

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.

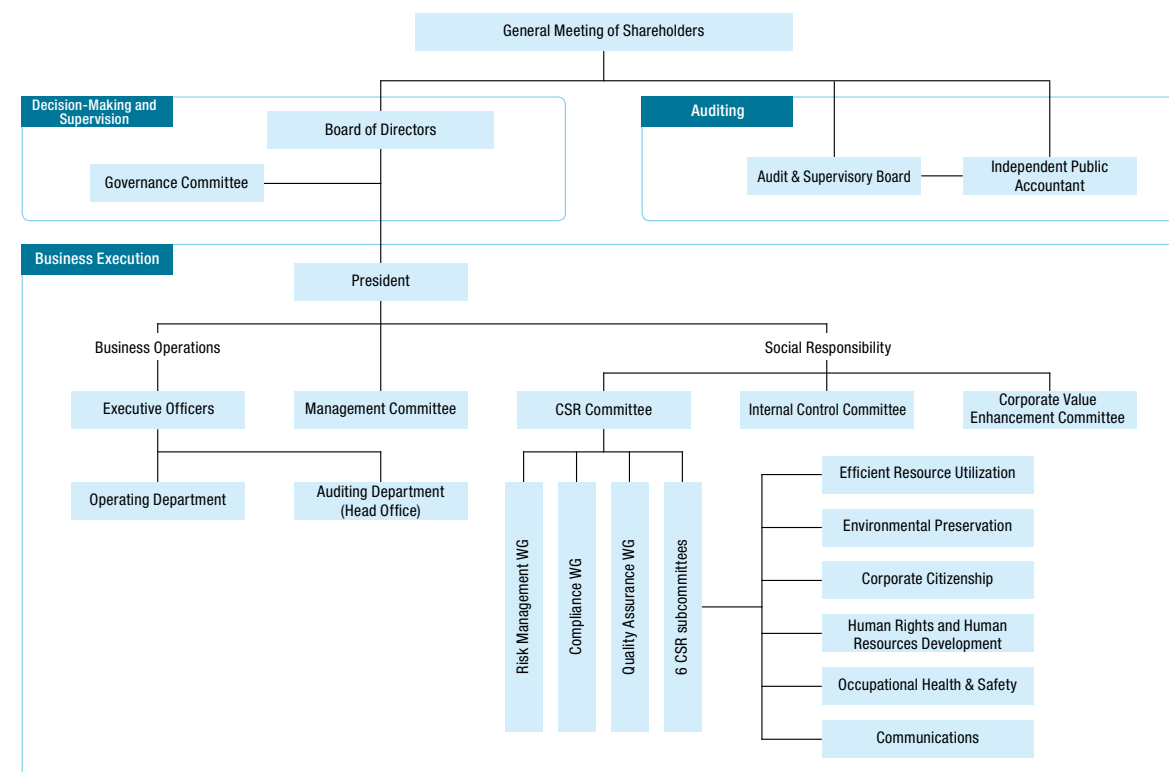
Through striving to enhance our corporate governance, SMM will conduct efficient and sound business activities, make

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 (1) the Board of Directors, in charge of major decisions and supervision, (2) representative directors and executive officers, in charge of the execution of business, and (3) 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.

SMM works toward continuous improvement of the functions of the Board of Directors and conducts an evaluation of its effectiveness every year in order to verify whether it functions appropriately and, based on the findings, to enact appropriate measures, such as ameliorating problems. In FY2016, ahead of this evaluation of effectiveness, the Board of Directors deliberated the proper objective of the Board of Directors, reaffirming points including the desire for a Board that emphasizes decision-making functions. Following this, we undertook the analysis and evaluation of the effectiveness of the Board of Directors. Doing so, we confirmed that the Board of Directors overall demonstrates supervisory functions through decision-making conducted in light of the objective of the Board, and that no serious issues are recognized in the effectiveness of the Board of Directors.

At the same time, from the standpoint of increasing the efficiency of discussion in the Board of Directors and enhancing deliberations concerning important management matters, there were opinions calling for further review of matters brought before the Board of Directors and the enhancement of opportunities for outside directors to observe business sites. In response to these comments, SMM amended the criteria for matters brought before the Board of Directors, effective April 1, 2017, and created and started a program for observation of business sites by outside directors.

SMM will continue making efforts to improve the effectiveness of our Board of Directors.

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 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.

Corporate Governance

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 Audit & Supervisory Board members 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 basic compensation 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 medium- 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.

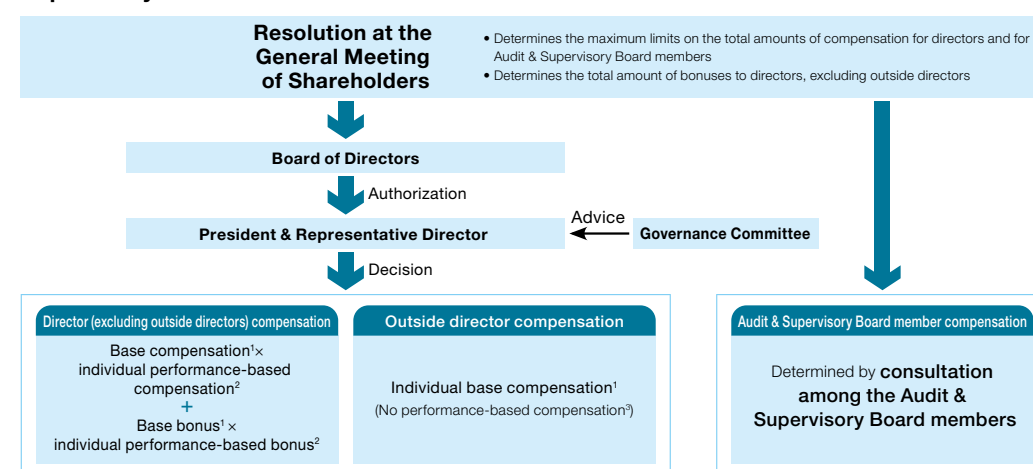
The amount of basic compensation for each individual Audit & Supervisory Board member will be determined by consultation among the Audit & Supervisory Board members at the Audit & Supervisory Board within the total compensation amount approved by the General Meeting of Shareholders.

FY2016 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)	6	¥214 million	¥214 million	—
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	3	¥60 million	¥60 million	—
Outside directors Outside Audit & Supervisory Board members	6	¥57 million	¥57 million	—

Note 1: In addition to the aforementioned, an employee salary portion totaling ¥15 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. during the term and the previous term, the Chairman of the Board, the president & representative director, one director, and one person who serves concurrently as director and employee each voluntarily returned compensation and employee salary, as noted below. The amounts of voluntarily returned compensation for the relevant months are not included in the above amounts of total director compensation, basic compensation, and employee salary for the person who serves concurrently as director and employee.
 (1) Salary portion for April 2016
 For the Chairman of the Board and the president & representative director: 30% of the basic monthly compensation
 For the one person who serves concurrently as director and employee: 10% of the basic monthly compensation and employee salary
 (2) Salary portion for February and March 2017
 For the president & representative director and one director: 30% of the basic monthly compensation

Procedures for determination of the amount of 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 medium- 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 renewed 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.

[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 Tsutomu Ushijima	Outside Director Hitoshi Taimatsu	Outside Director Kazuhisa Nakano	Outside Audit & Supervisory Board Member Junichi Kondo	Outside Audit & Supervisory Board Member Yuichi Yamada
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 wealth of financial institution experience, he was appointed as an outside Audit & Supervisory Board member.	Based on his auditing experience accumulated over many years at audit firms as well as his extensive knowledge of accounting, he was appointed 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.	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.	After his appointment as Audit & Supervisory Board member, the Board of Directors convened 12 times (9 regular meetings and 3 extraordinary sessions), and the Audit & Supervisory Board convened 10 times. He attended all meetings of both.	He is a new Audit & Supervisory Board member appointed at the Ordinary General Meeting of Shareholders in June 2017.

Initiatives to Strengthen Governance at SMM

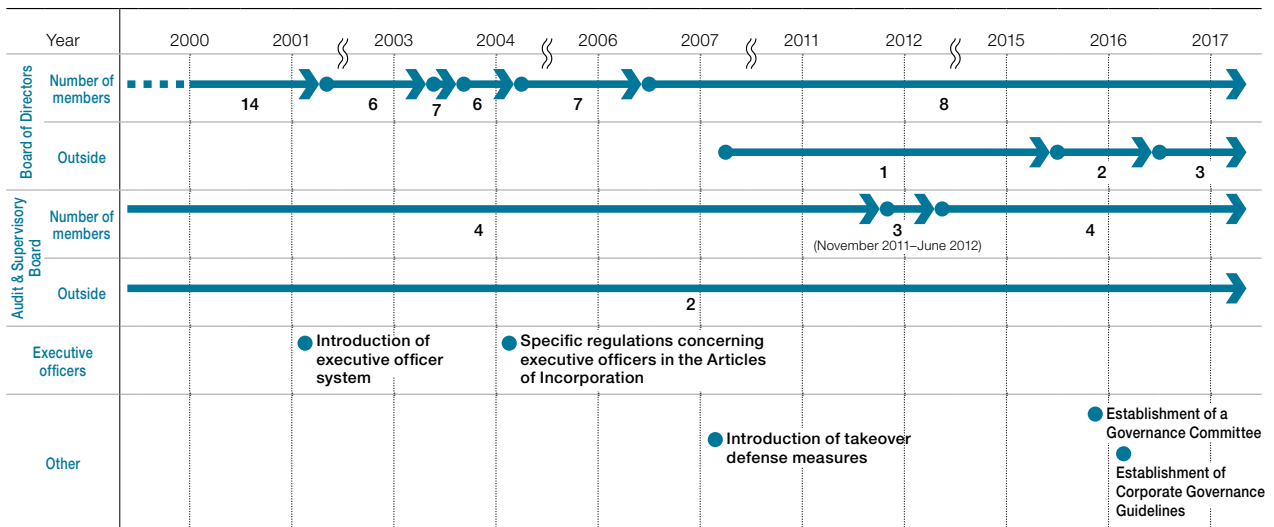
SMM positions corporate governance as one of the most important issues in our management, and is taking steps to strengthen governance.

In FY2016, we conducted discussions on what our Board of Directors should ideally be, and shared this understanding within the Board. In addition, as a new initiative, we convened an Outside Directors Council meeting as a venue for

exchanging ideas among outside directors and outside Audit & Supervisory Board members.

To achieve even better corporate governance going forward, we will appropriately review our corporate governance framework in accordance with revisions to laws, changes in social conditions, and other external factors.

Transitions in governance at SMM



June 2001

■ Introduction of an executive officer system

SMM introduced an executive officer system with the aim of separating decision-making and supervisory functions from executive functions in management and further enhancing and strengthening the functions of each of these. Accordingly, we reviewed our management framework and made changes that include a shift from a structure of 14 directors to one of 6 directors and 14 executive officers. In June 2004, we made specific regulations in the Articles of Incorporation regarding executive officers.

February 2007

■ Introduction of takeover defense measures

Takeover defense measures prescribe procedures if a large-volume of the company's stock is acquired. These measures were established to enable shareholders to appropriately judge whether to allow such large-volume purchases, and to provide the Board of Directors with necessary and sufficient information and time to prepare counterproposals. The measures have been renewed every three years since their inception.

June 2007

■ Appointment of outside director

In order to strengthen corporate governance through objective management decisions by an independent, external director, SMM appointed an outside director.

■ Shortening of terms of directors

In order to clarify management responsibilities, SMM shortened the term of directors from two years to one year.

June 2015

■ Two-person outside director system

In order to further strengthen corporate governance, two outside directors were elected at the Ordinary General Meeting of Shareholders in June 2015, creating a system of multiple outside directors.

November 2015

■ Establishment of a Governance Committee

To address the nomination of directors, determination of compensation, and other key matters in corporate governance, SMM established a voluntary Governance Committee for the purpose of obtaining objective advice from the Chairman of the Board and outside directors, who are not executive officers.

■ Evaluation of the effectiveness of the Board of Directors

Every fiscal year since FY2015, SMM analyzes and evaluates the effectiveness of the Board of Directors in order to verify that the Board of Directors overall functions appropriately from the standpoint of proper decision-making in the execution of duties and supervisory functions, and to effect continual improvements.

February 2016

■ Establishment of Corporate Governance Guidelines

SMM established the Corporate Governance Guidelines for the purpose of indicating the company's basic thinking and framework concerning its corporate governance. Among these guidelines is the stipulation that at least one third of directors be independent outside directors.

June 2016

■ Three-person outside director system

In accordance with the Corporate Governance Guidelines, SMM enhanced its outside director system by one person to create a three-person system.

August 2016

■ First Outside Directors Council meeting held

SMM convened an Outside Directors Council meeting as a venue for discussion attended only by outside directors and outside Audit & Supervisory Board members, providing an opportunity for outside directors and outside Audit & Supervisory Board members to share information and share understanding. Discussions at this first meeting focused on the Board of Directors as a whole and on compliance violations.

December 2016

■ Discussion of what the Board of Directors should ideally be

Ahead of the FY2016 evaluation of the effectiveness of the Board of Directors, the Board of Directors deliberated what the Board of Directors should ideally be, reaffirming points that included the desire for a Board that emphasizes decision-making functions.