Promoting Our Medium-Term Management Plan—BBBO2017

Progress of BBBO2017

In our medium-term management plan “Be the Best, Be the One 2017 (BBBO2017),” we have been **promoting managerial reforms and growth strategies, enhancing “individual capability” and “organizational capability,” and securing financial soundness** based on the theme of making Groupwide efforts in overcoming issues and outlining a path toward the realization of “What We Aim to Be in 2019, Our Centennial Year,” in light of changes in the environments that surround our businesses as well as managerial issues that manifested in large-scale impairment losses in fiscal 2014.

Overview of BBBO2017

Promote Managerial Reforms	Promote Growth Strategies	
Improve corporate governance and decision-making process	Promote growth strategies in each division	Improve profitability of existing businesses Continue stimulation of business portfolio metabolism
Strengthen risk management system	Promote Companywide growth strategies	Improve policies for upstream mineral resources & energy business

Enhance “Individual Capability” and “Organizational Capability”

Secure Financial Soundness

Annual Results for FY2015

(Billions of Yen)	FY2014	FY2015
Profit (loss) for the year	¥(73.2)	**¥74.5**
Impairment losses	¥(310.3)	**¥(195.1)**
Profits from the reorganization of automotive financing business in Indonesia	—	**¥35.6**
Profit for the period (excluding impairment losses, etc.)	¥237.1	**¥234.0**

Non-mineral resources businesses made a steady showing overall in fiscal 2015, but performance deteriorated in our mineral resources businesses and tubular products business due to falling mineral resources prices, and several businesses including upstream resource-related ones saw impairment losses of approximately ¥195.1 billion. Consequently, consolidated net income came to ¥74.5 billion yen vis-à-vis our target of ¥230.0 billion.

Breakdown of Impairment Losses in FY2015

Project Name	Project Outline	Amount of Impact on Consolidated Net Income (Billions of yen)	Main Reason for Impairment Loss
Nickel Project in Madagascar	Nickel development and related business in Madagascar	**¥(77.0)**	Decline in nickel prices and revision of long-term business plan
Iron Ore Mining Project in South Africa	Investment in iron ore mining project in South Africa	**¥(18.3)**	Decline in iron ore prices and revision of long-term business plan
Edgen Group	Global distributor of metal and tubular products for energy industry	**¥(18.1)**	Decline in demand resulting from drop in oil prices and revision of long-term business plan
Iron Ore Mining Project in Brazil	Iron ore mining operations and related businesses in Serra Azul region of the state of Minas Gerais, Brazil	**¥(14.6)**	Decline in iron ore prices and revision of long-term business plan
Copper and Molybdenum Mining Project in Chile	Investment in and financing of Sierra Gorda copper mine in Chile	**¥(14.0)**	Decline in copper prices and revision of long-term business plan
Coal Mining Projects in Australia	Investment in coal mines in Australia	**¥(12.1)**	Decline in coal prices and revision of long-term business plan
Grain business in Australia	Grain accumulation and investment in grain storage and export terminal operating business in Australia	**¥(11.4)**	Revision of business plan
Others		**¥(29.5)**	
Total		**¥(195.1)**	

Cash Flows in FY2015

(Billions of Yen)	FY2015 Results
Basic profit cash flow*	**+¥204.3**
Depreciation and amortization	**+¥125.1**
Asset replacement	Approx. **+¥230.0**
Others	Approx. **+¥220.0**
Cash-in total	Approx. **+¥780.0**
Investment & loan	Approx. **−¥270.0**
Additional and replacement investment	Approx. **−¥230.0**
New investment	Approx. **−¥40.0**
Free cash flow	**+¥514.3**
Dividend	**−¥62.4**
Free cash flow (post-dividend)	**+¥451.9**

In fiscal 2015, we recovered approximately ¥230.0 billion in funds owing to asset replacement including the business reorganization of our automotive financing business in Indonesia and disposal of our renewable energy power generation business. In addition, cash was generated due to a decrease in working capital. As a result, post-dividend free cash flow for fiscal 2015 reached a positive figure of ¥451.9 billion.

* Basic profit cash flow = Basic profit – Share of profit (loss) of investments accounted for using the equity method + Dividend from investments accounted for using the equity method

Special Feature 1

Interview

Responding to Operating Environment Changes

Qualitative Progress and Revision of Quantitative Performance Targets of Medium-Term Management Plan “Be the Best, Be the One 2017”

Sumitomo Corporation launched the current medium-term management plan —“Be the Best, Be the One 2017” (BBBO2017)—in April 2015.

One year has passed since the start of BBBO2017. We have asked Chief Strategy Officer Masao Tabuchi and Chief Financial Officer Koichi Takahata about the qualitative progress of this plan and the revision to its quantitative performance targets instituted in response to the worsening operating environment.

Masao Tabuchi (Left)
Representative Director,
Managing Executive Officer,
Chief Strategy Officer

Koichi Takahata (Right)
Representative Director,
Senior Managing Executive Officer,
Chief Financial Officer

1. Qualitative Progress

Promote Managerial Reforms

— Could you please explain progress with regard to measures to "improve corporate governance and decision-making process," a policy listed under the objective of "promote managerial reforms" in BBBO2017?

Tabuchi

Improvement of Decision-Making Processes

Striving to improve decision-making processes, the Management Council was designated as the highest decision-making body at the operational execution level in July 2015. Accordingly, this council will be responsible for making decisions related to management policies and issues impacting the entire Company. This change in authority has enabled for frank discussions among members of the council and made it possible to incorporate a more diverse range of opinions.

In addition, we increased the number of Outside Directors on the Board of Directors by one, making for three (an additional Outside Director was appointed at the Ordinary General Meeting of Shareholders held on June 24, 2016, making for four Outside Directors as of August 2016). We also revised the standards for determining agenda items for Board of Directors meetings with the aim of allowing the Board to focus more on discussions of management policies, plans, and other important matters pertaining to all of management. Other initiatives included expanding the range of items reported to the Board of Directors, reinforcing oversight for the execution of management, and establishing a deliberation system that centers on formulating Companywide strategies and basic policies.

Response to the Corporate Governance Code

As part of our response to Japan's Corporate Governance Code, we revised the Sumitomo Corporation Corporate Governance Principles. Also, in November 2015, we established the Nomination and Remuneration Advisory Committee to take the place of the prior Remuneration Committee. Created with aim of increasing the transparency and objectivity of processes for nominating and deciding the remuneration of Directors, the new committee functions as an advisory body to the Board of Directors and is membered by a majority of Outside Directors while being chaired by an Outside Director (see page 57 for details).

Furthermore, in fiscal 2015 based on self-evaluations conducted by Directors and Corporate Auditors, the Company began instituting third-party analyses and evaluations of the effectiveness of the Board of Directors with the aim of ensuring sustainable growth and improving corporate value. Based on the results, we carried out various reforms for creating an effective Board of Directors and steadily generated results on this front. Issues with regard to improving the Board of Directors effectiveness pointed out through these analyses and evaluations included the need to increase the amount of management information provided to Outside Directors and Outside Corporate Auditors and to expand the range of opportunities for exchanging opinions among Directors and Corporate Auditors. Going forward, we will perform in-depth analyses of this situation and, based on discussions by the Board of Directors, implement measures to improve the effectiveness of the Board.

— From the perspective of large-scale investment projects, what progress was made with regard to the policy of "strengthen risk management system"?

Takahata

In making investment decisions related to particularly large and important projects, candidate projects are discussed several times by Unit Investment Committees and the Company Investment Committee. By deliberating on projects at the Unit and Companywide levels during the initial investment consideration stage and execution stage, we conduct discussions at an even-deeper level than before. This approach serves to heighten the quality of decisions by evaluating such factors as the characteristics of projects, the appropriateness of the investment theme, and the connection between the investment and the business's strategies. Decision-making authority for other projects is delegated to the front lines to increase the speed of investment decisions.

Rather than implementing a uniform Companywide hurdle rate, we review investment evaluation standards and make investment decisions in consideration of an anticipated rate of return that is determined based on the specific risks inherent in a given project. For large-scale projects, we have reconstructed our post-investment monitoring frameworks through measures such as systematizing "100-day plans." Through this plan system, shortly after investment, personnel from both business divisions and corporate divisions begin building up relationships with the management of the investee. At this time, we collaborate with the investee to formulate a medium-term plan detailing the management and financial indicators that need to be targeted.

Special Feature 1

Interview: Responding to Operating Environment Changes

Promote Growth Strategies

— Another major objective of BBBO2017 is to "promote growth strategies." How was progress with regard to the policy of "encourage and step up cross-organizational collaboration"?

Tabuchi

A Companywide growth strategy set forth in BBBO2017 is to encourage an even-greater degree of cross-organizational collaboration in industries where we expect strong growth over the medium-to-long term. Through such collaboration, we will advance initiatives that leverage our integrated corporate strength to create new value in automobile-related businesses, IoT businesses, retail businesses in Asia, energy-related businesses, food and agriculture-related business, and other fields.

In retail businesses in Asia, for example, Group companies P.T. Oto Multiartha and P.T. Summit Oto Finance—jointly referred to as the OTO Group—are developing an automotive financing business in Indonesia, which has cultivated a massive customer base of 1.7 million users. Seeking to take advantage of this customer base in retail finance fields outside of automobiles, we commenced investment in commercial bank PT. Bank Tabungan Pensiunan Nasional Tbk (BTPN) in February 2015. By fully leveraging the customer bases and business networks of both the OTO Group and BTPN, we aim to cater to the robust consumption demand from Indonesia's growing middle class by developing finance businesses targeting various retail sectors. At the same time, we will promote collaboration between these companies and other Group companies to advance multifaceted business ventures that include such areas as logistics. Looking at the whole Company from the viewpoint of industries and functions, we will step up cross-organizational collaboration between highly compatible businesses to bolster earnings capacity.

— What progress has been made in the effort to "improve policies for upstream mineral resources and energy businesses," in which large impairment losses were recognized in both fiscal 2014 and fiscal 2015?

Takahata

We have been focusing on starting up projects with recent investments, such as the Nickel Project in Madagascar, for which financial completion was achieved in September 2015 (see page 23 for details). We also pushed forward with ongoing cost reduction measures in existing projects. At the same, we are aspiring to create a business portfolio that features not only dispersed risks but also resilience to market downturns. To this end, we formulated management policies for our portfolio of upstream mineral resources projects that include standards for the ratio of unfinished projects to total projects and the maximum risk exposure to be allowed per project. In addition, we established the Project Management Department for Mining & E&P as a dedicated organization tasked with enhancing our market analysis and technical evaluation capabilities, assembling a staff with expertise in these areas. With regard to new upstream mineral resources investments, our basic policy will be to focus on the replacement of existing assets while enhancing our project discernment and risk management skills. We will thus take a cautious approach toward future investments, turning our attention mainly to projects that are already operating competitively.

— Regarding the policy of "promote growth strategies in each division," what investments were conducted during fiscal 2015?

Tabuchi

In fiscal 2015, we conducted investments totaling ¥150.0 billion in three fields of strength, namely Automobile and Transportation Systems, Infrastructure, and Lifestyle and information services. The main investments were for increasing assets in the construction equipment rental business in the United States and for real estate, such as commercial facilities. When investments related to existing upstream mineral resources projects and other projects are included, total investments registered approximately ¥270.0 billion.

2. Revision of Quantitative Performance Targets

— The Company revised the quantitative profit targets and cash flow targets decided for BBBO2017 in March 2015. What were the main points for these revisions?

Revision of Profit Targets

Takahata

With regard to our fiscal 2016 forecasts, solid conditions are anticipated in non-mineral resources businesses, such as the core businesses of the Environment & Infrastructure Business Unit and the Media, Network, Lifestyle Related Goods & Services Business Unit. Mineral resources businesses and the tubular products business, meanwhile, will continue to face a harsh operating environment due to low resource and energy prices. Given the ongoing uncertain business outlook, we plan to accelerate asset replacement focused on low-margin and low-efficiency businesses. Our fiscal 2016 forecasts account for approximately ¥20.0 billion earmarked for asset replacement costs ("Costs for structural improvement"), therefore we are projecting consolidated net income for the year of ¥130.0 billion.

For fiscal 2017, despite initially projecting consolidated net income for the year of ¥300.0 billion or more, our target has since been lowered to ¥220.0 billion or more. Reasons for this downward revision include a projected delay in recovery in mineral resources businesses and the tubular products business, which will be a result of the persistence of low resource and energy prices. This target represents a ¥90.0 billion increase from the forecasts of ¥130.0 billion for fiscal 2016 and also accounts for approximately ¥20.0 billion of "Costs for structural improvement." Of the projected increase of ¥90.0 billion, around ¥50.0 billion is expected to come from non-mineral resources businesses other than the tubular products business. In these businesses, we anticipate earnings contributions from projects with recent

		FY / Period	Initial plan	Revised plan
Profit targets	Consolidated net income	FY2015	¥230.0 billion	**¥74.5 billion (actual)**
		FY2016	—	**¥130.0 billion**
		FY2017	¥300.0 billion or more	**¥220.0 billion or more**
	ROA	FY2017	3.0% or more	**2.5% or more**
	Risk-adjusted Return Ratio*1	FY2017	10.0% or more	**9.0% or more**
	ROE	FY2017	Around 10.0%	**Around 9.0%**
Financial policies	Balance between Core Risk Buffer and Risk-adjusted Assets	By March 31, 2018	Regain balance	**Regain balance**
	Free cash flow	3-year total	¥200.0 billion	**¥700.0 billion**
	Post-dividend free cash flow	3-year total	Positive	**¥500.0 billion**
Investment plan		3-year total	¥1.2 trillion	**¥1.0 trillion**

*1. Risk-adjusted Return Ratio is calculated in the following manner as an indicator for displaying profitability in comparison with risks.

$$\text{Risk-adjusted Return Ratio} = \frac{\text{Returns}}{\text{Risk-adjusted Assets}^{*2}}$$

*2. A measure of the maximum losses that could be incurred within a given period and with a predefined possibility for occurrence due to reductions in the value of held assets.

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Interview: Responding to Operating Environment Changes

investments and new businesses as well as growth in existing businesses. Specific examples of contributing businesses include automobile manufacturing, overseas power infrastructure, domestic media, real estate, and a telecommunication project in Myanmar.

Meanwhile, ¥30.0 billion of this increase will come from mineral resources businesses, which will benefit from a certain degree of recovery in market conditions.

The remaining ¥10.0 billion of this increase is expected from the tubular products business. In addition to some extent of market recovery, this business will benefit from our efforts to reinforce its constitution through measures such as business reorganization aimed at ensuring this business can quickly be set back on the path toward earnings growth when the market takes an upswing.

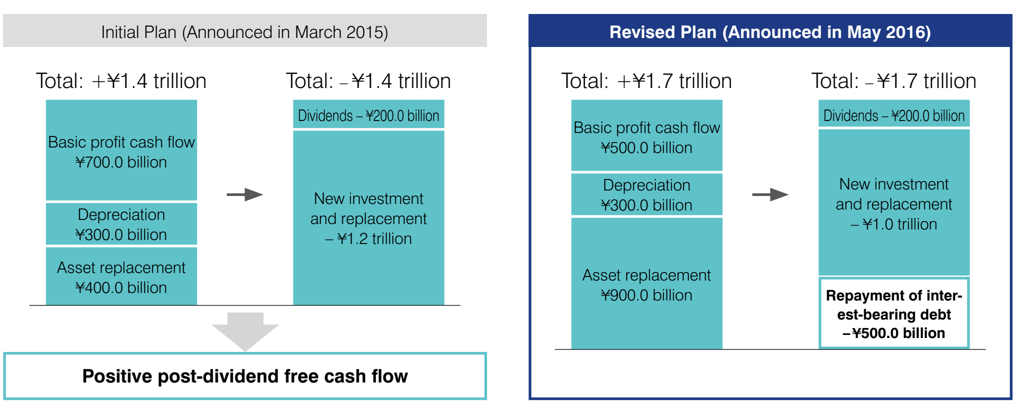
Revision of Cash Flow Targets

Takahata

Next, I will explain the main points regarding the revisions to our cash flow targets. For cash-in, we are now targeting basic profit cash flow of ¥500.0 billion, ¥200.0 billion less than our initial target of ¥700.0 billion. Conversely, we have set a higher target of ¥900.0 billion for funds recovered through asset replacement, which stands at ¥500.0 billion above our previous target of ¥400.0 billion. Recovery of these funds will primarily be conducted through asset replacement in relation to low-margin and low-efficiency transactions. When factoring in the effects of ¥300.0 billion in depreciation and amortization, this will generate total cash of ¥1.7 trillion.

As for cash-out, ¥200.0 billion will be returned to shareholders in the form of dividends. Meanwhile, the planned amount of investments has been reduced by ¥200.0 billion from the initial figure of ¥1.2 trillion. This amount of ¥1.0 trillion will primarily be allocated to investments in growth areas. While setting aside funds for shareholder returns and future investments, we aim to secure post-dividend free cash flow of ¥500.0 billion, which will be used to repay interest-bearing debt to strengthen our financial position.

Cash-In / Cash-Out (Three-Year Total for the Period of BBBO2017)

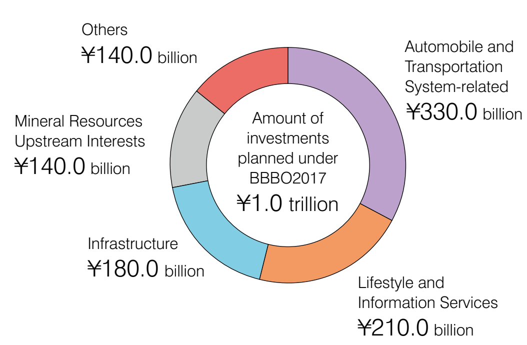


* **Basic profit cash flow** = Basic profit – Share of profit (loss) of investments accounted for using the equity method + Dividends from investments accounted for using the equity method
Basic profit = (Gross profit + Selling, general and administrative expenses (excluding provision for doubtful receivables) + Interest expense, net of interest income + Dividends) x (1 – Tax rate) + Share of profit (loss) of investments accounted for using the equity method

Tabuchi

The ¥1.0 trillion of investment will be conducted in fields where we can leverage our strengths and in which we can expect strong growth. By field, we will invest ¥330.0 billion in Automobile and Transportation System field, primarily in relation to materials and parts for automobiles; ¥210.0 billion in Lifestyle and Information Service field, largely for IT-related, mobile, and real estate investments; and ¥180.0 billion in Infrastructure field, which will mainly be aimed at domestic and overseas power infrastructure projects. In this manner, our plan to focus investment on these three fields will remain unchanged. Meanwhile, in Mineral Resources Upstream Interests, while we had initially planned ¥100.0 billion in investments to be made in relation to fund contributions necessitated by contracts concluded for existing projects, this amount has been raised to ¥140.0 billion due to a sluggish market.

Investment Plan

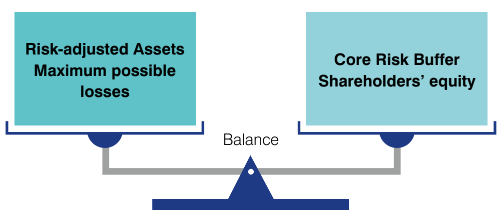


—Have there been any changes with regard to your policy for the balance between Core Risk Buffer and Risk-adjusted Assets?*3

Tabuchi

At the start of BBBO2017, Risk-adjusted Assets exceeded Core Risk Buffer by slightly more than ¥140.0 billion. There will be no changes to our policy of regaining the balance between Core Risk Buffer and Risk-adjusted Assets, which represents a fundamental principle of management, and we will continue to place initiatives with respect to this as a top priority. As of March 31, 2016, Risk-adjusted Assets exceeded Core Risk Buffer by slightly more than ¥60.0 billion.

*3. Core Risk Buffer represents the sum of common stock, retained earnings, and foreign currency translation adjustments minus treasury stock, at cost. Our basic management policy is to keep Risk-adjusted Assets, which represent the maximum possible losses, within the scope of Core Risk Buffer.



— In closing, do you have any messages for Sumitomo Corporation's stakeholders?

Takahata

To expand earnings backed by our solid financial base, we will steadily repay interest-bearing debt. In addition, as we revise our risk management systems, we will increase our investment success rate and thereby return the Company to the growth track.

Tabuchi

The operating environment for Sumitomo Corporation is changing rapidly, and it is therefore important for us to remain committed to doing what must be done. For this reason, I hope that management and employees will be able to band together to accelerate our managerial reforms so that we may advance our growth strategies in stride and move forward with BBBO2017.

Special Feature 2

Initiatives under BBBO2017

Stepping up Cross-Organizational Collaboration that Exploits Foundations in Media, Retail, and Real Estate

The Sumitomo Corporation Group operates an array of different businesses in 66 countries. Under the medium-term management plan "Be the Best, Be the One 2017" (BBBO2017), we will step up cross-organizational collaboration and exploit our integrated corporate strength to advance business activities in industries, functions, and regions that promise robust medium-to-long-term growth.

Increasing Collaboration through J:COM

Taking advantage of the complete deregulation of the electricity retail market, Jupiter Telecommunications Co., Ltd. (J:COM), a Cable TV and system operator in which we have a 50% stake, began selling electricity to such low-volume consumers as the residents of detached houses or small apartment buildings in April 2016. A wholly owned subsidiary that supplies and procures electricity, Summit Energy Corporation, and J:COM—which offers services rooted in local communities and households through Cable TV—will work together and exploit each other's strengths to supply customers with electricity, which is an essential of day-to-day life.

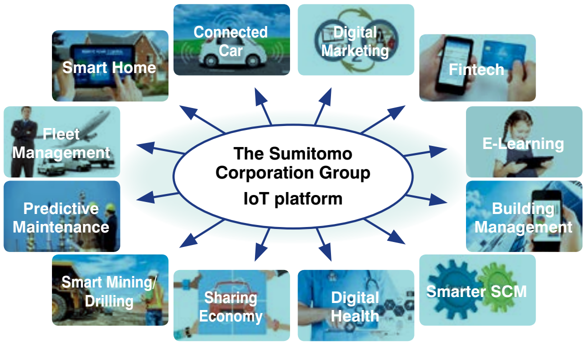
Moreover, J:COM collaborates with the Group's condominium operations. Through participation in the product planning and design stages of condominiums that the Group develops, J:COM will acquire new customers, retain existing customers, and heighten customer satisfaction by offering Cable TV, Internet, and batch-electricity provision services.

Other cross-organizational collaborations involving J:COM include using the capital reorganization of TV shopping business Jupiter Shop Channel Co., Ltd., implemented in March 2016, as an opportunity to create synergies (see "Project Overview" on page 45). Also, IT service provider SCSK Corporation is working with J:COM to develop and operate its customer database system.

Advancing IoT Initiatives

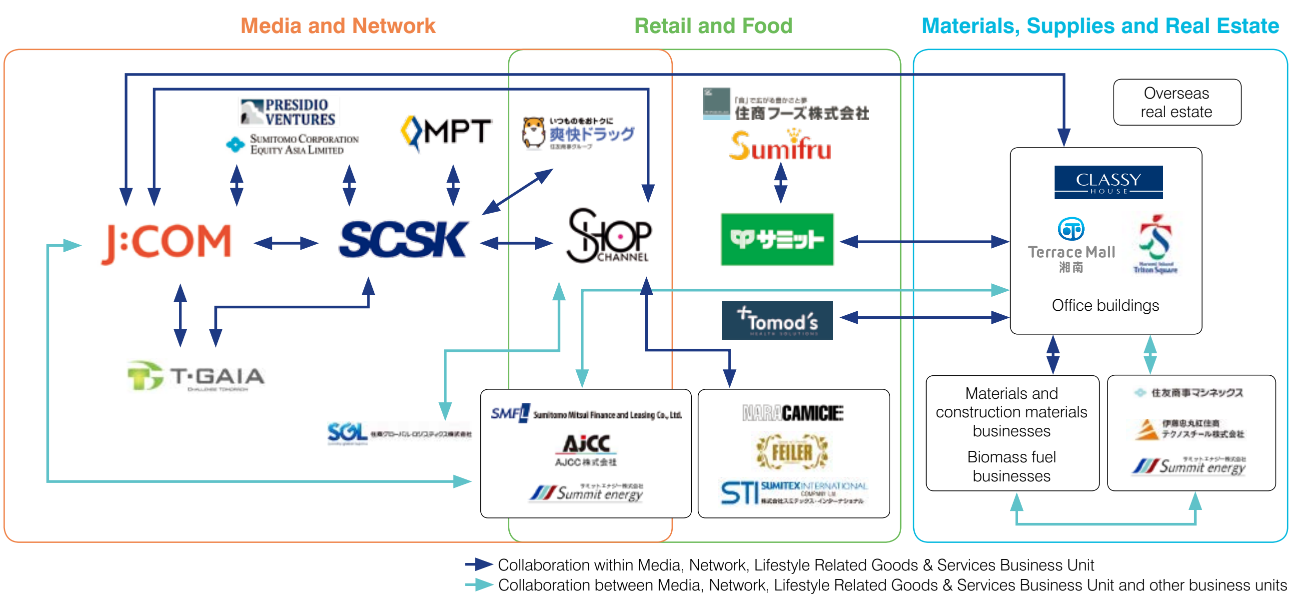
We view the Internet of Things (IoT), which would bring disruptive innovation to society and industry, as a huge business opportunity.

Aiming to advance IoT initiatives on a cross-organizational basis, the Network Division led efforts to establish a Groupwide working group in April 2016. The group is tasked with enhancing corporate value throughout the Sumitomo Corporation Group by leveraging IoT to upgrade businesses and create new business models.



Utilizing Group Networks to Create Profit Opportunities

There are many other types of cross-organizational collaboration within the Sumitomo Corporation Group. For example, we realize collaboration centered on the real estate businesses by setting up Summit supermarkets and Tomod's drugstores in the retail facilities and condominiums that we develop. Moreover, during the construction of these retail facilities and condominiums, we lease construction equipment and supply such construction materials as steel frames and cement. Also, we provide supplies of biomass fuel to our biomass power business. By strengthening and promoting Groupwide collaboration that transcends the boundaries of business segments or regions, we will realize more-sophisticated value creation and further grow our earning power.





Forward-Looking Response to Changes in the Operating Environment

Even as our business faces a challenging operating environment due to the persistence of low resource and energy prices, we are committed to moving ahead with forward-looking initiatives and carrying out what needs to be done.

Tubular Products Business

— Targeting New Growth Based on Solid Business Foundations Despite Adversity

Sumitomo Corporation's tubular products business boasts world-leading trading volumes for oil country tubular goods (OCTG). As a subarea of this business, we develop OCTG distributor operations that hold a share of approximately 30% in the U.S. oil and gas development market. A broad-ranging customer network has been established through this business.

Fiscal 2015 profits in the tubular products business showed a large decline, as capital investment demand waned in the oil and gas development industry following the sharp drop in the price of crude oil that began in fall 2014. We cannot anticipate a rapid recovery in the oil price, which means we should expect to face a challenging operating environment for a while.

To cope in this environment, we continue striving to enhance the constitution of this business by efficiently utilizing assets and building lean structures. For example, we endeavored to curtail inventories, effectively cutting them down by 40% from peak levels in a little over one year. We also reorganized the Group's OCTG distributor operations in the United States to realize more efficient business operation. At the same time, we will prepare for the eventual recovery of the crude oil price by advancing growth strategies that emphasize the use of our global OCTG customer network, a key strength of Sumitomo Corporation, to explore business peripheral to tubular products.

Specifically, we will go beyond simply supplying customers with OCTG to provide value based on the various needs that arise throughout OCTG life cycles. For example, focused primarily on major customers with long-term contracts, we will offer services ranging from well design consulting to field engineering. In addition, we will further expand our material procurement from OCTG to other related oilfield equipment.

As tubular considers new investments, we will engage all the diverse resources available within Sumitomo Corporation so that any candidate investments are given full consideration by a multi-faceted, Companywide project team. This will allow us to examine any new investments from multiple perspectives and ensure we are carefully evaluating the operating environment.

Ambatovy Nickel Project

— Aiming to Maintain Highly Efficient, Stable Operations and Enhance Profitability

Demand for nickel is rising worldwide as it is used in a broad range of materials, such as stainless steel, specialty steel, and battery materials. To cater to this growing demand, in 2005 Sumitomo Corporation participated in a project in Madagascar tasked with integrating processes from the extraction of nickel oxide ores through to metal production. Since then, we have been proceeding with development of the project, which is expected to have a long operational life of almost 30 years and is one of the largest nickel projects in world.

We are developing the project with our partners, Canadian resource company Sherritt International Corporation and Korean state-owned resource company Korea Resources Corporation (KORES). Further, we have taken environment-friendly measures, including a range of programs to preserve forests and protect plants and animals. The project began commercial production in January 2014 and achieved financial completion in September 2015. In the same month, nickel metals that the project produces received approval for registration on the London Metal Exchange. Fulfilling our obligation to trade the project's products, we are developing nickel metal sales networks not only in Japan but also in Europe, other parts of Asia, and the United States. So far, we have sold out all products received.

While proceeding with construction and start-up of the project, we revised the forecast of the medium-to-long-term nickel price in light of the worldwide fall in resource prices. As a result, in the third quarter of fiscal 2015, we recognized impairment losses of ¥77.0 billion. Currently, we are facing extremely challenging external conditions. However, we are continuing to work with our partners to maintain highly efficient, stable operations and promote cost reduction initiatives. Thanks to these efforts, in fiscal 2015 we succeeded in reducing costs significantly year on year. We intend to continue those efforts with a view to realizing cost-competitiveness that will place the project as the world's top 25th-percentile nickel producers.

Project Summary

Total project cost: US$7.2 billion
Annual production capacity: Nickel: 60,000 tons; Cobalt: 6,000 tons
Shareholders: Sherritt International Corporation: 40%; Sumitomo Corporation: 32.5%; Korea Resources Corporation (KORES): 27.5%
Sumitomo Corporation's exposure: Approx. US$1.7 billion (As of March 31, 2016)