

## Interview with the President



The copper sculpture in the background was made by Glenn Hinz, a native of Arizona. It was presented to SMM by Freeport McMoRan to commemorate our acquisition of an additional 13% interest in their Morenci Mine.

Going forward, we will further burnish our unique business model integrating operations in Mineral Resources, Smelting & Refining, and Materials, and pursue sustained growth and enhanced corporate value.

Yoshiaki Nakazato  
President and Representative Director

### Please tell us how SMM performed in fiscal 2016.

**For the second consecutive year, we finished with a loss at the recurring income level. The primary cause was delayed development of the Sierra Gorda Copper Mine. We view this matter as a management issue demanding deep reflection, and we pledge to do everything within our capability to improve this situation as expeditiously as possible.**

Earnings in fiscal 2016 remained severe, finishing with a recurring loss for the second consecutive year. The primary cause was the impairment loss booked as a result of delayed progress in the Sierra Gorda Copper Mine development project in Chile. We view this matter as a management issue that demands deep reflection, and we consider it our foremost management issue for fiscal 2017 as well.

Fiscal 2016 was the first year in our 2015 3-Year Business Plan. In our Mineral Resources segment, in May 2016 we acquired an additional 13% ownership share in the Morenci Copper Mine in Arizona, raising our total stake to 25%. The new acquisition made a positive contribution to our operating income in fiscal 2016. In our Smelting & Refining segment, fiscal 2016 saw increased production at Taganito HPAL in the Philippines, expanded production of nickel sulfate at the Harima Refinery, and development of an optimized ferronickel production system at Hyuga Smelting Co., Ltd. Meanwhile, at the Toyo Smelter & Refinery production of electrolytic copper reached an unprecedented 450 kilotonnes. In the Materials segment, plans to increase production of battery materials, products that are currently undergoing sharp market

expansion, went forward, and a production system with a monthly capacity of 1,850 tonnes was put in place. Simultaneously, investments were carried out toward expanding production of crystal materials, another product area that is now attracting increased demand.

A further development in fiscal 2016 was our conclusion of a long-term agreement with a specialized overseas company to handle the disposal of highly concentrated uranium residue stored at JCO Co., Ltd., one of our group companies. The costs incurred in this connection were booked during the year as an extraordinary loss. We see the conclusion of this agreement as a step forward toward resolving an issue that has been of grave concern to us for many years.

### What strategy will be important in order for SMM to exercise its competitive superiority amid this operating environment?

**Our unique strength lies in our business model that enables synergies from the interworking of our three core segments: Mineral Resources, Smelting & Refining, and Materials. This strategy is already beginning to generate positive results.**

Our business model linking together businesses in Mineral Resources, Smelting & Refining, and Materials is unique in all the world, and it is already proving to be one of SMM's greatest strengths.

Recently, securing a stable supply of the basic resources that go into high-grade materials has become a vital concern for businesses that require them. For us, nickel materials used in the rechargeable batteries featured in eco-friendly cars are one such concern. As the prevalence of eco-cars

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**Please tell us how the structural reforms underway in the Materials business are progressing.**

**With the selloff of our lead frame business, our structural reform agenda in the Materials segment has been nearly completed. Now we will shift to a phase in which earlier investments will bear fruit and contribute to profits.**

expands, demand for nickel materials is increasing sharply. But in 2016, for example, while the total worldwide supply of nickel was approximately 2,000 kilotonnes, only about 60 kilotonnes are said to have been available for use in battery materials. Supplies of cobalt, another component of battery materials, are likewise insufficient. Against this backdrop, today SMM's totally comprehensive business model, which encompasses not only Materials but also Mineral Resources and Smelting & Refining, is garnering attention. I personally have frequent opportunities to meet directly with our customers, and I get a strong sense of their high expectations toward us. Recently, when our members in charge of Materials go to visit a customer, they are accompanied by staff in charge of Mineral Resources and Smelting & Refining, creating increased opportunities to exchange information and so forth. Out of these interdependent relationships a new business model is beginning to take shape.

Insofar as fiscal 2016 is concerned, although we finished the year with a loss at the recurring level, at the operating level we posted a 27.9% year-on-year increase, to 76.4 billion yen, despite slumping metals prices and the strengthening of the yen. These figures too indicate clearly that our unique business model is beginning to demonstrate its competitive superiority.

In fiscal 2016 we took the decision to withdraw from business in lead frames, and with the sale of those operations to Taiwan's Jih Lin Technology Co., Ltd. in June 2017, the transfer of operations was largely completed. In our Materials segment, we have undertaken structural reform by changing our chosen core competency: moving away from our previous focus on semiconductor package materials and the like, to advanced materials, an area where we can apply our strengths to greater advantage. With our withdrawal from the lead frame business, I think we have now reached a major milestone in our reform agenda.

Within our Materials segment, to date we have focused our management resources into what we see as two growth areas: namely, battery materials used in eco-friendly vehicles, and crystal materials used in smartphones and other communication devices. In the 2015 3-Year Business Plan now underway, our plans call for investments into those two areas to bear fruit and achieve a structure whereby they will contribute to our profits. In addition, in our quest to realize an annual 5 billion yen contribution to profits from new materials—a target hoisted in our Long-Term Vision—the Materials division will now join forces with our Research division and aim for autonomous growth. Restructuring our Materials business has been a major management issue ever since I became president, and I believe I was able to come up with the right answer to our earlier problems.

**In SMM's quest for sustained growth, do you see any new challenges in the offing?**

**SMM's foremost social responsibility is to provide a stable supply of the products that society needs, and in this context our strong manufacturing capabilities are the root source of our competitive strength.**

Looking back at fiscal 2016, a challenge that I came to sense once again is “monozukuri-ryoku”—manufacturing capabilities. SMM's foremost social responsibility is to provide a stable supply of the high-quality products and materials that society requires, and to achieve that stability, our manufacturing capabilities are the root source enabling us to compete strongly.

Stated another way, our power is found in our strengths exercised at the workplace. I believe that the workplace is at all times the base from which activities occur that elevate our corporate value. Recently, however, I harbor a sense of crisis over what I see as an inadequate level of manufacturing capabilities: inadequate abilities, and a lack of intense commitment, to devise ways of achieving self-determined goals. This lack leads to losses of business opportunities and is also manifested in business results. The delay seen in the timetable for the Sierra Gorda Copper Mine is a classic example, but irrespective of scale, problems of this nature are partly seen in our Smelting & Refining and Materials businesses as well. In order to mark sustained growth into the future, we will rebuild our manufacturing capabilities going forward.

**What measures will SMM be implementing in fiscal 2017?**

**The most pressing issue is to get operations on track at the Sierra Gorda Copper Mine. We will work to raise our corporate value by acquiring additional mine interests**

Metal Targets in the Long-Term Vision

	Nickel	Gold	Copper interest
FY2021	150	30	300
2015 3-Year Business Plan	120	15	280
FY2017 target	100	15	270
	kt	t	kt

**and achieving targets to make our capital investments more strategic.**

The environment surrounding resource development projects has become severe as a result of increasing mine development costs, expanding resource nationalism, and so on. Metal prices too are likely to remain severe for some time, although they are projected to recover in the medium- to long-range view as the balance of supply and demand improves. In our 2015 3-Year Business Plan, to enable steady growth even amid this environment we are striving to enhance the structure of our three core businesses, and also focusing on sowing the seeds for future growth. In fiscal 2017, we will implement aggressive measures in line with these policies.

In the Mineral Resources business, the primary issue is to get operations at the Sierra Gorda Copper Mine on track. Copper production is already underway at near full capacity, and the most recent production volumes indicate that production has almost stabilized. If this trend continues, then the losses now being incurred will become “manageable,” which will enable us to implement more strategic measures toward increasing profits.

The copper and nickel targets we hoisted in our Long-Term Vision are now steadily coming into view, but our gold target still remains a distant goal, so expanding our interests in gold mines is a task of great



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importance. In August 2016 we launched a team specifically for this purpose, and they are boosting related initiatives. One result already achieved is the conclusion in June 2017 of an agreement on acquiring a 27.75% stake in the Côté Gold Project in eastern Canada, one of the world's leading gold-producing regions. Going forward, rather than focusing exclusively on exploring for our own mines, we will proactively give consideration to all promising projects, to make the most of every possible business opportunity.

In our Smelting & Refining business, to reinforce our production system for battery materials amid growing demand, we have been converting operations at the Harima Refinery. Under this restructuring initiative, we will continue to invest toward achieving capacity to produce 49 kilotonnes of nickel sulfate per year, and also newly add upstream processing capabilities in battery materials.

At Taganito HPAL, this year we will achieve an annual production capacity of 36 kilotonnes, equivalent to a 20% increase, one year ahead of our original timetable. Furthermore, we will proceed in forming a production system for scandium, aiming for the launch of commercial production in 2018. Scandium is a by-product of the HPAL production process, an SMM strength, and getting commercial production underway will further enhance HPAL's competitive strength. Going forward, application to fuel cell materials and such is anticipated. Scandium is also a product of a kind almost absent in our Smelting & Refining operations to date—a product that can develop a market—and it will create a new business style different from our conventional operations involving base metals.

In our Materials business, in fiscal 2017 we will establish a production system for NCA—lithium nickel cobalt aluminum oxide, battery materials for electric vehicles—capable of producing 1,850 tonnes per month. We will also take steps to further increase monthly production capacity to 4,550 tonnes. We also will put in place a system enabling stable supplies of nickel hydroxide, a material used in hybrid vehicles. Last but not least, we will undertake investments toward increasing production of crystal materials, as that market undergoes expansion.

## What are your views toward sustainability and human resources development?

**CSR at SMM is always an integral part of all business activities. Human resources development too is an issue of major importance to company management, for it is people who form the foundation for SMM's sustained growth.**

At SMM, CSR equates to management itself; in carrying out our core businesses, fulfilling our corporate social responsibilities is always an integral part. With all our operations—and especially in the case of mine development, which invariably has an extremely large impact on surrounding regions—earning the trust of the local community is a prime prerequisite. SMM undertakes activities rooted in local communities all around the world, and that we are succeeding in making positive social contributions is vividly demonstrated by our receipt of the 2016 Presidential Mineral Industry Environmental Award (PMIEA) from the Philippines Department of Environment and Natural Resources (DENR).

Internationally, since 2015 interest has heightened toward social issues such as the SDGs—Sustainable Development Goals—and the Paris climate accord. At SMM, in response to such changes we have established six committees and three subcommittees. Under them, we are carrying out our CSR activities, with a focus on the 26 material issues we identified on a Groupwide basis.

Human resources development is another management issue of vital importance. Especially in these times when our operating environment is undergoing dramatic changes, it is important to create a free and open corporate culture in which employees can pool their knowledge and wisdom and make the most of their individual capabilities. For SMM to achieve sustained growth going forward, I firmly believe that developing human resources always focused on the next generation is equally as important as developing mineral resources.



**At a time when the global community is questioning how corporate governance is being carried out, what initiatives are important for a company to fulfill its social responsibilities?**

**We intend to further strengthen our initiatives in corporate governance, and we are striving to disclose information of a level appropriate for a global enterprise.**

For all companies, strengthening corporate governance is an indispensable issue in order to fulfill their responsibilities to the global community and simultaneously maximize their corporate value. At SMM, in a quest to achieve more transparent management, in 2016 we added one more outside director, bringing the total to three. As a result, three of our eight directors—i.e. more than one-third—are now outside directors. We have also resumed discussions on how the Board of Directors should best operate, put renewed emphasis on the Board's decision-making capability, and confirmed that monitoring will be reinforced. Through active exchanges of opinions with our outside directors at meetings of the Board of Directors, debate over matters of decision-making have become very activated.

In conjunction with measures for making SMM more globalized, starting in fiscal 2016, in lieu of our earlier "Annual Report" and "CSR Report" as separate publications, we have shifted to the format of an "Integrated Report" in our quest to further improve how we disclose information. For disclosure of

information relating to business results, we are now mulling the introduction of International Financial Reporting Standards (IFRS).

**In closing, may we ask for a message to SMM's stakeholders?**

**Through a variety of opportunities we strive for active dialogue, aiming for sustained growth together with all our stakeholders.**

In our Mineral Resources and Smelting & Refining businesses, the development and operation of projects require a very long time. In order to achieve sustained growth into the future, we must have a perspective focused not only on the present but also on the future. I believe this stance is all the more important at a time like today, when our operating environment is severe. In addition, the risks we bear for our projects are by no means insignificant. Meanwhile, it is difficult to forecast when an opportunity for business expansion will arise: for example, the opportunity to acquire a stake in something. For that reason also, it is vital to have a sound financial structure. Our policy is to keep our equity ratio about 50%.

To win the understanding of all our stakeholders toward our corporate position, I hope to carry out more active dialogue through various opportunities. We will take the opinions voiced on such occasions and reflect them in our management practices, aiming to be a company that grows together with its stakeholders. The knowledge and wisdom of all employees will be pooled and integrated, to respond to the hopes and expectations of all our stakeholders.