

Last updated: February 17, 2017

# Sumitomo Metal Mining Co., Ltd.

President & Representative Director: Yoshiaki Nakazato

Contact: +81-3-3436-7705

Securities Code: 5713

URL: <http://www.smm.co.jp/E/>

The corporate governance of Sumitomo Metal Mining Co., Ltd. (“SMM”) is as set out below.

## *I Basic Philosophy of Corporate Governance, Capital Structure, Corporate Data, and Other Basic Information*

### **1. Basic philosophy**

SMM’s basic philosophy pertaining to corporate governance is set out in “Corporate Governance Basic Policy, 2. Basic philosophy” and is displayed publicly on the SMM website at the address below.

Corporate Governance Basic Policy

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

### **Reasons for not applying a particular principle of *Japan’s Corporate Governance Code***

#### **Supplementary Principle 4.2.1: Management compensation as an incentive**

Supplementary Principle 4.2.1 is not being applied.

SMM’s financial results are significantly impacted by prevailing metal market conditions and exchange rates, and thus do not necessarily correspond with the progress of management strategies and projects. Furthermore, projects related to resource development and the construction of smelting and refining plants require extremely long time periods from start to completion, and it is not unusual for the composition of management to have changed by the time the fruits of those projects can be reaped.

Given these characteristics of its business, SMM has considered how compensation should operate as a healthy incentive for individual directors and managers, and has consequently laid down its

current compensation system composed of performance-based compensation and bonuses based on consolidated financial results and assessment factors such as the degree of attainment of personal targets under medium-to-long-term management strategies. At present, we do not believe that compensation in the form of Company stock (a stock-option scheme) would effectively operate as a healthy incentive for management, and thus have not introduced it.

## **Disclosures pursuant to specific principles of *Japan's Corporate Governance Code* Updated**

### **Principle 1.4: Cross-shareholdings**

When advancing our business strategy, SMM may engage in strategic shareholdings with business partners or other companies if it is judged that doing so will contribute to strengthening our business base over the mid to long term.

SMM will examine the exercise of voting rights in each of such companies and will determine whether to vote for or against each proposal after considering all related matters including without limitation whether doing so will contribute to increasing the corporate value of that company and how the corporate value of SMM will be affected.

### **Principle 1.7: Related-party transactions**

Transactions between SMM and our Directors or Audit & Supervisory Board Members will require the prior approval of the Board of Directors so as to ensure that the interests of the Company and the common interests of our shareholders are not harmed. Additionally, SMM will survey whether or not such transactions have been carried out and report our findings to the Board of Directors semiannually.

If any transaction with a major shareholder arises, it will be handled under the same standards as transactions between SMM and our Directors. A major shareholder is one who holds 10% or more of the voting rights of SMM.

### **Principle 3.1: Full disclosure**

#### **(i) Business principles and strategies**

The SMM Group Corporate Philosophy and its source, Sumitomo Business Spirit, the SMM Group Management Vision, which delineates what the Company aims to become on the basis of the corporate philosophy, and the SMM Group Code of Conduct, which sets out the standards

of conduct required of officers and employees to fulfill its corporate philosophy, are displayed publicly on the SMM website at the addresses below.

SMM Group Corporate Philosophy

URL: [http://www.smm.co.jp/E/corp\\_info/philosophy/principle/](http://www.smm.co.jp/E/corp_info/philosophy/principle/)

Sumitomo Business Spirit

URL: [http://www.smm.co.jp/E/corp\\_info/philosophy/principle/](http://www.smm.co.jp/E/corp_info/philosophy/principle/)

SMM Group Management Vision

URL: [http://www.smm.co.jp/E/corp\\_info/philosophy/vision/](http://www.smm.co.jp/E/corp_info/philosophy/vision/)

SMM Group Code of Conduct

URL: [http://www.smm.co.jp/E/corp\\_info/philosophy/conduct/](http://www.smm.co.jp/E/corp_info/philosophy/conduct/)

Also, the 2015 3-Year Business Plan, which covers the period from fiscal 2016 through fiscal 2018, is displayed publicly on the SMM website at the address below.

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

(ii) Basic views and basic policy on corporate governance

The basic policy on corporate governance, including the basic philosophy on corporate governance, has been compiled as the “Corporate Governance Basic Policy” and is displayed publicly on the SMM website at the address below.

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

(iii) Basic policies and procedures for the compensation of directors

Maximum limits on the total amounts of compensation for Directors 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 as follows.

The specific amount of compensation other than bonuses for each Director will be calculated by reflecting the individual performance of the Director (which is 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) 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 bonuses for each Director will be calculated by reflecting the individual performance

of the Director, which is calculated with the same position-specific evaluation items as above as 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.

(iv) Policies and procedures in the nomination of director and executive-officer candidates

The policy when nominating Director candidates and Executive Officers will be for the President to comprehensively consider the knowledge, experience, abilities, and insight of the candidates, receive the advice of the Governance Committee, and propose the qualified candidates to the Board of Directors, which will then determine the nominations. Similarly, the policy when nominating Audit & Supervisory Board Member candidates will be for the President to select candidates under the same standards, obtain the consent of the Audit & Supervisory Board, and propose the qualified candidates to the Board of Directors, which will then determine the nominations. Reasons for the nomination of Director candidates and Audit & Supervisory Board Member candidates will be stated in the reference materials of the General Meeting of Shareholders.

(v) Reasons for individual nominations of candidates for directors and Audit & Supervisory Board members

The reasons for individual nominations of candidates for directors and Audit & Supervisory Board members at the 91st ordinary general meeting of shareholders (held on June 27, 2016) are stated in the reference documentation for that meeting. The said reference documentation is displayed on the following SMM website.

URL: <http://www.smm.co.jp/E/ir/stock/meeting/>

**Supplementary Principle 4.1.1: Outline of scope of matters delegated to the management by the board**

In accordance with laws and regulations and SMM's Articles of Incorporation, decisions for business execution are delegated to the management by the Board of Directors.

Specifically, pursuant to the Regulations of the Board of Directors it lays down, the Board of Directors adopts resolutions concerning important matters such as those relating to general meetings of shareholders, directors, executive officers, management policies, business plans, risk management,

corporate social responsibility (“CSR”), organization and personnel affairs, and projects, and with regard to matters to which the said regulations’ criteria do not apply, decisions are delegated to the president, executive officers, and others pursuant to other rules laid down by the Board of Directors.

**Principle 4.8: Effective Use of Independent Directors**

The Company appoints at least one-third of directors as independent directors.

**Principle 4.9: Independence standards for independent directors**

Independence standards are set out in “Corporate Governance Basic Policy, 5.4) Independence standards” and are displayed publicly on the SMM website at the address below.

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

**Supplementary Principle 4.11.1: View on the appropriate balance between knowledge, experience, and skills of the board as a whole, and also on diversity and appropriate board size**

The Board of Directors will achieve a diverse composition by including both members from within SMM who are thoroughly familiar with each area of the Company’s business as well as outside experts with knowledge, experience, abilities, and insight different from that of the members from within SMM. The size of the Board of Directors will be appropriate to conducting active discussions and ensuring the briskness of the Board. One third or more of the Directors will be Independent Outside Directors in order to strive for greater managerial transparency.

**Supplementary Principle 4.11.2: Holding of concurrent positions by directors and auditors**

The situation regarding the holding of concurrent positions by directors and Audit & Supervisory Board members is as set out in SMM business reports and reference documentation for general meetings of shareholders. The said business reports and reference documentation are displayed on the following SMM website.

URL: <http://www.smm.co.jp/E/ir/stock/meeting/>

**Supplementary Principle 4.11.3: Analysis and evaluation of the effectiveness of the board as a whole, and the results thereof**

In order to analyze and evaluate the effectiveness of the Board of Directors from the perspective of appropriate decision-making for business execution and supervisory functions, the Board of Directors conducts an annual questionnaire-based survey of directors and Audit & Supervisory Board members.

To ensure that the responses are not monitored by the individuals in charge within SMM, the responses are submitted to an external law firm that is entrusted with compiling the results and analyzing them.

Based upon the overall results of the self-evaluations by directors and Audit & Supervisory Board members included in the survey and the external evaluations by the law firm, the Board of Directors analyses and evaluates its own effectiveness.

During fiscal 2016, prior to evaluation of its effectiveness, the Board of Directors set its goals in functions, size, composition, and diversity, through its discussion.

As a result of evaluation of effectiveness, compared to the goals, the Board of Directors exercised its function to secure sound and proper decisions. In addition, no serious problems in decision making procedure of the Board of Directors could have been observed. On the other hand, to pursue efficient discussions and fulfilling deliberation on business challenges at the Board, further review of agenda items and discussion materials were proposed. Another opinion also expressed was the request that, for the training of outside officers, improved opportunities to inspect places of business should be provided.

By making reference to the constructive opinions offered by all directors and Audit & Supervisory Board members, continuing efforts will be made to improve the effectiveness of the Board of Directors still further.

#### **Supplementary Principle 4.14.2: Training policy for directors and auditors**

SMM will provide training on the legal liabilities of officers, compliance, and legal knowledge for newly appointed Directors, Audit & Supervisory Board Members, and Executive Officers when assuming office. SMM will provide various kinds of internal training for Directors, Audit & Supervisory Board Members, Executive Officers, and others and endeavor to obtain timely and appropriate information through lectures by lawyers and other external experts and through other such means. Additionally, SMM will provide information on other training opportunities such as external seminars.

Including the above, SMM will bear the entire amount of any expenses necessary for Director, Audit & Supervisory Board Member, and Executive Officer training.

#### **Principle 5.1: Policy for constructive dialogue with shareholders**

SMM believes that receiving the understanding and support of all of our shareholders and investors

is essential for the sustainable growth and increased corporate value of the Company over the mid to long term. Therefore, in consideration of increasing corporate value over the mid to long term, SMM will develop the following IR activities to achieve dialogue with our shareholders and investors in order to receive a deeper understanding of SMM.

The President will coordinate dialogue with shareholders and investors and information disclosure, and the Executive Officer supervising the Public Relations & Investor Relations Department will be the officer in charge of such dialogue and disclosure.

When determining disclosure details and preparing materials, the Public Relations & Investor Relations Department will collaborate with the relevant divisions and appropriately conduct disclosure.

In addition to holding briefings conducted by the President for institutional investors and securities analysts regarding financial results and business strategies, SMM will also implement measures to receive deeper understanding of our business from those investors and analysts. Additionally, SMM will establish a section on our website for individual investors and will endeavor to disclose IR information in a manner that is easy to understand.

SMM will regularly report the views and requests learned through communication with our shareholders and investors to management and make use of those views and requests in managing SMM.

In order to prevent divulging any information that would influence share prices during the preparation period of financial results announcements, SMM will establish a specified “quiet period” prior to the announcement of quarterly financial results and refrain from commenting or answering questions on those results during that period. Additionally, matters regarding information disclosure will be stated on internal memorandums for approval, and the responsible division will verify the management of information and thoroughly ensure that no insider information is disclosed during dialogue with shareholders and investors.

## 2. Capital structure

Foreign shareholding ratio	30% or more
----------------------------	-------------

## Largest shareholders

Name or company name	Number of shares owned	Percentage (%)
Japan Trustee Services Bank, Ltd. (trust account)	38,594,000	6.64
The Master Trust Bank of Japan, Ltd. (trust account)	37,174,000	6.39
Toyota Motor Corporation	18,916,000	3.25
Sumitomo Mitsui Banking Corporation	7,650,491	1.32
The Bank of New York Mellon Sa/Nv 10	7,626,289	1.31
State Street Bank And Trust Company 50 5225	7,541,478	1.3
Sumitomo Realty & Development Co., Ltd.	7,490,110	1.29
Sumitomo Life Insurance Company	7,474,000	1.29
Japan Trustee Services Bank, Ltd. (trust account 7)	7,424,000	1.28
JP Morgan Chase Bank 385 632	7,384,459	1.27
Controlling shareholder (except for parent company)	---	
Parent company	None	

## Supplementary remarks

1. The capital structure is as of September 30, 2016.
2. SMM holds 30,006,555 shares of treasury stock.
3. In the statement of changes to statement of large-volume holdings submitted on March 4, 2016, by Sumitomo Mitsui Trust Bank, Limited, and two other joint holders, it is stated that shares are held as set out below as of February 29, 2016 (reporting requirement date), but it has not been possible to confirm the actual number of shares held as of March 31, 2016.

Names of large-volume holders: Sumitomo Mitsui Trust Bank, Limited, and two others

Number of shares held: 50.95 million

Shareholding ratio: 8.76%



### 3. Corporate data

Stock market where listed and market section	Tokyo Stock Exchange First Section
Fiscal year-end	March
Type of business	Non-ferrous metals
Number of employees (consolidated) at end of previous fiscal year	1,000 or more
Net sales (consolidated) in previous fiscal year	¥100 billion or more, but less than ¥1 trillion
Number of consolidated subsidiaries at end of previous fiscal year	50 or more, but fewer than 100

### 4. Policy on measures to protect minority shareholders when conducting transactions, etc., with controlling shareholder

-----

### 5. Other special circumstances that may materially impact corporate governance

-----

**II Business Management Organization and Other Corporate Governance Systems Pertaining to Management Decision-Making, Execution, and Supervision**

**1. Matters relating to organizational composition, operation, etc.**

Organization form	Company with Audit & Supervisory Board members
-------------------	------------------------------------------------

**Directors**

Number of directors stipulated in articles of incorporation	10
Term of office of directors stipulated in articles of incorporation	1 year
Chairperson of the board of directors	Chairman (except when serving concurrently as president)
Number of directors	8
Status of appointment of outside directors	Appointed
Number of outside directors	3
Number of outside directors designated independent officers	3

**Relationship with company (1)**

Name	Attribute	Relationship with the company*										
		a	b	c	d	e	f	g	h	i	j	k
Tsutomu Ushijima	Lawyer											
Hitoshi Taimatsu	Academic											
Kazuhisa Nakano	From another company								△			

\* Categories of relationship with the company

“○” when a category applies to the person currently or recently; “△” when it applied in the past.

“●” when a category applies to a close relative of the person currently or recently; “▲” when it applied in the past.

a An executive of the listed company or a subsidiary thereof

- b An executive or a nonexecutive director of the parent company of the listed company
- c An executive of a sister company of the listed company
- d A person or an executive thereof for which the listed company is a major business partner
- e A major business partner of the listed company or an executive thereof
- f A consultant or accounting or legal professional who receives a large amount of monetary consideration or other property from the listed company besides compensation as an officer
- g A major shareholder of the listed company (or an executive of the said major shareholder if it is a corporation)
- h An executive (the said individual only) of a business partner of the listed company (where any of d, e, or f above do not apply)
- i An executive (the said individual only) of a company with which there is mutual appointment of outside officers
- j An executive (the said individual only) of an organization that receives donations from the listed company
- k Other

Relationship with company (2)

Name	Independent officer	Supplementary remarks concerning applicable categories	Reasons for selection
Tsutomu Ushijima	○	—	<p>Mr. Ushijima is selected as an outside director on the grounds that he has specialist knowledge and a wealth of experience as a lawyer and certified public tax accountant and is thus able to provide advice, from a compliance perspective in particular, thus playing an appropriate role in strengthening SMM's corporate governance.</p> <p>As he is considered devoid of risk of conflict of interest with general shareholders, he is designated an independent officer.</p>
Hitoshi Taimatsu	○	—	<p>Prof. Taimatsu possesses specialist knowledge as a material engineering science researcher, mainly in the field of metals. He is selected as an outside director on the grounds that he is able to leverage that knowledge, his academic background as a university professor, and his experience as an Education and Research Council member and faculty vice dean, among others, to play an appropriate role in strengthening SMM's corporate governance.</p> <p>As he is considered devoid of risk of conflict of interest with general shareholders, he is designated an independent officer.</p>
Kazuhisa Nakano	○	Mr. Nakano serves as executive adviser at Idemitsu Kosan Co., Ltd., an SMM business partner.	Having held responsibilities such as serving as representative director and chief executive officer of

		<p>During fiscal 2015, SMM engaged in business with Idemitsu Kosan in such areas as the sale of products of SMM's materials business, but the amount of its sales to the said company totaled some ¥13 million, accounting for only 0.0% of SMM's nonconsolidated net sales.</p> <p>SMM also engaged in business with Idemitsu Kosan with regard to the purchase of SMM's operating materials and such. The amount paid to Idemitsu Kosan by SMM amounted to some ¥1,274 million, which accounted for 0.0% of SMM's nonconsolidated net sales.</p>	<p>Idemitsu Kosan Co., Ltd., Mr. Nakano has a wealth of knowledge and experience in corporate management and resource-related business. He is selected as an outside director because it is expected that he will use his wisdom in these areas to engage in appropriate business supervision for the purpose of ensuring the SMM Group's sustained growth and increase in enterprise value over the medium to long term, thereby strengthening corporate governance.</p> <p>As he is considered devoid of risk of conflict of interest with general shareholders, he is designated an independent officer.</p>
--	--	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Existence of optional committees equivalent to nomination committee or compensation committee

Yes

#### Status of establishment of optional committees, membership, and attributes of chairperson

	Committee name	Total committee members	Full-time members	Inside directors	Outside directors	Outside experts	Others	Chairperson
Optional committee equivalent to nomination committee	Governance Committee	4	0	1	3	0	0	—
Optional committee equivalent to compensation committee	Governance Committee	4	0	1	3	0	0	—

#### Supplementary remarks

SMM has established a Governance Committee composed of the chairman of the Board of Directors who is not an executive officer and independent outside directors (to be composed solely of independent outside directors if the chairman of the Board of Directors is not in place), its task being to provide advice from an objective standpoint with regard to particularly important matters relating to governance, including the nomination and compensation of directors, executive officers, and others. It is intended that this will enhance the transparency of management and strengthen corporate governance from the perspective of shareholders and all other stakeholders.

**Audit & Supervisory Board members**

Audit & Supervisory Board established	Yes
Number of Audit & Supervisory Board members stipulated in articles of incorporation	5
Number of Audit & Supervisory Board members	4

Status of coordination between Audit & Supervisory Board members, the accounting auditor, and the internal auditing department

As part of mutual collaboration in internal auditing, auditing by Audit & Supervisory Board members, and auditing by the accounting auditor, the Internal Audit Department provides the Audit & Supervisory Board members with appropriate information such as explanations of audit plans, and Audit & Supervisory Board members are present when the Internal Audit Department reports internal-audit results to executive officers and other personnel. In addition, Audit & Supervisory Board members provide the Internal Audit Department with audit plans decided on by the Audit & Supervisory Board, and attend auditing by the Internal Audit Department whenever necessary. The Audit & Supervisory Board members provide audit plans to the accounting auditor, who in return supplies those members with explanations of the audit plans and reports on the audit results.

With regard to the relationship between internal auditing, auditing by Audit & Supervisory Board members, auditing by the accounting auditor, and the department responsible for internal control, the latter conducts the structuring of the internal-control system and the monitoring of its operation, reports regularly—and whenever else necessary—to the Internal Audit Department, the Audit & Supervisory Board members, and the accounting auditor, and is itself audited.

Status of appointment of outside Audit & Supervisory Board members	Appointed
Number of outside Audit & Supervisory Board members	2
Number of outside Audit & Supervisory Board members designated independent officers	2

Relationship with company (1)

Name	Attribute	Relationship with the company*														
		a	b	c	d	e	f	g	h	i	j	k	l	m		
Hikoyuki Miwa	Certified public accountant												△			
Junichi Kondo	From another company															

\* Categories of relationship with the company

“○” when a category applies to the person currently or recently; “△” when it applied in the past.

“●” when a category applies to a close relative of the person currently or recently; “▲” when it applied in the past.

- a An executive of the listed company or a subsidiary thereof
- b A nonexecutive director or an accounting advisor of the listed company or a subsidiary thereof
- c An executive or a nonexecutive director of the parent company of the listed company
- d An auditor of the parent company of the listed company
- e An executive of a sister company of the listed company
- f A person or an executive thereof for which the listed company is a major business partner
- g A major business partner of the listed company or an executive thereof
- h A consultant or accounting or legal professional who receives a large amount of monetary consideration or other property from the listed company besides compensation as an officer
- i A major shareholder of the listed company (or an executive of the said major shareholder if it is a corporation)
- j An executive (the said individual only) of a business partner of the listed company (where any of f, g, or h above do not apply)
- k An executive (the said individual only) of a company with which there is mutual appointment of outside officers
- l An executive (the said individual only) of an organization that receives donations from the listed company
- m Other

Relationship with company (2)

Name	Independent officer	Supplementary remarks concerning applicable categories	Reasons for selection
Hikoyuki Miwa	○	Until June 2009, Mr. Miwa was partner of KPMG AZSA & Co. (currently KPMG AZSA LLC), with which SMM concludes an audit contract. The compensation, etc., paid by SMM to that firm in fiscal 2015 totaled approx. ¥187 million.	Mr. Miwa is selected as an outside Audit & Supervisory Board member on the grounds that he is able to fulfill auditing duties based on his auditing experience accumulated over many years at audit firms and his extensive knowledge of accounting, and particularly through his ability to offer opinions and recommendations from the perspective of an accounting specialist.  As he is considered devoid of risk of conflict of interest with general shareholders, he is designated an independent officer.

Junichi Kondo	○	—	Mr. Kondo is selected as an outside Audit & Supervisory Board member on the ground of expectation that he is able to fulfill his duties as an outside Audit & Supervisory Board member based on his wealth of financial-institutional experience. As he is considered devoid of risk of conflict of interest with general shareholders, he is designated an independent officer.
---------------	---	---	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

### Independent officers

Number of independent officers

5

Other matters relating to independent officers

All SMM outside officers satisfy requirements for independent officers.

### Incentives

Status of implementation of measures to grant incentives to directors

Introduction of a system of performance-based compensation

Supplementary remarks concerning applicable item

As of the conclusion of the 80th ordinary general meeting of shareholders (held on June 29, 2005), the system of retirement benefits for directors was abolished. The compensation of SMM directors (excluding outside directors) is linked to business performance each year.

Persons eligible to receive stock options

Supplementary remarks concerning applicable item

-----

### Directors' compensation

Status of disclosure (of individual director compensation)

None

Supplementary remarks concerning applicable item

1. Total amount of directors' compensation

Total compensation: ¥269 million (Basic compensation ¥269 million)

Policy for determining compensation amounts or calculation methods

Yes

Disclosure of policy for determining compensation amounts or calculation methods

For the compensation of directors and Audit & Supervisory Board members, upper limits for total compensation for directors and Audit & Supervisory Board members, respectively, are determined by resolutions of general meetings of shareholders, and when bonuses are paid to directors, the total amounts of bonuses are also so determined for directors other than outside directors.

With regard to the amounts of directors' compensation, the president & representative director is authorized by the Board of Directors to determine them as follows.

With regard to amounts of SMM directors' compensation other than bonuses, basic compensation is set after taking the Company's consolidated results into consideration, and specific amounts of compensation are calculated that reflect the performances of individual directors on the basis of position-specific assessment factors such as departmental results, the degree of attainment of personal targets under medium-to-long-term management strategies, and safety record (number of industrial accidents). These are then determined after receiving advice from the Governance Committee. With regard to bonuses, a basic bonus is set after taking the Company's consolidated results into consideration, additionally specific amounts are calculated that reflect the performances of individual directors based on position-specific assessment factors as referred to above, and these are then determined after receiving advice from the Governance Committee. With regard to outside directors, however, importance is placed on their supervisory functions from a standpoint independent of business execution, and thus their personal performance is not reflected, and they are paid only the basic compensation with no bonuses.

The amounts of compensation of Audit & Supervisory Board members are determined for each individual member within the aggregate amount of compensation approved by general meetings of shareholders, the determination being by means of discussion within the Audit & Supervisory Board.

**Support system for outside directors (outside Audit & Supervisory Board members)**

In order to enable outside officers to execute their roles and responsibilities effectively, essential support is provided as follows.

1. To maximize the thoroughness of Board of Directors deliberations, explanations of agenda items are given in advance to outside officers.
2. In order to deepen outside officers' understanding of Company business, they are given



opportunities to inspect SMM Group places of business. Opportunities are also provided to address and explain large-scale projects and other subjects of interest to outside officers.

3. In order to share information and to enable the objective viewpoints of people outside the Company to be reflected in management, meetings consisting solely of outside officers and meetings between outside officers and senior managers for direct exchanges of views are arranged.

Four personnel (occupying other positions concurrently) form a Board of Directors secretariat and three personnel (occupying other positions concurrently) form a secretariat for the Audit & Supervisory Board, both secretariats providing support for the outside directors and outside Audit & Supervisory Board members respectively.

## **2. Matters concerning functions such as business execution, auditing and supervision, nomination, and compensation determination (Overview of the current corporate governance system)**

SMM's governance is a system for ensuring that business execution and associated monitoring and supervision are each functioning fully within the Company's management. To achieve that it operates by using audit and supervisory board and executive officer systems, conducting governance through a three-part organizational structure in which decision-making and supervision is addressed by the Board of Directors, business execution by the representative director and the executive officers, and auditing by the Audit & Supervisory Board members and the accounting auditor.

The Board of Directors conducts decision-making that includes the making of decisions on important matters relating to business execution such as those stipulated in the Companies Act, and is responsible for supervisory functions over all corporate management, including the performance of duties by the representative director and executive officers.

In accordance with laws and regulations and the Articles of Incorporation, the Board of Directors delegates business-execution decisions to the representative director and executive officers, clearly defining their authority and responsibilities. Fundamental to business execution decision-making by the representative director and executive officers is the conduct of investigation and screening followed by approval through systems such as the *ringi* process, meetings of the Management Committee being convened for managerially important matters that necessitate deliberation. This system ensures that rational management judgments are made from diverse perspectives, and prudent decision-making takes place.

Business execution comprises both business activity and social-responsibility activity, the latter being composed of CSR activity, compliance activity, SMM's own unique risk-management activity, and internal control, and it is with these that the Company undertakes its business activity with the

goal of ensuring sustainable co-existence with society and the global environment.

All Audit & Supervisory Board members coordinate as necessary with other members, the Internal Audit Department, and the accounting auditor, including through the exchange of information, auditing business execution in accordance with laws and regulations, audit policies laid down by the Audit & Supervisory Board, audit plans, etc.

The specifics of SMM's corporate governance system are set out below.

## **1. Directors and Board of Directors**

SMM's Articles of Incorporation provide for up to 10 directors, each with a term of office of one year. The composition of the Board of Directors is characterized by its diversity, being composed not only of internal officers with extensive knowledge of every field of the Company's business activities, but also of outside experts with knowledge, experience, capabilities, and opinions with perspectives that differ from those of the inside directors. In addition, with the aim of achieving more transparent management, the Company has a policy of ensuring that at least one-third of the directors are independent outside directors, and thus has selected three such directors among its eight directors.

Regular Board of Directors meetings are held once per month, but the structure also enables extraordinary Board of Directors meetings to be held whenever required, permitting flexible decision-making.

Resolutions by and matters reported to the Board of Directors are in turn reported to Executive Officers' Meetings to ensure that information is shared among officers.

A system of performance-based compensation has been introduced for the compensation of directors. Advice from the Governance Committee is obtained with regard to the determination of the specific amounts of compensation.

## **2. Management Committee**

The membership of the Management Committee includes the president, executive vice presidents, senior managing executive officers, and other related executive officers, and its meetings may also be attended by the chairman of the Board of Directors, outside directors, and Audit & Supervisory Board members.

The Management Committee deliberates on important matters requiring careful consideration from a wide range of perspectives prior to their submission for the Board of Directors resolutions or approval by the president, deciding whether or not matters should be submitted to the Board of

Directors, and assisting the president's decision-making.

### **3. Executive officer system**

As provided by its Articles of Incorporation, SMM has adopted an executive officer system. To strengthen their executive capabilities, the executive officers' authority and responsibilities have been clearly defined, and substantial authority has been delegated to them.

There are currently 21 executive officers (including four who serve concurrently as directors). They are entrusted with important positions such as heading a business division, or a division or a department at the Company's head office, and are granted specific authority to perform their duties in each such position. In addition, executive officers report on the status of business execution once a month at Executive Officers' Meetings.

As in the case of directors, a system of performance-based compensation has been introduced for the compensation of executive officers. Advice from the Governance Committee is obtained with regard to the determination of the specific amounts of compensation.

### **4. Audit & Supervisory Board members and Audit & Supervisory Board**

SMM's Articles of Incorporation provide for up to five Audit & Supervisory Board members, and currently there are four (composed of two standing and two part-time [outside] members). SMM considers that the present composition and number of Audit & Supervisory Board members is suitable for ensuring the appropriate management of the Audit & Supervisory Board.

Audit & Supervisory Board members belonging to the Company conduct auditing based on their characteristic standing-auditor status, which enables them to gather in-house information, while outside Audit & Supervisory Board members conduct audits in a manner that takes advantage of knowledge of their own specialist fields. In addition, all present their opinions at important meetings, including meetings of the Board of Directors and of the Management Committee.

Meetings of the Audit & Supervisory Board are held once a month prior to the meetings of the Board of Directors on the days upon which regular Board of Directors meetings are held, and other meetings are held whenever necessary.

### **5. CSR Committee, Internal Control Committee, and Enterprise Value Enhancement Committee**

SMM has systemized its social and environment initiatives as CSR activities and is expanding them throughout the Group. In order to promote these activities, the CSR Committee (headed by the president) has been established. Three working groups have also been established under the CSR Committee to take responsibility for compliance, risk management, and quality assurance.

The Internal Control Committee (headed by the president) has been established for the purpose of building internal-control systems within the SMM Group and of maintaining and improving them.

In addition, in order to pursue the achievement of sustained business growth and increase enterprise value, the Enterprise Value Enhancement Committee (headed by the president) has been established.

#### **6. Internal audits and audits by Audit & Supervisory Board members**

The Internal Audit Department has been established for the purpose of conducting internal audits as part of the auditing and supervision of business execution. This internal auditing is conducted throughout the SMM Group, the department general manager and staff members implementing internal audits on a regular basis.

The Audit & Supervisory Board members audit activities, such as the performance of duties by the directors, in accordance with audit plans determined by the Audit & Supervisory Board. As is the case with standing Audit & Supervisory Board members, SMM's outside Audit & Supervisory Board members conduct on-site audits at premises such as business offices and plants when necessary, and reports of on-site audits conducted by standing Audit & Supervisory Board members at business offices and affiliated companies are also provided to outside Audit & Supervisory Board members.

Among the Audit & Supervisory Board members, Hikoyuki Miwa who is an outside member is a qualified certified public accountant, and thus has an advanced level of expertise in the fields of finance and accounting.

#### **7. Accounting auditor**

For fiscal 2015, the name of the Company's accounting auditor, the certified public accountants in charge of the audit, and details of the staff who assisted with it are as set out below.

- 1) Name of accounting auditor  
KPMG AZSA LLC
- 2) Certified public accountants in charge of the audit  
Designated limited liability partners and engagement partners  
Yasuyuki Nagasaki, Takahiro Akiyama, and Toru Tanaka
- 3) Number of staff who assisted with the audit  
Certified public accountants: 16; Others: 13

### 3. Reasons for selection of present corporate governance system

In line with its Corporate Governance Basic Policy, which summarizes SMM's basic philosophy for corporate governance and the framework therefor, SMM believes that its governance is a system that ensures that business execution and the associated monitoring and supervision are each functioning fully by using audit and supervisory board and executive officer systems with which to conduct governance through a three-part organizational structure in which decision-making and supervision is addressed by the Board of Directors, business execution by the representative director and the executive officers, and auditing by the Audit & Supervisory Board members and the accounting auditor.

With regard to the appropriateness of business-execution decisions and supervision capabilities, the Company considers its corporate governance system to be working effectively. This is because, among other factors, the Company's Board of Directors deems that as a result of analysis and appraisal of the effectiveness of the Board of Directors based on external evaluation, no significant problems have been observed; as a result of the Internal Control Committee's monitoring of the status of operation of internal-control system, no significant problems have been observed; and no problems have been indicated in the audit reports of the Audit & Supervisory Board. It intends to continue to pursue soundness, transparency, and efficiency of management by endeavoring to maintain and build an optimum business management structure.

### III Status of Implementation of Measures Relating to Shareholders and Other Stakeholders

#### 1. Measures to invigorate general meetings of shareholders and facilitate the exercise of voting rights

Supplementary remarks	
Early dispatch of notices of convocation of general meetings of shareholders	SMM sends out notices of convocation three weeks prior to the date of general meetings of shareholders. The notice of convocation of the 91st ordinary general meeting of shareholders was sent on June 3, 2016.
Avoidance of peak days when scheduling general meetings of shareholders	The 91st ordinary general meeting of shareholders was held on Monday, June 27, 2016.
Use of electronic means to exercise voting rights	Since the 83rd ordinary general meeting of

	shareholders on June 26, 2008, it has been possible to exercise voting rights by electronic means (Internet, etc.)
Participation in Electronic Voting Platform and other steps to enhance conditions for voting by institutional investors	Since the 83rd ordinary general meeting of shareholders on June 26, 2008, it has been possible for institutional investors to exercise voting rights through the Electronic Voting Platform.
Provision of convocation notices (summaries) in English	These are posted on the SMM website.
Other	The conduct of general meetings of shareholders is aimed to ensure ease of understanding by shareholders, including by reporting business activities using video. Convocation notices, reference documentation, and reports are also posted on the SMM website.

## 2. IR activities

Supplementary remarks	Explanation by company representative in person	
Preparation and publication of disclosure policy	An IR policy has been laid down and is posted on the SMM website. <a href="http://www.smm.co.jp/E/ir/management/policy/">http://www.smm.co.jp/E/ir/management/policy/</a>	
Regular briefings for analysts and institutional investors	<ol style="list-style-type: none"> <li>1) Results briefings held in teleconference format upon each announcement of quarterly results.</li> <li>2) Briefings to explain progress of the Company's management strategy as a rule twice a year upon release of second-quarter and full-year results.</li> <li>3) Briefings at times of important announcements, such as of three-year business plans.</li> </ol>	Yes
Regular briefings for overseas investors	The Company executives visit overseas institutional investors on a regular basis to explain results and management strategies.	Yes
Posting of IR materials on website	IR materials such as financial results and other materials for timely disclosure, results-briefing materials, conference materials, annual reports, CSR reports, integrated reports, stock information, convocation notices, reports, resolution notices, publicity materials for shareholders, and press-release materials are posted on the SMM website.	
Establishment of IR unit (staff in charge)	The Company has established the Public Relations & Investor Relations Department.	

### 3. Measures to respect the position of stakeholders

	Supplementary remarks
Internal rules and other provisions for respecting the position of stakeholders	The SMM Group Corporate Philosophy includes a pledge to fulfill its responsibilities to stakeholders. As part of that, SMM aims to ensure proper information disclosure to its shareholders and other stakeholders.
Implementation of environment conservation activity, CSR activity, etc.	<p>On October 1, 2008, SMM systemized its existing social and environment initiatives as CSR activities to expand them throughout the Group.</p> <p>The goal of SMM Group CSR activities is to ensure sustainable co-existence with society and the global environment.</p> <p>Sustainable co-existence with the global environment means that the Company will be ever mindful of the fact that its corporate activities depend on a healthy planet and that the Earth's resources are limited.</p> <p>Sustainable co-existence with society means that, through such means as interaction with stakeholders, SMM is endeavoring to enhance enterprise value.</p> <p>The CSR Committee (headed by the president) has been established to ensure vigorous promotion of CSR activities. Under this, three working groups take responsibility for risk management, compliance, and quality assurance, and there are subcommittees that focus on six key CSR areas.</p> <p>Each year, an integrated report is prepared to provide information on the status of the SMM Group's CSR activities, and it is also published on the SMM website.</p>
Formulation of policies for provision of information to stakeholders	SMM has formulated an IR Policy. It is posted on the following Company website. <a href="http://www.smm.co.jp/E/ir/management/policy/">http://www.smm.co.jp/E/ir/management/policy/</a>
Other	<p>Support for women's empowerment and diversity:</p> <p>For SMM, a company that seeks to be a "World Leader in the Non-Ferrous Metals Industry" and an "Excellent Company of Japan," it has become increasingly important to create a working environment in which diverse human resources, including female employees and people with disabilities, can become more active, and company-wide steps are being taken to create such an environment.</p> <p>SMM has three basic policies for women's empowerment, namely "Promotion of awareness," "Review of systems," and "Infrastructure placement," formed the Female Activation Support Group in July 2012, and has been implementing specific measures.</p> <p>As part of steps taken to ensure more effective personnel development and</p>

deployment and to foster organizational development, in October 2015 the Company established the Human Resources Development Department and the Diversity Promotion Section within it. These moves have assisted the creation of an environment that enables diverse human resources, including women and people with disabilities, to manifest their full capabilities, and also promote respect for human rights.



## **IV Matters Relating to Internal-Control Systems, etc.**

### **1. Basic approach to internal-control systems and status of development**

#### 1. Basic policy

The building of internal control is one of the most important management issues for ensuring the sustained growth of the SMM Group (including SMM, both here and hereinafter). With regard to the matters referred to in item 2 onward, the policy is to build a structure in which SMM Group officers (including executive officers, both here and hereinafter) and employees can all play their respective roles and responsibilities that are clearly defined, and to build a structure that can be revised in a timely and appropriate manner and improved constantly.

#### 2. Systems to ensure that the performance of duties by the Company's directors and employees conforms with laws and regulations and the Articles of Incorporation (Article 362(4)(vi) of the Companies Act, and Article 100(1)(iv) of the Ordinance for Enforcement of the Companies Act)

1) SMM endeavors to nurture a corporate culture in which duties are performed in a sound and legally compliant manner, by having officers set an example of compliance with the SMM Group Code of Conduct, which sets out the standards of conduct required of officers and employees, and by having officers educate employees and ensure they are thoroughly acquainted with it.

2) The system in place is one in which, based on the Regulations of the Board of Directors, agenda items and matters reported at meetings of the Board of Directors are compliant with the Companies Act. In addition, matters of particular management importance are considered from diverse, expert perspectives, including with regard to legality, in meeting formats or through the *ringi* process in accordance with rules such as the Regulations on Head-Office Department Authority Criteria, the Management Committee Regulations, and the Approval Regulations.

3) With regard to the status of the performance of duties by officers and employees, internal audits by the Internal Audit Department are conducted regularly and whenever necessary.

4) Also in place is an internal reporting system to ensure that, if the performance of duties by officers or employees is in violation of laws, regulations, the Articles of Incorporation, etc., the said violations do not go ignored or unaddressed.

#### 3. Systems for the storing and management of information relating to the performance of duties by directors of the Company (Article 100(1)(i) of the Ordinance for Enforcement of the

Companies Act)

Minutes of general meetings of shareholders, minutes of Board of Directors meetings, *ringi* documents, and other information relating to the performance of duties by officers are stored and managed appropriately in accordance with laws and regulations, the Document Regulations, the Approval Regulations, and other rules.

4. Regulations and other systems relating to management of risk of loss by the Company (Article 100(1)(ii) of the Ordinance for Enforcement of the Companies Act)
  - 1) To address risk management, the Regulations on Risk-Management Systems have been laid down and are being applied systematically in each organization. Units that include management personnel have been established to pursue this implementation. The president has overall control of risk management as the senior officer responsible, and this activity is conducted systematically on a company-wide basis.
  - 2) With regard to specific individual risks, head-office departments and units with jurisdiction over each such risk have instituted internal regulations and rules and are managing the risks on the basis of the risk-management structure they create.
5. Systems to ensure that the Company's directors perform their duties efficiently (Article 100(1)(iii) of the Ordinance for Enforcement of the Companies Act)
  - 1) The executive officer system has strengthened those officers' executive capabilities by clearly defining their authority and responsibilities and delegating substantial authority to them. Specifically, the executive officers are entrusted with important positions such as heading a business division, or a division or a department at the Company's head office, and are granted specific authority to perform their duties in each such position pursuant to the Regulations on Head-Office Department Authority Criteria and other rules.
  - 2) Appropriate allocation of management resources within the SMM Group is conducted in accordance with three-year business plans, budgeting systems, etc. In addition, performance-management systems enable the progress of business plans within the Group to be managed, and a system is in place under which performance assessments can be reflected in the compensation of management and other personnel.
6. Systems to ensure the appropriateness of business within the corporate group comprising SMM and its subsidiaries (Article 100(1)(v) of the Ordinance for Enforcement of the Companies Act)
  - 1) System for the reporting to the Company of matters relating to the performance of duties by directors, etc., of subsidiaries (Article 100(1)(v)(a) of the Ordinance for Enforcement of

the Companies Act)

A system has been built to enable prior consultation, etc., with SMM to take place in accordance with internal regulations and rules when decisions are taken on important management matters at subsidiaries. Another system has been built for reporting to SMM regularly with regard to business results and whenever important business matters arise.

- 2) Regulations and other systems relating to management of risk of loss by subsidiaries (Article 100(1)(v)(b) of the Ordinance for Enforcement of the Companies Act)

In accordance with the Regulations on Risk-Management Systems, a system has been built for the promotion and monitoring of risk management at subsidiaries in a manner tailored to accord with factors such as the characteristics of the business being conducted and of the local region.

- 3) Systems to ensure that subsidiaries' directors, etc., perform their duties efficiently (Article 100(1)(v)(c) of the Ordinance for Enforcement of the Companies Act)

- a. By means of three-year business plans, budgeting systems, etc., a system has been built to indicate SMM Group management policies to subsidiaries and to make it possible for the Company to participate in the formulation of subsidiaries' business plans and budgets.

- b. A system has also been built for assigning officers from SMM to subsidiaries and making it possible for them to participate in decision-making and other tasks with regard to important management matters at subsidiaries.

- 4) Systems to ensure that the performance of duties by subsidiaries' directors, etc., and employees conforms with laws and regulations and the Articles of Incorporation (Article 100(1)(v)(d) of the Ordinance for Enforcement of the Companies Act)

- a. SMM has built a system for nurturing a corporate culture in which duties are performed at subsidiaries in a sound and legally compliant manner, by establishing the SMM Group Code of Conduct that is in principle applicable to all subsidiaries, by having officers at each subsidiary set an example of compliance with the code, and by having those officers educate the subsidiary's employees and ensure they are thoroughly acquainted with it.

- b. With regard to the status of business execution at subsidiaries, internal audits by the SMM Internal Audit Department are conducted regularly and whenever necessary.

- c. Also in place is an internal reporting system to ensure that, if the performance of duties by subsidiaries' officers or employees is in violation of laws, regulations, the Articles of Incorporation, etc., the said violations do not go ignored or unaddressed.
7. Matters relating to employees in cases in which Audit & Supervisory Board members request the assignment of employees to assist them in their duties (Article 100(3)(i) of the Ordinance for Enforcement of the Companies Act)

Employees are assigned to work concurrently as Audit & Supervisory Board secretariat personnel. If Audit & Supervisory Board members request the placement of other employees to assist them in their duties, those requests will be given serious consideration.

8. Matters relating to ensuring the independence from directors of the employees referred to in 7 above and the effectiveness of instructions to those employees (Article 100(3)(ii) and (iii) of the Ordinance for Enforcement of the Companies Act)
- 1) If there are to be staff changes among Audit & Supervisory Board secretariat personnel, the Audit & Supervisory Board members will be consulted in advance.
  - 2) If Audit & Supervisory Board secretariat personnel do not abide by Audit & Supervisory Board members' instructions, and Audit & Supervisory Board members request they be replaced or otherwise addressed, such a request will be dealt with seriously.
9. Systems for SMM directors and employees, as well as subsidiaries' directors, auditors, and employees, to report to SMM Audit & Supervisory Board members (Article 100(3)(iv) of the Ordinance for Enforcement of the Companies Act)
- 1) A system has been built to ensure that matters required to be reported to SMM Audit & Supervisory Board members pursuant to the Companies Act or other laws are certain to be so reported, by prescribing matters to be reported to the Board of Directors in the Regulations of the Board of Directors and other internal regulations.
  - 2) If illegal acts, etc., occur within the SMM Group, they are reported to SMM's standing Audit & Supervisory Board members in accordance with the Basic Compliance Regulations.
  - 3) With regard to the status of use of the internal reporting system, a system has been built for reporting to SMM's standing Audit & Supervisory Board members in accordance with the Basic Compliance Regulations.
  - 4) The results of internal audits by the SMM Internal Audit Department relating to the status

of execution of SMM Group business are reported to SMM's standing Audit & Supervisory Board members.

10. System for ensuring that the persons reporting incidents referred to in 9 above do not receive unfavorable treatment because they have made those reports (Article 100(3)(v) of the Ordinance for Enforcement of the Companies Act)

It is stated explicitly in the Basic Compliance Regulations, etc., that it is prohibited to give unfavorable treatment to persons using the internal reporting system because they have used the said system.

11. Matters relating to policy on procedures for the prepayment or reimbursement of expenses arising in relation to the performance of duties by Audit & Supervisory Board members or on other treatment of expenses or debts arising in relation to the performance of the said duties (Article 100(3)(vi) of the Ordinance for Enforcement of the Companies Act)

When Audit & Supervisory Board members request the Company to prepay or reimburse expenses, etc., in relation to the performance of their duties, the said expenses or debts are dealt with pursuant to the Companies Act.

12. Other system for ensuring that audits by Audit & Supervisory Board members are conducted effectively (Article 100(3)(vii) of the Ordinance for Enforcement of the Companies Act)

- 1) When important management meetings are held, such as those of the Management Committee and management information liaison meetings, Audit & Supervisory Board members are given the opportunity to attend them in accordance with internal regulations and rules.

- 2) *Ringi* documents to be approved by the president are shown to the standing Audit & Supervisory Board members, with the exception of items specified by standing Audit & Supervisory Board members.

## **2. Basic approach to elimination of antisocial forces, and status of implementation**

1. Basic approach

The SMM Group Code of Conduct has been instituted as the set of standards of conduct required of officers and employees of SMM and its Group companies, and it declares, both in-house and externally, the severance of relationships with antisocial forces as follows.

## SMM Group Code of Conduct

### 15. Severance of Relationships with Socially Disruptive Forces

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

## 2. Status of implementation of measures to eliminate antisocial forces

SMM and its Group companies adhere to the SMM Group Code of Conduct and have also formulated a manual for handling improper demands with the aim of severing relationships with antisocial forces. Details of the status of implementation of the in-house structure and implementation measures are as follows.

- 1) In order to ensure that basic policy for the severance of relationships with antisocial forces is entrenched firmly, all officers and employees of SMM and its Group companies are familiarized with the SMM Group Code of Conduct by the provision of training, particularly at the time employees are hired, and also of other education and training.
- 2) If improper demands are made by antisocial forces, or a situation occurs that suggests they may be imminent, an organizational response is made in accordance with the manual for handling improper demands under the overall control of the general manager of the Legal & General Affairs Department.
- 3) In order to sever relationships with antisocial forces, SMM and its Group companies have built close collaborative relationships with police stations and other such dedicated organizations, providing them with information, obtaining advice, etc. In addition, they have created structures for obtaining legal advice from the law firms they retain.
- 4) SMM and its Group companies also participate actively in classes and training course held by organizations such as Centers for the Elimination of Boryokudan, and endeavor to gather up-to-date information.

## **V Other Matters**

### **1. Introduction of defense measures against takeovers**

Introduction of defense measures against takeovers	Yes
----------------------------------------------------	-----

Supplementary remarks concerning applicable item

#### **Takeover defense measures**

##### 1) Overview of basic policy

SMM believes that the persons who control decisions on the Company's financial and business policies need to be persons who understand the source of the Company's enterprise value and who will make it possible for the Company to continually and steadily ensure and enhance enterprise value and, in turn, the common interests of its shareholders.

SMM will not unconditionally reject a large-scale acquisition of the shares from the outset if it will contribute to the enterprise value of the Company and, in turn, the common interests of its shareholders. The Company also believes that any decision on a proposed acquisition that would involve a transfer of control of a stock company must ultimately be made in accordance with the intent of its shareholders as a whole.

In many cases, however, large-scale acquisitions of shares are harmful to the enterprise value of the target company or the common interests of its shareholders.

SMM believes that persons who would make a large-scale acquisition of shares in the Company in a manner that is harmful to the enterprise value of the Company or the common interests of its shareholders would be unsuitable as a person who would control decisions on the Company's financial and business policies. The Company also believes that it is necessary to ensure the enterprise value of the Company and, in turn, the common interests of its shareholders, by taking the necessary and reasonable countermeasures against a large-scale acquisition by such persons.

##### 2) Overview of specific steps to realize the basic policy

###### a. Overview of special measures that help realize the basic policy

On February 15, 2016, SMM released its 2015 3-Year Business Plan and, based on its fundamental strategy of pursuing its Long-Term Vision of aiming to become a "World

Leader in the Non-Ferrous Metals Industry” and an “Excellent Company of Japan,” the Company has continued its efforts to implement its growth strategies for each of its Mineral Resources, Smelting & Refining, and Materials businesses. Specifically, SMM aims to extend its business toward a production structure under which it will annually produce 150,000 tons of nickel and, as the production interest, 300,000 tons of copper and 30 tons of gold in the fields of mineral resources and of smelting and refining. The Company will also proceed with its growth strategy in the materials business, actively undertaking product development and inputting management resources in fields in which demand is forecast to rise.

The Company has adopted a policy of appointing independent outside directors to at least one-third of the positions on the Board of Directors, with the aim of increasing management transparency. Based on this policy, three of the Company’s eight directors are independent outside directors. In addition, the Company has four Audit & Supervisory Board Members including two outside Audit & Supervisory Board Members. The outside director and outside Audit & Supervisory Board Members are independent from the Company. In judging the independence of outside directors and outside Audit & Supervisory Board Members, the Company complies with the requirements for outside officers provided for in the Companies Act of Japan, the criteria for independence prescribed by Tokyo Stock Exchange, and the criteria for independence prescribed by the Company. According to such criteria, the outside directors and outside Audit & Supervisory Board Members of the Company are all independent from the Company. Also, in relation to nominations, compensation and other such matters pertaining to directors and executive officers, the Company obtains advice at the Governance Committee, whose members are the chairman of the Board (who is not an executive officer) and the independent outside directors (so that a majority of the members of the Governance Committee are independent outside Directors). Further, the Company continues to aim to further enhance the effectiveness of its Board of Directors through self-evaluation of directors and Audit & Supervisory Board Members and other means. In addition, the Company has adopted an executive officer system, enhancing the business execution function of the executive officers by clarifying their powers and responsibilities and transferring a significant amount of authority to them.

- b. Overview of measures to prevent decisions on the Company’s financial and business policies from being controlled by persons deemed inappropriate under the basic policy

At the meeting of the Board of Directors held on February 15, 2016, it was resolved to



renew the “Countermeasures to Large-Scale Acquisitions of Sumitomo Metal Mining Co., Ltd. Shares (Takeover Defense Measures),” and this gained the shareholders’ approval by majority vote at the 91st ordinary general meeting of shareholders (the countermeasures after this renewal to be referred to hereinafter as the “Plan”).

The purpose of the Plan is to prevent decisions on the Company’s financial and business policies from being controlled by persons who would make a large-scale acquisition of shares in the Company in a manner that does not contribute to the enterprise value of the Company or the common interests of its shareholder; to deter large-scale acquisitions that are detrimental to the enterprise value of the Company and the common interests of its shareholders; and on any occasion that it receives a large-scale acquisition proposal from an acquirer, to enable the Board of Directors to present an alternative proposal to the shareholders or ensure necessary time and information for the shareholders to decide whether or not to accept the large-scale acquisition proposal, and to enable the Board of Directors to negotiate for the benefit of the shareholders and take other actions.

The Plan sets out procedures necessary to achieve the purpose stated above, including requirements for acquirers to provide information in advance in the case that the acquirer intends to make an acquisition of 20% or more of the Company’s share certificates or other equity securities.

In the event, for example, that an acquirer does not follow the procedures set out in the Plan, or a large-scale acquisition of shares in the Company could harm the enterprise value of the Company and, in turn, the common interests of its shareholders, and that the acquisition satisfies the triggering requirements set out in the Plan, the Company will allot stock acquisition rights with (a) an exercise condition that does not allow the acquirer to exercise the rights as a general rule, and (b) an acquisition provision to the effect that the Company may acquire the stock acquisition rights in exchange for shares in the Company from persons other than the acquirer, by means of a gratis allotment of stock acquisition rights to all shareholders, except the Company, at that time.

If a gratis allotment of stock acquisition rights were to take place in accordance with the Plan, and all shareholders other than the acquirer received shares in the Company as a result of those shareholders exercising or the Company acquiring those stock acquisition rights, shares in the Company will be issued in the range of one-half to one share per stock acquisition right, as a general rule. Therefore, the ratio of voting rights in the Company held by the acquirer may be diluted by up to a maximum of approximately 50%.

In order to eliminate arbitrary decisions by directors, the Company is to establish the

Independent Committee—solely composed of members who are independent from the management of the Company, such as outside directors of the Company—to make objective decisions with respect to matters such as the implementation or non-implementation of the gratis allotment of stock acquisition rights or the acquisition of stock acquisition rights in accordance with the Plan.

In addition, the Board of Directors may, if set out in the Plan, convene a general meeting of shareholders and confirm the intent of the Company's shareholders.

Transparency with respect to the course of those procedures will be ensured by timely disclosure of information to all of the Company's shareholders.

In principle, the effective period of the Plan is until the conclusion of the 94th ordinary general meeting of shareholders, due to be held in June 2019.

3) The Board of Directors' judgment on the specific measures and the reasons therefor

The Company's 2015 3-Year Business Plan and other measures already implemented to strengthen corporate governance have been formulated as concrete steps toward ensuring the continued and stable enhancement of SMM's enterprise value and the common interests of its shareholders. As such, they are firmly in line with the Company's basic policy and are not intended to maintain the status of SMM's corporate officers.

In addition, the Plan has been introduced for the purpose of securing and increasing enterprise value and the common interests of shareholders, and thus also accords with the Company's basic policy. Of particular note is that, owing to attributes such as the following, it can be concluded that the fairness and objectivity of the Plan are assured and that the Plan does contribute to enterprise value and the common interests of shareholders and does not have the objective of maintaining the status of SMM's corporate officers: it was approved by the shareholders at the 91st ordinary general meeting of shareholders; it incorporates reasonable and objective requirements and conditions; it includes the establishment of the Independent Committee composed only of members who are independent, such as outside directors; it is essential to obtain a recommendation from the Independent Committee when making the decision for triggering the Plan; the Independent Committee may obtain advice from third-party experts at the Company's expense; the effective period is set at three years in principle; and it is able to be abolished by the Board of Directors at any time before the expiration of the effective period.

## **2. Other matters concerning the corporate governance system, etc.**

### **Internal system for timely disclosure of corporate information**

#### 1) Corporate philosophy and code of conduct

In December 2003, the Company instituted the SMM Group Corporate Philosophy, setting out what SMM aims to achieve, and the SMM Group Code of Conduct, which lays down the behavioral standards for all officers and employees required for fulfilling the corporate philosophy, and in April 2004 they were both put into effect. The SMM Group Corporate Philosophy includes a pledge to “fulfill its responsibilities to its stakeholders,” and thus proper information disclosure is a moral obligation for SMM.

The SMM Group Code of Conduct includes “Compliance: Abidance by Laws and Rules,” where a pledge is made to “comply with foreign and domestic laws and rules, and conform to social norms.”

#### 2) Systems based on internal regulations

Adhering to the corporate philosophy and code of conduct, in order to address information disclosure appropriately, SMM sets out rules for managing insider information in the Regulations on Information Disclosure to Media Organizations and the Regulations on Insider Trading Prevention and Information Management.

Specifically, the handling of information relating to decisions made, information relating to events, and information relating to financial results (hereinafter collectively referred to as “Important Facts”) is as follows. (a. below is stipulated in the Regulations on Insider Trading Prevention and Information Management, and b. and c. below are provided for in the Regulations on Information Disclosure to Media Organizations.)

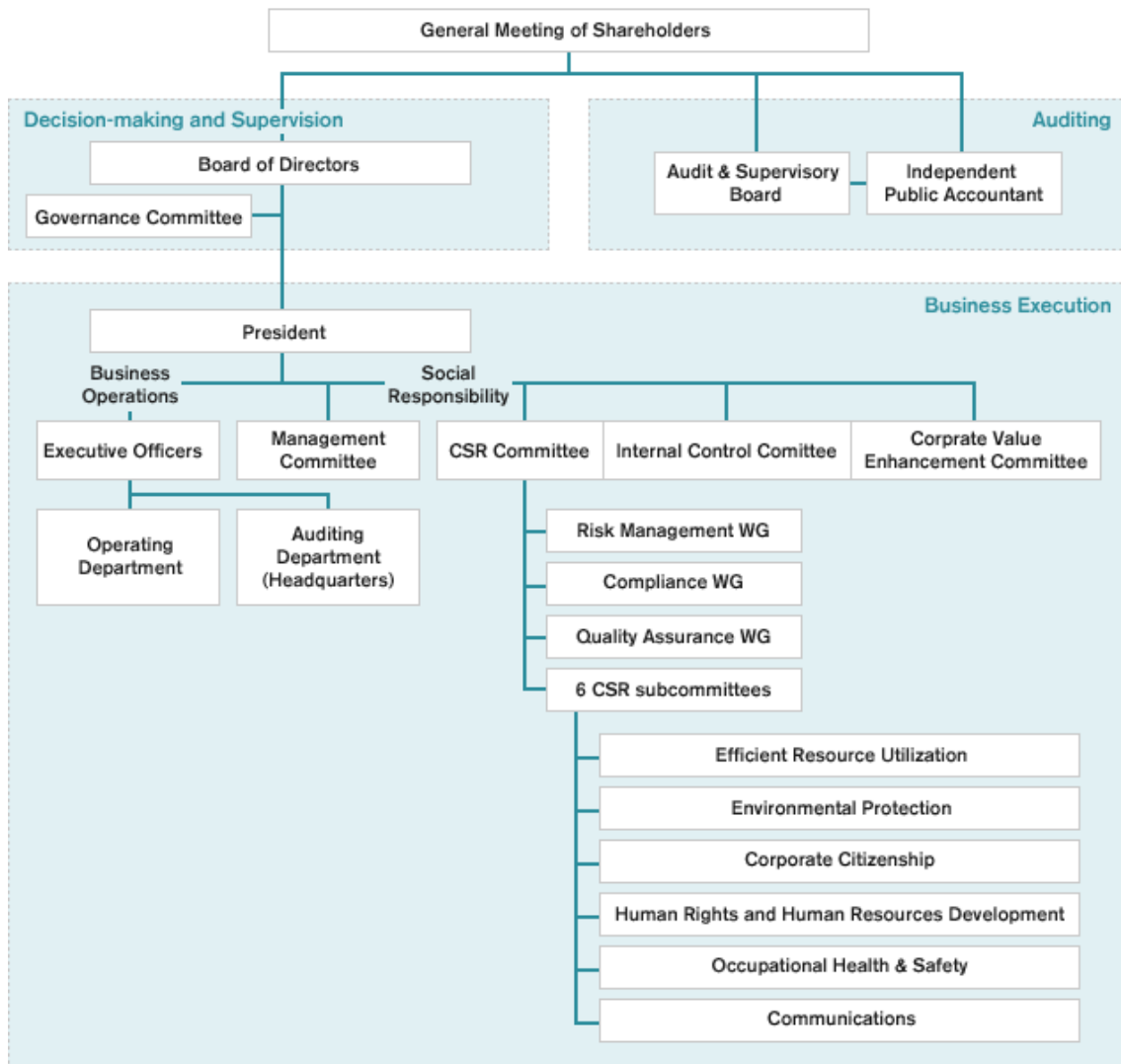
- a. If Important Facts arise or are predicted to arise at the Company or its subsidiaries, the heads of the departments with jurisdiction over those Important Facts (in the case of subsidiaries, the departments with jurisdiction over those subsidiaries) file reports to that effect to the general manager of the Legal & General Affairs Department.
- b. With regard to the Important Fact so reported, the general manager of the Legal & General Affairs Department then decides whether that fact falls into the category of a matter for timely disclosure, and notifies the general manager of the Public Relations & Investor Relations Department, the officer responsible for information handling.
- c. The general manager of the Public Relations & Investor Relations Department makes

disclosure in accordance with the regulations laid down by the Tokyo Stock Exchange or other such institution.

3) Timely-disclosure screening through the *ringi* process

Fundamental to business decision-making at SMM is the conduct of investigation and screening followed by approval through the *ringi* process. Screening for timely disclosure is conducted through *ringi* documents that are circulated during this decision-making process as the circumstances demand in each case.

## Corporate Governance System



**Flowchart for Timely Disclosure of Corporate Information**

