

## Corporate Governance System

We have established the Sumitomo Corporation Corporate Governance Principles, based on our view that the essence of corporate governance is “improving management efficiency” and “maintaining sound management” as well as “ensuring management transparency” to secure the first two goals. Keeping in mind that our backbone of corporate ethics is in the Sumitomo’s business philosophy and the Company’s Management Principles, following the Sumitomo Corporation Corporate Governance Principles, we are strengthening our corporate governance to establish the most appropriate managerial system and to realize management that serves the interests of shareholders and all other stakeholders.

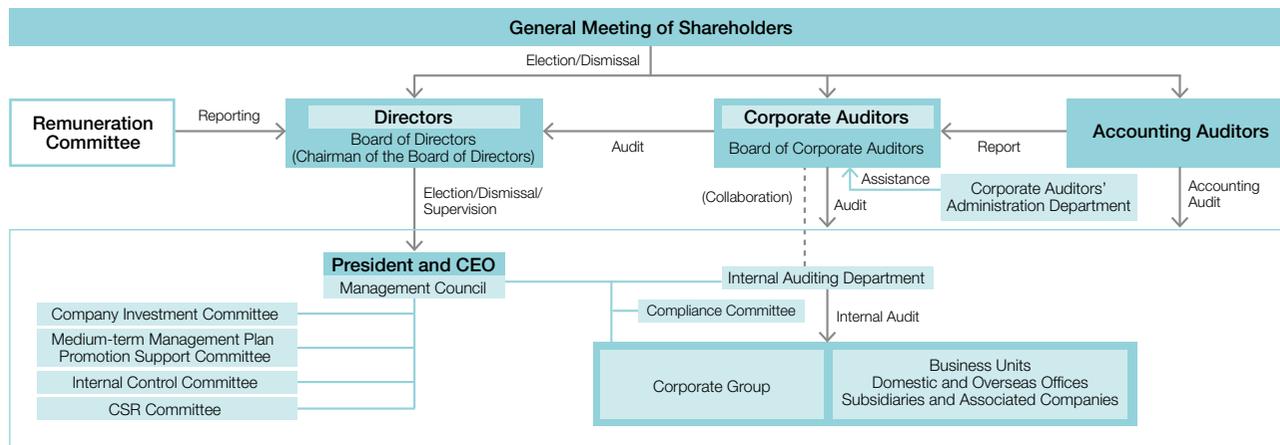
Our approach to corporate governance is embodied in the Sumitomo Corporation Corporate Governance Principles, which can be accessed from the following web page. [http://www.sumitomocorp.co.jp/files/user/english/doc/company/governance/e\\_principle150701.pdf](http://www.sumitomocorp.co.jp/files/user/english/doc/company/governance/e_principle150701.pdf)

### 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 the other one is an accounting expert—ensuring an auditing system that incorporates a diversity of perspectives. Furthermore, three Outside Directors, who are diverse in experience and specialty, are elected so that through their diverse perspectives, Outside Directors help ensure appropriate decision making in board meetings and further enhancement of 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. From the perspective of maintaining sound management, we have developed a system for ensuring compliance with laws and regulations by introducing the position of Chief Compliance Officer, establishing the Compliance Committee and introducing a “Speak-Up System” for internal reporting, among other measures. Moreover, as part of our medium-term management plan “Be the Best, Be the One 2017” (BBBO 2017), we plan to revise governance and decision-making processes, with the objective of sustained growth and contribution to all our stakeholders going forward. More specifically, from July 2015 the Management Council will represent the highest executive-level body for decision making, and we are engaged in the implementation of policies to strengthen the monitoring functions of the Board of Directors. In this way, we are actively engaged in continuous efforts to improve our corporate governance, and, going forward, we will continue to conduct our operations with careful adherence to all the principles enshrined in Japan’s Corporate Governance Code.

### Corporate Governance System



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

### Directors and the Board of Directors

#### Improvement of Deliberation and Enhancement of Monitoring Function at the Board of Directors

We have amended the standards related to the Board of Directors on July 1, 2015, so that the Board of Directors can be concentrated in the deliberation of important matters regarding Companywide management such as the business policy and management plan. At the same time, we have increased the submitting matters to the Board of Directors to make it possible for the Board of Directors to concentrate on monitoring of execution of operation, so that the Board of Directors can enhance its monitoring function.

#### Optimal Size of Board of Directors

Currently, the Board has 13 members (including three Outside Directors). 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 due deliberation and speedy and reasonable decision making.

#### Terms of Directors

The terms of Directors are 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 Terms of 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 the one person. In principle, the Chairman of the Board of Directors and the President and CEO are each limited to terms of six years. 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, more 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.

#### Election of Outside Directors

For the purpose of ensuring appropriate decision making in board meetings and further enhancement of supervisory functions through diverse perspectives, three Outside Directors are elected. They fulfill the standards related to independence set by the Tokyo Stock Exchange, Inc. and other financial instruments exchanges that Sumitomo Corporation is listed on, and Sumitomo Corporation has notified the exchanges, under their respective provisions, of their respective status as independent directors.

## Particulars Regarding the Remuneration of the Company’s Directors

Particulars regarding the remuneration of the Company’s Directors and Corporate Auditors for fiscal 2014 are as follows:

Classification	Number of payees	Total amount of remuneration, etc., pertaining to fiscal 2014	Breakdown	
			Monthly remuneration	New Share Acquisition Rights
Directors (particulars relating to Outside Directors)	13 persons (2 persons)	¥827 million (¥28 million)	¥729 million (¥28 million)	¥98 million (—)
Corporate Auditors (particulars relating to Outside Corporate Auditors)	6 persons (3 persons)	¥127 million (¥40 million)	¥127 million (¥40 million)	— (—)

Notes: 1. As of the end of the fiscal 2014, we had 12 Directors and 5 Corporate Auditors (including 2 Outside Directors and 3 Outside Corporate Auditors).

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

3. The above stock options are the total amounts recorded as expenses in fiscal 2014 for granting the Thirteenth New Share Acquisition Rights (issued on August 1, 2014), the Eighth New Share Acquisition Rights (stock-linked compensation) (issued on July 31, 2013) and the Ninth New Share Acquisition Rights (stock-linked compensation) (issued on August 1, 2014).

4. The maximum amount of remuneration to Directors comprising monthly remuneration, new share acquisition rights in the form of stock options, and new share acquisition rights in the form of stock options for a stock-linked compensation plan is ¥1.2 billion per year (the maximum amount of remuneration to Outside Directors is ¥60 million per year), as resolved at the 145th Ordinary General Meeting of Shareholders held on June 21, 2013.

5. The maximum amount of monthly remuneration to Corporate Auditors is ¥180 million per year, as resolved at the 145th Ordinary General Meeting of Shareholders held on June 21, 2013.

## Corporate Governance System

The reason for selection and brief outline of the careers 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, was therefore elected to the post.

Brief outline of career

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

**Yayoi Tanaka**Reason for selection

Yayoi Tanaka is deemed to be qualified for the role of Outside Director because she has long been engaged in research in the fields of evaluation studies and civil society organizational theory, has held a number of positions on government committees, including the Administrative Reform Promotion Council (private-sector member), and has accumulated highly specialized knowledge and extensive experience through these roles and on the grounds of her character and insight, was therefore elected to the post.

Brief outline of career

January	2007	Member, Fiscal System Council, Ministry of Finance (present position)
February	2013	Private sector member, Administrative Reform Promotion Council, Cabinet Secretariat (present position)
April	2013	Professor, Research Department, National Institution for Academic Degrees and University Evaluation (present position)
June	2015	Outside Director, 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 have brought 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. Also, they fulfill the standards related to independence set by the Tokyo Stock Exchange, Inc. and other financial instruments exchanges that Sumitomo Corporation is listed

on, and Sumitomo Corporation has notified the exchanges, under their respective provisions, of their respective status as independent auditor.

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.

The reason for selection and brief outline of the careers 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, 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, Sumitomo Corporation (present position)
October	2012	Chairman of Tokyo Metropolitan Public Safety Commission (present position)

**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	Superintending Prosecutor, Tokyo High Public Prosecutor's Office
December	2010	Prosecutor-General
October	2012	Attorney at Law (present position)
June	2013	Outside Corporate Auditor, Sumitomo Corporation (present position)

## Message from an Outside Director



**Yayoi Tanaka**

Outside Director

I have previously been engaged in various duties at commercial corporations and NPOs. As an outside director, I hope to leverage the diverse perspectives I have nurtured through these experiences to contribute significantly to management at Sumitomo Corporation (“the Company”) in two areas.

First, I would like to address the issue of support for future female leaders. Respect for diversity is becoming more widespread in society. However, when I first began working there were few opportunities for women to demonstrate their skills in the workplace, and while engaged in my duties, I experienced a strong desire to work in an environment in which women could play an active role in business. By leveraging the experience I have accumulated, I intend to support the

development of future female leaders at the Company, and I consider this objective to be one of my key roles here.

Second, I recognize the application of my experience in evaluation at the private NPOs or the governmental institutions to management at the Company to be another important role that is expected of me. At NPOs and governmental institutions, I was engaged in the support of activities that were assessed based on their impact on society, and I believe the same method of evaluation is important at commercial corporations. How we interact as a member of society, and the type of social ethos we choose to adopt are, in corporate management, issues that will continue to gather weight.

From this perspective, I feel that Sumitomo Corporation is already a corporation with a strong social ethos. I understand that “integrity” is the most important factor in the implementation of its business activities and, to cultivate this integrity, the way we conduct ourselves as a member of society is key. The strength of the Company is its tradition based on the philosophy that “benefit for self and others, private and public interests are one and the same.” In other words, Sumitomo Corporation not only aspires to grow as a corporation but is also mindful of the development of regional societies and countries, and it endeavors to expand while taking into consideration its social ethos. By exchanging opinions about the strengths brought about by our social ethos with employees at the forefront of our business, I hope to contribute to the further development of these strengths.

### 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 meetings. By attending audit review meetings and observing inventory audits with the Accounting Auditors, 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.

### Standards for Independence

Standards for independence of outside directors and outside corporate auditors shall be prescribed in the Company’s internal rules Standards for Appointment and Independence of Outside Directors and Outside Corporate Auditors.

### Management Council

On July 2015, we reorganized the Management Council, which had been positioned as an advisory body to the President and CEO, to become the highest executive-level decision-making body, in order to make decisions through diverse opinions and multilateral discussions to a greater extent than before. The Management Council deliberates on and renders decisions regarding specific key matters related to management within the scope of its mandate from the Board of Directors.

## Corporate Governance System

### 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 36 Executive Officers selected by the Board of Directors (as of August 1, 2015), 9 of who also fulfill the role of company directors, and comprise the President and CEO, 3 Corporate Group Directors, and 5 Business Unit General Managers. In this way, we have established a management system under which we can effectively execute operations based on the decisions made at Board of Directors meetings.

### 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 approximately 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 in advance of sending a Notice of Convocation. 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 for institutional investors, established by Tokyo Stock Exchange, Inc. and operated by Investor Communication Japan, Inc. (ICJ). The new platform allows institutional investors sufficient time to thoroughly examine the propositions to be resolved at the meeting.

#### Disclosing Various Information

Our corporate website provides various materials that may be useful in making investment decisions in a timely manner. These materials include financial results, *yukashoken houkokusho* (Japanese annual securities reports) and other Tokyo Stock Exchange filings as well as the streaming of various meetings and the uploading of documents related to them. We also provide broad coverage of the Companywide topics through special features, which introduce the Company's globally expanding projects. Moreover, we provide our *Annual Report* and endeavor to ensure proactive disclosure.

### Investor Relations

In order to ensure direct communication with shareholders and other investors and, in addition to our efforts to enhance information disclosure on our website, we also hold quarterly meetings attended by top management to provide information on our financial results for analysts and institutional investors in Japan. For our investors overseas, 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. Moreover, since fiscal 2004, we have held regular meetings with individual investors in Japan. In March 2014, we held five such meetings in four cities, which were attended by a total of 1,100 individual investors.

Through such initiatives, designated executive officers are united to engage in dialogue with shareholders and other investors, and related business units within the Company come together to share information, while collecting the opinions of shareholders and other investors. Going forward, the Company will remain committed to improving managerial transparency, while strengthening relationships of trust with shareholders and other 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, 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 operations 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 an analysis of past cases of deficiencies in internal controls, 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 Groupwide activities to strengthen our internal control, such as updating the aforementioned checklist to address changes in laws and other rules within and outside the Company, introducing past cases of 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 Companywide level. We considered these legal obligations as a prime opportunity to promote such improvement in the quality of our operation, as we have implemented them ahead of legislative measures around the world.

The Japanese Company Law 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 of the company and its subsidiaries 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, effective from April 1, 2008, we evaluate our internal controls as required by law, and we improve business processes as well.

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 the operations of the Company and its 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 comprehensively checks the assets and risk management the status of compliance and business processes to find their problems and inherent risks. 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 transgressions in pursuit of profit for the Company. In order to promote compliance, Sumitomo Corporation has introduced the position of Chief Compliance Officer and has also established the Compliance Committee, who together continue to strive to prevent compliance violations from occurring. The Company's Compliance Manual was prepared to contribute to such purpose and is personally possessed by each and every officer and employee in the Company. The Compliance Manual adopts 19 Compliance Guiding Principles (listed below for reference) to cover key areas and uphold the Company's requirement that: "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 will usually report 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 Chief Compliance Officer. External 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 impact the reporting employees due to such reporting. The Chief Compliance Officer is responsible for handling all the information received in an appropriate manner.

## Speak-Up System Diagram



## Guiding Principles

Business Activities	Corporate Citizen as a Member of Society	Maintenance of a Good Working Environment	Personal Interests
<ul style="list-style-type: none"> <li>• Observing Antimonopoly Laws</li> <li>• Security Trade Control</li> <li>• Customs/Controlled Items</li> <li>• Compliance with Applicable Laws</li> <li>• Respecting and Protecting Intellectual Property Rights</li> <li>• Prohibition of Unfair Competition</li> <li>• Information Management</li> <li>• Preservation of the Environment</li> <li>• Overseas Business Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Prohibition on Giving Bribes</li> <li>• Prevention of Unlawful Payments to Foreign Governmental Officials</li> <li>• Political Contributions</li> <li>• Confrontation With Antisocial Forces</li> </ul>	<ul style="list-style-type: none"> <li>• Respect for Human Rights*</li> <li>• Prohibition of Sexual Harassment</li> <li>• Prohibition on Abuse of Authority</li> </ul>	<ul style="list-style-type: none"> <li>• Insider Trading</li> <li>• Conflict of Interest</li> <li>• Proper Use of Information System</li> </ul>

\* Based on the Universal Declaration of Human Rights

# Risk Management

To cope effectively with the diversifying risk environment, Sumitomo Corporation has built a framework for micro-management, with the objective of “minimizing losses from individual transactions,” and for macro-management, with the objective of “maximizing corporate value.” The frameworks support the efficient management of our corporate resources and are strongly linked to the management plan. Going forward and, on calculating impairment losses for fiscal 2014, we intend to thoroughly revise and strengthen risk management.

## 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 engaged in efforts to prevent or minimize the probability of this risk materializing.

## Risk Management Framework

### Managing Quantifiable Risk

#### Managing Investment Risk

Once an investment is made, it can be difficult to make a withdrawal decision, and the loss encountered in this situation can be significant. To manage investment risk, we have established an integrated framework to manage risk, covering the entry process to the exit process, which we continue to refine.

For the entry process, we set a rigid hurdle rate to ensure that the returns expected on projects are enough to justify their risks. We have also revised our investment evaluation method and adjust the hurdle rate accordingly to more accurately reflect the risk of each project.

Moreover, for the decision-making process, we have introduced a procedure to deliberate twice at investment targeting stages and at the investment decision-making stage. A wide range of discussions are held from an early stage to assess the feasibility of the project in accordance with head office strategies, the background and reason for its selection, and to weigh pros and cons. Furthermore, in

addition to the pre-existing Company Investment Committee, we have newly established a Business Unit Investment Committee within our business units and, going forward, we endeavor to deepen our discussions by applying specific business knowledge.

Regarding the revision of our investment execution system, we have formed a Companywide Special Task Force, which is utilized when engaging in large-scale or highly significant projects. The team utilizes the diverse perspectives and knowledge of not only the business unit directly responsible for the project but also related internal business units and corporate groups, to assess projects from a Companywide perspective and concentrate all the resources we have available to us in weighing the pros and cons of a project.

Furthermore, particularly in the case of large-scale or highly significant projects, we conduct close examination of business operations and quickly begin to refine medium-term business plans and action plans in the short term following execution of the investment. In this way, we align with management of the investment to govern projects appropriately. If operating results fall below a predetermined level, the medium-term plan established through this process is reexamined. By monitoring performance on an annual basis we can respond timely to changes in the business environment by implementing appropriate countermeasures, and we endeavor to strengthen this process going forward.

Also, when the performance of an investment falls short of required standards after a certain period from its inception, we have an Exit Rule that designates such investment as an “Investment 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.

Risk Management

Managing Market Risks

We set limits on contract balances as well as loss limits for six months 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 Corporate 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 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 an 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 Company Investment Committee, which deliberates on important investment and financing. Furthermore, to manage the risk of our mineral resources and energy upstream portfolio, we have introduced a system to regularly monitor the

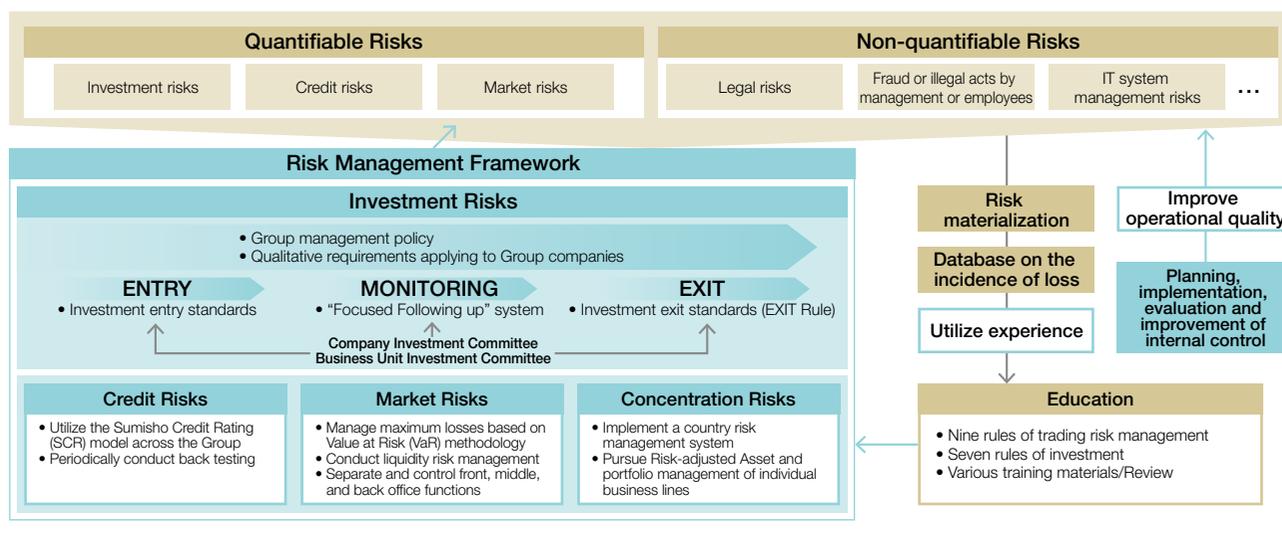
portfolio as a whole and determine whether our operations are excessively exposed to any particular risk factors.

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

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 with 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 profit for the year. We needed a

Companywide, 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 fall 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., profit for the year, 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 Companywide 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 earning 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 the Risk-adjusted Return Ratio of 7.5%.