

## Outside Directors' Tripartite Discussion

# Deepening discourse to enhance corporate value and envisioning the ideal form of the Board of Directors

### Taeko Ishii

#### Outside Director (center)

Ms. Ishii registered as a lawyer in 1986 and is a member of the Dai-Ichi Tokyo Bar Association. She is particularly knowledgeable about legal practice concerning labor issues and has written many published works. She has served as an outside director of SMM since 2018, making proposals mainly about compliance and the empowerment of women.

### Manabu Kinoshita

#### Outside Director (right)

Mr. Kinoshita has served in various positions, including senior executive vice president of NEC Corporation. He has been an outside director of SMM since 2020, making proposals that capitalize on his knowledge of the digital field and experience in the development of solutions through joint creation with other industries.

### Koji Takeuchi

#### Outside Director (left)

Mr. Takeuchi played a leading role in the electronic materials business of Ajinomoto Co., Inc. and its group companies. He has been an outside director of SMM since 2024, utilizing his rich knowledge and experience in the field of electronic materials and making proposals relating to R&D and the Materials Business.



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### The individual thoughts of the outside directors concerning FY2024 results and issues

**Kinoshita:** In a nutshell, FY2024 was a year of much soul-searching. Being the final year of the 2021 3-Year Business Plan [21 3-Year Plan; FY 2022–24], it was an important year for questioning our plans. Unfortunately several of our goals were not achieved, and our share price continued to stagnate. There were various background reasons for this sluggish share price: for example, the schedule delays in our overseas mine development projects, and our tardy response to environmental changes as symbolized by impairment loss of the battery materials business. At the end of the day, however, I think the main reason is that we failed to get the capital market and investors to understand SMM's growth strategy. As a member of the Board of Directors, I feel responsible in this respect.

**Ishii:** As Mr. Kinoshita said, owing to the delays in overseas projects and other factors, a sense of future uncertainty has continued over the past few years. But my impression is that things have calmed down since the end of last year, and at last we have emerged from what has been a long tunnel. I hope that it will be harvesting time soon. At the same time, though, the immediate business environment is severe, so I think we must continue to be on our guard.

**Takeuchi:** I joined the Board of Directors in June of last year. As my honest impression of the Board of Directors, I feel that there should be more opportunity for discussions about specific businesses. Although I worked for a food product company previously, I was engaged in the electronic materials business, a domain that differed from its main business, and I think my experience has plenty in common with SMM's Materials

Business. Therefore, I think I can make effective proposals as an outside director.

### What role did outside directors play in the process of compiling the new 3-Year Business Plan?

**Kinoshita:** Regarding Mr. Takeuchi's comment about the need for more discussions, we have broadcast this matter in the evaluation of the effectiveness of the Board of Directors and so on. As a result, in the process of compiling the 3-Year Business Plan 2027 [3-Year Plan 27; FY 2025–27], we were able to have discussions from wide-ranging perspectives, including issues and reflections on the 21 3-Year Plan. I think that point deserves praise. For example, regarding the PBR below 1.0x, we held repeated discussions about a management perspective that takes account of capital cost and share price, debating such matters as the present state of capital cost, and those discussions led to compilation of the 3-Year Plan 27.

**Ishii:** My impression also was that it was an extremely thoughtful compilation process. The supply of information was mindful from the stage of preparing for discussions, and the opportunities for discussions and time provided were plentiful. I think the results are evident in the output.

**Kinoshita:** I think three points were given particular emphasis in the compilation: First, as shown by recent comments about the importance of human capital management, the growth of employees leads to growth of the Company. Second, the business portfolio must be optimized through ROCE [return on capital employed] management. Finally, work reform involving DX [digital transformation] is essential to make our employees



nimbler. What do you two think?

**Ishii:** I devoted a lot of attention to human capital management too. During the 21 3-Year Plan we did tackle revision of the personnel system for managerial track employees. But SMM is a company with a long history, so reform is difficult. And attitudes differ on how to take in a new system. Continued discussions are needed to come up with a system that pleases everyone.

**Kinoshita:** In practice it is our employees who implement the policies outlined in the business plan, so we need to explain things carefully so that every employee is convinced of the content and its significance and see themselves as stakeholders.

**Takeuchi:** I was particularly interested in the Materials Business. To use some harsh language, it seems to me that employees in this business have an attitude of concentrating too much on the

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work immediately before them. Especially in R&D, you need to have a stance of foreseeing trends and developing the required technologies ahead of society. In addition, it is necessary to look at the industry as a whole, be aware of our differences compared with rival companies, and focus on areas in which we can display a competitive advantage.

**Ishii:** Mr. Takeuchi has many years of experience in steering R&D on the ground, so that comment comes straight from the horse's mouth! Whether or not they have such a stance greatly influences employees' motivation, doesn't it?

**Takeuchi:** Motivation is not going to rise with research that just tries to catch up with the leading technology of other companies. If you want to become the foremost presence in some field, it is necessary, ahead of other companies, to get a hold on information about needs that have not yet surfaced in society and respond. If they set about their work with an attitude of capitalizing on their strengths to create things that do not yet exist in the world, the morale of the R&D team should increase naturally. I want to demonstrate the experience I had in my previous job to provide support in this respect.

### What is the ideal form of the Board of Directors to contribute to enhanced corporate value?

**Kinoshita:** The non-ferrous metal resources handled by SMM are essential for the solution of social issues. But resources are finite, and looking from a global perspective, securing them is going to become increasingly difficult from now on. As stated in the 3-Year Plan 27, continuing to fulfill our mission as a social infrastructure company while emphasizing the perspectives of a circular

economy and carbon neutrality will lead to the enhancement of our corporate value.

**Ishii:** That said, as shown by our share price recently, the fact is that SMM's corporate value is not being properly appraised by the capital market. We have tried to enhance shareholder returns in recent years, but my impression is that our efforts have been rather textbookish and have not resonated very much in the market. Indeed, the market has a grim view of future trends in the battery materials business and so on.

**Kinoshita:** The enhancement shareholder returns is important, of course, but I don't think that is the essence. Naturally, how much you can earn from your main business is the top priority. In addition to polishing our MONOZUKURI-RYOKU [manufacturing and operational capabilities] and building a setup that constantly yields a profit, the important thing is to make investors feel that this company has a bright future. In this sense, I think the ideal form of the Board of Directors is being questioned.

SMM adopts a management model in which the Board of Directors is the decision-making body. Because the Board of Directors engages in repeated discussions and makes decisions in the name of everyone, it tends to be unclear where responsibility lies, and the speed of management can slow down. I think we should change to a setup in which authority is delegated to executives who are required to make decisions speedily on the ground and the Board of Directors takes care of larger policies and strategies.

**Ishii:** I agree that the present management model has reached its limits. SMM's businesses all require expert knowledge and experience on the ground, so, to be honest, it is difficult to have practical discussions in the Board of Directors. As Mr. Kinoshita says, we should move in the direction of entrusting management

to worksites and emphasizing monitoring in the Board of Directors. **Kinoshita:** Since entrusting actual business to the executive side is the only way forward, we are moving in the direction of discussing in the Board of Directors how to respond to requests from stakeholders.

I think the biggest issue in the present Board of Directors is its tardiness in responding to change. Compared with the Mineral Resources Business and the Smelting & Refining Business, the Materials Business in particular faces a volatile market, so a mechanism is required in which authority is delegated to people on the ground to raise the speed of management, and risk management is firmly in place too.

**Takeuchi:** Absolutely. In the Mineral Resources Business and Smelting & Refining Business the products that are handled, such



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as copper and nickel, are decided, and we compete over quality, price, and so on. But in the Materials Business, by contrast, the starting line for our thinking is the question of what products are required. The business models are essentially quite different, so naturally a mechanism is needed in which authority is delegated in each business and decision making is carried out on the ground by each one.

**Kinoshita:** To be even sterner, I would say that SMM's sales at present are no more than just waiting for customers to make requests. Listening to the requirements of customers is important, of course. But particularly in the Materials Business, an approach of creating value ourselves that is useful to customers and making proposals accordingly is needed. For this purpose, as I have said time and time again, it is necessary to increase customer contact points and to have diverse customer contact points, including overseas. By repeating a creative dialogue with customers, including dialogue involving top management, and strengthening proposal activities, we should be able to build win-win relations with them.

**Ishii:** While we want the Mineral Resources Business to take a broad view, as the two of you have pointed out, we want the Materials Business to speed things up. That's the tricky part. I think we must give even more thoughtful explanations so that the capital market understands these unique business characteristics at SMM.



### The role that each outside director can play toward future growth

**Kinoshita:** Although I said some harsh things, I do think that SMM is an extremely good company. The employees are serious and honest. Perhaps because it is a company with traditions, though, they also tend to be on the conservative side, which can lead to a wait-for-instructions attitude. On this point, as a measure for human capital management, the 3-Year Plan 27 includes activities to improve engagement. I welcome this as a big step forward. Engagement is closely associated with an open and vibrant organizational climate. I hope that this engagement will foster a challenging organizational culture that encourages employees to think for themselves and implement ideas with responsibility.

Capitalizing on the experience I gained in my previous work, I want to contribute to a reform of attitudes so that our employees see work as something that is "tough but enjoyable."

**Takeuchi:** I always say that work must be enjoyable. Innovation does not come from instructed tasks. If employees engage in their work with the idea that "If I change my work like this, I can change the world like this," then work naturally becomes enjoyable. SMM has always had talented employees, so if the number of employees engaging in their work with this kind of attitude increases, they are sure to grow even more.

Personally speaking, in my previous job I was involved mainly in areas that differed from the company's main business, and never once was I told what to do by the company. Recently I had the opportunity to talk to young employees about my experience, and they took it very positively. I think it is necessary to increase such opportunities to hear talks not only by us outside directors but also by more people from outside the Company.

**Ishii:** I also have been given the opportunity to talk to young female managerial staff, and I felt that many of them had an extremely forward-looking drive. In this day and age, I think "sustained growth" is synonymous with "reform" and "challenge," so we need to have more broad-mindedness to tolerate challenges by young employees, including failures. Reform is maybe difficult, because SMM is a company with a long history. But nevertheless, we must change what should be changed. In particular, I want to offer support so that the young generation can be adventurous.