

## Part 4 Governance

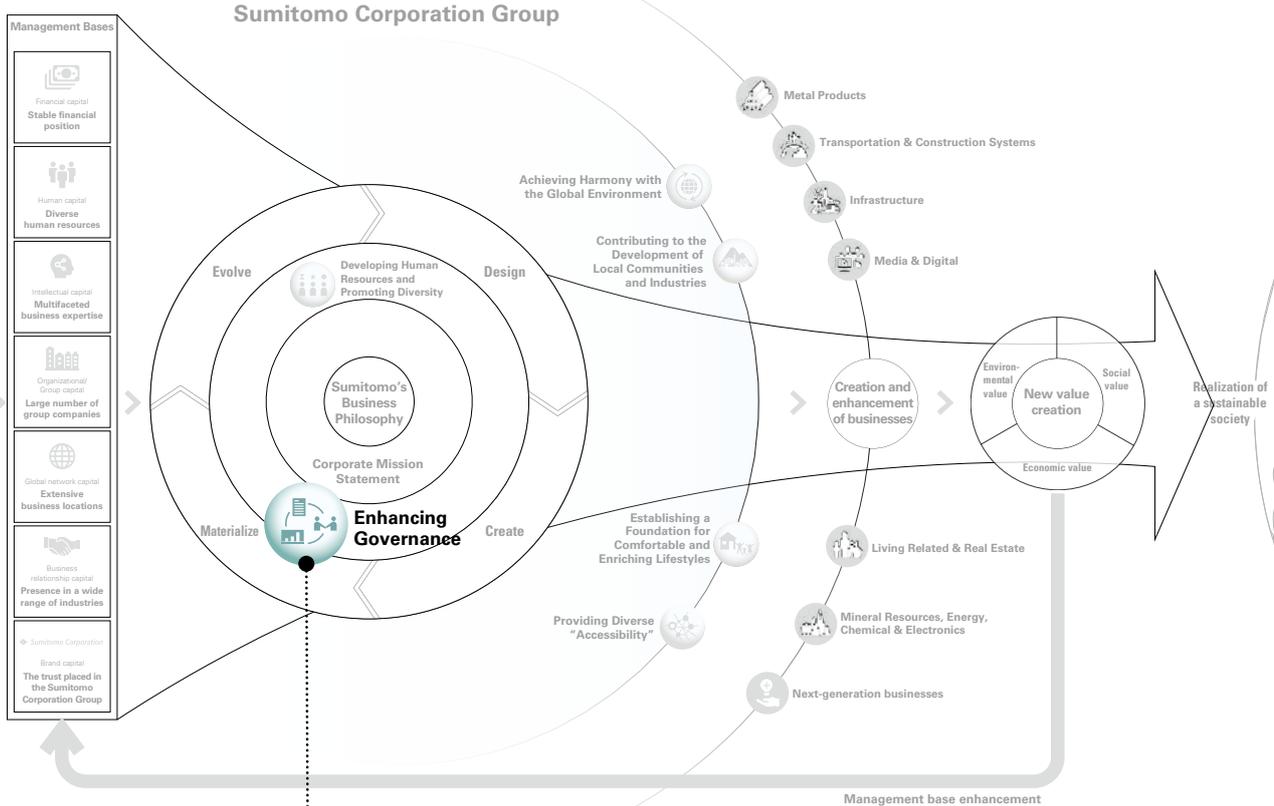
# Corporate governance as the foundation of value creation

In order to grow continuously as a corporation through sustainable value creation, it is essential for us to build a solid corporate governance structure to serve as our foundation.

The Sumitomo Corporation Group has continually evolved its corporate governance as part of its efforts to strengthen its management base. In the Medium-Term Management Plan 2020, we have set “enhancement of governance” as a strategic initiative and are focusing on making further progress on corporate governance.

# Gover

### Value Creation Model



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# Finance

Special Feature A Panel Discussion with Independent Directors at Investor Day 2019

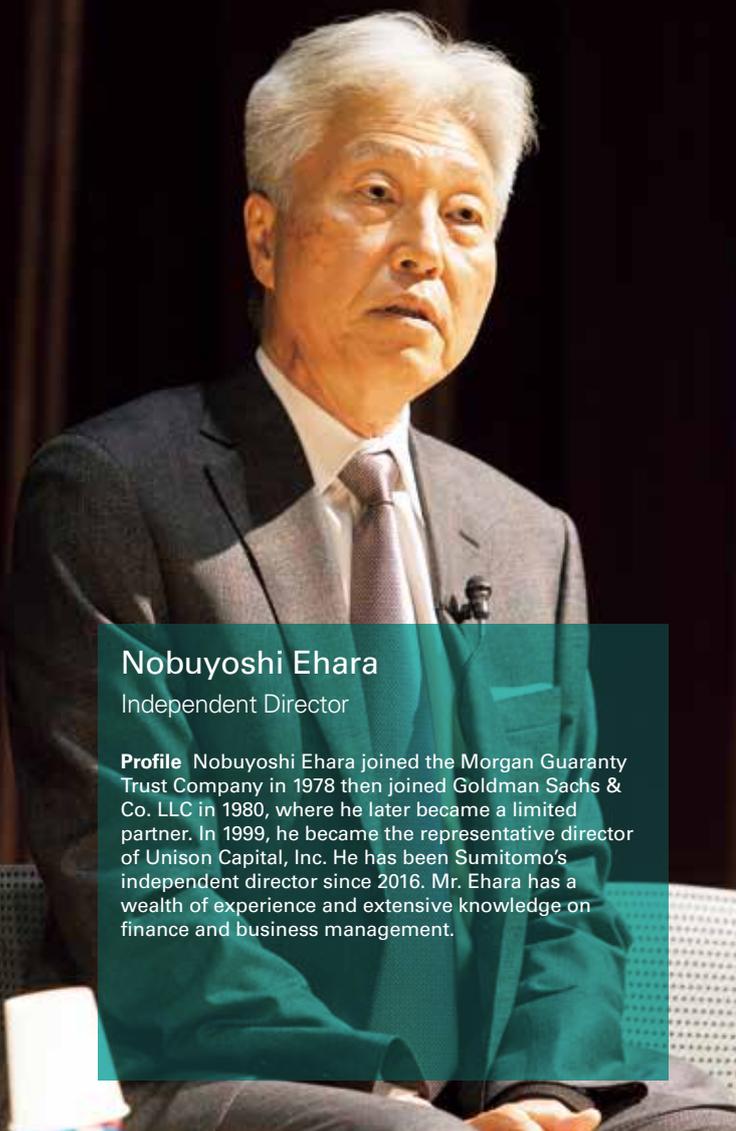
## Realizing sustainable growth through corporate governance

In May 2019, we invited our shareholders and investors to join us for Investor Day 2019. During the event, we held a panel discussion with Nobuyoshi Ehara and Kimie Iwata, two of Sumitomo Corporation's independent directors, on the topic of the Company's corporate governance.



**Yoshiko Sato**  
Facilitator

Japan Investor Relations Association (JIRA)  
Executive Managing Director



**Nobuyoshi Ehara**  
Independent Director

**Profile** Nobuyoshi Ehara joined the Morgan Guaranty Trust Company in 1978 then joined Goldman Sachs & Co. LLC in 1980, where he later became a limited partner. In 1999, he became the representative director of Unison Capital, Inc. He has been Sumitomo's independent director since 2016. Mr. Ehara has a wealth of experience and extensive knowledge on finance and business management.



**Kimie Iwata**  
Independent Director

**Profile** Kimie Iwata joined the Ministry of Labour (currently the Ministry of Health, Labour and Welfare) in 1971. She was assigned to important positions over the course of her career, such as being appointed as the Director-General of the Equal Employment, Children and Families Bureau. In 2004 she joined Shiseido Company, Limited and, in 2008, assumed the position of representative director and executive vice president. After her career at Shiseido, she has served as an independent director for a number of listed companies and has been Sumitomo's independent director since 2018. She has a wealth of experience and extensive knowledge on business management, corporate governance, corporate social responsibility and diversity.

## Theme 1 The role of independent directors

**Sato** This panel discussion will be based on questions that shareholders and investors submitted prior to today's event. To start with, could you both tell us what you think Sumitomo Corporation expected when they invited you to be independent directors and how you are utilizing your individual specialties and career experiences?

**Ehara** For my part, I think I was invited because Sumitomo Corporation had great expectations of my experiences with corporations through private equity investments as well as my history in business, financial management and investment decision-making.

For the past few years, the Company has placed great importance on strengthening its corporate governance, which matches up completely with what I aim to achieve. I'm always holding discussions on how the management and the Board of Directors of a corporation should be able to strengthen and discuss corporate governance, and more specifically how they can improve the effectiveness of Board of Directors meetings. I think Sumitomo Corporation is expecting a lot from me in those aspects as well.

**Iwata** After working for the Ministry of Labour for about 30 years as a government official, I spent around 10 years gaining business management experience by working with Shiseido. I then served as the independent director for a number of companies and also helped manage some universities.

I can think of two main reasons why Sumitomo invited me to be an independent director. Firstly, because I have different experiences than those of the existing corporate executives or the other independent directors, they expect that I'll be able to look at management with my own set of knowledge and values. The second reason, to put it bluntly, is because I am a woman. I think they expect to hear the thoughts of someone who has spent her family, corporate and social life from a different perspective from that of men.

As a member of the Board of Directors, I try to do two things. The first is to use my experience to identify what the discussion points are for the major topics the Board deliberates, and then ask questions or give opinions that help deepen the discussions. Our independent directors are always outspoken in a good way, and I do my best to make sure my thoughts are delivered as well.

The second thing is something that rarely happens, but, if I sense that something is somewhat wrong or a little lacking through my knowledge and values, I have no hesitations about airing different views or championing minority opinions. I believe that this is the role of an

independent director, and I would like to fulfill my responsibilities in this role.

## Theme 2 The effectiveness of the Board of Directors

**Sato** Next, I'd like to talk about the effectiveness of the Board of Directors. Could you tell us how you're making the Sumitomo Corporation Board of Directors more effective and share some concrete examples if possible?

**Ehara** Well first, I would like to touch on how the setup of the Board of Directors has changed. When I was appointed as an independent director three years ago, the Board of Directors had 18 members. Right now there are 11.\* This was done intentionally to promote more active discussions by reducing the number of people in the Board of Directors. The recent composition is that we have six inside directors and five outside,\* making it easier for the outside directors to speak up. I have made a lot of comments and offered plenty of advice on this issue since I joined.

To make the Board of Directors even more effective, I believe Sumitomo Corporation needs one more factor: agenda shaping. In other words, what the Board should focus on and discuss is fairly important. A good example is discussions on investments. Two years ago, we spent a considerable amount of time talking about potential investments and discussed about 80 cases a year. That has been reduced to 40–50 per year recently. We did this because we thought that we should spend more time discussing each case in depth and also reconsider our time allocation for discussing other matters.

As the number of investment discussions were reduced, discussions of other matters went up. For example, we have been spending more time discussing the business portfolio of our company and debating which businesses to strengthen and expand and which ones to reduce in some cases. We are also deliberating over what the company's corporate strategy should be from the standpoint of its business portfolio. And these discussions are on a completely different level compared to that of three years ago.

I think there is another important viewpoint to be held while attending Board of Directors meetings. I believe that representing the opinions of the shareholders is one of my most important roles. What would a shareholder say if they were sitting with us? What kind of questions would they

\* This was the number of members in May 2019 when this panel discussion was held. After the Ordinary General Meeting of Shareholders held on June 21, 2019, the number of members became 10 (six inside and four outside directors).

**Special Feature** A Panel Discussion with Independent Directors at Investor Day 2019

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ask? I keep that in mind whenever I'm giving my thoughts, and I encourage the executives to constantly be aware of these viewpoints as well.

**Iwata** Sumitomo Corporation evaluates the Board of Directors once a year, and I'd like to share the results briefly with you. We hired a specialized vendor to handle the evaluation this year. They based their analysis on interviews and surveys given to each member of the board. The good thing about using a specialist is that it lets us compare ourselves to other companies. For most of the evaluation points, we were equal to or far better than other companies. The only point where we fell short was in "How easy materials are to understand." Sumitomo Corporation has broad business domains, with many backgrounds and technical terms for each business. This makes it very difficult for our independent directors to read the materials. However, the executives have been making various efforts, for example, recently introducing an executive summary and preparing a glossary for technical terms.

For the agenda of discussion, as Mr. Ehara mentioned, there are a lot of investment topics on the agenda. They are all major projects, and we discuss them almost every month. At the same time, we also discuss a lot of non-business matters. Although we spend less time on each case compared to investment issues, we do discuss roughly the same number of cases, so I would say that giving proper attention to ESG-related matters is one of Sumitomo Corporation's distinctive characteristics.

When it comes to strengthening the monitoring functions of the Board of Directors, we have started an initiative this year where each of the six business units makes reports on the situation behind the numbers every six months. We have also started deliberating topics where discussions are still at the halfway stage. It's one of the new things we are trying these days, and the point of such

deliberations isn't to decide anything but rather to have a free and easy exchange of ideas. It's more like an off-site meeting where we brainstorm ideas on the best direction to take.

One situation where I think I made a major contribution was when there was an item on the agenda last year about withdrawing from a particular project. I agreed we should withdraw, but I asked everyone to spend some time looking back at what was the true cause of this withdrawal and finding out if there might be some positive side effects to the process. And I added that once the whole case was settled, it would be important to summarize the situation and use it as a valuable lesson not only for the department in charge but for the entire company. As a result, the Board of Directors received a comprehensive summary of the case two or three months later.

**Sato** Can you give us specific details about what the Board of Directors discusses when it comes to large-scale investments, such as M&As?

**Ehara** Basically, we as independent directors, are allowed to share our opinions without being constrained by internal dynamics. That is both the responsibility and the mission of an independent director. I'd say we are getting paid as independent directors because we say something extraordinary or unique within the company.

One example of this is the Ambatovy Project. It's something that can happen in any company, but in large organizations in particular, there's a tendency to avoid talking about unpleasant things. Or for departments to simply look the other way when they should be checking each other. That's where independent directors like us have to prod the Board of Directors with some questions. Like, "What kind of timetable do we need to have for this issue?" "What kind of milestones should we set and how should we monitor them?" I believe that similar discussions are held in the Management Council, but I am sure that we are able to provide monitoring from a different perspective.

I'll give another example: discussions about coal-fired power generation projects. As you know, Sumitomo Corporation has been very strong in this field historically and has provided a lot of technology and services not only in Japan but also in many other countries around the world. It is not exaggerating to say Sumitomo Corporation has made a significant contribution to the world in that regard. We can be proud of that. On the other hand, there is a growing amount of pressure concerning coal-related business lately due to concerns about climate change issues.

It's difficult for an organization to make the decision to suppress one of its strengths. However, we as independent directors, are able to give advice from a different point of



view from the internal members of the company. Of course, the final decision is made by the executives, but we have been creating a forum for discussion by saying things like “We need to discuss this point more thoroughly,” and making suggestions such as, “Let’s have a few more people take part in this Board of Directors meeting so we can discuss this more deeply.” We have been discussing the issue of coal-fired power generation for a while, and I personally think we just needed another push. I believe the time is ripe for that, and I have suggested as much.

### Theme 3 The role of the Nomination and Remuneration Advisory Committee

**Sato** Our third topic is the Nomination and Remuneration Advisory Committee. You’ve been the chairman of the committee since 2016, Mr. Ehara. What can you tell us about the process for appointing a new president in 2018?

**Ehara** It was the first time for the committee to appoint a president. Although Mr. Hyodo was selected in the end, a tremendous amount of thought went into the entire process. The most important thing was to determine how to make the right decision through a fair process that many people could be satisfied with. What surprised me the most was that president at that time, Mr. Nakamura, never asked me to do things in a particular way.

The advisory committee consists of five members, three of whom are independent directors. That was how it was before I joined, and it was Sumitomo Corporation’s decision to organize it that way. It took us about 14 months to arrive at the decision to appoint Mr. Hyodo. The five of us spent the first four months discussing what kind of qualifications were required for the new company president. Out of the four qualifications we agreed on, the most important was this: the president should be someone who embodies Sumitomo’s Business Philosophy. We spent the remaining 10 months narrowing the list of candidates down to a few of people. We then observed them objectively, exchanged opinions with them and found various opportunities to interact with each candidate.

When the deadline was up, I asked each member of the committee, in my position as chairman, to choose one candidate. The results were unanimous. Overall, I thought it was a very good process as far as fairness was concerned.



### Theme 4 Sumitomo Corporation’s strengths and challenges

**Sato** Lastly I’d like to ask what you think the strengths and challenges of Sumitomo Corporation as it aims to increase its corporate value.

**Iwata** I believe that material issue management is one of Sumitomo Corporation’s strengths. Even before anyone suggested anything to me about becoming an independent director for this company, I was interested in Sumitomo Corporation as it was one of the leading companies in the industry when it comes to pursuing the United Nations Sustainable Development Goals (SDGs). The Company decided on Six Material Issues after asking themselves, “What can we do to help solve social issues through our business activities?” and incorporating the views of external experts as well.

As I mentioned earlier, the Board of Directors is spending a considerable amount of time on investment projects, and the relationship with Material Issues is clearly explained for individual investment projects. Every single case comes with an explanation of how it is related to a Material Issue and how it will help in solving a problem. I can feel the company’s seriousness from this step.

Sumitomo Corporation is an advanced company that is highly dedicated to addressing social issues, but it also has challenges that need to be overcome. One is that even though they attempt to tie every single project to the Material Issues, there is still the sense that they’re tacking the issues onto the projects. I believe that ideally, they need to identify the Material Issues first, and then search for new businesses or opportunities in order to fully integrate the businesses and the Material Issues together. I think they

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still have some way to go before they get to that point.

The other challenge I have identified is that some of the Six Material Issues overlap while others conflict with each other, which is something the company needs to overcome. For example, it's easy to see the conflict between "Achieving Harmony with the Global Environment" and "Contributing to the Development of Local Communities and Industries." To resolve such conflicts, the company will need to spend more time either debating prioritization or considering how to find ways or mindsets that can overcome those contradictions.

**Ehara** I often feel that when I talk about "what is management?," I agree with the view that says management is about finding a balance between making decisions with an emphasis on short-term objectives and decisions from a long-term perspective. It's common to hear people say that long-term perspectives are important, but I doubt they really understand the trade-offs that exist there. When you analyze the situation closely, you often realize they're actually focusing on short-term results. So when it comes

to Material Issues, I believe that projects with potentially large returns in the long-term are worth pursuing.

One of the other challenges for Sumitomo Corporation is attracting the attention of shareholders and investors. There is a wide variety of trading companies in Japan, so shareholders and investors have their pick of companies to support. So for those people who take time out of their busy schedules to gather for company events, the company should give messages and communications. And an attitude that makes them feel that they absolutely can't miss one of Sumitomo Corporation's briefing sessions. I feel that the company hasn't achieved that yet. What they need is to show everyone the self-confidence of a leader. I'd like to see them position themselves in such a way that they make everyone feel that you'll see what a trading company is really supposed to be like when you come to Sumitomo Corporation.

**Sato** Mr. Ehara, Ms. Iwata, thank you both very much for today.

## Question and answer session

After the panel discussion, the two directors answered questions posed by shareholders and investors at the venue.

Q

**What do you prioritize when you review executives' remuneration system?**

**Ehara** When we reviewed the executive remuneration structure last year, we discussed what would be the weight for qualitative or quantitative targets in our appraisal, and we leaned towards the qualitative perspective. The reason why I am keen on increasing the qualitative aspect was because I believe the kind of management that follows only numbers is not always right in the long-term.

Later, we also reviewed the absolute amount. I believe there are two factors behind this. One is that it is underpinned by good business performance. The other is because we believe that the executives should be

appropriately rewarded during the time they are running the company. This was based on a belief that we should make a clean break with the structure in many Japanese companies where workers are compensated when they become company chairpersons or advisors in future.

We also structured the system so that the total remuneration amount is reduced if performance deteriorates, which increases the link with the interests of shareholders. It is impossible to change remuneration standards completely in one year, so we are planning to change the system in the next three to five years.

Q

**Mr. Ehara, have you noticed any changes in the management or course of direction of the Board of Directors since you were appointed?**

**Ehara** According to members who were there before I became an independent director, discussions have become much more active than before, and I've seen a clear improvement over the past three years as well. To be honest, it's really difficult for a single independent director

to give their frank opinions, but if there were two or more it would be easier for them to speak. Things that would be impossible for one or two independent directors become possible when the number increases, and there's more room for making changes.

Q

**How deeply rooted do you think Environment, Social and Governance (ESG) initiatives are?**

**Iwata** I feel they are already deeply rooted in the executives' approach to management. However, I am not fully aware of how far awareness has spread to managers, young employees and the entire corporation. Sumitomo Corporation also has a lot of group companies in Japan and overseas, so I think there are still some areas where efforts are needed to ensure that the philosophy on ESG has been

cascaded down to each organization.

However, as I mentioned earlier, even though some areas still need to be improved, I can strongly feel the seriousness Sumitomo Corporation attaches to the issue at the Board of Directors level and at the Management Council level.

# Corporate Governance

## Corporate governance principles and system

### Corporate governance principles

Sumitomo Corporation established the Sumitomo Corporation Corporate Governance Principles while keeping in mind that the backbone of our corporate ethics is in Sumitomo's Business Philosophy and Management Principles. The Sumitomo Corporation Corporate Governance Principles were established 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. Following the Sumitomo Corporation Corporate Governance Principles, we are always seeking to establish the most appropriate managerial system for the Company and are strengthening our corporate governance to realize management that serves the interests of shareholders and all other stakeholders.

based on the view that strengthening and enhancing audit and supervisory structures is the most effective means of improving the effectiveness of corporate governance. The majority of the Audit & Supervisory Board Members are outside members who are either legal experts or accounting specialists, thereby ensuring that the audit system incorporates diverse perspectives. In addition, two or more Outside Directors with differing areas of experience and expertise are appointed with the aim of promoting appropriate decision-making by the Board of Directors based on a varied range of perspectives and further reinforcing supervisory functions. By strengthening the management audit and supervisory functions of independent Outside Directors and Outside Audit & Supervisory Board Members, we believe that we can realize even more effectively the corporate governance aims of improving management efficiency, maintaining sound management, and ensuring management transparency.

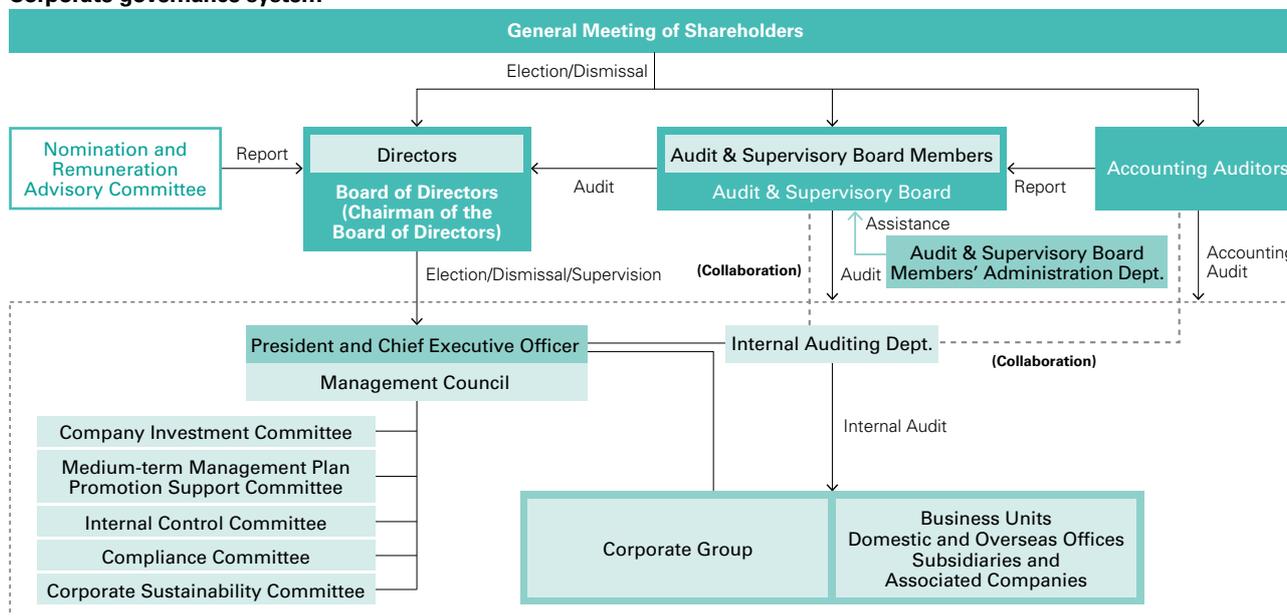
### System and features of corporate governance

We have adopted an Audit & Supervisory Board system

### Overview of corporate governance system (As of June 21, 2019)

Form of organizational structure	Company with Audit & Supervisory Board
Number of directors	10 (4 of whom are Outside Directors); 1-year term
Term of Chairman of the Board of Directors, President and Chief Executive Officer, and Outside Directors	No more than 6 years, in principle
Number of Audit & Supervisory Board members	5 (3 of whom are Outside Audit & Supervisory Board Members); 4-year term
Executive officers	Executive officer system adopted
Voluntarily established bodies as advisory bodies to the Board of Directors	Nomination and Remuneration Advisory Committee
Detailed information on corporate governance (website)	Home > About Us > Corporate Governance > Corporate Governance
Accounting auditors	KPMG AZSA LLC

### Corporate governance system



## Directors and the Board of Directors

### Composition of the Board of Directors

The composition of the Board of Directors ensures diversity in experience, knowledge, expertise, gender, and so on.

Of the 10 Directors, four are Outside Directors. Increasing the proportion of Outside Directors is designed to strengthen supervisory functions over management execution.

### Improvement of deliberation and enhancement of monitoring function at the Board of Directors

We carefully select agenda items requiring discussion by the Board of Directors so that the members can concentrate on the deliberation of important matters regarding companywide management, such as the management policy and management plan. At the same time, to strengthen its monitoring functions we have increased the number of matters to be reported to the Board of Directors, enabling the Board to focus more strongly on supervising the execution of business. We have also established opportunities for free exchange of opinion before decisions on important matters.

### Qualifications of Outside Directors and implementing regular meetings for exchanges of opinions

Our four Outside Directors satisfy the standards on independence set by Tokyo Stock Exchange, Inc. (TSE), and other financial instruments exchanges on which the Company is listed, as well as our in-house rules on Standards for Appointment and Independence of Outside Directors and Outside Audit & Supervisory Board Members. Leveraging a different type of experience and expertise, each Outside Director contributes to our corporate governance by providing a variety of independent viewpoints.

In addition, Outside Directors hold discussions and exchanges of opinions with the Chairman of the Board of Directors, the President and Chief Executive Officer, Internal Audit & Supervisory Board Members, and Outside Audit & Supervisory Board Members once a month, in principle.

### Reasons for appointing Outside Directors

We deemed the respective Outside Directors to be qualified for appointment because of the experience stated below, which will contribute to appropriate decision-making at meetings of the Board of Directors and further strengthen supervision.

### Reasons for appointing Outside Directors Additional item

Name	Reason for appointment	Term of office as Director	Member of the Nomination and Remuneration Advisory Committee	Expertise and experience				
				Business management	Investment	Finance	Legal affairs	Government body
Nobuyoshi Ehara	Wide-ranging knowledge and a wealth of experience in finance and business management accumulated during many years of engagement in a major U.S. financial institution and the management of a private-equity firm.	3 years	●	●	●	●	-	-
Koji Ishida	Wide-ranging knowledge and a wealth of experience in finance and business management accumulated during many years of engagement in a major financial institution and past position as a member of the Policy Board at the Bank of Japan.	2 years	●	●	-	●	-	●
Kimie Iwata	Wide-ranging knowledge and a wealth of experience in business management, corporate governance, corporate social responsibility, and diversity accumulated in managerial and Outside Director positions for private companies, before which she served in a succession of key positions in the Ministry of Labour (currently the Ministry of Health, Labour and Welfare) over the course of many years.	1 year	●	●	-	-	-	●
Hisashi Yamazaki	Highly specialized knowledge and a wealth of experience in law accumulated over the course of many years as a judge and an attorney at law.	1 year	-	-	-	-	●	●

Corporate Governance

**Establishment of the Nomination and Remuneration Advisory Committee** System review

The Nomination and Remuneration Advisory Committee, of which a majority of members are Outside Directors, and which is also chaired by an Outside Director, has been established as an advisory body to the Board of Directors.

In FY2018, the Committee reviewed the formulation of the respective policies and procedures for the appointment and dismissal of the President and Chief Executive Officer and the Chairman of the Board of Directors. The Committee also reviewed the items to be deliberated. Among the other matters discussed were the nomination of candidates for Director and Audit & Supervisory Board Member, the appointment of Management Council members, and the structure and level of remuneration and bonuses for

**Composition of the Nomination and Remuneration Advisory Committee**

Total Members	Internal Directors	Outside Directors	Committee Chairman
5 persons	2 persons (President and Chief Executive Officer, Chairman of the Board of Directors)	3 persons	Outside Director

Directors and Executive Officers. The outcome of these discussions was reported to the Board of Directors.

**Training and information provision for Directors and Audit & Supervisory Board Members** Additional item

On taking office, Outside Directors and Outside Audit & Supervisory Board Members have the opportunity to receive a briefing on areas including the Sumitomo Corporation Group’s Management Principles, management policy, business activities, finances, organization, medium-term management plan, and risk management system. To enable Directors and Audit & Supervisory Board Members to acquire the necessary knowledge and update it as appropriate, we additionally supply books and other materials and provide access to other resources including seminars and e-learning facilities.

To deepen their understanding of Sumitomo’s Business Philosophy, Outside Directors and Outside Audit & Supervisory Board Members, in principle, visit a Sumitomo-related facility during the first fiscal year of their term of office. Outside Directors are also given the opportunity to make an on-site observation visit to a facility in Japan and to

**Evaluation of the effectiveness of the Board of Directors**

To maintain and heighten the effectiveness of the Board of Directors, each year Directors and Audit & Supervisory Board Members analyze and evaluate its effectiveness through the use of self-evaluations and other means. We disclosed a summary of the results.

The evaluation of effectiveness of the Board of Directors and its results for FY2018 is summarized below:

**Evaluation method**

<b>Those covered</b>	All members of the Board of Directors (11 persons) and Audit & Supervisory Board Members (5 persons)
<b>Implementation method</b>	Anonymous questionnaire and interviews carried out in December 2018 and January 2019 Note: A third party (external consultant) was used in the conduct of the evaluation.
<b>Items evaluated</b>	1. Composition of the Board of Directors 2. Administration of the Board of Directors 3. Improvement of deliberation and enhancement of monitoring function at the Board of Directors 4. System for information provision and other support to outside officers 5. Individual efforts of Directors and Audit & Supervisory Board Members 6. Evaluation of improvement measures, etc.
<b>Evaluation process</b>	Questionnaire and interview responses collated by the third party (external consultant) were analyzed and the results reported to the Board of Directors.

an overseas facility at least once a year. In FY2018, visits were organized twice each to facilities in Japan and overseas facilities.

Prior to every meeting of the Board of Directors, we give a briefing to Outside Directors and Outside Audit & Supervisory Board Members on the agenda items due for discussion. For the purpose of timely and accurate

monitoring by the Board of Directors of the status of business execution companywide, the Board of Directors receives periodic reports on the medium-term management plan, including its state of progress, as well as reports from each business unit on its strategies and concrete initiatives and their state of progress.

## Management Council

### Highest executive-level decision-making body

In July 2015, the Management Council was reorganized to become the highest executive level decision-making body, with the aim of enabling decisions that take into account diverse opinions and multifaceted discussions in regard to specific key matters related to management, within the scope of the mandate conferred by the Board of Directors.

The Management Council, which meets in principle once a week, consists of the President and Chief Executive Officer, all chief officers of the Corporate Group, and the

general manager of each of the business units. In addition, in regard to specific issues that are extremely important from a companywide perspective, the Company has established, as advisory bodies to the President and Chief Executive Officer and to the Management Council, committees such as the Company Investment Committee, the Medium-term Management Plan Promotion Support Committee, the Internal Control Committee, the Compliance Committee, and the Corporate Sustainability Committee.

## Overview of the evaluation results

The overall evaluation concluded that the Board of Directors has generally been functioning effectively. At the same time, with regard to the addition of an executive summary compiling key points of the agenda and the creation of a glossary, which were implemented as measures to improve materials distributed at Board meetings, generally positive results were received; however, the need to improve the content of the main body of the materials was pointed out. With regard to the regular reporting by business units on strategy, specific initiatives, and their progress, which was conducted as a measure to strengthen timely and appropriate monitoring of the situation pertaining to business execution across the Company, a comment was made that the way of reporting and the duration of the discussions should be reviewed. There were also a wide variety of opinions and recommendations for improving the effectiveness of the Board of Directors.

## Main initiatives in response to issues raised by FY2018 evaluation

With regard to the abovementioned recommendations at the FY2018 Board of Directors evaluation, we will carry out the following improvement measures in FY2019 to further improve the effectiveness of the Board of Directors:

- (i) Materials distributed at Board meetings are required to explain technical terms in the main body with footnotes, etc. and clarify key points of discussions;
- (ii) Recognizing that management strategy, the management plan, and the business portfolio are matters to be focused on in discussions, regular reporting by business units on strategy, specific initiatives, and their progress are required to provide an explanation with a focus on issues in promoting the Medium-term Management Plan 2020, and solutions and policies to address the issues; and
- (iii) In Board meetings, discussions are required to be limited to important points on the agenda in order to secure more time for discussing agenda that are to be focused on and to enhance discussions.

## Corporate Governance

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### Audit & Supervisory Board Members and the Audit & Supervisory Board

#### Enhancement of auditing capabilities

In order to reinforce the audit function from an external perspective, three of the five Audit & Supervisory Board Members are Outside Audit & Supervisory Board Members. Of these, two are legal experts, and one is a specialist in accounting, such that the audit system incorporates diverse perspectives. Moreover, our three Outside Audit & Supervisory Board Members satisfy standards on independence stipulated by TSE and other financial instruments exchanges on which the Company is listed and our in-house rules on Standards for Appointment and Independence of Outside Directors and Outside Audit & Supervisory Board Members.

#### Collaboration between the Internal Auditing Department and accounting auditors

To ensure audit efficiency, Audit & Supervisory Board Members interact closely with the Internal Auditing Department, receiving reports on internal audit plans and their results in a timely manner. In addition, Audit & Supervisory Board Members 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 Audit & Supervisory Board Members constantly work to improve audit efficiency and quality. Furthermore, Audit & Supervisory Board Members 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 requiring their cooperation on audits.

#### Ensuring audit effectiveness

Audit & Supervisory Board Members attend meetings of the Board of Directors and all other important internal meetings, to obtain the information necessary for proper auditing. Audit & Supervisory Board Members also meet with the Chairman of the Board of Directors, the President and Chief Executive Officer and the Outside Directors, in principle once a month, to exchange opinions on Material Issues regarding management policy and auditing. Moreover, the Audit & Supervisory Board Members' Administration Department is assigned to assist Audit & Supervisory Board Members, so that the auditing system functions effectively and without hindrance.

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### Initiatives to ensure transparency of business management

#### Establishment of disclosure policy

To ensure that all stakeholders correctly understand its business management policy and business activities, the Company not only discloses statutorily required information but also actively discloses information on a voluntary basis. Moreover, the Company established the Corporate Disclosure Policy in July 2016.

#### Measures relating to 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 operated by Investor Communication Japan, Inc. (ICJ) a body established by TSE and other parties. The new platform allows institutional investors sufficient time to thoroughly examine the propositions to be resolved at the meeting. In addition, we stream video of the General Meeting of Shareholders on our website for a period of one year after the close of the meeting.

For details on the Corporate Disclosure Policy, please visit the following website.  
<https://www.sumitomocorp.com/en/-/media/Files/hq/about/governance/detail/disclosurepolicy160701.pdf>



## Senior Advisors, Honorary Advisors System review

The Nomination and Remuneration Advisory Committee is chaired by an Outside Director and is composed, in the majority, of Outside Directors. In May 2019, the senior advisor and honorary advisor system was amended by resolution of the Board of Directors based on the results of deliberation by the Nomination and Remuneration Advisory

Committee. Henceforth, former President and Chief Executive Officers and Chairmen of the Board of Directors shall be appointed as special advisors with a fixed term instead of senior advisors or honorary advisors. Special advisors shall receive compensation commensurate with their duties.

## Remuneration of Directors and Audit & Supervisory Board Members

The details of the structure and level of remuneration and bonuses for Directors, as well as the limits for remuneration of Audit & Supervisory Board Members, are evaluated by the Nomination and Remuneration Advisory Committee, an advisory body to the Board of Directors of which a majority of members are Outside Directors, and which is chaired by an Outside Director. The Committee reports the results of its deliberations to the Board of Directors.

In this way we strive to further improve the transparency and objectivity of remuneration.

Based on these reports, the specific composition and decision methods related to remuneration have been established as follows.

### Director remuneration (excluding that of the chairman of the Board of Directors and Outside Directors)

The Company has formulated an executive remuneration system according to the following basic policy to realize a plan with the aim of reinforcing our Group's governance and increasing our corporate value over the medium- to long-term, and promoting the Company's sustainable growth in line with our management strategy.

#### Basic policy

- By setting an appropriate ratio of fixed compensation (monthly remuneration) to variable compensation (performance-linked bonuses reflecting short-term results,

and stock compensation keyed to medium- to long-term results and shareholder value), the remuneration system provides a sound incentive toward sustainable growth.

- Through strengthening the relationship between performance-linked bonuses and the management strategies of the Sumitomo Corporation Group, we encourage the execution of duties compatible with management strategies and generate strong motivation to achieve specific management goals.
- By further reinforcing the relationship with shareholder value, the stock remuneration plan is intended to promote efforts to improve our corporate value over the medium- to long-term and to reinforce management with a shareholder perspective.

#### Remuneration ratios and levels

- In order to strengthen incentives for corporate performance based on management strategies, and improved corporate value over the medium- to long-term, the ratio of fixed compensation to variable compensation is set to an appropriate level.
- Referring to objective market survey data on remuneration provided by external specialist institutions, appropriate remuneration levels are set after considering the management environment of the Company.

### Ratios of remuneration (hypothetical impression)



This chart is a hypothetical impression computed on the basis of a prescribed corporate performance and the share prices of the Company's stock, with the aforementioned ratios subject to fluctuation pursuant to changes in corporate performance and the Company's share price.

Corporate Governance

Overall picture of the executive remuneration system

●, ○ and ◎ show the respective recipients of the remuneration, etc.

Type of remuneration		Details of remuneration, etc.	Recipient			
			Directors / Executive Officers (Note 1)	Chairman of the Board of Directors	Outside Directors	Audit & Supervisory Board Members
Fixed	Monthly remuneration (Note 2)	A fixed amount paid monthly in accordance with position	●	●	●	○
Variable	Performance-linked bonuses (Note 3)	From the perspective of strengthening the relationship between the management strategies of the Sumitomo Corporation Group and performance-linked bonuses, an amount equivalent to a certain ratio of the “basic profit cash flow” and “consolidated net income” performance management indicators that are emphasized in the medium-term management plan is deemed to be the total amount payable, and is allocated in accordance with positions and individual evaluations.	◎	–	–	–
	Restricted stock-based compensation (Restricted stock) (Notes 2 and 4)	Restricted-transfer common shares of the Company are allocated every year, in principle. In order to accomplish the sharing of values with shareholders over the medium- to long-term, which is one of the purposes of implementing the system, the period of transfer restrictions is deemed to hold from the date on which the stock is allocated to the date on which the individual retires or resigns from any of the posts of Director, Executive Officer, or some other positions prescribed by the Board of Directors.	●	●	–	–
	Performance share unit-based stock compensation (Performance share unit) (Notes 2 and 4)	Every year (in principle), a number of common shares of the Company decided according to the growth rate of the Company’s shares (calculated during the three-year evaluation period by dividing the Company’s total shareholder return (TSR) by the growth rate of Tokyo Stock Exchange Stock Price Index (TOPIX)) shall be allocated at the end of the evaluation period.	●	●	–	–

Notes:

- Excluding the Chairman of the Board of Directors and Outside Directors.
- Regarding the total value of Directors’ remuneration (excluding bonuses), it was resolved at the 145th Ordinary General Meeting of Shareholders held on June 21, 2013, to set a yearly limit of ¥1.2 billion (of which, ¥60 million for Outside Directors). For Outside Directors’ remuneration, it was resolved at the 150th Ordinary General Meeting of Shareholders held on June 22, 2018, to amend the yearly limit from ¥60 million to ¥100 million. Moreover, at the 150th Ordinary General Meeting of Shareholders, it was resolved to grant to Directors (excluding Outside Directors), within the limits of the relevant remuneration range, monetary remuneration receivables for the allocation of restricted stock-based compensation or performance share unit-based stock compensation in lieu of stock options (new share acquisition rights in the form of stock options and new share acquisition rights in the form of stock options for a stock compensation plan), with the yearly upper limit set at ¥130 million for restricted stock-based compensation and ¥430 million for performance share unit-based stock compensation (giving a combined yearly limit of ¥560 million). In other words, the yearly upper limit of monthly remuneration, restricted stock-based compensation, and performance share unit-based stock compensation for Directors (marked above with ●) is set at ¥1.2 billion (of which,

- ¥100 million for Outside Directors). The amount payable to each Director is determined on this basis by resolution of the Board of Directors. In addition, in relation to the monthly remuneration for Audit & Supervisory Board Members (marked above with ○), it was resolved at the 145th Ordinary General Meeting of Shareholders held on June 21, 2013, that the maximum amount is ¥180 million, based on which the amount of remuneration for individual Audit & Supervisory Board Members is resolved by discussions of the Audit & Supervisory Board.
- With regard to performance-linked bonuses for Directors (marked above with ◎), because the linkage to performance is strong, it shall be paid every year after a resolution of the General Meeting of Shareholders. Moreover, the Chairman of the Board of Directors and Outside Directors shall not receive performance-linked bonuses.
  - The total value of monetary remuneration receivables in order to allocate stock compensation, and the upper limit to the total number of common shares of the Company issued or disposed of, are as follows. In addition, the first occasion on which common shares of the Company will be allocated as performance share unit-based stock compensation will be at the end of the first evaluation period (around August 2021).

Type of remuneration	Directors (excluding Outside Directors) and Executive Officers		Directors (excluding Outside Directors) among those indicated on the left	
	Total value of monetary remuneration receivables	Total number of common shares of the Company	Total value of monetary remuneration receivables	Total number of common shares of the Company
Restricted stock-based compensation	Up to ¥520 million per year	Up to 490,000 shares per year	Up to ¥130 million per year	Up to 120,000 shares per year
Performance share unit-based stock compensation	Up to ¥1,700 million per year	Up to 730,000 shares per year	Up to ¥430 million per year	Up to 180,000 shares per year
Total	Up to ¥2,220 million per year	Up to 1,220,000 shares per year	Up to ¥560 million per year	Up to 300,000 shares per year

Note: In setting the total value of monetary remuneration receivables and the total number of common shares of the Company (upper limit) referred to above with reference to the performance share unit-based stock compensation, the growth rate of the Company’s shares during the three-year evaluation period, among other factors, is taken into account and it is assumed that the total number of common shares of the Company allocated (and the total value of monetary remuneration receivables paid in that regard) shall be the maximum possible.

## Details of executive remuneration for FY2018

Classification	Directors (of which Outside Directors)	Audit & Supervisory Board Members (of which Outside Audit & Supervisory Board Members)	
Number of recipients	14 (5)	6 (3)	
Total amount of remuneration pertaining to FY2018 (millions of yen)	1,026(67)	125(38)	
Breakdown of remuneration, etc. (millions of yen)	Monthly remuneration	547(67)	
	Directors' bonuses	327 (-)	
	Stock options	14 (-)	
	Restricted stock-based compensation (restricted stock)	73 (-)	
	Performance share unit-based stock compensation (performance share unit)	66 (-)	- (-)

### Notes:

- As of the end of March 2019, there were 11 Directors and five Audit & Supervisory Board Members (including five Outside Directors and three Outside Audit & Supervisory Board Members).
- No Director of the Company is concurrently an employee of the Company.
- The amounts in "Directors' bonuses" above are the upper limit of the total amounts payable to five Directors as of the end of the fiscal year and approved at the 151st Ordinary General Meeting of Shareholders held on June 21, 2019.
- The above stock options are the total amounts recorded in the fiscal year as expenses for granting the Twelfth New Share Acquisition Rights (stock-linked compensation) issued on July 31, 2017. Note that, following the introduction of restricted stock-based compensation and performance share unit-based stock compensation based on the resolution of the 150th Ordinary General Meeting of Shareholders held on June 22, 2018, it was decided, starting from FY2018, to undertake no new issue of stock options (new share acquisition rights in the form of stock options and new share acquisition rights in the form of stock options for a stock compensation plan).
- The amounts of restricted stock-based compensation above represent the expense recorded in the relevant fiscal year for the restricted stock-based compensation allocated in accordance with the resolution of the 150th Ordinary General Meeting of Shareholders held on June 22, 2018.
- The amounts of performance share unit-based stock compensation above represent the expense to be recorded in the relevant fiscal year based on a calculation of the expected amount of monetary remuneration receivables payable in line with the number of shares expected to be awarded in 2021 in accordance with the resolution of the 150th Ordinary General Meeting of Shareholders held on June 22, 2018.
- Regarding the total value of Directors' remuneration (excluding bonuses), it was resolved at the 145th Ordinary General Meeting of Shareholders held on June 21, 2013, to set a yearly limit of ¥1.2 billion (of which, ¥60 million for Outside Directors). For Outside Directors' remuneration, it was resolved at the 150th Ordinary General Meeting of Shareholders held on June 22, 2018, to amend the yearly limit from ¥60 million to ¥100 million. Moreover, at the 150th Ordinary General Meeting of Shareholders, it was resolved to grant to Directors (excluding Outside Directors), within the limits of the relevant remuneration range, monetary remuneration receivables for the allocation of restricted stock-based compensation or performance share unit-based stock compensation in lieu of stock options (new share acquisition rights in the form of stock options and new share acquisition rights in the form of stock options for a stock compensation plan), with the yearly upper limit set at ¥130 million for restricted stock-based compensation and ¥430 million for performance share unit-based stock compensation (giving a combined yearly limit of ¥560 million).
- The maximum amount of monthly remuneration to Audit & Supervisory Board Members is ¥180 million per year, as resolved at the 145th Ordinary General Meeting of Shareholders held on June 21, 2013.
- In the value given in the "Breakdown" for Directors, amounts below ¥1 million are rounded off, as a result of which the total for these figures and the total value of remuneration for Directors do not match.

## Cross-shareholdings Policy review

The Company takes various considerations into account when making decisions about whether to hold shares in other listed companies for purposes other than pure investment. It fully considers issues such as whether the shareholding will lead to medium- to long-term growth in profits as a result of maintaining and strengthening the business relationship with the investee company, from the perspective of investment profit, such as a comparison with the capital cost of individual stocks. Based on the above, the Company reviews the significance of its shareholdings and reports the results thereof to the Board of Directors each year. Where the significance of its shareholdings cannot be confirmed, the Company has a policy of reducing the holding.

The Company also takes various considerations into account under the internal guidelines when making decisions in exercising its voting rights. Having fully considered issues from both quantitative and qualitative standpoints, it adequately exercises voting rights for each agenda based on whether exercising voting rights will lead to enhanced medium- to long-term corporate value at the investee company and the Company and to enhanced value for its own shareholders.

When a company holding the Company's stock for purposes other than pure investment indicates to dispose of its holdings, the Company respects the decision in principle and ensures that their business relationship will not be influenced.

## Benefit pension plans

The Company deploys personnel with financial market and investment experience as investment managers and monitors the operations of pension assets. When selecting an external asset manager, the Company makes appropriate checks on its investment performance and management structure including governance and continues to periodically monitor these during the investment management operations.

Furthermore, the Pension Management Committee, which is chaired by the Chief Administration Officer and composed of managers in charge of human resources, finance and accounting organizations, verifies the investment performance and the financial position of pension assets, makes reports to the Management Council and also discloses them to the pension holders.

# Directors, Audit & Supervisory Board Members, and Executive Officers

(As of June 21, 2019, Executive Officers: As of July 1, 2019)

■ Shares owned in the Company (As of March 31, 2019) ■ Attendance at Meetings of the Board of Directors in FY2018

## Directors

**Kuniharu Nakamura**  
Chairman



■ 124,200 shares  
■ 20/20

Apr. 1974 Entered the Company  
Jun. 2012 Representative Director, President and CEO  
Jun. 2017 Representative Director, President and Chief Executive Officer  
Jun. 2018 Chairman of the Board of Directors

**Masayuki Hyodo**  
Representative Director



■ 39,800 shares  
■ 16/16

Apr. 1984 Entered the Company  
Jun. 2018 Representative Director, President and Chief Executive Officer

**Koichi Takahata**  
Representative Director



■ 47,100 shares  
■ 20/20

Apr. 1978 Entered the Company  
Apr. 2019 Representative Director, Executive Vice President, Chief Financial Officer

**Hideki Yamano**  
Representative Director



■ 14,252 shares  
■ 16/16

Apr. 1983 Entered the Company  
Jun. 2018 Representative Director, Managing Executive Officer, Chief Strategy Officer and Chief Information Officer

**Toshikazu Nambu**  
Representative Director



■ 46,400 shares  
■ -

Apr. 1982 Entered the Company  
Jun. 2019 Representative Director, Senior Managing Executive Officer, General Manager, Media & Digital Business Unit, Chief Digital Officer

**Takayuki Seishima**  
Representative Director



■ 16,000 shares  
■ -

Apr. 1984 Entered the Company  
Jun. 2019 Representative Director, Managing Executive Officer, Chief Administration Officer and Chief Compliance Officer

## Outside Directors

<p><b>Nobuyoshi Ehara</b> Outside Director Independent</p> <p>0 shares 20/20</p> 	<p>Sep. 1978 Entered Morgan Guaranty Trust Company Oct. 1980 Entered Goldman Sachs &amp; Co. Oct. 1988 Partner, Goldman Sachs &amp; Co. Nov. 1996 Limited Partner, Goldman Sachs &amp; Co.</p>	<p>Jan. 1999 Representative Director, Unison Capital, Inc. (present position) Jun. 2016 Outside Director, Sumitomo Corporation (present position)</p>
<p><b>Koji Ishida</b> Outside Director Independent</p> <p>0 shares 20/20</p> 	<p>May 1970 Entered The Sumitomo Bank, Limited Jun. 1997 Director, The Sumitomo Bank, Limited Jun. 1999 Executive Officer, The Sumitomo Bank, Limited Jan. 2001 Managing Executive Officer, General Manager of Corporate Planning Dept., The Sumitomo Bank, Limited Apr. 2001 Managing Executive Officer, General Manager of Corporate Planning Dept., Sumitomo Mitsui Banking Corporation (SMBC) Jun. 2002 Managing Executive Officer, Head of Tokyo Corporate Banking Division I, SMBC Jun. 2003 Representative Director, Managing Director, Sumitomo Mitsui Financial Group, Inc. (SMFG) Apr. 2004 Representative Director, Senior Managing Director, SMFG Jun. 2005 Standing Corporate Auditor, SMFG (retired in June 2006) Corporate Auditor, SMBC (retired in June 2006)</p>	<p>Jun. 2006 President &amp; CEO, SMBC Leasing Co., Ltd. Oct. 2007 President, Sumitomo Mitsui Finance and Leasing Co., Ltd. (SMFL; retired in June 2011) *1 Jun. 2011 Member of the Policy Board, the Bank of Japan (retired in June 2016) Jul. 2016 Member of the Management Advisory Committee, KPMG AZSA LLC Jun. 2017 Outside Director, Sumitomo Corporation (present position) Jul. 2017 Member of the Public Interest Oversight Committee, KPMG AZSA LLC (present position)</p> <p>*1 In October 2007, SMBC Leasing Co., Ltd. merged with Sumisho Lease Co., Ltd. to become SMFL. Mr. Ishida continued in office as president of SMFL, retiring in June 2011.</p>
<p><b>Kimie Iwata</b> Outside Director Independent</p> <p>0 shares 16/16</p> 	<p>Apr. 1971 Entered the Ministry of Labour (currently Ministry of Health, Labour and Welfare) Jul. 1996 Deputy Director-General, Human Resource Development Bureau, Ministry of Labor Oct. 1998 Assistant Minister of Labor for International Affairs Jan. 2001 Director-General of Equal Employment, Children and Families Bureau (retired in August 2003) Jun. 2004 Director, Corporate Officer, Shiseido Company, Limited Jan. 2007 Member, Council for Gender Equality, the Cabinet Office Apr. 2007 Director, Corporate Executive Officer, Shiseido Company, Limited Apr. 2008 Director and Vice President, Shiseido Company, Limited Jun. 2008 Representative Director, Executive Vice President, Shiseido Company, Limited Mar. 2012 Outside Audit &amp; Supervisory Board Member, Kirin Holdings Company, Limited</p>	<p>Apr. 2012 Director, Shiseido Company, Limited Jun. 2012 Adviser, Shiseido Company, Limited (retired in June 2016) Jul. 2012 Outside Director, Japan Airlines Co., Ltd. (retired in June 2018) President, Japan Institute for Women's Empowerment &amp; Diversity Management (retired in June 2018) Sep. 2013 Commissioner, the Consumer Commission, the Cabinet Office Oct. 2015 Audit and Inspection Commissioner, the Tokyo Metropolitan Government (present position) Mar. 2016 Outside Director, Kirin Holdings Company, Limited (retired in March 2019) Apr. 2016 Outside Director, Stripe International Inc. (retired in April 2019) Jun. 2018 Outside Director, Sumitomo Corporation (present position) Jun. 2019 Outside Director, Resona Holdings, Inc. (present position)</p>
<p><b>Hisashi Yamazaki</b> Outside Director Independent</p> <p>0 shares 16/16</p> 	<p>Apr. 1974 Assistant Judge Apr. 1995 Presiding Judge, Tokyo District Court Dec. 2000 Chief, Training and Research Institute for Family Court Probation Officers Dec. 2002 Chief, Family Bureau, General Secretariat, Supreme Court Dec. 2005 Chief Judge, Maebashi District Court Feb. 2007 Chief Judge, Yokohama Family Court Dec. 2008 Presiding Judge, Tokyo High Court Aug. 2009 President, Tokyo Family Court Feb. 2011 President, Sapporo High Court (retired in March 2013)</p>	<p>Mar. 2013 Commissioner, Japan Fair Trade Commission (retired in December 2015) Aug. 2016 Attorney at Law (present position) Jul. 2017 Supervisory Board Member, National Federation of Agricultural Cooperative Associations (present position) Jun. 2018 Outside Director, Sumitomo Corporation (present position) Outside Director, Tokyo Commodity Exchange, Inc. (present position)</p>

Directors, Audit & Supervisory Board Members, and Executive Officers

■ Shares owned in the Company (As of March 31, 2019) ■ Attendance at Meetings of the Board of Directors in FY2018  
 ○ Attendance at Meetings of Audit & Supervisory Board in FY2018

Audit & Supervisory Board Members

<p><b>Michihiko Hosono</b> Senior Audit &amp; Supervisory Board Member (Full-time)</p>  <p>■ 38,500 shares                  ■ —                  ○ —</p>	<p>Apr. 1981 Entered the Company, A staff of Legal Dept.                      May 1994 Assistant to General Manager for Europe Region (London)                      Jun. 1999 Assistant to General Manager, Legal Dept.                      Nov. 2007 Assistant to General Manager, Legal Dept.                      Assistant to General Manager, Corporate Legal &amp; General Affairs Dept.                      Aug. 2008 General Manager, Corporate Legal &amp; General Affairs Dept.                      Apr. 2011 Corporate Officer, General Manager, Corporate Legal &amp; General Affairs Dept.</p>	<p>Apr. 2013 Executive Officer, General Manager, Legal Dept.                      Apr. 2015 Executive Officer, Assistant CAO, General Affairs &amp; Legal, General Manager, Legal Dept.                      Aug. 2015 Executive Officer, Assistant CAO, General Affairs &amp; Legal                      Apr. 2016 Managing Executive Officer, Assistant CAO, General Affairs &amp; Legal                      Apr. 2019 Adviser                      Jun. 2019 Senior Audit &amp; Supervisory Board Member (present position)</p>
<p><b>Toshiaki Murai</b> Audit &amp; Supervisory Board Member (Full-time)</p>  <p>■ 7,400 shares                  ■ 16/16                  ○ 12/12</p>	<p>Apr. 1980 Entered the Company, A staff of Planning &amp; Development Dept. Fuel &amp; Carbon Division                      Jul. 1985 A staff of Carbon Dept.                      Sep. 1994 Sumitomo Corporation (U.K.) PLC.                      Sep. 2000 Assistant Manager, Carbon Dept.                      Apr. 2002 Team Leader, Carbon Products, Carbon Dept.                      May. 2005 Deputy General Manager, Carbon Dept.                      Oct. 2006 General Manager, Carbon Dept.                      Apr. 2010 General Manager, Mineral Resources &amp; Energy Group (Pittsburgh) Sumitomo Corporation North America                      General Manager, Pittsburgh Office</p>	<p>Apr. 2012 General Manager, Mineral Resources &amp; Energy Group (New York) Sumitomo Corporation North America, New York Head Office &amp; General Manager, Pittsburgh Office                      Aug. 2013 Senior Vice President                      General Manager, Mineral Resources &amp; Energy Group (New York)                      Sumitomo Corporation North America, New York Head Office                      Apr. 2014 Corporate Officer, General Manager, Mineral Resources Division No.1                      Apr. 2016 Executive Officer, General Manager, Mineral Resources Division No.1                      Apr. 2018 Adviser                      Jun. 2018 Audit &amp; Supervisory Board Member (present position)</p>
<p><b>Haruo Kasama</b> Outside Audit &amp; Supervisory Board Member (Lawyer) Independent</p>  <p>■ 13,600 shares                  ■ 19/20                  ○ 17/17</p>	<p>Apr. 1974 Public Prosecutor                      Jun. 2001 Chief Public Prosecutor of the Kofu Public Prosecutor's Office                      Oct. 2002 Deputy Public Prosecutor of the Tokyo District Public Prosecutor's Office                      Jun. 2005 Deputy Public Prosecutor of the Tokyo High Public Prosecutors Office                      Jun. 2006 Director of Criminal Division in Supreme Public Prosecutors Office                      Oct. 2007 Deputy Prosecutor-General                      Jan. 2009 Superintendent Public Prosecutor of the Hiroshima High Public Prosecutors Office                      Jun. 2010 Superintendent Public Prosecutor of the Tokyo High Public Prosecutors Office</p>	<p>Dec. 2010 Prosecutor-General (retired in July 2012)                      Oct. 2012 Attorney at Law (present position)                      Jun. 2013 Outside Audit &amp; Supervisory Board Member, Sumitomo Corporation (present position)                      Outside Director, JAPAN POST HOLDINGS Co., Ltd. (retired in June 2016)                      Outside Audit &amp; Supervisory Board Member, Sampo Holdings, Inc. (retired in June 2017)                      Feb. 2014 Outside Corporate Auditor, Kewpie Corporation (retired in February 2018)                      Jun. 2018 Outside Audit &amp; Supervisory Board Member, Toppan Printing Co., Ltd. (present position)</p>
<p><b>Toshio Nagai</b> Outside Audit &amp; Supervisory Board Member (Lawyer) Independent</p>  <p>■ 0 shares                  ■ 20/20                  ○ 17/17</p>	<p>Apr. 1974 Assistant Judge                      Apr. 1986 Judicial Research Official, Supreme Court                      Apr. 1997 Presiding Judge, Tokyo District Court                      Sep. 2001 Senior Judicial Research Official, Supreme Court                      Dec. 2006 Chief Judge, Kofu District/Family Court                      Dec. 2007 Presiding Judge, Tokyo High Court                      Nov. 2008 Chief Judicial Research Official, Supreme Court                      Mar. 2012 President, Hiroshima High Court</p>	<p>Mar. 2013 President, Osaka High Court (retired in July 2014)                      Sep. 2014 Attorney at Law (present position)                      Jun. 2015 Outside Corporate Auditor, Toray Industries, Inc. (present position)                      Jun. 2016 Outside Audit &amp; Supervisory Board Member, Sumitomo Corporation (present position)</p>
<p><b>Yoshitaka Kato</b> Outside Audit &amp; Supervisory Board Member (Certified Public Accountant) Independent</p>  <p>■ 0 shares                  ■ 20/20                  ○ 17/17</p>	<p>Nov. 1974 Entered Tetsuzo Ota &amp; Co.*2                      Sep. 1978 Certified Public Accountant (present position)                      May 1998 Representative Associate, Showa Ota &amp; Co.*2                      Jun. 2006 Executive Director, Ernst &amp; Young ShinNihon *2                      Aug. 2008 CEO, Ernst &amp; Young ShinNihon LLC*2 (retired from Ernst &amp; Young ShinNihon LLC in June 2014)</p>	<p>Jun. 2015 Outside Corporate Auditor, Sumitomo Chemical Company, Limited (present position)                      Outside Corporate Auditor, Mitsui Fudosan Co., Ltd. (present position)                      Auditor, the General Insurance Rating Organization of Japan (present position)                      Jun. 2016 Outside Audit &amp; Supervisory Board Member, Sumitomo Corporation (present position)</p>

\*2 The name was changed to "Ernst & Young ShinNihon LLC" on July 1, 2018.

## Executive Officers

### President and Chief Executive Officer

**Masayuki Hyodo**

### Executive Vice President

**Koichi Takahata**  
Chief Financial Officer

### Senior Managing Executive Officers

**Masato Sugimori**  
Director, Executive Vice President,  
Jupiter Telecommunications  
Co., Ltd.

**Toshikazu Nambu**  
General Manager,  
Media & Digital Business Unit,  
Chief Digital Officer

**Fumihiko Koba**  
General Manager, Metal Products  
Business Unit

**Shingo Ueno**  
General Manager, Mineral  
Resources, Energy, Chemical &  
Electronics Business Unit

**Shoichiro Oka**  
General Manager, Transportation &  
Construction Systems Business Unit

### Managing Executive Officers

**Kiyoshi Sunobe**  
President and CEO, Sumitomo  
Corporation Global Research  
Co., Ltd.

**Hideo Ogawa**  
General Manager, Internal  
Auditing Dept.

**Daisuke Mikogami**  
General Manager for East Asia;  
CEO of Sumitomo Corporation  
China Group;  
General Manager, Sumitomo  
Corporation (China)  
Holding Ltd.

**Tsutomu Akimoto**  
General Manager, Infrastructure  
Business Unit

**Masato Ishida**  
General Manager for Europe,  
Middle East, Africa & CIS;  
Chairman of Sumitomo  
Corporation Europe Holding  
Limited

**Nobuki Ando**  
General Manager, Living Related &  
Real Estate Business Unit

**Hideki Yamano**  
Chief Strategy Officer and Chief  
Information Officer

**Keiji Tanaka**  
General Manager for Japan  
Region; General Manager,  
Kansai Office

**Takayuki Seishima**  
Chief Administration Officer and  
Chief Compliance Officer

**Masaki Nakajima**  
General Manager for the  
Americas; President and CEO of  
Sumitomo Corporation of  
Americas Group; Director and  
President of Sumitomo  
Corporation of Americas

**Keigo Shiomi**  
General Manager for Asia &  
Oceania; CEO of Sumitomo  
Corporation Asia & Oceania  
Group; President and CEO,  
Sumitomo Corporation Asia &  
Oceania Pte. Ltd.

**Koji Tamefusa**  
Assistant CFO, Risk Management

### Executive Officers

**Reiji Morooka**  
Representative Director,  
Senior Managing Executive Officer,  
Sumitomo Mitsui Finance and  
Leasing Co., Ltd.

**Toyoaki Funakoshi**  
General Manager, Planning &  
Coordination Dept., Infrastructure  
Business Unit

**Yasushi Fukuda**  
General Manager, Logistics  
Infrastructure Business Division

**Yoshiyuki Sakamoto**  
General Manager, Planning &  
Coordination Dept., Mineral Resources,  
Energy, Chemical & Electronics  
Business Unit

**Kei Sato**  
General Manager, Lifestyle & Retail  
Business Division

**Norihiko Nonaka**  
General Manager, Global Power  
Infrastructure Business Division

**Masaru Shiomi**  
Assistant CFO, Finance

**Iehisa Nakamura**  
General Manager, Media Division

**Bin Haga**  
General Manager, Corporate  
Planning & Coordination Dept.

**Kenji Shinmori**  
President and CEO,  
Jupiter Shop Channel Co., Ltd.

**Shinji Nakano**  
Assistant General Manager for  
Asia & Oceania;  
President and CEO, Sumitomo  
Corporation Thailand, Ltd.;  
President and CEO, Sumi-Thai  
International Limited;  
General Manager, Vientiane office,  
Sumitomo Corporation  
Asia & Oceania Pte. Ltd.

**Mitsuhiro Takeda**  
Assistant General Manager for the  
Americas; Executive Vice President and  
CFO of Sumitomo Corporation of  
Americas Group; Executive Vice  
President and CFO of Sumitomo  
Corporation of Americas

**Shinichi Kato**  
General Manager, Automobility  
Business Division;  
General Manager, Mobility  
Service Business Dept.2

**Hirokazu Higashino**  
General Manager, Planning &  
Coordination Dept., Living Related  
& Real Estate Business Unit

**Haruo Matsuzaki**  
Assistant General Manager for  
the Americas; General Manager  
for South America; President of  
Sumitomo Corporation do  
Brasil S.A.

**Katsuya Inubushi**  
Assistant General Manager for  
Japan Region; General Manager,  
Chubu Office

**Yoshinori Mukaida**  
General Manager, Finance Dept.

**Hiroyuki Sugai**  
Assistant CFO, Accounting;  
General Manager, Accounting  
Controlling Dept.

**Haruhiko Aritomo**  
General Manager, Mineral  
Resources Division No.2

**Eiji Ishida**  
General Manager, Lease, Ship &  
Aerospace Business Division

**Nobuhiro Yoshida**  
General Manager, Planning &  
Coordination Dept., Transportation  
& Construction Systems  
Business Unit

**Hiroyuki Koike**  
General Manager, Planning &  
Coordination Dept., Media &  
Digital Business Unit

**Tomonori Wada**  
Assistant General Manager,  
Living Related & Real Estate  
Business Unit

# Internal Control

## Basic principles and system

### Basic principles of internal control system (definitions/purpose)

The Sumitomo Corporation Group comprises six business units as well as regional organizations in Japan and overseas. Business units, organizations, and group companies collectively work together in a broad range of business fields. In order to realize sustainable growth and development for the Sumitomo Corporation Group, as well as enhance the operational quality of each of the group companies, we stipulate basic regulations for internal control, and practice the construction, management, evaluation, and revision of appropriate internal control systems. To rationally ensure compliance with laws and regulations throughout the entire Group in relation to business activities, safeguarding assets against loss, effectiveness and efficiency of operations, and reliability of financial reporting, initiatives are being taken to improve group governance.

### Internal control system



## Compliance

### Basic policy and system

#### Basic policy

The basis for the Sumitomo Corporation Group’s compliance is to win the trust of society by practicing the Activity Guideline that states “to comply with laws and regulations while maintaining the highest ethical standards.”

Accordingly, we follow our principles of “Compliance as Top Priority,” which means compliance takes priority over all activities of the Group and that we must never violate compliance as a result of giving priority to the pursuit of profit, and “Immediate Report,” which means, in the event of a compliance problem, employees must report the situation without delay to their line manager and to the relevant department of the Corporate Group.

### Establishment of the Sumitomo Corporation Group Compliance Policy

In March 2019, to send a clear message to the entire Group regarding the basic compliance policy outlined above, we established the Sumitomo Corporation Group Compliance Policy, which is based on and replaces the Compliance Guiding Principles of Sumitomo Corporation, as a policy to be applied to the entire Group. We are now engaged in a program of seminars and other ongoing educational activities to ensure that the policy is embedded and fully implemented across the Group.

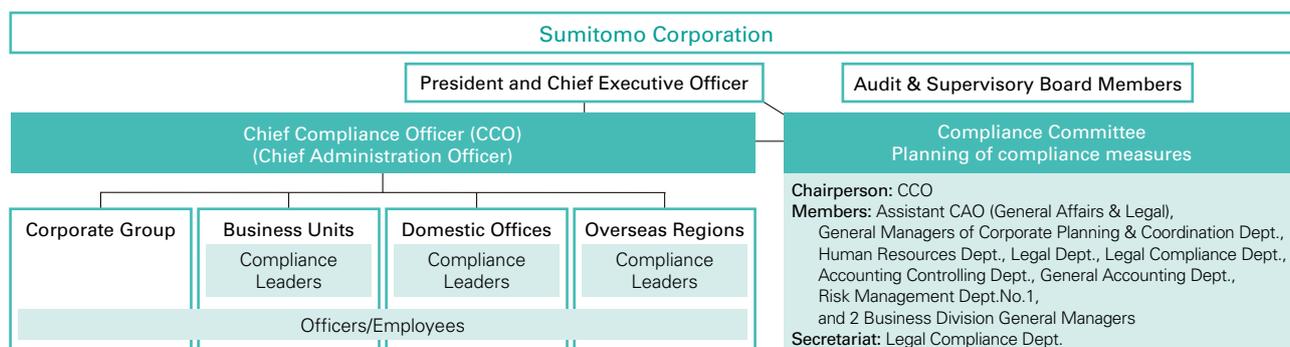
### Compliance management system

Sumitomo Corporation appoints a Chief Compliance Officer (CCO), who has ultimate responsibility for compliance. Further, the Compliance Committee, which plans compliance measures, includes the general managers not only of the Corporate Group but also of the business divisions. This system enables measures to be examined in a multifaceted way that takes into account the entire Group.

The Sumitomo Corporation Group Compliance Policy can be viewed on our corporate website with translation into multiple languages.  
<https://www.sumitomocorp.com/en/jp/about/governance/compliance/policy>



## Compliance management system



## Speak-Up System

### Continuous improvement of the Speak-Up System

In the event of a compliance problem, we operate a Speak-Up System that provides a hotline to the CCO in addition to the regular organizational reporting lines.

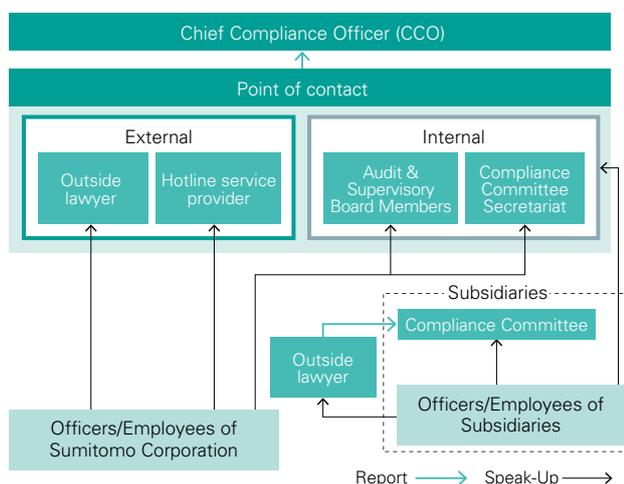
Under this system, the fact and details of the report are maintained in the strictest confidence, and it is ensured that the whistle-blower is not subject to disadvantageous treatment for making the report.

We have additionally established a set of internal rules to define in greater detail the system's operation and appointed an external hotline service as an additional whistleblowing hotline. We issue employees with a Speak-Up Card presenting an outline of the system and contact details, hold in-house seminars, and implement other measures to further encourage the use of the system.

### Launch of SC Global Speak-Up System

We have also launched a groupwide Speak-Up System that enables employees of all group companies to report concerns, whether in Japan or overseas.

### Structure of the Speak-Up System



## Initiatives to ensure compliance

### Appropriate responses to compliance violations and preventive measures

In the event of a compliance problem, the Legal Dept. and Legal Compliance Dept. take the lead role in working to promptly establish the facts and clarify the causes, appointing external advisors if necessary and liaising with relevant departments in Japan and overseas. Based on the outcome, we take corrective measures, disciplinary action, and preventive measures.

The Compliance Committee Secretariat records and analyzes data on compliance violations within the Group, including the number of cases and measures taken to prevent recurrence, and factors this data into the planning of future compliance measures. The results are deliberated at meetings of the Compliance Committee, and reports are made periodically to the Management Council and the Board of Directors. Through this process of repeatedly improving and enhancing such measures, we strive to further encourage thorough compliance throughout the Group.

### Continuous education program initiatives

Issues particularly important from a compliance perspective, such as antitrust, security trade control, and anti-bribery/corruption, are explained in the Compliance Manual issued to all officers and employees of Sumitomo Corporation.

Furthermore, both in Japan and overseas, we implement various education programs for each class of employee, such as newcomers, newly appointed general managers, and newly appointed corporate officers, as well as provide e-learning programs for all employees. In addition to these regular activities, we hold seminars and training sessions on an ongoing basis as required.

## Internal Control

### Anti-bribery/corruption initiatives

The Sumitomo Corporation Group implements strict measures to prevent bribery, inappropriate payments, and all other forms of corruption. Specifically, we have established the Rules for Prevention of Bribery to Public Officials, which regulates the provision to public officials in Japan and overseas of entertainment, gifts, invitations and donations, and the selection of agents. In addition, taking into account revisions to the laws and regulations of each country, and advice from various external specialists, we continuously review our internal rules and guidelines. Further, we extend

these rules and guidelines to overseas offices and group companies, and we also offer ongoing employee education and work constantly to prevent bribery and corruption.

In 2017, we announced the Sumitomo Corporation Group Anti-Corruption Policy, which summarizes the Group's principles and policies in this regard.

This document sets out the principles of the Group's approach to preventing corruption, explains its system and initiatives to prevent bribery, and requests the understanding and cooperation of its business partners and other stakeholders.

## Risk management

### Basic policy and framework

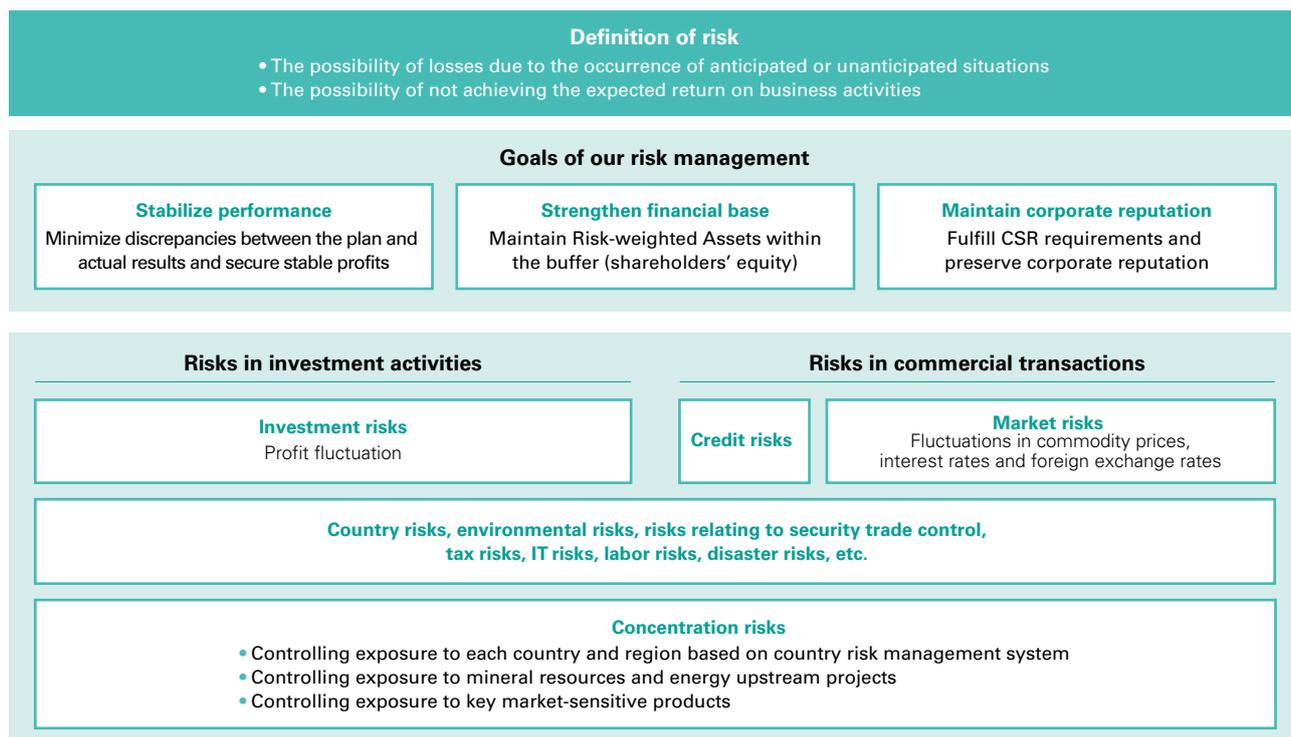
We define "risk" as "the possibility of losses due to the occurrence of anticipated or unanticipated situations," and also as "the possibility of not achieving the expected return on business activities." We have set the following three items as the goals of our risk management activities.

1. Stabilize performance
2. Strengthen financial base
3. Maintain corporate reputation

We categorize our business activities into investments and commercial transactions and manage risk after

identifying both common and category specific risk factors. We, by studying advanced methods and processes, have created an effective risk management framework that anticipates changes in the external environment.

Our goal is to implement the best practice in risk management while maintaining the flexibility to adapt to changes in the business environment. The business environment is continually altering, and new business models that we could never have imagined are emerging on a daily basis. To respond to such situations in a timely and effective manner, we continue to evolve our risk management activities under the leadership of senior management.



## Risk management system for investments

### Decision-making process for investments

Once an investment has been made the decision to withdraw becomes difficult, and in the event of withdrawal, losses tend to be larger. Therefore, we have adopted a unified framework that covers everything from the entry into the investment to the exit and that takes into account changes in the portfolio as a whole, as well as the nature of the risks involved in each individual investment opportunity, while reviewing the process for assessing and following up on investment projects as appropriate.

When assessing investment projects, the investment theme is clarified at the initial stage of the process, and is verified as a key point of due diligence. In addition, by applying a discount rate appropriate to each business risk, we are able to calculate an "appropriate price" for the investment, and evaluate the opportunity from both quantitative and qualitative aspects.

With regard to the decision-making process for investments, the Business Unit Investment Committee or the Company Investment Committee meets at each stage of consideration and implementation, depending on the scale and importance of the project.

From an early stage, these committees conduct in-depth discussions regarding the strategic positioning of the project, the background to and the reasoning behind the selection of the project, and the various factors that may affect the success of the investment.

### Execution support and monitoring of investments

With regard to post-investment execution support, issues are clarified before the decision to invest is made, and a system has been established to work on resolving smoothly any issues that emerge after the investment has been made. For especially important projects, in addition to the "100-day plan\*" execution support system, which provides integrated support functions, a "Focused Follow Up System" has been established that consists of plans to improve performance, and following up of project execution, provided by the Company Investment Committee.

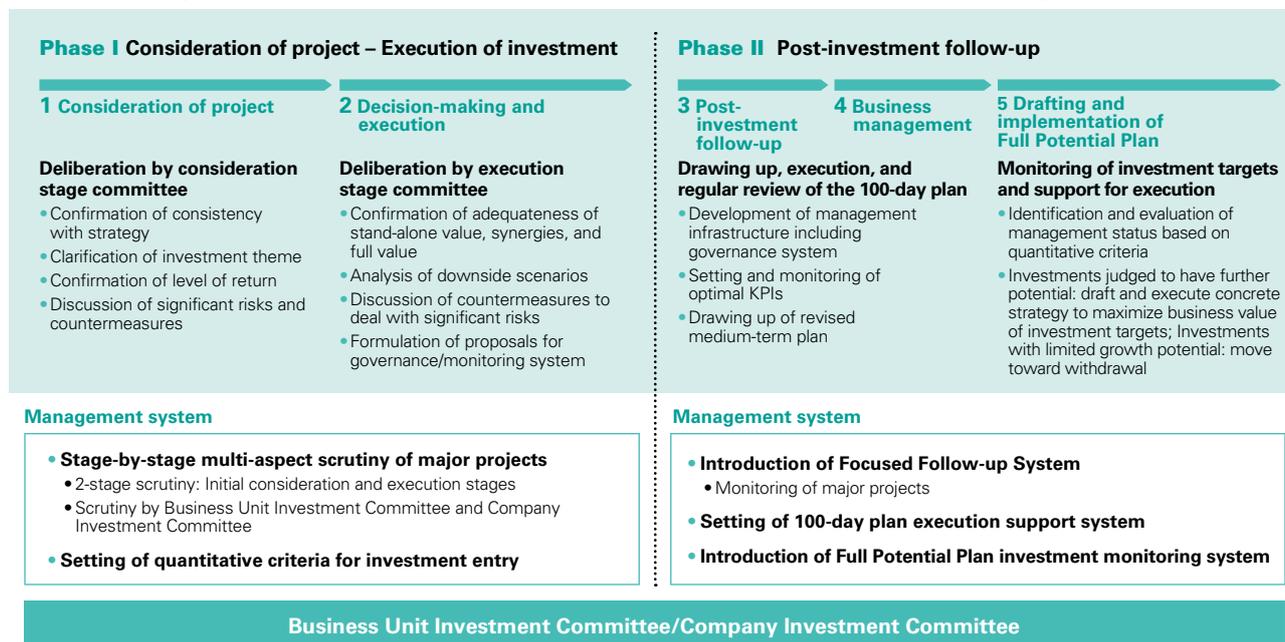
In FY2018, we introduced a new "Full Potential Plan" investment monitoring system that is intended to improve the quality of the investment portfolio. Investment targets are evaluated mainly using quantitative indicators, and categorized into "satisfactory," "not satisfactory," and "not good."

After confirming the positioning within the investment portfolio, a further strengths and weaknesses review of business potential is performed. Depending on the outcome of the review, specific measures may be taken to maximize the value of the business in accordance with the growth strategy to Increase Value of Existing Business, but withdrawal will be encouraged for businesses with limited room for growth.

\* Activities, performed mainly in the first 100 days immediately after the investment has been executed, to construct and develop management infrastructure aimed at drawing up a medium-term plan that seeks to maximize business value, including management of the investment, and which management and financial indicators should be used as targets

## Investment risk management framework

### (Decision-making process for investments / investment evaluation method & execution and management systems)



Internal Control

Financial reporting

The Sumitomo Corporation Group creates financial reports in accordance with the Accounting Policy Manual that lays out the Group’s internal policies for accounting, and discloses information in a timely and appropriate manner and in compliance with relevant laws, regulations, and accounting standards.

For its financial reporting internal control system, the Company acts in accordance with the Internal Control Reporting System stipulated in the Financial Instruments and Exchange Act, by promoting internal control activities as required by the act, and evaluating and improving its business processes.

Information security

Basic policy and system

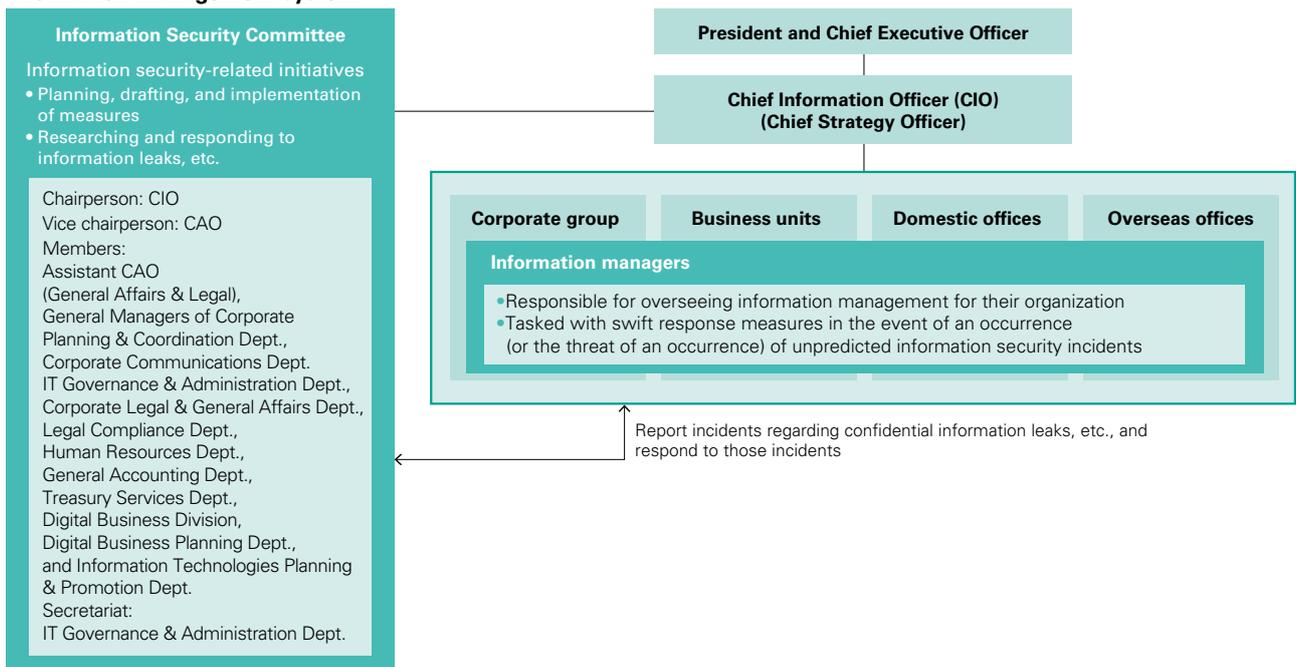
The Company acknowledges the importance of ensuring information security, and maintains appropriate measures including, but not limited to, the establishment and maintenance of relevant rules, primarily through the Information Security Committee, which is chaired by the Chief Information Officer (CIO). In October 2017, a new Information Security Policy was established.

The information managers in each organization categorize information assets based on their importance, give instructions for procedures and methods in order to handle these assets adequately, and work to ensure information security, efficient information-related administrative procedures, and information sharing. For

personal information, in addition to establishing a Privacy Policy to protect this as appropriate, we have put in place relevant rules and organizational structures.

We also work on initiatives to minimize risk related to unexpected situations involving information security, such as external attacks aimed at theft or destruction of corporate information. As well as using system-based safeguards, we conduct ongoing training and drills for employees while establishing and monitoring systems at major subsidiaries and other group entities. The Company also coordinates with specialized third-party organizations to stay up-to-date on relevant information and to enable swift and appropriate responses.

Information management system



## Internal audits

The Internal Auditing Department, which reports directly to the President and Chief Executive Officer, is an independent organization that monitors the operations of the entire Sumitomo Corporation Group, and audits all organizations and operating companies of the Group. As well as reporting the outcome of all internal audits directly to the President and Chief Executive Officer, periodic reports are also made to the Board of Directors. The department conducts audits

on all aspects of internal control, comprising asset & risk management, compliance and business operations. Also, by comprehensively examining and identifying the risks inherent in the organization being audited, it provides suitable recommendations based on an evaluation of the effectiveness and adequacy of the internal controls of the organization, thus expedites improvement and maintenance on auditees' own initiative.



## Group governance

### Project to enhance group governance

Medium-Term Management Plan 2020 includes initiatives to enhance governance further as part of its drive to reinforce management bases. The Company considers the internal control system to be the foundation for promoting growth strategies, and in terms of specific measures to enhance governance it has begun working on a project that aims to enhance corporate value and operational quality through the use of the internal control system. This project

will identify the basic risks that should be controlled as part of the operation of the business. With regard to the significance of the risks and their countermeasures, while maintaining dialogues with group companies, the Company will create an autonomous cycle of PDCA for the improvement of internal control. The Group will standardize this process, and actively promote the use of PDCA cycles in workplaces to enhance operational quality for the Group as a whole.