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CHAPTER 3

CORPORATE GOVERNANCE

Sumitomo's Business Philosophy/Sumitomo Corporation Group's Corporate Mission Statement

SUMITOMO CORPORATION GROUP'S CORPORATE MISSION STATEMENT FOUNDED ON THE SUMITOMO'S BUSINESS PHILOSOPHY

1600

The Founder's Precepts "Monjuin Shiigaki"

The Founder's Precepts "Monjuin Shiigaki" is a letter sent by Masatomo Sumitomo (1585–1652), the founder of Sumitomo and a religious man, to his family members in his old age. It succinctly describes the guiding principles of his business operations.

At the beginning, it urges the reader, "Not only in matters of business but in all situations, make efforts with deepest gratitude in every aspect."

The precepts also include such teachings as, "When goods are offered to you below the normal market price, under no circumstances should you ever purchase such goods, for their origins are unknown and they are probably stolen property," "Never give shelter to a stranger, no matter who it might be; also, never take a stranger's goods into your custody, no matter how innocent they might appear" (these acts were prohibited by the government), and "No matter what someone might say to you, never lose your temper or speak harsh words; politely explain your position until an understanding can be reached." These teachings have been handed down and form the basis of Sumitomo's business philosophy. They are still seen in today's principles, such as "no pursuing easy gains" (i.e., only making a profit on a fairly priced transaction that can be explained with confidence), "compliance" and "integrity and sound management."



Monjuin Shiigaki
(Source: Sumitomo Historical Archives)

1800



Saihei Hirose, Sumitomo's first Director-General
(Source: Sumitomo Historical Archives)

Rules Governing the House of Sumitomo

The Besshi Copper Mine (opened in 1691) encountered many adverse conditions during the Meiji Restoration (in the late 1860s). When the price of copper fell, operating costs increased sharply due to rising prices of rice and other items, and loans to the feudal lords were uncollectable. At one point, it was almost forced to sell out. Saihei Hirose (1828–1914), manager of the mine who later became Sumitomo's first Director-General, acted boldly and modernized the operation with Western style technologies. Hirose's operational reforms saved the mine and its community.

In 1882, when serving as Director-General, Hirose formulated the Rules Governing the House of Sumitomo, which consisted of 19 sections and 196 articles, to reflect the business philosophy the family had followed over its 250-year history. The Rules clearly illustrate Sumitomo's corporate philosophy in Article 3, Section I: "We shall practice sound management in order to cope effectively with the changing times. Under no circumstances, however, shall we pursue easy gains or act imprudently."

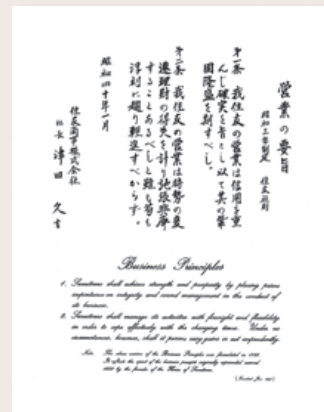
1900

Business Principles

In 1891, the Rules Governing the House of Sumitomo were separated into two parts, the family code (corporate rules) and the family constitutions (the principles of the family head), to distinguish ownership from business operations. On that occasion, the principle of "integrity" was introduced and placed at the beginning of the Rules Governing the House of Sumitomo with the principle in Article 3, which then together became the Business Principles. In 1928, while Sumitomo's business expanded into a variety of areas, including the steel, machinery and chemical industries, Sumitomo's Business Rules were established. The two articles of the Business Principles have been passed on for generations and still serve as the corporate rules of all group companies.

Article 1: Sumitomo shall achieve strength and prosperity by placing prime importance on integrity and sound management in the conduct of its business.

Article 2: Sumitomo shall manage its activities with foresight and flexibility in order to cope effectively with the changing times. Under no circumstances, however, shall it pursue easy gains or act imprudently.



Business Principles

Sumitomo has always been sincere in conducting its business, contributing to achieving prosperity and realizing the dreams of our business partners, our society and all other stakeholders. As a result, we have built up trust, and this has helped us to develop new businesses and create a cycle of positive growth. The Management Principles and Activity Guidelines of the Sumitomo Corporation Group are founded on Sumitomo's business philosophy, which has been passed on for 400 years.

2000



Sumitomo Building Annex where Nippon Kensetsu Sangyo's head office was located

Sumitomo Corporation Management Charter

Osaka North Harbour Co., Ltd., the predecessor of Sumitomo Corporation, was founded in 1919. Later, after World War II, the company changed its name to Nippon Kensetsu Sangyo Co., Ltd., starting a new life as a general trading firm. In 1952, when the company was incorporated with the current name, the Business Principles were chosen as the management philosophy for all corporate operations and the foundation to sustained growth.

While Japan's economy was growing rapidly after the war, environmental pollution, inflation and other public issues started to arise. Business corporations and their codes of conduct were challenged to make clear the relationship between the national government and corporations, as well as between citizens and corporations. To respond to this, in 1973, Sumitomo Corporation laid down the Sumitomo Corporation Management Charter, an original charter that consists of the Basic Principles of Management and the Operational Guidelines.

Sumitomo Corporation Group's Corporate Mission Statement

In the early 1990s, the bubble burst, drastic appreciation of the yen continued, and the Japanese economy entered a long period of low growth. Sumitomo Corporation had no choice but to re-examine the status quo of its business transactions and risk management methods. Against this background, there was growing management recognition that the company needed to revert to Sumitomo's business philosophy, which had served as the basis of Sumitomo's business operations and the driving force behind overcoming many crises throughout the last 400 years. This recognition further heightened in 1996, when the copper incident occurred, leading to the 1998 establishment of Sumitomo Corporation Group's Corporate Mission Statement.

The Corporate Mission Statement, consisting of Management Principles and Activity Guidelines, was compiled based on Sumitomo's business philosophy, which has been nurtured throughout the 400 years of Sumitomo's history, and today's global perspective, in a simple and systematic way.

The preamble to the Management Principles shows the corporate vision: "We aim to be a global organization that constantly stays a step ahead in dealing with change, creates new value, and contributes broadly to society." The first item in the Management Principles, "To achieve prosperity and realize dreams through sound business activities" describes our corporate mission, while the second item, "To place prime importance on

integrity and sound management with utmost respect for the individual" shows our management style, and the third item, "To foster a corporate culture full of vitality and conducive to innovation" portrays our corporate culture.

The Activity Guidelines were generated based on these principles to guide employees in their daily business operations.

CORPORATE MISSION STATEMENT

Corporate Vision

We aim to be a global organization that constantly stays a step ahead in dealing with change, creates new value, and contributes broadly to society.

Management Principles

[Corporate Mission]

- To achieve prosperity and realize dreams through sound business activities

[Management Style]

- To place prime importance on integrity and sound management with utmost respect for the individual

[Corporate Culture]

- To foster a corporate culture full of vitality and conducive to innovation

Activity Guidelines

- To act with honesty and sincerity on the basis of Sumitomo's business philosophy and in keeping with the Management Principles
- To comply with laws and regulations while maintaining the highest ethical standards
- To set high value on transparency and openness
- To attach great importance to protecting the global environment
- To contribute to society as a good corporate citizen
- To achieve teamwork and integrated corporate strength through active communication
- To set clear objectives and achieve them with enthusiasm

Corporate Governance System

We believe that the ultimate goals of corporate governance are “improving management efficiency” and “maintaining sound management” as well as “ensuring management transparency” to achieve the first two goals. Based on this belief, we are working to establish a corporate governance system that serves the interests of shareholders and all other stakeholders.

Our approach to corporate governance is embodied in the “Sumitomo Corporation Corporate Governance Principles,” which can be accessed from the following web page.

URL: <http://www.sumitomocorp.co.jp/english/company/governance/detail/principle/>

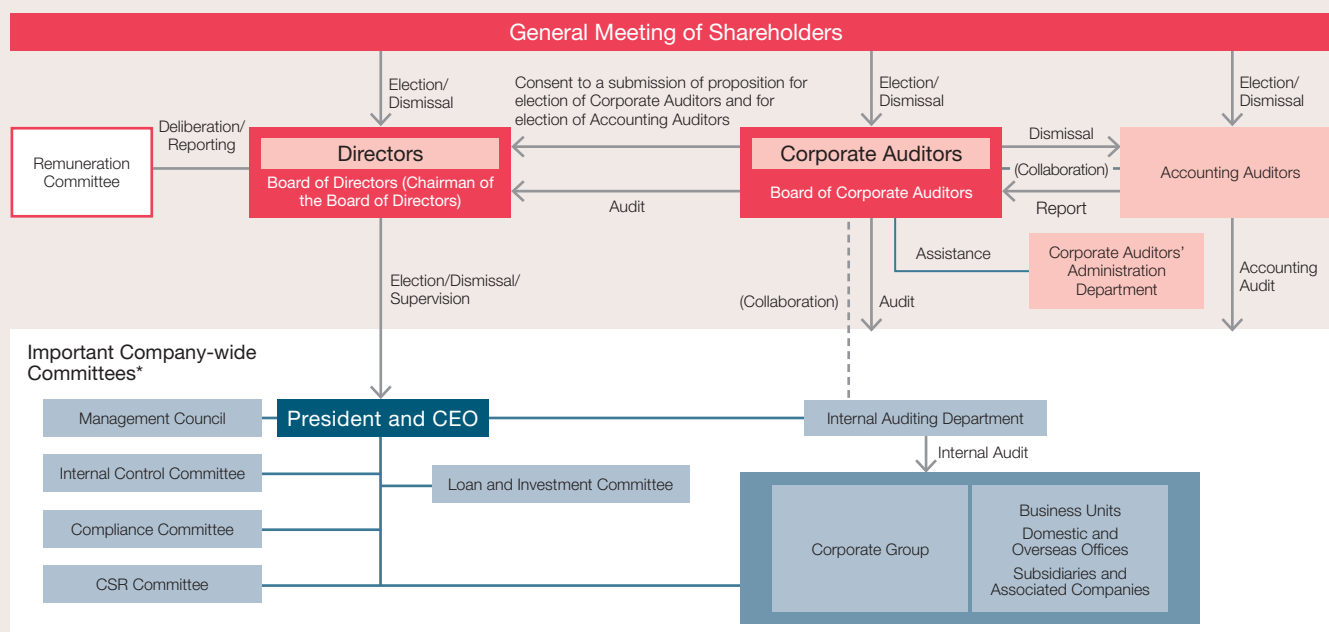
Features of Our Corporate Governance System

We have adopted a corporate auditor system, believing that it is the most legitimate means of improving the effectiveness of our corporate governance to enhance and reinforce it through auditing from diversified external viewpoints. We have five Corporate Auditors, three of whom are Outside Corporate Auditors. Of these three, two are legal experts (a former President of the Tokyo High Court and a former Prosecutor-General) and one is an accounting expert – ensuring an auditing system that incorporates a diversity of perspectives. Furthermore, two Outside Directors were elected at the 145th Ordinary General Meeting of Shareholders held on June 21, 2013 so that through their diverse

perspectives, the Outside Directors help to ensure appropriate decision-making in board meetings and further enhancement of the supervisory function. We believe that we can achieve the ultimate goals of corporate governance by reinforcing management oversight by independent Outside Directors and Outside Corporate Auditors.

Based on “Sumitomo’s Business Philosophy,” we have established the Sumitomo Corporation Group’s Management Principles and Activity Guidelines, and work to enforce these principles and guidelines among all officers and employees, in order to share the basic values that must be respected by the Sumitomo Corporation Group, including compliance with laws and regulations.

The Company’s Corporate Governance System



* Management Council: Exchange of opinions and information on basic policy and important matters related to management

The Internal Control Committee: Overall management and timely evaluation of internal controls, and the development, implementation and promotion of basic internal control policies, among other duties

Loan and Investment Committee: Deliberation of important matters, such as investment and financing

Compliance Committee: Enhancement of Group compliance focused on "maintaining sound management"

From the perspective of maintaining sound management, we have developed a system for ensuring compliance with laws and regulations by establishing a Compliance Committee and introducing a “Speak-Up System” for internal reporting, among other measures. Guided by the belief that management itself must conduct its duties with high ethical standards, we have clearly stated in the “Sumitomo Corporation Corporate Governance Principles” that in principle, the term of office for the Chairman of the Board of Directors and the President and CEO are each limited to six years in total.

Framework for “Improving Management Efficiency” and “Maintaining Sound Management”

Directors and the Board of Directors

■ Optimization of Size of Board of Directors

We halved the number of Board members from 24 in 2003. As of July 2013, the Board has 12 members. Through this optimized Board of Directors, which oversees the operations of the business and serves as the Company’s decision-making body concerning key management matters, we aim to facilitate substantial and active discussion as well as to promote greater efficiency and effectiveness in the decision-making process.

■ Limiting Term of Office for Directors

In June 2005, the term of office for Directors was reduced from two years to one year. We aim to clarify the responsibility of

management among members of management each fiscal year.

This, in turn, helps ensure fast reaction times to changes in business conditions.

■ Limits on Term of Office for the Chairman of the Board of Directors and the President and CEO

In principle, the positions of Chairman of the Board of Directors and the President and CEO are clearly defined and separate in order to ensure mutual supervision and both positions cannot be held simultaneously by one person. In principle, the term of office for the Chairman of the Board of Directors and the President and CEO are each limited to six years in total. These limitations on the tenure of top management help minimize the possibility of governance problems.

■ Establishment of the Advisory Body to the Board of Directors

With the aim of enhancing the transparency and objectivity of decision-making processes with regard to the remuneration of Directors and Executive Officers, we established the Remuneration Committee. Functioning as an advisory body to the Board of Directors, no fewer than half of the Committee members are from outside the Company. The Remuneration Committee is in charge of studying remuneration and bonuses of Directors and Executive Officers, and reports the results of its studies to the Board of Directors.

Particulars Regarding the Remuneration of the Company’s Directors

Particulars regarding the remuneration of the Company’s Directors and Corporate Auditors for fiscal 2012 are as follows:

Classification	Number of payees	Total amount of remuneration, etc.	Additional information
Directors	16 persons	1,155 million yen	The breakdown of the total remuneration in the column to the left is as follows: (1) Monthly remuneration 788 million yen (2) Bonuses resolved at the 145th Ordinary General Meeting of Shareholders 244 million yen (3) Amount recorded as expenses for granting the Eleventh New Share Acquisition Rights (issued on July 31, 2012) 15 million yen (4) Amount recorded as expenses for granting the Seventh New Share Acquisition Rights (for a stock-linked compensation plan) (issued on July 31, 2012) 91 million yen (5) Amount recorded as expenses for granting the Sixth New Share Acquisition Rights (for a stock-linked compensation plan) (issued on July 31, 2011) 17 million yen
Corporate Auditors (particulars relating to Outside Corporate Auditors)	5 persons (3 persons)	126 million yen (40 million yen)	The remuneration in the column to the left is the aggregate total of the Corporate Auditors’ monthly remuneration.

1. As of the end of the fiscal 2012, we had 11 Directors and 5 Corporate Auditors.

2. No Director of the Company is concurrently an employee of the Company.

3. The maximum amount of monthly remuneration to Directors is 75 million yen per month, resolved at the 118th Ordinary General Meeting of Shareholders held on June 27, 1986.

4. The maximum amount of monthly remuneration to Corporate Auditors is 11 million yen per month, resolved at the 125th Ordinary General Meeting of Shareholders held on June 29, 1993.

■ Election of Outside Directors

For the purpose of Sumitomo Corporation ensuring appropriate decision-making in board meetings and further enhancement of supervisory functions through diverse perspectives, two Outside Directors were elected at the 145th Ordinary General Meeting of Shareholders of Sumitomo Corporation held on June 21, 2013. They fulfill the standards related to independence set by the Tokyo Stock Exchange and other exchanges.

Reason for selection and brief outline of career of the Outside Directors are as follows:

Akio Harada

Reason for selection

Akio Harada is deemed to be qualified for the role of Outside Director because he possesses highly specialized knowledge accumulated over many years as a prosecutor and lawyer, and a wealth of practical experience and on the grounds of his character and insight, and was therefore elected to the post.

Brief outline of career

December 1999	Superintending Public Prosecutor of the Tokyo High Public Prosecutors Office
July 2001	Prosecutor-General
October 2004	Attorney at Law (present position)
June 2005	Outside Corporate Auditor of Sumitomo Corporation
June 2013	Outside Director of Sumitomo Corporation (present position)

Kazuo Matsunaga

Reason for selection

Kazuo Matsunaga is deemed to be qualified for the role of Outside Director because he held a series of important posts over many years at the Ministry of Economy, Trade and Industry and possesses broad knowledge and experience in fields including resources, energy, and industrial policy and on the grounds of his character and insight, and was therefore elected to the post.

Brief outline of career

July 2008	Director-General, Economic and Industrial Policy Bureau
July 2010	Vice-Minister of Economy, Trade and Industry
June 2013	Outside Director of Sumitomo Corporation (present position)

Corporate Auditors and the Board of Corporate Auditors

■ Enhancement of Corporate Auditing Framework

To further strengthen external views within the corporate auditing framework, we added one external auditor in June 2003, bringing the number of external auditors to three out of the five members on the Board of Corporate Auditors. Of these three, two are legal experts (a former President of the Tokyo High Court and a former Prosecutor-General) and one is an accounting expert—ensuring an auditing system that incorporates a diversity of perspectives. The three external Corporate Auditors fulfill the standards related to independence set by the Tokyo Stock Exchange and other exchanges.

■ Ensuring Audit Effectiveness

Corporate Auditors attend meetings of the Board of Directors and all other important internal meetings, to obtain the information necessary for proper auditing. Corporate Auditors also meet

the Chairman of the Board of Directors and the President and CEO every month to exchange opinions on material issues regarding management policy and auditing. Moreover, the Corporate Auditor's Administration Department is assigned to assist Corporate Auditors, so that the auditing system functions effectively and without hindrance.

Reason for selection and brief outline of career of the Outside Corporate Auditors are as follows:

Tsuguoki Fujinuma

Reason for selection

Tsuguoki Fujinuma has a broad range of expertise, including on matters of finance and accounting, and long years of experience as an accountant. He was selected and asked to perform audits from a broad perspective on the grounds that his character and insight are most suited for the position.

Brief outline of career

June 1993	Representative Associate, Ota Showa Audit Corporation (now Ernst & Young ShinNihon LLC)
May 2000	President, International Federation of Accountants (IFAC)
July 2004	Chairman and President, The Japanese Institute of Certified Public Accountants
July 2007	Advisor, The Japanese Institute of Certified Public Accountants (present position)
June 2008	Outside Corporate Auditor of Sumitomo Corporation (present position)

Mutsuo Nitta

Reason for selection

Mutsuo Nitta has a broad range of expertise and long years of experience as both a judge and lawyer. He was selected and asked to perform audits from a broad perspective on the grounds that his character and insight are most suited for the position.

Brief outline of career

December 2004	President of the Tokyo High Court
April 2007	Attorney at Law (present position)
June 2009	Outside Corporate Auditor of Sumitomo Corporation (present position)
October 2012	Chairman of Tokyo Metropolitan Public Safety Commission

Haruo Kasama

Reason for selection

Haruo Kasama has a broad range of expertise and long years of experience as both a prosecutor and lawyer. He was selected and asked to perform audits from a broad perspective on the grounds that his character and insight are most suited for the position.

Brief outline of career

June 2010	Superintendent Public Prosecutor of Tokyo High Public Prosecutors Office
December 2010	Prosecutor-General
October 2012	Attorney at Law (present position)
June 2013	Outside Corporate Auditor of Sumitomo Corporation (present position)

■ Collaboration Between Internal Auditing Department and Accounting Auditors

To ensure audit efficiency, Corporate Auditors interact closely with the Internal Auditing Department, receiving reports on internal audit plans and their results in a timely manner. In addition, Corporate Auditors exchange information with and monitor the auditing activities of the Accounting Auditors through regular

Message From an Outside Director

I Will Do My Best Applying My Knowledge and Experience as an Outside Corporate Auditor

I have gained eight years of experience since my appointment as an outside corporate auditor for Sumitomo Corporation in 2005. I believe Sumitomo Corporation constantly strives to realize a high standard of corporate governance through active investments of its corporate resources, such as organizations, human resources and funds. To date, Sumitomo Corporation has made its corporate governance more efficient by strengthening and enhancing its corporate auditors system.

I consider that the presence of outside corporate auditors ensures that Sumitomo Corporation's corporate governance is sufficiently effective. There are plenty of systems in place to allow the outside corporate auditors to perform their roles to maximum effect; for example, they can look through the minutes of all important meetings that take place in the Company. I myself actively provided advice at Board of Directors meetings as an outside corporate auditor to ensure no problems would arise with regard to leadership by management and risk taking by individual business units. However, the position had limitations too: I was not responsible for participating in the formation of opinions at the Board of Directors meetings.

In 2013, Sumitomo Corporation decided to establish the position of outside director. The purpose is to realize appropriate decision-making at

Board of Directors' meetings based on diverse perspectives, and to further strengthen the function for supervising management. I became one of the two outside directors that have been appointed. It is not an easy task for an external person to get an accurate grasp of the situation surrounding important matters for a company and deliberate on them. Looking ahead, as an outside director of Sumitomo Corporation, I will make use of the knowledge I have acquired through my many years of experience in the legal profession, not to mention the knowledge I gained as an outside corporate auditor of the Company. Based on this knowledge, I intend to take a wide perspective as I participate in the opinion-forming process of the Board of Directors.

Sumitomo Corporation is a global company with a long history as an integrated trading company. In responding to the needs of the times, Sumitomo Corporation finds increasing opportunities to create value for society as a project facilitator, in addition to its conventional trading activities. This requires the Sumitomo Corporation to bring together a variety of knowledge and experience, and use them to harness all of its integrated strengths. My objective as an outside director is to ensure that these integrated strengths generate stakeholder benefits through the Group's business activities.



AKIO HARADA

Outside Director
Lawyer

Appointed as
outside corporate auditor in 2005
Appointed as
outside director in 2013

Message From an Outside Corporate Auditor

The Heart of Our Corporate Governance is Sumitomo's Business Philosophy



TSUGUOKI FUJINUMA

Outside Corporate Auditor
Certified Public Accountant
Appointed as
outside corporate auditor in 2008

I was appointed as an outside corporate auditor of Sumitomo Corporation in 2008. In this role, I have applied my knowledge and experience in corporate accounting from a global perspective, gained from my appointments as Chairman of the International Federation of Accountants and Chairman of The Japanese Institute of Certified Public Accountants, in performing my duties.

I attend the meetings of the Board of Directors of Sumitomo Corporation and I feel that the environment of these meetings is conducive to the exchange of extremely frank and lively opinions. Even in my role as an outside corporate auditor, opportunities are provided to receive briefings in advance on matters that will be discussed at the meetings, enabling us to actively participate in discussions at the Board of Directors meetings. In order to proactively elicit opinions from outside the Company, the Company has a unique system in which outside directors and corporate auditors meet with the Chairman of the Board of Directors and the President and CEO each month to discuss various topics ranging from current affairs to business matters.

One of the characteristics of Sumitomo Corporation is that all officers and employees have a strong awareness of the pertinent issues. This point illustrates just how deeply Sumitomo Corporation Group's Corporate Mission Statement and its

underlying 400 year-old Sumitomo's Business Philosophy permeate the organization. Moreover, I believe that this is the heart of Sumitomo Corporation's corporate governance. In this context, from 2013 the Company is appointing two outside directors. This move will further strengthen the corporate governance system, and I expect it to raise the effectiveness of corporate governance.

In 2013, the Company disclosed a vision, "What We Aim to Be," in time for the 100th anniversary of the establishment of Sumitomo Corporation in 2019. To realize this vision, Company has positioned the two-year period in the BBBO2014 medium-term management plan as the stage to thoroughly enhance Group earning power and head for an even higher level of profit growth by maintaining financial soundness and building a robust earnings foundation. I believe this plan confirms that Sumitomo Corporation's identity is not only the achievement of earnings growth but also the maintenance of financial soundness. The Company's business operations are both global and diverse. Consequently, the Company faces not only a variety of business opportunities, but also a variety of risks, including in the areas of business risk and country risk. As an accounting specialist, I hope to proffer extensive advice while applying my knowledge and experience to minimize these risks to the fullest extent.

meetings. By attending audit review meetings with the Accounting Auditors and observing inventory audits, the Corporate Auditors constantly work to improve audit efficiency and quality.

Furthermore, Corporate Auditors attend meetings of the Internal Control Committee and request reports on the status of internal control systems from other departments responsible for internal control, along with their cooperation on audits.

Introduction of an Executive Officer System

We have introduced an executive officer system with the aim of clarifying the responsibilities and authority for execution and strengthening the monitoring function of the Board of Directors. We currently have 42 Executive Officers (as of July 31, 2013) selected by the Board of Directors. Of these, nine Executive Officers also serve concurrently as Directors, including five who are also General Managers of Business Units. In this way, we aim to prevent gaps between decisions made at Board of Directors meetings and the execution of those decisions.

System for Ensuring Management Transparency

Basic Policy on Information Disclosure

To bring an accurate understanding of the Company's management policies and business activities to all our stakeholders, we shall strive to make full disclosure, not limiting ourselves to the disclosure of information required by law but also actively pursuing the voluntary disclosure of information.

Communicating With Shareholders and Other Investors

■ Encouraging the Execution of Voting Rights at the General Meeting of Shareholders

We send out a Notice of Convocation to shareholders three weeks prior to each regularly scheduled General Meeting of Shareholders. For the convenience of overseas shareholders, we also provide an English-language translation of the notice on our website. We have allowed our shareholders to exercise their voting rights via the Internet using personal computers since 2004 and via the Internet using mobile phones since 2005. In

2007, we introduced the Electronic Voting Platform operated by Investor Communication Japan, Inc. (ICJ), instituted by Tokyo Stock Exchange, Inc. and others. The new platform allows institutional investors sufficient time to thoroughly examine the propositions to be resolved at the meeting.

■ Disclosure of Various Information

Our corporate website endeavors to ensure the provision of proactive and timely disclosure of various documents and materials containing information that may be useful in making investment decisions. These documents and materials include financial results, *yukashoken houkokusho* (Japanese annual securities reports), and the Company's presentation materials. Moreover, the website provides Sumitomo Corporation's Annual Report. The website also presents features compiled to introduce Group-wide topics such as the projects the Company operates all over the world.

■ Investor Relations

In addition to working to enhance the disclosure of information on our website, in order to ensure direct communication with shareholders and other investors, we hold quarterly meetings attended by management to provide information on our financial results for analysts and institutional investors. For overseas investors, we periodically visit the United States, the United Kingdom, and other countries in Europe and Asia to hold one-on-one meetings with investors in each region. In addition, in fiscal 2004 we began regularly holding meetings with individual investors in Japan. In fiscal 2012, we held five such meetings in four cities, attended by a total of 1,200 individual investors.

While working to strengthen and enhance our corporate governance structure and systems, from the perspectives of "improving management efficiency" and "maintaining sound management," we will continue to further strengthen internal auditing, risk management and compliance, to further improve the effectiveness of internal control.

Website



Homepage
<http://www.sumitomocorp.co.jp/english/>



Investor Relations
<http://www.sumitomocorp.co.jp/english/ir/>

Publications



Annual Report

Internal Control and Internal Audits

The Sumitomo Corporation Group has strengthened its internal controls in order to retain the trust of all its stakeholders.

Internal Control

The Sumitomo Corporation Group is formed of five Business Units as well as regional organizations in Japan and overseas. The Business Units, organizations and Group companies collectively work together in broad business fields. It is essential that we provide a uniform standard in operational quality at these businesses, irrespective of their business sector or region. This standard must also meet the expectations of our stakeholders.

From this perspective, we have continually improved our general operation to further strengthen the Group's internal control since 2005. This improvement effort is based on the result of evaluations that we have performed using a comprehensive checklist. The checklist covers various points pertaining to general operations that should be common across the Group, including risk management, accounting and financial controls and compliance.

Furthermore, we have defined specific internal controls, which have been extracted through analysis of past loss scenarios, etc., as important points that must be strengthened thoroughly on a Company-wide level.

In August 2010, we launched the Internal Control Committee, which is responsible for the planning, implementation, evaluation and improvement of overall internal control across the entire Sumitomo Corporation Group. The objectives of the Internal Control Committee are to secure the soundness of management and to improve the efficiency of management. The committee promotes Group-wide activities to strengthen our internal control, such as updating the aforementioned checklist to address recent changes in laws and other rules within and outside the company, introducing past cases of loss situations arising from deficiencies in internal controls, and upgrading related instructional materials. Our Business Units and regional organizations in Japan and overseas continue to implement internal control enhancement activities as in previous years. Each organizational unit carries on these activities continuously on a daily basis with timely and optimal support from its Planning & Administration Department, contributing to the sustainable growth and development of the Group.

■ Initiatives for Enhancing the Quality of Operations

The Sumitomo Corporation Group has actively implemented the improvement and monitoring of internal control systems required by law under the Japanese Company Law and the Financial Instruments and Exchange Law on a Company-wide level. We considered these legal obligations as a prime opportunity to promote such improvement in the quality of our operation, as we have implemented ahead of legislative measures around the world.

The Japanese Company Law, which came into effect in May 2006, calls for companies to establish "systems ensuring that the execution of duties by directors conforms to legal regulations and their Articles of Incorporation as well as systems ensuring that business processes are handled appropriately." Sumitomo Corporation fulfills the requirements of this law and the Internal Control Committee monitors the operation of such internal control systems.

To comply with the internal control reporting rules stipulated in the Financial Instruments and Exchange Law, which took effect on April 1, 2008, we evaluate the effectiveness of our internal controls as of the fiscal year-end with regard to the Group's financial reporting, through documentation and testing throughout the year, as required by law.

Through the aforementioned efforts and measures, the Sumitomo Corporation Group aims to continuously improve the quality of its operations.

Internal Audits

The Internal Auditing Department, which reports directly to the President and CEO, was established as an independent organization to monitor Company-wide operations. Internal audits are performed at all organizations within the Company and Group companies. All the internal audit results are reported directly to the President and CEO and also to the Board of Directors.

The Internal Auditing Department checks comprehensively organizations' assets, the way of risk-management, status of compliance and business processes to find their problems and risks inherent. The Internal Auditing Department helps to raise the quality of organizational management by encouraging voluntary improvements and evaluating the effectiveness and the validity of each process.

Compliance

Positioning compliance as a basic premise for all corporate activity, Sumitomo Corporation is building a compliance structure in accordance with clearly defined policies. In maintaining strict adherence to this compliance structure, we are ensuring our existence as a going concern and securing our credibility and status.

Policies and the Reporting Structure of Corporate Compliance

It is our policy that both officers and employees should never risk transgression in pursuit of profit for the Company. In order to promote compliance, Sumitomo Corporation established the Compliance Committee under the direct supervision of the President and CEO. The Compliance Committee is responsible for preparing the Company's Compliance Manual and distributing it to all officers and employees. The Compliance Manual covers the following 19 Compliance Guiding Principles to ensure the Company's bottom line: "If there is even a trace of doubt, do not do it." If a potential compliance problem is detected, we continuously encourage our employees to report it to their supervisors or the relevant departments immediately, so that the best countermeasures can be implemented swiftly.

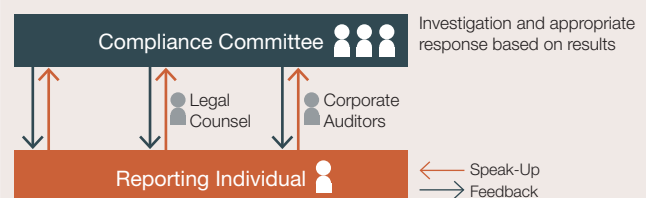
Compliance Training and Education

Employees have access to the latest version of the Compliance Manual and other manuals detailing applicable laws and regulations on the Company's intranet. We also offer various training programs and educational activities on compliance, including: programs for specific groups, such as employees, managers and corporate officers new to the Company; seminars provided by each Business Unit; seminars targeted at all officers and employees; and seminars for overseas offices and Group companies. We also make use of various domestic and overseas conferences for compliance education. In addition, we continuously hold e-learning compliance seminars open to all officers and employees from all levels.

Speak-Up System

If an employee becomes aware of a possible compliance problem, he or she can pass the information along the chain of command. In addition, the "Speak-Up System" was introduced to allow individuals to report a potential problem directly to the Compliance Committee. Outside legal counsel and our Corporate Auditors have been included as additional points of contact to further augment the system. Although, in principle, reporting individuals are asked to identify themselves so that they can be updated on the outcome of their cases, Company rules state that both the identity of such individuals and the nature of the information provided are kept confidential, and that no negative repercussions will redound on the reporting employees due to such reporting. The Compliance Committee is responsible for handling all the information it receives in an appropriate manner.

Speak-Up System Diagram



Guiding Principles

Business Activities

- Observing Antimonopoly Laws
- Security Trade Control
- Customs/Controlled Items
- Compliance With Applicable Laws
- Respecting and Protecting Intellectual Property Rights
- Prohibition of Unfair Competition
- Information Management
- Preservation of the Environment
- Overseas Business Activities

Corporate Citizen as a Member of Society

- Prohibition on Giving Bribes
- Prevention of Unlawful Payments to Foreign Governmental Officials
- Political Contributions
- Confrontation With Antisocial Forces

Maintenance of a Good Working Environment

- Respect for Human Rights*
- Prohibition of Sexual Harassment
- Prohibition on Abuse of Authority

* Based on the Universal Declaration of Human Rights.

Personal Interests

- Insider Trading
- Conflict of Interest
- Proper Use of Information System

Risk Management

In order to cope effectively with the diversifying risk environment, we have built a risk management framework by developing our risk management approach from a micro to a macro perspective, and shifting our focus from “minimizing losses from individual transactions” to “maximizing corporate value.” This framework is strongly linked to the management plan, playing a critical role in supporting the efficient management of our corporate resources.

The Purpose of Risk Management

We define “risk” as the “possibility of losses due to the occurrence of anticipated or unanticipated situations” and as the “possibility of not achieving the expected return on business activities.” We have set the following three items as the purpose for our risk management activities.

- 1. Stabilize Performance: Minimize discrepancies between the plan and the actual results**
- 2. Strengthen Financial Base: Maintain Risk-adjusted Assets within the buffer (shareholders' equity)**
- 3. Maintain Corporate Reputation: Fulfill CSR requirements and preserve corporate reputation**

Risk Management Basic Policy

We classify our risks into two categories: Quantifiable risk and Non-quantifiable risk. Quantifiable risk is defined as “value creating risk,” which we proactively take to generate a return. Our policy is to maximize the risk-adjusted return while maintaining Risk-adjusted Assets within our buffer.

Non-quantifiable risk is defined as “value breaking risk,” which only generates losses when it surfaces. We are building a framework that prevents or minimizes the probability of this risk from materializing.

Risk Management Framework

Managing Quantifiable Risk

■ Managing Investment Risk

Once an investment is made, it is often difficult to make a withdrawal decision and the loss impact is usually significant in scale. To manage the investment risk, we have in place an integrated framework covering the entry process to the exit process. For the entry process, we carefully select investments that exceed the hurdle rate, a threshold for the rates of return on new investments relative to the cost of capital. In case of new investments for large-scale, important projects, cases are put forward to the Loan and Investment Committee for thorough examination. According to business performance, financial conditions and/or business environment, the Committee discusses how to enhance the value of the business including expansion, downsizing or disposal when necessary. When the performance of investments falls short of required standards after a certain period from their inception, we have an Exit Rule that shall designate those investments as “Investments to withdraw from.”

■ Managing Credit Risks

Our business is exposed to credit risks, as we extend credit to our customers in the form of accounts receivable, advances, loans, guarantees and other instruments. We have incorporated our original credit rating model, the Sumisho Credit Rating (SCR), to assess our customers' credit risk. The authority level to provide credit exposure to customers depends on the assigned credit rating. In addition, we regularly review customers' credit limits and appropriately manage the credit exposure under those limits. At the same time, we continuously perform credit evaluations on the financial condition of customers, and based on such evaluations, take collateral to secure the receivables if necessary.

■ Managing Market Risks

We set limits on contract balances as well as the loss limits for six months or a full year for commodity and financial instrument transactions. At the same time, we constantly monitor the potential amount of loss, (Value at Risk (VaR)—an estimate of potential risk or in case the total figures of realized and unrealized gain/loss are negative at the time of monitoring, the total of VaR and the relevant negative figures), to ensure that the potential amount of loss falls within the loss limits. In addition, we conduct liquidity risk management for each product on an individual futures market basis in order to be prepared in the event that it becomes difficult to close positions due to shrinking liquidity. The Financial Resources Management Group undertakes both the back and middle office functions in order to completely separate those functions from the Business Units, thereby enabling us to maintain the soundness of internal checks.

■ Managing Concentration Risks

As we are operating globally and engaging in a variety of business fields, we need to ensure that the risks are not excessively concentrated in particular areas. In order to avoid overly concentrated exposure in certain countries and regions, we have in place a country risk management system. In addition, in order to avoid the excessive concentration of resources in any specific field and refine our business portfolio, we thoroughly discuss the amount of Risk-adjusted Assets distributed to each unit and business line in meetings such as the “strategy conference,” which is held among the President and CEO and general managers of each unit and the “Loan and Investment Committee,” which deliberates on important investment and financing.

Managing Non-quantifiable Risks

Non-quantifiable risks are those that must be borne, but for which we cannot expect returns. These include litigation and other legal risks, operational risks such as clerical mistakes or fraud acts, and natural disaster risk. Some of these risks involve events that rarely occur but could have a critical impact on our operations once they arise. Our basic policy is to prevent or minimize the probability of these risks to materialize. Accordingly, we periodically assess non-quantifiable risks on a global and consolidated basis. We do this through a range of initiatives to strengthen our internal control across the Group under the leadership of the Internal Control Committee as well as through independent activities by our Business Units and regional organizations in Japan and overseas. Based on the assessment result, we continuously search for a more efficient and effective organizational structure and procedures to improve the quality of our business operations.

Embedding the Sense of Risk Management

Although we have been constructing the best possible risk management framework to cope with diversified risks, we cannot completely prevent the incurrence of loss in the course of business activities only by the framework itself. We are putting our efforts into implementing the initiatives that enable us to quickly identify the occurrence of losses in order to suppress loss accumulation and prevent the contagion effects that lead to secondary losses. These initiatives include devising ways to quickly identify the cause of losses and share such information among top management and related departments. We have

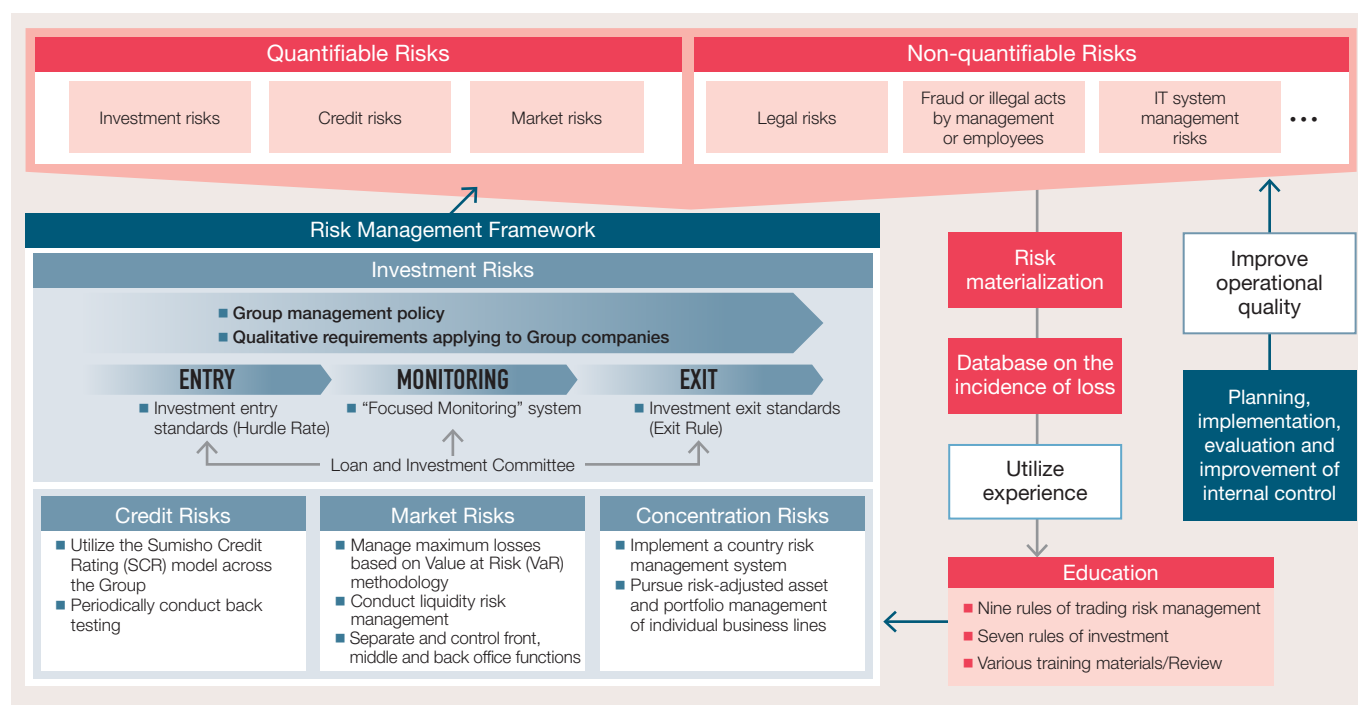
compiled a database of such loss information that allows for the systematic analysis of the causes of loss-incurring events. These analyses are used as training materials for employees as part of various educational programs. Through this knowledge feedback process, individual employees can upgrade their risk management capabilities, supporting the prevention of the same kind of loss events.

Eyeing the Future of Risk Management

Over the past decade, Sumitomo Corporation has created a formidable risk management framework by studying advanced methods and processes. Our goal is to implement the best practices in risk management while maintaining the flexibility to adapt to changes in the business environment. The surrounding environment is continually changing, however, and new business models that we could never have imagined are emerging on a daily basis. Responding to changing circumstances in a timely and effective manner, we continually upgrade our risk management under the direction of top management.

Information Security Control Structure

Sumitomo Corporation works to enhance its information management system to maintain and improve information security. Our approach to this end includes the development of internal rules and manuals as well as the provision of employee training and awareness-raising activities, with a focus on taking preventive measures against risks relating to leakages of confidential information and compliance with the Personal Information Protection Act, which came into full effect in April 2005.



Risk-adjusted Return Management

We are now facing a harsher business environment compared to the past few years, during which we saw steady growth. However, we have been implementing management reforms on the basis of the Risk-adjusted Return Approach for many years, building a business foundation able to sustain stable earnings and a firm financial condition even during severe economic environments. In this special feature, we will introduce Risk-adjusted Return as the backbone of our management approach.

Background to the Introduction of the Risk-adjusted Return Ratio

Until the early 1980s, the main business of Sumitomo Corporation and other integrated trading companies was acting as intermediaries for goods and services. From the late 1980s onward, integrated trading companies sharply stepped up their involvement in new businesses as well as overseas investment as they responded to a decline in demand for trading company financing and the growing transfer of production overseas due to the yen's appreciation.

In the early 1990s, in addition to this business diversification, a series of changes came about in the operating environment. The collapse of the bubble economy in the early 1990s triggered a plunge in stock and real estate prices, and in 1997 the Asian Currency Crisis caused problems for many overseas projects. In addition to the effects of these factors, we recorded substantial impairment of shareholders' equity due to an incident involving unauthorized copper trading in 1996. Thereafter, improving profitability and our financial condition became our topmost priority.

As our Business Units have a variety of business styles in diverse fields, it was difficult to evaluate each business's performance based only on net income. We needed a Company-wide, universal yardstick for measuring the return on management resources invested in each business and for optimally allocating

limited management resources.

The basic aim of any business is to generate returns relative to the risks involved and in autumn 1998, ahead of its peers, Sumitomo Corporation introduced the Risk-adjusted Return Ratio as an indicator of profitability, i.e., the degree of return from a certain level of risk.

Specifically, we calculate Risk-adjusted Assets as the value of maximum possible losses by multiplying the value of assets by a risk weight that assumes the maximum possible loss ratio in asset values.

With Risk-adjusted Assets as the denominator, we use returns, i.e., net income, as the numerator to calculate profitability, both in each business and for the Company as a whole.

Basics of Risk-adjusted Return Management

Since its introduction as a management indicator, the Risk-adjusted Return Ratio has played a major role as a tool for achieving universal Company-wide objectives.

From the perspective of ensuring business stability, a core management principle is to avoid excessive risks by keeping Risk-adjusted Assets (maximum possible losses) within shareholders' equity (the risk buffer). This principle means that even if all potential risks were to actually occur at once, shareholders' equity would be able to absorb the losses.

Moreover, to ensure earnings power, return on risks must be greater than our shareholders' capital cost. In other words, we set the Risk-adjusted Return Ratio at 7.5% as the minimum requirement for the whole company. In every business, the basis we use for choosing to move forward is this Risk-adjusted Return Ratio of 7.5%.

