

# Corporate Governance System

The backbone of our corporate ethics comprises Sumitomo's business philosophy and the Company's Management Principles. Keeping this in mind and complying with the Sumitomo Corporation Corporate Governance Principles, we work to enhance corporate governance even further to realize management that serves the interests of all of our stakeholders, including shareholders.



The Sumitomo Corporation Corporate Governance Principles can be accessed from the following web page.  
<http://www.sumitomocorp.co.jp/english/company/governance/detail/>

## Features of Our Corporate Governance System

We have adopted a company with corporate auditors system because we believe that strengthening and enhancing our corporate auditor system is the most reasonable way of heightening the effectiveness of corporate governance. In addition, we have appointed four outside directors with a view to ensuring appropriate decision making by the Board of Directors and strengthening supervision further.

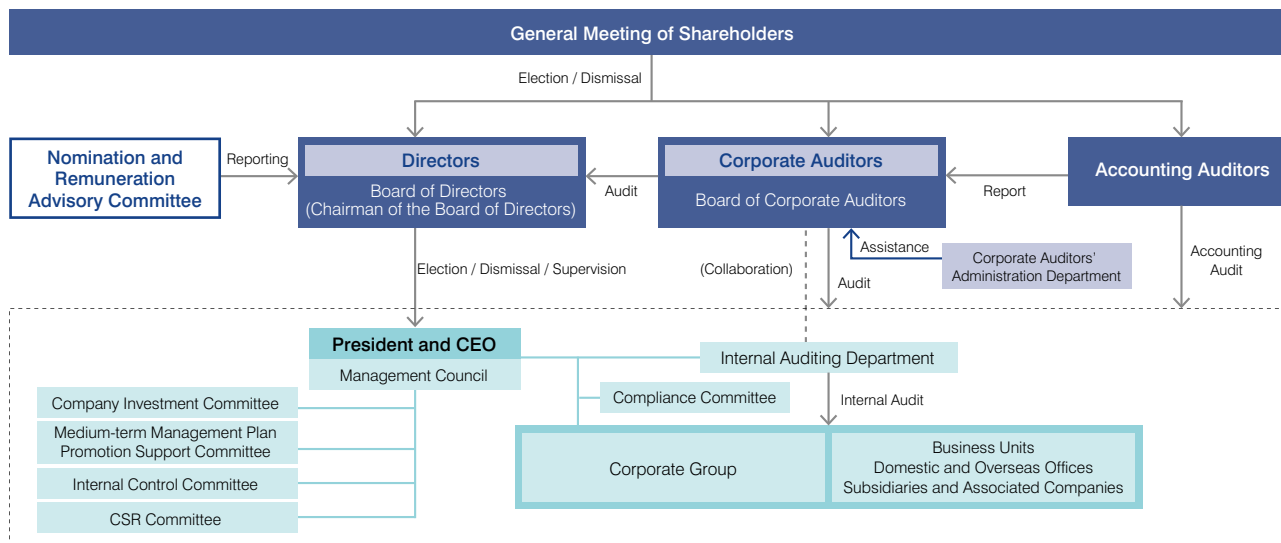
In accordance with our medium-term management plan "Be the Best, Be the One 2017" (BBBO2017), we have revised governance and decision-making processes to sustain growth and benefit all of our stakeholders. Specifically, we have established the Management Council as the highest executive-level body for decision making on operational implementation and strengthened the monitoring capabilities of the Board of Directors.

### Evolving Stronger Corporate Governance

<b>1993</b>	<b>Introduces outside corporate auditor</b> Increases to 3 outside corporate auditors in 2003
<b>April 2003</b>	<b>Establishes Sumitomo Corporation Corporate Governance Principles</b>
	<b>Reduces number of directors</b> States that "We view approximately 15 directors as an appropriate number" in Sumitomo Corporation Corporate Governance Principles
	<b>Introduces executive officer system</b>
	<b>Limits terms of office of President and CEO and Chairman of the Board of Directors</b> States that terms of office shall not exceed six years in Sumitomo Corporation Corporate Governance Principles

<b>June 2005</b>	<b>Shortens terms of office of directors and executive officers to one year</b>
<b>2007</b>	<b>Establishes advisory body to the Board of Directors</b> Establishes Remuneration Committee, which has a majority of the Committee members from outside the Company Reorganizes into Nomination and Remuneration Advisory Committee, which has a majority of outside directors, in November 2015
<b>June 2013</b>	<b>Introduces outside directors system</b>
<b>July 2015</b>	<b>Revises governance and decision-making processes</b>

### Corporate Governance System



## Directors and the Board of Directors

### Enhancing the Deliberation and Monitoring Capabilities of the Board of Directors

In July 2015, we amended criteria for submitting matters to the Board of Directors to enable its deliberations to concentrate more on important Companywide matters, such as business management strategies and plans. At the same time, we expanded the range of matters submitted to the Board of Directors so that it can increase its focus on monitoring operational implementation. Also, we established opportunities for free exchanges of opinions before decisions on important matters.

### Qualifications of Outside Directors and Regular Meetings for Exchanges of Opinions

Our four outside directors satisfy standards for independence stipulated by Tokyo Stock Exchange, Inc., 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 Corporate Auditors. Each outside director has a different type of experience and expertise, and outside directors contribute to our corporate governance by providing a variety of independent viewpoints. Further, outside directors hold discussions and exchanges of opinions with the Chairman of the Board of Directors, the President and CEO, internal corporate auditors, and outside corporate auditors once a month in principle.

#### Reasons for Appointing Outside Directors

We deemed respective outside directors to be qualified for appointment because they have the experience stated below, contribute to appropriate decision making at meetings of the Board of Directors, and strengthen supervision even further.

Name	Reasons for appointment
Akio Harada	Highly specialized knowledge and a wealth of experience accumulated over many years as a prosecutor and lawyer
Yayoi Tanaka	Highly specialized knowledge and extensive experience accumulated through long engagement in research in the fields of evaluation studies and civil society organizational theory and the holding of a number of positions on government committees, including the Administrative Reform Promotion Council (private-sector member)
Hideji Sugiyama	Wide-ranging knowledge and a wealth of experience in relation to the industrial policy and finance fields and business management accumulated during many years of engagement in the Ministry of Economy, Trade and Industry and financial institutions
Nobuyoshi Ehara	Wide-ranging knowledge and a wealth of experience in relation to 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

### Establishment of the Nomination and Remuneration Advisory Committee

In November 2015, we dissolved the Remuneration Committee for constructive reasons and replaced it with the Nomination and Remuneration Advisory Committee, which has a majority of outside directors and is chaired by an outside director. The new committee nominates candidates for the positions of director and corporate auditor; examines the remuneration of directors, corporate auditors, and executive officers; and reports its findings to the Board of Directors. Further, we have undertaken innovations to give outside directors more opportunities to meet the executive officers who are candidates for the position of internal director by creating opportunities for executive officers to attend meetings of the Board of Directors and explain proposals.

#### Breakdown of the Nomination and Remuneration Advisory Committee

Total members	Internal directors	Outside directors	Committee chairman
5	2 (President and CEO, Chairman of the Board of Directors)	3	Outside director

### Evaluation of the Board of Directors

To maintain and heighten the effectiveness of the Board of Directors, each year directors and corporate auditors analyze and evaluate its effectiveness through such methods as self-evaluations. We disclose the results of these efforts.

In relation to fiscal 2015, from March to April 2016 we conducted a questionnaire targeting all directors and corporate auditors and had an outside consultant analyze and evaluate the results as a third party. Further, the evaluation recognized that we are implementing a variety of reforms aimed at realizing an effective Board of Directors and that these efforts are producing benefits steadily.

On the other hand, the evaluation recommended further enhancing the effectiveness of the Board of Directors by providing outside directors and outside corporate auditors with more information about business management and creating more opportunities for exchanges of opinions among executives, including executive officers.

In light of more-detailed analysis and the deliberations of the Board of Directors, we will take measures to improve the effectiveness of the Board of Directors.

## Corporate Governance System

### Corporate Auditors and the Board of Corporate Auditors

#### Enhancing Auditing Capabilities

To strengthen corporate auditing capabilities from an external viewpoint, three of our five corporate auditors are outside corporate auditors. Two outside corporate auditors are legal experts, and one outside corporate auditor is an accounting expert, which contributes to our aim of conducting audits from diverse perspectives. Moreover, our three outside corporate auditors satisfy standards on independence stipulated by Tokyo Stock Exchange, Inc., 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 Corporate Auditors.

#### Collaboration between Internal Auditing Department and Accounting Auditors

To ensure audit efficiency, corporate auditors interact closely with the Internal Auditing Department, receiving reports on internal audit plans and their results in a timely manner.

In addition, corporate auditors exchange information with and monitor the auditing activities of the accounting auditors through regular meetings. By attending audit review meetings and observing inventory audits with the accounting auditors, the corporate auditors constantly work to improve audit efficiency and quality. Furthermore, corporate auditors attend meetings of the Internal Control Committee and request reports on the status of internal control systems from other departments responsible for internal control along with their cooperation on audits.

### Internal Audits

The Internal Auditing Department, which reports directly to the president and CEO, is an independent organization that monitors the operations of the Company and its Group companies. The department reports the status of the audits being carried out in addition to all the internal audit reports to the president and CEO directly and the results of audits to the Board of Directors periodically. The department conducts comprehensive checks that

#### Reasons for Appointing Outside Corporate Auditors

We deemed respective outside corporate auditors to be qualified for appointment because they have the experience stated below and contribute to our aim of conducting audits from diverse perspectives.

Name	Reasons for appointment
Haruo Kasama	Highly specialized knowledge and a wealth of experience accumulated over many years as a prosecutor and lawyer
Toshio Nagai	Highly specialized knowledge and a wealth of experience accumulated over many years as a judge and lawyer
Yoshitaka Kato	Highly specialized knowledge and a wealth of experience in finance, accounting, and corporate auditing accumulated over many years as a certified public accountant

#### Ensuring Audit Effectiveness

To obtain the information necessary for proper auditing, corporate auditors attend meetings of the Board of Directors and all other important internal meetings. Further, corporate auditors hold discussions and exchanges of opinions with the Chairman of the Board of Directors, the President and CEO, and outside directors once a month in principle. Also, the Corporate Auditors' Administration Department is assigned to assist corporate auditors and ensure the auditing system functions effectively and without hindrance.

encompass assets and risk management, compliance, and business processes; identifies inherent risks and issues; and evaluates the effectiveness and appropriateness of respective processes. Based on its findings, the department explores solutions with audited organizations and encourages voluntary improvements. Through these activities the department helps heighten the value of each organization.

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

Particulars regarding the remuneration of the Company's Directors and Corporate Auditors for fiscal 2015 are as follows:

Classification	Number of payees	Total amount of remuneration, etc., pertaining to fiscal 2015	Breakdown		
			Monthly remuneration	Bonuses	New Share Acquisition Rights
Directors (particulars relating to Outside Directors)	17 persons (3 persons)	¥877 million (¥34 million)	¥720 million (¥34 million)	¥67 million	¥90 million (—)
Corporate Auditors (particulars relating to Outside Corporate Auditors)	5 persons (3 persons)	¥122 million (¥35 million)	¥122 million (¥35 million)	— (—)	— (—)

#### Notes:

- The numbers in the table above include one Outside Corporate Auditor who passed away (and thus effectively retired) on November 2, 2015.
- As of the end of this fiscal year, we had 13 Directors and 4 Corporate Auditors (including 3 Outside Directors and 2 Outside Corporate Auditors).
- No Director of the Company is concurrently an employee of the Company.
- The amounts in the Bonuses above are the upper limit of the total payments to be proposed at the 148th Ordinary General Meeting of Shareholders scheduled on June 24, 2016.
- The above stock options are the total amounts recorded as expenses in this fiscal year for granting the Fourteenth New Share Acquisition Rights (issued on July 31, 2015), the Ninth New Share Acquisition Rights (stock-linked compensation) (issued on August 1, 2014) and the Tenth New Share Acquisition Rights (stock-linked compensation) (issued on July 31, 2015).
- The maximum amount of remuneration to Directors comprising monthly remuneration, new share acquisition rights in the form of stock options, and new share acquisition rights in the form of stock options for a stock-linked compensation plan is 1.2 billion yen per year (the maximum amount of remuneration to Outside Directors is 60 million yen per year), as resolved at the 145th Ordinary General Meeting of Shareholders held on June 21, 2013.
- The maximum amount of monthly remuneration to Corporate Auditors is 180 million yen per year, as resolved at the 145th Ordinary General Meeting of Shareholders held on June 21, 2013.

## Message from an Outside Director



**Nobuyoshi Ehara**  
Outside Director

I am honored to accept my new role as Independent Director of Sumitomo Corporation after developing a long relationship and admiration for the Company extending 30 years.

Entrepreneurship and challenge have been the core foundations of my professional career. My ambition of creating value through introducing new businesses to Japan comes from these foundations. Back when investment banking business was not yet acknowledged in Japan, I established and built the franchise for a foreign investment bank in Japan. As a new challenge following my investment banking career, I pioneered the private equity business in Japan. The most valuable lessons from these experiences are the importance of taking direct responsibility of the outcome, both

successful and unsuccessful, as well as conducting thorough risk assessment. In my new role as Independent Director, I believe these experiences and lessons will allow me support Sumitomo Corporation refine its strategy and further evolve its business.

Turning points in my career have been defined by decisions that did not always conform to others. That is not to understate the value of peer input; however, the ultimate decision must come from none other than one's self. I believe the same is applicable to managing a trading company. A strategy that is no different from competitors is no strategy at all. A strategy must be established on the foundation of introspection and rigorous assessment of one's competitive advantage, followed by disciplined execution. That is what shareholders and stakeholders alike demand. I have personally come across many of Sumitomo Corporation's strengths. Now is the time for Sumitomo Corporation to reevaluate these strengths and evolve its strategies. In this process, objective perspective will certainly be helpful, which I hope to shed.

As it is my duty to represent the voices of the shareholders, I would like to ask the employees and management of Sumitomo Corporation not to fear changes and challenges; to perceive difficult business environment as opportunity; i.e. to think how they can contribute to the organization, rather than relying on the organization. Furthermore, it is important that this mentality becomes rooted in the corporate culture. I look forward to exchanging views with each and every member of Sumitomo Corporation and hope to contribute to the future development of the Company.

## Systems 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 a disclosure policy in July 2016.

### Encouraging the Exercise of Voting Rights at the General Meeting of Shareholders

We send out a Notice of Convocation to shareholders approximately three weeks prior to each regularly scheduled General Meeting of Shareholders. For the convenience of overseas shareholders, we also provide an English translation of the notice on our website before sending the Notice of Convocation. We have enabled our shareholders to exercise their voting rights via the Internet using personal computers since 2004 and via the Internet using mobile phones since 2005. In 2007, we introduced the Electronic Voting Platform for institutional investors, which was established by Tokyo Stock Exchange, Inc., and is operated by Investor Communications Japan, Inc. The new platform allows institutional investors sufficient time to examine thoroughly details of proposals for consideration at the meeting.

### Investor Relations

As well as enhancing disclosure on our website, we facilitate direct communication with shareholders and other investors by holding quarterly financial results briefings for analysts and institutional investors in Japan. For overseas investors, we periodically visit the United States, the United Kingdom, other countries in Europe, and Asia to hold individual meetings with investors in each region. Moreover, since fiscal 2004 we have held regular meetings for individual investors in Japan. In fiscal 2015, we held five such meetings in four cities, which approximately 1,100 individual investors attended.

An executive officer who has responsibility for dialogue with shareholders and other investors exercises overall control of and coordinates such investor relations initiatives. Also, related in-house departments contribute to investor relations initiatives by distributing information and collecting feedback from shareholders and other investors. The Company will continue heightening the transparency of business management while strengthening relationships of trust with shareholders and other investors.