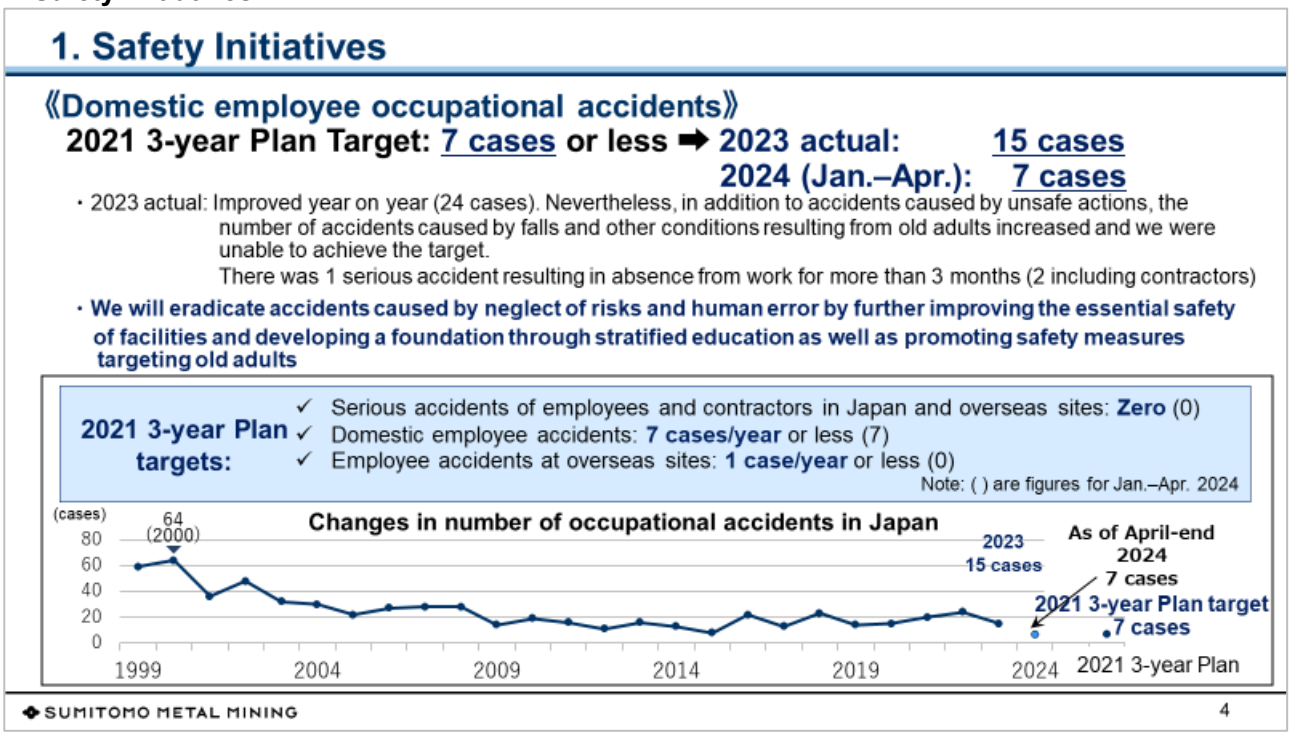
SMM Focusing on Early Contributions from Transition of Large-scale Projects to Production Stage; Pursuing Efficient Management to Further Strengthen Earnings Power

This is a transcript of Sumitomo Metal Mining Co., Ltd.'s Progress of Business Strategy briefing for FY2023, held on May 16, 2024.

[Speaker]
Sumitomo Metal Mining, President and Representative Director, Akira Nozaki

1. Safety Initiatives



Akira Nozaki: I am Akira Nozaki, president of Sumitomo Metal Mining. Thank you very much for attending our business strategy briefing for FY2023. We would like to express our utmost gratitude to all of you for your continued understanding and support of our company's business. I will now explain the points of today's briefing using the presentation material.

We will look at our safety initiatives. As for the number of employee accidents in Japan for FY2023, unfortunately we have been unable to achieve the 3-year Plan target of seven cases or less, although it was better than the previous year. The number of cases has already reached the 3-year Plan target of seven in the January to April 2024 period. So, we are focusing on how to keep it under control from now on.

While this may not be directly related to the raising of retirement age for employees, there is an increase in accidents such as falling down and slipping involving older adults. The causes may be minor, but the end results are increased number of accidents such as broken bones. Therefore, we have set building an age-friendly workplace as a target for FY2024.

1. Global Economy

1. Global Economy

- Rising geopolitical risks (Ukraine, Middle East)
- U.S. Inflation remaining high and continued financial tightening
- Slowdown in growth of Chinese economy, low growth in Europe
- Formation of economic blocs (fragmentation) continues unabated

Medium- to long-term growth prospect remains at a low level

Outlook continues to be unclear

IMF's forecast on global economic growth (January and April forecasts; arrows denote comparison with the January forecast)

	2023		2024		2025	
	(Jan. forecast)	(Apr. forecast)	(Jan. forecast)	(Apr. forecast)	(Jan. forecast)	(Apr. forecast)
Global	3.1%	↗ 3.2%	3.1%	↗ 3.2%	3.2%	→ 3.2%
U.S.	2.5%	→ 2.5%	2.1%	↗ 2.7%	1.7%	↗ 1.9%
Europe	0.5%	↘ 0.4%	0.9%	↘ 0.8%	1.7%	↘ 1.5%
Japan	1.9%	→ 1.9%	0.9%	→ 0.9%	0.8%	↗ 1.0%
China	5.2%	→ 5.2%	4.6%	→ 4.6%	4.1%	→ 4.1%

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I would like to talk of the global economy to the environment surrounding SMM. There is no end to the rising tensions primarily caused by geopolitical risks and the US-China trade friction or to the formation of economic blocs. The slide shows the economic growth rates forecast by IMF. The global growth rate is at the three percent level, where you do not feel that much of actual growth.

Looking at the trends in the past few years, there was the Covid-19 pandemic, but we also saw prices of mineral resource rising due to rapid increase in energy prices following Russia's invasion of Ukraine.

Energy costs as such have peaked, but with Covid-19 subsiding after that, demand expanded and inflation and labor costs also rose. In particular, labor cost underpins all other costs, so we are experiencing a continued rise in operating costs.

2. Profit before Tax Analysis FY2023 Results vs. FY2022 Results

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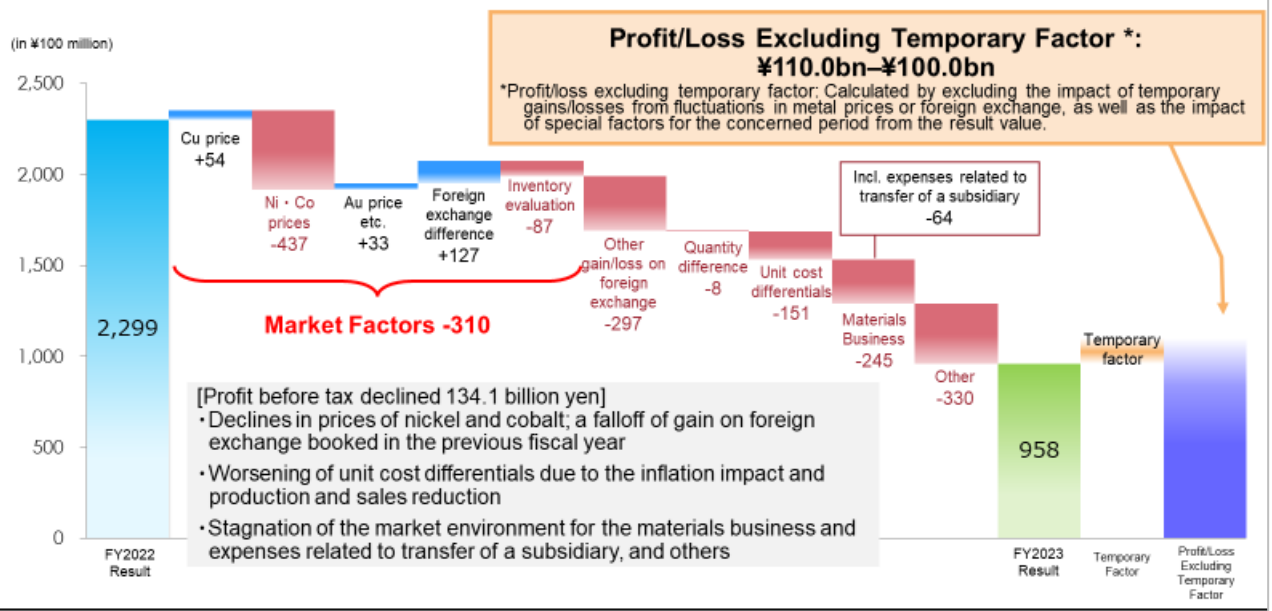

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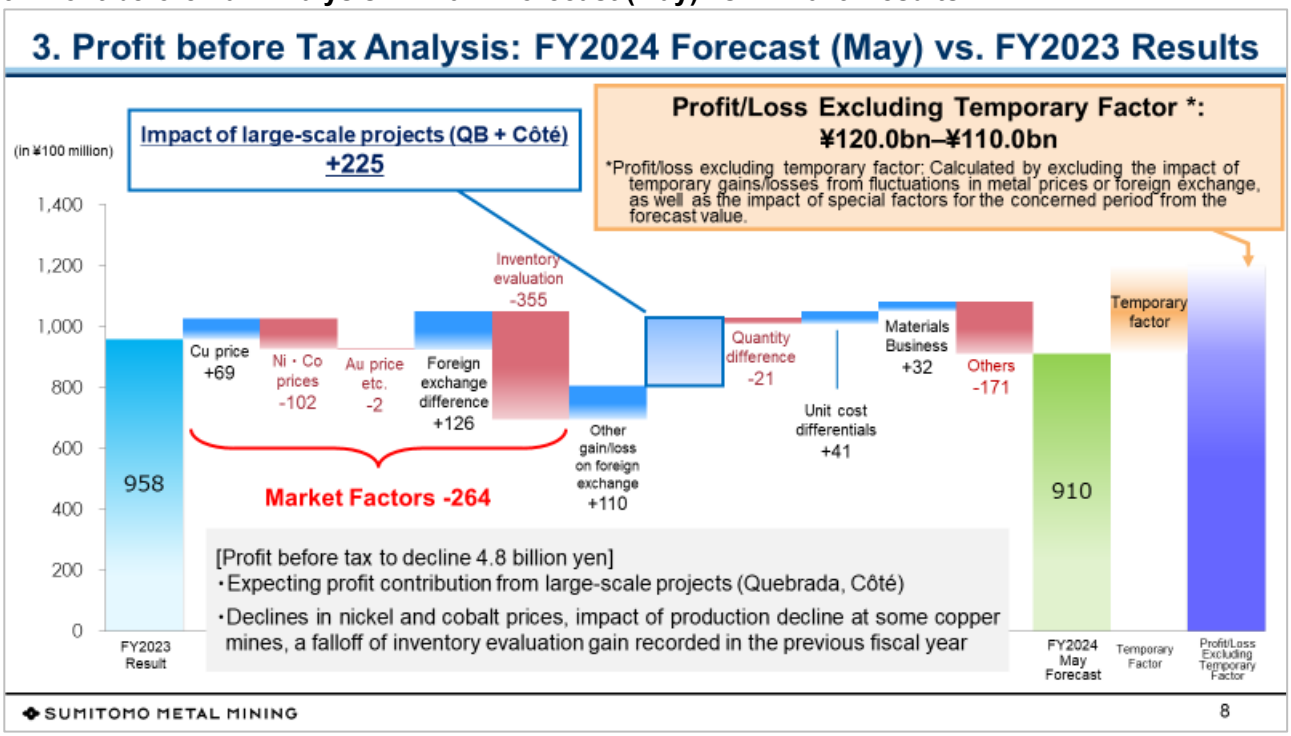
Here, we will look at the FY2023 performance. Compared to the FY2022 results, unfortunately profits have declined significantly. There was a decline of about 30.0 billion yen due to market factors and if you include other gain/loss on foreign exchange, it pushed profits down approximately 60.0 billion yen.

Profits have declined significantly in the Materials Business also, which also includes the transfer of a subsidiary. Profit/loss excluding temporary factor at this stage is assumed to be in the 100.0 to 110.0billion-yen range.

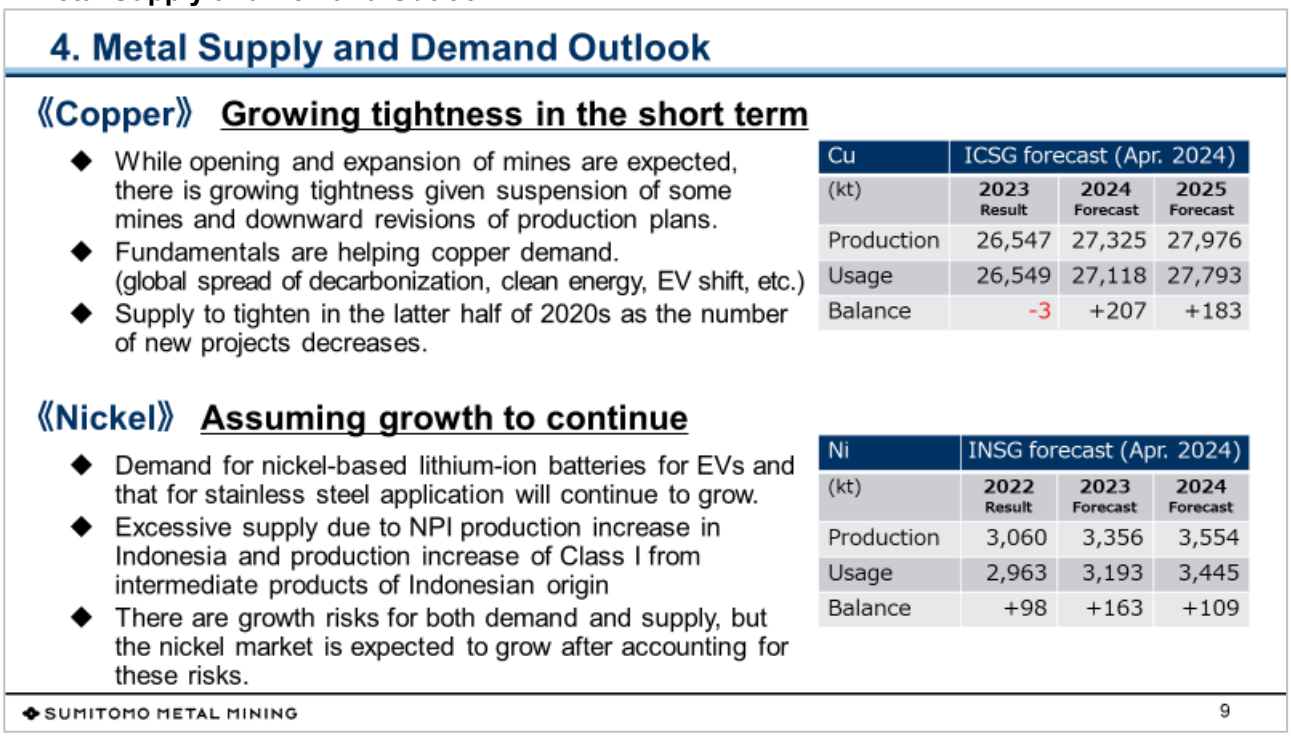
3. Profit before Tax Analysis: FY2024 Forecast (May) vs. FY2023 Results



This is our FY2024 forecast. Incorporating assumptions for foreign exchange and non-ferrous metal prices, we forecast it to be on par with FY2023 as of now.

Profit/loss excluding temporary factor has accumulated to about 10.0 billion yen, which is due to the impact of two large-scale projects (Quebrada Blanca and Côté). Profit before tax is up 22.5 billion yen year on year because of them. These two projects have just started production and costs have not stabilized and production volumes also have not been normalized. We expect there is more to come in terms of contribution to profit/loss excluding temporary factor.

4. Metal Supply and Demand Outlook



Here I will explain the supply-demand outlook for copper and nickel, which is the premise for the business forecasts.

For copper, we expect tightness to emerge in the short term. After the Cobre Panama mine in Panama suspended its operations in November 2023, there is a lot of confusion in the copper concentrate market.

In terms of current spot trading, we are seeing the impossible situation of negative TC/RC, which is the processing cost for copper concentrate. The outlook from around the latter half of 2023 was that new mines would start operations and by 2024 or 2025 there would be a slight surplus of copper concentrate, but currently the supply and demand outlook is negative for copper concentrate.

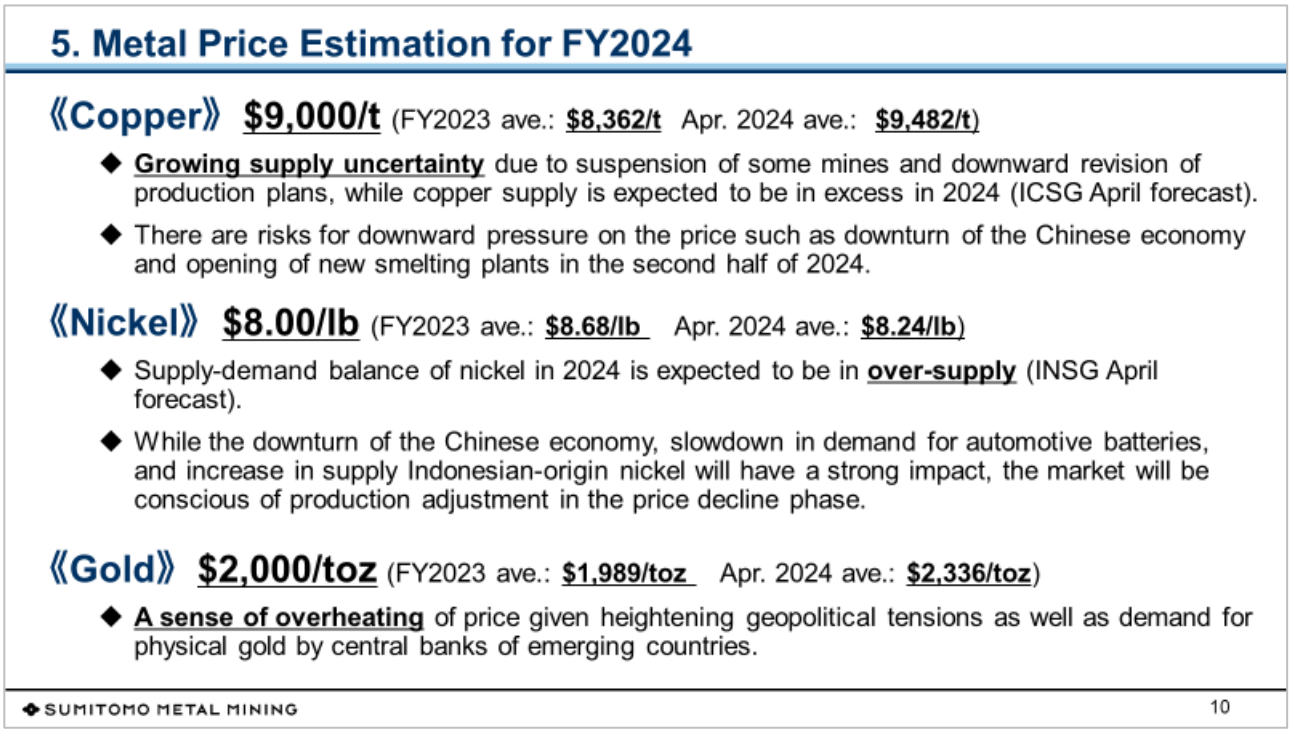
On the other hand, the supply and demand outlook for copper ingot is slightly positive. Though positive, this is only around 200,000 tons out of about 20-odd million tons, and therefore it is more or less within the margin of error. The current situation is one which we often refer to as “not enough ore, but surplus of ingot,” and a very difficult situation is developing for custom smelters.

Copper ingot currently has exceeded 10,000 USD in the market, and the three-month future is contango (the future prices are higher than the spot price). Rather than feeling a supply tightness in spot trading, it appears that there are more players who are worried about the future supply.

On the other hand, the balance of the demand and supply outlook for nickel is positive for 2024. We are expecting growth in demand for stainless steel applications and battery materials for EVs. At the same time, we are also seeing excessive supply due to production increase of nickel pig iron (NPI) in Indonesia and production increase of Class I from intermediate products.

Nickel, similar to copper, is a material essential for social infrastructure and formation of green society. On the whole, the nickel market will see demand growth but in the near term there is oversupply.

5. Metal Price Estimation for FY2024



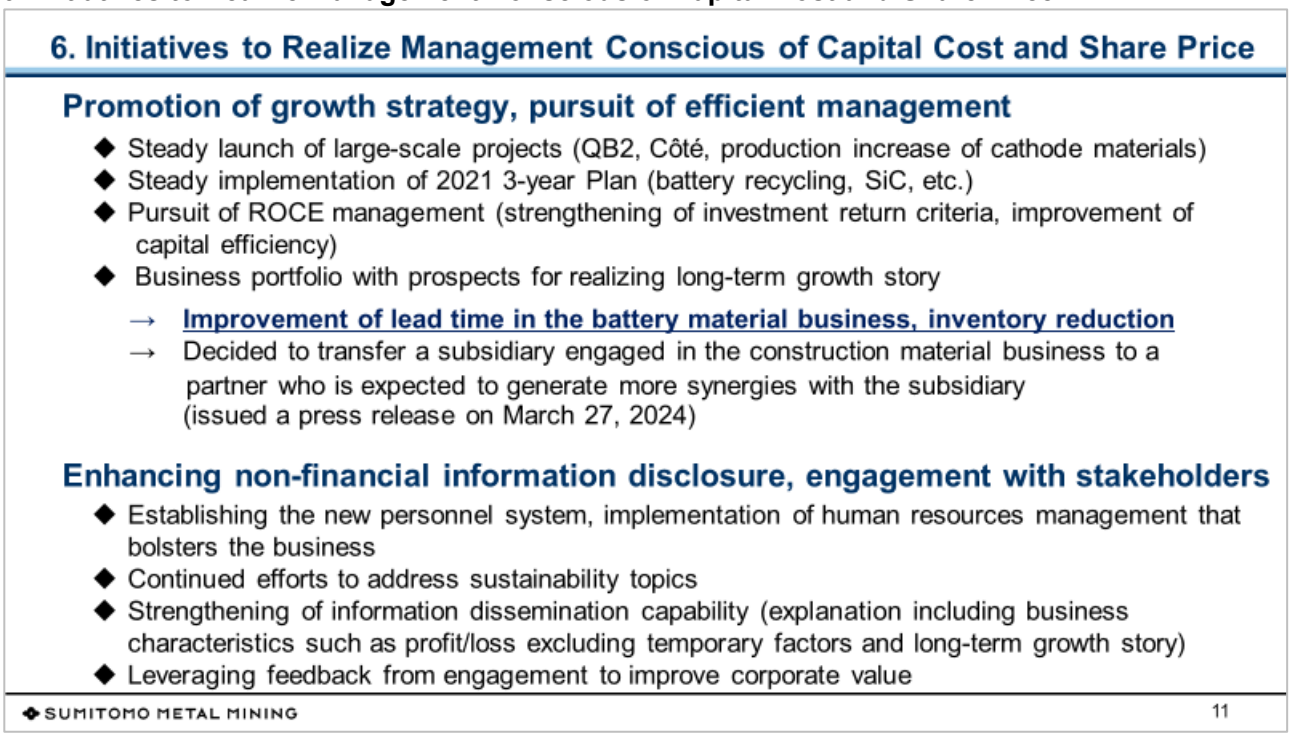
Here we will look at the metal price estimation. The price assumptions of the company's plan are $9,000/tonnes for copper, $8.00/lb for nickel, and $2,000/toz for gold.

As in a regular year, there is likelihood of significant fluctuations in fundamentals. Earlier, I talked about how the supply and demand of copper concentrate is being viewed as a problem. You might have heard the news that some copper smelters are making production adjustments in response to the extremely high concentrate price. This could also change the demand and supply of ingot and therefore it is quite difficult to judge it.

On the other hand, there is not much fluctuation in the nickel supply situation. Currently, it is trading around $8.50/lb and $8.60/lb, which means market participants are conscious of the demand strength. Also, there have been mentions of continuation of production of laterite ore in Indonesia or its sustainability, and I think there will be lot of movements going forward.

As for gold price, it tends to move based on various factors including foreign exchange and economic policies of various countries as well as central bank policies, that is, their decisions on whether to keep gold or not. It is quite difficult to judge. Right now, it is at around $2,300/toz.

6. Initiatives to Realize Management Conscious of Capital Cost and Share Price



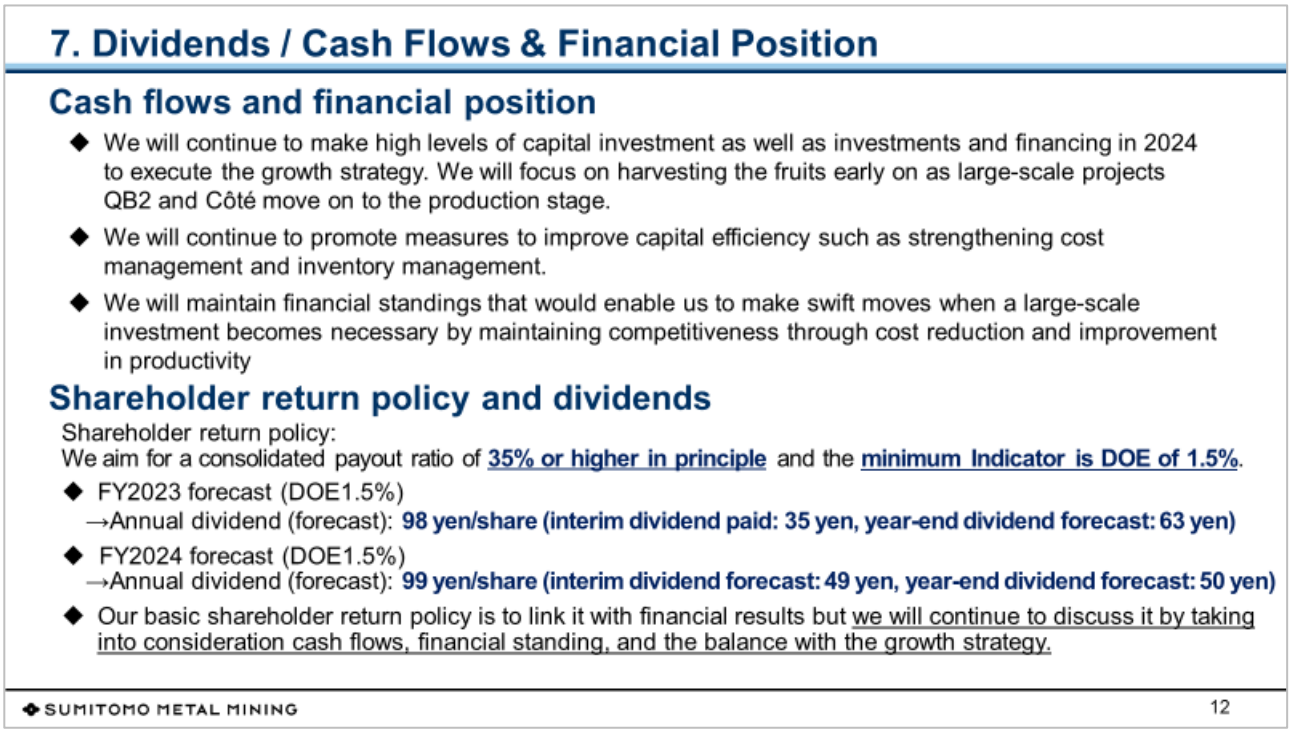
I will explain the initiatives we are taking to realize management conscious of capital cost and share price. PBR has been a hot topic of discussion, and we are also aware of it. We believe that strengthening the earnings power of the business is foremost for improving PBR, and we are promoting growth strategy and pursuing efficient management.

FY2024 is the final year of the 2021 3-year Plan, and we have largely implemented the projects that were planned. We were substantially complete the Côté and Quebrada Blanca 2 (QB2) projects. As for nickel, unfortunately we had to discontinue the feasibility study of the Pomalaa project, but we are poised to make a fresh start.

We will implement the growth strategy for raising expectations for the future earning power, and at the same time we will also focus on strengthening the earnings base of existing businesses. I will explain this later with the example in the battery material business.

We are also implementing various measures related to information disclosure and engagement with stakeholders. Till now, we have not shone much of a spotlight on the mineral resource interest and volume of resources we own. However, resource companies, etc. overseas talk about the source of their future earnings. Going forward, I think we should highlight that a bit in briefings and hope to include newly added resources such as the Quebrada Blanca and Côté in our briefings.

7. Dividends / Cash Flows & Financial Position



Here we look at the dividends, cash flows, and financial position. Regarding cash flows and financial position, as I have been saying, we have to maintain a strong financial position as we can take on large-scale investment, etc. only when there are opportunities.

Nevertheless, in the past few years we have seen construction cost overruns in overseas investment projects, and the reality is that our financial standings have slightly deteriorated on the account settlement basis.

Interest-bearing liabilities on a consolidated basis are about 530.0 billion yen, and expenditure for large-scale investments will continue in 2024. Simultaneously, both mine development projects are ramped up and we have entered the phase of recovering funds. Metal price situation is trending higher than what the projects had assumed and therefore I believe it is vital that we strive to recover the funds by starting operations as early as possible.

As for shareholder return policy, our aim is to maintain a consolidated payout ratio of 35% or higher in principle. However, when there is a downswing in performance like in FY2023, dividends also tend to become lower than expected. So, we have set DOE at 1.5% as minimum indicator.

Regrettably, DOE 1.5% is applied to the FY2024 forecast. We plan to raise the earnings power to be in a position to have a payout ratio of 35%.

Regarding financial position, we have started next-generation large-scale projects such as embarking on new recycling and other growth investments. In such circumstances, we will be taking a balanced approach on cash flows, financial position, and distribution to growth fields as well as on returns to shareholders.

1. Four Challenges under 2021 3-year Plan

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Four challenges

Challenge 1. Increasing corporate value
- Promotion of large-scale projects

- Expanding production capacity for battery cathode materials
- Quebrada Blanca 2 project
- Côté gold mine development project

Challenge 2. Improving core business sustainability

- 3-biz collaboration to strengthen the value chain for Ni-batteries
- Shifting Hishikari Mine to sustainability-oriented operation
- Enhancing competitiveness of copper-smelting business
- Strategy for advanced materials business expansion

Challenge 3. Adapting to changes in the social environment

- Reducing greenhouse gas (GHG) emissions
- Promoting the development of products, technologies and processes that can help achieve carbon neutrality
- Adaptation to digital transformation (DX)
- Initiatives for securing, fostering and utilizing human capital

Challenge 4. Strengthening the foundation of business management

- Strengthening safety initiatives
- Reorganizing and enhancing sustainability promotion framework
- Corporate governance

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This slide shows the progress made in the important strategic measures under the 2021 3-year Plan. Of the four challenges under the plan, I will explain the contents shown in blue in this slide.

QB2 and Côté, which were hit by the Covid-19 pandemic and inflation and struggled with work delays and business expenses, have already entered the phase to start operations. We are aiming to focus on capturing the benefits of the high-level metal prices.

2. Quebrada Blanca 2 (QB2) Project (1)

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Construction is almost complete. Transitioning steadily for full-scale operation within 2024

[Progress in construction]

- Started production and supply of bulk copper concentrate (June 2023)
- Completed construction of the copper-molybdenum separation plant. Started production of Mo concentrate (March 2024)
- Completed construction of the port offshore facilities. Started loading copper concentrate bound for our Toyo Smelter & Refinery (Ehime prefecture; March 2024). It is expected to reach Toyo Smelter & Refinery in May 2024.
- Started demobilization of construction workers and expect to complete around the end of June

[Ramping up status]

- The maximum copper ore processing volume per day at the processing site reached 100% of the designed capacity
- We are focusing on stabilization of processing volume

[FY2024 outlook]

- Expecting production of 207,000 tons or more (full JV basis)
- Plan to raise it to around 280,000 tons from 2025.

Overall picture of mining pit and processing site

Completed construction copper-molybdenum separation plant

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Construction of QB2 is almost complete. It is a major work, and though there are some areas yet to be completed, we have started production of bulk copper concentrate in June 2023. The construction of the molybdenum separation plant also has been completed and it has started operations. We plan to complete the demobilization of the construction workers by end of June 2024.

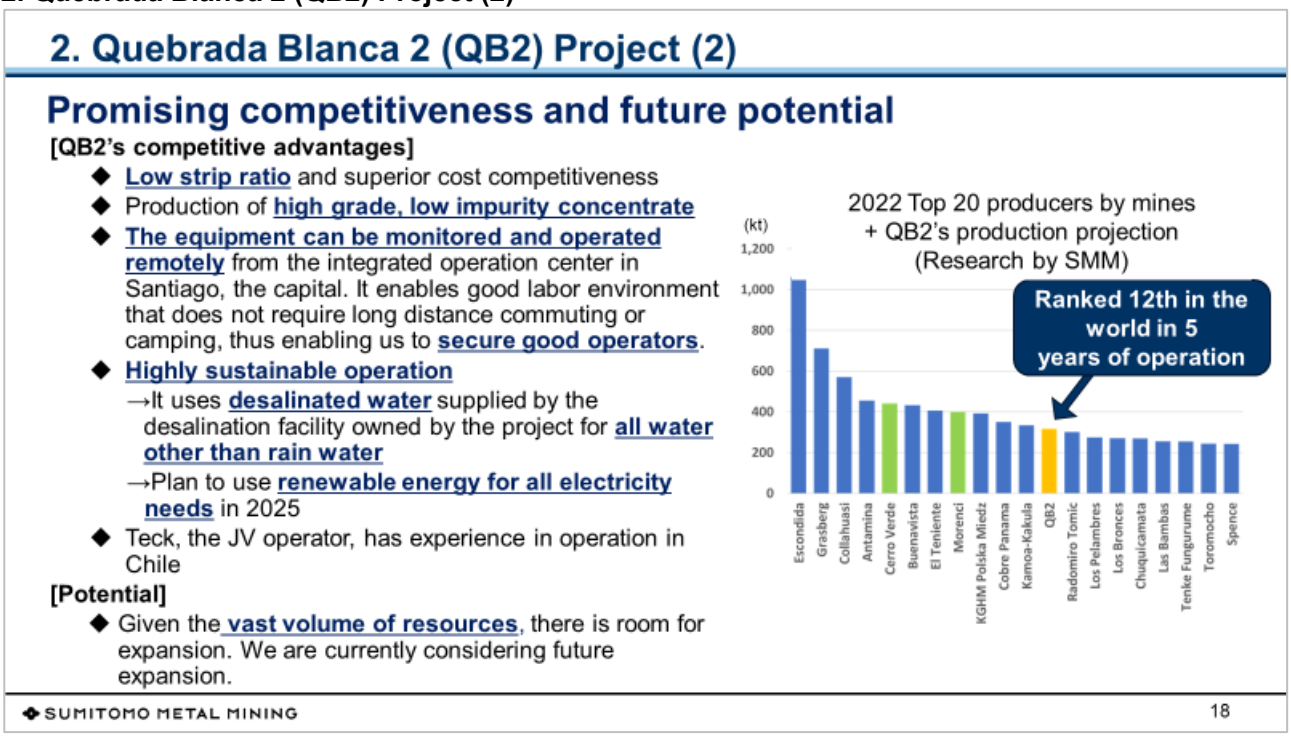
Copper concentrate will be arriving at the Toyo Smelter & Refinery in May 2024 and we are planning to hold a ceremony to the arrival of the first shipment at the end of May.

As for ramping up status, the copper ore processing volume per day has reached around 140,000 tons/day, or 100% of the designed capacity. We expect production to be 207,000 tons or more on a joint venture 100% basis in 2024.

Since we are in the initial days of the operations, there are small corrections being made in so-called short-time shutdowns, but overall ramping up has been on track and we are in the process of confirming the facilities and processing capacity.

We plan to raise the production to 280,000 tons from 2025. When you look at it in the long-term, this will be the average production volume, but depending on the grade of the ore that might be higher or lower than the plan. It depends on the life of mine (LOM) and we are thinking of such a plan.

2. Quebrada Blanca 2 (QB2) Project (2)



As shown in the graph here, QB2's production volume has reached a level equivalent to 12th in the world. We are keenly considering expansion, and if it happens, we can expect it to be one of the largest mines in the world.

Currently, we are not at a stage where we can accurately measure the operation cost, but with strip ratio at 0.7, it has quite superior cost competitiveness. Further, it is a project that can produce high grade concentrate with the low impurity ore.

We have built a large operations room in central Santiago and it serves as the integrated operation center. Though we call it a room, it is more of an operation floor. It monitors the mining site, which is about 1,800 km away, with data and cameras, and they are thinking of a system where they discuss any abnormality in the data with the skilled planning staff at the center to provide improvement guidance to the site.

We are close to the start of operations, and we will see its real effects only after the operations stabilize. We are hoping to secure good operators.

As for potential, as we are still going forward with the exploration, there is room for expansion in terms of resource volume also.

2. Quebrada Blanca 2 (QB2) Project (3)

Here we have a full picture of QB2. The pictures at the top of the slide show the mining pit and an autonomous truck. This, I believe, is a large 300-ton class truck. At the bottom are pictures of the tailing dam, ship loading facility, and a desalination facility in the port.

Similar to the prevailing situation, the copper concentrate market also tends to fluctuate when something happens. But, the acquisition of the large mine adds a sense of stability to the company's ability to secure raw materials. Moreover, owning copper resources means there is a trade-off relationship between the company's Smelting & Refining business and TC/RC, which is expected to provide stability to business management.

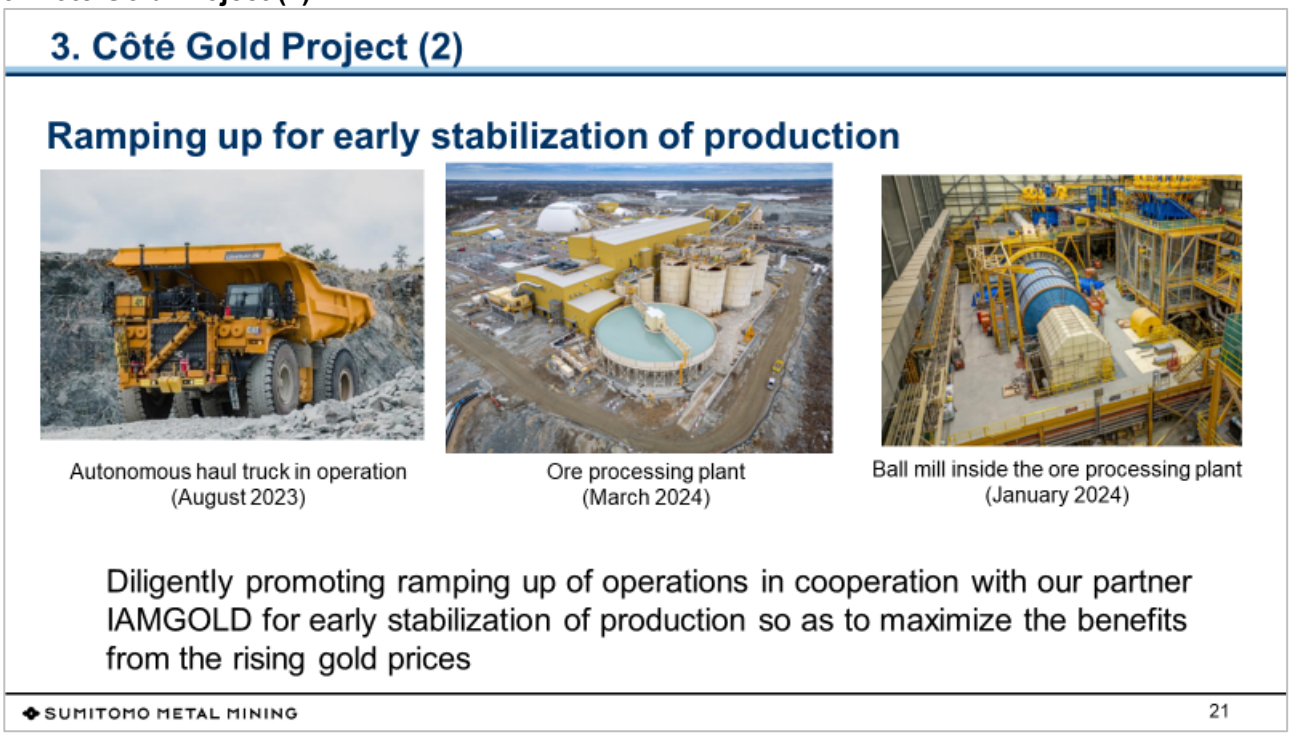
3. Côté Gold Project (1)

This is our Côté Gold Project. Construction works are substantially complete, and we have already started gold doré production. We are also in the midst of ramping up, producing the first doré in March, and production is still going smoothly in May. We will ramp up aiming to achieve 90% of the designed capacity for end of 2024.

We plan to raise the production volume to almost seven tons per year in 2024 and to about 15 tons per year from 2025.

Involved personnel are traveling to the site next week for a ribbon cutting ceremony, and we will confirm the situation then.

3. Côté Gold Project (2)



This slide shows pictures of the Côté. We have a 200-ton class autonomous truck operating also at the Côté. Here also we are pursuing ramping up of operations to maximize the benefits from the rising prices.

The format is different, but from our experience with similar mines in the past, like the Pogo mine, we have been carrying out processes up to gold smelting on site. Based on the knowledge gained from such experiences, we are providing advises at site and cooperating in the ramping up operations.

3. Côté Gold Project (3)

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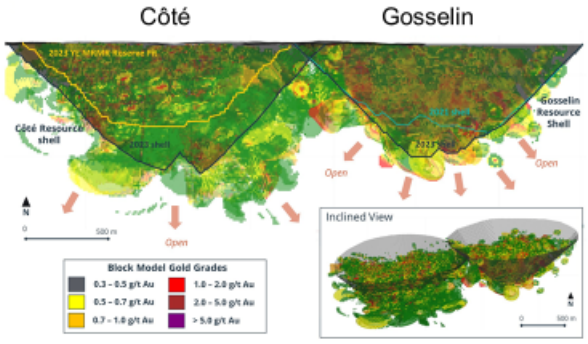
Expectations on rising project value with an increase in the volume of resources in adjacent areas

[Resource volume (100% JV)]

- An increase in resources at the Gosselin deposit, adjacent to Côté, was announced in February 2024
  - ✓ Indicated mineral resources: Ore 161.3Mt@ 0.85g/t Au, Gold 137t (up 32% from previous announcement)
  - ✓ Inferred mineral resources: Ore 123.9Mt@0.75g/t Au, Gold 93t (up 74% from previous announcement)

[Potential]

- The results of the exploration so far has suggested that the Gosselin deposit could likely expand to a size comparable to the Côté mine (resources of about 370t), which is raising expectations of increased value of the project
- Continue with exploration and promote assessment towards development
  →Processing tests being conducted also by SMM



Information on Côté gold mine development project and Gosselin area exploration (*The IAMGOLD announcement of February 15, 2024, with some additions)

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The Gosselin deposit is in an adjacent site about 500 meters ahead of the Côté deposit. Its indicated mineral resources are 137 tons while inferred mineral resources are 93 tons. In terms of so-called volume of resources, which is different from ore reserves, we have 230 tons in total.

We have confirmed about 370 tons of resources at the Côté deposit so far and we are expecting the project value to improve. The data suggests that it could expand to a scale equivalent to the Côté deposit, which has ore reserves of more than 200 tons.

In the diagram on the right side, the closer the color is to red, the higher the grade of gold. I asked a specialist whether the gold grade of the ore body of the Gosselin deposit is higher and why the Côté deposit was developed first. This has to be worded very carefully. As per the specialist, the exploration of the Gosselin deposit has not progressed and the diagram is based on the grades of ore veins that have been reached so far. We would not know the average grade unless we explore further.

Another point is that the ore body of the Côté deposit clearly lies closer to the surface. The yellow bowl shapes in the Côté deposit denote the pit scheme drawing, and the Côté deposit was the one where we could collect ore early on.

4. Initiatives to Secure New Nickel Ore Sources

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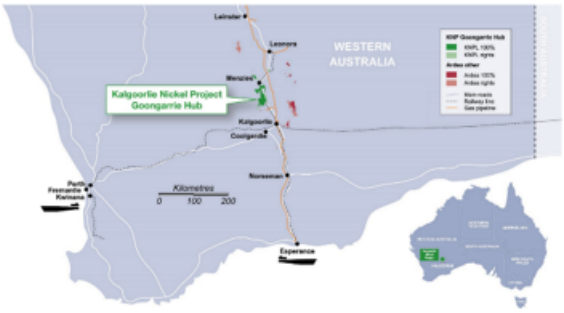
Decided to carry out feasibility study and to participate in Kalgoorlie Nickel Project – Goongarrie Hub in Australia

- ◆Project overview
  - ✓ Process: Extract ore from mine and produce mixed sulfide (MS) using High Pressure Acid Leach (HPAL) process
  - ✓ Ore reserves: 194Mt (about 40 years)*
- ◆Feasibility study
  - ✓ Budget: 98.5 million AUD
  - ✓ Period: First half of 2024 to second half of 2025
- ◆SMM and Mitsubishi Corporation to acquire a maximum of 50% share
- ◆Certified as the Critical Minerals Supply Security Plan of Ministry of Economy, Trade and Industry
  (2023 Critical Mineral No. 2-1)

*Based on Pre-Feasibility Study announced by Ardea Resources Limited in July 2023



Geographic location of the project

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Here I will explain our initiatives for securing new nickel ore sources. This is the Goongarrie Hub Project in Kalgoorlie, Australia. As we have already explained in the overview we provided, this is one of the projects we were considering in parallel.

We decided to embark on a definitive feasibility study, which in the olden days we referred to as bankable, or the so-called highly accurate feasibility study. We will be confirming the project scale, amount of investment, operability, whether or not the ore is suitable for HPAL, and what kind of operation would be possible.

In terms of HPAL, one of the main tasks is to build and maintain the tailing dam. What has been of high interest for us in this project is that we can introduce tailing in the mining pit without having to create a new large dam. Rainfall is scarce in Western Australia and it would be very interesting if the project is feasible in terms of environment, economy, and technology.

We are also considering the Baptiste Nickel Project owned by FPX Nickel of Canada in the Decar Nickel District, where awaruite ore is the principal mineral. We decided to invest in the company but it is likely to take time as it is in the investigation stage.

5. Battery Material Business: Progress in Expanding Production Capacity

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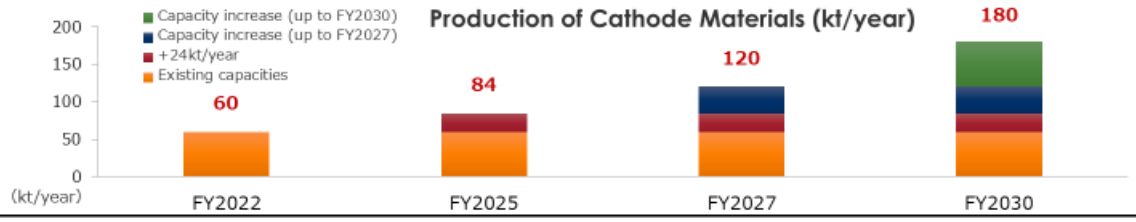
Expand battery (cathode) materials production capacity

New Niihama Plant photographed in early April 2024

[Raise production capacity by +24,000t/year (nickel-based)]
New Niihama Plant **is under construction for the earlier-than-scheduled start of operation.**
Discussing with customers when to start supplying products (aiming to start by 4Q FY2024).

◆Deliberation toward next-phase production increase
Continuing R&D on a new mass production process of lithium ferrous phosphate (LFP) cathode materials and discussions on mass production facilities.
Inquiries on LFP cathode materials are increasing due to the needs to diversify geopolitical risks and supply chains.
Also continuing R&D on cathode materials for all solid batteries that are expected to become next-generation batteries.



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This is the Battery Material Business. The construction of the new Niihama Plant, which has a monthly production capacity of 2,000 tons and annual production capacity of 24,000 tons, is progressing smoothly. In the initial plan, we had thought of starting operations in 2025 but it has been slightly brought forward and we want to start supplying in the fourth quarter of FY2024.

In discussions regarding next-phase production increase, we are also considering R&D of a new mass production process for lithium ferrous phosphate (LFP) cathode materials as well as cathode materials for all solid batteries. We are driving forward R&D of cathode materials for all solid batteries also in the Green Innovation Fund Project by NEDO and we will continue to study it.

5. Battery Material Business: Initiative to Strengthen Asset Efficiency

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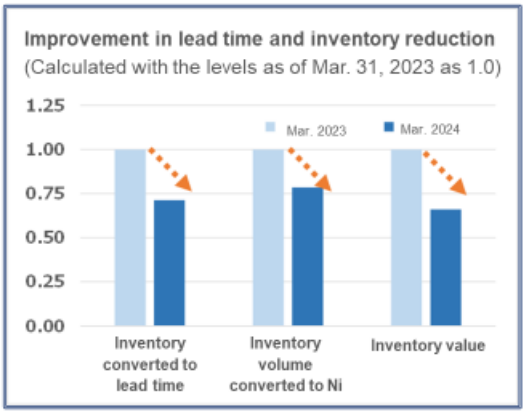
Progress in *kaizen* activities in battery material business

Promoting productivity improvement utilizing Toyota production system (TPS)

[Improvement of lead time and inventories]

- ◆ Intermediate products: Reducing inventory of intermediate products waiting for analysis (to raise test efficiency and process capacity)
- ◆ Cutting logistics expense and raising efficiency: Reducing logistics expense between plants and warehouses and external warehousing fees by decreasing inventory of intermediate products
- ◆ Impact: **Improvement of about 25%** in terms of manufacturing lead time and goods volume (right graph)



Further promote production process improvement and inventory reduction in all production bases

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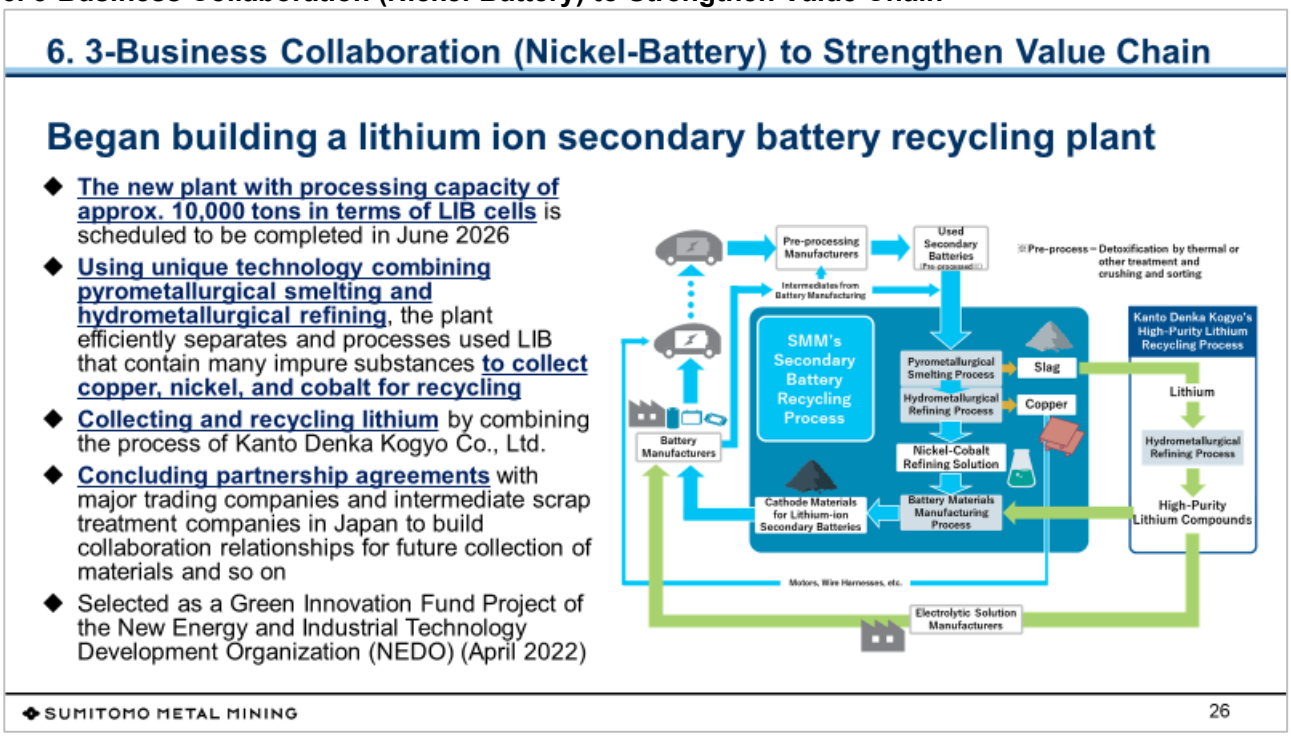
In this slide, I will explain the strengthening of the earning base of existing businesses in the battery material business. We have referred to it here as strengthening of asset efficiency, but in my understanding, it will also lead to improvement in earnings power.

In FY2023, we achieved inventory reduction by reducing lead time. As the graph on the right side of the slide shows, we reduced lead time by about 30%. When converted into quantity of nickel, it exceeds 20%. Operating funds improved by about 35%. We reduced inventory volume by about 40.0 billion yen across the company in FY2023 and the contribution from the battery material business was very large.

We promoted productivity improvement using the Toyota production system (TPS). The essence of TPS is very profound and the final destination is one where we gain the mindset to eliminate all sorts of waste. In terms of instilling this in involved parties, we are still at the starting point, or in other words, there may still be lots of things we can do.

6. 3-Business Collaboration (Nickel-Battery) to Strengthen Value Chain



We started construction of lithium-ion secondary battery recycling plant to strengthen the value chain of the three-business collaboration. It was like a cry-wolf situation with us saying we would implement it, but we finally decided to make the investment. We were originally pursuing recycling-related research and development under the Green Innovation Fund Project. We already have the process in place and the plant is scheduled to be completed in June 2026. It employs a process we are good at, which combines pyrometallurgical smelting and hydrometallurgical refining and is highly resistant to impurities.

In recycling, how to build supply chains and value chains is extremely important and we had been having negotiations with various involved parties for several years now. We have signed partnership agreements with intermediate scrap treatment companies, etc. and are heading towards building cooperating relationships in the future.

Naturally, in addition to further strengthen our technology, recycling incurs costs at each process, and the challenge is to gain social recognition for initiatives like that.

7. Expansion of Advanced Materials Business (1)

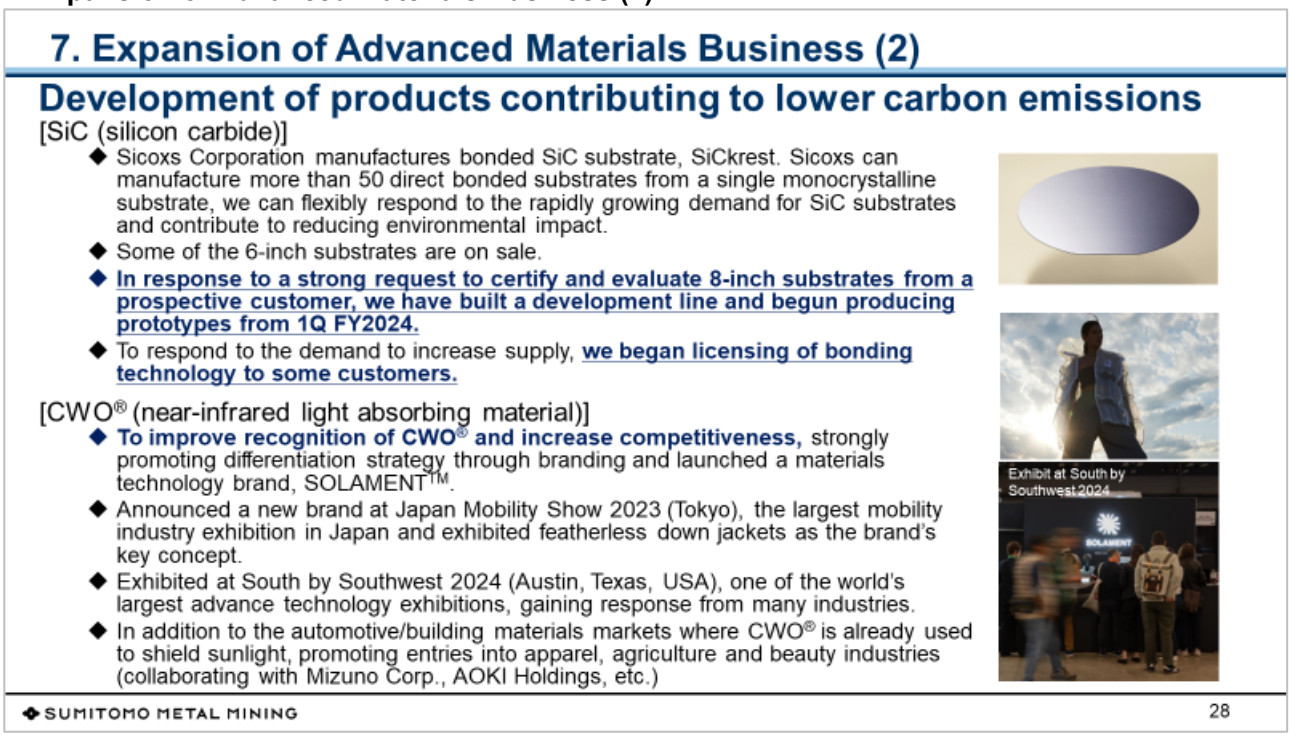
Although the slide's title says expansion of Advanced Materials Business, currently the profit situation is extremely difficult as I have mentioned. Demand is on a recovery trend but it is down 11% in FY2023 compared with the previous year because the main market is electronic parts.

The projection for 2024 is up 7% from the previous year showing a recovery trend, and is still only half-way up. We are working on cost reductions, productivity improvement, and product development, and we will assess our ability with a clear mind under these circumstances.

We are currently confirming what approach we should take as to how much we can lower the break-even point including our operational structure. Changing the operational structure would not be so simple because of certification issues, but we need to take drastic measures like this or we will not be able to strengthen the business foundation.

Strengthening of marketing is also important and I will provide some examples later. We should make sure that we leave no stone unturned.

7. Expansion of Advanced Materials Business (2)



I would like to introduce some examples of development and sales expansion of high-functional materials that contribute to reducing GHG emissions. Here, I will explain the development of two products, silicon carbide (SiC) and near-infrared light absorbing material (CWO), which are contributing to lower carbon emissions.

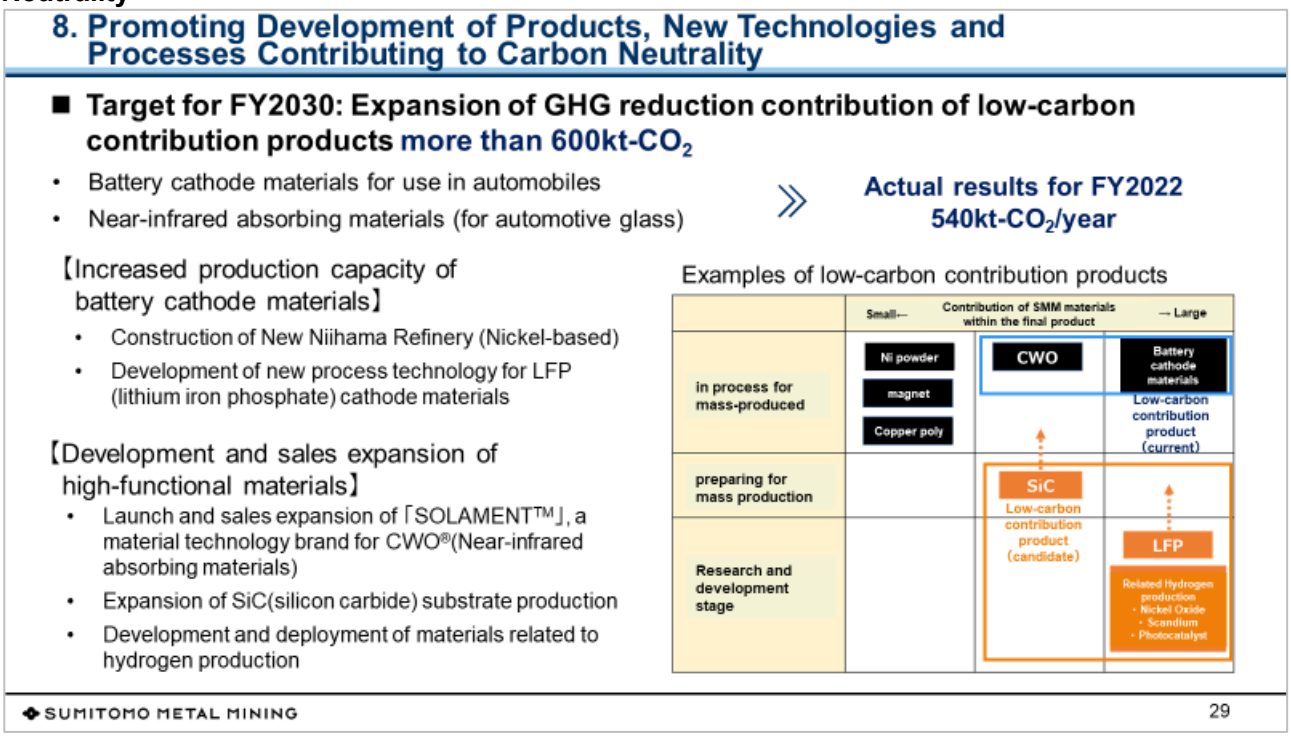
We are promoting the marketing of SiC under the product name SiCkrest, which employs the bonding technology.

We have been promoting sales of some of the 6-inch substrates. Customers have been strongly requesting 8-inch substrates, which have a slightly larger diameter. We have built a production line and plan to start production of prototypes in the first quarter of FY2024. The plant has been completed. If this technology appears to be promising, the market may expand.

If that happens, we would not be able to handle it alone. We have begun offering the license to some customers, based on the thinking that it is also necessary to increase the players by sharing the licensed technology.

We are promoting CWO under the brand name of SOLAMENT. You may already know that it has received various awards, and its branding activities were extremely inspirational for us. It is probably fair to say that we had not fully recognized or noticed the functions and advantages of our own products.
I would like the employees to take a fresh look at our products by taking this as an example.

8. Promoting Development of Products, New Technologies and Processes Contributing to Carbon Neutrality



This is about the promotion of development of products, new technologies, and processes that contribute to achievement of carbon neutrality.

When you look at what is going on in the world, everyone is engaged in manufacture of hydrogen, and it is highly likely that a market will be created.

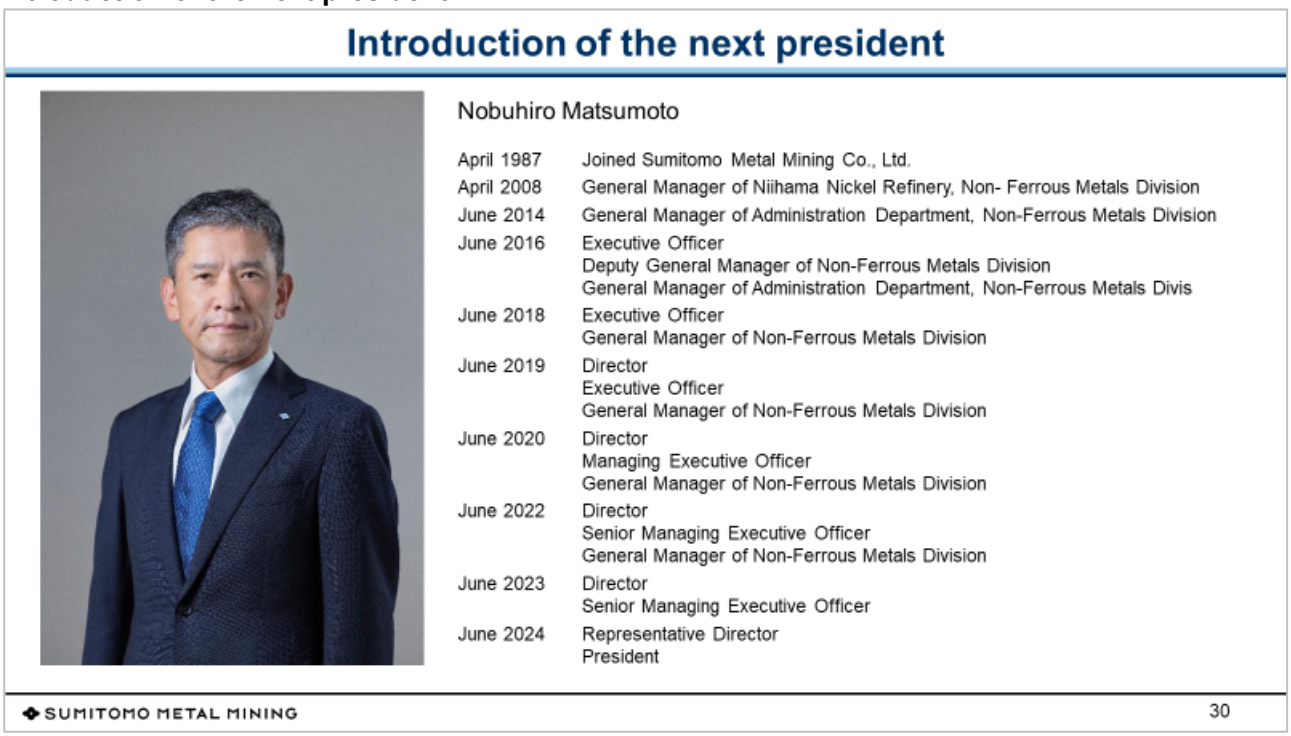
We already offer high-purity nickel oxide and scandium products that can be used for manufacturing hydrogen. Till now, however, we have marketed them mainly for solid fuel cells, and though we have been supplying them for hydrogen applications, it was for quite limited customers. We need to pay attention to things like these right now.

It goes without saying that the volume of scandium is limited because it is produced using HPAL. On the other hand, since we have manufacturing process for nickel oxide, we must refine our manufacturing process, cost, and supply capabilities. Taking into consideration things like these, there are products worth paying attention to.

We are also currently working on preparing for mass production of SiC and LFP that I have mentioned earlier. As for a new product process that leads to social contribution, we believe our mission is development. I would not say it does not make sense to work on things that do not result in corporate earnings, but they will have limited sustainability.

I would like us to contribute with products that can definitely earn, because our motto is to solve social issues through our business.

Introduction of the next president



I would like to introduce Nobuhiro Matsumoto, who is expected to take office as the Representative Director and President in June 2024. Matsumoto has a wealth of experience working on-site and working abroad including R&D and as the General Manager of refineries in Japan and abroad of the Non-Ferrous Metals Division. As the General Manager of the Non-Ferrous Metals Division, he also has experience in business administration of a division. He has a technical background, and given his extremely positive mindset, I consider him as a very reliable person to whom I can entrust the company.

Matsumoto will lead this briefing from next time onwards. We look forward to your continued support.

Q&A: Earnings Forecast for FY2024

9. Comparison of Financial Results and Forecast

(in ¥100 million)		FY2023 Result (A)	FY2022 Result (B)	Change (A)-(B)	FY2024 Forecast (C)	Change (C)-(A)	21 3-Year Plan FY2024 (D)	Change (C)－(D)
Net sales		14,454	14,230	+224	14,920	+446	11,160	+3,760
Gross profit		1,661	2,501	-840	1,360	-301	-	-
Profit / loss before tax		958	2,299	-1,341	910	-48	1,570	-660
Equity method profit/loss		331	365	-34	285	-46	620	-335
Segment profit	Mineral Resources	528	764	-236	840	+312	990	-150
	Smelting & Refining	622	1,179	-557	180	-442	480	-300
	Materials	-72	173	-245	-40	+32	150	-190
	Other	-15	-30	+15	-30	-15	-30	0
	Diff. adjustment	-105	213	-318	-40	+65	-20	-20
Net income attributable to owners of parent		586	1,606	-1,020	560	-26	1,180	-620
Copper (USD/t)		8,362	8,551	-189	9,000	+638	8,000	+1,000
Nickel (USD/lb)		8.68	11.63	-2.95	8.00	-0.68	7.50	+0.50
Gold (USD/toz)		1,989	1,805	+184	2,000	+11	1,600	+400
Cobalt (USD/lb)		14.16	25.57	-11.41	13.00	-1.16	-	-
Exchange (JPY/$)		144.63	135.48	+9.15	150.00	+5.37	115.00	+35.00

SUMITOMO METAL MINING 14

Q: I initially had an impression that the targets of KPI under the 3-Year Plan were conservative. What is your analysis regarding the point that you cannot achieve the profit target of the plan even through the forecast for FY2024 is better than the market conditions you had calculated in the plan?

Please tell us the background; for instance, due to the delay in QB2, rising costs, or the impact of inventory evaluation as well as how you are going to catch up in the future.

Nozaki: We, within the company, are also looking at it as a serious problem that profits are not reaching the target even though market factors have improved compared with the estimates made in the 3-Year Plan. From the manufacturing perspective, however, it is not that we are unable to produce, so we believe that it is an issue with production costs.

As the slide shows, each of Mineral Resources, Smelting & Refining, and Materials is lower than the respective plan estimates. I believe that Smelting & Refining Business has been considerably affected by so-called temporary evaluations and differences in the timing of realization such as QP difference. Increases in costs including electricity bill have been putting pressure on the earning power of Smelting & Refining.

How to reduce them is quite a difficult task. Once you start paying attention to going green and low carbon emissions, you cannot avoid cost increases, and we are already seeing its impact.

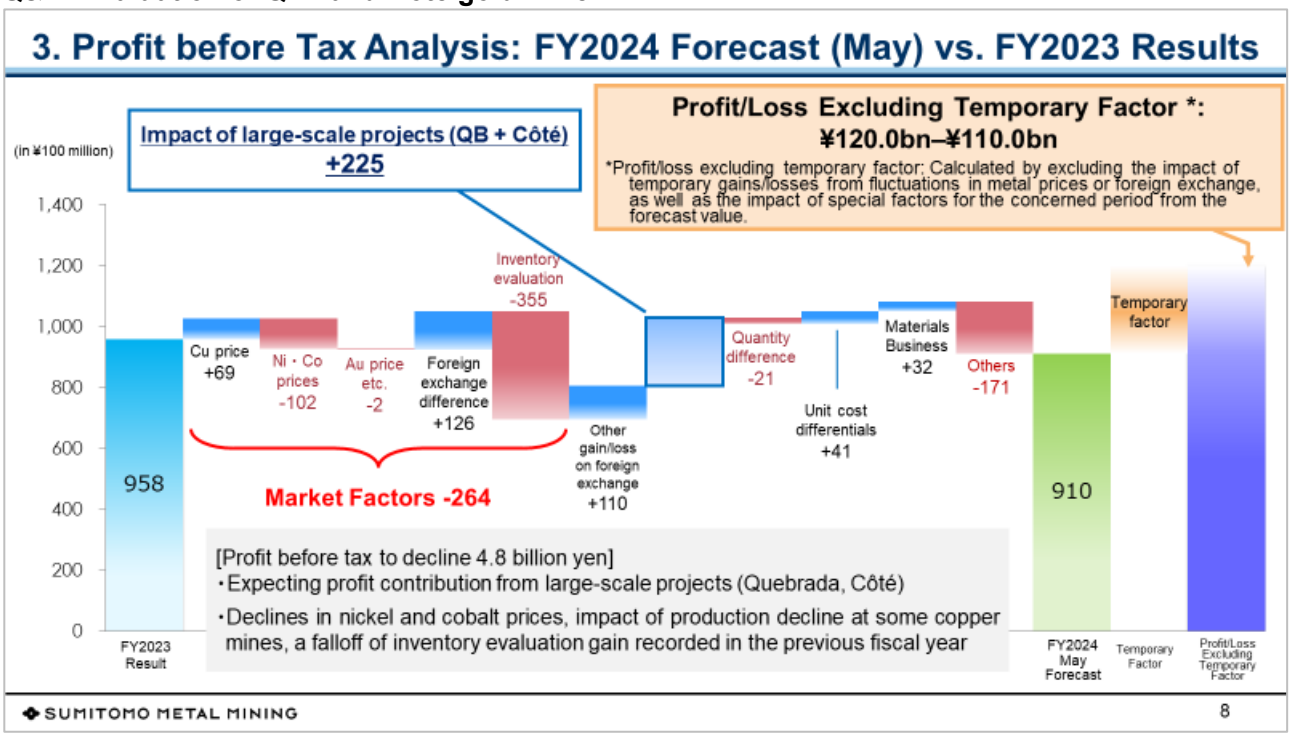
We believe that we should drastically change the production processes to mitigate these cost-related impacts. We will work hard without giving up because the history of Smelting & Refining is the history of process changes.

In the Mineral Resources Business, the costs of mines have risen quite significantly. We used to consider large-scale investments, but depreciation expense has increased reflecting the increase in startup costs and it is a burden on the income statement.

The Materials Business is almost 20 billion yen short because of the current difficult situation and it is very regrettable. As I mentioned earlier, we will once again turn it around by identifying our strengths instead of just waiting for the market to recover.

The most recent three years have been the years we heavily focused on development investment. However, it is not that we would not be making any investments in the next three years, and we think it is a phase where we once again need to strengthen our manufacturing, also given the projects you have mentioned. We put together the next management structure by taking such points into consideration.

Q&A: Evaluation of QB2 and Côté gold mine



Q: QB2 and Côté have finally started moving and the impact of large-scale projects in the profit before tax analysis is 22.5 billion yen. I guess in terms of absolute value of profit it is starting from a very low level, but in terms of change, it appears to be quite significant. You have said that it is still too early to evaluate, but can you elaborate on your confidence?

I believe that the risk is low this time because you are teaming up with a sound partner and parties with abundant experience, and it also has a brownfield-like aspect to it. How do you see it? Your personal opinion would be enough.

Nozaki: I have confidence in QB2 and Côté because, to be honest, they are proceeding more smoothly than I had expected considering how well the commissioning is progressing and the speed of ramping up.

QB2 has exceeded the daily processing volume early on and at one point it was operating at a level far above it. Operations of the Côté are also progressing at a pace faster than we had expected. Nevertheless, we will closely watch their operations because there are cases where some problems emerge at new facilities after several months.

Q&A: Expansion of the copper mine

Q: At present, there are talks that Teck may expand the potential of QB2. I think some talks about authorization also have started emerging and I expect SMM to take part in it if those talks make progress.

How different are the construction costs for copper mines between greenfield and brownfield in general? For example, it was possible in the past to build a copper mine with production capacity of 300,000 tons per year for 3 to 4 billion USD. Does it cost about 5 to 6 billion USD now?

You have also talked about management conscious of capital cost but the hurdle rate has risen quite significantly. Conversely, incentive for construction would decrease unless the copper price is considerably high. Please share with us your insights on copper mine development in general terms.

Nozaki: Recently, I saw a report by someone saying that it would cost 7.5 billion USD for a mine with a capacity of 300,000 tons per year. If you want to develop a greenfield copper mine, it also depends on the region, but if it is in Chile, for example, you have to desalinate sea water and transport it to the site. The development in Chile this time was carried out in highlands at heights more than 4,000 meters and the infrastructure and environmental costs are very large.

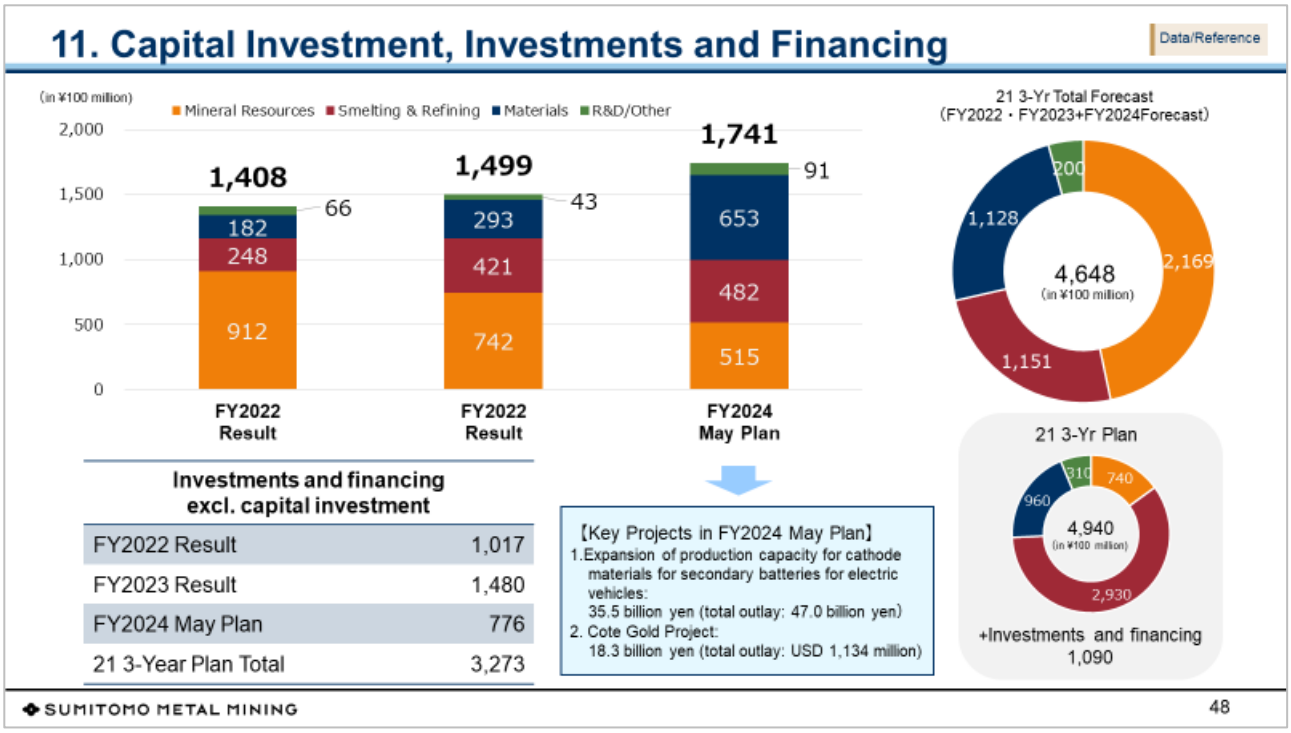
As you have said, the cost we have assumed till now would be around 5 billion USD for a mine with production of 300,000 tons per year, but that would not be sufficient now when you consider the infrastructure costs. I think this is the consensus among most of resource majors.

In an expansion project, infrastructure has been completed to a certain extent, and all you have to do is to enhance production facilities, so focus is likely to shift to such projects. The Teck case is probably the expansion of QB2 and this exactly falls under expansion projects.

There also was a report by an analyst overseas that you cannot develop a new copper mine unless the copper price is at least 12,000 USD. Production costs are rising not only at SMM but it is a global trend and construction costs are also rising. Under such circumstances, rising metal prices may be the only incentive for new mine development.

When we consider the increase in producer costs, the bottom of the future copper price would hold out to be higher than what it used to be. Development would progress based on this, while we will also be looking at what level of higher price a long-term consensus would be formed.

Q&A: Outlook of the Materials Business



Q: In the investment plan, I feel that investment in the Materials Business is again high in FY2024. I believe you are considering expanding the capacity of battery materials. Please share with us the timing at which the cash flow of the Materials Business will turn positive.

Nozaki: You are right in that the investment in the Materials Business in FY2024 is at a quite high level. The spending for the Niihama Plant, which has a capacity of 2,000 tons per month and is close to completion, is large. One big portion of investment in SiC is over and the materials-related business will settle down, but next is what to do with LFP cathode materials.

Cash flow excluding growth investment of the Battery Material Business is positive. It is extremely important to create a situation where cash flow is perpetually positive by turning these strategic investments into a strategic strength in the future.

I believe there will be plenty of funds remaining if we raise production efficiency and eliminate waste. There are still lots of waste at the timing of switching of operations. We should be steadily doing what manufacturers would do and fully recover it.

Q&A: Ratio regarding net assets of cross-shareholdings

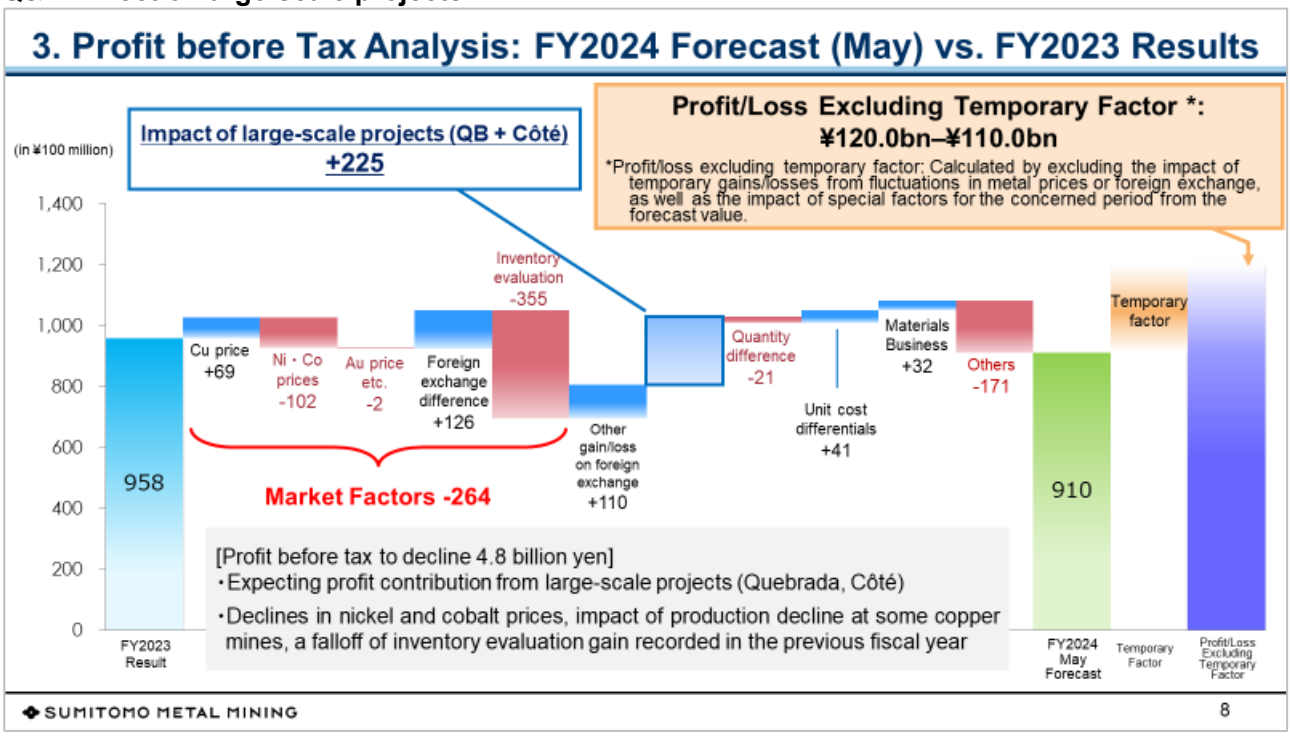
Q: What is the ratio of cross-shareholdings to net assets as of the end of March 2024? What is your view on reduction of cross-shareholdings?

Nozaki: It will be disclosed in the securities report but we have sold a good number of issues in FY2023. The share price has been rising lately and it is possible that the ratio to equity capital has risen compared to the previous fiscal year.

We are discussing cross-shareholdings at the board of directors meetings every year after taking into account the purpose of holding them and their benefits in comparison with capital cost and have been solemnly reducing them.

The prices of some companies' shares that we own are very high and some have increased in terms of value, but we are pursuing reduction also considering the issue of business relationships. We are taking it seriously as we know of the recent trend where reduction of cross-shareholders has been gathering pace.

Q&A: Effect of large-scale projects



Q: The impact of large-scale projects in the profit before tax analysis is 22.5 billion yen. How much can you add to this in after FY2024 and what kind of contribution can you expect from it ultimately? Please explain it quantitatively if possible.

Nozaki: Among large-scale investments, Delta will add 22.5 billion yen. In other words, we could say that the impact of large-scale investment is the approximately 10 billion yen we accumulated as profit/loss excluding temporary factor.

Full-scale production will start from FY2024. It is hard for us to discuss the level of costs once operation stabilizes because we are yet to receive guidance from the majority owner.

For example, if the Côté produces 15 tons of gold, it is 6 tons given the current production interest of about 40%. And, if the Quebrada Blanca produces 280,000 tons of copper, it is 70,000 tons for the production interest of 25%.

We have high expectations because the projects that have certain levels of earning power are expected to produce these amounts, but we right now do not have figures we can disclose.

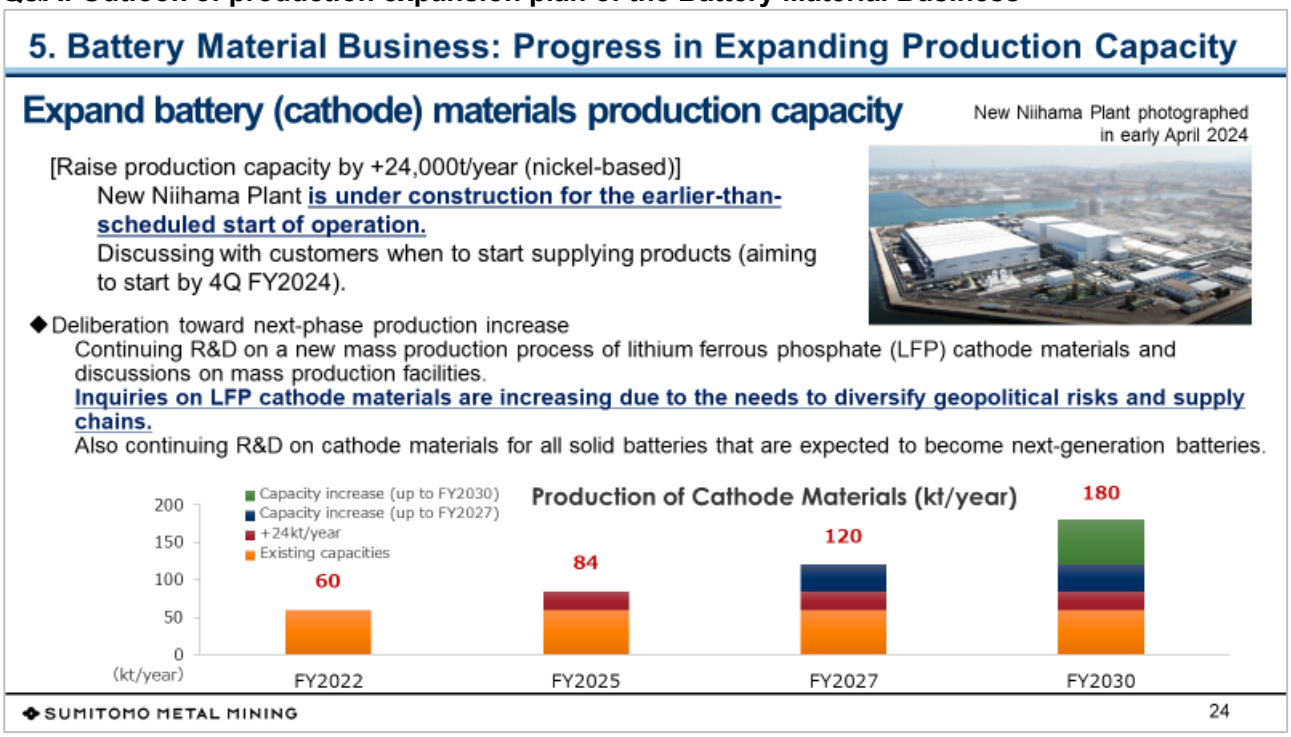
Q&A: Information disclosure regarding mines in which SMM has those interest

Q: You have talked about information disclosure based on the value of mine production interests owned by SMM. What led you consider information disclosure, and how are you evaluating the value of production interests you currently own?

Nozaki: Regarding disclosure of resources owned, mine companies in the US and Canada are rated based on what kind of resources they own and how much can be expected in the future, and their PBRs are at a high level, two times or more.

In our case, it was triggered by an incident where someone pointed out to me that SMM owns the very promising and outstanding Morenci, Cerro Verde, and Quebrada Blanca mines but does not make much disclosure even though the value of these resources is extremely high. We would like to pursue a method that would enable us to properly showcase the resources we already own.

Q&A: Outlook of production expansion plan of the Battery Material Business



Q: I have an impression that your tone regarding the expansion plan of battery materials has changed from the briefing for the second quarter of FY2023. From talks of expanding production led by NCA and NMC in accordance with the existing production expansion plan, your scenario has changed to considering LFP and secondary battery recycling as well as introduction of low-cost production processes.

In the graph in the bottom of the slide, how should we consider the blue and green portions of FY2027 and FY2030? Is it composed of existing NCA and NMC, and do you aim to roughly add LFP, recycling, and introduction of new processes?

You have explained that you would develop LFP independently instead of purchasing the technology. The target market may be primarily China. What are the winning chances as a business development? Also, is the time frame of 2030 feasible for implementation of what lies ahead in terms of technology development and expanding the sales of products contributing to realization of carbon neutrality?

Nozaki: Regarding the production expansion plan for battery materials, when we implemented monthly production of 2,000 tons at Niihama Plant, which is under construction, we had explained that market requirements will decide whether the future expansion would be in LFP or in nickel. There is also a viewpoint as to whether we should work on it alone in this wildly fluctuating market.

Forming inorganic alliances, after observing a bit more from the upstream of supply chain to downstream, is also an option. Currently we do not have a plan but we will work towards the major target of 180,000 tons a year in FY2030 without lowering the target.

Regarding LFP, we will utilize the facilities and technologies that were transferred and create new processes and new capabilities. I cannot say anything about the market, as our customers are also there, but it is not something like we are going to develop LFP with certain capabilities and jump into the market with that. The battery material business is moving forward through repeated discussions with users and deliberating on what kind of product would be good. It is closer to a custom-made business and it also has not become a commodity. In this regard, it is safe for you to assume that there are various talks going on towards pushing LFP forward.

Q&A: Rising costs related to carbon neutrality

Q: Regarding profitability, the challenge you said is the rising costs led by electricity expenses. At the same time, in the sustainability briefing you held in April 2024, you said fuel switch and purchase of renewable energy are the greatest means for achieving carbon neutrality in the future. I feel such costs will increase further.

On the other hand, you have announced the Green Metal concept among other things and if you can offer ingot that can command premium, it is also possible to pass on the cost increase. Could you tell us how you are going to handle the cost increase and the factors that further push down profits excluding temporary factor?

Nozaki: As you said, unless you implement a very large process change or something innovative for reducing the environmental burden, it will only lead to cost increases. Nonetheless, I do not think it will directly lead to a reduction in profit excluding temporary factors. Taking measures and surviving is important, and we might see a world where we can command a premium by demonstrating our presence in the market.

Recycling is also similar. I would like to guide the measures we are taking now so that it will add premium value to the company instead of being a negative factor.

Q&A: Next 3-year business plan

Q: I may be overreaching here, but could you tell me where your largest expectations lie in your next 3-year business plan and what you would like to definitely achieve?

Nozaki: The new 3-year business plan will be formulated by the new management team. Considering the continuation from the 2021 3-Year Business Plan, one goal would be to steadily turn large-scale investments into a strategic strength.

The second point is next growth investment targets and I think the focus will be on expansion of Quebrada Blanca and kick-off of the nickel project, etc., which we will have to work on. We are in the phase of considering their details, so this is the most I can give regarding the question on the next 3-year business plan.

Q&A: Short-term impact of a decline in TC/RC

Q: Regarding copper smelting, TC/RC is negative in the spot market, which is a situation we have not seen before. In a briefing by another company recently, that company said that it has to start thinking of increasing the introduction of e-scrap in the smelting business in the future and may have to a different approach amid the considerable decline in TC/RC.

In SMM’s case, given that you own mining interests, you have the capability to offset a certain level of fluctuation in TC/RC, and you have also said that you need to have a method that could drastically change the cost of copper smelting. Could you please explain the short-term impact brought about by the decline in TC/RC and whether your thinking will change in the long term.

Nozaki: In this world, if you overshoot, there will definitely be a swing back. As for TC/RC, though it is negative in the spot market now, if it continues like this, copper smelting will collapse.

I am telling those specializing in the copper mining business that they may be happy that TC/RC became low but they eventually will lose customers. If we start seeing smelters going out of business, there will be insufficient smelting capacity and TC/RC will start rising.

In a situation where the smelting capacity is increasing in China and will likely to increase also in India, it may be that the change will happen only on the map depicting smelting capacity. Even then, it is hard to think that the current situation will continue on the whole.

The reason behind the emergence of spot market like this now, I think, is that there were smelters who were trying to buy raw materials in spot trading. Most of the major smelting companies, including those in Japan, have entered into brick contracts or medium- to long-term contracts and therefore there is no need to rush to buy. However, the current situation is abnormal.

On the other hand, we should of course be thinking of lowering the smelting cost. Since we are making temporary investments such as investments to improve efficiency and carbon-neutral investments, there is amortization burden. This will eventually fade away but the only thing we can do is to build strength.

Q&A: Attractiveness of Battery Material Business

Q: Compared to one or two years ago, the shift to EV around the world is slowing down a bit. Further, the share of non-NMC cathode materials is rising in China and the business environment surrounding battery materials is changing rapidly. Taking the current situation into account, do you still consider the battery materials business's attractiveness to be quite high?

Nozaki: The growth in the number of EVs sold is slowing down a bit in 2024. Some say that hybrid vehicles are growing, but without doubt the major global trend is towards electrification.

As you said, China has already been shifting from NMC to LFP, and there is a possibility that an entirely different battery material will become the major player. We can think of the current NMC and nickel materials and also all solid batteries in the future.

There will be such changes, but I think the Battery Materials Business will keep growing a lot further. Regarding small and large changes also, because some parts are still custom-made, we will not be able to address them if we do not have a lot of customer contact points. Conversely, in this industry, customers would not adopt a material that is good in our opinion but was produced without any customer inputs.

We will be focusing also on LFP, and will keep pace with the changes in the battery materials. And, though there will be some ups and downs, there will not be any significant changes in the major trend towards shift to EVs, which is at its base.