

## **SMM Continues to Increase Sales as Metal Prices Boost, Consolidated Profit Before Tax Forecast for Fiscal Year to Record 266 Billion Yen**

This is a transcript of the briefing on the progress of business strategy for the second quarter of fiscal 2021 of SUMITOMO METAL MINING, which was released on November 18, 2021.

< Speakers >

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### **Summary FY2021 review of 1H (production / sales / projects)**

#### **Summary ① FY2021 review of 1H (production / sales / projects)**

##### **[Production / sales]**

- Generally strong sales environment on the back of economic recovery following the progress in vaccination rollouts
- No material impact of the COVID-19 pandemic on production thanks to the measures taken to stop the spread of infections and the efforts to continue operating in each plant
- Year-on-year revenue growth continues helped by high metal prices

##### **[Large projects]**

- Sierra Gorda: Decided to sell all our equity interests
- Côte: Initial construction project costs rose 25% although construction is progressing smoothly
- QB2: Construction staff recovered to the pre-COVID level (over 10,000)
- Pomalaa: External factors affecting the progress in project consideration
- Battery materials: Decided to enhancement including the construction of new plants

Akira Nozaki: Good morning. I am Nozaki from Sumitomo Metal Mining. Thank you very much for taking the time out of your busy schedule to attend to our progress of the business strategy. We would also like to thank you for your continued understanding and consideration of our company business.

Now, let's get started. The general managers of each business division explain each business topic.

This is a summary. This is a review of the first half of fiscal 2021. In terms of production and sales, the impact of the COVID-19 pandemic was significant in Southeast Asia. On the other hand, the impact on the operating bases of our company business was minimal. If I look at the entire world, I understand that the economy is entering a recovery phase gradually.

There were various positive and negative factors, such as the effects of so-called nesting demand, the shortage of semiconductors, the expansion of 5G smartphones, and the progress of digitalization. In addition, due to progress in carbon neutrality and digital transformation, the market price of the non-ferrous metals we use remained at a high level in anticipation of future demand expansion.

As for the exchange rate, it has been moving a little over the past few days, but it was relatively stable in the first half. As for the large-scale project, we have decided to transfer our interests of the Sierra Gorda copper mine and are currently working towards the closing. However, as our company continues to pursue its growth strategy, it is constantly involved in large-scale projects.

This impact is inevitable if there is something like the current COVID-19 pandemic or a global and social phenomenon such as carbon neutrality.

## Summary FY2021 review of 1H (capital expenditure / financial forecast)

### Summary ② FY2021 review of 1H (capital expenditure / financial forecast)

#### [Capital expenditure]

CAPEX plans have generally been pushed back due to COVID-19; however, there is no change to the promotion of the growth strategy announced in the 2018 3-Year Business Plan

#### [Financial forecast]

- The impact of the transfer of our equity stake in the Sierra Gorda copper mine is estimated at approx. ¥70 billion on a pre-tax profit basis (on the premise that the sale will be completed in March 2022).
- Despite negative factors such as smaller output in some overseas copper mines and the resulting cost increase, a significant profit growth is forecasted compared to the May forecast due to factors such as the maintenance of stable operations during the COVID-19 pandemic, a profit growth in the materials business, positive market factors, and the impact of the sale of the equity stake in Sierra Gorda. FY2021 consolidated pre-tax profit is forecast to be a record high at ¥266 billion.

Regarding capital expenditure, there is no big impact from the COVID-19 pandemic. This is because we are following a long-term strategy and there is no change in our plans. However, it is also true that projects that have already started have an impact on the implementation plan.

This is a financial forecast. The first half of the fiscal year was supported by favorable markets and market prices. In the second half of fiscal 2021, this figure will be extended to 2022 calendar years, but non-ferrous metal prices are expected to remain relatively high.

Next year, non-ferrous demand is expected to be slightly oversupplied, but I understand that it is generally well balanced. In this environment, we believe that we can secure profits by properly producing and selling products.

Concerns include rising energy costs, stagnant logistics, and rising costs, and rising raw materials prices. However, in terms of the full-year financial forecast, as I will explain later, it is expected to be at an all-time high, excluding the sale of interests in Sierra Gorda.

## Summary Recent management themes (1)

### Summary ③ Recent management themes (1)

#### [Response to social issues]

- 1) Carbon neutrality (Risk of not being selected, technological development / application difficulties)  
⇒
  - Promote introduction of renewable energy; seek energy efficiency
  - Develop/supply products that help reduce GHG emissions
  - Internal carbon pricing system
- 2) Digital transformation (Risk of losing competitive edge, security risk)  
⇒
  - DX Promotion Committee (launched in Apr. 2021; chaired by President)
  - Improve data analysis accuracy in the existing plants  
⇒ reduce losses and raise yields
- 3) Human resource strategy (Securing / fostering / utilization of human resources)  
(Risk of decline in business vitality)  
⇒
  - Brand communication focusing on securing human resources
  - Promote the "Shikinen Kaikaku Project" (The fixed period Reform Project)
  - Overhaul of HR/remuneration systems · Head office renovation

As for the current management themes, in this slide, we have listed three points: 'Response to social issues': Carbon neutrality, Digital transformation, and Human resource strategy. These are regarded as important issues in the next 3-year business plan, which is currently being formulated. We intend to develop a system and come up with measures to address these issues.

Our company considers carbon neutrality in three ways. First, we supply products that contribute to decarbonization at the social level. However, they require steady efforts to reduce carbon emissions in the manufacturing process.

In addition, we will prepare for the adoption of Best Available Technology (BAT). In order to achieve this, we need to have a strong financial position. We will need to

promote growth strategies aimed at further increasing profitability and strengthening our business foundation.

With respect to DX, from the perspective of our company's DX, we would like to start by identifying current issues and developing infrastructure based on digital technologies. As for our human resource strategy, I would like to make efforts to reform our recruitment strategy, personnel system, and workplace culture in terms of securing, developing, and utilizing human resources.

## Summary Recent management themes (2)

### Summary ③ Current management themes (2)

#### [Enhancing management foundation]

- ✓ Employees' safety and health (← Failed to reach the targets set in the 2018 3-Year Business Plan)
- ✓ Environment
- ✓ Compliance
- ✓ Corporate governance

#### [Promoting growth strategy]

- ✓ Three major projects in the 2018 3-Year Business Plan (QB2, Pomalaa, battery materials) → Address the business environment and resource nationalism
- ✓ Pathways to further growth (→ 2021 3-Year Business Plan)

**"7 competitiveness"**  
nurtured by Sumitomo's business spirit  
(page 28, Integrated Report 2021)



Realize  
**"Vision for 2030"**

In terms of strengthening our management base, as stated in the slide, we believe it is necessary to rebuild a free and open workplace culture as a foundation to be well-versed in everything. We aim to create an organizational culture in which each member's individuality and disciplined remarks and suggestions are accepted.

In addition, with regard to the promotion of growth strategies, there are business opportunities in our company for electrification, digitization, and low-carbon society, and the role of nonferrous metals is being recognized anew. With a strong sense of mission, we will continue to develop overseas resources, refine our refining processes, including recycling, and develop materials.

## Summary Safety initiatives

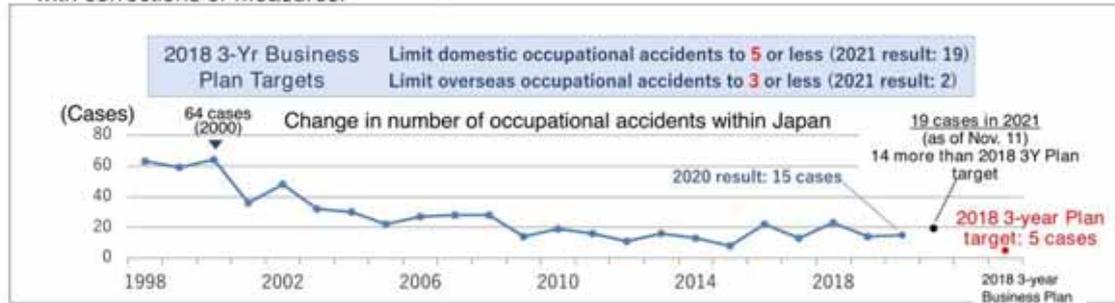
### Summary ④ Safety initiatives

#### <Domestic occupational accidents>

2018 3Y Plan was to limit accidents to 5 or less ⇒ **2021 result: 19** (as of Nov. 11)

A fatal forklift accident occurred in June 2021 in a domestic subsidiary

- Go back to the basics and ensure compliance with rules and practicing of basic actions
- Further promote safety improvement and enhancement of facilities through effective risk assessment
- Observation of operations will give insight into on-site realities, and it will be possible to move forward with corrections or measures.



Page 8 is about safety. As shown in the slide, unfortunately, a fatal accident occurred at the outdoor product storage area of a subsidiary company due to contact with a vehicle. Basically, we are reconfirming the ingenuity and thoroughness of the separation of working persons and vehicles, and working to prevent a recurrence.

We have not been able to meet our targets for the number of accidents, but we believe that the basics of disaster prevention have not changed. Three activities are described in the slide, and I think it is important to continue these activities.

In addition, changing generations is inevitable as long as we are in business, so we intend to make efforts to prevent the loss of experience from disasters.

## 1) Change in financial results (FY2015 - FY2021 forecast)

### 1) Change in financial results (FY2015 - FY2021 forecast)

(Billions of yen)	Japanese Standards [J-GAAP]			International Financial Reporting Standards [IFRS]					
	2015	2016	2017	2017	2018	2019	2020	2021 Forecast (Nov)	
Net sales	855.4	786.1	933.5	929.7	912.2	851.9 (*)	926.1	1,175	
Operating profit	59.7	76.4	110.2	--	--	--	--	--	
Recurring profit/loss	-12.8	-1.6	124.9	--	--	--	--	--	
Profit/loss before tax	0.6	-6	105.8	108.3	89.4	79	123.4	266	
Equity method profit/loss	-73.2	-86	11.4	12.3	-4.9	6.2	8.7	46	
Segment Profit	Mineral resources	-44.3	-53.6	56	58	47.3	37.9	65.3	184
	Smelting & refining	25.3	33.3	51.5	47.8	40.9	48.2	55.8	73
	Materials	6	12.1	15.3	7.1	13.8	5.3	11.3	18
	Other	-0.8	-0.1	0.2	-7.4	-2	-0.9	-2.8	-2
	Diff. Adjustment	1	6.7	1.9	2.8	-10.6	-11.5	-6.2	-7
Net profit/loss (**)	-0.3	-18.5	91.6	90.2	66.8	60.6	94.6	214	
Copper (USD/t)	5,215	5,154	6,444	6,444	6,341	5,860	6,879	9,071	
Nickel (USD/lb)	4.71	4.56	5.06	5.06	5.85	6.35	6.80	8.14	
Gold (USD/Toz)	1,150	1,258	1,285	1,285	1,263	1,462	1,824	1,751	
Cobalt (USD/lb)	11.73	13.67	30.64	30.64	31.64	15.76	16.62	21.21	
Exchange (JPY/USD)	120.15	108.40	110.86	110.86	110.92	108.74	106.07	109.90	

From page 10, we present our outlook for fiscal 2021. On page 10, we describe our financial results since fiscal 2015. As I mentioned earlier, non-ferrous metals prices remained at high levels in fiscal 2021, and there are currently few concerns that the yen will appreciate significantly.

There has been no major impact on our domestic manufacturing sites due to thorough measures to prevent the spread of COVID-19. The result of making and selling the product is our prediction. As a result of investment in growth to date, the scale of each of the three core businesses has expanded and stabilized, and we believe that this has contributed to earnings growth.

In fiscal 2021, we estimated earnings at the Sierra Gorda copper mine to be approximately 70 billion yen, the highest level ever excluding this.

## 2) FY2021 financial forecast (November forecast vs May forecast)

### 2) FY2021 financial forecast (November forecast vs May forecast)

(Billions of yen)		2021 1H Results	2021 2H Forecast	FY2021 Forecast (Nov.)	FY2021 Forecast (May)	Difference
Net sales		597.9	577.1	1175	1047	+128
Sales total profit		114.7	83.3	198	150	+48
Profit/loss before tax		121.7	144.3	266	138	+128
Equity method profit/loss		24.4	21.6	46	40.5	+5.5
Segment Profit	Mineral resources	67.4	116.6	184	89	+95
	Smelting & refining	50.2	22.8	73	37	+36
	Materials	13	5	18	11	+7
	Other	0	-2	-2	-2	0
	Diff. Adjustment	-8.9	1.9	-7	3	-10
Net income attributable to owners of parent		113.8	100.2	214	104	+110
Copper (USD/t)		9,541	8,600	9,071	7,800	+1,271
Nickel (USD/lb)		8.27	8.00	8.14	7.00	+1.14
Gold (USD/Toz)		1,803	1,700	1,751	1,700	+51
Cobalt (USD/lb)		22.43	20.00	21.21	15.00	+6.21
Exchange (JPY/USD)		109.8	110.0	109.9	107.0	+2.9

This is the financial forecast for fiscal 2021. The numbers are shown on the slide. One concern is that the end of the so-called nesting demand will bring demand to a halt.

We are also concerned that the supply chain disruption represented by the shortage of semiconductors may affect the pace of recovery at all industry levels.

As for various costs, energy costs, materials costs, and distribution costs are increasing. In addition, due to the COVID-19 pandemic, countries have adopted ultra-loose monetary policies, and this review is gaining momentum everywhere. We also pay attention to how we think about the impact of this on the real economy and the market.

### 3) Profit before tax analysis FY2021 November forecast vs May forecast

## 3) Profit before tax analysis FY2021 November forecast vs May forecast



This slide is a waterfall chart comparing the financial forecast for May and the forecast for November for fiscal 2021. The increase due to market factors was approximately 76 billion yen. The cost difference is shown on the right side of the slide. At overseas copper mines and overseas nickel smelters, differences in costs were caused by reduced production and other factors, which led to a decline in profits.

As a result, it is expected to be 266 billion yen, plus 128 billion yen.

### 4 ) Trend of Financial Position

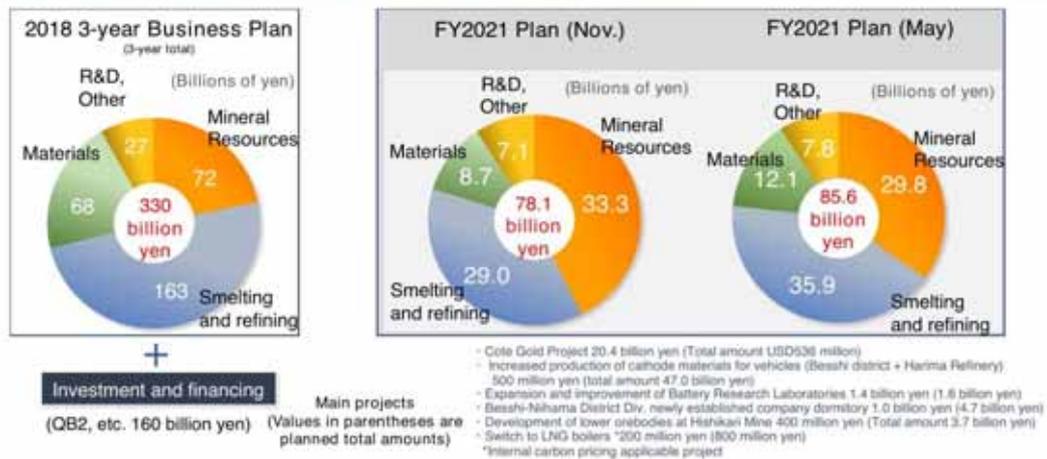
## 4 ) Trend of Financial Position



This is the trend of financial position. As shown in the slide, this plan is almost in line with the 2018 3-year business plan. As I will explain later, capital expenditure has been delayed due to a slight delay in capital expenditure plans. In this respect, our financial position is slightly better than planned.

## 5) Capital expenditure plan (FY2021)

### 5) Capital expenditure plan (FY2021)



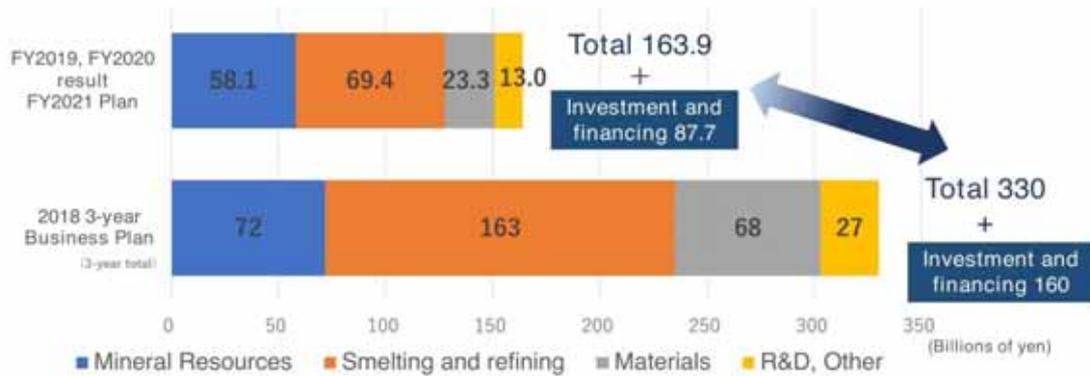
Disclosures related to the Pontaiaa project will be made individually as our company has reached a judgement on the investment decision.

This is capital expenditures in fiscal 2021. The impact of the COVID-19 pandemic has both plus and minus side. For example, in the Mineral Resources business, COVID-19 is causing costs to increase for new projects.

In the Smelting & Refining business, on the other hand, investment in maintenance and renewal has been slightly delayed due to the impact of the COVID-19 pandemic, and this has been a factor in the decline. As a result, overall sales are expected to decline slightly.

**6) Capital expenditure / Investment and financing plan (comparison with 2018 3 year Business Plan)**

**6) Capital expenditure / Investment and financing plan (comparison with 2018 3-year Business Plan)**



The effect of postponing investment periods due to COVID-19 (Pomalaa, condensing investments, etc.) and the utilization of project finance in the QB2 project led to a rate of progress of approx. 50%

This is capital expenditures and investment and financing compared with the 2018 3-year business plan. Capital expenditures alone are about half of the 330 billion yen planned. As I have been saying for a while, the impact has been caused by the delay in the investment period and the suspension of construction due to the COVID-19. Most of the items will be realized in and after fiscal 2022.

**7) Cashflow (FY2021 1H results)**

**7) Cashflow (FY2021 1H results)**



**Cash outflows preceded profit recovery as metal prices rose**

We will continue promoting the growth strategy set out in the 2018 3-Year Business Plan and will execute spending that has been postponed

The cash flow is shown on page 16. Cash flow decreased by ¥33.6 billion over the past 6 months. However, as non-ferrous metal prices are rising, current assets such as accounts receivable and inventories are increasing in advance. Therefore, operating cash flow has not increased compared with the increase in profit and loss. I think this will be resolved in the future.

## 8) Shareholder return (dividend forecast: FY2021)



Page 17 shows shareholder returns. Dividends have already been announced.

As detailed in the slide, we should be aware that the earnings forecast for the current fiscal year includes a gain on the sale of the interest in the Sierra Gorda copper mine, and that the closing of the transaction may not be completed within this fiscal year. Therefore, the proceeds from the sale of interests in the Sierra Gorda copper mine are excluded from the dividend.

This means that the entire amount will not be subject to dividends as there is a considerable amount of profit to be recorded in accordance with accounting practices, with respect to whether or not to be used as a source of dividends in the event of the closing.

Based on this concept, we would like to exclude the reversal of a reserve for possible loan losses at the Sierra Gorda copper mine from the calculation, based on the same concept of performance-linked compensation and bonuses for directors and employees.

This concludes my explanation at the beginning. Now, let's move on to the explanation of each division. Thank you very much.

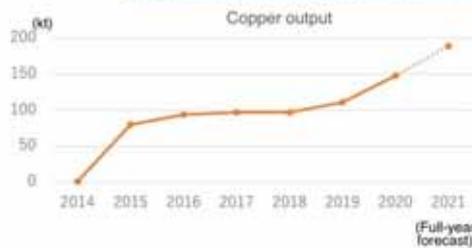
## 1) Mineral resources Sierra Gorda Copper Mine

### 1) Mineral resources ① Sierra Gorda Copper Mine

- ◆ On October 14, we announced the transfer of our equity stake to South32 Ltd.

Estimated impact: **+70 billion yen** (pre-tax profit)  
(On the assumption that the sale will be completed before March 31, 2022)

- Improved operation, turned around results, increased the mine's attraction ⇒ Agreed on an appropriate sale price (USD1,190M)
- Part of a company-wide portfolio review



◆ SUHITOMO METAL MINING

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Ryoichi Sato: I am Sato of the Mineral Resources Division. I would like to explain the progress of our strategy.

First of all, regarding the Sierra Gorda copper mine in Chile, as announced recently, we have decided to transfer our entire 31.5 percent interest to South32 Ltd. in Australia for \$1.19 billion. If the closing date is reached by the end of this fiscal year, the impact on net income is expected to be approximately 70 billion yen.

The Sierra Gorda copper mine suffered in the early stages due to excessive initial capital expenses and the bad condition of a start-up. However, since 2017, we have been working on an operation improvement project called 'Debottle-necking,' and by the end of last year, we had completed a project to increase the daily processing volume from 110,000 tons to 130,000 tons.

Amid the increasing value of the mine due to the stabilization of operations and the increase in copper price since last year, we decided to sell the mine after we reached an agreement with South32 Ltd. at the optimal price. In addition to the Mineral resources business, our company also has large-scale projects, and this project is part of a company-wide review of its asset portfolio.

## 1) Mineral resources QB2 Project (progress / schedule moving forward)

### 1) Mineral resources ② QB2 Project (progress / schedule moving forward)

- ◆ Construction continues accelerating toward the production commencement in the second half of 2022 (over 65% of progress)
  - Over 10,000 workers are currently mobilized
  - Continuing stringent COVID-19 measures
- ◆ No change to initial construction costs of USD5.2 billion; added USD600M as the cost of COVID-19 influence



Conveyor installation



Mill

This is the Quebrada Blanca II (QB2) project in Chile. As for QB2, the overall progress rate has exceeded 65%, and construction is being accelerated with the aim of starting production in the second half of 2022. We are currently mobilizing more than 10,000 people, so we are continuing to take all possible measures against the COVID-19 pandemic.

Construction costs \$5.2 billion, including inflation, unchanged from the original plan. We currently expect to spend \$600 million on measures related to COVID-19.

## 1) Mineral resources Cote Gold Project (progress / schedule moving forward)

### 1) Mineral resources ③ Cote Gold Project (progress / schedule moving forward)

- ◆ Initial construction costs rose from USD1.42 billion to USD1.79 billion due to changes in construction specification details, changing economic environment, etc.
- ◆ Confirmed additional resources in the nearby Gosselin zone (157 t)\*
- ◆ Continue working toward production commencement in 2023



\*Total of indicated and inferred mineral resources



This is a Cote Gold Project in Canada. With regard to it, we announced that startup costs would increase from \$1.42 billion to \$1.79 billion due to an increase in the number of materials and required man-hours associated with the progress of detailed design, a rise in labor costs, and a rise in the unit price of materials.

On the other hand, in the exploration of the surrounding area, which our company has been energetically carrying out since its entry into the field, we were able to confirm a new resource volume of 157 tons. We will continue to promote the project to start production in 2023.

## 1) Mineral resources Hishikari Mine

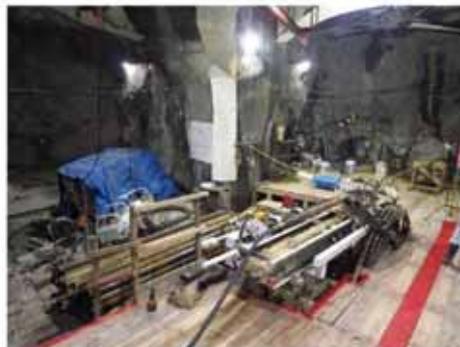
### 1) Mineral resources ④ Hishikari Mine

#### ◆ Operations

- As laid out in the 2018 3-year Business Plan, yearly production of 6.0 t is being stably maintained. Currently achieving steady output.
- The reserve at the end of 2020 was 159 t.

#### ◆ Lower orebody development

- To drop hot water about 30 m (-32 ML to 10 ML above sea level), a new hot water extraction room is being constructed at -80 ML. Boring to extract hot water began in January 2021.



Boring to extract hot water

I will explain the outline of the operating mine. First of all, the Hishikari Mine is operating smoothly. There is no change in the current year's gold production volume of 6 tons. The development of the substructure is proceeding as planned. The pump room at minus 80-meter level is almost completed, and we are currently drilling hot spring water to lower the water level.

## 1) Mineral resources Overseas copper mines (Morenci, Cerro Verde, Candelaria)

### 1) Mineral resources ⑤ Overseas copper mines (Morenci, Cerro Verde, Candelaria)

#### ◆ Morenci

- FY2021 output forecast: 401 kt/year (May plan: 368 kt/year)
- Began measures to increase output incl. the partial resumption of a mill and additional output in response to the reduced impact of COVID-19

#### ◆ Cerro Verde

- FY2021 output forecast: 393 kt/year (May plan: 409 kt/year)
- Increasing processing volume to make up for the lower grades of iron ore

#### ◆ Candelaria

- FY2021 output forecast: 135 kt/year\* (May plan: 175 kt/year)
- Due to concerns over the stability of some mining spots

\*Combined with output of Ojos del Salado

This is an overview of overseas JV mines. First of all, Morenci in Arizona, in the United States, took measures last year to suspend Morenci Mill, one of two mining concentrators, amid the COVID-19 pandemic. As the infection situation has subsided since the beginning of this year, the Morenci Mill was restarted in the middle of this year. As a result, copper production in 2021 is expected to increase from the level announced in May.

Next, this is Cerro Verde in Peru. As for it, we are reviewing our mining plan because copper prices are rising. Because of this, low-grade ore is now being sent to the ore concentrators. Mineral concentrators are operating to minimize production reductions by increasing the amount of treatment.

Finally, this is Candelaria in Chile. Unexpected faults appeared on pit walls, causing problems with slope stability. As a result, the mining volume has been reduced and some low-grade stockpile ore has been processed. Therefore, production is expected to decrease this year compared to the announcement in May. That's all for my explanation.

## 2) Smelting and refining Pomalaa project (Investigation / Initiatives moving forward)

### 2) Smelting and refining ① Pomalaa project (Investigation / Initiatives moving forward)

Continuing procedures/discussions for prompt investment decision-making

Our third HPAL project following CBNC and THPAL in the Philippines

- Production estimated at 40 kt-Ni/year.
- 150 kt laid out as a milestone in the long-term vision. Supply of raw materials for Class 1 nickel smelting and refining, which is anticipated to expand due to demand for xEV.
- It is taking some time to obtain the necessary permits and consult with partners due to the impact of COVID-19.
- LNG power generation being considered as a means of reducing GHGs.



Nobuhiro Matsumoto: I am Matsumoto from the Non-ferrous Metals Division. With regard to the Smelting & Refining business, I will explain the status of the Pomalaa Project and the status of production bases in Japan and overseas from the perspective of manufacturing.

First, I will explain the status of the Pomalaa project that we are studying in Indonesia as the third HPAL project following CBNC and THPAL in the Philippines.

This project is a milestone toward the establishment of a 150,000-ton nickel production base. Our company plans to further strengthen its collaboration with the battery business in order to secure raw materials for the manufacture of Class 1 nickel, which is expected to expand due to demand for automobile secondary batteries.

Currently, due to the impact of the COVID-19 pandemic, it is taking time to obtain the necessary permit and agreement with business partners. In addition, in order to reduce GHG emissions in recent years, this project is considering LNG power generation, not coal power generation. We will continue to pursue licensing procedures and consult with our business partners for early investment decisions.

## 2) Smelting and refining Domestic smelters

### 2) Smelting and refining ② Domestic smelters

- Toyo Smelter & Refinery:
  - Began a scheduled one-month shut-down from October
  - Planned output of 424 kt of electrolytic copper in FY2021
- Niihama Nickel Refinery: Planned output of 54.0 kt of electrolytic nickel in FY2021
- Harima Refinery/Niihama Nickel Refinery:
  - Continue producing nickel sulfate at full capacity in response to the growing demand for batteries
  - Plan a record output of 79.7 kt in FY2021
- Hyuga Smelting Co., Ltd.: Planned output of 13.0 kt of ferronickel in FY2021



I will explain the situation of domestic smelters. The Toyo Smelter & Refinery, which manufactures electrolytic copper and other precious metals, is scheduled to suspend operations every two years for about a month from October. As a result, we plan to produce 424,000 tons of electrolytic copper in fiscal 2021.

In fiscal 2021, we plan to produce 54,000 tons of electric nickel at our Niihama Nickel Refinery.

With regard to nickel sulfate produced at the Harima Refinery and the Niihama Nickel Refinery, we are continuing full production due to expanding demand for batteries. We plan to produce a record 79,700 tons of nickel sulfate in fiscal 2021.

As for Hyuga Smelting Co., Ltd., we plan to produce 13,000 tons of ferronickel because the amount of ore it receives decreases due to unseasonable weather.

## 2) Smelting and refining    CBNC/THPAL

### 2) Smelting and refining ③ CBNC/THPAL



#### <CBNC>

- Planned output of 19.4 kt in FY2021
- Temporarily reducing the operation level due to the impact of COVID-19

#### <THPAL>

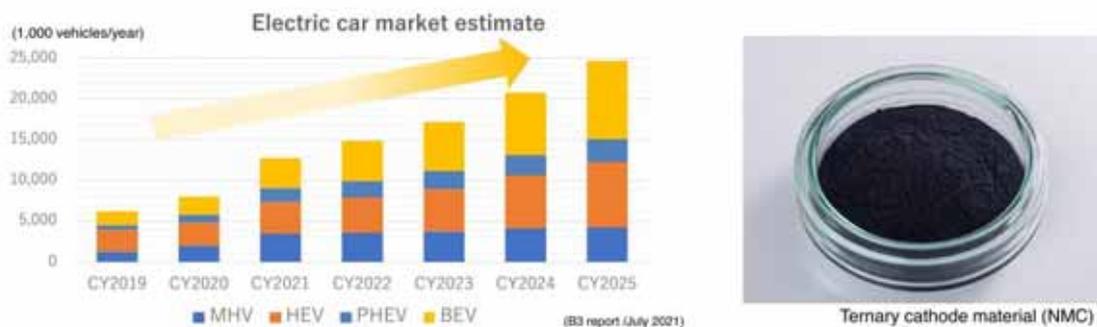
- Planned output of 29.6 kt in FY2021; the output is reduced due to the impact of a boiler facility trouble
- Start chromite sales (as a material for stainless steel) in FY2021

I will explain the situation of CBNC and THPAL, which are overseas nickel smelters. CBNC responded to the increase in the number of employees requiring temporary quarantine due to the COVID-19 pandemic by reducing the operational burden. As a result, production will be reduced to 19,400 tons. At present, we are working to prevent the spread of the virus through vaccinations and other means, aiming to continue full operations.

For the past few years, THPAL has improved its operating rate by strengthening daily inspections and providing operator training to prevent problems at its main facilities. However, in the first half of fiscal 2021, trouble occurred at a boiler facility that supplies electric power and steam, and production was reduced to 29,600 tons. In addition, THPAL began production of chromite, the raw material for stainless steel, in fiscal 2021, following the recovery of scandium, which has already begun commercial production. That's all for my explanation.

### 3) Materials: Battery materials Market trends / Effect on our company, etc.

#### 3) Materials: Battery materials ① Market trends / Effect on our company, etc.



The entire electric vehicle market is recovering strongly in FY2021.  
Sales of battery electric vehicles (BEV) is especially robust in China and Europe.

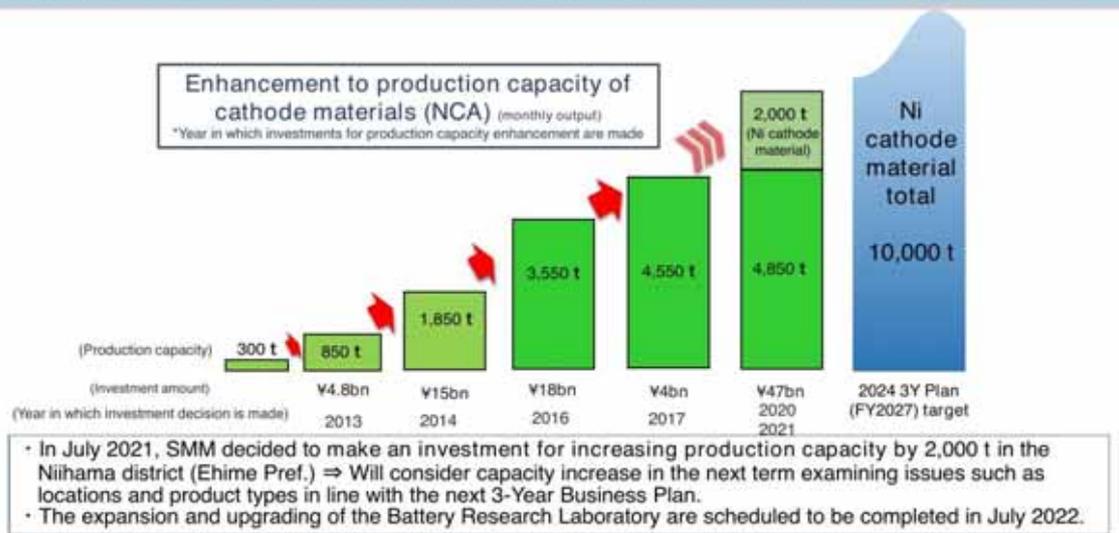
Isao Abe: I am Abe from the Battery Materials Division. We will explain the progress of our battery materials business. Countries around the world are accelerating their efforts to reduce GHG emissions, and the electrification of automobiles is rapidly progressing, particularly in China and Europe.

As you can see in the bar chart on the slide, the electric car market is projected to grow 4 ~ 5 times by 2025. Among them, hybrid cars and electric cars are expected to grow significantly. Our company has been developing cathode materials for electric vehicles for nearly 20 years, and together with being proud to be one of the pioneers in positive electrode materials for electric vehicles, we intend to work to expand the use of electric vehicles in the future.

Although the overall automobile market shrank in fiscal 2020 due to the impact of the COVID-19 pandemic, demand for electric vehicles grew in fiscal 2021 more than the automobile market recovered. Although there are uncertain factors such as a shortage of semiconductors and a shortage of parts supply due to the COVID-19 pandemic, we expect demand to grow steadily in fiscal 2021.

### 3) Materials: Battery materials Enhancing production capacity (Current status and outlook)

#### 3) Materials: Battery materials ② Enhancing production capacity (Current status and outlook)



Under these circumstances, our company announced in July 2021 a decision to increase production by approximately 2,000 tons per month and a plan to build a new plant in the Niihama district of Ehime Prefecture. This increase is expected to bring our company's production of cathode materials for automobiles to approximately 7,000 tons per month.

The new plant will produce high-nickel cathode materials that are expected to become mainstream in hybrid and electric vehicles. We will meet a wide range of customer requirements by installing equipment that can be used to manufacture a variety of nickel cathode materials. We also plan to incorporate automation and digitization through the introduction of DX technology and work to reduce labor in areas such as quality control.

Our company is considering the possibility of increasing production in line with increasing demand for cathode materials in the future and is considering issues such as location and production items in the next 3-year business plan.

Regarding the development of next-generation materials, we will expand the facilities necessary for prototyping and evaluation of next-generation materials at the Battery Research Laboratory by July 2022, focusing on the evaluation facilities necessary for the development of cathode materials for solid electrolytes.

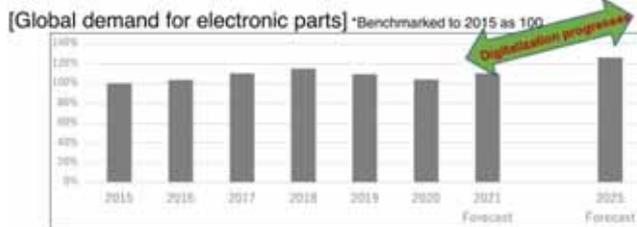
We are also working with the Non-Ferrous Metals Division to conduct verification tests to recycle nickel, cobalt, and lithium recovered from batteries into cathode materials and batteries. We intend to promote research and development for future 'Battery to Battery' recycling.

### 3) Materials: Advanced materials Market trends

#### 3) Materials: Advanced materials ① Market trends

- ✓ FY2021 1H: Although smartphone and car sales were smaller than expected due to semiconductor shortages and COVID-19's impact, **sales of advanced material rose** year-on-year thanks to factors such as an increase in 5G smartphones, progress in digitalization, and recovery in capital investment.
- ✓ 2H / medium- and long-term outlook: Demand for all products is expected to increase on the back of the progress and upgrading in digitalization, albeit there will be a temporary phase of inventory adjustments.

#### ◆ Progress/upgrading in digitalization



Source: Prepared and estimated by SMM referring to data compiled by research institutes and others

#### Growing demand for advanced materials



Kazunori Takizawa: I am Takizawa from Advanced Materials Division. I will explain the progress of this division.

First, this is the market trend. In the first half of fiscal 2021, sales of smartphones and automobiles were sluggish due to a shortage of semiconductors and the impact of the COVID-19 pandemic, and sales were lower than initially expected. However, sales of our company products expanded compared to the same period of the previous year due to the expansion of 5G smartphones, the progress of digitization, and the restoration of capital expenditure, and we were able to maintain an extremely high level of operations.

As a forecast, we expect to see temporary inventory adjustments due to shortages of semiconductors and logistical problems. However, as shown in the bar graph at the bottom left of the slide, the expansion of the electronic component market due to the progress and sophistication of digitization is expected with a high degree of certainty, and as a result, demand for our company products is also expected to expand.

### 3) Materials: Advanced materials    Advanced ink (NIR absorbing material)

#### 3) Materials: Advanced materials ② Advanced ink (NIR absorbing material)

##### ◆ CWO® (Cesium tungsten oxide)

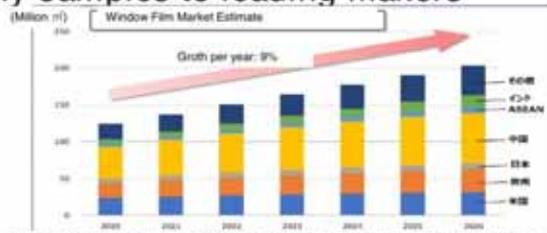
- ✓ Has a superior weather resistance with a combination of high permeability of visible light and strong absorption capacity of near infrared rays (NIR)
- ✓ New chemical substance for which SMM has a patent



➤ Major car window film maker is using CWO®

➤ New market cultivation: Supply samples to leading makers

- Clothing (heat generating fabric)
- Agriculture (light adjusting net for green houses)
- 3D printer (optical catalyst)
- Security printing (IR recognition)



Source: Prepared and estimated by SMM referring to data compiled by research institutes and others

I will explain about advanced ink. Advanced ink is a material that is expected to have a very high effect on the reduction of GHGs. This CWO® (cesium tungsten oxide) combines a high visible light transmission with strong near-infrared absorption. It is a very unique new chemical substance patented by our company.

At present, the main application of CWO® is window film for automobiles, and we are continuing to develop it by taking advantage of its function of preventing the temperature rise in the interior of automobiles.

In addition, we are developing new applications worldwide that take advantage of the CWO®'s ability to convert light into heat and to recognize and absorb light of specific wavelengths.

Here are some examples. When clothes are made from fibers kneaded with CWO®, the clothes themselves generate heat. I think you can have a comfortable time even in winter. In the field of agriculture, we are also working on the development of a light control network for agricultural houses.

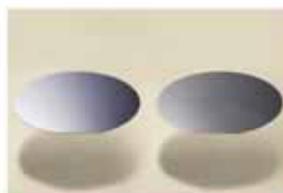
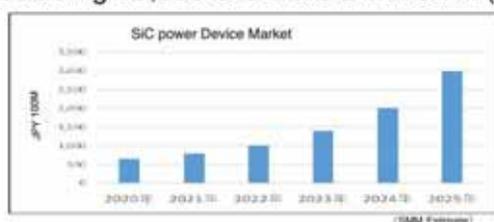
We are also continuing to work on applications for 3D printers that function as photocatalysts. When the ink of CWO® is sprayed onto the resin of nylon and then the light of a halogen lamp is applied, CWO® changes the light into heat and dissolves the resin of nylon. By repeating this process, the 3D printer will create the desired shape. Compared to conventional products, this product has superior strength, can be printed at high speed, and can be freely colored, and is expected to expand its use in the future.

We are also working on development for security printing that takes advantage of the near-infrared (IR) recognition feature.

### 3) Materials: Advanced materials SiC substrate development

#### 3) Materials: Advanced materials ③ SiC substrate development

- ◆ **SiC (silicon carbide):** Semiconductor material used in power semiconductors. Shows superior attributes in the high temperature, high frequency, and high voltage environment.
- ◆ **Bonded SiC substrates produced by Sicoxs Corporation**
  - Lower cost than single-crystal SiC due to the use of cheaper support substrates.
  - Reduced resistance and increased strength of overall substrates while maintaining the attributes of single-crystal SiC.
- ◆ **Scheduled to begin commercial production in FY2021 with the aim of producing 10,000 SiC wafers a month (if 6 inches in diameter).**



Finally, we will explain the progress of SiC substrate development. SiC (silicon carbide) is a promising material for realizing power devices with high efficiency and low power loss.

As shown in the graph at the bottom left of the slide, the power device market is currently worth around 100 billion yen, but the market is expected to expand rapidly to 300 billion yen and 400 billion yen in 2025.

In October 2017, we invested capital in Sicoxs Corporation, which had a technology called 'bonded SiC substrate,' and are working to commercialize this bonded SiC substrate. The bonded SiC substrate uses SiC polycrystals, which are inexpensive, as the supporting substrate. By bonding these polycrystals and SiC single crystals together, the amount of SiC single crystals, which are expensive, is reduced and the cost is reduced.

Furthermore, of course, the finished bonded SiC substrate maintains the characteristics of SiC single crystal while achieving low resistance and high strength of the entire substrate.

In fiscal 2021, we actively promoted sample work and received excellent evaluations from customers. The target for this fiscal year is a small amount, but we plan to achieve mass production within this fiscal year. Our first goal is to mass-produce 10,000 wafers per month in fiscal 2025. That's all for the explanation.

## 1) Efforts after expressing support for TCFD (Task Force on Climate related Financial Disclosures)

### 1) Efforts after expressing support for TCFD (Task Force on Climate-related Financial Disclosures)

Page 72, 2021 Integrated Report

#### Disclosed the results of a climate change scenario analysis in Integrated Report 2021

- Conducted a scenario analysis for 1.5- and 4-degree Celsius rises in the average world temperature; identified risks and opportunities
- ICMM commitment  
Support the ICMM's commitment to "build clear pathways by 2023 to achieving net zero GHG emissions by 2050 or sooner" ⇒ It is important to accelerate our actions to achieve carbon neutral

Nozaki: From page 32 onward, we will focus on promoting activities to realize our 'Vision for 2030.' On page 33, we have included very small material on our efforts after expressing support for TCFD. This material was excerpted from our company's 2021 Integrated Report, and we would like you to take a look at this material.

In February 2020, our company announced its support for TCFD, and in March of the same year, it listed climate change as one of the important issues in our 'Vision for 2030.' This indicates our commitment to these efforts and our commitment to strengthening information disclosure.

The 2021 Integrated Report, published in 2021, discloses the analysis of the climate change scenario as shown in the slide.

## 2) Progress of other key measures and future schedule

### 2) Progress of other key measures and future schedule

**Vision for 2030** A company that understands and respects the traditions and culture of indigenous peoples

#### Promote an understanding of indigenous people

➤ July 2021: Created and distributed an educational video to officers and employees of the SMM Group

(Over 4,000 people in the Group have watched the video in Japan and overseas as of November 2021.)

⇒ Endeavor to promote an understanding in the Company



**Vision for 2030** A company that undertakes responsible sourcing across the supply chain

March 2021: Completed a third-party audit of refineries producing cobalt (Niihama Nickel Refinery, Harima Refinery)

➤ Rise in customer inquiries regarding “responsible mineral sourcing” and “CSR sourcing”

⇒ Continue providing responses speedily and accurately



Electrolytic cobalt

We will introduce other main two of our various measures.

The first is to promote an understanding of indigenous people. Our company is committed to being a "company that understands and respects the traditions and culture of indigenous peoples" and to doing some initiatives. We created educational videos in July this year and are distributing them within the group.

The second is the supply chain. Gold is a metal in an area where supply chain checks have been very strict. This has been addressed in our company business. In recent years, the supply chain of cobalt, which is the main raw material for batteries for electric vehicles, has been examined by a third party to determine whether we are a refinery or refinery that ensures responsible mineral procurement.

We will continue to objectively confirm our efforts to procure responsible minerals at our main production sites for copper and nickel.

## V. Next 3 Year Business Plan (2021 3 Year Business Plan)

### V. Next 3-Year Business Plan (2021 3-Year Business Plan)

Period covered: FY2022 – FY2024 (three years)

Release time: Mid-February 2022 (scheduled)

- Continue the Long-Term Vision of the 2018 3-Year Plan
- Develop strategies for further growth in the core businesses of Mineral resources, Smelting & Refining, and Materials
- Effective responses and measures for (recent and future) management challenges

The next 3-year business plan for 2021 covers the 3 years from fiscal 2022 to fiscal 2024 and is scheduled to be announced in mid-February next year. Continuing the long-term vision set forth in the 2018 3-year business plan, we are formulating strategies for further growth of our core businesses.

In particular, with regard to the promotion of growth strategies, some of the projects outlined in the 2018 3-year business plan are still a little behind schedule, so we intend to complete these projects and prepare for the next 2024 3-year business plan.

As I mentioned earlier, we will address new corporate issues such as 'carbon neutrality,' 'DX,' and 'human resource strategy.' We hope this will give us the opportunity to further grow and expand our business base.

In terms of disciplined management, our company has selected the Prime Market in the Tokyo Stock Exchange from the next fiscal year, and we are considering enhancing our coverage in response to this.

**(Notification) Special sponsor of Special Exhibition POMPEII**

**(Notification) Special sponsor of Special Exhibition POMPEII**



The Special Exhibition POMPEII, will be held from January 14, 2022 to April 3, 2022, at the Tokyo National Museum in Ueno

The exhibition will then travel to Kyoto, Miyagi and Fukuoka

The exhibition will feature many works that use non-ferrous metal such as copper and gold

This is the last page of the slide. We are a special sponsor of a special exhibition, POMPEII, that will be held from next January 14 at the Tokyo National Museum. As many as 150 items from the National Archaeological Museum of Naples will be on display. I would like you to take a chance to see it. That's all for our explanation. Thank you for your attention.

## **Questions and Answers: Pomalaa Project's Funding and Procurement of Resources from Overseas**

Question 1: I have two questions. The first is about the Pomalaa project, and the second is about resource nationalism in South America and the diversification of mining development. I'd like to ask you about these two topics.

With regard to the first project, Pomalaa, in the last 18 3-year business plans, you showed that free cash flow would be negative in 3 years due to investment in this project. Aside from when you can do this, I think you will be listed as a continuation project in the following 3-year business plan. The sale of the Sierra Gorda copper mine is expected to bring cash in, so please let me know if you have any tips on the flow of money to and from the Pomalaa project.

In addition, the Indonesian government says that it will not allow export anything like nickel pig iron in the future and that it will make Class 1 nickel. I would like to confirm whether there is a risk of project failure in terms of the policy.

Nozaki: As for funding for the first Pomalaa project, we are currently compiling a draft 3-year business plan, and I believe that a funding plan will come out soon. As you commented, we naturally count cash in relation to the Sierra Gorda copper mine. Considering our company's current financial position, we believe that we have a certain level of financial capacity, so we will consider debt financing.

However, we would like to reduce risk money as much as possible, and we will consider using project finance in the future. At the moment, I cannot give you a quantitative explanation, but I would like to think about finance from various perspectives.

Matsumoto: At the moment, there is no clear policy on the concept of risk in Indonesia's policy. At present, it is only decided that unprocessed ore cannot be exported, and we are at the stage of discussing how much we should raise the processing level.

The MS (Nickel-Cobalt Mixed Sulfide) that we are trying to make is just before the processing level exceeds 50%. The reality is that it is not yet known whether this will be covered or not. We are also watching the trend.

On the other hand, even if NPI increases production in the future, its applications will be limited, so it is true that NPI is starting to develop projects to produce mats with even higher processing levels. We will consider how to proceed with the Pomalaa project in the future.

Question 1: I don't know how resource nationalism in South America settles down. Since Castillo became president in Peru, there have been various community movements, and the Chilean presidential election is just around the corner. On the

other hand, I think you have various options such as Australia as a source of resources. Please let me know if you have any tips about your current information or future strategy.

Sato: The new president was elected in Peru, but according to subsequent media reports and other sources, the political base in Peru does not seem to be that strong, and the information we have is that there will be no drastic changes. We will continue to gather information with our partners.

In Chile, a progressive taxation royalty bill passed the House of Representatives and is currently under consideration in the Senate with amendments. Media reports say a runoff election will probably be held. There will be a runoff vote in December, and I think it will change depending on the results of the presidential election, but I don't think there will be radical changes that were said at first.

As for our future overseas expansion, we have established offices in Vancouver, Canada, and Sydney, Australia for many years, and are currently considering strengthening our activities in these regions.

Question 1: Is there a possibility of equity financing as multi-faceted financing?

Nozaki: I haven't thought about it yet.

#### **Q & A: About the Pomalaa Project and LFP**

Question 2: I have two questions. The first question concerns the Pomalaa project. When do you think you can give the green light after you get the permission? Please tell me your current image. Also, as you explained the scale of investment before, it has been a while since then, and prices are rising, so please tell me if there is a possibility that the amount of investment will increase.

Matsumoto: The timing of the Pomalaa project is difficult. As for permissions and consulting with our business partners, there are many things that we can't determine alone. As we have already reported, we are still aiming for the second half of the 2020s.

As for the amount of investment, as I mentioned earlier, we are currently assessing the amount of investment, including escalation, taking into account changes in specifications such as changing the fuel for boilers from coal to LNG. As we have already announced, we believe the investment will be in the range of a few billions.

Question 2: The second question is about battery materials. You mentioned in the newspaper that you are also interested in lithium iron phosphate (LFP), but could you tell us your stance on this, and if you were to do something about it, would your company have an advantage over the Chinese?

Abe: Regarding our current recognition of LFP, the market share of LFP in China ranges from 30% to 40%. German automakers have also announced that they will use LFP-powered batteries, so our company will consider R & D and production if requested by customers. However, there is no specific story at this point. On the other hand, considering the global market, we believe that we may not only produce nickel products. In this case, we believe that we have an advantage over Chinese manufacturers in terms of 'quality' because we have supplied battery materials to automobile manufacturers. At present, nearly 100% of LFP materials are produced in China, so we believe that there is a possibility that production outside China will have an advantage.

### **Q & A: About the sale of the Sierra Gorda copper mine and investment in Pomara**

Question 3: I have two questions. The first question concerns the sale of the Sierra Gorda copper mine. I think that the stable operation and debottlenecking efforts in the last few years have made it possible to sell. How will this experience and know-how be applied to the future development of the copper mining business? Also, in the terms of sale, it is stated that "our company will cover policy changes in Chile." Please tell me the extent of the risks involved.

Nozaki: Regarding the sale of the Sierra Gorda copper mine, which we called 'debottlenecking,' we are proud of the significant contribution we made to improving operations there.

Sato: As you know, we have been working on the debottle necking project in Sierra Gorda copper mine since 2017, and the entire company, including resource engineers as well as engineers from the Engineering Division, worked together to establish a 130,000-ton mine. As a matter of course, we would like to utilize the technical knowledge and know-how that we have gained in this process for future development.

In particular, I think we have accumulated considerable knowledge about the molybdenum plant. In Phase 2 of the Quebrada Blanca mine, we are also separating copper and molybdenum, so we hope to make the most of our experience in this process.

In addition, among the contract conditions of the sale of interests, there is an obligation of compensation. As I said earlier, the Chilean royalty bill is currently under consideration. It is obligated to compensate for the economic losses it will incur if the bill is passed. However, the bill has not yet been enacted, and the concrete impact from now on is unknown.

Question 3: Second question. All you can say about the investment in the Pomalaa project is that basically the permission is delayed, so you can't decide yet. Is that the only reason? Are there aspects that we cannot decide on because the business

environment is uncertain, such as the increase in iron phosphate for batteries and the shift from nickel pig iron to nickel mats?

Matsumoto: One reason for the delay in decision-making for the Pomalaa project is the delay in permission. In addition, we have various discussions with our business partners Vale and PT Vale Indonesia.

We will invest the capital to operate the Smelting & Refining business in Indonesia. Business partners will be in charge of the mining side supplying the ore. We are currently discussing a basic contract that includes the supplying of ore. The reality is that it is difficult to directly communicate with them due to the impact of the COVID-19, and they are lagging behind.

Question 3: There are various movements in the world of battery materials, but in the Pomalaa project, is it basically a stance to give the green light when the permission and consultation with partners are advanced?

Matsumoto: That's basically what I think. We believe that nickel refining, the flow of batteries, and the supply chain are very unique businesses, and we intend to expand these businesses.

#### **Q & A: Expanding customer base and accelerating investment**

Question 4: I have two questions. The first question concerns the development of the battery materials business. As the expansion of the market accelerates, a variety of players other than existing automakers are entering the market, and it is extremely unclear what scenarios will emerge as targets for 2030. I think the main direction of your company's business development was to make a commitment to specific users. You have previously commented that you were prepared to diversify your customer base. The schedule for increased production has been decided, and you have indicated that it will make products more flexible. Please tell me how much you can expect to increase the number of customers and what kind of time frame is possible.

Abe: As you pointed out, we are talking about expanding our customer base in the battery business. However, our top priority customers are still Panasonic and Toyota. Of course, we would like to consider if new customers emerge as we increase production volume and if we are in a situation where production volume exceeds the requirements of major customers. However, each plan of Panasonic and Toyota has been announced, and I think it will be difficult to supply to other manufacturers because we think that an enormous amount of production will be required just for increased production.

Question 4: Second question. The progress of capital expenditure during this 3-year business plan was approximately 50%. You explained that there was also the impact of COVID-19 as a cause, and you also explained that there will be no change in the

investment plan even if there is a time lag in the future. I think it is time to accelerate the materials business, but I would like you to explain how to balance the overall allocation of management resources.

Nozaki: As for the allocation of resources to future investment for growth, we have proposed a collaboration among our three businesses, and of course we are thinking of sharing cash flow. Of course, we look at the cash flow of each business first, but it can be temporarily exceeded at the point of growth. In the materials business, relatively incremental investments were made to increase production. However, if the production volume exceeds a certain level, a step-up investment will be needed to build land and buildings. As a company, I think it is desirable that we can expect growth to the extent that this is necessary. It is difficult to say the balance, but we have not changed our stance of actively investing in business opportunities. We intend to address this issue within the company's financial position.