

For Immediate Release

(This is an English translation of the Japanese original.)

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To whom it may concern:

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## **Notice Regarding Revisions in Remuneration System for Directors (Excluding Outside Directors) and Executive Officers**

Sumitomo Corporation hereby announces the following revisions in the remuneration system for its Directors (excluding Outside Directors) and Executive Officers (hereinafter collectively referred to as “Officers”).

### **1. Purpose of Revisions and Stipulations for Stock Compensation Plan Revision**

#### **(1) Purpose of Revisions**

With the purpose of strengthening Sumitomo Corporation Group governance and improving corporate value over the medium- to long-term, revisions shall be implemented pursuant to the following basic policies, thereby striving to realize an Officer remuneration plan linked to management strategies and positioned to support sustained growth.

- Creation of a plan formulated to function as a sound incentive in pursuit of sustained growth through the establishment of appropriate ratios and other elements for fixed compensation (monthly remuneration) and variable compensation (performance-linked bonuses reflecting short-term results and stock compensation keyed to medium- to long-term results, shareholder value).

- Creation of a plan to encourage execution of work duties compatible with management strategies and generate strong motivation to achieve specific management goals through strengthened correlation between the Sumitomo Corporation Group's management strategies and performance-linked bonuses.
- Regarding stock compensation plan, promotion of initiatives to raise corporate value over the medium- to long-term and achieve greater sharing of value with shareholders by strengthening correlation with shareholder value to a greater degree than before.

## (2) Stipulation for Stock Compensation Plan Revision

At the Meeting of the Board of Directors convened on May 16, 2018, the decision was rendered to submit a measure for revision of the stock compensation plan, along with introduction of a transfer-restricted stock compensation system (restricted stock system) and performance-linked stock compensation system (performance share unit system) (hereinafter collectively referred to as the "New Stock Compensation Plan") to the 150<sup>th</sup> Ordinary General Meeting of Shareholders to be convened on June 22, 2018 (hereinafter, the "General Shareholders Meeting"). The introduction of the New Stock Compensation Plan is subject to the approval of shareholders at the General Shareholders Meeting for payment of the said compensation to Officers.

## 2. Summary of the Revisions

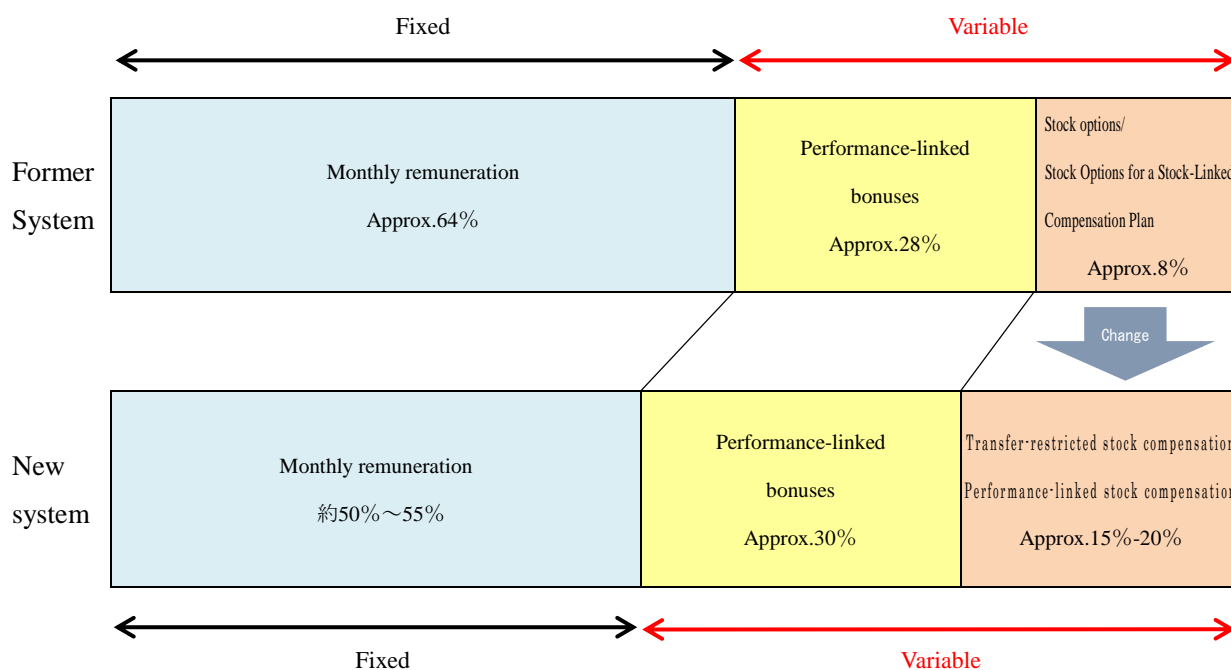
### (1) Ratios of remuneration and level of remuneration

Through the appropriate establishment of ratios of fixed compensation and variable compensation, incentives shall be strengthened with the purpose of achieving improvements in corporate performance pursuant to management strategies, as well as to enhance corporate value over the medium- to long-term.

More specifically, the ratio of monthly remuneration to total remuneration shall be reduced, and the ratio of performance-linked bonuses and stock compensation shall be expanded.

Using as references the data of objective remuneration market surveys conducted by outside specialized institutions, appropriate level of remuneration shall also be established by taking the Company's management environment into account.

<Ratios of remuneration (Hypothetical Impression)>



(Notes)

1. 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.

2. The Chairman of the Board of Directors shall not be paid performance-linked bonuses.

(2) Monthly remuneration

Monthly remuneration pursuant to service rank shall be partially reduced, lowering the ratio of monthly remuneration to total remuneration.

(3) Performance-Linked Bonuses

From the perspective of strengthening correlation between the Sumitomo Corporation Group's management strategies and performance-linked bonuses, prescribed ratios of "consolidated net income" and "basic profit cash flow" stipulated as performance management benchmarks demanding serious consideration in the Medium-Term Management Plan shall be distributed as the total payment value to each individual pursuant to service rank, personal evaluations.

Under the former system, a prescribed ratio of “consolidated net income” was distributed at fixed amounts for each service rank as the total payment value. Under the new system, in addition to “consolidated net income,” a prescribed ratio of the “basic profit cash flow” shall also serve as the total payment value, while evaluations of each individual shall be conducted from the two aspects of financial indicators (achievement status of business plans and other elements of the business domain being managed) and non-financial indicators (initiatives targeting material issues, or key themes, structured to generate sustained growth for the Sumitomo Corporation Group and other efforts), with the evaluations of each individual reflected in the payment value. Under this approach, it is believed that each Officer will come to embrace stronger awareness of his/her commitment to the management strategies and outcome.

#### (4) Stock Compensation Plan

A new stock compensation plan shall be introduced with the purpose of promoting initiatives geared to improve corporate value over the medium- to long-term and achieve greater value sharing with shareholders through the strengthening of correlation with shareholder value to a greater degree than before. With the launch of this system, no new stock options shall be issued in the future (with previously issued stock options remaining in force).

The new stock compensation plan shall consist of “transfer-restricted stock compensation (restricted stock),” under which the Company’s common shares are granted after establishing a transfer restriction period, and “performance-linked stock compensation (performance share units),” under which the numbers of shares granted vary according to the degree to which previously determined performance conditions (share price conditions) are achieved. Officer shall receive the common shares of the Company to be issued or disposed of by the Company in exchange for in-kind contribution of all monetary compensation claims to be granted by the Company pursuant to this plan.

Under the new stock compensation plan, with Officers to directly own shares during their service in the said posts, sharing of value with shareholders will be promoted to a greater degree than under the existing plan. Moreover, through adoption of a stock compensation plan to which performance stipulations (share price stipulations) have been added, it is considered feasible to raise awareness of contributions to

improvements in medium- to long-term performance and enhancement of corporate value.

(i) Transfer-Restricted Stock Compensation System (Restricted Stock System)

a. Overview

Every year in principle, Officers shall be granted a number of the Company's common shares determined by their service ranks, pursuant to the concluding of transfer-restricted agreements (transfer-restricted stock allotment agreements) between the Company and Officers.

In the interest of successful sharing of shareholder value over the medium- to long-term, which comprises one of the aims of this introduction, the transfer-restricted period shall consist of the time from the stock grant date through the date of the relinquishment of the post as one of the Company's Officers.

b. The maximum amount of remuneration, Etc.

The total number of shares granted to Directors (excluding Outside Directors) shall not exceed 120,000 shares annually, with the total value of monetary compensation claims supplied to be within 130 million yen annually. The total number of shares granted to Directors (excluding Outside Directors) and Executive Officers shall not exceed 490,000 shares annually, and the total value of monetary compensation claims supplied shall be within 520 million yen annually. Regarding specific supply dates and distributions, decisions shall be rendered by the Company's Board of Directors within the scope of the maximum number of shares and maximum value submitted to the General Shareholders Meeting for deliberation.

(ii) Performance-Linked Stock Compensation System (Performance Share Unit System)

a. Overview

This scheme consists of a performance-linked stock compensation system under which the Company's shares are granted in volumes computed pursuant to the Company's stock growth rate every year (in principle) over three-year evaluation periods. However, the first granting of the Company's common shares under this system shall be made at the conclusion of the initial evaluation period after the introduction of this system (around August 2021). The quantity of the Company's common shares granted to each Officer shall be determined in accordance with the following calculation formula.

b. The maximum amount of remuneration, Etc. (※)

The total number of shares granted to Directors (excluding Outside Directors) shall not exceed 180,000 shares annually, with the total value of monetary compensation claims supplied to be within 430 million yen annually. The total number of shares granted to Directors (excluding Outside Directors) and Executive Officers shall not exceed 730,000 shares annually, and the total value of monetary compensation claims supplied shall be within 1,700 million yen annually. Regarding specific supply dates and distributions, decisions shall be rendered by the Company's Board of Directors within the scope of the maximum number of shares and maximum value submitted for deliberation to the General Shareholders Meeting for deliberation.

(※)

The standard number of shares to be granted under the performance-linked stock compensation system (performance share unit system) and the number of shares to be granted under the transfer-restricted stock compensation system (restricted stock system) as stated in the following calculation formula have been set at the approximately same level.

In contrast, in view of the fact that the maximum amount of remuneration, etc. under the performance-linked stock compensation system (performance share unit system) are formulated on the hypothesis of maximum number of shares granted and maximum total value of monetary compensation claims taking into consideration the Company's stock growth rate and other factors during the three-year evaluation period, differences exist with the upper limits of compensation, etc. under the transfer-restricted stock compensation system (restricted stock system).

[Calculation Formula]

Number of shares to be granted = Standard number of shares to be granted × Share grant ratio

Standard number of shares to be granted: Determined by the Company's Board of Directors pursuant to Officer service rank

Share grant ratio:

(See graph below)

(i) When the Company's stock growth rate is less than 50%: 0%

(ii) When the Company's stock growth rate is 50% to 150%: The Company's stock growth rate

(iii) When the Company's stock growth rate is over 150%: 150%

The Company's stock growth rate =

Company's Total Shareholder Return (TSR) during the evaluation period

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Tokyo Stock Price Index growth rate during the evaluation period

$$= \frac{(B+C) / A}{E / D}$$

A: Average closing price of the Company's common shares on the Tokyo Stock Exchange for June of the current year

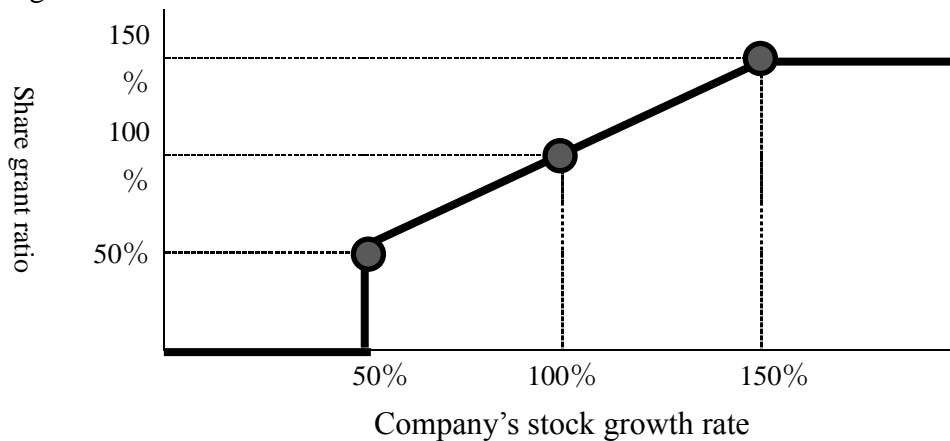
B: Average closing price of the Company's common shares on the Tokyo Stock Exchange for June three years from now

C: Total value of the Company's per-share dividends of surplus during the evaluation period

D: Tokyo Stock Price Index simple average for June of the current year

E: Tokyo Stock Price Index simple average for June three years from now

<Share grant ratio>



### 3. Revision Determination Process

The contents of the revision in question were examined by the Nomination and Remuneration Advisory Committee (chairperson: outside director), an advisory body to the Board of Directors for which the majority of members are Outside Directors, with the final determination reached by the Board of Directors taking into account the results of the Committee's deliberations.