

**Outside Directors Meeting Panel Discussion and Q&A**

**[Attendees from Sumitomo Metal Mining]**



From left, Chairman and Director Yoshiaki Nakazato, Outside Director Taeko Ishii, Outside Director Manabu Kinoshita, Executive Officer (in charge of the Corporate Communication Unit) Mihoko Yano (Moderator)

**1. Panel Discussion**

**[Atmosphere in the Board of Directors Meetings]**

Yano: First of all, I have a question for Chairman Nakazato. Can you explain the current atmosphere in the Board of Directors meetings and what you keep in mind as the chairman of the Board of Directors?

Nakazato: Regarding the atmosphere in the Board of Directors meetings, each Director openly expresses their opinions from their respective positions. Outside Directors understand our Company's business characteristics and provide various opinions from the position of stakeholders including shareholders so that the Company can operate the business to satisfy



stakeholders and be in harmony with society in this fast-changing business environment. I believe the Board of Directors meetings are operated extremely proactively.

Amidst this atmosphere, what I try to keep in mind as the chairman is translating our Company's unique terms, which are unfamiliar to those from outside the Company, into plain words. Mainly in our Mineral Resources Business, many unique business or industry terms are used. By translating these unique terms, as the chairman, I try to assist Outside Directors with deepening their understanding.

Ishii: Regarding the atmosphere, Outside Directors and Outside Audit & Supervisory Board Members vigorously express their opinions, and we have deep discussions. The Board of Directors members including internal Directors proactively make comments in addition to asking and answering questions, and I feel that we are on the same page. After all, information sharing is an important precondition of discussions. Outside Directors, of course, receive reference materials for the Board of Directors meetings beforehand. In addition, the minutes of Executive Officers' meetings, Management Committee meetings, and Management Strategic Meetings are also shared with Outside Directors for the purpose of information sharing with and information gathering from the executive side. In addition, since last year I have participated in interviews with divisions by Audit & Supervisory Board Members. I feel these opportunities for information gathering ensure the management and supervision functions of the Board of Directors.

Since I took office in 2018, the Company has undergone a period of change such as the COVID-19 pandemic and revisions to the Corporate Governance Code (CG Code) in 2021. Due to the pandemic, the way of operation has changed. The use of internet has allowed the Company to prepare for emergencies. Furthermore, in the aspect of the IT system, access to information has also become smooth. As to CG Code revisions, a higher standard of corporate governance is required of companies in the Prime Market. I feel that the Board of Directors discusses in particular medium- and long-term management strategies, issues for sustainability, and challenges on human capital including the personnel system more often, for longer, and deeper.

Kinoshita: This year marks my fourth year as Outside Director. Chairman Nakazato encourages Outside Directors to express their opinions openly. In addition, as mentioned earlier, he translates unique terms for the Company's businesses into plain language. We, Outside Directors, state various opinions openly and vibrantly. I believe the atmosphere in the Board of Directors meetings is extremely good.

However, since the Board of Directors meetings style is a management model, there are many resolution items in the meetings, which I think is not always bad. However, since my appointment, I have hoped to have more opportunities for discussion in the

medium- and long-term perspective. Therefore, I have stated various opinions when evaluating the effectiveness of the Board of Directors meetings.

In fact, more authority has been transferred to the executive side. From this fiscal year, discussion items have been added to the meeting agenda in addition to resolution items and reporting items, which allows the Board of Directors to take time to discuss extremely important themes. I believe more opportunities for free discussion enable the Board of Directors to realize smooth management and supervision as a monitoring function while using the management model as its basic style. In the last four years, the Board of Directors meetings have changed so that the voices of Outside Directors are heard more, discussions are stimulated, and vigorous discussions are held not only on short-term issues but also from a long-term perspective.

### **[Action to Implement Management That Is Conscious of Cost of Capital and Stock Price]**

Yano: We have received questions in advance for Action to Implement Management That Is Conscious of Cost of Capital and Stock Price released in our Corporate Governance Report.



Can Outside Director Kinoshita and Outside Director Ishii tell us what you think is of particular importance?

Kinoshita: Regarding management that is conscious of cost of capital, our price-to-book ratio (PBR) is below 1x and our ROE is projected to be below 8% in FY2023, which is expected from investors. We must accept these facts with sincerity and visualize the cost of capital properly. By doing so, we, including business managers, plants, and sales divisions, need to conduct management that is conscious of the profit margin and enhance capital management. For capital management, in consideration of the balance of equity capital and borrowed capital, I believe we need to enhance management of capital overall including our shareholders dividend policy.

In addition, the Company uses return on capital employed (ROCE) as an indicator to manage the business portfolio from the 2021 3-Year Business Plan. However, since growth speeds are different depending on the business segment, investment costs are high in segments in the business start-up period in some cases. In the Battery Materials Business, in particular, the speed of technical development is fast, competitors act vigorously, and customer needs change. In this background, promoting investment is also necessary, and I feel an agile response to changes in business without being overly restricted by numerical figures is important. I think we need to deepen our discussions

in the broader perspective.

Ishii: In principle, taking the situation in which the PBR is below 1x seriously, we need to



make large-scale projects such as the Quebrada Blanca 2 (QB2) Project and the Côté Gold Project profitable quickly. On top of that, what is important is further enhancing dialog with investors. Based on characteristics of the Mineral Resources Business, it is particularly important to obtain understanding from investors for our aim to increase our corporate value in the long term. In the Mineral Resources Business, fierce competition over the interests of mines is unfolding, and a tremendous amount of funds has become necessary immediately when participation in a project is decided. In addition, there are many variables that affect our business performance, including currency exchange and metal prices. The investors needs to prepare for unexpected events based on these business characteristics. I think IR activity is effective in gaining an understanding of that from investors.

However, instead of simply saying about business characteristics, steadily carrying out projects and reducing cross-shareholding are essential. We have already begun working on these matters and discussions are being held by the Board of Directors. Moreover, for human capital, the acquisition of talent and reform of personnel systems are necessary. In the expansion of opportunities for women, overemphasizing diversity could lead to the overstressing of gender differences. Therefore, we must be careful, but needless to say, active participation of more women in the workforce is an important issue not only from the diversity perspective but also for the sustainable growth of companies from the background of the declining workforce in Japan. I believe it is my role to express my opinions on this matter, so I will work on this matter. We revised personnel systems last year. The key is decreasing seniority and motivating younger employees. What is important is not only the format of the system but also getting the operation to take root in the Company. We are entering a crucial stage from now on.

## 2. Q&A

### [Questioner 1]

Q: This is more like an opinion rather than a question. Basically, I would like Sumitomo Metal Mining (SMM) to ensure a return on investment, sustainable management, and compliance. I will state my opinion with a complete understanding that investment in the long-term perspective is necessary for SMM. When investors select companies to invest in, SMM is not only compared to its competitors such as Mitsubishi Materials Corporation and Mitsui Mining & Smelting Co., Ltd. but also to notable companies such as Toyota Motor Corporation and Sony Group Corporation. In this case, even if SMM states it will generate a profit in the long term, since shareholder returns of other companies are currently better for investors, I do not think investors will choose SMM. To fill this gap with investors, removing misunderstanding is of course important, but on top of that, I would like SMM to improve its financial literacy. Some petroleum companies in the same cyclical industry are implementing creative measures such as setting a floor for dividends. I think financial literacy is a point in which SMM is slightly behind. I would like to see better management realized by the Company as a whole.

A. Nakazato: I understand the opinion about improving our financial literacy. Let me supplement the explanation as the chairman. Outside Directors mentioned that the PBR is less than 1x earlier. Both the Board of Directors and the executive side are aware of the importance of increasing our financial literacy. In the past, the agenda of the Board of Directors meetings consisted of resolution items and reporting items that mainly focused on compliance only, but the Board of Directors members strongly pursued enhancement of the monitoring function in the medium- and long-term themes. In response, these days, the agenda includes discussion items based on necessity. In the Board of Directors meeting on November 8, 2023, we had our first discussion on the PBR being below 1x. I believe we will shape a plan through discussions between the executive side and the Board of Directors. I would like you to understand that the Board of Directors understands this matter and is already acting.

Q: I fully understand this, and I would like SMM to work hard. I know, globally, it is difficult for natural resource companies to make a profit and the situation is extremely challenging for SMM, but I hope SMM generates high profits.

### [Questioner 2]

Q: Firstly, SMM has not introduced a stock compensation system yet. Few companies that I cover as an analyst have not introduced stock compensation systems. Could you explain SMM's thinking on this matter?

Secondly, Director Ishii mentioned a reduction in cross-shareholding. What is the logic behind the necessity of cross-shareholding with Toyota Motor Corporation? Since Toyota

Motor Corporation is working toward eliminating cross-shareholding within the Toyota Group, I do not think there is any impact on business even if there is no cross-shareholding with Toyota Motor Corporation. Could you explain your thoughts on this matter?

- A. Kinoshita: Firstly, regarding the fact that we have not introduced a stock compensation system, it takes a long period of time from finding resources to development in the Mineral Resources Business and the business was not established without a long-term perspective. Therefore, we considered the introduction of a stock compensation system unnecessary for the Company. However, as a recent world trend, we hear voices asking the Company to be more conscious of the stock price as management that is conscious of the cost of capital. Starting with future discussions in the Governance Committee, we will definitely discuss a stock compensation system in the long-term perspective as part of the new compensation system when we formulate the 24 3-Year Plan.



Secondly, we discuss cross-shareholding at least once a year. We will definitely reduce cross-shareholding, and we are holding strategic and economic discussions for future plans. We will continue to head in the direction of reducing cross-shareholding. SMM is reducing cross-shareholding even with the Sumitomo Group and all cross-shareholding is subject to our examination for reduction, and the Board of Directors annually discusses whether each cross-shareholding has value exceeding the cost of capital based on the strategic and economic value.

Except for PTVI, our special partner in Indonesia, cross-shareholding has been reduced to less than 10% of our capital, but I believe investors think we should reduce it further. Taking the situation seriously, we will hold discussions on further reduction. However, since we must consider the situation of other parties for cross-shareholding, most likely, we will gradually reduce cross-shareholding instead of reducing the entire amount all at once. Toyota Motor Corporation can be called a top manufacturer in the battery business that our Company focuses on. Market trends and technologies are undergoing drastic change in the business. To allow us to pursue a strategy in the battery business with an eye on worldwide trends, currently, the Company is involved in cross-shareholding with Toyota Motor Corporation.

- A. Ishii: In regard to stock compensation, which was the first question, the Governance Committee discusses Director compensation. In consideration of business characteristics and other factors, the Committee discusses the best compensation system for the Company and case examples of other companies. Immediate system

change is difficult, but that is a theme that I would like to discuss thoroughly in the Company. The second point of reducing cross-shareholding is also being discussed by the Board of Directors as an important theme. As you said, we must work toward reduction, and we would like to continue discussions.

A. Nakazato: Let me explain this further. Mine development, which is one of our businesses,



requires an extremely long period of time. All past executives were conscious that current profit is not being generated only from current management. Some current profit is a result of the hard work of past executives. A major example is the profit from mines. In the management of the Company, we have passed down the thinking that we must

strive to leave a wide range of good assets for the future not only the present. When the Hishikari Mine was discovered, management at the time said good deeds over the generations will definitely bring fortune someday. Past management made such efforts and asked its successors to do the same. Based on this thinking, the Governance Committee exchanges honest opinions and annually discusses the compensation system in consideration of social circumstances as well.

I do not have too many things to say as the chairman about cross-shareholding, and basically, it is as described in the Corporate Governance Report. The Board of Directors annually receives reporting on performance against numerical targets and the meaning of owning the shares for all individual stocks and holds discussions.

### **[Questioner 3]**

Q: Firstly, I believe the contents of the discussions by the Board of Directors are shifting to discussion items in the medium- and long-term perspectives. Can you explain if there is any room to improve the format, roles, and discussion contents of the Board of Directors meetings in order to increase SMM's corporate value?

Secondly, I believe that each Director has some sort of expertise. Can you tell me your thoughts about which expertise leads to the increase in corporate value?

A. Kinoshita: With regard to room for improvement of the Board of Directors, the Board of Directors evaluates the effectiveness of the Board of Directors once a year. We use an interview format. Each Director thinks differently, and we hold discussions to increase effectiveness while mutually sharing the challenges. The matters to be discussed in the Board of Directors meetings are submitted after discussions in the administrative meetings and Management Committee meetings. We, Outside Directors, attend both Executive Officers' meetings and Management Committee meetings and read the minutes of such meetings. This environment allows us to understand the background

of the matters submitted to the Board of Directors meeting and the risk that was hedged via each meeting. In the Board of Directors meetings, resolutions are made while each Director asks questions based on their own insight and sensitivity through their experience. I hope for the gradual transfer of authority to the executive side.

The discussion for the 24 3-Year Plan is about to begin. Priorities are different for sustainable challenges such as discussion of strategies in the medium- and long-term perspectives. Challenges that need to be worked on in the long term will not change in two to three years. We need to change in 10 years. Thus, we need to increase the time for discussion items. I think leaving the meeting room and having off-site meetings to have thorough discussions is one option.

To improve the Board of Directors, we will take the challenges identified in the evaluation of effectiveness seriously and deepen discussions while setting the direction. According to the significant changes in the world, the speed of the Board of Directors needs to be accelerated and occasions for discussion need to be changed as well.

With regard to the expertise of Directors, which was the second question, I think digital transformation (DX) is my area of expertise. DX is both a management strategy and a sustainable strategy. In particular, the transformation part is important as shown in the theme of Renewed Challenge for Change set by the Company in its 2021 3-year Business Plan. If there is no organizational culture where employees take the initiative to change themselves, DX will not make any progress. Furthermore, DX must be conducted with an eye on work process transformation rather than individual work improvement.

For example, the head office was renewed, but the work process did not change. A survey for employees in the workplaces reveals the necessity of transformation. If the work process is not changed, a shortage in the workforce, which is a medium- and long-term risk, may result. We need to think about how to improve productivity, for example, so that it becomes possible for five people to do work that takes 10 people to do by increasing productivity by 50%. DX is extremely effective for productivity improvement, which leads to business expansion. For example, since younger members are flexible with their work process reform, the use of generative AI in the workplace by trial and error makes agile DX possible even though the scale of DX may be small. I consider generative AI as a suitable material. I believe that incorporating generative AI in the work process will lead to an improvement in productivity and countermeasures against shortages in the workforce in the long term.

To promote DX, not only digital literacy education but also organizational culture reform in which employees can take on new challenges without being afraid of transformation



must be implemented. While utilizing my experience, I would like to focus on DX.

- A. Ishii: In regard to reforming the roles of the Board of Directors, I believe the worldwide trend is to focus on the monitoring function. For SMM, which engages in three businesses, namely, Mineral Resources, Smelting & Refining, and Materials, it is meaningful that the Board of Directors uses a management style to operate three



businesses in a unified way. However, how to place importance on the monitoring function in this background is a challenge. Increasing opportunities and time to discuss mainly management plans deeply will lead to improvement. In addition, the ratio of female Directors will be an important discussion theme. Increasing the ratio of female Directors is expected and requested by investors, and I believe this is a matter that we should work on.

Next, for how to improve the corporate value of the Company by using my expertise, I specialize in the labor field. In the past, not in SMM but in general, fierce labor disputes occurred. Nowadays, labor and management hold dialog on equal footing. Employees are called human capital and considered as important capital. I believe my insights and opinions in the labor field will be useful in other situations. Diversity, business, and human rights are also deeply related to labor. The Company is already working on health and safety sufficiently, but currently, many companies tend to pursue health and productivity management, which goes a step beyond health and safety. I would like to make full use of the experience that I have accumulated on a daily basis in the labor field including giving advice on social and global standards.

- A. Nakazato: Let me add some explanations. Our two Outside Directors made comments in terms of the functions of our Board of Directors regarding room for improvement. The Board of Directors annually undergoes a third-party evaluation in addition to a self-check. The Company is a company with an Audit & Supervisory, and all Directors and Audit and Supervisory Board members support this. In addition, the number and ratio of Outside Directors are also approved by all Directors and Audit and Supervisory Board members. Please understand that we will continue third-party evaluations and self-checks.

For the second question about the skills of the Board of Directors, I feel business sense is extremely critical for the Mineral Resources Business in particular. One of the retired Outside Directors told me that it is important for the President of SMM to build a relationship where the President can express opinions and tell jokes to the heads of overseas resource companies instead of simply staying in Japan. In this meaning, business sense is required instead of skills. I would like to share the information that

the Governance Committee vigorously discusses what is important for executives in the Company and how to train them.

**[Questioner 4]**

Q: First, I think the Company needs to control the cost of shareholders' equity to increase shareholder value. Has the Board of Directors ever actually discussed this? I would appreciate it if you could tell me that discussions are held in the perspective of increasing stability without raising the cost of shareholders' equity within the highly volatile business structure.

Secondly, SMM has explained individual measures for decarbonization mainly in briefings. They look like temporary measures for imposed obligations to clear targets as the non-ferrous metal industry. How will the Company take a further step from there and connect it to shareholder value creation? Has the Company held discussions in the perspectives of leading the industry in the decarbonization aspect to connect to shareholder value creation? Can you explain what we can expect regarding the possibility of the Company coming up with measures that go beyond temporary measures?

A. Nakazato: Regarding the first point of controlling the cost of shareholders' equity, as I mentioned earlier, the Board of Directors held its first discussion on November 8, 2023. Starting from the direction of PBR improvement, we discussed the Company's current situation, future response policy, and how we communicate outside of the Company. In the discussions, the problem of returns for risk was pointed out. Currently, we have not reached any conclusions yet, but to put it simply as the chairman, the Board of Directors is aware that the problem of risk and return will be more serious without sufficient consideration for the control and reduction of beta value.

Decarbonization, which is the second question, is discussed in the Company on a daily basis.

A. Kinoshita: Copper and nickel that are handled by the SMM business are essential items in the world, but in their manufacturing process, a significant amount of greenhouse gas is generated. The Company recently released a roadmap toward carbon neutrality discussed by the Board of Directors and resolved by the Sustainability Committee. We have not been able to discuss measures for Scope 3 emissions, but we are going to properly implement measures for Scope 1 and 2 first of all. I think implementing such measures overseas is particularly difficult. Petroleum and coal are used and changing the process requires large-scale measures. Since technical innovation for process



change takes an extremely long time, I think we will carry out both the roadmap toward technical innovation and a specific roadmap toward achieving net zero greenhouse gases while taking the initiative for technical development.

In addition, since resources are limited, contributing to a circular economy with early engagement in the recycling business is also necessary. For this reason, building a recycling supply chain is important. Even if we possess recycling technology, we cannot work alone to realize recycling in the supply chain. We need to get partners involved at an early stage, create a new business model, decide each role, and make recycling a business that includes the Mineral Resources Business and Smelting & Refining Business. I think we need to discuss this more in the Board of Directors meetings.

Q: I believe SMM has launched pioneering concepts, such as the SMM Green Metal concept, ahead of other companies in the industry. I expect proactive initiatives from SMM as an industrial leader.

**[Questioner 5]**

Q: Earlier, it is mentioned that the progress of the transfer of authority to the executive side enabled the Board of Directors to focus on the discussion of important themes. Firstly, can you tell me which themes Director Ishii and Director Kinoshita are respectively focusing on the most?

The second question is about the Company's human capital strategy. I believe the Company is working to secure, develop, and utilize human capital while the Company engages in business globally. What are the challenges?

A. Kinoshita: As to the first question, the theme I focus on is the early discovery of new mines since resources are limited. I believe, unlike before, the day when mines will no longer be discovered easily due to geopolitical risk and the impact from resource nationalism will come. What is important is overcoming this issue and starting mine development. In addition, the promotion of a recycling business toward a circular economy, as I mentioned earlier, is also an important theme.

For the second question about human capital, employee engagement is a challenge in terms of focusing on people. An employee awareness survey to measure employee engagement was carried out once every three years when I took office. Currently, it is held every year based on my request. Listening to employees and improving engagement will lead to building an open organizational culture. Increasing employee engagement by creating energetic workplaces where employees do not fear trying new things is important. I think further enhancing follow-up to the employee awareness

survey is necessary in terms of human capital. This fiscal year, I would like to have further discussions in the Board of Directors meetings on this matter.

- A. Ishii: As for the first question, what I pay attention to most is decarbonization, which was mentioned earlier. Reducing greenhouse gas is not only a theme focused on by investors but also a theme discussed in terms of the earth that will be passed down to future generations. A wide variety of stakeholders are paying attention to decarbonization. I think the day when one wrong step by a company leads to banning the company's participation in business may come. Therefore, I pay attention to this matter.

For human capital, which is the second question, an open and vibrant organizational culture is the Company's theme and goal. I think being open and vibrant means that the Company is open to willingness to take on challenges and trying new things regardless of whether the results are successful. I believe securing psychological safety that allows employees to express their opinions openly is the key, and creating such an environment is the role of the management team, managers, and supervisors.

End