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Sumitomo Metal Mining co., Ltd., Formulated and Announced 2018 3- Year Business Plan to Becoming Global Leader in Non-ferrous

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This is transcript of the 2018 3-Year Business Plan by Sumitomo Metal Mining co., Ltd..
[IR information](#) and [question and answer sessions](#), click here.

(提供 : Sumitomo Metal Mining Co., Ltd.)

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スピーカー

Sumitomo Metal Mining Co., Ltd. Representative Director / President and Director
Akira Nozaki

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2018 3-Year Business Plan

Akira Nozaki Good morning, ladies and gentlemen. Thank you all for coming 2018 mid-term business plan briefing of Sumitomo Metal Mining Co., Ltd., what we call it the 2018 3-Year Business Plan today. I'm Nozaki, the president of this company.

Since we have just completed the 2018 3-Year Business Plan, I'm going to announce its plan content to you. Although the handout is voluminous, I want you to read all means well.



First of all, please look at the cover of this document. It says, "Become a World Leader in the Non-Ferrous Metals Industry-Taking on the Challenge for New Growth-". This is our theme for this mid-term business plan.

Contents

I	Message from the President
II	The Long-Term Vision and Initiatives to Date
III	Review of 2015 3-Year Business Plan
IV	2018 3-Year Business Plan—Basic Strategy
V	2018 3-Year Business Plan—Strategy for Each Business
VI	Financial Information and Supplementary Materials

Table of contents are on the second page. I would like to proceed with the description along them.

I. Message from the President 1

1. Progress Over the Last 20 Years

September 1999 JCO criticality accident ▶ Formulated a Corporate Reform Plan and started over
 2001 2-Year Business Plan ... Return to core business
 2003 3-Year Business Plan ... Growth strategy



Business pillars have been strengthened,
 with FY2018 profit levels 6 times, and total assets 3.5 times
 greater than in FY2000

Take a look at page 4.

It is entitled Progress Over the Last 20 Years. Since the 2003 3-Year Business Plan, we've promoted a growth strategy on a continuing basis. However, for us, there is a new clear difference than before. Let me explain it.

As of the document, we significantly changed our management since the JCO criticality accident in September 1999.

In the 2001 2-Year Business Plan, reconfirming the corporate philosophy, we decided to return to the core business. While some people said Mineral Resources and Smelting & Refining business is declining, we had decisively invested foreign markets as selection and concentration, being convinced that the industry could be a seed to grow with the development of the world economy. Then, the execution result of 15-year-continuous strategy plan can be found in among the count that I am going to describe now.

In other words, in order to formulate this plan, we drew a new start line on top of our previous growth taking on the challenge for new growth.

I. Message from the President 2

	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18		
	Corporate Reform Plan		2001 2-Yr Business Plan		2003 3-Yr Business Plan			2006 3-Yr Business Plan			2009 3-Yr Business Plan			2012 3-Yr Business Plan			2015 3-Yr Business Plan					
JCO criticality accident Sept. 30	Nurture legal compliance and a safety culture		Return to core business (Selection and Concentration)		Promote growth strategy (5 Major Projects +1)			Further boosting corporate value by promoting growth strategy			Growth strategy based on realigned business structure			Strengthen competitiveness through the execution of a continuous growth strategy			Growth strategy focused on efficient response to external business environment changes					
	Reconfirm the Corporate Philosophy																			Reinforce Corporate Organization		Become a world leader in the non-ferrous metals industry and an excellent company of Japan
	Reform management systems		Reform business structure		Expand and strengthen core businesses (Mineral Resources & Metals, Electronics & Advanced Materials)			Further expand core businesses			Shift business model to three core businesses (Mineral Resources, Smelting & Refining, Materials)			Concentrate management resources on mineral resources and nickel			Develop measures in line with the basic growth strategy model (Sowing, Planting, Nurturing, Harvesting)			Strengthen synergy through three-business collaboration (Mineral Resources x Smelting & Refining x Materials)		
	Manage risk		Reform cost structure																			
	President Fukushima (from April 01, 2000)						President Kemori (from June 28, 2007)						President Nakazato (from June 24, 2013) President Nozaki (from June 26, 2018)									

Let's move on to page 5. We listed themes of the business plan over the last 20 years.

Sorry for chock-full information, 2003 2-Year Business Plan is the third blue column from the leftmost. At the next one, you can see Promote growth strategy. The current policy began from here. On making an investment in Mineral Resources and Smelting & Refining business, hopefully by getting a fair wind of rising of resource price, we've promoted the plan further, kept selection and concentration tightly, and reformed business structure.

The far right is the 2015 3-Year Business Plan. We strengthened synergy through three-business collaboration with getting it more efficient. On the basis of these contents, the Company's growth strategy is said to have issued a certain degree of success, between the 2015 3-Year Business Plan.

I. Message from the President 3

2. Positioning of the 2018 3-Year Business Plan

Taking on the Challenge for New Growth

Formulated with a medium- to long-term perspective focused on the next 10 to 15 years

A period of preparation for entering a new stage of the growth strategy and aiming for new heights

An aggressive plan to seize the chances presented by changing times and invest management resources on an unprecedented scale to realize sustainable improvement in corporate value

Let me move on to page 6 for positioning of the 2018 3-Year Business Plan.

In taking over management in June last year (2018), I decided to focus on consistency. Of course, for the break-through of internal control, it was worth considering to choose not to focalize it. On the other hand, since the company's basic strategy is defined by the long-term perspective, I made sure it should have been almost immutable.

However, entering the 21 century, I've estimated our every facing challenge and strategy have been going through the period of maturity after its heyday, embryonic, and development period. In short, it's time to change our stage. In fact, in a coming trend of digitalization, they say that non-ferrous materials are more necessity.

The industry expected to grow are our resource development, Smelting & Refining, and manufacturing technology of advanced materials. I think that now is the chance to take a new growth step forward.

In the organization of this 2018 3-Year Business Plan, I gave special weight to a strategy leads to a new stage for the next 10 or 15 years. With that mindset, nothing changes in the strategy until now. Even if the same tactics based on a long-term vision, the meaning of them will be exceptionally different than before ways.

Particularly in our business, a set of ideas, vision, planning, and implementation is carried out in a period of 5 years and 10 years. So, we adopt the backcasting method in

order to plan the next 3 year with 10 or 15 years later in mind at all times.

Also, in regard to this 2018 3-Year Business Plan, we do not mean only 3-year disposable strategy. This plan contains things to do for the long-term goal. It should not be come-and-go. I think we have to catch up on the trend, take the measure of direction of the times, and promote the strategy to realize a continuous growth.

As one stage (of growth strategy model), we coin each investment “Planting” as in-house jargon. Whereas most of the Planting projects are almost at a stage prior to decision-making or execution, now we are preparing for some large-scale investments. We have plans to invest management resources on an unprecedented scale for them.

Nobody knows the suitable time to invest until it actually comes. Especially in our Mineral Resources and Smelting & Refining business, such an unpredictable thing is a very big factor. In this case, the timing of investment is overlapping the period of this business plan by chance. However, we’ve prepared for this plan with due consideration of our own financial background and project executiveness.

I. Message from the President 4

I. Message from the President 4

Message from the President

Three-year cumulative capital expenditure, investment, and financing of ¥490.0 billion. Although most of the effects of this will not be seen until the next 3-year business plan (2021 3-Year Business Plan) and later, a sound financial foundation can be maintained.

Capex, investment and financing	¥490 billion (3 year cumulative)
Free cash flow	- ¥110 billion (3 year cumulative)
Profit before tax	¥135 billion (FY2021 trial calculation)
Profit (Loss) *	¥97 billion (FY2021 trial calculation)
EBITDA	¥470 billion (3 year cumulative)
Dividend payout ratio	35% or more (has been 30% or more)
ROA (profit)	4.8% (FY2021 trial calculation)
ROE (profit)	7.9% (FY2021 trial calculation)
Equity ratio	61.5% (FY2018 year-end forecast) ▶ 60.6% (FY2021 year-end forecast)
Debt-to-equity ratio	33.0% (FY2018 year-end forecast) ▶ 37.4% (FY2021 year-end forecast)

* Profit (Loss) = Profit (Loss) attributable to owners of parent (the same shall apply hereinafter)

On page 7, a summary of figures for the 2018 3-Year Business Plan is described.

Under the influence of large-scale investments, free cash flow in three-year cumulative is expected to be negative. However, the investments for this time are only two kinds; one is already decided to make, and another is a kind of business we would like to embark on as a strategy. So, they are likely to strengthen our future revenue base and expected to be a foundation of our company's next growth.

On the one hand, we planed high-level investment, on the other hand, we are going to move ahead with the implementation of measures to improve the profitability of the existing business. Therefore, from the point of view of business revenue, our financial foundation can be maintained.

As for the dividend payout ratio, previously it was over 30 percent. But we will perform it over 35 percent. It is five percent more than we had planned before. Details would be described later.

I. Message from the President 5

I. Message from the President 5

Message from the President

3. Maximizing Corporate Value

An incubation period for all large-scale projects.
Most of the effects of these will not be seen until the next 3-yr business plan (2021 3-Year Business Plan) and later.

Each individual employee to act with initiative and resolve.
Enhance the intangible aspects of business, such as human resources development.

Become a world leader in the non-ferrous metals industry and achieve profit of ¥150.0 billion, re-consider the Long-Term Vision

Achieve sustainable growth and maximize corporate value

SUMITOMO METAL MINING CO., LTD. 8

Let's go on to page 8 titled Maximizing Corporate Value.

As I have always said, our corporate governance is the maximization of both corporate value and shareholder profit.

In the final analysis, “Maximizing Corporate Value” means promoting the growth strategy and strengthening the business structure. In other words, we have to enhance the business structure to promote the growth strategy and monetize it surely.

It is not until such a profitable business ecosystem of this strategy is completed that we make the structure to the next growth strategy full-fledged. If some part of the system were in bad condition, the devotion of resources to recover it would be enormous including a harmful influence against other growth strategies.

Therefore, we are looking forward to growing the whole organization from each individual employee to act with initiative and resolve their challenges.

1) Long-Term Vision 1

1) Long-Term Vision 1|| The Long-Term Vision and Initiatives to Date

Long-Term Vision (Revised)

Become a World Leader in the Non-Ferrous Metals Industry

<Targets>

Nickel (Ni)	Annual production capacity of 150 kt
Copper (Cu)	Annual production interest of 300 kt
Gold (Au)	Participation in new mine operations through the acquisition of superior interests
Materials	Achievement of annual profit before tax of ¥25.0 billion through portfolio management
Profit	Annual profit ¥150.0 billion

SUMITOMO METAL MINING CO., LTD.10

Next, let me talk about long-term vision and initiatives to date on page 10.

This time, the long-term vision has been revised. And we reconsidered Become a World Leader in the Non-Ferrous Metals Industry and Targets slightly. As I mentioned before, although we are not changing our targets in a long-term perspective basically, it's likely to add some modifications to them situationally.

) Long-Term Vision 2

The World Leader in the Non-Ferrous Metals Industry We Are Aiming to Become

- Have a global presence in terms of mineral resource interests and metal production volumes (= be in the global top five)
- Have leading technology and a unique business model that cannot be easily emulated by other major mineral resource companies
- Be growing sustainably and stably producing a certain amount of profit
- Be actively tackling social issues such as the SDGs
- Have employees working with spirit

These are also the conditions required of an "excellent company," but we have removed the term "an excellent company of Japan" from our Long-Term Vision to avoid repetition and make it simpler.

I'd like to look at page 11. Here are five elements of what we think the world leader in the field of non-ferrous metals industry should have.

Three of five at the bottom are things we itemized in an excellent company of Japan in Long-Term Vision.

Since we draw a bead on becoming the leader, we are strongly conscious of not only great in company size and profit but having ability of contribution towards society. Also, as for a unique business model that can not be easily emulated by other major mineral resource companies, this is a straightforward expression of our own corporate competitiveness.

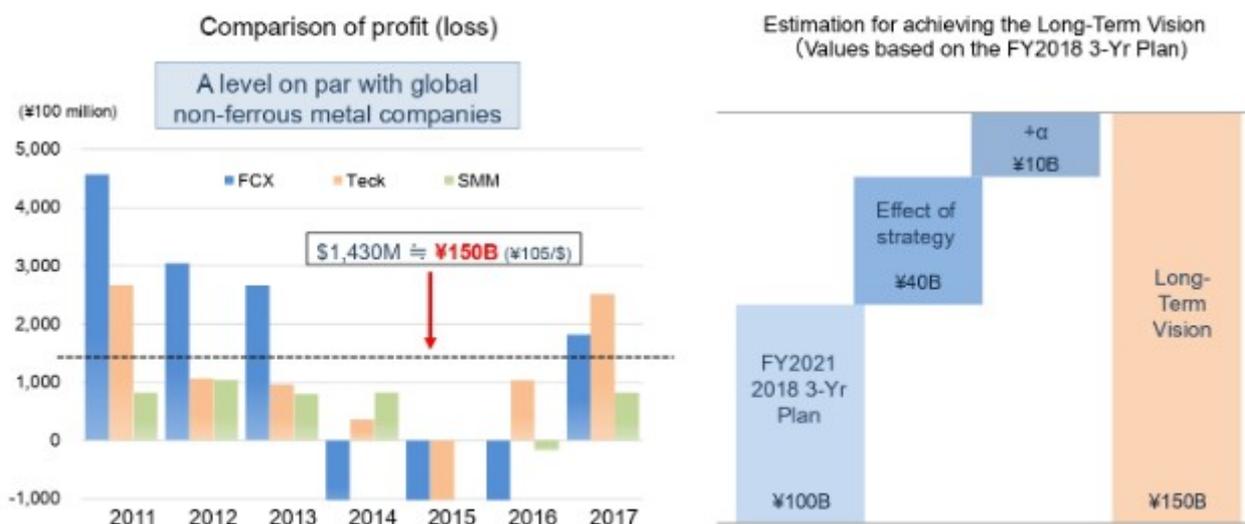
Of course, any business models themselves are maybe imitable, but we are going to thicken and make their contents sophisticated. And until now, we have to well-polish our cost competitiveness and strengthen profitability so that we can make a certain profit despite the tight market.

1) Long-Term Vision 3

Regarding Profit of ¥150.0 Billion

A numerical target appropriate for a "world leader in the non-ferrous metals industry"

A level that can be sustainably achieved through steady strategic investment and minimizing opportunity loss



There is a numerical target Regarding Profit of 150.0 Billion Yen on page 12.

In the left side, a blue graph shows the FCX (Freeport-McMoRan), the orange one is Teck. These two companies are our business partners, and also they are leading overseas companies of non-ferrous.

In regard to A level on par with global non-ferrous metal companies, we've estimated the achievement of 150 billion yen. Of course, it would not be significant for our employees that if the figure is not unreal. As the right graph indicates, we feel this is at a realistic level due to that expected strategy effect and with consideration in that growing expansion of our business.

Of course, concentrating and collaborating of all the members in each group company and partner companies are essential to achieving it.

1) Long-Term Vision 4

Reasoning Behind the Targets

 **Nickel**

Annual production capacity: 150 kt

A quantity that will position us as top class globally
(about 5th)

A responsible quantity for meeting growing
demand, including for battery materials

 **Copper**

Annual production interest: 300 kt

A quantity that will position us as mid-level globally

Likelihood of achievement through participation in
Quebrada Blanca II → Stronger

 **Gold**

Participation in new mine operations through the
acquisition of superior interests

Rather than increasing the number of interests,
participating in superior projects will increase
profitability and value of operational experience

 **Materials**

Realize annual profit before tax of ¥25.0 billion
through portfolio management

Create a presence as a core business by
selecting the best mix of businesses based on
the life cycle of each product group

Let's move to page 13 for Reasoning Behind the Targets such as Nickel, Copper, Gold, and Materials.

Regarding copper, we acquired the interest of Quebrada Blanca. When its operation starts, we'll be almost to achieve the targets.

However, as I usually mentioned, our business is inseparable from consumable resources; if we stop, it's impossible to recover it. So, I'm sure we should be getting more opportunities to acquire other interests. For that, it's taken for granted to maintain enough sound financial foundation.

Also, for 150 kt of annual production capacity of nickel, although it looks like the same as the year before, there is a not-so-little difference. When the target was set first, we were in pursuit of increasing our corporate size as global top class nickel company about in 5th. In short, we decided the goal of quantity to upgrade our scale mainly.

Nowadays, with expansion of the business of cathode material of battery materials, the meaning is greatly changing that we develop nickel resources. It's pure nickel (Class 1) for advanced materials including battery materials that our customers are demanding.

The development of resources for this time is aiming not to size but to quality; we are focusing on our proud Class 1 such as HPAL in the Philippines.

As for gold, we've removed the numerical targets for this time unlike 30 ton in the past. Business models of our gold resource development than other metals have plenty of variety from high-class and size-limited one such as Hishikari mine to gold grade 1 gram per ton low-grade large-scale mine.

Among these various projects, we would like to acquire superior interests we can make use of our technologies on the lookout for an opportunity to participate in new mine operations.

In regard to materials, the phraseology is different from "new material for profit 5 billion" we mentioned before. We'd like to increase the profitability of core business such as battery materials and raise other advanced materials.

In material business, the one-time success of one product does not make you safe because technological innovation happens most frequently and products are more likely to be out-of-date. It's a key point of business management to develop any interfaces with customers and operate a new profitable business with understanding the strengths of technologies we have. That's the reason why the number has been considered as the target.

2) Overview of Initiatives to Date 1

2) Overview of Initiatives to Date 1 The Long-Term Vision and Initiatives to Date

Major Projects Since the Corporate Reform Plan

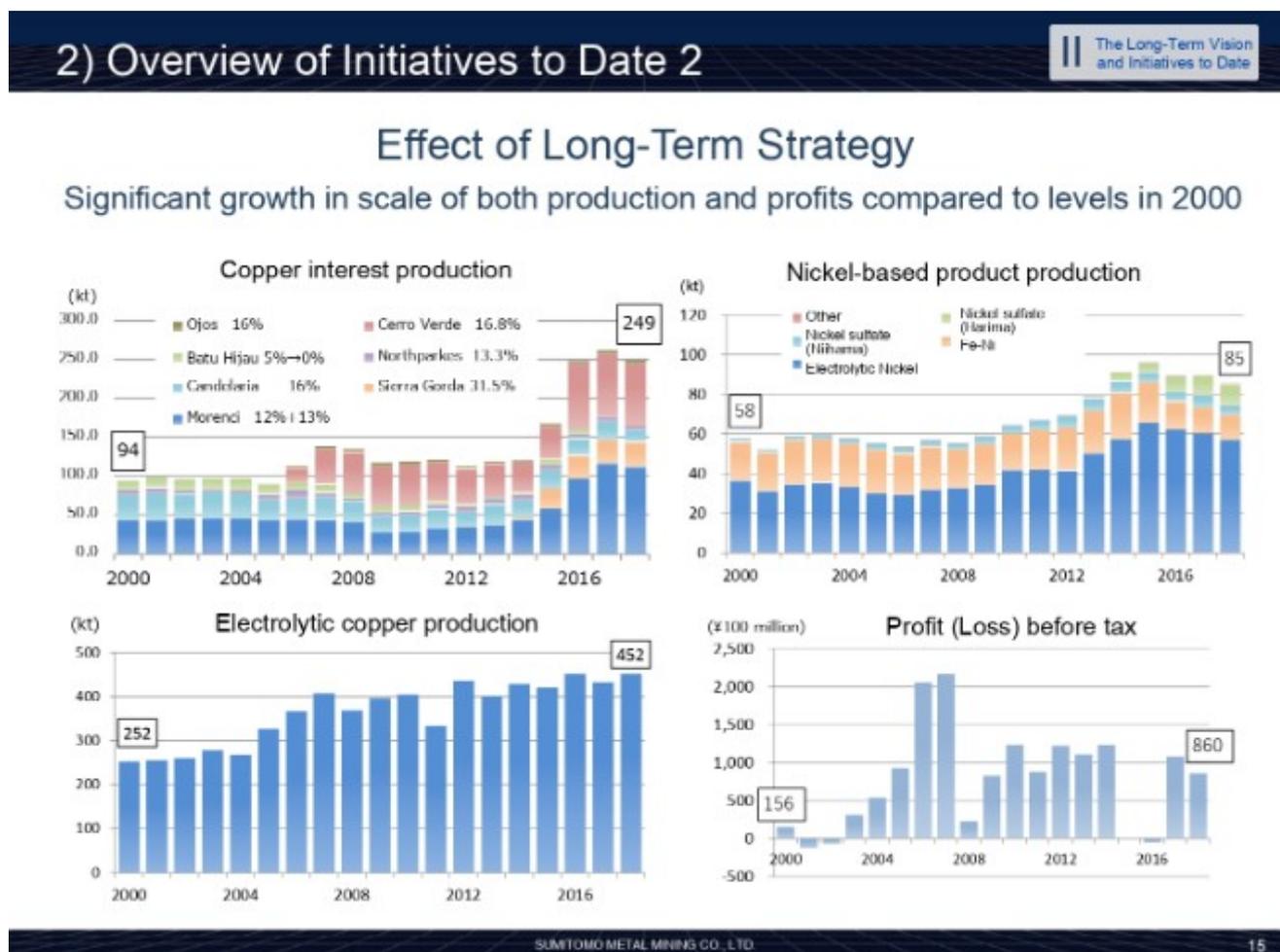
		Corporate Reform Plan		01 2-Yr Plan			03 3-Yr Plan			06 3-Yr Plan			09 3-Yr Plan			12 3-Yr Plan			15 3-Yr Plan		
		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
5 Major Projects + 1	Build 450-kt Cu structure		Decide							Investment completed									Advance #33 kt		
	Como Verde					Decide															
	QURC		Decide																		
	Qom					Decide			Start production								Withdraw				
	Pogo			Decide							Full-scale production									Run	
Mineral Resources	Copper clad polyimide film reinforcement					Decide				Complete											
	Pogo, additional interest										Decide									(Sell)	
	Santa Clara											Decide									
	Solomon, development											Decide								Investment	
	Moreni, expansion												Decide				Full-scale production				
	Como Verde, expansion													Decide							
	Moreni, increase interest														Decide						
	QSZ																			Decide	
Metals	QURC, make 2 lines					Decide					Commercial production										
	Electrolytic nickel, 30 kt/year or more								Decide (1st kt)			Decide (1st kt)								Advance 80 kt	
	HPV/L										Decide									Commercial production	
	Hama Refinery, transition structure												Decide							Zn, Cu production	
	Hama Refinery nickel sulfate												Decide 1		Complete	Decide 1		Complete		Transition to 80 kt production structure	
	Scandium																Decide				Start production
Materials	Chromite																			Decide	
	Sapphire, development								Decide								Withdraw				
	Battery NCA, 300 t/month or more					(Transition from LCO to NMO)															
	LiFePO4 120,000 pieces/month or more														Decide (800 t)	Decide (1,000 t)		Decide (2,000 t)	Decide (4,500 t)		
	SiC, buy development company														Decide (100,000)	Decide (200,000)	Decide (500 kt)	Complete (500 kt)		Decide	
P/W, LP, withdraw																				LP decide	

I would like you to see page 14. I'll talk about Major Projects Since the Corporate Reform Plan.

As I touched on it just before, our 20 years history has started over from here, 5 Major Projects + 1, at the top of that figure.

Here are 26 projects. As one of our features of business development, with each project going well, scale expands the related business and downstream process. It's expected that the same thing comes true in any strategies of the 2018 3-Year Business Plan we'll explain henceforth.

2) Overview of Initiatives to Date 2


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And, on page 15, we talked about the Effect of Long-Term Strategy or the results of past strategies.

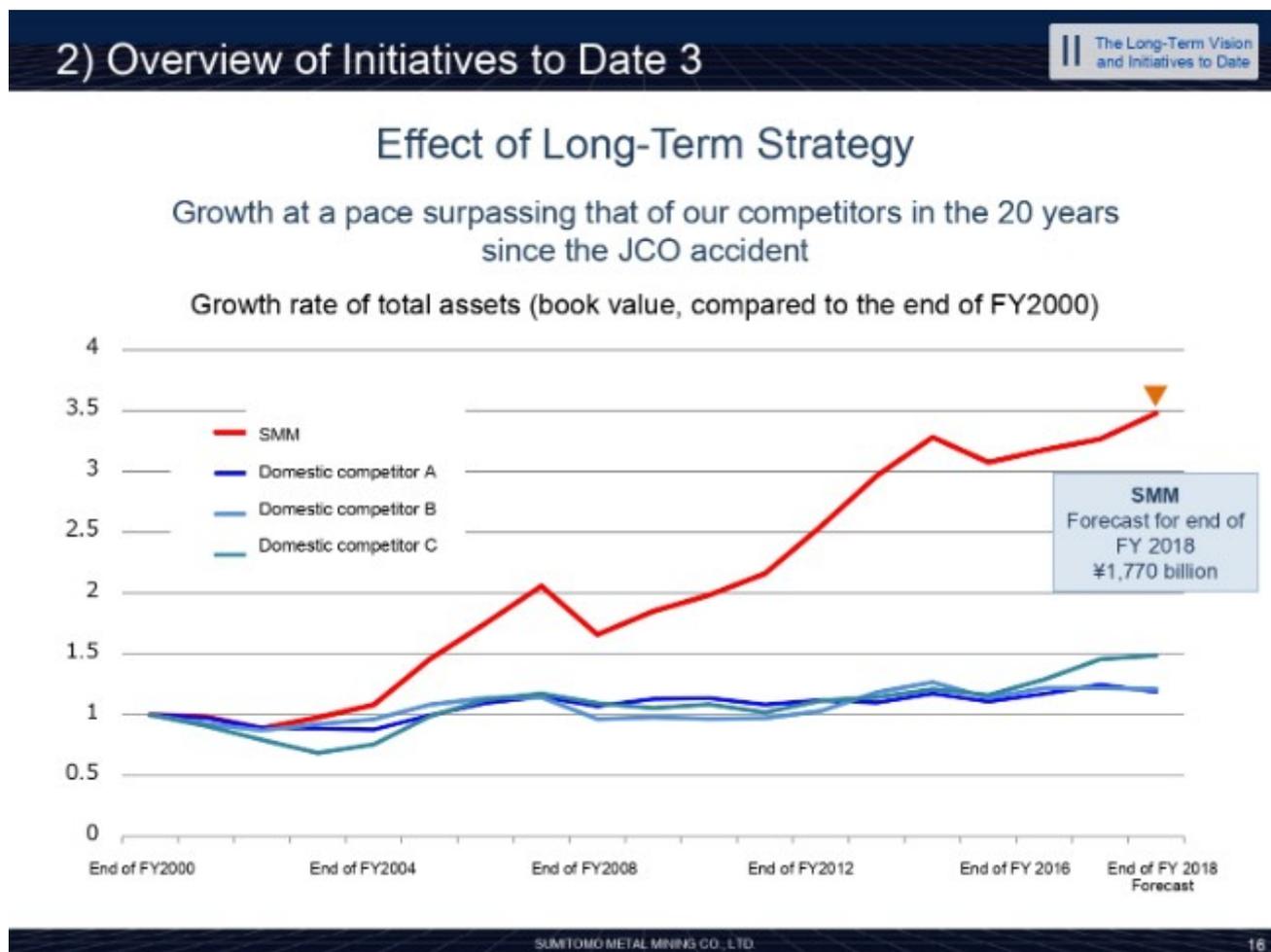
Copper interest production is remarkably growing, and electrolytic copper production has reached 450 kt.

Moreover, nickel-based product production is increasing, too. Now, the key factor is how much growing our raw materials are. In 2000, nickel production including ferronickel was 58,000 Ton, about 40 percent of which was of our raw material at that time.

2018, on the right side, it's been almost going up 85,000 Ton, about 80 percent of which is of our raw material. So, we have kept our nickel business expanding in an integrated way.

In the bottom right of the Figure, it is a Profit (Loss) before tax. Due to those fluctuations in every year are basically caused by exchange and non-ferrous market, it seems hard to estimate. Expect special circumstances such as impairment, it can be said that our company has been able to make a certain profit even in a featureless market.

2) Overview of Initiatives to Date 3



We've explained the growth rate of total assets (book value, compared to the end FY2000 on page 16.

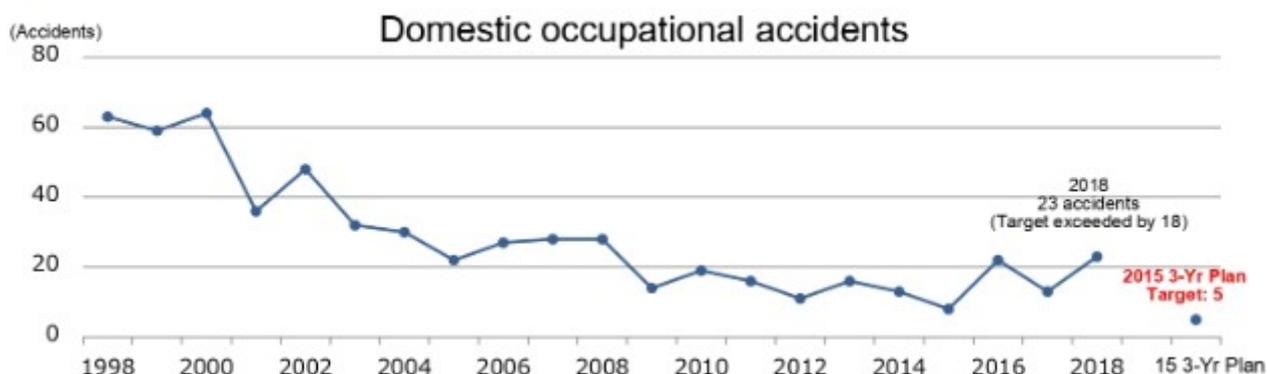
Our total assets have increased by about 3.5 times. Without large-scale M & A, it's only we that have realized such a massive growth all over our overseas competitors.

1) Safety Results

The target for the number of domestic occupational accidents was not achieved in any of the fiscal years of the 2015 3-Year Business Plan

Line management not thorough enough	Unsafe acts overlooked	Insufficient efforts to make facilities safer
-------------------------------------	------------------------	---

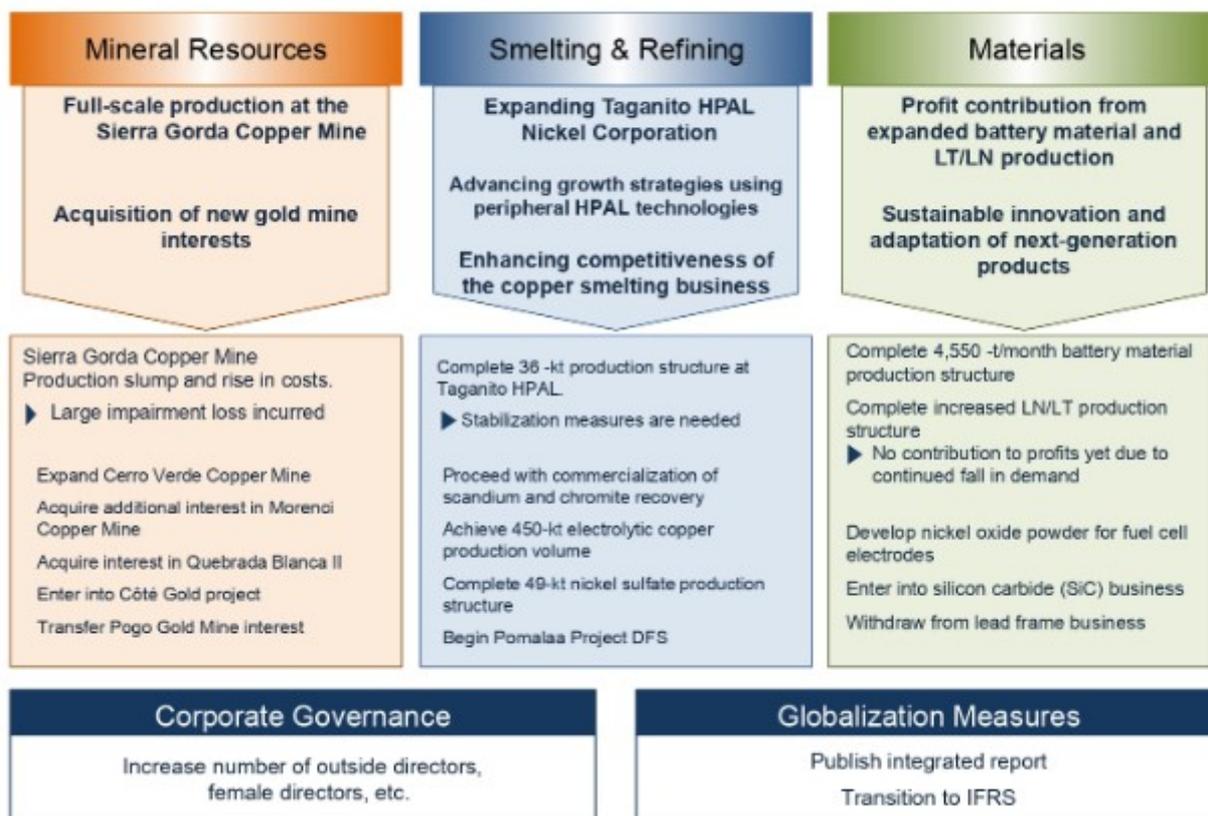
	15 3-Yr Plan Targets	2016 Results	2017 Results	2018 Results
Total domestic occupational accidents	5 or less	22	13	23
Total overseas occupational accidents	9 or less	11	10	5



Next, let's move on to the Review of the 2015 3-Year Business Plan.

First of all, I would like you to see page 18 for safety results. Regarding this, we did not achieve the target number at all. We are going to give a detailed explanation of it later.

2) Top Priorities in the 2015 3-Yr Business Plan



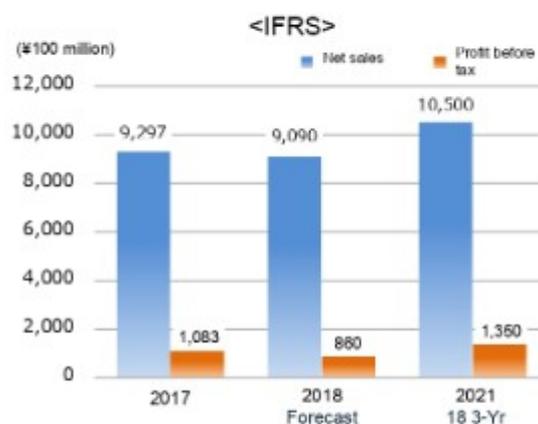
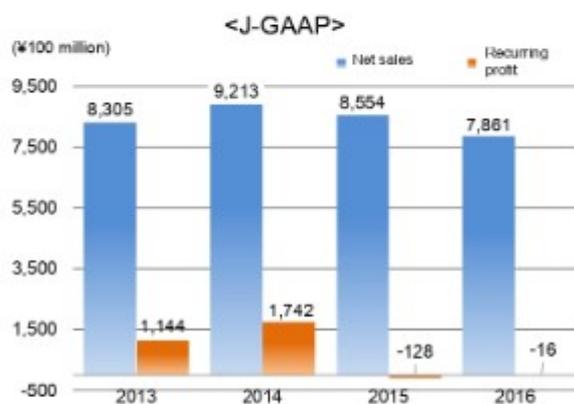
On page 19, each strategy by business is described.

Being based on our evaluation, the most prior matters for the 2015 3-Year Business Plan have been almost completed.

Especially in acquisition and expansion of additional interest of copper materials, we've gotten magnificent results. Also, regarding battery materials, we've achieved the target of making it have a presence in the market.

3) Consolidated Performance Trends

Failed to achieve 3-Year Business Plan targets for both net sales and profit



<J-GAAP>	2013	2014	2015	2016
Net sales	8,305	9,213	8,554	7,861
Recurring profit	1,144	1,742	-128	-16

(¥100 million)

<IFRS>	2017	2018 Forecast	2021 18 3-Yr
Net sales	9,297	9,090	10,500
Profit before tax	1,083	860	1,350

(¥100 million)

Page 20 is for counting.

As this graph indicates, I am afraid to inform you that we've failed to achieve 3-Year Business Plan targets for both net sales and profit.

4) Analysis of Profit Before Tax (2015 3-Yr Business Plan 2018 vs. FY2018 Forecast)

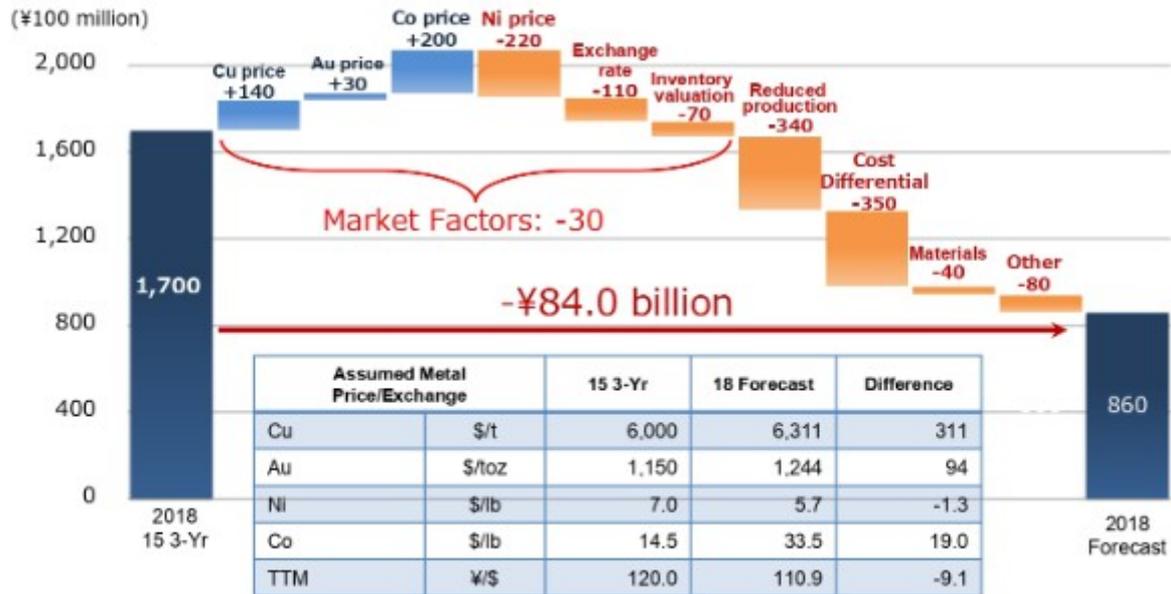
4) Analysis of Profit Before Tax

(2015 3-Yr Business Plan 2018 vs. FY2018 Forecast)

Review of
2015 3-Yr Plan

For the FY2018 performance results, a profit decline of ¥84.0 billion is expected compared to the 3-Year Business Plan

The main factors: decreased production and cost@ (reflecting lower production) (mineral resources: -51.0, smelting & refining: -11.0)



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See page 21 for an analysis of profit before tax.

To put it briefly, the results have been halved approximately as against FY2018 forecast in the 2015 3-Year Business Plan were expected 170 billion yen.

As I've shown with a diagram, despite that market factors have been in balance, the result was much worse than we had forecast because of loss such as 34 billion yen reduced production and 35 billion yen in cost differential. In our point of view, the cost differential contains deterioration of the fixed costs by reduced production.

In the mineral resources section, reduced production of copper production volume by modification of the mining plan and deterioration of ore body to dig beside the accident of pit collapse of Candelaria resulted mainly in it.

And in the metals section, stopping operation by facility reinforcement of THPAL led to this result. As far as I understand, the accident occurred in the midst of the realization of competitiveness of it after facility expansion.

I am going to talk about the way to keep up with such business foundation matters including resource materials and metals later.

5) Current Issues

Enhancing and Improving Site Management Capability (Production Capabilities) and Management Capability

- Continuing stable operations
- Improving safety performance
- Eliminating quality/environment problems
- Preventing lost profits and opportunity loss (strengthen facility management, operations management, and cost management capabilities)
- Strengthening our ability to gather and analyze information to get an accurate picture of management trends
- Responding swiftly and accurately to changes in the business environment

Creating New Products and Businesses

Securing and Developing the Human Resources to Support Growth

- Rebuilding an open and vibrant organizational climate
- Evolving and deepening working style reform
- Strengthening cognition, conceptualization, action and solving of solutions of issues

Page 22 indicates the current issues.

As this shows, there is a plurality of items. Although they are all key challenges, I would like to focus on and explain two issues.

First, enhancing and improving business infrastructure, or the recovery of production capabilities. We are now concentrating our efforts to rebuild the structure to execute things to do; never fail to achieve the target we have set.

Another, we should strengthen our ability to carry out dialogue with partners. As I touched on a topic of reduced production of the overseas interest of copper mines before, change as this contributes badly to profit, and it's a core issue to management.

So, it's key to enhance the ability to carry out dialogue with our major partners related to management of overseas mines in mineral business and with our main customers in metals and materials business as to catch up and get an accurate picture of trends of the market and new products.

In practice, I had just seen other managers in metals business oftentimes when I was chief executive of Metal Business Division. In these days, I've actually met some key persons in some industries widely such as customers of the overseas resource major and in materials and metals. It must be important that integrating information I've gotten from them into our businesses.

1) Positioning of the 2018 3-Year Business Plan (Again)

1) Positioning of the 2018 3-Year Business Plan (Again)

IV

2018 3-Yr Plan:
Basic Strategy

2. Positioning of the 2018 3-Year Business Plan

Taking on the Challenge for New Growth

Formulated with a medium- to long-term perspective focused on the next 10 to 15 years

A period of preparation for entering a new stage of the growth strategy and aiming for new heights

An aggressive plan to seize the chances presented by changing times and invest management resources on an unprecedented scale to realize sustainable improvement in corporate value

We'll talk about Basic Strategy of the 2018 3-Year Business Plan, please go on to page 24.

2) Safety Initiatives

To achieve by FY2021

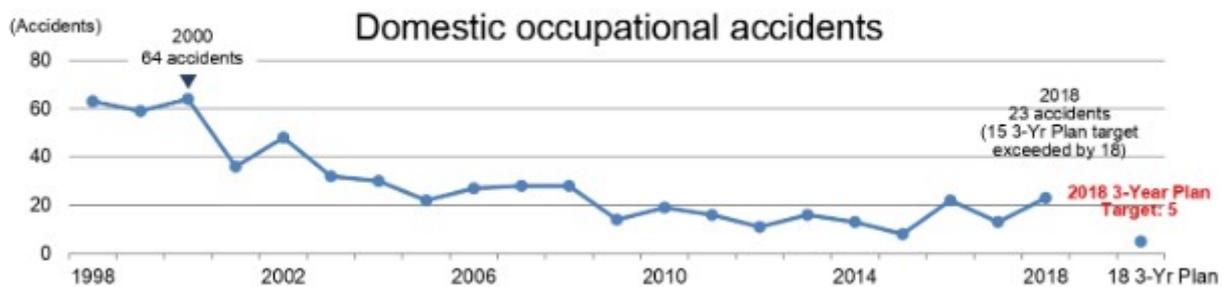
Workplaces that prevent serious accidents by **clearly defining priority issues needing improvement and implementing PDCA cycles** while promoting safety activities

Workplaces that ensure that top management and supervisors communicate with workers, grasp actual conditions at sites and promote facility improvements based on the **three realities principle (real places, real facts, real things)**, and work using procedures that naturally take safety into sufficient consideration.

2018 3-Yr Business Plan Targets

Limit domestic occupational accidents to **5** or less

Limit overseas occupational accidents to **3** or less



We titled page 25 Safety Initiatives.

Our safety activities have been worse for about three years, and we've been deeply concerned about this matter. In the business plan of this and next time, to prevent serious accidents is in top priority. Having thought to that as the main purpose, we've set a goal to limit all the accidents.

This graph shows the number of occupational accidents. Just like ordinary companies, it excludes minor accidents without lost operating times. But if we did not try to keep these incidents minimum, the total number of accidents would not be decreased.

At workplaces, based on the three realities principle (real places, real factors, and real things), top management and supervisors grasp actual conditions at sites and promote facility improvements, and work using procedures that naturally take safety into sufficient consideration.

3) Three Main Basic Strategies

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

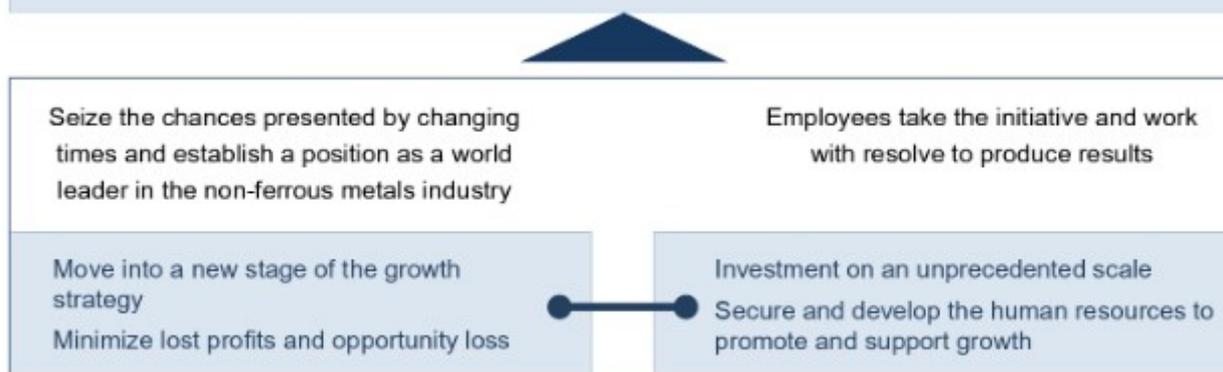
Steady promotion of growth strategy and swift realization of competitiveness: Aggressive investment
 Minimization of lost profits and opportunity loss and consolidation of business base: Defensive investment

Three-business collaboration centered on cathode materials for batteries

Maximally leverage the integrated production structure and win through overall capabilities, including battery recycling

Strengthen corporate functions

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



On page 26, we mentioned about three main basic strategies of each business in the 2018 3-Year Business Plan: strengthen the growth foundation of core business (Mineral Resources, Smelting & Refining, and Materials), three-business collaboration centered on cathode materials for batteries, and strengthen corporate functions.

Regarding three-business collaboration, we've made a continuous effort to strengthen it for a few years. But I think the collaboration is no more than a slogan unless each individual business comes to be strong. I would like to give an explanation of them individually.

3) Three Main Basic Strategies (1) Strengthen the growth foundation: 3 major projects

3) Three Main Basic Strategies

(1) Strengthen the growth foundation: 3 major projects

IV

2018 3-Yr Plan:
Basic Strategy

Mineral Resources Quebrada Blanca II (Cu)	<ul style="list-style-type: none">• Copper mine development project in Chile. Entry decided in December 2018 (Planned start of production: 2021. Mine life: Approx. 28 years. Average annual copper production volume: 240 kt)• Capital contribution: Teck Resources Limited 60%, SMM 25%, Sumitomo Corporation 5%, other 10%• Investment: US\$4.7 billion (100% of the project)
Smelting & Refining Pomalaa (Ni · Co)	<ul style="list-style-type: none">• Third HPAL project in Sulawesi, Indonesia• DFS (Definitive Feasibility Study) to be completed in FY2019 → Investment decision• Production volume: 40 kt of Ni mixed sulfides (roughly)• Investment: Several billion US\$ (100% of the project)• Operation to start in the mid-2020s (target)
Materials Battery expansion	<ul style="list-style-type: none">• Expand capabilities in stages, and aim to produce 10 kt/month of cathode materials (NCA + NMC + Nickel hydroxide) during the 2024 3-Yr Business Plan• Investment (2018 3-Yr Plan period): ¥35.0 billion

Page 27 corresponds to aggressive investment to Strengthen the growth foundation of the core business.

There are three major projects; shifting up the second phase of Quebrada Blanca in Mineral Resources, developing Pomalaa nickel and cobalt in Smelting & Refining, and expanding battery materials in Materials.

Major Projects Since the Corporate Reform Plan

		Corporate Reform Plan		01 2-Yr Plan		03 3-Yr Plan			06 3-Yr Plan			09 3-Yr Plan			12 3-Yr Plan			15 3-Yr Plan				
		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018		
5 Major Projects + 1	Build 450-kt Cu structure		Decide							Investment completed								Achieve 450 kt				
	Cerro Verde					Decide																
	QUNIC		Decide						Start production													
	Cona					Decide											Withdraw					
	Pogo			Decide							Full scale production									Start		
	Copper clad polymide film reinforcement					Decide			Complete													
Mineral Resources	Pogo, additional interest									Decide										(Sell)		
	Sierra Carda										Decide						Comments production			Start production		
	Solomon, development										Decide									Start production		
	Moreno, expansion											Decide					Full scale production					
	Cerro Verde, expansion												Decide							Full scale production		
	Moreno, increase interest																Decide					
	Oxide																			Decide		
QUNIC																				Decide		
Metals	QUNIC, make 2 lines					Decide					Commence production											
	Electrolytic nickel, 30 kt/year or more								Decide (1st kt)			Decide (1st kt)										
	HPAL										Decide											
	Hama Refinery, transition structure											Decide										
	Hama Refinery nickel sulfate											Decide			Complete	Decide						
	Scandium																				Start production	
Chromium																				Decide		
Materials	Sapphire, development								Decide													
	Battery NCA, 300 t/month or more																				(Transition from LCO to NMO)	
	LTP/N 120,000 pieces/month or more																				Decide (1,000 t)	
	SiC, buy development company																				Decide (100 kt)	
																					Decide (300 kt)	
																					Complete 300 kt	
																					Decide	
																						LP decide

As I mentioned on page 14 before, we've started over 5 major projects + 1 since 2000. After that, there is a lot of follow-through projects.

Among these projects, for example, when the development of Pomalaa is realized, a large business opportunity will come to us and a large investment will be needed; as a matter of course firmly we are now studying it, taking into account the relation of the downstream of the business model such as materials business and smelting & refining business.

Thus, we meant to strengthen the core of the business.

3) Three Main Basic Strategies (2) Strengthen three-business collaboration

3) Three Main Basic Strategies

(2) Strengthen three-business collaboration

IV 2018 3-Yr Plan:
Basic Strategy



SUMITOMO METAL MINING CO., LTD.

28

This page 28 is described for strengthening three-business collaboration as the second of three main basic strategies.

Taking an example of battery cathode materials and resources here, we just said Maximally leverage the integrated production structure as a subitem of three-businesses collaboration centered on cathode materials for batteries before (on page 26).

Interpreting that phrase, you could get our unique strength of owning all the processes including resources to form the perspectives of both our customers and competitors.

“From mineral resources to smelting & refining”. There is another chain of businesses in those flow from the base material such as nickel sulfate to advanced materials. To control that business linking (to each joint point) in our company is our unique business model over the world.

As I mentioned before, although any business models are imitable, we are going to sophisticate it and become the company nonpareil.

3) Three Main Basic Strategies (3) Strengthen corporate functions

Become an organization that copes with change and new issues

Reorganize corporate divisions with a focus on functions

Strengthen capacity to tackle the shared issues of CSR, the SDGs, and ESG while focusing on specializations

Respond to changes in the social and business environments (globalization)

Speed up financial reporting, consolidated tax payment, update core systems

Promote working style reform

Rebuilding an open and vibrant organizational climate

Review and expand the various related systems

We will touch on strengthening corporate functions on page 29.

The details are described here; in a word, reforming to ambitious corporate is the theme of the 2018 3-Year Business Plan.

Of course, we've seen business itself and corporate division especially to support growth as significant, but from now on, it will be indispensable that the headquarters division actives with aggressiveness in a sense by becoming the forefront, besides keeping up with a changing environment in a reactive way.

4) Secure, Develop and Make the Most of Human Resources

Secure human resources

Review recruitment strategy and promote SMM's uniqueness in coordination with PR activities

Develop and make the most of human resources

Review various personnel-related systems to lead to flexibility, fairness, and dynamism

Promote diversity to improve productivity and respond to varied needs

Promote off-the job training, on-the-job training, and self study for strategic human resources development

Improve organizational and workplace environments

Promote working style reform and engage in health management

Let's turn to page 30.

In any business, to secure human resource is the very theme. As affairs, concrete response to promotion of work style reform is needed. And now it is generally problematized: the decline of a sense of belonging and fixing property to the company of young people, an increase in the liquidity of the labor force, and recruitment rules.

Under such circumstance, it's greatly challenging to secure talents equal our with domestic and overseas partners and competitors by realizing sustainable growth. Although we should not miss any strategies we itemized here, it seems hard to complete them.

But, as I've been saying to employees, it's only directional to achieve these whole targets; our goal is just to maximize corporate value and secure human resources for that. We have to remember this macro perspective at any time.

5) Strengthening of Corporate Governance 1

The Sumitomo Business Spirit

Article 1

Sumitomo shall achieve strength and prosperity **by placing prime importance on integrity and sound management** in the conduct of its business.

Article 2

Sumitomo shall manage its **activities with foresight and flexibility in order to cope effectively with the changing times**. Under no circumstances, however, shall it pursue easy gains or act imprudently.

SMM Group Corporate Philosophy

Sumitomo Metal Mining Co., Ltd. (SMM), in accordance with the Sumitomo Business Spirit, shall, through the performance of sound corporate activities and the promotion of sustainable co-existence with the global environment, seek to make positive contributions to society and to fulfill its responsibilities to its stakeholders, in order to win ever greater trust.

SMM shall, based on respect for all individuals and recognizing each person's dignity and value, seek to be a forward-minded and vibrant company.

SMM Group Management Vision

By developing and employing innovative technology, we shall fulfill our social responsibilities as a manufacturing enterprise.

Based on the principles of compliance, environmental protection and operational safety, the Sumitomo Metal Mining Group shall pursue maximum corporate value through the provision, via its global network, of high-quality materials such as non-ferrous metals and electronics and advanced materials.

We've described the strengthening of corporate governance on page 31.

We've been focusing on the improvement of our corporate governance. Today, let me skip the details, but there is one essential thing you should know – The Sumitomo Business Spirit on the same page.

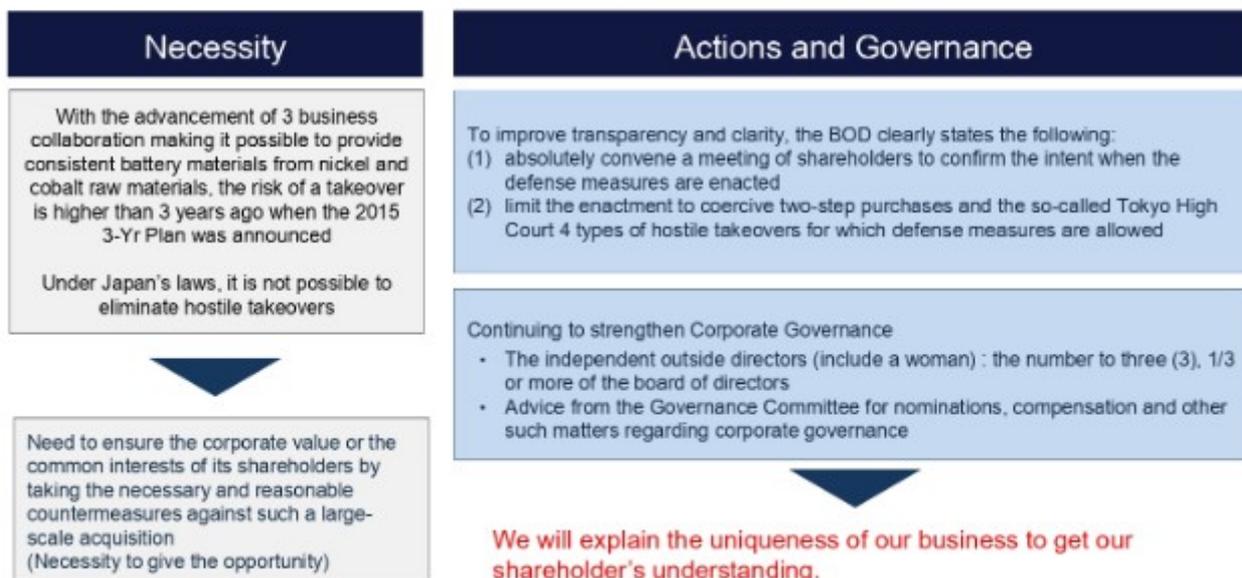
We feel reassured by and thankful for this precept as something to read in order to go back to our basic mind. With this as an origin, we are unfolding our management principle.

5) Strengthening of Corporate Governance 4

Renewal of Our Takeover Defense Measures

- ▶ Introduced at the 2007 Annual General Meeting of Shareholders (AGM)
- ▶ Renewed at the 2010, 2013, and 2016 AGMs
- ▶ A proposal for renewal is expected to be submitted at the 2019 AGM

Compare takeover person's proposal and the Company's management strategy, obtain information so stakeholders can make a decision, and give them the opportunity to evaluate it



Jumping to page 34, we've explained Renewal of Our Takeover Defense Measures.

The expiry of the time of our takeover defense measures will have come at the AGM in 6, 2019. Because of the particularity of our businesses, there is still a risk of abusive takeover. So, at the same time as announcing of this business plan, we declared the renewal of takeover defense measures.

5) Strengthening of Corporate Governance 5

SMM CSR

Consideration of the promotion structure for our Vision for 2030



CSR Policy

- 1 SMM shall work to **combat global warming** by promoting recycling and effective resource utilization while also targeting technological innovation and continuous improvements in energy efficiency.
- 2 SMM shall promote sustainable **co-existence with society** by respecting the needs of local communities in which we operate around the world.
- 3 To continue sound business activities, SMM shall **respect human rights** and shall try to be a company in which **diverse human resources take active parts**.
- 4 **According safety the highest priority**, SMM shall **provide safe, comfortable working environments** and seek to **eliminate occupational accidents**.
- 5 SMM shall strengthen **communications with all stakeholders** to build healthy, trust-based relationships.

Let's move to page 35 and 36 for the promotion of SMM CSR.

Regarding its content, it's as following here. We've set and aimed at our vision for 2020 in each CSR Subcommittee. As we come closer to the deadline, what we achieved and might not are becoming obvious.

5) Strengthening of Corporate Governance 6

Six CSR Areas of High Priority and Vision for 2020

Effective Use of Resources	A company that generates resources using innovative technology
Environmental Preservation	A company that uses advanced technologies to reduce environmental impacts and contributes to preserving the global environment
Contribution to Society and Local Communities	A company that earns trust and contributes to regional development through our business and social contribution activities rooted in each region
Respect for People and Human Rights	A company where diverse human resources exercise their ability sufficiently and take a vibrant and active part in each field A company that works with its stakeholders to strive for a society that actively respects human rights
Occupational Health and Safety	A company that accords safety the highest priority and provides comfortable working environments
Stakeholder Communication	A company that works to communicate transparently with all worldwide stakeholders to deepen mutual understanding

Formulating Our Vision for 2030

Under our medium- to long-term vision, we will formulate a **Vision for 2030** during FY2019 in coordination with the SDGs, which also have 2030 as their target year, and formulate, announce, and implement related activities.



So, we are planning to try to start all over again, in short, our vision for 2013. This is the target year of SDGs, too. We are considering the implementation of activities based on it. Regarding our vision for 2030, we are going to announce it for FY2019.

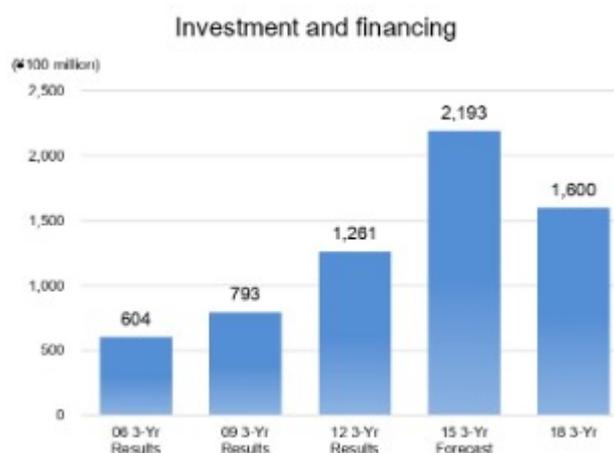
6) Capital Expenditure, Investment, and Financing

6) Capital Expenditure, Investment, and Financing

Three-year cumulative capital expenditure, investment, and financing over the 2018 3-Yr Business Plan will be an unprecedented ¥490.0 billion.

However, most of the effects of this will not be seen until the next 3-yr business plan and later (2021 3-Yr Business Plan).

	FY2007-2009	FY2010-2012	FY2013-2015	FY2016-2018	FY2019-2021
Unit: 100 million yen	06 3-Yr Plan Results	09 3-Yr Plan Results	12 3-Yr Plan Results	15 3-Yr Plan Forecast	18 3-Yr Plan
Investment (CapEx + investment and financing)	1,993	2,361	2,987	3,914	4,900



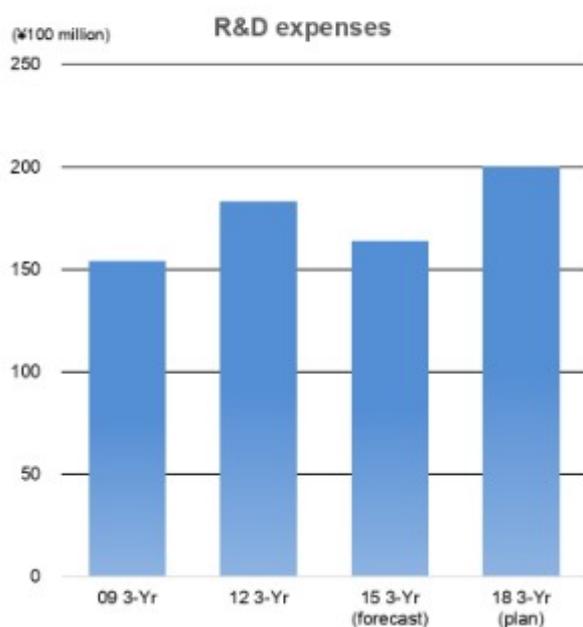
Here is page 37 for the expenditure during the 2018 3-Year Business Plan.

Since this is only the medium plan, some projects and investments in here are up in the air at this time; the contribution is uncertain funding.

According to a result of our test calculation in a certain condition, we expect an unprecedented scale of investments such as 490 billion for these three years. Details might be touched on presenting an investment plan for each fiscal year.

7) R & D Expenses

In the 2018 3-Yr Business Plan, we will commit more than 20% more to R&D expenses than in the 2015 3-Year Business Plan.



Priority Allocation of Resources to Growing Businesses and Creation of New Businesses and Products

1. Create new businesses with a view to 10 years from now
2. Develop products that customers will prefer, and stay ahead of competitors
3. Develop new processes that can differentiate us and support sustainable growth

Targets

Automobile, environment, energy, and telecommunications fields

Recycling of discarded lithium ion batteries

Please open page 38 for R & D Expenses.

As this indicates, we will devote them not only to the business domain such as improvement of ore dressing of mineral resources but also to sustainable business and creation of new products and businesses mainly in a sense of strengthening of R & D.

We have been discussing it with some business sections having market information and considering open innovation with some partner universities.

8) Profit Before Tax

J-GAAP	2013	2014	2015	2016	IFRS	2017	2018 Forecast	2021 18 3-Yr
Recurring Profit (¥100 million)	1,144	1,742	-128	-16	Profit before tax (¥100 million)	1,083	860	1,350
Profit / Loss (¥100 million)	803	911	-3	-185	Profit / Loss (¥100 million)	902	640	970
Cu price (\$/T)	7,104	6,554	5,215	5,154	Cu price (\$/T)	6,444	6,311	6,500
Ni price (\$/lb)	6.5	7.6	4.7	4.6	Ni price (\$/lb)	5.1	5.7	7.0
Au price (\$/toz)	1,327	1,248	1,150	1,258	Au price (\$/toz)	1,285	1,244	1,300
Forex (¥/\$)	100.2	109.9	120.2	108.4	Forex (¥/\$)	110.9	110.9	105.0



I would like to move on to page 39 for profit before tax. This is also a test calculation with a certain condition.

Since the term of the business plan is up to FY2021, some investment projects during this term will have become profitable and competitive after FY2022. We have to strengthen our business foundation and run with certain profitability which does not generate opportunity loss.

9) Free Cash Flow (FCF)

Three-year cumulative FCF in the 2018 3-Year Business Plan to be a significant deficit of ¥110.0 billion

→ Plan to be financed through business profits, borrowing, reduction of cash and deposits, etc.

Equity Ratio 0.9 Pt. reduction (61.5% ▶ 60.6%) (vs. end of FY2018 forecast)
Debt-to-Equity Ratio 4.4Pt. worsen (33.0% ▶ 37.4%) (vs. end of FY2018 forecast)



Let's turn to page 40 for free cash flow.

It's planned to be a significant deficit of 110 billion yen because of the expenditure of large-scale projects.

10) Dividend Policy and Financial Targets

Dividend Policy

Continue policy of performance-linked dividends

Consolidated dividend payout ratio **raised** from 30% or higher ► **35% or higher**

Financial Targets

Prepare for even larger-scale projects or M&A by maintaining sound financial standing

Maintain **an equity ratio of 50% or higher**

Reasoning Behind Dividend Payout Ratio Increase

In the 2018 3-Yr Business Plan, there will be a significant FCF deficit. However, the overall scale and profitability of business will be significantly greater than before, enabling us to cope with greater strategic investment while maintaining a healthy financial structure.



Reflects SMM management's resolve to increase shareholder return as much as possible

However, the worsening of a financial indicator is negligible.

As this page shows, we plan to raise the dividend payout ratio to 35 percent or higher.

To be sure, management environment is unpredictable. Should the circumstance deteriorate drastically, in case of the change within forecastable bounds, we would keep our financial structure normal with these measures: narrowing the projects of investment after careful thought about our financial status and delaying something lesser important as far as possible.

1) Mineral Resources (1) Quebrada Blanca II PJ Implementation

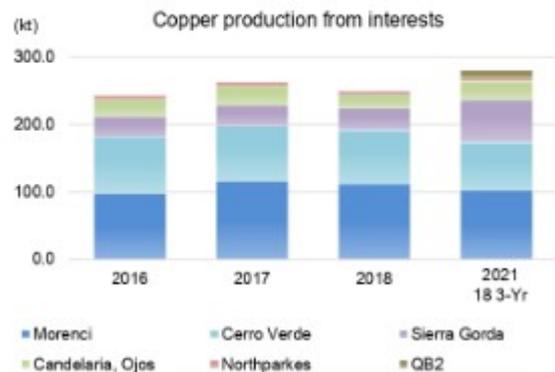
1) Mineral Resources

(1) Quebrada Blanca II PJ Implementation

Equity interest ratio	Teck 60%, SMM 25%, Sumitomo Corporation 5%, other 10%
Planned investment	US\$4.7 billion (100% of the project)
Average annual production volume	240 kt/year
Planned start of production	2021
Location	165 km southeast of Iquique, Region 1, Republic of Chile



- Expect to realize the Long-Term Vision (300 kt/year copper production from interests)
- Utilize overall capabilities, advance project according to plan (lessons from Sierra Gorda)
- Consider large-scale expansion using plentiful resources



Next, I would like to brief on strategy for each business.

Please move to page 43 for Quebrada Blanca in Mineral Resources Business. It is just as I announced the other day, but in fact, I had said in the company like this In 2018, there is a high possibility that superior interest of copper mine gets underway. We could not meet such a big chance of acquisition of interest for a long time, maybe once every ten years. So, we think it has been very meaningful to acquire Quebrada Blanca on 11 May 2018.

Copper ore deposit with full of promise has been found, and sulfide deposit we can mine has been appearing near the surface with the completion of processing of oxidized ore. However, since we'll invest 4.7 billion USD to its construction, we have to keep a close eye on that and make competitive on schedule.

1) Mineral Resources (2) Stabilizing Operation of the Sierra Gorda PJ

Debottlenecking according to plan

Mineral ore processing volume: current 110 kt/day ► 130 kt/day in 2020

As **copper ore grade improves**, we forecast approx. 800 kt/year concentrate production and 200 kt/year copper production in 2021

Enhancing operation rates to **establish stable, full operation and reduce costs**

Operation rates will improve with thorough implementation of the 3S technique for conveyors and strengthening management of scheduled operation halts.

Aim for further enhancement by improving maintenance systems, etc.

Aim for cash flow to be in the black within the 2018 3-Year Business Plan



We expect to be able to be in the black in 2021 due to debottlenecking and ore grade improvement

Page 44 is for Sierra Gorda.

We've improved each operational indicators of Sierra Gorda much. With some points awaiting solution in operation much less, we are now focusing on preventive maintenance around a place next to troubles such as conveyors and chutes.

Regarding debottlenecking according to the plan above, we are going to increase profitability by establishing an enterprise to raise processing volume.

1) Mineral Resources (3) Implementation of the Côté Gold Project

We are going to utilize overall capabilities during construction phase to begin production in 2021.

<Time Frame Projection>

2017	2018	2019	2020	2021	
PFS	FS	Detailed design	Construction		Commissioning & Ramp up



From the IAMGOLD website



Page 45 is for Côté.

Time frame projection is like this, and nine personnel of our company are sent to a team of project deliberation. We are promoting Detailed Design and De-Risk, or elimination of any risks.

1) Mineral Resources (4) Hishikari Mine: Establishing a Base for Long-Term Stable Operation

1) Mineral Resources

(4) Hishikari Mine: Establishing a Base for Long-Term Stable Operation

Maintain **6 t/year gold production structure**

Use as a research location for mineral resource engineers

Acquire ore with continued exploration



Page 46 is for Hishikarari Mine, our important asset. I wished to explain it, but the time did not permit me to talk about it today.

1) Mineral Resources (5) Exploration, Acquisition of New Interests

Exploration

While the success rate of exploration is falling world-wide, proceed with careful selection of projects, and raise the success rate.



- Aggressively develop consideration of exploration and participation projects for gold and copper primarily in the Pacific Rim where there are few restrictions on development possibilities.
- Undertake exploration focused on regions with high potential by using both our own exploration and JV exploration.
- Aim for participation in exploration projects that are getting results at an early stage to raise the possibility of moving to early production.

Acquisition of new interests

- In addition to minor participation in large-scale projects, which we have done to date, proceed with negotiations with participation in middle-scale projects, too, where we can be the operator.

Regarding exploration, we continue to do it thus.

2) Smelting & Refining (1) Expand Nickel Business

Aim for **150-kt structure**
Advance the Pomalaa Project



From April 2018: Start Definitive Feasibility Study (DFS)

Expect to complete DFS in FY2019

➡ Decide on investment

If decide to participate



Production: 40 kt of Ni mixed sulfides (roughly)

Investment: Several billion US\$ (100% of the project)

Operation to start in the mid-2020s (target)

The next is a topic of Smelting & Refining.

Page 48 is for Pomalaa, and the definitive feasibility study is in progress. We expect it becomes an additional supply source of Class1 nickel and cobalt used for battery materials as a growing sector.

As for this, too, we are coping with de-risking of the investment carefully.

2) Smelting & Refining (2) Further Strengthen Production Capabilities

THPAL: Establish stable, full production structure

Eliminate unscheduled operation halts with thorough preventive maintenance
Shorten scheduled operation halts by making work more efficient
Leverage ICT technology



Toyo Smelter & Refinery: Establish a stable production structure and pursue profitability

Improve operation rates by regularly maintaining and upgrading facilities and with preventive maintenance
Expand collection of valuable secondary materials

Niihama Nickel Refinery, Harima Refinery: Continue to implement measures to improve productivity and reduce costs

Maximize HPAL by-product recovery

Scandium oxide: Quickly establish full load stable production structure and make profitable
Chromite: Design aimed at FY2020 launch, advance construction smoothly

Hyuga Smelting Co., Ltd.: Maximize production volume under a 2-kiln 1-electric furnace structure

Page 49 is for further strengthening of production capabilities.

This slide shows brief explanations of our every refinery. In THPAL, we are now considering some measures to raise capacity utilization in comparison with large reduced production because of equipment repair in FY2018.

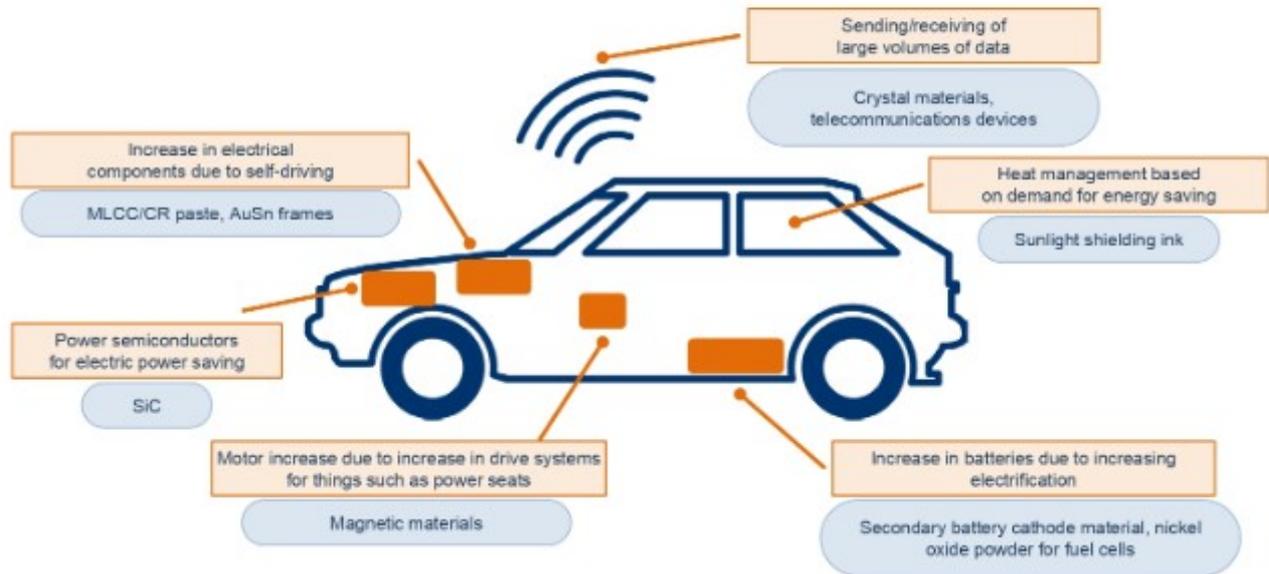
Regarding the first headline “Eliminate unscheduled operation halts with thorough preventive maintenance” is indisputable.

As for the second Shorten scheduled operation halts by making work more efficient leverage ICT technology is also beyond question. But I think it’s not only that. We are going to make a little expenditure in the development of the pipe expansion and the maintenance of heavy equipment, building the structure to catch up with some troubles.

3) Materials (1) Continuous Creation of New Products and Renewal of Business Portfolio

Make energy and the environment, and information and communications our domain, and continually create new products

Promote **CASE*** ▶ Expand opportunities for materials business



*Connected, autonomous, shared, electric

Page 50 is for Materials Business.

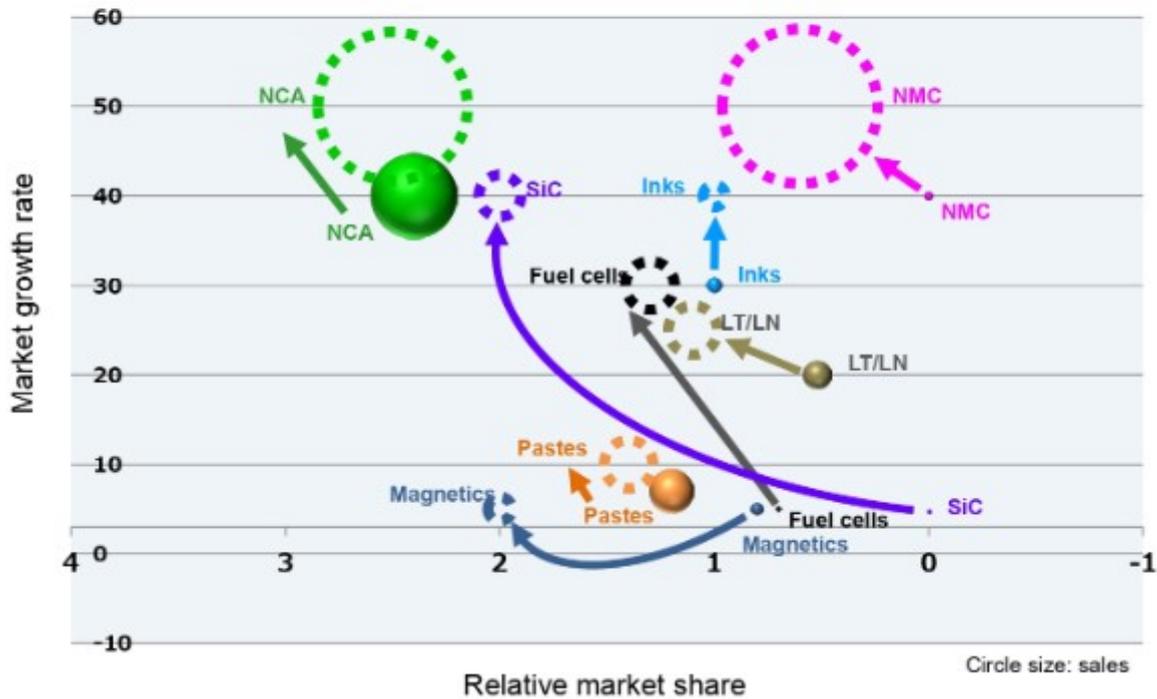
We described it like this Promote CASE, Expand opportunities for materials business. Development of digitalized society is considered as a significant trend and change that some products of our group companies can grow.

As this shows, in the automotive industry with wide ranges, our products have potential uses as you see. We have to make contact with customers in every parts department and make our technology and materials appealing to them.

As a matter of course, there are kaleidoscopic changes in technologies and in needed materials from day to day, but we will continue to create new products, making energy and the environment, and information and communication our domain in this materials.

3) Materials (1) Continuous Creation of New Products and Renewal of Business Portfolio 2

Materials business portfolio for the 2024 3-Yr Business Plan



We will touch on a future portfolio in materials business on page 51.

Since this is for the 2024 3-Year Business Plan, we set to the target in FY2025 to 2027. This is only imagine, and NCA on top and NMC on the right side mean battery materials. Any materials we are dealing with are described here.

3) Materials (2) Become Self-Sufficient as a True Core Business

Establish a strategic implementation structure for the battery materials business and sustainable growth for the advanced materials business



Page 52 is for reorganization.

We plan to reorganize battery materials division at 4 January 2019 because its scale has increased enough. We are aiming to establish a strategic implementation structure for the expanding battery materials business and sustainable growth for the advanced materials business.

Spread of xEV in fashion commoditizes cathode materials in a certain sense and generates a lot of other competitors.

So, as to win such field definitely and maximize our advantage as first movers, we are going to quicken decision-making and promote the strategies of battery materials division.

Regarding advanced materials, as we described "Clarify line management, responsibilities, and authority, each individual from division heads to each unit-leaders to have an idea "If I have to run the business alone, what should I need to know?" for our constructing system. Those elements are, for example, business strategies, operation, sales, safety, and so on.

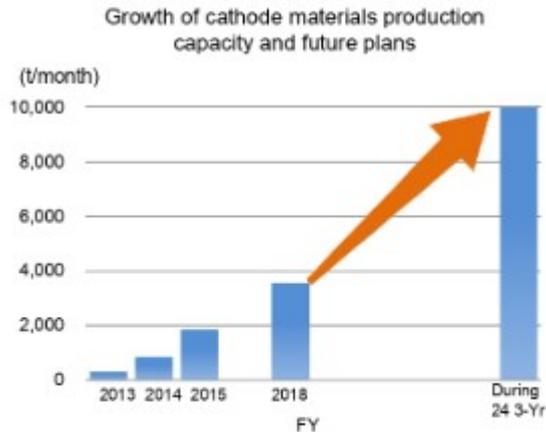
3) Materials (3) Battery Materials Business, Crystals Business

3) Materials

(3) Battery Materials Business, Crystals Business

Battery cathode materials (NCA + NMC + Nickel hydroxide)

Aim for a **10 kt/month structure**
(2024 3-Yr Business Plan)



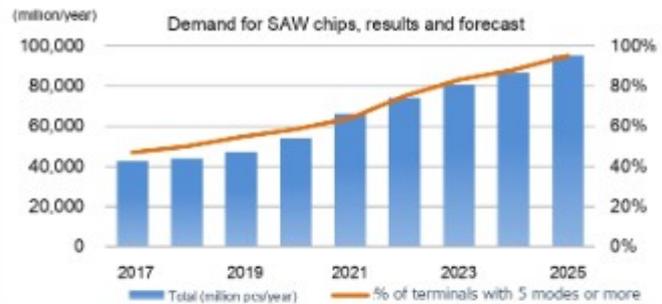
Crystal materials (LT/LN)

(Lithium tantalate / Lithium niobate)

Expansion of 5G and IoT

→ Increased demand expected

(World-wide demand for substrates: less than 500 kp/month in 2018 ⇒ 1,000 kp/month in 2025)



Crystal material (SiC) (Silicon carbide)

Aim for launch:

2020 general use

2025 automobile

Page 53 is for the future market size of battery cathode materials and Crystals.

Battery materials in future plans are at the left side of the graph, and forecast of demand for SAW chips is the right side of the graph. Thus, we are promoting our strategies with a hard look at the future, being free from the 2018 3-Year Business Plan.

4) Research & Development

Create new businesses with a view to 10 years from now

Strengthen theme proposal capabilities using **new business and new creation systems**

Acquire **new technology** related to powder synthesis, powder technology, and magnetic materials

Develop cathode materials for **all-solid-state batteries**

Develop products that customers will prefer, and stay ahead of competitors

Strengthen **battery development capabilities**

Develop **low-cost SiC substrates**

Reduce LT/LN costs and develop next-generation technology

Develop and propose new processes

Develop **lithium-ion battery recycling process**

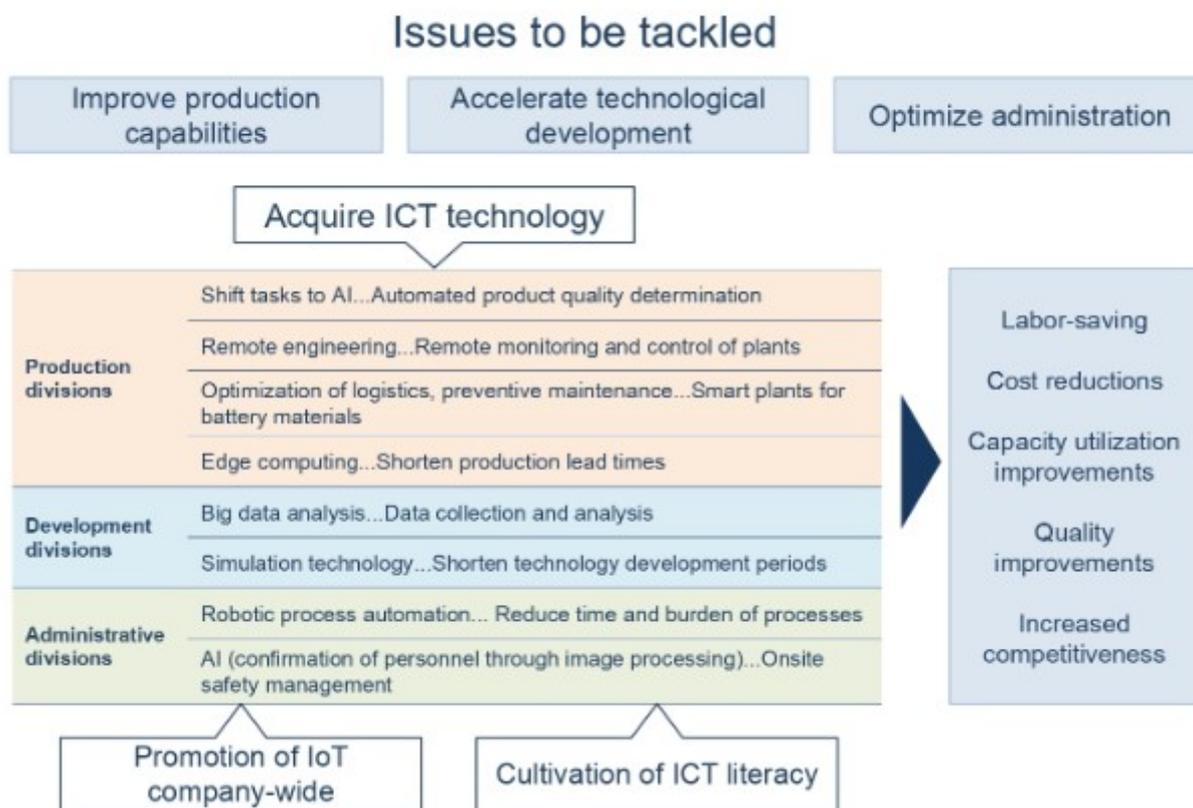


Page 54 is for research and development.

As I explained before, we plan to develop products that customers will prefer, making the best use of contacts of both our new businesses and customers.

The most important thing is the Development of lithium-ion battery recycling process at the bottom. Currently, we've recovered copper and nickel and planned to commercialize a new process of recovery of cobalt.

5) Promote Digitalization



Page 55 is for promoting digitalization. We've described our issues to be tackled.

As I mentioned it previously, we have tried to make mining operation automated and unmanned in order to save labor and ensure safety. We think it as what is due even in our future projects.

Including work style reform, we see RPA of administrative divisions at the bottom as a future significant tool and consider things similar to that.

So, that's today's topics I've hit upon highlights. In our businesses, and the development and operation of limited resources advanced materials become harder in various aspects day by day.

However, in fact, we've improved operating results painstakingly and with steadiness.

Thank you all for your attention.

Question and Answer session.

Q Giving a glimpse to Teck's documentation regarding Quebrada Blanca, it looks like large-scaled mine such as Morenci and Cerro Verde with stripping cost much less. What do you think about it?

Nozaki : As for the Quebrada Blanca project, we've known about it since a long time

ago. At that time, the estimation of the mine was enough. With the exploration progressing, its potential ore deposit was found at the bottom and re-evaluated as large-scale mine.

As you said, I remember the stripping ratio is 1 to 0.7, maybe. In other words, whereas in ordinary mine you should strip 2 or 3 to mine 1 ore, in Quebrada Blanca you will do only 0.7. In a cost-wise sense, the mine is very stronger.

Besides that, since the amount of volume is richer, the long mine life can be expected. To be honest, we ourselves expect it will become the mine such as Morenci and Cerro Verde.

Q If unfortunately, should you have given up the Pomalaa project as a result of FS, there would have been a risk of delay in your plan of integration such as getting materials from the mine and creating battery products from them.

Nozaki It's true that we start up the project with ease as you assumed if a story, but we always consider the new process of Smelting & Refining of nickel. Preparing for realizing such ideations as the second and third measure, we apologize it's hard to say here about what that is.

Q May I ask for further information on Sierra Gorda's increasing ore grade?

Nozaki Regarding the Sierra Gorda, it's only profiling matter of ore deposit of the mine. Maybe in 2020, on its peak, we'll reach the most high-grade deposit and can expect increasing processing volume and copper amount.

Q As for materials business, you've made the overview of production only to FY2024, a little later. I would like to get which one you plan to strengthen in the 2018 3-Year Business Plan. And, my impression is that minor resource constraints of an upstream process would be a bottleneck until Pomalaa start. What 'on your mind?

Nozaki Regarding materials business, we've considered battery materials as the core. It's true that we described only investment of 35 billion yen on materials business for the 2018 3-Year Business Plan period without touching on a scale. But now, demands from our customers are increasing and we have to catch up with it.

I think you are asking about bottleneck of raw materials in a case that operation of the Pomalaa project got behind schedule. We could deal with it enough by partly using available other raw materials corresponding to our supply of nickel and cobalt

Q About Sierra Gorda, you forecast the large increase in production.

For page 67 (Analysis of Profit before Tax), my impression is that certainly, cash flow at FY2021 looks net positive, but profit does not. What strategies can you plan for increasing it more?

Nozaki I think you are asking about a possible strategy to improve more profitability of the Sierra Gorda. In the current situation, the operation sometimes stops due to break of a belt conveyor or part of the equipment. There are some troubles due to such a hard operation, but we are trying to raise operation rates by preventive and improving maintenance.

Regarding the operation of the copper mine, it's according to this formula: multiply raw ore grade by grade of ore for refining, operational rate of equipment, and recovery rate of ore dressing. There is no choice but to raise each parameter of those elements. We have to make steady efforts from now.

Q I would like to ask you about Capital Expenditure and investment and financing. At the start of your explanation, you touched on how do you think about your business environment and said that your businesses entered maturity stage different from the previous business plans. I am wondering why did you make a decision to expand capital expenditures despite it reached the grown period. This would be my first question.

And as the actual content of investment, for example with Smelting & Refining, you planed 160 billion yen or more. What do you consider on the effect of capital expenditures as maintenance, in a potentiated sense, such as recovery of existing facilities, getting with any troubles, and renewal due to aging? And regarding another question about investment and financing, although you said it would be later, I would like to know about analytics of contents rather than those of capital expenditures by divisions, or I would appreciate if you could tell me about, in both renewal and strengthening, the effect and term to harvest with its background.

Nozaki I think you are asking about investment and our business maturity in a sense. Almost all the growth strategies have become profitable since these 15 years, and to our regret, we did withdraw a few. Maturity means they have come to be one of the business foundations or our ordinary operation.

Although it is still great, those who have been satisfied at this step would wither. We are going to enter the new stage like Act 2, climbing up a ladder of growth to date. Not that our company is in the term of maturity, it's just encouraging to the next growth.

And page 37 is for investment, and we did not disclose the details this time. Going over every fiscal year investment plan might help you understand. As you said, certainly it's ordinary to count it as investment and financing if in overseas business. But as for what we will be major like Pomalaa, we consider it an investment. As I mentioned before, since some of these investments are undecided and pending in funding, it's only how we distinguished them in this perspective.

About Quebrada Blanca, since the construction plan is at the final stage, we plan to start its production in 2021. As an effect, it will be the first.

Although 2021 is the final year in the business plan, we do not think it'll have been profitable so much until that time because this term is for commissioning and ramp-up.

It's unlikely that the production would be 240,000 Ton swiftly and unclear when the project could start during 2021. Again, as an effect, this is the most certain.

Q Let me confirm the target number of profit as the long-term.

First of all, with considering in your company's character, it's questionable if committing to the amount such as 150 billion yen as profit is good for you. And regarding these "effect of strategy" and "+ α ", what generates the delta?

As a matter of course, "in long-term vision" may not mean "in infinite time". Would you mind giving me an explanation of contribution and commission to both 40 billion yen of an effect of strategy and 10 billion yen of + α if actually, you are targeting around 2024?

Nozaki As for 150 billion yen as profit target, you are right, and we never set the target on counting. First of all, it's just a result of calculation of the effect of strategy with a certain condition. If any projects worked properly, the effect of strategy could result in 40 billion yen.

Then, regarding 10 billion yen as "+ α ", though nothing I can say surely, as I talked before, we have to expand the process with corresponding to each mineral resources development business since our company has in-house material flow. Besides that, we have to increase production capacity for those materials. So, we can expect more premium or such effect, and other unprecedented projects will be born, of course.

For that, we contact closely to major mineral resources and make ourselves appealing to them. In fact, "maintain the financial structure" also have a similar meaning to that. At first, most potential partners likely to ask us "Do you have financial backbones?" and judge whether we worth as a partner. We can not miss any chance in this phase.

Q Seeing the document of page 67 (Analysis of Profit before Tax), I got a question in my mind. It is about the factor of improvement of "other 16 billion yen". Besides it, I heard that 70 billion yen as lost profits because of reduced production and some troubles for the 2015 3-Year Business Plan previously. So, could not you recovery of it during this 2018 3-Year Business Plan period?

Nozaki Regarding negative factors such as cost differential and reduced production for the 2015 3-Year Business Plan term, with considering in current situation, for example, reduced production of overseas mine by a little deterioration of copper ore grade, it is hard to recover rapidly. Moreover, it's unclear in a progression, and we are reconsidering the current situation, so the recovery may not be realized within the 2018 3-Year

Business Plan period. However, this depends on a condition of enough operation of THPAL, and cost likewise.

All current things considered, the whole recovery of these cannot be expected.

And concerning “other 16 billion yen” on page 67, there were some transitory negative factors such as royalty for Cerro Verde in FY2018. Since it’s only once, this part will be improved.

Q About shareholder return, in my perspective, you could have a number of options such as setting the minimum value of dividends. But you’ve made a decision like a “consolidated dividend payout ratio raised to 35% or higher”. I would like to know the contents of the discussion of it.

Nozaki Regarding consolidated dividend payout ratio raised to 35% or higher, there were pros and cons in our company like this “is it true to raise the ratio under the circumstances including large-scale investments and negative cash flow”. In a sense, we ask our stakeholders about management for the next three years through the mid-term business plan. Since our management itself is based on a long-term vision, we wish you would be our longtime stakeholders.

We are sure this large-scale investment contributes to future return, so no need for a conditional clause like “I’ll return if that time comes”. If we in return continuously, the financial structure can be maintained, so this reflects SMM management’s resolve to increase shareholder return as much as possible.

In a world we’ve lived in, there is no theoretical value as for consolidated dividend payout ratio. As you have pointed out, we considered it over and over but finally decided like that.

Q Regarding increasing battery materials, and say either, uncertainty, my impression is that it has been caused by your customer side needs and capacity including lands.

Nozaki As you said, the future of the development of battery materials is very severe. There are so many unpredictable elements; nobody knows what kind of batteries would be used in the future, how would the world’s supply system change or not, and would the EV become one of the profitable resources.

We are now dealing with only Panasonic and Toyota. Conversely, it’s almost over our limits only with these two companies, so we have not increased our capacity or conducted the marketing widely.

Under such a situation, as a result of discussing with various customers, we described as one possible portfolio here. It is another problem whether we can have met the

demands of customers. Also, capital expenditure is becoming really large. Regarding those elements and our capacity, it is calculated.

Q As you explained before, you have planned to strengthen cooperation with the overseas partner corporates and enhance your ability to carry out dialogue with them. In my understanding, that implies you will commit to researching and planning to mine more than before because of this time deterioration of ore grade.

However, it may be not easy to carry your opinion to operation majority. Taking into consideration increasing cost, would you mind talking more about what is your awareness of the issues?

Nozaki It's true about dialogue with the overseas mine partner corporates, and we have participated as a minority. So, it's common to have priority over majority opinions. Although there is a long-term mining plan in operation of overseas mines, there is sometimes accident such as the place we mined was not what we expected. In that kind of cases, mining plans might change for long-lasting mine and so far.

Regarding our ability to carry out dialogue with partners, in a sense, handling natural resources are always affected by natural phenomenon, and so is the operating schedules of mines. However, we need to know and reflect those changes to our management straightaway otherwise the fluctuation of profits will grow and stakeholders would surely feel uneasy about it.

Knowing it, the division concerned has a committee once in a quarter, and people discuss the operating project; Is there something unexpected currently, or there might be these kinds of things and what would they do if something really happens. We ask and dig deep the discussion to provide instructions.

Q I have two questions concerned with Profit (Loss) before tax on page 67. One is, there is a statement 10 billion yen (plus) in Material Business, may I ask the production amount of battery cathode materials premised?

Another one is, how would be the NMC(nickel, manganese, cobalt) in the mid-term plan? I mean, now your company is having only NCA for mainly Tesla and Toyota as a profitable resource. Is there any estimation in a change of this circumstance included in 2018 3-Year Business Plan? Also, while cobalt remains downward numbers, let me ask how are you going to make profits such as 10 billion yen.

Nozaki I understand your questions as these two; "Would the main profitable resource among Material business be batteries or not?" "Is that predicted in profits of 2021?" Just for that, since we have policies between our customers I cannot give much of descriptions. But, certain growth in the battery business is likely to be achieved.

Although I cannot mention it here, comments such as our plan about strengthening in investment plan for a fiscal year might imply its contents. Thank you.

Q My question is concerned with Capital Expenditure, Investment, and Financing on page 37. I doubt that there are some parts to be determined yet, but if there is anything settled, would you touch on those?

Nozaki One of the things I can break down Capital Expenditure, Investment, and Financing on page 37, is Quebrada Blanca. This is almost fixed and clear. Exclusively, we are now having a discussion about funds with Teck. We are regarding this case as investment and lending in a stable assumption, however, its scale and proceeding speed could not be mentioned yet.

Others would be the current status of Pomalaa and battery materials as I talked before, both projects have already simulated those procedures and amount of funds needed. These two are itemized as an investment, but especially overseas projects such as Pomalaa 's future is totally unpredictable. So I would like you to understand that those numbers have numerous presuppositions behind.

このシリーズのほかのログ



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