SUMITOMO METAL MINING

Date of Teleconference: February 8, 2024
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Questions and Answers Script of Teleconference
for Consolidated Financial Results for the Third Quarter of the Year Ending March 2024 (FY2023)

[Change to Dividend Policy (Introduction of DOE)]

Q) Why was the dividend policy changed and DOE adopted?

A) Our dividend policy continues to be linked to business performance with dividend payout ratio of 35% in principle. However, as it is linked to business performance, dividends will fluctuate and share price will decrease significantly when business performance suffers a major adverse impact from external causes. In order to mitigate this impact, we have adopted DOE as a minimum indicator.

Q) What was a DOE of 1.5% decided?

A) This was a result of a range of simulations considering factors such as the business environment and trends in CAPEX going forward. We believe that a DOE of 1.5% is a level that allows SMM to continue to make progress with its growth strategy while keeping a capital equity ratio of 50% and providing dividends.

Q) Why was the decision made to make net assets the basis for DOE calculation? And are the net assets for use in calculation those as of the end of the previous term or the end of the current term?

A) As we understand, the basis for calculations is different for each company. SMM's view is that we use the profit obtained from the net assets entrusted to use by shareholders as the resource from which to provide dividends. We also believe that dividends are the appropriation of profits and that dividends should be linked to assets held at the end of a term, including the business activities of the relevant fiscal year, and so we use the end of the current term and not the end of the previous one as the basis. As such, this dividend forecast is also based on the forecast value for consolidated net assets in March 2024.

[Profit and Loss Exclude Temporary Factor and Operating Results Forecast]

Q) We were told that profit and loss exclude temporary factor for FY2023 in the February forecast was between 110.0 and 100.0 billion yen. Can this be used as a basis in consideration of the operating results forecast for the next fiscal year? Or, given that the price of metals is declining as things stand, should this impact and other aspects be taken into consideration for the next fiscal year? Please give us a hint for how to consider business performance in the next fiscal year.

A) Based on the profit and loss for FY2023 shown here, you can perform trial calculations for the fluctuations in exchange rates and metal prices using their respective sensitivities. Other fluctuation factors, energy costs at the time of transaction are currently decreasing, so this may result in profit and loss moving in a favorable direction. And although advanced materials businesses are going through a long period of inventory adjustment, if the market recovers then it is anticipated that this can contribute to revenue and profit. However, copper smelting and refining processing revenue (TC/RC) is expected to decline next year. You should take points like this into your considerations.

Q) Can you please explain the difference for the 77.0 billion yen in the latest full-year operating results forecast and the profit and loss exclude temporary factor of 110.0 – 100.0 billion yen for FY2023.

A) The rules for calculating the profit and loss exclude temporary factor are the same as last time. I cannot disclose the amount, but the impact of calculation differential and income and expense differential that occur due to expected fluctuations in foreign exchange and metal prices in the Mineral Resources, Smelting and Refining, and Materials segments is excluded. The roughly -4.0 billion yen in foreign exchange profit/loss expected to be incurred in FY2023 and the risk factor of roughly several billions of yen have been added back in. As well as this, the -4.9 billion yen in costs related to Sierra Gorda that have already been incurred and costs of roughly -7.0 billion yen that are not QB2 construction costs and are expected to be incurred have also been added back in as one-off factors in this fiscal year.

[Trends in Large Projects Underway]

Q) Partner companies have not released their financial results yet and this will probably make commenting difficult, but please can you tell us the latest status of the QB2 project and the Cote Gold Project?

A) Teck, our partner in the QB2 project, and IMG, our partner in the Cote Project have more or less the same understanding as us concerning the content of their recent releases.

With regards to the QB2 project, construction on the molybdenum plant that was explained when the previous financial results were released has now finished and the plant is now undergoing test operation, and we believe it will commence operations as planned. We also believe that construction of the harbor facilities is proceeding smoothly and will finish as planned. The briefing from Teck said that at the end of 2023, operations are underway at almost the planned processing capacity, and this has continued into 2024. The issue going forward is to stabilize production as far as possible.

The Cote Project is also proceeding smoothly, and as we understand, the first gold will be produced between January and March 2024.

Q) I'd like to know about the profit and loss impact of QB2 in FY2023. Can the roughly -7.0 billion yen mentioned previously be considered to be the impact? And as operations at the mine have already started, does this mean that from next year such one-off costs will not be booked and these will be incorporated into the equity in earnings of affiliated companies like other normal production mines?

A) The impact on FY2023 profit and loss is forecast to be around -7.0 billion yen. Once QB2 is up and running smoothly, it is anticipated that a level of profit not disrupted by one-off factors can be obtained. However, SMM's rule of thumb is that a range of things happen in the first fiscal year after the start of operations, so a very cautious approach is required when putting together a profit and loss forecast.

[Main Metal Production and Sales Trends]

Q) The production volume and sales volume for electrolytic nickel and nickel sulfate have been revised downward when compared with the November forecast, albeit slightly. Can you provide the background and tell us whether this situation will continue?

A) There is nothing in particular to note, and we believe that the trend of reduced production and sales will not continue. The Niihama Nickel Refinery saw reduced production from the impact of equipment trouble, but the trouble itself has been resolved. The November forecast included a target to make up for this reduced production. Unfortunately, the expectation is that it cannot be entirely made up for, but the plan entails a greater production volume in the second half than the first. The difference in sales is due to out-of-sync of periods.

[Profit Analysis for the Quarter/by Segment]

Q) Regarding the adjusted amount in segment profit and loss, this has improved from 2Q to 3Q. What is the reason for this?

A) The main factor is foreign exchange profit/loss. In the accounting period for 2Q, the weakening yen resulted in the recording of around -2.0 billion yen in foreign exchange loss. However, in the accounting period for 3Q, the yen strengthened up to around the end of December, and so around 4.0 billion yen was recorded in foreign exchange profit. This is a difference from -2.0 billion yen to plus 4.0 billion yen, meaning it is a massive improvement.

The adjusted amount includes inter-group/segment deletions, etc., as well as foreign exchange profit/loss, but there is nothing of note in particular.

Q) The segment profit and loss for 4Q is in the red by around 10.0 billion yen, but what are the factors other than the risk factor of several billion yen?

A) The main factors behind deterioration of results from Q4 are as below.

・For QB2 in the mineral resources segment, a review of profit and loss resulted in a forecast for a loss for the period.

・The metal prices on which our assumptions were based are heading downward, and in terms of foreign exchange, we also assumed that the yen would strengthen. As such, in the Smelting and Refining segment, we forecast a particular deterioration in inventory evaluation for copper-related entities, and in income and expense differential for battery materials in the materials segment.

・In the materials segment, we forecast even harsher conditions for mainstay products in powder materials and package materials, which are already facing harsh conditions.

Q) The actual profit for the materials business is hard to understand. With the current level of operation, in what way are battery materials and advanced materials contributing to profit and loss? Battery materials operations are doing well, I believe, so if one-off factors are excluded, can profit be produced at normal pace.?

A) It is difficult to explain specific profit levels given considerations including relations with customers. Battery materials operations are going smoothly. Advanced materials are still facing harsh conditions. But it does feel that for some products, the lowest point has now been reached.

Q) The foreign exchange assumption for 4Q is 140 yen, and looking at things from the current conditions, it seems you assumed quite a strong yen. When considering operating results forecast by applying sensitivities, should a quarter of the amount displayed in the materials be used? Inventory evaluation is experiencing quite severe losses, so I'd like to know the impact of foreign exchange on this.

A) Firstly, sensitivities do not include impact on inventory evaluation. When performing a trial calculation of the impact of the difference between foreign exchange with an assumption reached and the actual value using sensitivity, you should include a quarter of the amount. Regarding inventory evaluation, this is impacted by order in which inventory is actually sold and the relevant foreign exchange, so a quantitative explanation is difficult.

Q) In the segment profit and loss comparison in the February and November full-year forecasts, the adjusted amount is -7.0 billion yen. What is the reason for this?

A) As well as the foreign exchange profit/loss, the adjusted amount incorporates several billion yen as a risk factor from the February forecast.