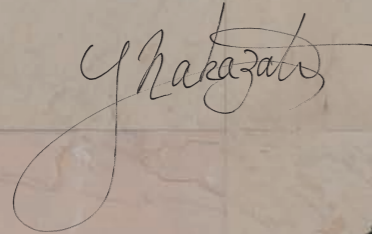


## INTERVIEW WITH THE PRESIDENT

Going forward, we will further burnish our unique business model integrating operations in Mineral Resources, Smelting & Refining, and Materials, and pursue sustainable growth and enhanced corporate value.

Yoshiaki Nakazato  
President and Representative Director



### Q1 Please tell us how SMM performed in fiscal 2015.

Sales and income figures dropped substantially. Declines in metal prices were the main cause, but there were also many management issues we need to reflect on, such as the delay in achieving commercial production at the Sierra Gorda Copper Mine.

In fiscal 2015 our earnings deteriorated significantly. At the recurring income level, we booked a loss of 12.8 billion yen, down 187 billion yen from the previous fiscal year and the first recurring loss recorded since fiscal 2001. The principal cause was the declines seen in metal prices. Those declines, together with the year's forex movements, together accounted for a 116 billion yen drop in recurring income from fiscal 2014. At the same time, however, there are also many management aspects we need to reflect on: for example, the impairment loss booked as a result of delayed progress in the Sierra Gorda Copper Mine development project.

Fiscal 2015 was the final year of our 2012 3-Year Business Plan. The main issues we addressed under the plan were to move forward large-scale projects in the Mineral Resources and Smelting & Refining businesses, and to carry out structural reforms in our Materials business. With respect to the former businesses, while on the one hand we succeeded in starting up Taganito HPAL, we failed in our plan to achieve full-scale production at the Sierra Gorda Copper Mine. Concerning our Materials business, we carried out a reform whereby we shifted the focus of our investment of management resources: the former structure, under which resources were concentrated into semiconductor materials targeted at the general product markets, was superseded by a structure of resource investment heavily focused on advanced materials, a business conducted based on relationships of trust with market-driving customers. As a result of this structural reform, I believe we were able to take a first solid step toward building a stable, growth-oriented revenue base.

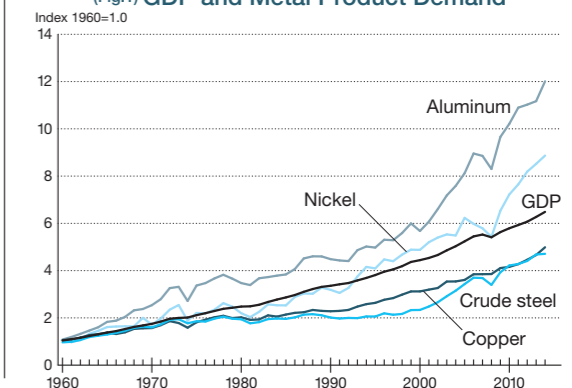
### Q2 What is your view concerning the current environment surrounding non-ferrous metals?

Demand for non-ferrous metals is known to fluctuate in tandem with global economic trends (Fig.1). Looking beyond the near term, I believe demand will recover and non-ferrous metals will remain a growth industry.

Today, metal prices remain in a slump worldwide. The end of the supercycle in which China and other emerging economies were driving expansion in metal demand has exacted a heavy toll, and the current low-price trend is expected to continue for some time. Meanwhile the environment surrounding mineral resource development projects has also become increasingly harsh as a result of such factors as the emergence of resource nationalism, declining ore grades, and the location of mines at increasingly higher elevations. Based on these considerations, one might conclude that going forward non-ferrous metal prices will remain severe.

Personally, however, I don't agree with that view. It's a well-known fact that demand for non-ferrous metals, which are a basic material indispensable to modern society, tend to move in tandem with trends in the global economy. Globally speaking, GDP figures are projected to continue growing over the long term, and as such, in the longer-range view demand for non-ferrous metals can be expected to sustain stable growth. So even if their prices were to stagnate for a short period, ultimately they can be expected to return to appropriate levels.

(Fig.1) GDP and Metal Product Demand



**Q3 In today's business environment, what kind of strategies will be important for the Company's future?**

**SMM pursues a business model unique in all the world, with integrated businesses in Mineral Resources, Smelting & Refining, and Materials. Going forward we will push strategies using this comprehensive capacity as a source of competitive strength.**

Looking back on fiscal 2015, once again I am made aware of the tremendous volatility of the mineral resources and smelting & refining industries. Amid this environment, I believe we face two major challenges if we are to achieve sustainable growth.

The first is how to grow our current businesses going forward. The second is how, from a medium to long-term perspective, to nurture the fundamental strength to fully endure whatever changes, however large, the business environment might bring. I believe the key to overcoming both of these challenges rests in the Materials business.

Today we are taking steps to strengthen our Materials business as a segment on a par with our Mineral Resources and Smelting & Refining operations, and Materials is becoming a new growth driver. At the same time, in order to build up our basic strength, first we will continue to carry out measures

to extend the life and stabilize the earnings of our mining assets: the Hishikari Mine, for example, which provides high-grade ore with excellent cost competitiveness. In addition, I hope to form a solid earnings base able to withstand changes in our external environment by making our Materials business – an area into which we are now focusing strongly – into a new pillar of business strength.

SMM's business model – integrated businesses in Mineral Resources, Smelting & Refining, and Materials – is unique in all the world, and in the years ahead we will make this the source of the Company's competitive strength.

Above all, SMM has a social responsibility to stably provide the high-quality materials and products that society requires; and as a company engaged in the business of manufacturing – *monozukuri* – securing mineral ores, natural resources that are available in inherently limited quantities, is at all times an inevitable business challenge. In May 2016 we boosted our stake in the Morenci Copper Mine, from the 12% ownership share we already had, by an additional 13%, enabling us to have a 25% stake. This measure was a management decision taken with an eye on the future, maintaining a growth strategy focused on the next generation, built on securing mineral resources over the long term, a policy we have embraced through the years.



Morenci Copper Mine

**Q4 Please tell us your views concerning the 2015 3-Year Business Plan.**

**Amid our changing business environment, we aim to steadily enhance our cost competitiveness in Mineral Resources and Smelting & Refining. And with Materials as the core of our growth strategies in our 2015 3-Year Business Plan, we will put in place a structure capable of supporting our earnings base.**

Today our business environment is changing dramatically, with metal prices having fallen and mineral resource development projects now increasingly difficult to carry out; and how to cope with these and similar changes is the foremost challenge we confront in our 2015 3-Year Business Plan. Our aim is to swiftly carry out strategies addressing the changes in our business environment, steadily reap the results we seek, and share the benefits of our achievements with all our stakeholders.

In the area of Mineral Resources, to begin with, at the Sierra Gorda Copper Mine we will target the achievement of full-capacity production – which has been a major challenge so far – as well as cost reductions and stable operations. Today, we are on the verge of reaching one of the goals of our Long-Term Vision – to secure stakes in copper mines totaling the equivalent of 300,000 tons per year. Now, going forward we will focus efforts especially into acquiring interests in gold mines, an area where we are lagging behind our goal.

In the area of Smelting & Refining operations, under the 3-Year Business Plan we will pursue all-out strengthening of our cost competitiveness. With respect to copper, we aim to thoroughly trim costs and improve productivity at the Toyo Smelter & Refinery. In nickel-related business, we are looking to increase production at Taganito HPAL and to raise the cost competitiveness of SMM's HPAL operations through strengthening of HPAL technologies and scandium recovery. SMM possesses world-class technologies in copper smelting at the Toyo Smelter & Refinery and in processing of nickel by HPAL. By fully applying these technological strengths and on-site capabilities, we will proceed with



creating a resilient business structure to cope with the severe operating environment.

Turning to our Materials business, this is an area that will play a core role in our growth strategies incorporated into our 2015 3-Year Business Plan. We will strive to put together a structure enabling the acquisition of stable profits and capable of underpinning our earnings base, even amid an environment of sluggish metal prices.

**Q5 What, specifically, are the strategies being embraced for the Materials business as the core of the 2015 3-Year Business Plan?**

**We aim to put in place a business model that will drive forward new products that will contribute to earnings and achieve a consistently well-balanced portfolio, to secure stable earnings into the future.**

In our Materials business, we have been carrying out structural reform in the form of a shift away from our earlier structure focused on semiconductor materials for the general product markets, to a new structure centered



on advanced materials, an area where SMM's technological strengths can be applied more productively. As a result of this reform, today we are making steady progress in building a stable revenue base and simultaneously achieving a growth-oriented business structure.

Representative examples are the cathode materials used in the rechargeable batteries incorporated into eco-friendly cars, and the crystal materials used in the SAW (surface acoustic wave) filters featured in smartphones and other telecommunication devices. Today these vehicle components and electronic components for communication are industry growth drivers. SMM, with its business model that integrates Materials with Mineral Resources and Smelting & Refining businesses, is striving to stably provide materials of outstanding quality; and we are also building up close relationships of trust with the top-running corporations in these fields. Presently we continue to make prior investments to respond



LT substrates (crystal and wafer)  
LT: lithium tantalate

to the demands of our identifiable customers; and aiming to tie those investment returns into earnings in 2017, we will bring our current initiatives to fruition and establish a structure able to produce stable earnings.

In March 2016 construction was completed at the Naraha Plant of Sumiko Energy Materials Co., Ltd. By conducting business over the long term at this new plant, which is located in Naraha Town in Fukushima Prefecture, we will contribute to supporting the recovery of this region from the Great East Japan Earthquake and tsunami disaster.

**Q6 Please tell us your thinking with regard to CSR and human resources development.**

**I see CSR as an integral part of our business activities. I also consider development of human resources to be our foremost task, always. Today, we are strengthening our HR development structure with establishment of our new Human Resources Development Department.**

At SMM, CSR equates to our main line of business: to stably provide the high-quality materials and products that society demands.

As such, in all our business operations – and especially in mine development, an area that has an extremely large impact on the surrounding regions – earning the trust of the local communities is of paramount importance to the continuation of our business operations. This is one more reason why, in carrying out our business activities, in many different areas we must respond sincerely to the social issues at hand.

Another equally important management task, always, is the development of human resources. Today, at a time when the business environment is in the throes of dramatic changes, human resources constitute the driving force that will enable our continuous growth into the future. In recognition of the great importance of HR development to our future business operations, in October 2015 we established a new Human Resources Development Department. I believe the new department's creation conveys, both within and outside the Company, a message of management's determination to further strengthen our human resources development structure.

**Q7 What is your view concerning corporate governance?**

**To carry out corporate governance initiatives ever more thoroughly, we have drawn up new "Corporate Governance Guidelines" and are striving for highly transparent management, for example by increasing the number of outside directors.**

Strengthening our corporate governance is a task of extremely great importance in order for us to simultaneously maximize our corporate value and achieve a high level of sound management.

In February 2016 we drew up new "Corporate Governance Guidelines" with the aim of implementing corporate governance ever more thoroughly. Also, in a quest for more transparent management, we increased the number of outside directors from two to three, while retaining a board of eight members.

Takeover defense measures are another important task that management must address. In order to develop our unique business model long into the future, we have

prepared measures in line with Japan's legal framework, with our main intent, in principle, to leave judgments to the discretion of our shareholders.

**Q8 What message would you like to convey to your stakeholders?**

**I believe that in order to simultaneously pursue sustainable growth and maintain a sound financial standing, it's necessary to keep our equity ratio above 50%. Also, with respect to shareholder returns, starting from fiscal 2015 we have set our dividend payout ratio above 30%.**

In the Mineral Resources and Smelting & Refining businesses, developing and operating projects require great spans of time, and the risks involved are by no means insignificant. This is why I believe it's important for us to always maintain a sound financial standing. For this reason I hold firmly to a policy of keeping our equity ratio above 50%.

The success we have achieved by our other initiatives to strengthen our financial standing is indicated by the two facts that, in the 15 years since 2000, we have increased our total assets some 3.1-fold and our net assets roughly 4-fold. Our acquisition of an additional stake in the Morenci Copper Mine was a decision I believe was enabled by this soundness of our financial standing. I wish to take this opportunity to express our sincere gratitude to all our stakeholders who so solidly support us.

SMM has a history in mineral resources and smelting and refining operations spanning more than 420 years, and these will continue to be growth areas long into the future. Under our 2015 3-Year Business Plan we will further burnish our unique business model integrating the Mineral Resources and Smelting & Refining businesses with the Materials business.

Although the current harsh business environment is expected to continue for some time, we believe that it is times precisely such as these that offer us the opportunity to build up a highly resilient structure. As we go forward, all employees will pool their optimal strengths and pursue the Company's sustainable growth, responding to the hopes and expectations of all our stakeholders.