

Compliance

Basic Approach

The corporate activities of the SMM Group are founded upon principles of compliance. Though compliance is usually construed as applying to only laws and regulations, the SMM Group goes further, viewing compliance as the fulfillment of social and moral duties as a member of society through sound corporate activities. In 2000, the year after the JCO criticality accident¹ of September 1999, the SMM Group formulated a Corporate Reform Plan and embarked on a new beginning with three initial priorities:

1. Reconfirmation and Thorough Execution of the Corporate Philosophy;
2. Reinforcement of Corporate Organization;
3. Reform of Corporate Culture.

Based on the above, in 2004, we established the SMM Group Corporate Philosophy and the SMM Group Code of Conduct to be applied throughout the SMM Group. The Code

Compliance Management and Improvement

Compliance management is performed according to our basic compliance regulations. We have established the Compliance Working Group under the CSR Committee to promote and improve compliance management. The Compliance Working Group provides and exchanges information, discusses policy and key measures concerning the promotion of compliance to the SMM Group.

In FY2016, the Compliance Working Group convened and confirmed the following.

1. Compliance monitoring

Looking at our compliance status in FY2016, wastewater not in compliance with standards was discharged into the sea at the Toyo Smelter & Refinery in Ehime Prefecture. While problems impacting the environment did not result, SMM received a severe warning from the Chugoku Shikoku Industrial Safety and Inspection Department. Corrective measures regarding this case have been completed. Aside from this case, there were no major violations of laws or regulations relating to products and services, including competition laws.

2. Review of compliance training

The Compliance Working Group confirmed that key matters related to compliance were made known to employees through a range of various training programs, including the fact that the Sumitomo Business Spirit, SMM Group Corporate Philosophy, and Code of Conduct require ethics-based conduct and decision-making that go beyond abidance by the laws and regulations.

Also, in order to prevent serious violation of the law from occurring, we instituted the following company regulations, promoting compliance.

of Conduct² was revised in 2008 in line with the full-scale launch of our CSR activities and revised again in 2015 for responding to globalization and strengthening of CSR activities to further advance initiatives steadily put in place based on our long-term vision articulated in the 2012 3-Year Business Plan.

We put compliance at the top of 17 items in the Code of Conduct, and set forth, not only as abidance by laws and regulations, but also by social norms, the following:

- We will comply with foreign and domestic laws and rules, and conform to social norms.
- We will never under any circumstances commit an infraction of the law or act counter to social norms, even if doing so would seem to be in the company's interest.

- Regulations on insider trading prevention and information management
- Regulations on the safeguarding of personal information
- Export administration regulations
- Regulations on the management of confidential information
- Regulations for the prevention of bribery, etc.

Speak Up System

In situations where problems or doubts under the SMM Group Code of Conduct occur, and consultation with superiors fails to bring forth an appropriate response, employees are able to use the Speak Up System to directly report the matter to: (i) in-house liaisons which are the general managers of the Legal & General Affairs Department, the Safety & Environmental Control Department, and the Internal Audit Department; or (ii) outside liaisons which are designated attorneys. The source of the information is always kept secret and if, for any reason, the informant is unfairly treated, the person who initiated the unfair treatment will be punished appropriately.

In FY2016, there were 11 cases in which the Speak Up System was used. These broke down to three cases regarding employee management, three cases regarding salaries and resignation, three cases regarding safety and environmental management, and two cases regarding management of work contractors at plants. These cases were all handled properly.

Compliance Seminars

The SMM Group has been holding annual "compliance conferences" every year since 2001, which give employees an opportunity to reaffirm their basic knowledge of compliance and learn about the latest legislative changes. After deliberation on the objectives and structure of these conferences, the Group now also implements "compliance seminars" for the senior management of SMM and group companies to ensure the implementation of the Code of Conduct and compliance with related laws and regulations.

In compliance seminars, participants not only acquire knowledge of laws and regulations but also, through messages from top management or seminars by outside experts, reaffirm ideals for senior management and issues for the organization in ensuring compliance, with the primary aim of putting the knowledge acquired through the seminars into practice in their own workplaces.

In addition to seminars, we repeatedly provide guidance on the implementation of the Code of Conduct and compliance with laws and regulations, and CSR awareness in a combined manner through everyday work.

Participants of Compliance Education (FY2016)

Type of seminar	Target	Participants
Compliance seminar (Basic course)	Newly-appointed general managers of divisions and group company officers, general managers of head office divisions, heads of branches and general managers of district divisions and plants, and managers of general affairs sections	60
Compliance seminar (Advanced course)	General managers of business divisions and administration departments, general managers of head office divisions, and heads of branches and general managers of district divisions, and presidents of subsidiaries in Japan, etc.	66
Group seminar for new employees	New management track employees and normal track employees in the Head Office area	38
Seminar for newly promoted S-class employees	Employees newly promoted to S-class	28
Seminar for newly promoted E-class employees	Employees newly promoted to E-class	46
Seminar for newly promoted section managers	Employees newly promoted to section manager	26
Secondary training for mid-career employees	New mid-career employees	6
JCO Study Center training	All SMM Group employees	663

Seminar participants includes those from our equity-method affiliates.

SMM Group Code of Conduct

All officers (including executive officers) and staff (including fixed-term and temporary employees) shall, in accordance with the corporate philosophy of the SMM Group, comply with the following Code of Conduct. Officers in particular shall, in reflection of their position and responsibilities, exercise strict self-discipline, set an example in carrying out the Code, and educate employees to honor and strictly obey the Code in full.

1. Compliance: Abidance by Laws and Rules

- We will comply with foreign and domestic laws and rules, and conform to social norms.
- We will never under any circumstances commit an infraction of the law or act counter to social norms, even if doing so would seem to be in the company's interests.

2. Respect for Individuals

- We will accept diversity and respect the individuality and rights of people.
- We will never violate human rights, engage in discriminatory conduct, or contribute to such conduct.

3. Assurance of Health and Safety

- We will give highest priority to ensuring the physical health and safety of all persons affected by our operations.

4. Development of Human Resources

- We will strive not only for personal self-improvement, but also to nurture successors through systematic training and by providing various opportunities in the course of work.

5. Risk Management

- We will strive to identify risks, prevent their occurrence, and if risks occur, minimize the effects.

6. Adherence to a Progressive Stance

- We will approach our jobs with a positive and progressive attitude suitable to the creation of technologies and systems in the vanguard of changing times.

7. Respect for Teamwork, Promotion of Good Communication

- We will place high value on teamwork, in the form of cooperation both with other organizations and with fellow workers.
- We will strive to create a cheerful and broad-minded corporate atmosphere conducive to the smooth transfer of required information and the timely performance of reporting, liaison and consultation.

8. In Harmony with Society and Local Communities

- As members of society, we will participate in social contribution activities in accordance with our personal beliefs.
- We will strive toward a harmonious and mutually beneficial relationship with local communities.

9. Separation of Corporate Business and Personal Affairs

- We will at all times conduct ourselves based on sound judgment, and make a clear distinction between corporate business and our personal affairs.

10. Collection, Management and Usage of Information

- We will collect information swiftly, properly and lawfully, manage it appropriately, and use it effectively.
- We will utilize information acquired in conjunction with corporate business expressly for that purpose only, and will not leak such information to any third party.

11. Handling of Intellectual Property

- We will nurture and maintain conscious recognition of the importance of intellectual property as a vital asset of the Group, and strive toward the creation of such property.
- We will strive to properly protect and effectively use all corporate intellectual properties; we will also respect intellectual properties of other parties.

12. Assurance of Quality

- We will continuously improve quality management systems and provide products and services that satisfy customers.
- We will enhance technologies and seek to engage in manufacturing that takes into account customers' safety and their environment.

13. Stance toward Performance of Sales and Purchasing

- We will comply with competition laws and conduct sales and purchasing activities based on fair competition.

14. Stance toward Entertainment and Gifts

- We will entertain and present gifts to others, and accept entertainment and gifts, within the proper limits of both the law and social acceptability.
- We will comply with laws against bribery and will maintain healthy and proper relationships with government and political organizations.

15. Severance of Relationships with Socially Disruptive Forces

- We will staunchly eliminate socially disruptive forces and have no relations whatsoever with them.

16. Concern for the Global Environment

- Taking into consideration climate change and biodiversity, we will act in a manner enabling us to contribute to the resolution and/or improvement of resource, energy and environmental problems of global scale.

17. Attitude in the Performance of Global Business Activities

- We will strive to interact with people in the countries or regions where we undertake business and engage in conduct that respects local culture and practices as well as globally accepted norms and their spirit.

1. JCO criticality accident: On September 30, 1999, criticality occurred as uranium was being handled at an SMM subsidiary, JCO Co., Ltd. Two workers died from radiation injuries as a result. This accident caused immeasurable suffering to the local community, with citizens living close to the plant forced to evacuate.

2. The SMM Group Code of Conduct can be viewed on p. 101. In the 2015 revision, we clarified the need to comply with competition laws and laws against bribery.