

May 29, 2019

Dear Shareholders,

On May 28, 2019, Institutional Shareholder Services, Inc. (“ISS”) published its analysis and recommendations regarding our upcoming 94th Ordinary General Meeting of Shareholders scheduled for June 25, 2019.

In response, we provide our opinions as follows.

### **1. ISS’s views**

ISS recommends voting AGAINST proposal No. 3, which proposes the election of one (1) Audit & Supervisory Board Member (candidate: Mr. Yuichi Yamada), and voting AGAINST proposal No. 6, which proposes the renewal of Countermeasures to Large-Scale Acquisitions of Shares in Sumitomo Metal Mining Co., Ltd. (the “Company”; those countermeasures, the “Takeover Defense Measures”).

### **2. Our views on proposal No. 3**

It is ISS’s view that a vote AGAINST the election of Mr. Yuichi Yamada as an Audit & Supervisory Board Member is warranted because the nominee fails to meet ISS criteria on independence.

While it is true that Mr. Yamada does not meet ISS’s specific criteria on independence, he left KPMG AZSA LLC in June 2016, and three years will have passed by the time of his reappointment. Since leaving KPMG AZSA LLC, he has had no transactional relationship or any other relationship with the Company Group whatsoever, and there are no concerns about the status of his independence from the perspective of minority shareholder interests. Mr. Yamada complies with the requirements for outside directors provided for in the Companies Act of Japan, the criteria for independence prescribed by the Tokyo Stock Exchange, and the criteria for independence prescribed by the Company. Therefore, the Company appointed him as an Independent Statutory Auditor who is unlikely to have any conflicts of interest with general investors as specified by the Tokyo Stock Exchange and submitted notice of his appointment to the Exchange.

### **3. Our views on proposal No. 6**

It is ISS's view that a vote AGAINST the renewal of the Takeover Defense Measures is warranted because their total duration exceeds three years.

However, we strongly disagree with their analysis and voting recommendation. The Company's Board of Directors is convinced that the Takeover Defense Measures are needed.

Our reasons are as follows:

- ISS's limit of three years regarding the total duration of the Takeover Defense Measures from the time of initial introduction, regardless of whether renewal of the Takeover Defense Measures has been approved by the general meeting of shareholders, is prescribed only within the guidelines for exercising voting rights for Japan, and we believe that such a policy is unreasonable.
- As stated below, we do not believe that sufficient time and information has been necessarily secured as prescribed under the Financial Instruments and Exchange Act of Japan for the Company's shareholders to consider the propriety of the acquisition, so we request renewal of the Takeover Defense Measures to construct a framework that provides transparency with respect to the transfer of control of the Company. In particular, the metal resources business operated by the Company is expected to maximize resources by conducting long-term and stable mining operations while also adequately taking into consideration the surrounding environment, and information that incorporates those perspectives must be adequately conveyed to the Company's shareholders.
- These circumstances do not change after three years from the initial introduction of Takeover Defense Measures. In this point, we should not compromise merely three years after the initial introduction of the Takeover Defense Measures. Above all else, in addition to the fact that the effective period of the Takeover Defense Measures is three years and that the Company considers the risk of abusive acquisition, confirms the need for the Takeover Defense Measures and obtains the approval of the general meeting of shareholders each time that period is renewed, it is stipulated that the intent of the Company's shareholders must be confirmed when the Takeover Defense Measures are actually triggered, so we believe there is no reason to consider the total duration of the Takeover Defense Measures as a source for concern.

- The tender offer regulations under the Financial Instruments and Exchange Act of Japan, unlike the rules of other countries, do not generally apply to on-market trading. Therefore, when any large-scale acquisition of shares is made in the market, sufficient time and information are not necessarily secured for the target company and its shareholders to consider the acquisition. In addition, the regulations do not fully eliminate the threat of abusive acquisitions of shares, such as coercive takeovers, since partial tender offers are permitted.
- Meanwhile, a company such as ours that operates a metal resources business is expected to maximize resources by conducting long-term and stable mining operations while also adequately taking into consideration the environment. However, if an unreasonable approach to mining is taken solely in pursuit of short-term profits, the life span of the mine may be shortened, serious environmental problems may occur, and, as a result, corporate value may be greatly impaired. In addition, our business, which incorporates "resources, smelting, and materials" thanks to our core technology that enables nickel smelting from low-grade ore, is a unique business model and greatly contributes to maximizing the Company's corporate value. The Board of Directors believes that breaking up and dismantling such a business model for the sake of short-term profits could lead to loss of corporate value in the long run. As such, in the case of the Company when compared with other companies, if a potential acquirer seeking short-term profit were to emerge and an abusive acquisition were to be made, then there would be more serious concern about loss of corporate value and, in turn, common interests of the shareholders.
- The Company's Board of Directors believes that the Takeover Defense Measures is to secure the opportunity and time for shareholders to hear the potential acquirer's views regarding the takeover proposal involving the transfer of control of the Company. The purpose of renewing the Takeover Defense Measures is as stated above, and the renewal of the Takeover Defense Measures is not intended to be a means of entrenching management.

Based on these explanations, we believe that renewal of the Takeover Defense Measures is needed.

If you have any questions or would like to arrange a call, please contact the Legal Dept. at +81-3-3436-7704 or at the following URL: <http://www.smm.co.jp/E/contact/>

Sincerely,



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Yoshiaki Nakazato  
Chairman of the Board of Directors



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Akira Nozaki  
President and Director