar in nature, which we call recurring accidents. Causing a recurring accident means that we have not learned from the past, so we believe that the issue is our learning ability and memory as an organization.

We consider this point as a management issue not limited to safety initiatives, and we will keep paying attention to it.

1. Global Economy

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- ◆ Prolonged instability in Ukraine
- ◆ Inflation remaining high and continued financial tightening
- ◆ Uncertainty in financial markets
- ◆ Formation of economic blocs (fragmentation) continues unabated.

**Outlook for
global economy
remains uncertain.**

IMF's forecast on global economic growth (April forecast)

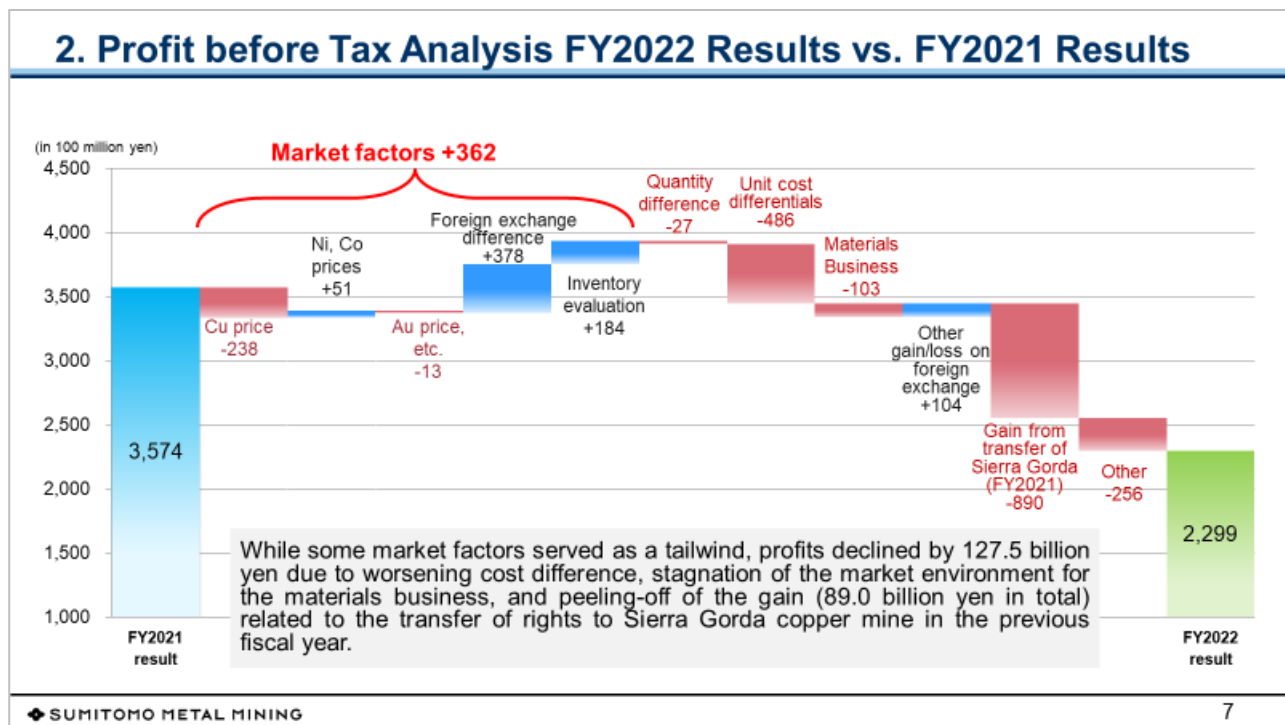
	2022	2023	2024
	Growth rate	Growth rate	Growth rate
Global	⇒ 3.4%	⇒ 2.8%	⇒ 3.0%
US	⇒ 2.1%	⇒ 1.6%	⇒ 1.1%
Europe	⇒ 3.5%	⇒ 0.8%	⇒ 1.4%
Japan	⇒ 1.1%	⇒ 1.3%	⇒ 1.0%
China	⇒ 3.0%	⇒ 5.2%	⇒ 4.5%

I am going to explain the environment surrounding SMM. This slide shows figures such as the economic growth forecast for this year. Emergence of geopolitical risks and formulation of economic blocs (fragmentation) are among matters of concern, and there are also apprehensions about economic recession in the U.S., which may be termed as a reaction to the pandemic bubble.

In addition, the issue of raising the debt ceiling is currently being debated, and the share prices also declined yesterday. The recovery has not been as great as expected, with the recovery in China rather delayed and the unemployment rate among young people remaining at a high level.

Moreover, there are a series of factors triggering cost increases, including energy costs, labor costs, and the impact of foreign exchange rates, especially in the case of Japan. I believe that pressure on corporate profits is a major issue for the current fiscal year.

2. Profit before Tax Analysis FY2022 Results vs. FY2021 Results

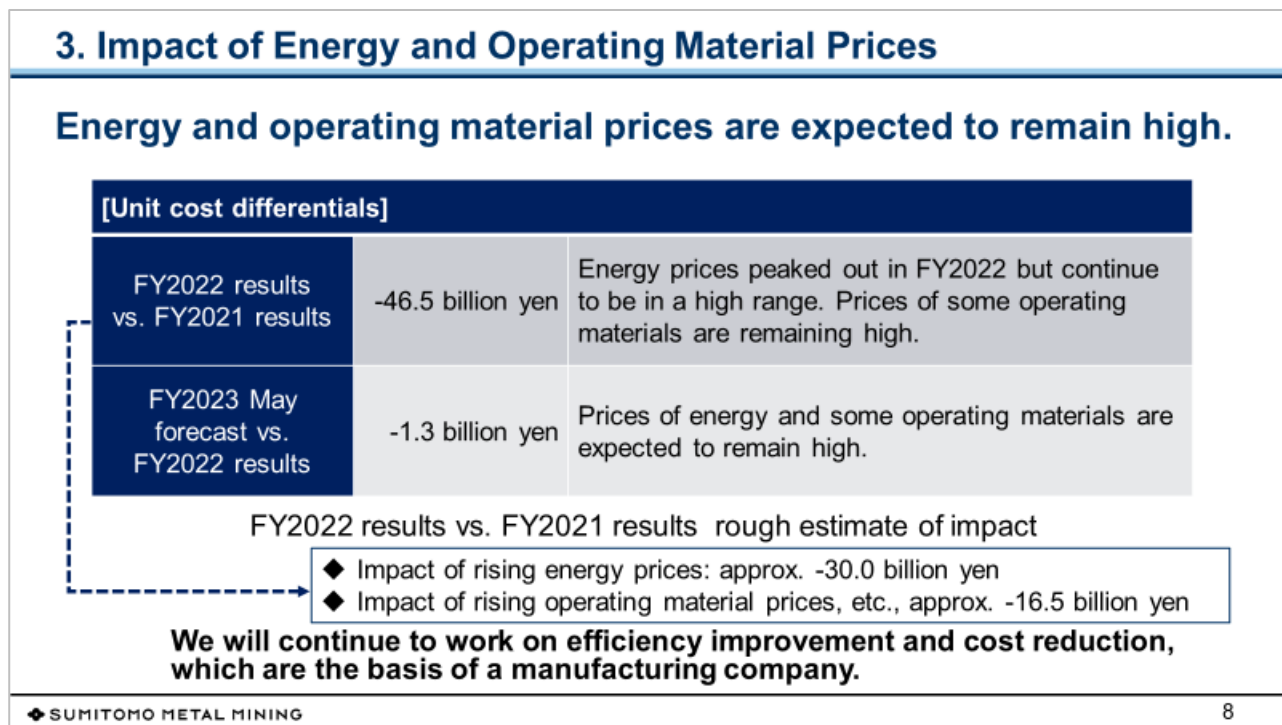


This graph compares the results for FY2022 and 2021 at the level of profit before tax. The details have already been explained by the concerned departments. There was a significant decline of 127.5 billion yen compared with FY2021.

A special factor was the transfer of the rights to Sierra Gorda in FY2021, which had an impact of approximately 89.0 billion yen. There also were market factors and other gain/loss on foreign exchange, but they were roughly equal to cost increases due to external factors. The worsening performance of the Materials Business and other factors also contributed to the declines in profit, leading to this result for FY2022.

Among these factors, the cost increase is a major issue, and I would like to explain it in the next slide.

3. Impact of Energy and Operating Material Prices



The main factor behind cost increases in FY2022 was the increase in energy prices. Geopolitical risks emerged in 2022, and it sped up the surging energy prices, which had started before that. Non-ferrous metal prices had also risen at the same time, and the same factor acted in both positive and negative ways.

I believe that the rise in energy prices has already peaked, but the impact of such price increases tends to be felt sometime later, so I believe the prices of energy, including electricity, will continue to be a factor pressuring profits again in FY2023.

On the other hand, some view that goods prices have already started to fall, primarily in North America. In particular, in the case of SMM, we are hoping costs to improve at overseas copper mines and will monitor the situation closely.

4. Metal Supply and Demand Outlook

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《Copper》 Supply and demand will ease in the short term.

- ◆ The supply-demand balance will be eased temporarily during 2023–2024 due to the opening of new mines and the expansion of existing ones.
- ◆ Fundamentals are helping copper demand. (global decarbonization, clean energy, EV shift, etc.)
- ◆ Supply tightened to in the latter half of 2020s as the number of new projects decreases.

Cu	ICSG forecast (Apr. 2023)		
(kt)	2022 Result	2023 Forecast	2024 Forecast
Production	25,641	26,317	27,537
Usage	26,067	26,513	27,273
Balance	-426	-196	+265

《Nickel》 Continued growth is anticipated.

- ◆ Demand for nickel-based lithium-ion batteries for EVs will continue to grow.
- ◆ Increased NPI production is expected to continue in Indonesia; production volume of Class I from intermediate products is expected to increase further.
- ◆ Both demand and supply have respective growth risks, but the Ni market is expected to continue growing even after factoring in the risks.

Ni	INSG forecast (Apr. 2023)		
(kt)	2021 Result	2022 Forecast	2023 Forecast
Production	2,612	3,036	3,387
Usage	2,775	2,892	3,216
Balance	-163	+144	+171

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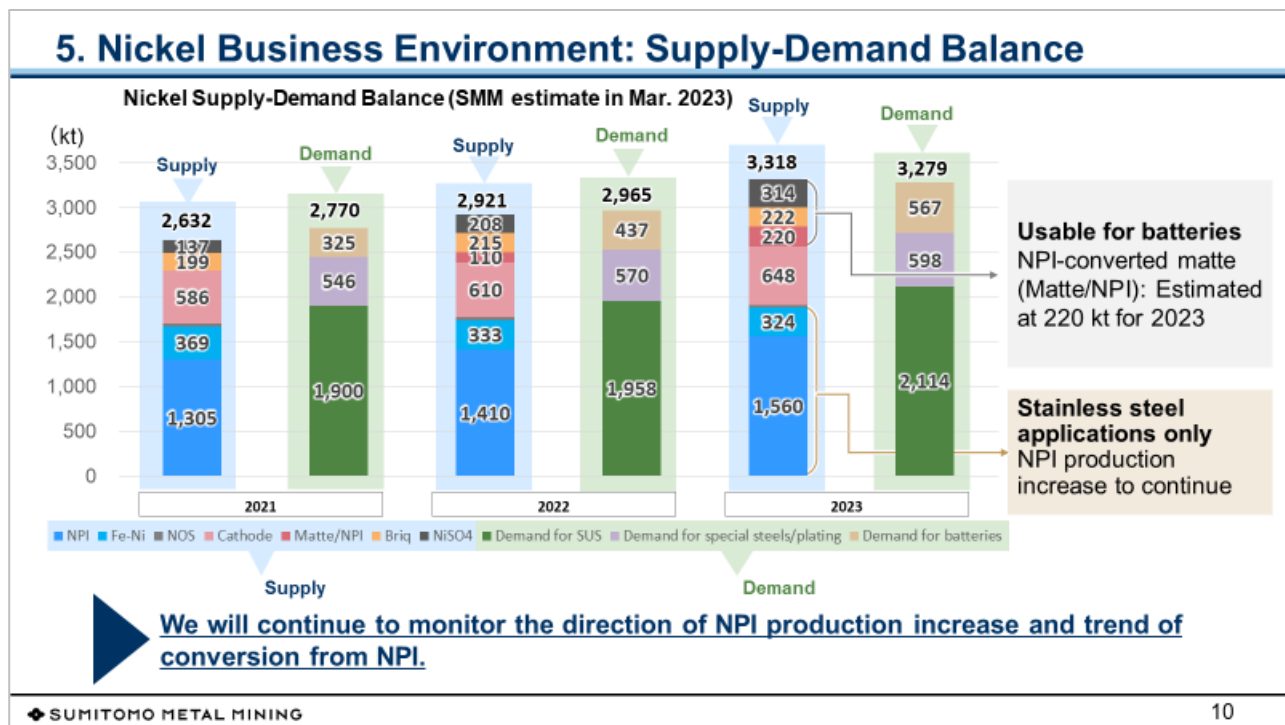
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This is the outlook for supply and demand of non-ferrous metals. The slide shows copper and nickel, and the demand is strong in the long term, which is the same for both metals. It tends to be relatively easy to foresee the demand trend and supply plan for copper, but we still need to pay attention to disruptions in production. Supply and demand are well-balanced, and disruption would affect them.

As far as I know, there will be no major revision to labor agreements this year. However, operations of a mine are temporarily halted when there is a major rainfall, etc., like the one that occurred in North America at the beginning of this year. So, we will watch out for such factors.

As for nickel, the demand for nickel-based lithium-ion batteries for EVs has been expanding. Meanwhile, nickel pig iron (NPI) production in Indonesia continues to increase. Taking this into account, the forecast by the International Nickel Study Group (INSG) is 171,000 tons, which is a significant excess in supply.

5. Nickel Business Environment: Supply-Demand Balance



This is SMM's forecast of supply and demand for nickel. The far right shows the figures for FY2023. The supply-demand balance is an excessive supply of 39,000 tons, which is different from the figure by INSG.

NPI is produced in Indonesia and China, and there is obviously an oversupply in production for stainless steel applications. However, production will stop if it comes to a situation where customers cannot use more than that, and we expect that it would bring about equilibrium.

Other than that, we believe that the number of businesses that produce the likes of nickel matte from NPI, which is an intermediate product of Class I nickel, will increase. The issue is the capacity for refining nickel matte, and SMM's view is that Class I nickel will be slightly in excess.

At the moment, the stock at the London Metal Exchange (LME) is at a very low level of about 40,000 tons, which is slightly hard to explain, and we are keeping a close eye on what will happen in the future.

6. Metal Price Estimation for FY2023

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《Copper》 **\$8,500/t** (FY2022 ave.: **\$8,551/t** Apr. 2023 ave.: **\$8,814/t**)

- ◆ There are uncertainty factors such as the U.S.-China conflict and Russia's invasion of Ukraine. Still, the copper market is expected to remain firm on prospects of an upward swing in user demand in China.

《Nickel》 **\$10.00/lb** (FY2022 ave.: **\$11.63/lb** Apr. 2023 ave.: **\$10.78/lb**)

- ◆ Supply-demand balance of nickel in 2023 is expected to be in over-supply
- ◆ While there are expectations of an economic recovery in China on the demand side, there is a strong impact from the increase in nickel supply from nickel sources in Indonesia, and we expect it to be primarily in the \$10/lb range.

《Gold》 **\$1,800/toz** (FY2022 ave.: **\$1,805/toz** Apr. 2023 ave.: **\$2,000/toz**)

- ◆ There was the collapse of a medium-sized U.S. bank, Silicon Valley Bank (SVB), and the crisis of Credit Suisse at the beginning of the year, and the price of gold, which is a safe asset, recently increased.
- ◆ The U.S. financial authorities' intention to control inflation appears to continue. There is a high possibility of them continuing with the interest rate hike, and the gold price is expected to soften gradually.

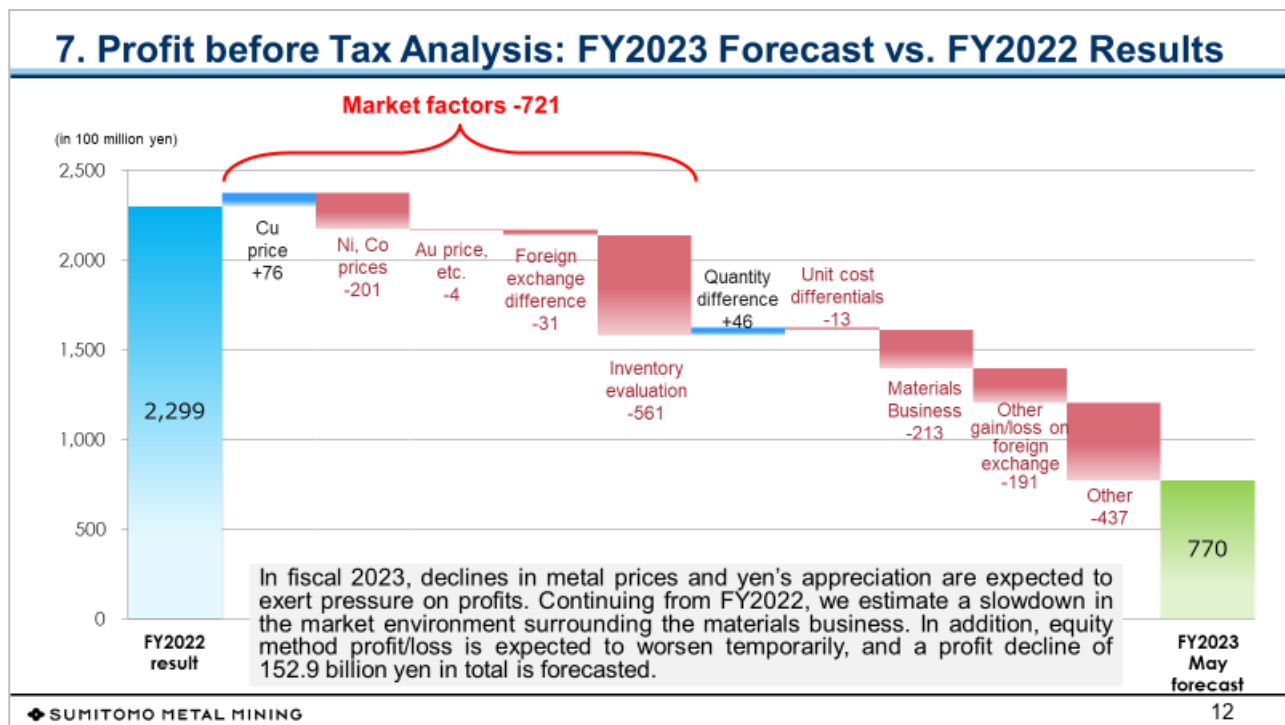
These are the metal price estimation we adopted for FY2023. It is \$8,500/t for copper, \$10/lb for nickel, and \$1,800/toz for gold. I mentioned copper earlier in supply-demand balance, and we think fundamentals are pretty much well balanced.

Some view that nickel is in over-supply as there is a surplus in Class II of NPI or an intermediate product converted for Class I, but we believe that there is no change in the tightness of Class I measured using the LME stock.

Gold price has a very strong correlation with US dollar interest rate and foreign exchange rates. At the beginning of the year, the U.S. was expected to continue with the dollar interest rate hike, but some view that it may switch tracks to cut interest rates given the possibility of economic slowdown.

Gold price appears to have fallen yesterday, but it is currently rising and many view that it will continue to be strong as long as the issue of raising the debt ceiling of the U.S. remains. The prices of copper and nickel are slightly lower than the levels we assumed, and we think this situation has factored in the economic slowdown in the U.S. or the delay in economic recovery in China.

7. Profit before Tax Analysis: FY2023 Forecast vs. FY2022 Results

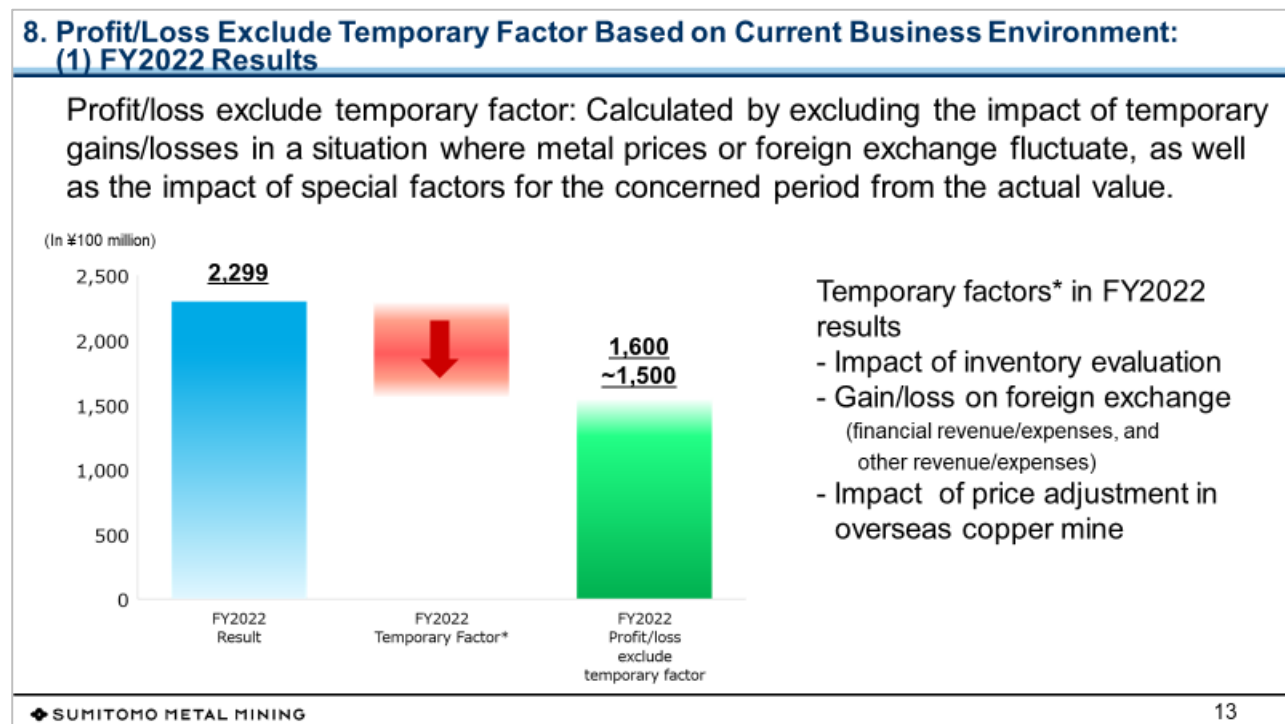


This compares the forecast for FY2023 and the results for FY2022. We are expecting a significant profit decline of 152.9 billion yen compared with FY2022. Of this amount, we view the deterioration of 72.1 billion yen came from market factors and the decline of 19.1 billion yen from other foreign exchange gains/losses.

I mentioned energy costs earlier, but the prices of non-ferrous metals have already snapped out of it and have started declining compared with the sharp rise at one point. However, cost increases always happen afterward, and I believe this is going to be the main factor putting pressure on profits in the current fiscal year.

The worsening performance of the Materials Business is another management issue. Compared with sales in excess of 300.0 billion yen as a segment, its profitability is insufficient. We should not put it away just as an issue of market or market conditions and intend to hurry to improve asset efficiency of the battery cathode material business, among other measures.

8. Profit/Loss Exclude Temporary Factor Based on Current Business Environment: (1) FY2022 Results



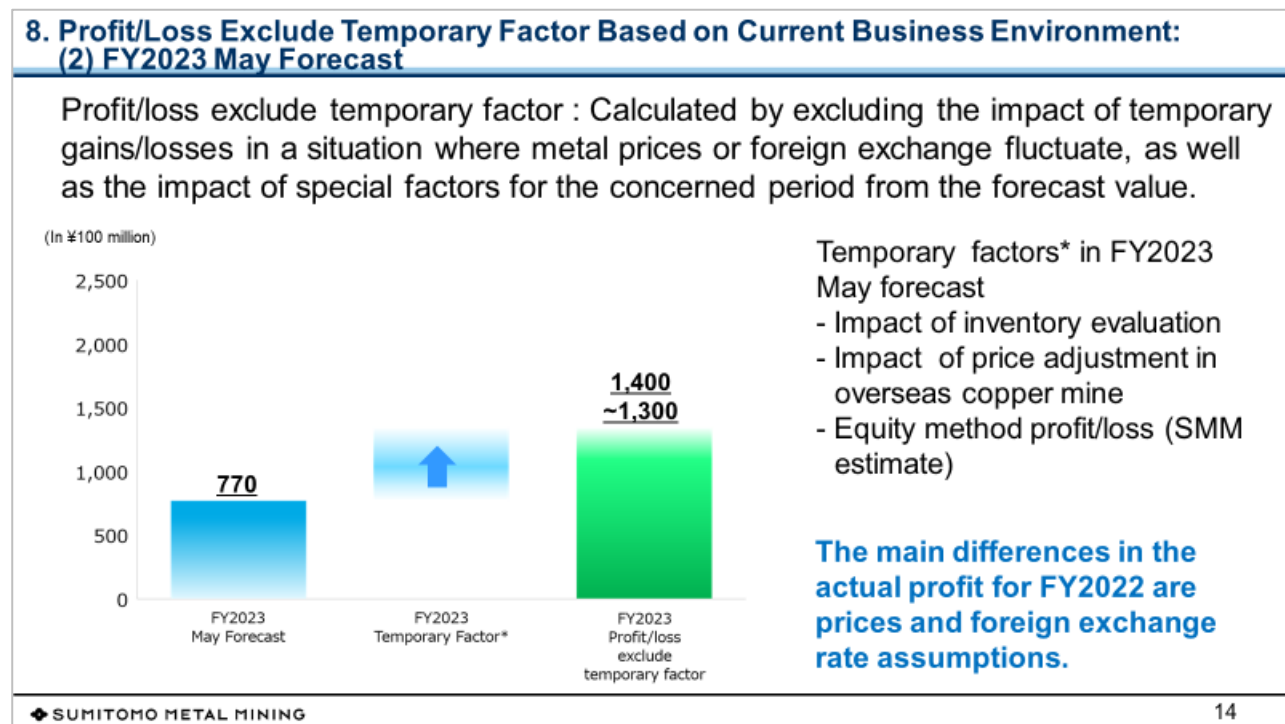
As I have mentioned earlier, SMM's profit/loss has been fluctuating significantly from FY2021 through to FY2023, and we often get questions asking what it is like in real terms. This is our rough estimate.

In FY2022 results, there were temporary factors such as the impact of inventory evaluation, gain/loss on foreign exchange, and the impact of price adjustment in overseas copper mine. When we exclude these impacts, profit before tax is assumed to be 150.0 to 160.0 billion yen.

If we take profit after tax, ROA would be about 5% and ROE around 8% in rough estimates. For a year in which both price of non-ferrous metals and foreign exchange rates were at a relatively high level, this cannot be considered a satisfactory level.

We are examining this based on the overall asset and capital efficiency as well as return on capital employed (ROCE), and I think we should analyze what level of profitability would be necessary for this type of structure. For example, , we should carry out a managerial analysis of factors such as the impact of using a price of non-ferrous metals that was based on a long-term consensus.

8. Profit/Loss Exclude Temporary Factor Based on Current Business Environment: (2) FY2023 May Forecast



When we add temporary factors to the 77.0 billion yen forecast for FY2023 as of May, it would be around 130.0 billion yen to 140.0 billion yen in profit before tax. In rough estimates, this can be translated as about 4% in ROA and around 6% in ROE, both of which would be declines.

The main cause of the worsening profit/loss is the deteriorating performance of the materials-related businesses. Material-related businesses are in the phase of expanding investment. The situation is unfavorable with the worsening market conditions for electronics materials, but I have given instructions to implement measures to improve ROCE so that to stop the expansion of the deficit and to have a structure enabling us to jump-start when the market conditions recover in the next phase.

9. Dividends / Cash Flows & Financial Position (1)

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Business characteristics of non-ferrous metals

- Demand for non-ferrous metals (copper, nickel, etc.) is expected to grow steadily in the future.
- Prices of non-ferrous metals are decided on market led by LME, and the profit/loss of the non-ferrous metal business is significantly influenced by the market environment.
- Non-ferrous metal assets wear out as companies mine, and it is necessary to replace them constantly.
- Global resource major companies are leading competitions for first-class assets.
- New development of resources is becoming more difficult due to factors such as the higher altitude of such sites and the necessity to mine deeper. Besides, the industry has been facing increasing operating materials and personnel costs in recent years.
- Under such circumstances, we are carefully considering participation in resource development projects from various angles and by spending sufficient time. Once the decision is taken to participate in one, it immediately necessitates expenditure on the scale of hundreds of billions of yen.
- It takes years to harvest the fruits of investment, and if we do not have the tenacity to withstand it, we will not be able to sustain the business, and neither would we be chosen as a partner candidate.
- It is also necessary to accelerate our sustainability-related initiatives, including GHG emissions reduction and DX.
- Moreover, we are also focusing on the materials business as a driver of further growth.

This slide shows the dividends, cash flows, and financial position. We described the details of the business characteristics to facilitate deeper understanding of SMM's non-ferrous metal business. Demand in the non-ferrous metal industry is expected to grow in the future, and it is definitely a growth industry. In particular, as infrastructure demand in emerging countries expands, new demand from electrification, automation, and new energy facilities will also increase in developed countries.

However, the development of resources takes time, and in recent years, building the infrastructure for development involves great costs. For example, at a copper mine in Chile, we needed to build a desalination facility and supply water to the mountain through pipelines. This alone is significant work, and it would not be profitable unless we carry it out in large-scale development projects.

The situation surrounding resources themselves also continues to be very severe, given increasing difficulties in development and cost increases due to recent inflation. Under such difficult conditions, SMM plans to invest in first-class projects with cost competitiveness.

Opportunities for investing in first-class projects are limited. We need to make the decision swiftly when there is an opportunity, and we have to acquire rights or make an investment. It is usually in the scale of several hundreds of billions of yen and calls for a financial backbone. SMM's equity ratio is about 60% at the moment, and we would like to maintain it at 50% or more at the very least.

9. Dividends / Cash Flows & Financial Position (2)

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Cash flows and financial position

- ◆ We will continue with record-high levels of capital investment and investments and financing in 2023 to execute the growth strategy. Meanwhile, we expect to harvest the fruits from 2024 onwards.
- ◆ To improve capital efficiency, we will continue to promote measures such as strengthening cost management and inventory management.
- ◆ We will maintain competitiveness with cost reduction and improvement in productivity to maintain financial standings that would enable us to make swift moves when a large-scale investment becomes necessary.

Dividends

Shareholder return policy: Continue with the policy to link it with financial results. The consolidated payout ratio is at least to be 35% or higher.

◆ FY2022

Full-year financial results were at a high level, although the business environment continued to be difficult given the significant rise in prices of energy and operating materials, volatility in foreign exchange rates and metal prices, and stagnant demand for electronic components.
→ Plan to pay the annual dividend of **205 yen/share**

◆ FY2023 forecast

We expect a major decline in profits compared with FY2022 due to a temporary increase in costs at equity method affiliates in addition to weak metal prices, rebound from the rapid depreciation of the yen last year, and lackluster recovery in electronic component demand.
→ Forecasting an annual dividend of **54 yen/share**

I am going to explain our cash flows and financial position. Currently, the levels of capital investment and investments and financing are very high. In addition, there will be investment related to carbon neutrality from the sustainability perspective. We will also have to invest in deteriorated facilities and those requiring streamlining.

Under such circumstances, we provide shareholder returns through dividends, which is linked to financial results. We set the payout ratio for the period of the 2021 3-Year Plan at 35% or more as a rule, and we would like to improve our financial results and increase returns.

Currently, cash outflow continues even at this payout ratio, and we are implementing investment by taking advantage of leverage.

Considering our line of business, there is a period of cash-out like this, and we make profits after it settles down, and the financial position improves, and we will keep implementing this cycle. Through this process, we want to grow the size of our balance sheet and make it sound.

10. Comparison of Financial Results and Forecast

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(Billions of yen)	FY2022 result (A)	FY2021 result (B)	Change (A)–(B)	FY2023 forecast (C)	Change (C)–(A)	
Net sales	1,423.0	1,259.1	+163.9	1,366.0	-57.0	
Gross profit	250.1	257.8	-7.7	139.0	-111.1	
Profit / loss before tax	229.9	357.4	-127.5	77.0	-152.9	
Equity method profit/loss	36.5	57.5	-21.0	14.5	-22.0	
Segment profit	Mineral resources	76.4	208.5	-132.1	62.0	-14.4
	Smelting & refining	117.9	114.8	+3.1	28.0	-89.9
	Materials	17.3	27.6	-10.3	-4.0	-21.3
	Other	-3.0	-0.9	-2.1	-5.0	-2.0
	Diff. adjustment	21.3	7.4	+13.9	-4.0	-25.3
Net income attributable to owners of parent	160.6	281.0	-120.4	42.0	-118.6	
Copper (USD/t)	8,551	9,691	-1,140	8,500	-51	
Nickel (USD/lb)	11.63	9.35	+2.28	10.00	-1.63	
Gold (USD/toz)	1,805	1,818	-13	1,800	-5	
Cobalt (USD/lb)	25.57	27.46	-1.89	17.00	-8.57	
Exchange (JPY/\$)	135.48	112.39	+23.09	130.00	-5.48	

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This slide shows the earnings results, as I have explained earlier, in a table.

1. Material Issues for Realizing Vision for 2023

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SMM Group's material issues


We assessed issues from both social and business perspectives and identified issues with significant impact.

1	Effective Use of Non-Ferrous Metal Resources	7	Development and Participation of Human Resources
2	Climate Change	8	Engagement with Stakeholders
3	Significant Environmental Accidents	9	Co-Existence and Mutual Prosperity with Local Communities
4	Biodiversity	10	Rights of Indigenous Peoples
5	Employees' Occupational Health and Safety	11	Human Rights in the Supply Chain
6	Diverse Human Resources		

I am going to explain our sustainability-related initiatives. They are SMM Group's material issues. There are seven sustainability subcommittees for 11 material issues, and they set forth KPIs and promote related activities.

I would like to explain in detail the items shown in blue today.

2. Carbon Neutrality-related Actions

2. Carbon Neutrality-related Actions	
<ul style="list-style-type: none">- A roadmap for net zero by 2050 Plan to announce it within fiscal 2023 in accordance with the ICMM commitment- Participation in the first phase (FY2023–FY2025) of GX League (May 15, 2023)- Concrete initiatives for reducing CO₂ emissions in manufacturing process<ul style="list-style-type: none">[Energy conversion] Smelting and Refining: Energy conversion to LNG at Toyo Smelter & Refinery's heat supply equipment and Niihama Nickel Refinery boilers (being implemented) Introduction of solar power generation system at Niihama Nickel Refinery (to be completed in fiscal 2024) Co-firing of coal and woody biomass as fuel for CBNC boiler (full-scale introduction within fiscal 2023)[Increasing purchase of electric power generated from renewable energy] Mineral Resources: Hishikari Mine (100% from 2023) Smelting & Refining: Harima Refinery (100% from 2022)→ Utilize SMM's ICP (internal carbon pricing) system and accelerate the initiatives- Promoting conversion to electric power generated from renewable energy also at mines operated in JV Candelaria (80% from 2023), QB2 (100% from 2025)	
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Here, I will explain our actions related to carbon neutrality. First of all, we plan to announce the roadmap for net zero by 2050 within FY2023 in accordance with the ICMM commitment.

The day before yesterday, we announced our decision regarding participation in the first phase of GX League. Participation in a system like this enables us to set forth very concrete targets.

I believe that keeping one's word is important for a company. In other words, we willingly decided to participate in it as a market requirement rather than due to any outside pressure that you have to do it.

In terms of concrete initiatives for reducing CO₂ emissions in the manufacturing process, we are working on energy conversion and including renewable energy when purchasing electricity. At SMM, we are utilizing the internal carbon pricing (ICP) system and implementing CO₂ emission reduction measures, including these measures.

It says mines operated in JV at the bottom of the slide. Overseas, especially in Chile, we have access to renewable energy, including solar and wind power, and there has been an increase in mine operations adopting them. Going forward, I believe that SMM's measures such as those related to JV mines will benefit it in the world of Scope 3 or the world of raw materials.

3. Initiatives Related to Environment, Local Community, Human Rights

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-Initiatives related to the environment and local community

- CBNC won a total of three prizes: 2022 Presidential Mineral Industry Environmental Award (PMIEA), the first place in the Safest Mineral Processing - Extraction Category Award, and the first place in the Best Mining Forest Contest
- THPAL won the second place behind CBNC in the Best Mining Forest Contest
- PMIEA is the highest honor in the mining industry in the Philippines. The awards were in recognition of the two companies' responsible operations in terms of safety, social contribution, preservation of biodiversity, etc.

-Human rights-related initiatives in supply chains (human rights DD)

Responsible Mineral Sourcing Policy

- Gold, silver: SMM has been renewing the LBMA RGG/RGC certification
- Cobalt: Has been renewing RMI certification obtained in 2021
- Nickel: Obtained RMI certification in April 2023
- Copper: Considering obtaining Copper Mark in 2023



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These are SMM's initiatives related to the environment, local community, and human rights. First, I would like to introduce the fact that SMM's operations in the Philippines have been considered a role model in terms of environment or social contribution.

In fact, our low-profile community contribution activities are not that well-known. But we have been carrying out grassroots activities such as medical care and education in areas where we have operations, in addition to eradication campaigns of malaria and dengue fever. We receive weekly reports, and their first lines are often something like, "We did this and that in our dengue fever eradication campaign."

Initiatives of human rights due diligence. SMM has been implementing human rights-related initiatives in supply chains, from early on, in the gold supply chain, and our initiatives are currently being expanded to all metals. Regarding copper, we are considering obtaining Copper Mark in 2023, and we will expand our initiatives to key metals in this manner.

4. Initiatives Related to Human Resources

4. Initiatives Related to Human Resources

《Revision of personnel system for career track employees》

-Drastic review of the personnel system to ensure implementation of growth strategy (from July 2023)

[Aim] Raise motivation by offering various opportunities to perform

Develop a corporate culture of taking on challenges, transformation, and growth

Create an organizational culture of allowing individual employees to continue growing.

-Shift to a compensation scheme commensurate with duties and responsibilities

→Switch the scheme for career track employees, who implement strategies, from the system based on functions as well as role and qualification (emphasis on competency and experience) to a system based on job grade (emphasis on job value) to enable securing, nurturing, and utilizing diverse and outstanding human resources.

-Establishment of Career Up Challenge System

→Assuming internal recruitment of project members and others.

Encourage employees to autonomously come up with career plans and to take on the challenges of gaining promotion to a position with higher responsibility or in another job category.

I would like to explain our human resource-related initiatives. It is about the revision of personnel system for career track employees we are implementing in the current fiscal year. This is a so-called full model change and the first drastic reform in 20 years.

The existing system also originally aimed to realize a flat organization, which was a challenging initiative at the time of introduction, but it has already become obsolete amid changes in societal trends; therefore, we began working on its revision a few years ago.

The work styles of those who work at SMM Group, which is more or less a lifestyle, have been diversifying along with the changes in values and the expectations of and requests to companies. In that sense, we are aiming to realize measures that contribute to the development of a vibrant corporate culture.

Nevertheless, we cannot solve all the issues at once, and we cannot build a system that is good for everyone right away. So, we plan to continue making minor changes in the future.

Based on this, we have been implementing the Shikinen Kaikaku Project (the fixed period reform project) every five years and every 10 years within the company, and we would like to proceed with discussions on the model change, including whether or not to change them as part of this project.

In this personnel system, we are also aiming to mobilize the workforce within the company. Together with systems such as the Career Up Challenge System listed at the bottom of this slide, we need to further drive forward diversity and inclusion for us to boost corporate vitality in the future.

1. Four Challenges under 2021 3-year Plan

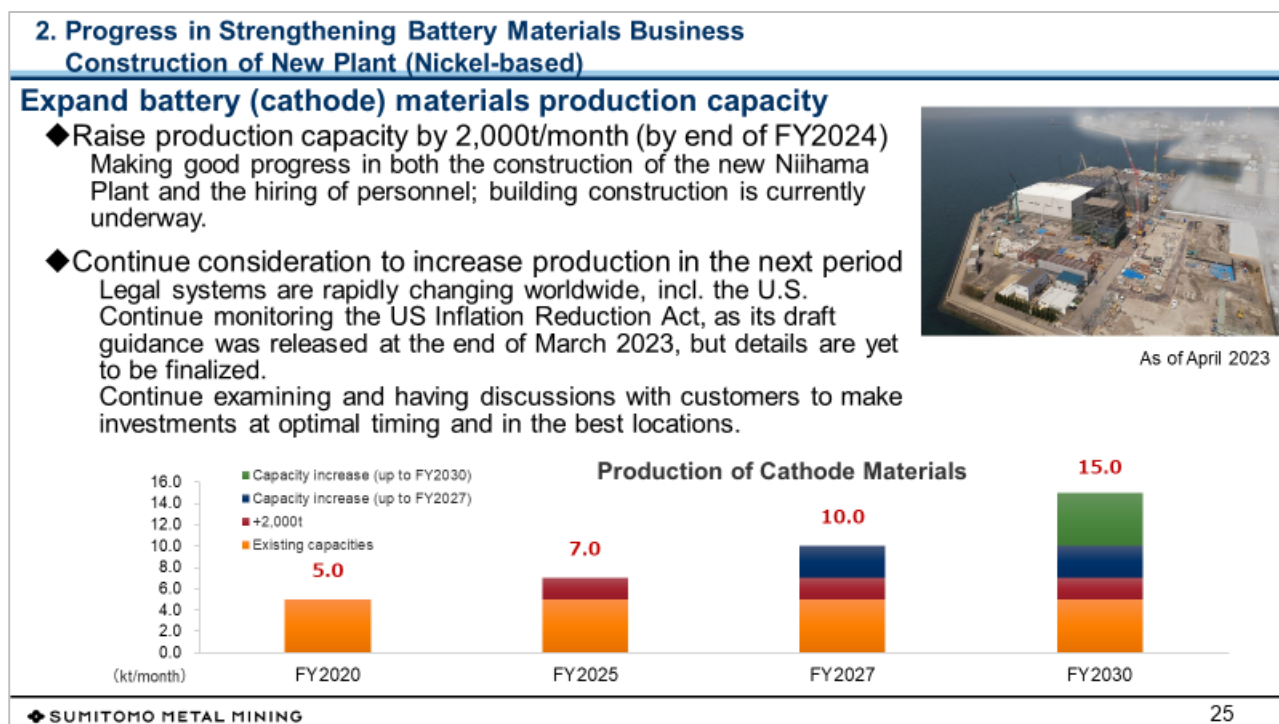


This is the final part, and I am going to explain the progress in key strategies and measures of the 21 3-Year Plan. Today, I will go over the underlined parts in blue letters regarding the four challenges in the 21 3-Year Plan.

SMM's 21 3-Year Plan started in FY2022 and ends in FY2024. In the budget formulation for the current fiscal year, which is the second year under the plan, I have given instructions to start working on all key measures under the 21 3-Year Plan within the current fiscal year.

Major management goals and strategies may not change, but measures and means for realizing them may not necessarily be the same as the time when the plan was formulated, and the environment for some of them has clearly changed. We will identify such gaps right away, make changes to the measures if necessary, and start making preparations that lead to the next 24 3-Year Plan.

2. Progress in Strengthening Battery Materials Business Construction of New Plant (Nickel-based)



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This is progress regarding the strengthening of the Battery Materials Business. The battery (cathode) material capacity enhancement of 2,000t/month has been making steady progress, and the works are going on in Niihama.

An issue we are facing is the continuation of the discussions for the next capacity expansion. Production of cathodes in the Battery Materials Business is a field that requires us to consider production capacity enhancement and drive forward research and development by closely monitoring trends of the customer industries.

Against this backdrop, the U.S., a mega market for the automobile industry, has come up with legislation that makes manufacturing within the country a condition for receiving the incentive in the Inflation Reduction Act. Details have yet to be made clear, but this is an example where the rules of the game have been significantly changed due to the formulation of economic blocs, as I explained at the beginning. We will implement subsequent strategies by closely monitoring the changes in the situation.

Enhancement of profitability is also an issue for this business, and we have been implementing measures, including the introduction of a Toyota-style production system, to develop the basics and foundation of the business.

3. Quebrada Blanca 2 (QB2) Project

3. Quebrada Blanca 2 (QB2) Project

Ramping up (launching) facilities to achieve full-production by the end of the year

- ◆ Began loading ores into key facilities and producing bulk copper concentrate (March 2023)
- ◆ Sent additional engineers from SMM for the production launch and construction and trial operation of remaining facilities together with Teck Resources



Here I will explain the Quebrada Blanca 2 (QB2) project. Currently, development has entered the final stages; the so-called tail-end. You often see that these types of works enter a period where it does not quite reach 100% completion. QB2 is in such a situation at the moment. We are now focusing on electrical works and piping works, and some redoing portions.

The first copper bulk concentrate, which we call "first copper," has been produced. The other day I received a commemorative sample in a test tube, which is now adorning my room.

Raising productivity from the beginning is crucial, and that is not limited to this project. It is important that we generate cash as soon as possible. For that, at least one line should start moving, and we are looking forward to producing ore concentrate that can be sold within the year. Also, currently, we have 6 engineers dispatched to the site.

4. Current Status of Côté Gold Project (1)

4. Current Status of Côté Gold Project (1)

Construction work mostly progressing well

- Construction work during the winter progressed without major delay.
- Driverless trucks began operating (in Jan. 2023).
- Production is expected to start during the Jan-Mar quarter of 2024.
- Additional investments were completed as planned; the current interest ratios are approx. IMG at 60 and SMM at 40.
- Enhancing project management together with IAMGOLD. Dispatching additional SMM engineers and assigning them to key positions ahead of the production launch ensures a strong involvement of SMM and provides opportunities for young engineers to gain experience.



	Start-up cost (in US\$ million)
Jul. 2020	1,538
Nov. 2021	1,910
Nov. 2022	2,965
Note: Including costs for leasing major heavy equipment	


Here we look at the Côté Gold Project. It is a tough place to be in winter, but the work is progressing without any major delays. The picture shown in the slide is not that clear, but we have the processing plant with the thickener in the foreground. The work related to this has made significant progress.

SMM has dispatched 7 engineers to the site, and another 2 sent to nearby Sudbury. The costs of this project have increased significantly due to the impacts of the COVID-19 pandemic and inflation, as well as rising labor costs and other factors. We are in a situation where we cannot allow any more delays in work or increases in cost.


As mentioned earlier, work continued even during winter, and the number of local workers has been stable. We are hoping to commission it within FY2023, start production, and generate profits early on, as the gold price is currently rising.

4. Current Status of Côté Gold Project (2)


4. Current Status of Côté Gold Project (2)



As of April 2023



Ore crushing plant



Ore processing plant (inside)

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The pictures in this slide show more details. In the picture on the left side, you can see the major structural components of the site, including the pit on the bottom right. Starting from the pit, we have the ore crushers, smelting, and tailings dam, as well as the conveyor and piping that connect the components and heavy machinery and so on. Mining has already started, and we are preparing for the start of operations by piling stock. The crushing system, regarding which we were worried about delays, also has shown progress, and works on the gold recovery plant and refining are also progressing.

Also, though not described here, the first phase of dam construction is completed, and we have started work on piling up the embankment.

Currently, there are five driverless trucks operating, and they have been very productive. We would like to continue focusing on the progress of the construction work.

5. Nickel Business Strategy

5. Nickel Business Strategy

3-business collaboration (Nickel-batteries) to strengthen the value chain

Secure nickel resources and implement measures to enhance collaboration among the three core businesses

- ◆ Enhance the exploration of new nickel projects for the next period (medium to long term).
 - Accelerate the exploration of projects at various stages, mainly in the Pacific Rim region, based on ore distribution.
 - Narrow them down to a few targets and begin investigation.
- ◆ Business development utilizing existing intermediate materials in circulation (short-term).
- ◆ Continue exploring measures to secure ores for CBNC and THPAL.
- ◆ Commercialize the battery recycling business.
 - Move facilities designing with the assumption of processing 10,000 tons of used LiB a year.
 - Chosen as a project supported by the Green Innovation Fund run by NEDO* (Apr. 2022).



*NEDO: New Energy and Industrial Technology Development Organization

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In this slide, I will explain our nickel business strategy. While individual measures are being implemented regarding the approach from the smelting side in the strengthening of the value chain of the three-business collaboration, the discontinuation of the discussions on commercialization of the Pomalaa project, which had been thought of as the core of the value chain, has become a major dampener.

In response, as you can see at the bottom of the slide, we have narrowed down the targets for the next project to a few and have started verifying them. While some are targets for immediate consideration for development, I have heard that some are for laying the foundations for the future.

Further, we are also carrying out the treatment of intermediate materials in circulation utilizing our refining technology and capacity on an operational basis. Conversion of NPI to matte in Indonesia is progressing, and we believe the balance of intermediate materials in circulation will change, and we are eagerly aiming for it.

As for the commercialization of battery recycling business, we are planning to get the engineering side up in full swing this fiscal year.

6. Smelting & Refining Business Topics

6. Smelting & Refining Business Topics

SMM Green Metal concept: an initiative to offer low-carbon products

- ◆ Given the anticipated growth in the need for low-carbon products, SMM began examining the provision of its electrolytic copper using the mass-balance method.
- ◆ Aim to complete certification work by a third-party organization by the end of FY2023.
- ◆ After completing the certification work of electrolytic copper, plan to roll it out to electrolytic nickel.

Production plan of ferronickel

- ◆ Given the current business environment, making production adjustments, including temporary shutdowns.
- ◆ Plan to take actions such as cost reduction, facility renewal, and GHG reduction during the shutdown period.
- ◆ Organize a structure so that SMM can respond speedily when the situation improves.

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Slide 30 is on the smelting and refining business. We are considering an SMM Green Metal Concept. Naturally, we have received requests from customers to reduce the carbon footprint regarding our non-ferrous products.

Of course, we are reducing greenhouse gas emissions, and we are also considering obtaining certification from a third party for the mass balance method in copper and nickel.

Regarding the ferronickel business, we are currently making production adjustments. Global stainless production in FY2022 was slow, but it is expected to recover in FY2023.

Nonetheless, energy costs and ore prices are surging, and there are also other factors, such as freight costs, which are putting pressure on profits, so this is the time to build up strength for the next recovery period. In the meantime, we are carrying out tests of alternative fuels to coal that contribute to carbon neutrality, and we would also like to work on cost reduction and facility upgrades.

7. Expansion of Advanced Materials Business

7. Expansion of Advanced Materials Business

Full-scale recovery is not expected at least until the second half of the year as the inventory adjustment phase continues

Due to the falling demand for smartphones, PCs, and so on that has been continuing since FY2022, demand for parts used in these products has declined significantly.

→Sales of core products are stagnant.

The speed of the recovery in demand is slow; full-scale recovery is likely to take a while.

Continue working on cost reduction, productivity improvement, product development, and so forth to proactively capture any recovery in demand and to improve profit/loss status.



Develop and increase sales of advanced materials to strengthen earnings power

This slide is about the expansion of the advanced materials business. As shown here, the industries that use our material products are currently in a difficult situation, and naturally, we are also affected by this. Even though business is greatly affected by the market trend described in the slide as well as by customers, we believe that we should be doing more than just being influenced by it.

We take pride in that some of our material products have the potential to assist customers in their development of new products, and we, in fact, have been receiving such opinions. Our customers' industries are making progress day by day in the development of new products, and we are also receiving requests for new materials.

The ideal of the advanced materials business is tuning products and developing new products corresponding to customers' requests through dialogue with them, and I believe we are moving towards this ideal one step at a time.

Q & A: Importance of Funds in Non-ferrous Metal Business

Questioner: I would like to present feedback from an investor regarding the significant decline in share price following the announcement of business results. Profits declined due to a temporary factor, and your policy of deciding dividends based on the payout ratio is fine, but some have said that the company should have displayed an attitude of doing something for shareholders, such as repurchasing some of its own shares.

However, I am fully aware of the situation that requires the company to raise cash position in order to make investments, and I do not think that the company should necessarily listen to what the stock market wants.

For example, you have discussed that the company needs funds to make investment decisions in a short period of time when a project surfaces. Still, the reason why funds are necessary has probably not spread among investors. So, please explain why SMM need funding for the practical operations of M&A of the current mining business.

Nozaki: First of all, we received the opinion regarding the market wanting share buyback. As you have mentioned, we are currently in the stage of investing. We have repurchased our own shares in the past. We are not rejecting share buybacks entirely, but we are not considering it at this point of time.

Generally speaking, regarding decisions on mine investment, when a Japanese or foreign company tries to acquire mine rights, it is extremely rare to have one-on-one negotiations like we did with Phelps Dodge in the acquisition of rights to Morenci copper mine in 1986.

Even between companies in a good relationship, there will be accountability issues, so the rights are always put out to tender (bidding). Being put out to tender means all businesses have an opportunity.

Naturally, clearance moves from the long list to the shortlist, and in the meantime, we examine the project, evaluate it, and come up with a plan of how much funds we can shell out for acquiring the rights. And the shortlist, which is the final stage, usually has only a handful of companies. We are on the buying side and have no choice but to be passive. However, we would be negotiating based on the counterpart's conditions, and they may say things like, "We can decide on it if you can accept these conditions. But the price is at this level."

When carrying out negotiations like that as the president of a company, you, of course, cannot say, "I will go back and discuss it." The negotiations will end if you do not say, "Our answer is yes, but I need approval from the board." When we have negotiations, we usually head there after having a certain consensus within the company, and during the negotiations, you are required to give a preliminary response. Usually, the period for giving the official answer is one to two weeks, and if we do not accept it, the counterpart will negotiate with other companies.

After returning to the company, it might sound a bit of an exaggeration that you get only one or two weeks to make an organizational decision and give the official answer, but what it means is that we do not get a few months to make a decision. We cannot grab the opportunity if we sit around wondering where to get the financing from at this stage.

Currently, our world works like this, and we greatly appreciate your understanding.

Q & A: Capital Allocation

Questioner: I am concerned about your capital allocation. Costs for investing in mines will gradually increase, and there seems to be no end to topics of cost increase, including a possible rise in royalty in Chile. Supply may be restricted, and it may be adjusted by improvement in the market. What are your views related to this?

In particular, the cost increases at Quebrada Blanca 2 Project and Côté compared with the initial plans are something out of the ordinary. I believe the cost has not risen so much at Quellaveco, although it belongs to another company. What are your views, including making decisions regarding projects like these? I find it a little worrisome that you are spending so much, so please elaborate on this.

Nozaki: An increase in operating costs is an issue of timing or location, and costs naturally change compared with other projects. Also, you have asked whether it would be offset by the pricing, but the price formation mechanism is decided by demand and supply as a rule, and the bottom line for the supply side is that we would not carry out production at a level that is below the production cost or the cost at which the product is offered.

In that sense, not just our projects but those that emerge from now on will have high operating costs, and the cost we have to recoup will be high. So, the price will be set in order to support it.

It is obviously important in the sense that the operating costs are low. The most important thing in the mining business, however, is whether cash cost is strong when operations start. And this is what we focus on upon considering a project. Amortization of development costs becomes expenses, but we would like to aim to build a project that can generate cash.

Q & A: Improvement of Asset Efficiency of Battery Materials Business and Lithium Production

Questioner: What, in particular, do you recognize as issues regarding the improvement of asset efficiency of battery materials? How do you plan to improve it in the future?

Also, there was a report on lithium some time ago, and I understood that SMM has been developing related technology. What is the current status as to which of SMM's technology can be utilized, and what kind of synergy effects do you expect if it advances to commercial production?

Nozaki: Regarding battery materials, to put it simply, it has become imperative to urgently enhance capacity and produce in large volumes. For this reason, there is a situation where the intermediate inventory for the process in between is slightly high, as we need to produce a large volume of final products.

The business unit is developing a system for logically calculating the adequate level of such inventory, and we believe the fastest way is to reduce the inventory as a first step. We will work hard on this, as it also enables us to reduce the risk of price fluctuation of metal raw materials, among other risks.

As for lithium, of the technologies we have, we can use the hydro metallurgical process. Currently, intermediate materials of lithium are dried in the sun, so to speak, and it takes one to two years to recover them. However, if we use the direct recovery method, the intermediate materials can be recovered over several days.

We are currently working on developing this technology. It is completed as a process, and we also know the structure of the facility, so we would like to build a test plant as soon as possible.

It has not yet been decided whether we will directly access lithium resources when the test plant is completed. We can also gain some sort of profits by providing the technology, and we are currently mulling over the business model.

Q & A: CO2 Emission Reduction in Nickel Business and Business Utilizing Intermediate Materials

Questioner: Regarding the nickel business, reduction of CO2 emissions has become a theme also in the field of batteries for EVs. My understanding is that SMM's hydro metallurgical process is superior to the conversion of nickel produced in Indonesia in terms of reduction of CO2 emissions. Does the reduction of CO2 emissions have any impact on your nickel business in the current business operation?

Also, you have mentioned business development utilizing existing intermediate materials in circulation. What are the concrete options for this purpose?

Nozaki: As you understand, HPAL, our nickel smelting and refining method, is hydro metallurgical process. Pyro metallurgical process uses coal as a reducing agent, emitting CO2, and our method emits clearly less CO2 in the process.

However, we have not reached a stage where this factor directly affects the business. There are currently calls for reducing carbon footprint, which is expected to grow stronger. We, therefore, would like to drive forward CO2 emission reduction, including the mass-balance method I mentioned earlier.

Furthermore, there is no power grid for the Philippines business, so we are also generating electricity on our own. Twenty years ago, thermal power generation using coal was common for generating electricity, and we also have adopted it. We need to reduce CO2 also in this business, and we are currently considering the adoption of biomass raw materials.

As for business development utilizing intermediate materials, one of the items currently in circulation is nickel matte. In addition to nickel matte produced by existing nickel producers, we believe there will be nickel matte additionally produced by others, and we will gather information regarding this point and take proactive actions.

In addition, our HPAL makes a mixed sulfide called MS, raw material, but most HPAL produces hydroxide called MHP (mixed nickel-cobalt hydroxide precipitate).

We should not be overlooking the fact that MHP is circulating, so we are currently considering whether we can treat that also in the company.

Q & A: Costs Associated with Quebrada Blanca 2 Project

Questioner: The first question is regarding the cost overrun of the mine you mentioned earlier. You explained that one of the reasons for the worsening of equity method profit/loss in the business results forecast this time was because you incorporated a negative factor related to Quebrada Blanca 2 Project. Is this something temporary?

You said that you need to wait and see it. Please explain once again the background as to what kind of calculation resulted in this negative figure. Could you also elaborate a little further on the future risks?

Nozaki: Production at Quebrada Blanca 2 Project starts this year, and the portion equivalent to commissioning is expected to be recorded as expenses, and we are calculating it. It is a temporary expense.

In project management, expenses like this are usually part of the owner's cost and included in the cost of project development. The idea is that part of this is expensed early on, but in reality, it still requires more consideration, and we will report it once we know it.

Q & A: Future Cash Flows

Questioner: The second point is the future cash flow plan. In the original cash flow plan in the 21 3-Year Plan, it was about minus 150.0 billion yen, including the investment in the Pomalaa project in Indonesia. However, the Pomalaa project was canceled, and at the same time, costs associated with mines are increasing, and it is also necessary to provide for future growth strategies. These factors have made it hard to see how you can balance the plan. Further, amid worsening business results, your estimate of cash-in from cash flow from operating activities must be changing.

Going forward, how do you plan to secure the balance in medium-term cash flow? Is my understanding correct that you would keep free cash flow positive, or you may not hesitate to have a negative cash flow, but you will anyway move towards raising leverage?

Please provide us with some updates regarding the cash flow plan, including the concept of investment discipline related to this.

Nozaki: Regarding financial capacity, we are using quite a large amount of cash rather than keeping a cash pool, so we would like to secure capacity with financial strength. We will carry out necessary investments and plan to implement them by taking advantage of leverage.

We have set the bottom line to be in excess of 50% in the equity ratio. It should not go below this line, and we will make the necessary investment that is appropriate for our ability or is reasonable for us.

Q & A: Intermediate Inventory of Battery Materials

Questioner: The first question is about battery materials. You have said that intermediate inventory has accumulated as you are rapidly strengthening facilities and expanding capacity in response to production increase.

I understand the background that the volume has been steadily increasing in the Battery Materials Business, but I believe it has not contributed to profits as it was being swayed by metal prices.

Regarding this intermediate inventory, will it start generating profits if you build a new system and start managing it thoroughly?

Nozaki: I guess your question is whether it would start generating profits if we can properly implement business management, including inventory management. As a manufacturing company, we believe we can gain the strength to generate profits if we can manage people and goods properly, and we think we can build a structure to aim for higher goals from there.

Currently, the situation does not really allow us to say outright that we can definitely achieve it, but it is true that we are working toward it.

Q & A: Future of Ferronickel Business

Questioner: The second question is about ferronickel in the nickel business. The production volume of ferronickel will slightly decline this year due to temporary shutdowns. You have explained that demand for stainless is still high from a medium- to long-term perspective, and there is sufficient demand for SMM's ferronickel. However, I believe that ferronickel is currently losing its cost competitiveness.

What are your future business plan and strategies, including whether you can sufficiently reduce costs and whether the cost competitiveness would improve?

Nozaki: Like you have described, the situation surrounding ferronickel is extremely difficult right now. Nevertheless, we believe that the ferronickel business as such is playing an important role in terms of supply to customers in Japan's stainless business. It is also playing a certain role as part of SMM's nickel product line.

The prevailing business environment is tough at the moment, but we are not considering this business from a short-term perspective, but rather will thoroughly examine the balance with the overall business strategy from a longer perspective.