

Compliance with the Double Code* and Sustainability in Company Management

SMM strives to achieve the sustained increase of our corporate value with a medium- to long-term management strategy. In order for stakeholders to understand this stance, we release a variety of information and actively incorporate feedback on the information into our management.

As a part of this activity, we held a roundtable discussion regarding investor relations. Under the main themes of corporate governance and the sustainability of SMM, we were able to engage in meaningful discussion as we listened to stakeholders' opinions and expectations toward our Group.

* Double code: The Japanese versions of the Stewardship Code and the Corporate Governance Code



Managing Executive Officer
General Manager of Public Relations &
Investor Relations Dept.
Sumitomo Metal Mining Co., Ltd.

Hiroyuki Asai (Host)

Joined Sumitomo Metal Mining Co., Ltd. in 1980. Following work at locations including the Besshi-Niihama District Division and Hishikari Mine, was appointed General Manager of Ome District Division, Advanced Materials Division, in 2008; General Manager of the Personnel Dept. in 2011; and General Manager of the Human Resources Development Dept. in 2015. Attained current position in 2016.

Analyst
Equity Investment Group, Investment Division
Asset Management One Co., Ltd.

Hirokazu Takemoto

Joined Chiyoda Mutual Life Insurance Company in 1991. After working at Chiyoda Life Capital Management Co., Ltd., joined Mizuho Trust & Banking Co., Ltd. in 2001. Covered the steel, non-ferrous metals, and other sectors as a Japanese stock analyst. Has belonged to the Equity Investment Group of Asset Management One Co., Ltd. since 2016.

Executive Managing Director
Japan Investor Relations Association (JIRA)

Yoshiko Sato

Joined Nikkei Inc. in 1985. Has been seconded from Nikkei Inc. to JIRA since 1993. Has been in current position since 2015. Manages JIRA and gives lectures and writes, with an emphasis on dialog and engagement. Major works include *Strategies for Success in IR* (2015, Nikkei Inc.).

Senior ESG Specialist
Responsible Investment Dept.
Nomura Asset Management Co., Ltd.

Takashi Miyao

Joined Nomura Securities Investment Trust Co., Ltd. (current Nomura Asset Management Co., Ltd.) in 1988. After working in the research department, was seconded to Nomura Research Institute, Ltd. and was placed in charge of investment trust management in 1993. Since 2016, has engaged in stewardship initiatives and ESG research in the Responsible Investment Dept.

Dialog between companies and investors

Change and reinvigoration

Asai: As the double code becomes more widespread, it appears that changes are taking place in the relationship between companies and investors, as seen in the revision of the Stewardship Code in 2017.

Sato: Without a doubt, when I talk to company executives I often feel that change has occurred. If anything, Japanese companies have been passive toward IR in the past. However, recently I see a change toward actively trying to incorporate the voices of investors into management. In a survey that JIRA conducts, about 40% of listed companies that engage in IR respond that change is taking place.

Many companies have set forth clear targets in their long-term visions or their medium- to long-term management plans, and appear to be taking a stance of sharing those targets with stakeholders and checking on progress toward them.

Miyao: The Japanese version of the Stewardship Code

was revised for the first time in three years. I'd like to note the major effects on institutional investors and several of the changes. First, with regard to the content of stewardship initiatives such as dialogs with companies and the execution of voting rights, institutional investors are to perform self-evaluations using the PDCA cycle. Second, the strengthening of initiatives and disclosure for the management of conflicts of interest with securities companies, banks, and so on within groups is required. As for changes closely related to companies, an example is the start of individual disclosure of the outcomes of the exercise of voting rights by institutional investors. That's the third thing.

Takemoto: I think that the appearance of companies taking an investor-facing stance is a major change, as Ms. Sato noted. However, I also feel that a lot of companies are uncertain over what to do. In that sense, I think that engagement and other communication between companies and investors will become increasingly necessary.

The disclosure of the execution of voting rights by institutional investors is surely a major change. In order to make that more substantial, it will be important to move

ahead with initiatives that make the exercise of voting rights and engagement work as one.

Asai: Recently, it seems to me that there is stronger intent by universal owners, as seen in the announcement of ultra-long-term investments by the Government Pension Investment Fund (GPIF).

Miyao: Apart from the ultra-long-term portion, I think that both asset owners and other institutional investors have the same fundamental stance as universal owners. There has likely been no change in the stance of placing expectations on sustainable growth in order to aim for long-term returns.

Two sides of the same coin: Risk and opportunity

Toward greater information disclosure

Asai: While our company belongs to the resource-related sector, we conduct our business under a unique business model that is rare in the world, with collaboration among our three core businesses of

mineral resources, smelting and refining, and materials. I'd like to hear about expectations or related issues toward such a Group as ours.

Takemoto: In the resource-related sector, the relationship between opportunity and risk is like two sides of the same coin. Of these two, risk is extremely wide-ranging, covering environmental and human rights issues, conflict minerals, and more. How should risks be perceived and connected to business opportunities? I believe that thoroughly explaining that is an issue that should be continually worked on going forward.

The model of collaboration among three core businesses is difficult to understand, as it's a rare and challenging thing anywhere in the world. I feel that it is still not sufficiently explained and that it should be more fully explained to investors, such as how the model contributes to increasing SMM's sustainable corporate value.

Asai: The business of nickel for battery materials is a good example concerning collaboration among the three core businesses, but there is information that we can't convey for business or technological reasons involving

our company or our customers. However, what you said is certainly true, and I want to take that as a point for future improvement.

Mr. Miyao, what are your thoughts on this point as an ESG specialist?

Miyao: Actually, I've followed SMM for over 20 years, including back when I was a fund manager. During that time, I felt that the company is rich in both human resource capital and financial capital, and is a company with a very good foundation. That's my image of SMM.

What I take note of from the perspective of ESG is battery materials, which are a part of eco-cars and



contribute to reducing greenhouse gases. The other day, SMM announced an initiative to recover nickel and copper from used lithium-ion secondary batteries and recycle these (see p. 60). I've taken notice of this as an initiative that will contribute to sustainable growth.

Asai: Thank you. Ms. Sato, as a specialist in IR initiatives, how do you see our Company's business?

Sato: I'm of the same thought as Mr. Takemoto regarding the characteristics of resource-related companies, in that they face environmental and many other risks and conduct business sustainably with risk and opportunity as two sides of the same coin.

Looking at this from one more IR perspective, I'd like for SMM to perform even more thorough disclosure of information about risk and opportunity in this area. Regarding risk, the company has an established reputation for timely information disclosure. But with regard to opportunity, perhaps there is room for improvement, such as by disclosing sources of competitiveness more concretely.

SMM could also find ways to make briefing materials and other materials easier to understand, perhaps by adding a bit more visual playfulness. You preserve what should be preserved, like the Sumitomo Business Spirit, and change what you should change as a global company. I feel it's important to explain that balance.

Cash allocation

Allocation of management resources from a medium- to long-term perspective

Asai: Our Company has set a long-term vision with the year 2021 in mind, and is pursuing management from a medium- to long-term perspective. I would like to hear your opinions on our information disclosure, including our business policy and strategy.

Takemoto: As you've said, a characteristic of SMM is that it has a lot of projects that span a long period, such as its mineral resources business. I fully understand that your business is one that requires an extremely long span of time, but I'd like to see deeper information disclosure covering how SMM perceives the timing and length of time for recovery of investments, the assumed risks, and how SMM deals with these, among other information.

I think that the business is characterized at the same time by a need to maintain a sound financial standing in preparation for medium- to long-term investments and risks. However, financial leverage that is too low is also a problem from the perspective of capital efficiency. There is a need for discussion, from a medium- to long-term perspective, on what level to aim for. I think that SMM should disclose these in its medium-term business plans, along with what sort of directions the company intends to set for cash flow and for accounting value and profit.

Miyao: I'd like to speak a bit from the perspectives of CSR and ESG. SMM is pursuing CSR initiatives with materiality identified in six priority fields. Discussion on this materiality has been carried out in the past, with a focus on risk. However, recently there have been more companies that view ongoing initiatives aimed at ESG-like issues as contributing to future long-term profits. I think that sort of disclosure stance will be expected of SMM, too, from here on out.

Sato: To advance strategy in the medium to long term, it's also important to accurately grasp the strengths that will act as driving forces for overcoming various risks and environmental changes. It'll also be important to indicate what sort of core technologies and essential technologies are SMM's strengths, together with the company's past record of performance. Regarding the financial aspects that Mr. Takemoto spoke about, I think that performing more disclosure of not only cash flows but also management resource allocation policies and other information will offer investors guidelines for analyzing the future. I believe that optimization of cash allocation (i.e., management resource allocation) and business strategy, too, are important points of discussion in future engagement with investors.

Takemoto: I'm in agreement concerning allocation policies. Recently, more and more companies are hammering out financial strategies, including allocation policies. This is vitally important information for investors in considering medium- to long-term investments.

Corporate governance

Aiming for sustained increase in corporate value

Asai: Finally, I'd like to ask for your thoughts on the ideal for corporate governance. To improve corporate value in the medium to long term, how do you think sustainability should be incorporated into strategy, and do you see a need to improve corporate governance?

Miyao: With regard to corporate governance, I think that the kind of initiative that ends with simply creating structures is meaningless. What we investors expect is sustained increase in corporate value, and corporate governance in which the results of increased corporate value are reflected as a reward for investing.

Sato: Regarding corporate governance that incorporates a sustainability perspective, many companies engage in such governance as a component of IR initiatives, such as initiatives that take the opinions of investors as insights or opportunities for improvement and reflect them in management to enhance corporate value. This gives rise to a sustainable spiral that leads to medium- to long-

term growth through investors being conscious of the demands of society, such as the ESG and SDGs that were mentioned. I anticipate SMM taking such a stance as well from here on out.

Takemoto: There are no clear correct answers on corporate governance. I think the most important thing is a stance of always striving to effect improvements.

SMM has a history of over 420 years in sustainability, a record that itself appears to me as proof of sustainability. While it's important to look ahead to the future, I think that hints to the sustained improvement of value can also be found hidden in this history.

There's one more thing I'd like to say in closing. On the subject of IR, SMM holds Business Strategy Progress Briefing Sessions twice a year, at which the President explains business strategy in his own words and responds to questions. Moreover, as seen in SMM's receipt of the Securities Analysts Association of Japan's Award for Excellence in Corporate Disclosure as the top company in



the Steel / Non Ferrous Metal category for six consecutive years (see p. 98, p. 112), the company's reputation is high among analysts, and I feel that it already engages in dialog with investors at a high level. I hope that the company will continue to place importance on this stance.

Asai: Thank you for this opportunity today to hear your valuable thoughts. We will continue to value the voices of our investors and other stakeholders, and will aim to achieve increased corporate value.