Information Disclosure on the Internet Regarding the Notice of the 97th Ordinary General Meeting of Shareholders

Sumitomo Metal Mining Co., Ltd.

The Company provides information to its shareholders by posting on the Company's website (https://www.smm.co.jp/) in accordance with the laws and regulations and Article 16 of the Articles of Incorporation of the Company.

Business Report

Matters related to the development of systems necessary to ensure the properness of operations

In addition to the resolution of the Board of the Directors on the establishment of a system, etc., to ensure the properness of operations, the Group monitors the system, etc., every fiscal year to confirm that it is being properly established and operated, and reports the results to the Board of Directors, standing Audit & Supervisory Board Members, and the Internal Control Committee. As a result of the monitoring during the current fiscal year, we confirmed that the Group's internal controls are being properly operated, although there are some issues. We are continuously working to improve the issues identified through monitoring by focusing on them in the following fiscal year.

The following is a summary of the details of the resolution regarding the establishment of a system, etc. to ensure the properness of operations of the Company, as well as a summary of the status of its operation (as of March 31, 2022).

(1) Summary of details of the resolution

1) Basic policy

The building of internal control is one of the most important management issues for ensuring the sustained growth of the Group. With regard to the matters referred to in item 2) onward, the policy is to build a structure in which the Group officers (including executive officers, both here and hereinafter) and employees can all play their respective roles and responsibilities that are clearly defined, and to build a structure that can be revised in a timely and appropriate manner and improved constantly.

2) Systems to ensure that the performance of duties by the Company's Directors and employees conforms with laws and regulations and the Articles of Incorporation

a. The Company endeavors to nurture a corporate culture in which duties are performed in a sound and legally compliant manner, by having officers set an example of compliance with the SMM Group Code of Conduct, which sets out the standards of conduct required of officers and employees, and by having officers educate employees and ensure they are thoroughly acquainted with it.

b. The system in place is one in which, based on the Regulations of the Board of Directors, agenda items and matters reported at meetings of the Board of Directors are compliant with the Companies Act. In addition, important management matters are considered from various perspectives, including legality, from an expert's standpoint, either in meetings or by means of an internal memorandum, in accordance with internal regulations, etc.

c. With regard to the status of the performance of duties by officers and employees, internal audits by the Internal Audit Department are conducted. The Internal Audit Dept. regularly reports to the Board of Directors regarding internal audit plans for the current fiscal year and summary of the internal audit for the previous fiscal year (including status of management if a critical problem was discovered).

d. Also in place is an internal reporting system to ensure that, if the performance of duties by officers or employees is in violation of laws, regulations, the Articles of Incorporation, etc., the said violations do not go ignored or unaddressed.

3) Systems for the storing and management of information relating to the performance of duties by Directors of the Company

Minutes of General Meetings of Shareholders, minutes of Board of Directors meetings, internal memorandums, and other information relating to the performance of duties by officers are stored and managed appropriately in accordance with laws and regulations, the internal regulation, and other rules.

4) Regulations and other systems relating to management of risk of loss by the Company

a. To address risk management, internal regulations have been established and are being applied systematically in each organization. Units that include management personnel have been established to pursue this implementation. The President has overall control of risk management as the senior officer responsible, and this activity is conducted systematically on a company-wide basis.

b. With regard to specific individual risks, internal regulations, etc. have established and are being managed in accordance with the established risk management system.

5) Systems to ensure that the Company's Directors perform their duties efficiently

a. The Executive Officer system has strengthened those officers' executive capabilities by clearly defining their authority and responsibilities and delegating substantial authority to them. Specifically, the Executive Officers are entrusted with important positions such as heading a business division, or a division or a department at the Company's head office, and are granted specific authority to perform their duties in each such position.

b. Appropriate allocation of management resources within the Group is conducted in accordance with 3-Year business plans, budgeting systems, etc. In addition, performance-management systems enable the progress of business plans within the Group to be managed, and a system is in place under which performance assessments can be reflected in the remunerations of management and other personnel.

6) Systems to ensure the appropriateness of business within the corporate group comprising the Company and its subsidiaries

a. System for the reporting to the Company of matters relating to the performance of duties by Directors, etc., of subsidiaries

A system has been built to enable prior consultation, etc., with the Company to take place in accordance with internal regulations and rules when decisions are taken on important management matters at subsidiaries. Another system has been built for reporting to the Company regularly with regard to business results and whenever important business matters arise.

b. Regulations and other systems relating to management of risk of loss by subsidiaries

In accordance with internal regulations, a system has been built for the promotion and monitoring of risk management at subsidiaries in a manner tailored to accord with factors such as the characteristics of the business being conducted and of the local region.

c. Systems to ensure that subsidiaries' Directors, etc., perform their duties efficiently

(a) By means of 3-Year Business Plans, budgeting systems, etc., a system has been built to indicate the Group's management policies to subsidiaries and to make it possible for the Company to participate in the formulation of subsidiaries' business plans and budgets.

(b) A system has also been built for assigning officers from the Company to subsidiaries and making it possible for them to participate in decision-making and other tasks with regard to important management matters at subsidiaries.

d. Systems to ensure that the performance of duties by subsidiaries' Directors, etc., and employees conforms with laws and regulations and the Articles of Incorporation

(a) The Company has built a system for nurturing a corporate culture in which duties are performed at subsidiaries in a sound and legally compliant manner, by establishing the SMM Group Code of Conduct that is in principle applicable to all subsidiaries, by having officers at each subsidiary set an example of compliance with the code, and by having those officers educate the subsidiary's employees and ensure they are thoroughly acquainted with it.

(b) With regard to the status of business execution at subsidiaries, internal audits by the Company's Internal Audit Dept. are conducted. The Company's Internal Audit Dept. reports to the Board of Directors regards to the internal audit plans for the current fiscal year and summary of the internal audit for the previous fiscal year at subsidiaries, including status of the management if a critical problem was revealed.

(c) Also in place is an internal reporting system to ensure that, if the performance of duties by subsidiaries' officers or employees is in violation of laws, regulations, the Articles of Incorporation, etc., the said violations do not go ignored or unaddressed.

7) Matters relating to employees in cases in which Audit & Supervisory Board Members request the assignment of employees to assist them in their duties

As employees to assist the Audit & Supervisory Board Members, secretariats are allocated to the Audit & Supervisory Board. The number, the qualities and the work schedule of the secretariats will be decided based on discussions with the Audit & Supervisory Board Members.

8) Matters relating to ensuring the independence from directors of the employees referred to in 7) above and the effectiveness of instructions to those employees

a. If there are to be staff changes among Audit & Supervisory Board secretariat personnel, the Audit & Supervisory Board Members will be consulted in advance.

b. If Audit & Supervisory Board secretariat personnel do not abide by Audit & Supervisory Board Members' instructions, and Audit & Supervisory Board Members request they be replaced or otherwise addressed, such a request will be dealt with seriously.

9) Systems for the Company's Directors and employees, as well as subsidiaries' Directors, Auditors, and employees, to report to the Company's Audit & Supervisory Board Members

a. A system has been built to ensure that matters required to be reported to the Company's Audit & Supervisory Board Members pursuant to the Companies Act or other laws are certain to be so reported, by prescribing matters to be reported to the Board of Directors in the Regulations of the Board of Directors and other internal regulations.

b. If illegal acts, etc., occur within the Group, they are reported to the Company's standing Audit & Supervisory Board Members in accordance with internal regulations.

c. With regard to the status of use of the internal reporting system, they are reported to the Company's standing Audit & Supervisory Board Members in accordance with internal regulations.

d. The results of internal audits by the Company Internal Audit Dept. relating to the status of execution of the Group business are reported to all Audit & Supervisory Board Members of the Company.

10) System for ensuring that the persons reporting incidents referred to in 9) above do not receive unfavorable treatment because they have made those reports

It is stated explicitly in internal regulations, etc., that it is prohibited to give unfavorable treatment to persons using the internal reporting system because they have used the said system.

11) Matters relating to policy on procedures for the prepayment or reimbursement of expenses arising in relation to the performance of duties by Audit & Supervisory Board Members or on other treatment of expenses or debts arising in relation to the performance of the said duties

When Audit & Supervisory Board Members request the Company to prepay or reimburse expenses, etc., in relation to the performance of their duties, the said expenses or debts are dealt with pursuant to the Companies Act.

12) Other system for ensuring that audits by Audit & Supervisory Board Members are conducted effectively

a. When important management meetings are held, such as Management Committees, Audit & Supervisory Board Members are given the opportunity to attend them in accordance with internal regulations and rules.

b. Internal memorandum documents to be approved by the president are shown to the standing Audit & Supervisory Board Members, with the exception of items specified by standing Audit & Supervisory Board Members.

(2) Summary of the status of operation

1) Matters related to compliance

a. The Group educates its corporate officers and employees on the SMM Group Code of Conduct, as well as on legal knowledge and compliance.

b. The Compliance Working Group was established to exchange information on the Group's compliance promotion, etc., and two sessions were convened in the current fiscal year.

c. The Group has established the information provision system, which is continuously disseminated to corporate officers and employees.

2) Matters related to execution of duties by Directors

a. The Company held 18 meetings of the Board of Directors (12 regular meetings and six extraordinary sessions) in fiscal 2021.

b. The Company's Regulations of the Board of Directors stipulate matters determined by and reported to the Board of Directors in compliance with the Companies Act, and the Company has confirmed that such matters are properly determined by and reported to the Board of Directors. In addition, important management matters are deliberated at the Management Committee and other meetings as necessary.

c. The Company has confirmed that minutes of the General Meeting of Shareholders, minutes of the Board of Directors meetings, internal memorandum documents, and other information related to the execution of duties by corporate officers are properly stored and managed in accordance with laws and regulations, and the internal rules.

d. The Company adopts the Executive Officer system and strives to strengthen the execution function by clarifying authority and responsibility and delegating significant authority in accordance with the internal rules. The Company also established the 3-Year Business Plan, formulates budgets each fiscal year, and allocates management resources appropriately.

e. The Company manages the progress of the management plan using the performance management system and reflects the results of performance evaluations in the remunerations for top management, etc.

3) Matters related to internal audit

a. The Internal Audit Dept. reports to the Board of Directors regards to the internal audit plans for the current fiscal year and summary of the internal audit for the previous fiscal year, including status of the management if a critical problem was revealed.

b. The Internal Audit Dept. conducts internal audits and reports results to the president and executive officers responsible for the Internal Audit Dept. The reports are also made available to all of the Audit & Supervisory Board Members.

c. The Internal Audit Dept. conducts evaluations of internal controls under the Financial Instruments and Exchange Act, and reports the results to the president and the executive officers in charge of the Internal Audit Dept. at internal reporting meetings, etc.

4) Matters related to risk management

a. The President determines the annual policy in accordance with the internal rules, and the Group formulates and implements a risk management plan. Furthermore, internal audits of risk management are conducted to examine and evaluate the status of the operation of the risk management system.

b. The Risk Management Working Group was established to promote and monitor the Group's risk management and two sessions were convened in the current fiscal year.

c. The Group's individual risks (quality control, environmental management, crisis management including earthquake disaster, etc.) are addressed by establishing regulations and a risk management system.

5) Matters related to management of subsidiaries

a. The Company's internal rules stipulate matters to be pre-consulted and reported by its subsidiaries to the Company, and the Company confirmed that these matters have been properly carried out.

b. Regarding the promotion and monitoring of risk management at subsidiaries, the Company has confirmed that a risk management plan has been formulated and implemented at each subsidiary, taking into consideration the characteristics of each business, region, etc., and that periodic reviews have been conducted.

c. The Company confirmed that the Group's budgeting policy is disseminated through the divisions in charge at its subsidiaries, that the formulation of the 3-Year Business Plan at subsidiaries is a matter of prior consultation with the Company, and that the formulation of annual budgets is a matter of approval by the Company, and that prior consultation and approval are appropriately carried out.

d. The Company has established a system to dispatch corporate officers to its subsidiaries so that it can be involved in decision-making on important management matters of the subsidiaries.

e. In principle, all subsidiaries have adopted the SMM Group Code of Conduct, and employees at each subsidiary are informed and trained to comply with the Code.

f. The Company's Internal Audit Dept. reports to the Board of Directors regards to the internal audit plans for fiscal 2021 and summary of the internal audit for the previous fiscal year, including status of the management if a critical problem was revealed.

g. Internal Audit Dept. of the Company conducts internal audit of its subsidiaries, and reports the results to the President of the Company, the executive officers, etc. in charge of the Internal Audit Dept., and the executive officers, etc. in charge of the subsidiaries at internal reporting meetings, etc. The reports are also made available to all of the Audit & Supervisory Board Members of the Company.

6) Matters related to the Audit & Supervisory Board Members

a. The Company has established a Secretariat of the Audit & Supervisory Board, with four secretariat personnel (two dedicated and two also serving concurrently). As for the current fiscal year, two dedicated secretariat personnel have been allocated due to requests from Audit & Supervisory Board Members to allocate dedicated personnel.

b. The Company stipulates matters to be reported to the Board of Directors in the Regulations of the Board of Directors, etc., and confirmed that the matters to be reported to the Audit & Supervisory Board Members are appropriately reported as stipulated. In addition, in accordance with the internal rules, the Company reports to the standing Audit & Supervisory Board Members in the event of any violations within the Group, as well as the status of the use of the Information Provision System once every six months. The results of the Group’s internal audits are shared with the standing Audit & Supervisory Board Members at internal reporting meetings, etc.

c. The Company informs the Audit & Supervisory Board Members of convening important management meetings such as the Management Committee, and opportunities shall be provided for the Audit & Supervisory Board Members to attend such meetings. Internal memorandum documents that are approved by the President shall be made available to the standing Audit & Supervisory Board Members, excluding such documents specifically designated by the standing Audit & Supervisory Board Members.

Basic policies related to the way a person is to control the decisions on the financial and business policies of the Company

(1) Summary of details of the basic policy

The Company will not unconditionally reject a large-scale acquisition of the shares from the outset if it will contribute to the corporate value of the Company and the common interests of its shareholders. The Company also believes that any decision on a proposed acquisition that would involve a change of control of the Company must ultimately be made by its shareholders as a whole.

Nonetheless, there are some forms of large-scale acquisition of the shares that deteriorate the corporate value of the target company and the common interests of its shareholders.

The Company also believes that persons who would make a large scale acquisition of the shares in the Company that deteriorate the corporate value of the target company and the common interests of its shareholders would be inappropriate to become persons who would control decisions on the Company s financial and business policies. The Company also believes that it is necessary to ensure the corporate value of the Company and, in turn, the common interests of its shareholders by taking the necessary and reasonable countermeasures against a large scale acquisition by such persons.

(2) Summary of specific details of efforts to realize the basic policy

1) Summary of special efforts to contribute to the realization of the basic policy

Under its long-term vision of becoming “a major force in the non ferrous metal industry,” announced on February, 2019, the Company is continuously promoting growth strategies for the “Mineral Resources,” “Smelting and Refining,” and “Materials” businesses. Specifically, the Company aims to expand its Mineral Resources Business and Smelting & Refining Business through establishing an annual production capacity of 150 kt for nickel and realizing an annual production volume of 300 kt for copper interests, while for gold, the Company aims for new participation in mining operations by acquiring quality interests. In addition, in its Materials Businesses, the Company further aims to continue to grow its business through realizing an annual profit before tax of 25.0 billion yen including from new materials.

The Company has established a policy of having one third or more of its Directors be nominated as independent outside Directors, aiming for more transparent management, and on the basis of this policy, this policy, the Company has eight Directors, including three independent Outside Directors. In addition, the Company has nominated two Outside Audit & Supervisory Board Members out of four Audit & Supervisory Board Members. In judging the independence of Outside Directors and Outside Audit & Supervisory Board Members, the Company complies with the requirements for outside officers provided for in the Companies Act, the criteria for independence prescribed by Tokyo Stock Exchange, Inc., and the criteria for independence prescribed by the Company. According to such criteria, the Outside Directors and Outside Audit & Supervisory Board Members of the Company are all independent from the Company, and the Company has submitted notification of their appointment to Tokyo Stock Exchange, Inc. as independent officers pursuant to the regulations of the Exchange. Also, in relation to nominations, remunerations and other such matters pertaining to Directors and Executive Officers and matters regarding corporate governance, the Company convenes a Governance Committee (chaired by an Outside Director) whose members are the Chairman of the Board (who is not an Executive Officer) and the Independent Outside Directors (so that a majority of the members of the Governance Committee are Independent Outside Directors), and obtains advice from the Governance Committee from an objective standpoint. In addition, based on the self evaluation of Directors and Audit & Supervisory Board Members, the Board of Directors conduct s the assessment with external law firm to further enhance the effectiveness of the Board of Directors. Furthermore, the Company strives to enhance the business execution function of the executive officers by clarifying their authority and responsibilities and delegating significant authority to them.

2) Summary of measures to prevent decisions on the Company's financial and business policies from being controlled by persons deemed inappropriate under the basic policy

At the Board of Directors meeting held on February 14, 2019, the Company resolved to renew "the countermeasures to large-scale acquisition of the Company's shares (Takeover Defense Measures)", which were approved by a majority of shareholders at the 94th Ordinary General Meeting of Shareholders held in June 2019 (the renewed countermeasures are hereinafter referred to as the "Plan").

The purpose of the Plan is to enable the Company's Board of Directors to present an alternative proposal to the shareholders or ensure necessary time and information for the shareholders to decide whether or not to accept the large-scale acquisition proposal, and to deter large-scale acquisitions that are detrimental to the corporate value of the Company and the common interests of its shareholders.

The Plan sets out procedures necessary to achieve the purpose stated above, including requirements for acquirers to provide information in advance in the case that the acquirer intends to make an acquisition of 20% or more of the Company's share certificates or other equity securities.

In the event that an acquirer does not follow the procedures set out in the Plan or if a large-scale acquisition of shares in the Company satisfies the triggering requirements set out in the Plan such as the large-scale acquisition may damage the corporate value of the Company and, in turn, the common interests of its shareholders, the Company may allot share acquisition rights with (a) an exercise condition that does not allow the acquirer to exercise the rights as a general rule, and (b) an acquisition provision to the effect that the Company may acquire the share acquisition rights in exchange for shares in the Company from a party other than the acquirer, by means of a gratis allotment of share options to all shareholders, except the Company, at that time. If a gratis allotment of the share acquisition rights were to take place in accordance with the Plan and all shareholders other than the acquirer received shares in the Company as a result of those shareholders exercising or the Company acquiring those share acquisition rights, shares in the Company will be issued in the range of one-half to one share per share option, as a general rule. Therefore, the ratio of voting rights in the Company held by the acquirer may be diluted by up to a maximum of approximately 50%.

In order to eliminate arbitrary decisions by Directors, the Company will, in accordance with the Rules of the Independent Committee, establish the Independent Committee, which is solely composed of members who are independent from the management of the Company such as Outside Directors of the Company to make objective decisions with respect to matters such as the implementation or non-implementation of the gratis allotment of the share acquisition rights or the acquisition of the share acquisition rights under the Plan. In addition, the Company's Board of Directors will, if it implements the gratis allotment of the share acquisition rights in accordance with the Plan, convene a General Meeting of Shareholders and confirm the intent of the Company's shareholders except for a case there is no time required to hold a General Meeting of Shareholders.

Transparency with respect to the course of those procedures will be ensured by timely disclosure to all of the Company's shareholders.

The effective period of the Plan will be, in principle, the period until the conclusion of the 97th Ordinary General Meeting of Shareholders to be held in June 2022.

Note: Due to the recent trends of post-offer takeover defense measures and based on communications with institutional investors, the Plan was resolved to not be renewed at the Board of Directors meeting held on February 15, 2022.

(3) Decisions of the Company's Board of Directors regarding specific efforts and the reasons for such decisions

Our 3-Year Business Plan and each of the measures already implemented to strengthen corporate governance were formulated as specific measures to continuously and stably enhance our corporate value and the common interests of our shareholders, and are exactly in line with the Company's basic policy, and are not intended to maintain the status of our corporate officers.

In addition, the Plan was introduced for the purpose of securing and enhancing the corporate value of the Company and the common interests of its shareholders, and is in line with the Company's basic policy. In particular, the fairness and objectivity are secured for the Plan, which contributes to the corporate value and common interests of shareholders, and is not intended to maintain the status of the Company's corporate officers by the following reasons: the Plan was approved by shareholders at the 94th Ordinary General Meeting of Shareholders, the reasonable and objective requirements are set out as its content, the Independent Committee is set, which consists only of Outside Directors, etc. who have independent status, and it must be subject to the judgment of the Independent Committee whenever the Plan is triggered, the Independent Committee may receive advice from third-party experts at the Company's expense, and the effective period of the Plan is three years in principle and the Board of Directors of the Company may at any time determine to terminate the Plan even before the expiration date.

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Notes on the Consolidated Financial Statements

1. Notes, etc., on matters serving as basis for the preparation of consolidated financial statements

   (1) Basis for preparation of consolidated financial statements

   The consolidated financial statements of the Company, which consist of the Company and its subsidiaries (the “Group”) and the Company’s interests in its associates and joint ventures, have been prepared in accordance with International Financial Reporting Standards (“IFRS”), in application of the provisions of Article 120, paragraph (1) of the Regulations on Corporate Accounting. In accordance with the latter part of the said paragraph, certain description and disclosure items required by IFRS are omitted.

   (2) Matters related to the scope of consolidation

   Number of consolidated subsidiaries: 52

   Consolidated subsidiaries are as follows.

   [Mineral Resources business] 17 subsidiaries

   Sumitomo Metal Mining America Inc., Sumitomo Metal Mining Arizona, Inc., SMM Morenci Inc., Sumitomo Metal Mining Oceania Pty. Ltd., and 13 other companies

   [Smelting & Refining business] Eight subsidiaries

   Hyuga Smelting Co., Ltd., Coral Bay Nickel Corporation, Taganito HPAL Nickel Corporation, and five other companies

   [Materials business] 20 subsidiaries

   Ohkuchi Electronics Co., Ltd., Shinko Co., Ltd., Sumitomo Metal Mining Siporex Co., Ltd., and 17 other companies

   [Others] Seven subsidiaries

   JCO Co., Ltd., and six other companies

   SMM Sierra Gorda Inversiones Limitada., SMM-SG Holding Inversiones SpA, and SMM Holland B.V., which were consolidated subsidiaries in the previous fiscal year, are excluded from the scope of consolidation from the current fiscal year due to the completion of their transfer.

   (3) Matters related to application of equity method

   Number of entities accounted for using equity method: 13

   Entities accounted for using equity method are as follows.

   Compania Contractual Minera Candelaria, Sociedad Minera Cerro Verde S.A.A., Quebrada Blanca Holdings SpA, Mitsui Sumitomo Metal Mining Brass & Copper Co., Ltd., FIGESBAL SA, Nickel Asia Corporation, and N. E. Chemcat Corporation

   [Others] Six companies

   Sierra Gorda S.C.M., which was an entity accounted for using equity method in the previous fiscal year, is excluded from the scope of application of the equity method in the current fiscal year due to the completion of transfer of SMM Sierra Gorda Inversiones Limitada which was holding all of its equity interests.

   (4) Matters related to accounting policies

   1) Valuation basis and method for financial assets

      a. Non-derivative financial assets

(a) Initial recognition and measurement

The Group classifies non-derivative financial assets into financial assets measured at fair value through profit or loss, or other comprehensive income, and financial assets measured at amortized cost. The Group determines such classification at the time of initial recognition. A regular way purchase or sale of financial assets is recognized or derecognized on the date of transaction.

Unless classified into those measured at fair value through profit or loss, all financial assets are measured at fair value added with transaction costs directly attributable thereto, provided.

However, trade receivables not containing a significant financing component are subject to initial measurement at the transaction price.

a) Financial assets measured at amortized cost

Financial assets that meet both of the following conditions are classified into financial assets measured at amortized cost.

- Financial assets are held based on the business model whose objective is to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

b) Financial assets measured at fair value

Financial assets other than those measured at amortized cost are classified into financial assets measured at fair value.

Of the financial assets measured at fair value, equity instruments are individually measured at fair value through profit or loss, unless the Group makes an irrevocable election to present subsequent changes in fair value in other comprehensive income.

(b) Subsequent measurement

Measurement of financial assets after the initial recognition is as follows, depending on respective classifications.

a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are, subsequent to initial recognition, measured at amortized cost by using the effective interest method. Amortization by using the effective interest method, as well as gains and losses associated with derecognition, are recognized as part of finance income through profit or loss in the current period.

b) Financial assets measured at fair value

Financial assets other than those measured at amortized cost are measured at fair value, where changes in fair value are recognized in profit or loss, or in other comprehensive income, depending on the classification of such financial assets. Dividends from such financial assets are recognized as part of finance income through profit or loss in the current period.

(c) Impairment of financial assets

To determine the recoverability of financial assets measured at amortized cost, expected credit loss is estimated at the end of each period.

For financial assets with no significant increase in credit risk associated therewith since initial recognition, an amount equal to the expected credit loss in the next 12 months is recognized as allowance for doubtful accounts. For financial assets with significant increase in credit risk associated therewith since initial recognition, an amount equal to the lifetime expected credit loss is recognized as allowance for doubtful accounts. On the other hand, for trade receivables, etc., allowance for doubtful accounts is measured at an amount equal to the lifetime expected credit loss without exception. Expected credit loss is measured based on the present value of the difference between all contractual cash flows payable to a company, and all contractual cash flows expected to be received by a company.

In determining whether there has been a significant increase in credit risk as a result of a change in default risk, considerations include information concerning the deterioration of the obligor's business performance, etc., apart from past due information.

Any situation in which recovery of a financial asset is wholly or partially impossible, or is deemed to be extremely difficult, is considered as default.

If the asset is deemed as default or if the issuer or obligor meets with extreme financial difficulty, it is judged to be a credit-impaired financial asset.

For the financial assets with evidence of impairment of credit thereof, interest revenue is measured at an amount calculated by subtracting allowance for doubtful accounts from gross carrying amount, then multiplying by the effective interest rate.

In the event of a decrease in credit risk in later period, which can be associated objectively with an actual event that occurred subsequent to the recognition of impairment, reversal of the previously recognized impairment loss is recognized in profit or loss.

Allowance for doubtful accounts is directly deducted from financial assets measured at amortized cost.

(d) Derecognition of financial assets

The Group derecognizes financial assets if the contractual rights to cash flows arising from the financial assets expire, or if the Group transfers the rights to receive cash flows from the financial assets and substantially all the risks and rewards of ownership of the financial assets.

b. Derivatives and hedge accounting

In order to hedge foreign currency risk, interest rate risk, and commodity price risk, the Group uses derivatives including forward exchange contract, interest rate swap contract, and commodity futures contract. Documentation regarding the relationship between hedging instruments and hedged items, and the Group's risk management objective and strategy for undertaking the hedge is provided at the start of trading. Evaluation is carried out at the commencement of hedging and then on a continual basis thereafter to determine whether the derivative used for the hedging transactions meets the hedge accounting requirements in offsetting the fluctuations in the fair value or the cash flows of the hedged items.

Derivatives are subjected to initial recognition at fair value. For some of the derivatives that do not meet the requirements of hedge accounting, fluctuations in fair value subsequent to their initial recognition are recognized in profit or loss. For the derivatives that meet the requirements of hedge accounting, changes in fair value are accounted for as follows.

(a) Fair value hedges

Changes in fair value of the derivatives designated as fair value hedges, thus meeting the requirements thereof, along with the changes in fair value of the hedged assets or liabilities corresponding to the hedged risks, are recognized in profit or loss.

(b) Cash flow hedges

Changes in fair value of derivatives designated as cash flow hedges and meet the requirements thereof are recognized in other comprehensive income. However, the ineffective portion of hedging in changes in fair value of such derivatives is recognized in profit or loss.

The amount accumulated in other components of equity is reclassified into profit or loss in the period in which hedged items affect profit or loss.

In either case of fair value hedges or cash flow hedges, if the derivatives no longer meet the hedge accounting requirements, or when hedging instruments are lapsed, sold, terminated or exercised, adoption of hedge accounting is discontinued thereafter.

c. Embedded derivatives

Sales contracts for copper concentrates, etc. generally include provisional price terms at the time of shipment, and the final prices are determined based on the monthly average price of copper on the London Metal Exchange (LME) over certain future period. Such sales based on provisional price are considered as sales contracts with a nature of commodity futures contract, where delivery month is the month in which price is determined, and thus deemed to contain embedded derivatives with sales of copper concentrates, etc., as a host. In the case of such embedded derivatives involving a post-shipment price adjustment process, the host (non-derivative component) of the host contract is a financial asset, and therefore such embedded derivatives are accounted for as an integral part of the whole pursuant to IFRS 9 “Financial Instruments.”

Revenues from provisional price-based sales are recognized at estimated fair value of the consideration received, and are re-estimated at the end of the reporting period. The difference between the fair value at the time of shipment and that at the end of the reporting period is recognized as adjustment to revenues.

d. Financial assets of contingent considerations

Financial assets of contingent considerations are initially recognized at fair value on the date of acquisition, and fluctuations in fair value subsequent to their initial recognition are recognized in profit or loss.

2) Valuation basis and method for inventories

Inventories are measured at the lower of cost and net realizable value. Cost of inventories includes purchase cost and conversion cost, and is calculated by using primarily the first-in first-out method, except for some of the foreign subsidiaries where the gross average method is used. Net realizable value is determined at the estimated selling price in the ordinary course of business, less estimated costs required up to the completion of the conversion and estimated selling expenses.

3) Accounting methods for depreciation of significant depreciable assets

a. Property, plant and equipment (excluding Right-of-use assets)

Property, plant and equipment are measured by using cost model, and presented at the value calculated by subtracting accumulated depreciation and accumulated impairment from acquisition cost. Acquisition cost includes costs directly associated with the acquisition of assets, and any costs for dismantlement, removal, and site restoration, as well as borrowing costs to be capitalized. Depreciation of property, plant and equipment (excluding mining sites and tunnels) is calculated by mainly using the straight-line method, while mining sites and tunnels are depreciated by using the units-of-production method. Depreciation of these assets commences when they become available for their intended use.

Estimated useful lives of the main assets by category are as follows.

Buildings and structures: From two to sixty (60) years

Machinery, equipment and vehicles: From two to thirty-five (35) years

Estimated useful lives, residual values, and depreciation method are reviewed at the end of each fiscal year, and any change therein is applicable thereafter as changes in accounting estimates.

b. Intangible assets

Intangible assets are measured subsequent to recognition by using cost model. Intangible assets are presented at the value calculated by subtracting accumulated amortization and accumulated impairment from acquisition cost. Mining rights (mineral rights) are amortized by using the units-of-production method, while mining rights (exploration rights) by the straight-line method. Software is also amortized by using the straight-line method. Amortization of these assets commences when they become available for their intended use.

Estimated useful lives of the main intangible assets are as follows.

Mining rights (mineral rights): By the units-of-production method

Mining rights (exploration rights): Five years

Software: Five years

Estimated useful lives, residual values, and amortization method are reviewed at the end of each fiscal year, and any change therein is applicable thereafter as changes in accounting estimates.

c. Leases

The Group recognizes right-of-use assets and lease liabilities at the commencement date of the lease contract.

(a) Right-of-use assets

Right-of-use assets are initially measured at acquisition cost, which comprises the amount of the initial measurement of lease liabilities, initial direct costs, and the initial estimated cost of dismantling, removing and restoring to the original condition of underlying assets, among others.

Right-of-use assets are measured subsequent to recognition by using cost model, and measured at the value calculated by subtracting accumulated depreciation and accumulated impairment from acquisition cost.

Right-of-use assets are depreciated using the straight-line method over the shorter of lease term and useful lives of right-of-use assets.

(b) Lease liabilities

Lease liabilities are initially recognized at the present value of outstanding lease payments at the commencement date of the contract, discounted using the interest rate implicit in the lease.

If the interest rate implicit in the lease is not readily determined, the Group's incremental borrowing rate is used as the discount rate.

In subsequent measurement, lease liabilities are measured by increasing the carrying amount to reflect the interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

4) Investment property

Investment property refers to property held for the purpose of rental income or capital gain, or both. Investment property is measured subsequent to recognition by using cost model.

5) Matters related to goodwill

Goodwill arising from business combinations is presented at acquisition cost less accumulated impairment. Goodwill is not amortized, but allocated to cash-generating units or cash-generating unit groups and subjected to impairment test on an annual basis, or as appropriate if there is an indication of impairment. Impairment loss of goodwill is recognized in profit or loss, involving no subsequent reversal.

6) Impairment of non-financial assets

The Group assesses whether there is an indication of impairment as of the end of the fiscal year in the non-financial assets excluding inventories, deferred tax assets, assets held for sale, and retirement benefit asset. If any such indication exists, the Group estimates the recoverable amount of each asset. Where it is impossible to estimate the recoverable amount of individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is estimated. The recoverable amount of the asset or the cash-generating unit is measured at the higher of fair value less cost to dispose and value in use. Value in use is calculated by discounting the estimated future cash flows into present value, using the discount rate reflecting time value of money as well as the risks specific to the concerned asset. Only if the recoverable amount of the asset or that of the cash-generating unit is lower than their carrying amount, the carrying amount of such asset is reduced to the recoverable amount and recognized in profit or loss. As for the asset or cash-generating unit other than the goodwill for which impairment was recognized in prior years, test is conducted on the end of the fiscal year, to see if there is indication of likely decrease or elimination of such impairment loss recognized in prior years. If such indication exists, the recoverable amount of the asset or the cash-generating unit is estimated, where if the recoverable amount exceeds the carrying amount, the impairment loss is reversed to the extent not exceeding the lower of calculated recoverable amount and the carrying amount less depreciation/amortization if the impairment loss had not been recognized for the asset in prior years. Reversal of impairment loss is immediately recognized in profit or loss.

7) Accounting policy for provisions

Provisions are recognized when there exists present legal or constructive obligation as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation.

8) Accounting method for post-employment benefits

a. Defined benefit plan

The present value of defined benefit obligation and the related current and past service cost are calculated for each plan by using the projected unit credit method. Discount rate is determined by reference to market yields on high quality corporate bonds at the end of the fiscal year. Liability or asset associated with a defined benefit plan is calculated by subtracting the fair value of the plan assets from the present value of defined benefit obligation. However, if the defined benefit plan has a surplus, a net defined benefit asset is limited to the asset ceiling, which is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. Remeasurements of the net amount of liability or asset associated with a defined benefit plan are recognized collectively through other comprehensive income in the period in which such assets or liabilities arise, and reclassified as retained earnings.

b. Defined contribution plan

Post-employment benefit expense associated with a defined contribution plan is recognized as expenses in the period in which the employee renders service.

9) Revenue

The Group recognizes revenue through the following five steps, except for interest and dividend income based on IFRS 9.
Step 1: Identify contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to performance obligations in the contract
Step 5: Recognize revenue when (or as) the performance obligation is satisfied.

The SMM Group mainly engages in sales of raw ore such as gold and silver ore and silver and copper concentrates, and copper produced by SX-EW method in the Mineral Resources business, non-ferrous metals such as electrolytic copper in the Smelting & Refining business, and battery materials and advanced materials, etc., in the Materials business. With regard to revenue from the sale of these goods, revenue is generally measured at transaction prices in contracts, and the revenue is recognized at the time of delivery of the goods when a performance obligation is satisfied by transferring control over the goods to the customer.

10) Application of consolidated taxation system

The Company and some of its domestic consolidated subsidiaries have applied a consolidated taxation system.

2. Notes on significant accounting estimates

In preparing the consolidated financial statements, the Company makes estimates and underlying assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, revenue, and expenses. The estimates and the underlying assumptions are reviewed on an ongoing basis. The effect of any changes in accounting estimates is recognized in the fiscal year in which the change was made and in the following fiscal years. Actual results may differ from these estimates.

Items for which amounts have been recorded in the consolidated financial statements for the current fiscal year based on accounting estimates, and may materially affect to the amounts in the consolidated financial statements for the next fiscal year are as follows.

(1) Deferred tax assets: ¥1,645 million

The Group considers the possibility that a portion or all of the deductible temporary differences or unused tax losses can be utilized against future taxable profits upon recognition of deferred tax assets. Specifically, in assessing the recoverability of deferred tax assets, the Group considers the scheduled reversal of deferred tax liabilities, projected taxable profits, and tax planning strategies.

With respect to the deferred tax assets recognized, based on historical taxable profit levels and projections of taxable profits in the period in which the deferred tax assets can be recognized, the Company has determined that it is probable tax benefits will be realized; however, the timing and amount of taxable profits may be affected by future changes in economic conditions, and if a review becomes necessary, the amount in the consolidated financial statements for the next fiscal year may be significantly affected.

(2) Provisions: ¥31,208 million

In recognizing provision, the Group has established “1. Notes, etc. on matters serving as basis for the preparation of consolidated financial statements, (4) Matters related to accounting policies, 7) Accounting policy for provisions.”

Although the amount of such liabilities is calculated based on a comprehensive consideration of possible future events, it may be affected by the occurrence of unforeseeable events or changes in circumstances, and if a review becomes necessary, the amount in the consolidated financial statements for the next fiscal year may be significantly affected.

(3) Other financial assets: ¥436,849 million

In recognizing financial assets of contingent considerations, the Group has established “1. Notes, etc. on matters serving as basis for the preparation of consolidated financial statements, (4) Matters related to accounting policies, 1) Valuation basis and method for financial assets, d. Financial assets of contingent considerations.”

In February 2022, the Group transferred all of its equity for the Sierra Gorda copper mine by transferring equity of its consolidated subsidiaries, SMM-SG Holding Inversiones SpA and SMM Holland B.V. Consideration for the transfer includes up to an additional US$350 million in contingent consideration which will be receivable if certain conditions are fulfilled regarding copper prices and the production volume in the Sierra Gorda copper mine during the period through to the end of 2025.

Financial assets of contingent considerations are recorded in other financial assets on the consolidated statement of financial position, and the balance at the end of the current fiscal year is ¥4,234 million. Fair value of contingent considerations is calculated by discounting the result estimates of future cash flows using Monte Carlo simulations based mainly on copper price estimates, etc.; however, copper price estimates, etc., may be impacted by results mainly from future fluctuations in economic conditions, and may have a significant impact on values on consolidated financial statements in the next fiscal year if revision is required.

3. Notes on consolidated statement of financial position

(1) Assets pledged as collateral and liabilities for collateral

Shares of subsidiaries of ¥28,032 million are pledged as collateral for the borrowings of ¥16,707 million that Taganito HPAL Nickel Corporation borrowed from financial institutions, however, it has been eliminated in the consolidation process.

(2) Allowance for doubtful accounts deducted directly from assets

Other financial assets (non-current)	¥201 million

(3)Accumulated depreciation and impairment losses of property, plant and equipment

¥617,117 million

(4) Contingent liabilities

The Company entered into an agreement to transfer its equities for SMM-SG Holding Inversiones Limitada and SMM Holland B.V. through a subsidiary of South32 Limited on October 14, 2021, and the transfer was completed on February 22, 2022. Based on the agreement, the Company will compensate South32 Limited group to a certain extent regarding tax reforms that come into force in the Republic of Chile before December 31, 2025, losses from the introduction of new mining royalties, and amendment or termination of tax stabilization contracts based on foreign investment agreements before December 31, 2025. Although there are possibilities that an economic burden will be imposed on the Company upon arise of such compensatory obligations, the amount of such burden cannot be reasonably estimated at this point.

(5) Other

JCO Co., Ltd., a consolidated subsidiary, is advancing measures to promote facility dismantlement and decontamination to prepare for the decommissioning of its facilities. As new losses are anticipated to be incurred depending on the conditions of dismantlement and decontamination of its facilities in the future, the Company will post a provision for decommissioning preparations each time a reasonable estimate of such losses becomes possible.

4. Notes on consolidated statement of changes in equity

(1) Total number of shares issued as of the end of the current fiscal year

Common stock 290,814,015 shares

(2) Matters related to dividends from surplus paid during the current fiscal year

1) Dividends paid

a. Resolution at the Ordinary General Meeting of Shareholders held on June 25, 2021

Total dividend amount	:	¥27,203 million
Dividend per share	:	¥99
Record date	:	March 31, 2021
Effective date	:	June 28, 2021

b. Resolution at the Board of Directors meeting held on November 8, 2021

Total dividend amount	:	¥31,049 million
Dividend per share	:	¥113
Record date	:	September 30, 2021
Effective date	:	December 7, 2021

2) Dividends with a record date in the current fiscal year and an effective date in the following fiscal year

The following items regarding dividends on common stock is proposed for the Ordinary General Meeting of Shareholders to be held on June 24, 2022.

Total dividend amount	:	¥51,657 million
Dividend per share	:	¥188
Record date	:	March 31, 2022

Effective date : June 27, 2022

(3) Class and number of shares underlying share acquisition rights as of the end of the current fiscal year

Common stock 3,862,992 shares

5. Notes on financial instruments

(1) Matters related to the status of financial instruments

1) Management of credit risk

Credit risk is the risk that a customer will default on a contractual obligation, resulting in financial loss to the Group.

With respect to trade receivables, each business division within the Group establishes its own set of credit control regulations. Pursuant to these regulations, sales and other relevant departments regularly monitor the status of counterparties, managing due dates and balances on an individual counterparty basis. In this manner, every effort is made to ensure early detection and mitigation of concerns regarding collection due to deterioration in financial standing or other factors.

As for other receivables and other financial assets such as loans receivable, etc., the Group goes through an internal approval process regarding counterparties' credit status at the start of transaction. The Group also monitors counterparties to check their credit status on a regular basis even after the start of transaction.

With respect to the use of derivative transactions, steps are taken to engage in transactions with highly rated financial institutions only. These steps are taken with the aim of mitigating counterparty risk; therefore, such transactions have only limited impact on the Group's credit risk. The Group does not expose itself to significant concentrations of credit risk from specific counterparties as its receivables are due from a number of counterparties across a wide range of industries and geographies.

2) Management of liquidity risk

Liquidity risk is the risk of being unable to make payments on due dates in situations where the Group is required to fulfill its repayment obligations for financial liabilities due.

The Group manages liquidity risk by preparing and updating a cash management plan six months in advance based on reports from each department and division. Certain consolidated subsidiaries have adopted a cash management system and are efficiently maintaining appropriate levels of liquidity and cash on hand.

While maintaining an appropriate level of funds for repayment, the Group has established a commitment line in case of emergencies such as unexpected funding needs and significant decline in market liquidity.

3) Management of foreign currency risk

The Group uses forward exchange contracts and currency option contracts in an effort to offset the risks of movements in foreign currency exchange rates in connection with recognized receivables and payables as well as forecast transactions denominated in foreign currencies.

4) Management of interest rate risk

The Group uses interest rate swap contracts and interest rate option contracts aiming at hedging the risks of hikes in interest rates for floating-rate borrowings.

5) Management of commodity price risk

The Group engages in sales of metal and other products and purchases of copper concentrates and other materials that are used as raw materials for such products. As sales and purchase prices of such commodities are affected by fluctuations in commodity prices, the Group is exposed to risk of price fluctuations. Therefore, the Group employs commodity forward contracts and commodity option contracts, which seek to provide hedges for the risk of price fluctuations.

6) Management of risks associated with fluctuations in prices of equity instruments

With respect to equity instruments, the Group regularly monitors fair values as well as the financial status of issuers; when such issuers are the Group's counterparties, the Group also reviews its holdings on a continuous basis taking into consideration its relationships with them.

(2) Matters related to fair value, etc. of financial instruments

The fair value hierarchy is categorized into the following three levels based on observability in market of inputs used to measure fair value.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly
Level 3: Unobservable inputs

1) Financial assets and liabilities measured at fair value that are recorded on the consolidated statement of financial position

Financial assets and liabilities measured at fair value that are recorded on the consolidated statement of financial position at the end of the current fiscal year are as follows.

	Level 1	Level 2	Level 3	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Assets:				
Financial assets measured at fair value through profit or loss				
Trade receivables with embedded derivatives	–	9,691	–	9,691
Derivatives to which hedge accounting is not applied	–	4,031	93	4,124
Derivatives to which hedge accounting is applied	–	899	–	899
Financial assets of contingent considerations	–	–	4,234	4,234
Financial assets measured at fair value through other comprehensive income				
Equity instruments	255,584	–	7,678	263,262
Total	255,584	14,621	12,005	282,210
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivatives to which hedge accounting is not applied	–	2,558	–	2,558
Derivatives to which hedge accounting is applied	–	2,836	–	2,836
Total	–	5,394	–	5,394

The method to measure fair value is as follows.

<u>Trade receivables with embedded derivatives</u>

Trade receivables that include embedded derivatives and are accounted for in combination are classified into Level 2 of fair value hierarchy, and their fair values are measured based on the market price of copper on the LME for a certain period of time in the future.

Trade receivables with embedded derivatives are included and presented in trade and other receivables in the consolidated statement of financial position.

<u>Derivatives</u>

Derivatives are classified into Level 2 of fair value hierarchy, and their fair values are measured based on market prices and others.

Derivatives are included and presented in either other financial assets or other financial liabilities in the consolidated statement of financial position.

Derivatives embedded in convertible bond-type bonds with share acquisition rights are classified into Level 3 of fair value hierarchy, and their fair values are measured using valuation techniques such as one based on discounted future cash flows.

<u>Financial assets of contingent considerations</u>

Financial assets regarding contingent consideration contracts are classified into Level 3 of the fair value hierarchy, and their fair values are measured discounting results of estimates of future cash flows using Monte Carlo simulations based primarily on copper price estimates, etc. Financial assets of contingent considerations are included and presented in other financial assets in the consolidated statement of financial position.

<u>Equity instruments</u>

Marketable securities are classified into Level 1 of fair value hierarchy, and their fair values are measured based on market prices.

Unlisted shares are classified into Level 3 of fair value hierarchy, and their fair values are measured using valuation techniques such as one based on discounted future cash flows.

Unlisted shares are included and presented in other financial assets in the consolidated statement of financial position.

2) Financial assets and liabilities measured at fair value that are not recorded on the consolidated statement of financial position

Financial assets and liabilities measured at fair value that are not recorded on the consolidated statement of financial position at the end of the current fiscal year are as follows. The table below does not include financial instruments whose carrying amounts reasonably approximate fair values and those that are immaterial, except for floating-rate long-term loans receivable and payable. Nor does the table below include lease liabilities, whose fair value is not required to be disclosed under IFRS 7.

(Millions of yen)

	Carrying amount	Fair value	Difference
Long-term loans receivable (Note 1)	118,124	118,124	0
Bonds payable	29,867	29,662	(205)
Convertible bond-type bonds with share acquisition rights	29,877	29,997	120
Long-term borrowings (Note 2)	219,263	219,577	314

Note:
1. Current portion of long-term loans receivable is included.
2. Current portion of long-term borrowings is included.

The method to measure fair value is as follows.

Long-term loans receivable

The fair values of floating-rate long-term loans receivables are based on their carrying amounts because their fair values reflect market interest rates within a short period of time and closely approximate their carrying amounts.

Fixed-rate long-term loans receivables are classified into Level 3 of fair value hierarchy, and their fair values are measured based on a method whereby the total principal and interest are discounted at an interest rate reflecting difference between market interest rates at inception of loan and those at the end of the period.

Unlisted shares are included and presented in other financial assets in the consolidated statement of financial position.

Bonds payable

Bonds payables are classified into Level 2 of fair value hierarchy, and their fair values are measured based on market prices and others.

Bonds payables are included and presented in bonds and borrowings in the consolidated statement of financial position.

Convertible bond-type bonds with share acquisition rights

Bond portion of convertible bond-type bonds with share acquisition rights is classified into Level 3 of fair value hierarchy, and its fair value is measured based on risk-free rates, credit spreads of discount bonds and others.

Convertible bond-type bonds with share acquisition rights are included and presented in bonds and borrowings in the consolidated statement of financial position.

Long-term borrowings

The fair values of floating-rate long-term borrowings are based on their carrying amounts because their fair values reflect market interest rates within a short period of time and closely approximate their carrying amounts.

Fixed-rate long-term borrowings are classified into Level 3 of fair value hierarchy, and their fair values are measured based on a method whereby the total principal and interest are discounted at an estimated interest rate that is assumed to be applied to a new similar borrowing.

Long-term borrowings are included and presented in bonds and borrowings in the consolidated statement of financial position.

6. Notes on investment property

All the investment properties held by the Group are land and are owned in Tokyo and other areas.

(Millions of yen)

Carrying amount	Fair value
3,477	7,916

Note: The fair value of the investment properties is based primarily on real estate appraisal evaluated by outside licensed real estate appraisers. The valuations conform to the relevant valuation standards of the countries where the properties are located and are based on market evidence reflecting transaction prices for similar assets.

7. Notes on per share information

(1) Equity attributable to owners of parent per share ¥5,260.15

(2) Basic earnings per share ¥1,022.80

8. Notes on revenue recognition

(1) Breakdown of revenue

The SMM Group engages in resource, smelting and refining, materials, and other businesses, and net sales for each business's main product or service are as follows.

	Reportable segment				Other Segment	Total
	Mineral Resources	Smelting & Refining	Materials	Total		
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Major products/services						
Ore	157,315	—	—	157,315	—	157,315
Metals						
Copper and precious metals	—	702,690	—	702,690	—	702,690
Nickel	—	216,269	—	216,269	—	216,269
Zinc and lead	—	20,352	—	20,352	—	20,352
Materials						
Powder materials	—	—	51,194	51,194	—	51,194
Battery materials	—	—	135,860	135,860	—	135,860
Package materials	—	—	21,492	21,492	—	21,492
Other	—	3,030	69,416	72,446	9,843	82,289
Subtotal	157,315	942,341	277,962	1,377,618	9,843	1,387,461
Adjustment	(47,605)	(49,714)	(24,795)	(122,114)	(6,256)	(128,370)
Outside customers	109,710	892,627	253,167	1,255,504	3,587	1,259,091

(2) Basic information to understand revenue

1) Mineral Resources

In the Mineral Resources business, the SMM Group mainly engages in sales of gold and silver ores, copper concentrates and copper produced by the SX-EW method. With regard to revenue from the sale of these goods, the revenue is generally measured at transaction price in the contract, a performance obligation is satisfied by transferring control over the goods to the customer, and the revenue is recognized at the time of delivery of the goods. The contracts do not contain a significant financing component as the consideration for most transactions is received within one year after the performance obligation is satisfied.

2) Smelting & Refining

In the Smelting & Refining business, the SMM Group mainly engages in sales of copper, nickel, ferronickel and zinc, as well as sales of precious metals such as gold, silver, platinum and palladium. With regard to revenue from the sale of these goods, the revenue is generally measured at transaction price in the contract, a performance obligation is satisfied by transferring control over the goods to the customer, and the revenue is recognized at the time of delivery of the goods. The contracts do not contain a significant financing component as the consideration for most transactions is received within one year after the performance obligation is satisfied.

3) Materials

In the Materials business, the SMM Group mainly engages in sales of battery materials, paste, nickel powder, crystal materials, and tape materials. With regard to revenue from the sale of these goods, the revenue is generally measured at transaction price in the contract, a performance obligation is satisfied by transferring control over the goods to the customer, and the revenue is recognized at the time of delivery of the goods. Revenue from sales of products using non-free supplied materials over which it was determined that the SMM Group had not obtained control are measured at the amount calculated by deducting the amount relating to the non-free supplied materials from the transaction price under the agreement with the customer. The contracts do not contain a significant financing component as the consideration for most transactions is received within one year after the performance obligation is satisfied.

9. Other notes

Amounts are rounded to the nearest million yen.

Notes on the Non-consolidated Financial Statements

1. Notes on matters related to significant accounting policies

(1) Valuation basis and method for assets

1) Securities

Shares of subsidiaries and associates Stated at cost based on the moving average method

Available-for-sale securities

Other than shares without quoted market prices, etc.

.... Stated at fair value (valuation differences are booked directly in a separate component of net assets, and cost of securities sold is determined by the moving average method)

Shares without quoted market prices, etc.

.... Stated at cost based on the moving average method

2) Derivatives.................................. Stated at fair value

3) Inventories

Merchandise, finished goods and work in process

Stated at cost based on the first-in first-out method (Balance sheet amounts are measured by the method of devaluing the book value to reflect declines in profitability)

Raw materials and supplies .... Raw materials are stated at cost based on the first-in first-out method (Balance sheet amounts are measured by the method of devaluing the book value to reflect declines in profitability), and supplies are stated at cost based on the moving average method (Balance sheet amounts are measured by the method of devaluing the book value to reflect declines in profitability).

(2) Depreciation method for non-current assets

Property, plant and equipment (excluding mining sites, tunnels, and lease assets)

Straight-line method

Mining sites and tunnels .... Unit-of-production method

Intangible assets (excluding software and mineral rights) Straight-line method

Software for internal use.. Straight-line method based on the useful life (five years) within the Company

Mining rights (mineral rights) .... Unit-of-production method

Lease assets .... Straight-line method assuming the lease period as the useful life without residual value

(3) Accounting policy for provisions

1) Allowance for doubtful accounts

To prepare for credit losses on receivables, an estimated uncollectable amount is provided at the amount estimated by either using the historical rate of credit loss for general receivables, or based on individual consideration of collectability for specific receivables such as highly doubtful receivables.

2) Provision for bonuses

Regarding payment of bonuses to employees and executive officers, the amount that is expected to be paid is calculated and stated at that amount.

3) Provision for bonuses for Directors (and other officers)

Regarding payment of bonuses to officers, the amount that is expected to be paid is calculated and stated at that amount.

4) Provision for furnace repair works

To cover the cost of periodic furnace repair work at the Toyo Smelter & Refinery, the projected construction cost for the current fiscal year is recorded.

5) Provision for loss on business restructuring

To prepare for possible business restructuring losses expected to be incurred by the Company and its subsidiaries and associates, the estimated amount of such losses is recorded.

6) Provision for retirement benefits

To provide for the payment of retirement benefits to employees, the amount recognized to have accrued at the end of the current fiscal year based on projected retirement benefit obligations and pension assets at the end of the current fiscal year is recorded.

Past service cost is recorded as an expense in an amount prorated by the straight-line method over a certain number of years (10 years) within the average remaining service period of employees at the time of occurrence thereof.

For actuarial differences, an amount prorated by the straight-line method over a certain number of years (10 years) within the average remaining service period of employees at the time of occurrence thereof in each fiscal year is recorded as an expense starting from the fiscal year that follows the fiscal year of occurrence.

7) Provision for prevention of mining pollution in the metal mining and other activities

To cover expenses required for the prevention of mining pollution after the specified facilities have been used, the required amount is recorded.

8) Provision for loss on support to subsidiaries and associates

To cover the cost of management of suspended operations due to a criticality accident that occurred at the Company's wholly owned subsidiary, the estimated amount of such support is recorded.

9) Provision for environmental measures

To cover the cost of disposal of waste containing PCBs (polychlorinated biphenyls) and lead, the estimated amount of disposal is calculated and recorded.

(4) Accounting policy for revenue and cost

The Group recognizes revenue through the following five steps.

Step 1: Identify contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to performance obligations in the contract
Step 5: Recognize revenue when (or as) the performance obligation is satisfied.

The Company mainly engages in sales of, raw material ores of gold and silver in the Mineral Resources business, non-ferrous metals such as electrolytic copper etc. in the Smelting & Refining business, and battery materials and advanced materials etc. in the Materials business. With regard to revenue from the sale of these goods, revenue is generally measured at transaction prices in contracts, and the revenue is recognized at the time of delivery of the goods when a performance obligation is satisfied by transferring control over the goods to the customer.

(5) Matters serving as basis for the preparation of other financial statements

1) Hedge accounting method

a. Hedge accounting method

Deferred hedge accounting is applied. Exceptional treatments are made for interest rate swaps that meet requirements.

b. Hedging instrument and hedged item

Receivables and payables mainly related to production and sales activities based on actual demand are hedged items, and derivative transactions related to currencies and commodities (mainly forward exchange contracts and commodity forward contracts, etc.) are used as hedging instruments.

c. Hedging policy

As derivative transactions are for hedging purposes, they are limited to transactions within actual demand and receivables and payables, and are intended to secure the profit or loss and cash flows assumed in advance.

d. Method of assessing hedge effectiveness

Derivative transactions are selected as hedging instruments after simulation calculations are performed in advance and internal approval is obtained for their effectiveness. During the execution of transactions, the Company manages to ensure that the volume of transactions between hedging instruments and hedged items matches. After the completion of transactions, the hedge effectiveness is verified by examining whether or not the originally planned profit or loss and cash flows were secured for each individual transaction in monthly financial closing, etc., regarding the profit or loss of derivative transactions that were closed along with the profit or loss arising from the hedged items.

e. Other

When foreign currency-denominated monetary receivables and payables, which are translated into yen at the spot exchange rate as of the end of the fiscal year, are hedged by foreign exchange contracts, the valuation profit or loss on the foreign exchange contracts at the end of the fiscal year is recognized in accordance with the Accounting Standard for Financial Instruments.

2) Application of consolidated taxation system

Consolidated taxation system is applied.

3) Application of tax effect accounting for the transition from consolidated taxation system to the group tax sharing system

The Company plans to make a transition from the consolidated taxation system to the group tax sharing system from the next fiscal year. However, as for items regarding the transition to the group tax sharing system introduced in the “Act Partially Amending the Income Tax Act” (Act No. 8 of 2020) and items revised on non-consolidated taxation system in connection with the transition to the group tax sharing system, the Company has not applied the provisions of paragraph 44 of the “Guidance on Accounting Standard for Tax Effect Accounting” (Accounting Standards Board of Japan (ASBJ) Guidance No. 28, February 16, 2018) as allowed by the provisions of paragraph 3 of the “Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (ASBJ PITF No. 39, March 31, 2020). Accordingly, amounts of deferred tax assets and deferred tax liabilities are determined in accordance with the provisions of the tax law before revision.

The Company also plans to apply the provisions of the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (ASBJ PITF No. 42, August 12, 2021) that stipulates accounting and disclosure solutions for corporation tax, local tax and tax-effect accounting under the group tax sharing system.

2. Notes related to changes in accounting policies

Notes on revenue recognition

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020; hereinafter “Revenue Recognition Standard”) and other standards from the beginning of the current fiscal year. As a result, transactions for which the Company used to recognize revenue at shipment have been changed to the method in which revenue is recognized as the received net amount in exchange when goods or services are transferred to a customer due the obligation being fulfilled for transfer of control for goods or services to a customer.

The Company had previously posted amounts relating to non-free supplied materials received from customers under inventories and recognized net sales and cost of sales at the time of delivery. However, the Company has adopted the policy of posting such amounts under other current assets since the Company has not acquired control for such supplied materials and reversing them at the time of delivery.

As for the application of the Revenue Recognition Standard, in accordance with the transitional treatment provided for in paragraph 84 of the Revenue Recognition Standard, the cumulative impact of the new accounting policies retrospectively applied prior to the beginning of the current fiscal year are adjusted as retained earnings at the beginning of the current fiscal year, and the new accounting policies are applied from the beginning of the current fiscal year.

As a result of this change, compared with the previous method, net sales decreased by ¥38,673 million and cost of sales decreased by ¥38,643 million, leading to decreases of ¥30 million in each gross profit, operating profit, recurring profit, and gross profit before tax and a decrease of ¥9 million in corporation tax etc. Additionally, the balance of retained earnings at the beginning of the current fiscal year decreased by ¥41 million.

3. Notes on accounting estimates

In preparing the non-consolidated financial statements, the Company makes estimates and underlying assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, revenue, and expenses. The estimates and the underlying assumptions are reviewed on an ongoing basis. The effect of any changes in accounting estimates is recognized in the fiscal year in which the change was made and in the following fiscal years. Actual results may differ from these estimates.

Items for which amounts have been recorded in the non-consolidated financial statements for the current fiscal year based on accounting estimates, and may materially affect to the amounts in the non-consolidated financial statements for the next fiscal year are as follows.

(1) Recoverability of deferred tax assets

The Company recorded deferred tax liabilities (¥55,790 million) as a result of offsetting deferred tax assets (¥8,576 million) and deferred tax liabilities (¥64,366 million). The Company considers the possibility that a portion or all of the deductible temporary differences can be utilized against future taxable profits upon recognition of deferred tax assets. Specifically, in assessing the recoverability of deferred tax assets, the Group considers the scheduled reversal of deferred tax liabilities, projected taxable profits, and tax planning strategies.

With respect to the deferred tax assets recognized, based on historical taxable profit levels and projections of taxable profits in the period in which the deferred tax assets can be recognized, the Company has determined that it is probable tax benefits will be realized; however, the timing and amount of taxable profits may be affected by future changes in economic conditions, and if a review becomes necessary, the amount in the non-consolidated financial statements for the next fiscal year may be significantly affected.

(2) Provisions

The Company recorded ¥6,119 million for allowance for doubtful accounts and ¥4,920 million for provision for loss on support to subsidiaries and associates. In recognizing such provisions, the Company has established “1. Notes on matters related to significant accounting policies, (3) Accounting policy for provisions, 1) Allowance for doubtful accounts and 8) Provision for loss on support to subsidiaries and associates.”

For the recording of provisions, although the amount of the provisions is calculated based on a comprehensive consideration of possible future events, it may be affected by the occurrence of unforeseeable events or changes in circumstances, and if a review becomes necessary, the amount in the non-consolidated financial statements for the next fiscal year may be significantly affected.

4. Notes on non-consolidated balance sheet

(1) Assets pledged as collateral and liabilities for collateral

Assets below are pledged as collateral for the following liabilities.

<Details of assets and their amounts>

Shares of subsidiaries and associates (Note)	¥28,032 million
Total	¥28,032 million

Note: This is an asset pledged as collateral for the borrowings of ¥16,707 million that Taganito HPAL Nickel Corporation borrowed from financial institutions.

(2) Accumulated depreciation of property, plant and equipment ¥277,299 million

(3) Guarantee obligations ¥204,487 million

The Company guarantees borrowings, etc. of subsidiaries and associates from financial institutions, etc.

(4) Monetary receivables from and payables to subsidiaries and associates (excluding those shown separately)

Short-term monetary receivables	¥127,081 million
Long-term monetary receivables	¥37,128 million
Short-term monetary payables	¥27,539 million
Long-term monetary payables	¥40 million

(5) Relationship between the provision for retirement benefits and the amount of retirement benefits trust assets

	Lump-sum retirement benefit	Defined benefit corporate pension	Total
Provision for retirement benefits (before deduction of retirement benefits trust assets)	¥9,134 million	—	¥9,134 million
Prepaid pension costs	—	¥10,105 million	¥10,105 million
Retirement benefits trust assets	¥(7,887) million	–	¥(7,887) million
Provision for retirement benefits (net)	¥1,247 million	—	¥1,247 million
Prepaid pension costs	—	¥10,105 million	¥10,105 million

(6) Contingent obligations

The Company entered into an agreement to transfer its equities for SMM-SG Holding Inversiones Limitada. and SMM Holland B.V. through a subsidiary of South32 Limited on October 14, 2021, and the transfer was completed on February 22, 2022. Based on the agreement, the Company will compensate South32 Limited group to a certain extent regarding tax reforms that come into force in the Republic of Chile before December 31, 2025, losses from the introduction of new mining royalties, and amendment or termination of tax stabilization contracts based on foreign investment agreements before December 31, 2025. Although there are possibilities that an economic burden will be imposed on the Company upon arise of such compensatory obligations, the amount of such burden cannot be reasonably estimated at this point.

5. Notes on non-consolidated statement of income

Volume of transactions with subsidiaries and associates

Net sales	¥35,538 million
Purchase	¥366,813 million

Volume of non-operating transactions

Interest income	¥1,267 million
Dividend income	¥53,203 million
Guarantee commission received	¥1,431 million
Interest expenses	¥261 million

6. Notes on non-consolidated statement of changes in equity

(1) Number of treasury shares at the end of the current fiscal year 16,044,559 shares

(2) Breakdown of other retained earnings collectively presented as reserves

(Millions of yen)

	As of April 1, 2021	Provision	Reversal	During the fiscal year Total change in equity	As of March 31, 2022
Reserve for overseas investment loss	21,112	5,879	(4,365)	1,514	22,626
Reserve for tax purpose reduction entry	3,435	307	(140)	167	3,602
Reserve for mineral exploration	7,832	3,085	(1,676)	1,409	9,241
General reserve	410,000	–	–	–	410,000
Total reserves	442,379	9,271	(6,181)	3,090	445,469

7. Note on tax effect accounting

Major components of deferred tax assets and liabilities

Deferred tax assets	
Loss on valuation of shares of subsidiaries and associates	¥6,377 million
Retirement benefits trust operating revenue and incorporation amount	¥2,140 million
Excess allowance for doubtful accounts	¥1,874 million
Provision for loss on support to subsidiaries and associates	¥1,507 million
Impairment losses	¥945 million
Provision for bonuses	¥904 million
Accrued enterprise tax	¥886 million
Loss on valuation of investment securities	¥865 million
Provision for loss on business restructuring	¥221 million
Other	¥4,300 million
Sub total of deferred tax assets	¥20,009 million
Valuation allowance	¥(11,433) million
Total of deferred tax assets	¥8,576 million
Deferred tax liabilities	
Valuation difference on available-for-sale securities	¥(47,027) million
Reserve for overseas investment loss	¥(9,986) million
Reserve for mineral exploration	¥(4,078) million
Reserve for tax purpose reduction entry	¥(1,590) million
Gain on contribution of securities to retirement benefit trust	¥(447) million
Prepaid pension costs	¥(447) million
Other	¥(791) million
Total of deferred tax liabilities	¥(64,366) million
Net of deferred tax liabilities	¥(55,790) million

8. Notes on transactions with related parties

(Subsidiaries, etc.)

(Millions of yen)

Attribute	Name of company, etc.	Voting rights, etc. held by the Company	Relationship with related parties	Transaction detail	Transaction amount	Account item	Balance at the end of the fiscal year
Subsidiary	Taganito HPAL Nickel Corporation	Directly 75.0%	Debt guarantee and pledge as security for loans from financial institutions (Notes 1 and 2)	Debt guarantee	16,707	–	–
				Debt guarantee fee	51	–	–
				Pledge as security	16,707	–	–
			Financing support (Note 3)	Providing loans	8,761	Short-term loans receivable	96,678
				Receipt of interest	787	Accrued revenue	5
Subsidiary	Sumitomo Metal Mining America Inc.	Directly 100.0%	Debt guarantee for loans from financial institutions, financing support and deposit of funds (Notes 1, 3 and 4)	Debt guarantee	62,617	–	–
				Debt guarantee fee	736	Accrued revenue	219
				Deposit of funds	30,880	Deposits received from subsidiaries and associates	48,129
				Payment of interest	111	–	–
Subsidiary	SMM Morenci Inc.	Indirectly 100.0%	Financing support and deposit of funds (Notes 3 and 4)	Deposit of funds	26,266	Deposits received from subsidiaries and associates	52,448
				Payment of interest	143	–	–
Subsidiary	SMM GOLD COTE INC.	Directly 100.0%	Financing support (Note 3)	Providing loans	23,781	Long-term loans receivable from subsidiaries and associates	36,845
				Receipt of interest	385	Accrued revenue	17
Subsidiary	SMMQB Holding SpA	Directly 100.0%	Financing support (Note 3)	Underwriting of capital increase (Note 5)	41,404	–	–
Associate Subsidiary	Compania Minera Teck Quebrada Blanca S.A.	Indirectly 30.0%	Debt guarantee for loans, etc., from financial institutions (Note 1)	Debt guarantee	120,903	–	–
				Debt guarantee fee	232	Accrued revenue	89

Notes: 1. Debt guarantee is a guarantee of obligations for the loan from the financial institutions. Transaction amount of the debt guarantee is based on the balance of obligations as of the end of the current fiscal year.
2. Pledge as security means that the Company pledges assets as collateral for the loan from the financial institutions. The amounts of security are based on the debt balance as of the end of the current fiscal year.
3. Terms and conditions of loan are determined based on the market interest rates, etc.
4. The Company has introduced a cash management system (CMS) for the purpose of improving the efficiency of funds within the Group, and the transaction amount represents the amount of increase and decrease during the fiscal year.
5. The underwriting of capital increase is a capital investment to SMMQB Holding SpA.
6. Amounts for each company include foreign exchange gains and losses.

9. Notes on per share information

(1) Net assets per share ¥3,655.12

(2) Earnings per share ¥844.09

10. Notes on revenue recognition

Basic information to understand revenue

1) Mineral Resources

In the Mineral Resources business, the SMM Group engages in sales of gold and silver ores. With regard to revenue from the sale of these goods, the revenue is generally measured at transaction price in the contract, a performance obligation is satisfied by transferring control over the goods to the customer, and the revenue is recognized at the time of delivery of the goods. The contracts do not contain a significant financing component as the consideration for most transactions is received within one year after the performance obligation is satisfied.

2) Smelting & Refining

In the Smelting & Refining business, the SMM Group mainly engages in sales of copper, nickel, ferronickel and zinc, as well as sales of precious metals such as gold, silver, platinum and palladium. With regard to revenue from the sale of these goods, the revenue is generally measured at transaction price in the contract, a performance obligation is satisfied by transferring control over the goods to the customer, and the revenue is recognized at the time of delivery of the goods. The contracts do not contain a significant financing component as the consideration for most transactions is received within one year after the performance obligation is satisfied.

3) Materials

In the Materials business, the SMM Group mainly engages in sales of battery materials, paste, nickel powder, crystal materials, and tape materials. With regard to revenue from the sale of these goods, the revenue is generally measured at transaction price in the contract, a performance obligation is satisfied by transferring control over the goods to the customer, and the revenue is recognized at the time of delivery of the goods. Revenue from sales of products using non-free supplied materials over which it was determined that the SMM Group had not obtained control are measured at the amount calculated by deducting the amount relating to the non-free supplied materials from the transaction price under the agreement with the customer. The contracts do not contain a significant financing component as the consideration for most transactions is received within one year after the performance obligation is satisfied.

11. Other notes

Amounts are rounded to the nearest million yen.