

CORPORATE GOVERNANCE

Corporate Governance

Basic Approach

SMM views corporate governance as a disciplinary framework both for maximizing the corporate value of the SMM Group and for ensuring sound management practices. As such, it is one of the most important management issues.

SMM has instituted the SMM Group Corporate Philosophy based on the Sumitomo Business Spirit and will seek to (1) make positive contributions to society and fulfill our responsibilities to our stakeholders through the performance of sound corporate activities and the promotion of sustainable co-existence with society and the global environment in order to win ever greater trust from our stakeholders and (2) be a forward-minded and vibrant company based on respect for all individuals and recognizing each person's dignity and value.

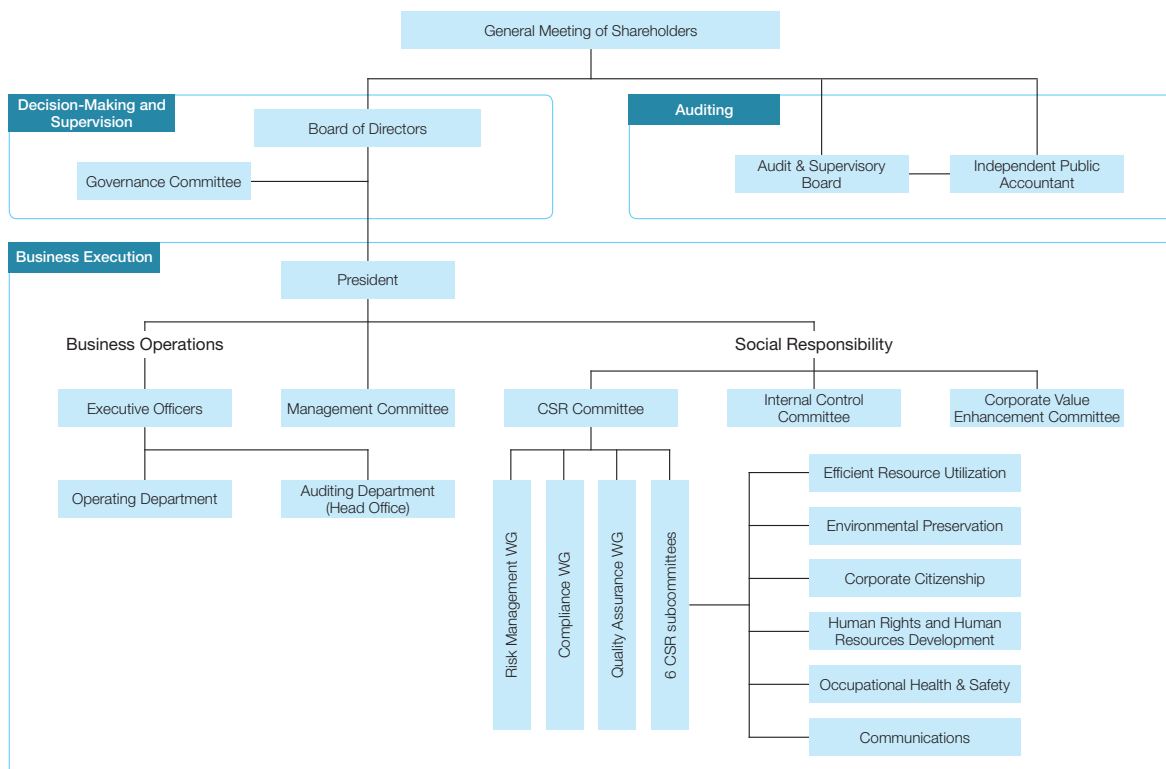
Through striving to enhance our corporate governance,

SMM will conduct efficient and sound business activities, make positive contributions to society, and fulfill our responsibilities to our shareholders and all other stakeholders in order to realize the SMM Group Corporate Philosophy.

Governance Framework

SMM has adopted Audit & Supervisory Board and executive officer systems to ensure effective execution, monitoring, and supervisory functions within management. The Company is managed by three systems, namely (i) the Board of Directors, in charge of major decisions and supervision, (ii) representative director and executive officers, in charge of the execution of business, and (iii) the Audit & Supervisory Board members and independent public accountant, in charge of auditing.

Corporate Governance Framework



Decision-Making and Business Execution Structures and Systems

Directors and the Board of Directors

SMM's Articles of Incorporation provide for a Board of Directors of up to ten members, each appointed for one year. Furthermore, our policies stipulate that one-third or more of directors be independent outside directors. Based on these policies, SMM has three outside directors among our current eight directors. With regard to our directors being eight in number, we have determined that this is an appropriate number for ensuring agility and active discussion by the Board.

Every year, the Board should be evaluated for its efficacy in the execution of business decisions and supervisory functions, which we endeavor to continually improve. Based on evaluations of directors and Audit & Supervisory Board members, both self-evaluations and those done by a law firm, the Board of Directors carried out analyses and assessments in FY2015 and concluded that there were no major issues with the Board's effectiveness.

System of Internal Memorandums for Approval and the Management Committee

The basic method for making decisions on business execution is to examine and approve such matters through the system of internal memorandums. The Management Committee holds meetings for important management matters that require deliberation, thereby conducting careful decision-making and rational business judgment based on diverse perspectives.

The Management Committee is composed of the president, vice president, senior managing executive officers, and other executive officers. The chairman, outside directors, and Audit & Supervisory Board members are also allowed to attend Management Committee meetings. Among matters to be resolved by the Board of Directors and matters to be approved by the president, the Management Committee will deliberate from a broad perspective on matters determined to require deliberation and then will determine whether those matters will be referred to the Board of Directors. The Committee also fulfills the function of supporting approval granted by the president.

Executive Officer System

Substantial authority has been delegated to executive officers whose authority and responsibilities have been clearly defined to reinforce their executive function. Appointed by the Board of Directors, executive officers are entrusted with important positions (such as heading an operational division, a department or an office at SMM's headquarters) and are expected to perform their duties with the specific authority assigned to each position.

Auditing System

Audit & Supervisory Board

At least half of the Audit & Supervisory Board members will be outside Audit & Supervisory Board members with a variety of expertise and diverse perspectives. Audit & Supervisory Board members from within SMM will conduct audits based on the particular characteristics of full-time members, such as by collecting information within the Company, and outside Audit & Supervisory Board members will conduct audits that make use of their areas of expertise.

In order to ensure managerial soundness and increase the corporate value of SMM, and in accordance with the audit policies, audit plans, and other such matters prescribed by the Audit & Supervisory Board, each Audit & Supervisory Board member will attend meetings of the Board of Directors, the Management Committee, and other important meetings, receive reports and, when necessary, request explanations from directors, executive officers, and employees regarding the status of the performance of their duties, inspect important approval and other such documents, and examine the status of operations and assets at the head office and other major business sites. At meetings of the Audit & Supervisory Board, standing Audit & Supervisory Board members shall report the details of onsite audits that have been conducted solely by standing Audit & Supervisory Board members as well as of meetings that were not attended by outside members.

Collaboration between the Internal Audit Department, Independent Public Accountant and Audit & Supervisory Board Members

The Internal Audit Department regularly undertakes internal audits on the status of business execution across the SMM Group. The Department provides an explanation of its audit plans to Audit & Supervisory Board members while passing on all relevant information. At the same time, Audit & Supervisory Board members provide details of audit plans determined at meetings of the Audit & Supervisory Board to the Internal Audit Department, attend meetings when reports on the results of internal audits are delivered to executive officers and the heads of operational divisions and, when required, accompany staff of the Internal Audit Department when conducting internal audits. KPMG AZSA LLC, an independent registered public accounting firm, audits the consolidated financial statements and the effectiveness of the internal control over financial reporting. Audit & Supervisory Board members provide details of audit plans to the independent public accountant. Audit & Supervisory Board members in turn receive explanations regarding audit plans and reports on audit results from the independent public accountant. In this manner, close collaboration is maintained between the independent public accountant and Audit & Supervisory Board members.

Outside Directors and Outside Audit & Supervisory Board Members

At important meetings such as those of the Board of Directors, outside directors are expected to express their views from a broad perspective based on their knowledge, experience, abilities, and insight and are expected to fulfill the function of providing objective supervision from a standpoint independent from the

representative director and the executive directors. Outside directors use their specialized expertise and diverse perspectives to offer supervision, provide valuable comments at Board of Directors and other meetings, and exercise oversight.

Director and Audit & Supervisory Board Member Compensation

Maximum limits on the total amounts of compensation for directors and compensation for Audit & Supervisory Board members will be determined by resolution of the General Meeting of Shareholders. If bonuses are paid to directors, then the total amount of bonuses to directors, excluding outside directors, will be determined in the same way.

The president & representative director, with the authorization of the Board of Directors, will determine the amount of director compensation. The specific amount of compensation other than bonuses for each director will be calculated by reflecting the individual performance of the director (calculated with position-specific evaluation items such as division performance, the degree to which individual targets set in accordance with mid- to long-term business strategies are being achieved, and safety results (number of labor accidents), etc. as standards) on a base compensation amount determined in consideration of the consolidated performance of the SMM Group; the compensation amount will then be determined after receiving the advice of the Governance Committee. The specific amount of each director's bonus will be calculated by reflecting the individual performance of each director, which is calculated with the same position-specific evaluation items as the above standards, on a base bonus amount determined in consideration of the consolidated performance of the SMM Group; the bonus amount will then be determined after receiving the advice of the Governance Committee. However, because of the importance placed on the outside directors fulfilling a supervisory function from a standpoint independent from business execution, individual performance will

not be reflected and only the base compensation amount with no bonuses will be paid to outside directors.

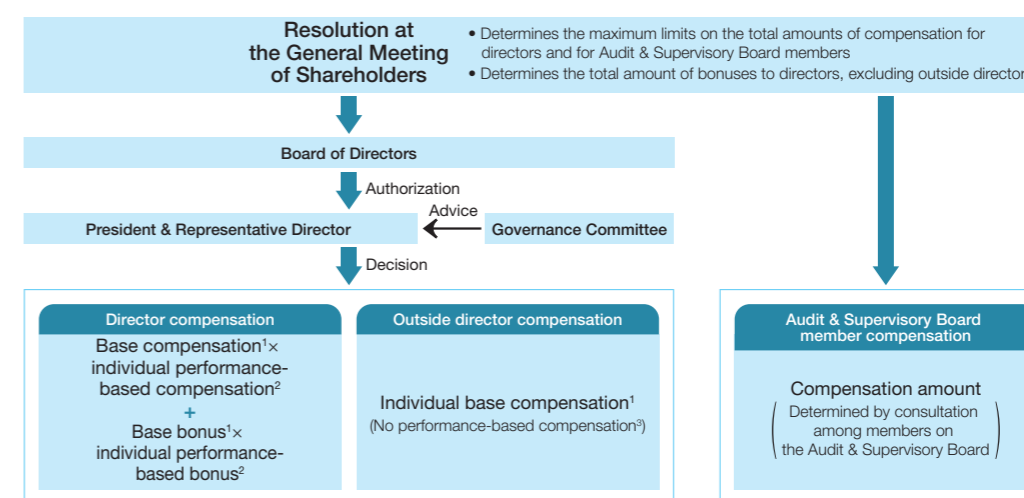
The amount of compensation for each individual Audit & Supervisory Board member will be determined by consultation among the Audit & Supervisory Board members at the Audit & Supervisory Board within the total compensation amount approved by the General Meeting of Shareholders.

FY2015 Director and Audit & Supervisory Board Member Compensation

Officer Classification	Number of Officers	Total Compensation	Total Compensation by Type	
			Basic Compensation	Bonus
Directors (excluding outside directors)	8	¥245 million	¥245 million	—
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	2	¥64 million	¥64 million	—
Outside directors (Outside Audit & Supervisory Board members)	4	¥47 million	¥47 million	—

Note 1: In addition to the aforementioned, an employee salary portion totaling ¥51 million was paid to two persons who serve concurrently as directors and employees.
 Note 2: In order to demonstrate managerial responsibility for the impairment loss incurred at Sierra Gorda S.C.M., for three months starting February 2016, the Chairman of the Board and the president & representative director each voluntarily returned 30% of their base monthly compensation, while one director concurrently serving as a director and employee returned 10% of his base monthly compensation and employee monthly compensation. The applicable two months of voluntarily returned compensation are not included in the above amounts of total compensation, base compensation, and employee compensation.

Method for Calculating Compensation for Directors and Audit & Supervisory Board Members



1. Takes into consideration the consolidated performance of the Group.
 2. Calculated reflecting the following position-specific evaluation items:
 Division performance, the degree to which individual targets set in accordance with mid- to long-term business strategies are being achieved, safety results (number of labor accidents), etc., and other individual items for evaluating each position.
 3. Stipulated due to SMM's emphasis on oversight functions from a standpoint independent of business execution.

Takeover Defense Measures

At the 91st Ordinary General Meeting of Shareholders in June 2016, SMM received approval for the partial renewal of “takeover defense measures.” The period of validity of the revised takeover defense measures will last for three years until the conclusion of the 94th Ordinary General Meeting of Shareholders in June 2019.

The Company believes that the persons who control decisions on the Company’s financial and business policies need to be persons who understand the sources of the Company’s corporate value and who will make it possible to continually and steadily ensure and enhance the Company’s corporate value and, in turn, the common interests of its shareholders. Hence, the Company has adopted takeover defense measures to protect its corporate value and the common interests of shareholders against an aggressive acquisition that would harm that corporate value and those common interests of shareholders.

The takeover defense measures set out procedures that acquirers must adhere to in advance and include requirements

for acquirers to furnish information. Under the Japanese legal system, a party making an acquisition proposal does not have a duty to furnish information. Having takeover defense measures in place guarantees that a party making an acquisition proposal will furnish information and allows shareholders to compare statements by the acquirer and SMM management before deciding which course of action is preferable.

Additionally, if certain conditions specified in the takeover defense measures are met, such as the acquisition having the potential to harm the Company’s corporate value or the common interests of shareholders, the gratis allotment of Stock Acquisition Rights will be exercised and the ratio of voting rights in the Company held by the acquirer will be diluted. Exercise of this measure requires the decision by an Independent Committee comprised of outside directors (independent officers), etc. in order to guarantee fairness and objectivity.

Formulating Corporate Governance Guidelines

SMM formulated Corporate Governance Guidelines on February 15, 2016.

The Guidelines, which cover the main provisions of the Corporate Governance Code formulated by the Tokyo Stock Exchange, are intended to convey our basic philosophy on corporate governance and our corporate governance framework, including our relationship with stakeholders.

Main Initiatives to Strengthen our Corporate Governance Framework

June 2001	Adopted an executive officer system and reduced the required number of directors
June 2007	Appointed an outside director
June 2015	Appointed multiple outside directors
November 2015	Established a Governance Committee Began implementing efficacy evaluations for the Board of Directors
February 2016	Formulated guidelines for corporate governance
June 2016	Stipulated that the proportion of directors who are outside directors should be one third or greater

[WEB](#) Corporate Governance Guidelines / [WEB](#) Corporate Governance Report

<http://www.smm.co.jp/E/ir/management/governance/>

Outside Directors and Outside Audit & Supervisory Board Members

	Outside Director Tutomu Ushijima	Outside Director Hitoshi Taimatsu	Outside Director Kazuhiisa Nakano	Outside Audit & Supervisory Board Member Hikoyuki Miwa	Outside Audit & Supervisory Board Member Junichi Kondo
Reason for Appointment	Based on his specialist knowledge and wealth of experience as a lawyer and a licensed tax accountant, he was appointed as an outside director to provide advice to SMM on business matters, particularly from a compliance perspective.	He was appointed as an outside director with the expectation of leveraging both his specialized knowledge as a researcher in materials engineering and his organizational management experience at his university.	He was appointed as an outside director with the expectation of leveraging his wealth of knowledge and experience in company management and natural resources business in order to offer suitable oversight of SMM operations.	Based on his auditing experience accumulated over many years at audit firms as well as his extensive knowledge in accounting, he was appointed an outside Audit & Supervisory Board member	Based on his wealth of financial institution experience, he was appointed as an outside Audit & Supervisory Board member.
Attendance at Meetings	During the term, the Board of Directors convened 16 times (12 regular meetings and 4 extraordinary sessions). He attended all meetings.	After his appointment as outside director, the Board of Directors convened 12 times (9 regular meetings and 3 extraordinary sessions). He attended all meetings.	He is a new outside director appointed at the Ordinary General Meeting of Shareholders in June 2016.	During the term, the Board of Directors convened 16 times (12 regular meetings and 4 extraordinary sessions). He attended all meetings.	He is a new Audit & Supervisory Board member appointed at the Ordinary General Meeting of Shareholders in June 2016.