

Outside Directors Meeting Panel Discussion and Q&A (Summary)

Attendees from Sumitomo Metal Mining (SMM)



From left to right: Akira Nozaki, Chairman and Director; Manabu Kinoshita, Outside Director; Taeko Ishii, Outside Director; Koji Takeuchi, Outside Director; Mihoko Yano, Executive Officer in charge of corporate communication division (Moderator)

1. Panel Discussion

Atmosphere of Board of Directors Meetings

Yano: First, Chairman Nozaki, could you talk about the current atmosphere of Board of Directors meetings and what you bear in mind as its chair?

Nozaki: I have been serving as SMM's Director since 2014 and as the chair of its Board of Directors meetings since June 2024. I have the impression that what I see in the meetings differs slightly between those I attended as a director and those I chaired. Overall, attendees expressed their views actively with a proper level of tension in the meetings. Naturally, as the chair, I try to facilitate each agenda item smoothly. Our Outside Directors have been offering their opinions on resolution items from diverse perspectives. Their views include those that are not likely to come from internal directors appointed within



SMM. I believe that the opinions they express indicate changing trends in the management world that we, internal directors, are not yet aware of. Our Board of Directors, too, needs to change constantly. Therefore, we discuss points that have come to our attention, inspired by the opinions of Outside Directors, as discussion items.

Takeuchi: Discussions at Board of Directors meetings are lively, to the extent that every meeting overruns the scheduled end time. Personally, however, I would like to have more time to discuss business directions and strategies from medium- to long-term perspectives. It has been one year since I became SMM's Outside Director. I am learning various aspects of SMM, and in providing advice, I aim to draw on my experience in establishing an electronic materials business at a food company, so that I can contribute to SMM's Materials Business.

Kinoshita: As Chairman Nozaki and Director Takeuchi mentioned, Outside Directors are working to improve Board of Directors meetings. For example, SMM's Board of Directors meetings have numerous resolution items and reporting items on their agenda because it adopts a management style that involves making decisions at its meetings. This left little time for discussion, as noted by Director Takeuchi. Therefore, in the annual evaluation of the Board of Directors' effectiveness, I pointed out the need to allocate sufficient time for discussing key themes. As a result, the category of discussion items was established. Major discussion items in the past year included directions and strategies of the 3-Year Business Plan 2027 ("3-Year Plan 2027") and initiatives aimed at achieving management with an awareness of capital costs and stock prices. In particular, we took ample time to discuss the shareholder return policy, such as reducing cross-shareholdings and conducting share repurchases. On the sustainability front, we verified the effectiveness of a new HR system introduced a year ago for managerial-track employees and discussed our approach to human capital management. These shaped the 3-Year Plan 2027. I take pride in the fact that we had in-depth discussions on the plan's directions and strategies during its development.

Promotion of Women's Participation and Advancement

Yano: Director Kinoshita mentioned earlier that the Board of Directors discussed human capital management initiatives. Director Ishii, what is your view on the status of and changes in the participation and advancement of women at SMM since you became SMM's director in 2018?



Ishii: In addition to internal and external training programs for leaders, SMM offers e-learning that supports employees' career development, although this is not limited to female workers. Accordingly, I feel that SMM has considerably enhanced initiatives for nurturing female managers. In terms of a women-friendly work environment, systems for helping them balance work and life events are already established at SMM. In its employee engagement survey, the

score of “corporate culture supportive of child-rearing, etc.” was high. Male employees, too, are actively taking childcare leave. I believe such an initiative is also an element that creates a workplace in which women find it employees-friendly workplace.



SMM sets the goal of having 50 female managers as a key performance indicator (KPI) in its Vision for 2030, but the current number stands at 28. The ratio of female employees to the total employees is currently 13%, while the goal is set at 20%. The significant gaps for both indicate that the goals are set at an ambitious level. In the past, SMM had limited opportunities for women to actively participate due to restrictions imposed by the Mining Act and the Labor Standards Act, which were considered a handicap for the advancement of women at SMM. Those restrictions have been relaxed and no longer justify SMM's targets and results. I value and have a high expectation of SMM's approach to addressing the matter by setting long-term goals and working toward them.

Additionally, SMM holds gatherings for its female managers and company executives approximately every six months, which I attend. The previous one took place in March 2025, and participants discussed work-style reforms for managers, ideal management approaches, talent development, and other topics. Apart from promoting women's active participation, talking with those female managers made me realize that they have the ability to lead their junior colleagues. I have high expectations for their future.

Formulation of 3-Year Business Plan 2027

Yano: On May 12, 2025, SMM published its 3-Year Plan 2027, whose final fiscal year is FY2027 (year ending March 2027). How were you involved in its formulation? Could you talk about points you think are especially important?

Kinoshita: The 2021 3-Year Business Plan, which ended in FY2024 (year ended March 2025; “21 3-Year Plan”), left us with significant issues. Large-scale projects that we drove under growth strategies encountered delays in the development schedule and incurred start-up cost overruns. Moreover, the environment surrounding Battery Materials Business underwent rapid changes, necessitating a review of our expansion strategy. The biggest regret under the 21 3-Year Plan is that management got behind the pace of changes happening in the world. Therefore, I believe that the 3-Year Plan 2027 would not find solutions if it followed the trajectory of the 21 3-Year Plan. It is about how to run a PDCA cycle after decisions are made. What is needed is to adapt our strategies flexibly in implementation, responding to changes in the world.



What I mean by changes in the world are changes in customer needs, the competition environment, and associated shifts in the flow of money. We failed to catch up with these changes, probably because we had limited contact with customers in marketing. We need to expand our contact with customers, increase daily communication with them, experience changes in the world firsthand, and quickly acquire various information. Sales is not about going around for orders. Its mission is to fully understand the needs of customers and proactively make propositions to them. This is marketing.

On the other hand, I assume various things are happening on the frontline of our company. We must have an open corporate culture where information from the frontline, including bad news, reaches the top management. Under the 3-Year Plan 2027, we need to implement structural reforms to respond sensitively to changes in the world. I expect the 3-Year Plan 2027 to be a key medium-term business plan in shaping our transition toward our Vision for 2030.

Takeuchi: As the operating environment of our Materials Business has changed drastically, we have many challenges to overcome. The three years covered by the plan are a key period in which



we need to respond to such changes smoothly. Since I became SMM's Outside Director, I have had several opportunities to share my experience of developing electronic materials with younger employees. In such occasions, I emphasized the importance of having the perspective of developing materials that only SMM can. I especially want young engineers to have this perspective.

Therefore, I will continue actively communicating with them to help accelerate the development operations.

Formulating a medium-term business plan is not an end in itself, but rather a starting point for implementation. To survive in the ever-changing field of materials, we must move quickly in both information and development. I will check its progress at each juncture and actively provide advice where possible.

Ishii: The 21 3-Year Plan saw delays and cost overruns in both the Quebrada Blanca (QB) 2 project and the Côte gold mine development project, partly due to the impact of the COVID-19 pandemic. I was informed of their progress at Board of Directors meetings as it became available, and it was a challenging three-year period. Under the 3-Year Plan 2027, I expect them to get on track and generate revenues through efforts to stabilize their operations and increase productivity. Technological development and enhancing technological capabilities will also be important in Materials Business.



Nowadays, companies emphasize human capital management and consider how human resources and labor management can have a positive impact on business management. This represents a shift from the traditional way of viewing them, which has primarily been from a risk management perspective. Accordingly, I am closely watching HR strategies under the 3-Year Plan 2027. The managerial-track personnel system has been revised, but it has not yet been fully implemented. Seniority elements are weaker under the revised system, and younger individuals are being gradually appointed to key roles. I am looking forward to seeing how much they can demonstrate their abilities. I hope they will remain principled over the long run as they take on their challenges.

2. Q&A

Questioner 1

Q: First, I will convey opinions of investors, analysts, and others involved in the stock market. While not much return was being generated under the 21 3-Year Plan despite investments made upfront, SMM's explanation before the release of the 3-Year Plan 2027 was that the usage of funds under the new plan would be similar to that under the 21 3-Year Plan. This made me wonder if SMM was listening to requests from the stock market. The stock market has been concerned about SMM's attitude of continuing to invest despite the investment's budget overruns and delays in recovering the investment. The actual 3-Year Plan 2027 published, however, suggests that the voices of the stock market have reached the management, including Outside Directors, to some extent. In the 3-Year Plan 2027, investments are somewhat restrained while shareholder returns are increased. The gap between market requests and SMM's information dissemination appears to have been slightly filled. I expect SMM's Outside Directors to serve the role of adjusting SMM's thinking in response to market requests such as these.

Next, my question is this. What was the discussion that preceded the decision to increase shareholder returns?

A. Kinoshita: SMM's price-to-book ratio (PBR) is in the 0.5x–0.6x range, and its stock price is at a level around 2,000 yen lower than last year. The reasons would be SMM's getting behind the plan in generating profits, as well as a faded confidence in its future due to development delays and investment overruns in major projects under the 21 3-Year Plan.



Regarding our PBR being below 1.0x, we repeatedly discussed the state of capital costs and other items from the perspective of management with an awareness of capital costs and stock prices. For example, in a discussion on cross-shareholdings, we saw that cross-shareholdings inflated our capital ratio. Accordingly, we discussed a path for reducing our cross-shareholdings to 10% of net assets, based on a reflection on our past failure to present a plan for reducing them. In doing so, we also discussed capital allocation, specifically how to allocate proceeds from sales of cross-held shares.

In the first half of the 3-Year Plan 2027, with fewer planned investments in large-scale projects such as the Quebrada Blanca 2 project and the Côté gold mine development project, we considered enhancing shareholder returns through share buybacks and other means. Meanwhile, the volatility in our business performance led to considerable fluctuations in dividends, with a payout ratio of 35%. This would have been perceived as a lack of security by the stock market. To improve this, we introduced a dividend on equity ratio (DOE) and raised its target ratio from 1.5% to 2.5% this time. Our efforts are still halfway, but we have had discussions like these.

The effect of a share buyback, if implemented, would be temporary and would not last forever. I believe that our business, in essence, is finding ways to generate profits in core businesses or utilizing our manufacturing capabilities to drive profits. We must be fully aware that SMM's business originates in identifying resource projects, which have become increasingly challenging to find globally due to the rise of resource nationalism and other factors, and acquiring interests in them to meet market expectations.

What we should focus on through management with an awareness of capital costs is return on capital employed (ROCE). I would like to deepen our discussions by using ROCE to visualize capital costs and examine each project in terms of whether it should continue and what issues it faces. Our capital cost discussions have made progress at the Board of Directors meetings. Please look forward to seeing the performance of the 3-Year Plan 2027.

Q: I expect SMM to invest, generate profits, and grow. Please strike a good balance in working on these.

Questioner 2

Q: Isn't it that SMM's share prices are sluggish largely because its ROE remains at around 4%? I would like to know what issues are recognized by the Board of Directors and what sorts of discussions it has at its meetings. I would also like to know SMM's future approach to its business portfolio and its awareness of current issues, given the low capital efficiency of its businesses, except for Mineral Resources Business.

A. Nozaki: Let me talk about our Materials Business from a business portfolio perspective to answer your question about our recognition of the lackluster management indicators as an issue. To lower volatility, we have the Materials Business, which is a stable source of revenues less sensitive to market conditions than the Mineral Resources and Smelting and Refining Businesses. Director Takeuchi, please explain the strengths of Materials Business.

A. Takeuchi: Our significant advantage in Battery Materials Business lies in our capability to produce cathode materials in large quantities stably. However, the needs for battery materials frequently change at intervals of a few years. To become a stronger leading manufacturer in this field, we must identify the real needs ahead of our competitors. We have a give-and-take relationship with our customers. To understand their real needs, we must actively provide information from our side and effectively use the information we receive from customers in return. In Advanced Materials Business, we will focus on interesting areas, such as silicon carbide (SiC) and near-infrared absorbing materials, SOLAMENT™, for which we have high expectations for growth.



A. Kinoshita: In light of marketing for identifying needs, we have a platform called X-MINING. Japanese companies used to follow, in many cases, a model of integrating vertically within a single company to cover all processes. Given today's rapid pace of change in the world and competition with overseas peers, co-creation that leverages our strengths and those of our partner companies is essential. This co-creation model would also enable us to reduce our investments. The key is to find ways to develop a potential market where needs are yet to emerge, pursuing the product-out approach rather than the market-in approach by using new technology. The saying "He who strikes first wins" applies to a new business model. Therefore, experimenting in X-MINING, a marketing tool, is an effective method.

A. Nozaki: We have reviewed values for management indicators in the 3-Year Plan 2027. Transforming the balance sheet structure, however, requires examining it from a capital policy perspective. Accordingly, I would like to continue discussing this at the Board of Directors meetings.

Questioner 3

- Q: SMM posted a significant impairment loss twice in FY2024. The timing was especially unfortunate for Battery Materials Business as it had just started up a new plant. What should I expect in terms of disciplining future investments? What are SMM's approaches to investment discipline and management resource allocation—how will you control them, and what discussions are taking place at Board of Directors meetings? SMM is engaged in exploration projects outside Japan from a long-term perspective, and Winu and other projects are also ongoing. How will SMM make investment decisions on mining projects whose time horizon for recovering investment is long? A large-scale project that was about to be started under the 21 3-Year Plan was discontinued. Given this, what can I expect from ongoing projects?
- A. Nozaki: The Board of Directors makes such decisions by considering forecasted values for NPV, IRR, and the operation phase's ROCE, among other factors. I ask Director Kinoshita to explain how SMM is maintaining investment discipline at the beginning of projects.
- A. Kinoshita: We have started projects after examining them from various aspects, including management indicators. However, the subsequent efforts are even more critical than that decision-making. The key is controlling additional costs, such as those resulting from start-up cost overruns and schedule delays. Since we would not be the operator but a minority participant in mineral resources related projects, the operator company's top management and SMM's top management need to confirm each other's risks through communication. This will enable us to leverage our technical strengths and experience. Our partnership with the operator must entail genuine cooperation, with both parties working together and leveraging each other's areas of strength to complete the construction. The Mineral Resources Business' ROCE is higher than its WACC, suggesting that the business is viable. The challenges are the time required to contribute to profits and start-up costs. We must maintain close communication with the operator and develop a mutually beneficial relationship built on trust. This way, we would be able to know bad news quickly and respond to risks early.
- A. Nozaki: We can acquire interests in mineral resources only when we have opportunities for it. Meanwhile, we need to consider our capacities, such as financial capacity and human capital, in doing so. We will examine each potential project considering various aspects.

Questioner 4

Q: A failure and slowness in responding to changes in the world was mentioned as a reflection on the 21 3-Year Plan. In addition, for the final fiscal year of the 3-Year Plan 2027, ROCE is forecasted to be below both the benchmark and the cost of capital. I understand that it is challenging to increase ROCE rapidly with SMM's business model, but is there a discussion on something that SMM can work on with speed? In particular, what is the view on the speed of raising SMM's stock price?

A. Nozaki: To increase ROCE, controlling invested capital is also important, in addition to increasing returns. We should manage our balance sheet to ensure the operation of business units as part of our



capital policy. We must strive to achieve and exceed numerical targets in the 3-Year Plan 2027. That said, we cannot provide specific measures for achieving the targets more quickly. Director Takeuchi, please explain how to increase the speed of research and development, for example.

A. Takeuchi: R&D requires long-term perspectives. However, approaches are different between long-term R&D and R&D that looks a few years into the future. It is necessary to have accurate information on the types of events that will occur in a few years' time and address them promptly. The most crucial element is motivating people who are engaged in R&D, which would change the results and speed.

A. Kinoshita: It has been five years since I became SMM's Outside Director. Most of all, it has a culture of valuing its people, and they are very diligent and do high-quality jobs, which suggests high performance potential. On the other hand, if I take a harsh view of the company, it has become increasingly conservative in its 430-year history, with a decline in adaptability to changes. SMM has introduced a new HR system and conducted engagement surveys to increase employee engagement. To this end, it is necessary to change its organizational culture to one that is open-minded and encourages each employee to think, take action, and take on challenges. Management speed slows when many people are waiting for directions. It is necessary to delegate authority so that employees can make decisions and respond to changes in the world independently, thereby changing the culture into one where each employee takes on challenges. How to disclose the potential of mines in which we have stakes is another issue. SMM has an overall strength of competent people and stakes in mines. I am confident that it will become an even better company if the delegation of authority transforms its culture into one in which each employee takes on challenges, and, in turn, its financial indicators will improve.

Q: A better visibility, from outside, of the management speed of SMM would lead to a higher PBR, which I look forward to seeing.

Questioner 5

- Q: Some companies have given up on entering the SiC market. What are your thoughts on this? Regarding the explanation of the need for expanding contact with customers, will cross-shareholdings lead to broader customer contact, or is there a risk that such shareholdings will instead become a restriction? What are your thoughts on this, such as whether the benefits of cross-shareholdings are worth the capital costs?
- A. Takeuchi: A trend like the one you pointed out currently exists. A highly heat resistance material like SiC, however, is likely to see long-term growth. Moreover, our SiC is a unique product that uses bonding technology, unlike traditional ones, and I have high hopes for its future.
- A. Kinoshita: The possibility of cross-shareholdings becoming a restriction is not zero. However, from a sales and marketing perspective, for example, having contact with a frontrunner company in the industry enables us to gain access to cutting-edge technology and information. I believe the industry frontrunner is the company that creates the most innovations, and having contact with it is very important. I see a significant benefit in mutual exchanges of information and technology to develop innovations in Japan through a strategic partnership based on cross-shareholdings.