

# Risk Management

To cope effectively with the diversifying risk environment, Sumitomo Corporation has built a framework for micromanagement, with the objective of “minimizing losses from individual transactions,” and for macro-management, with the objective of “maximizing corporate value.” The frameworks support the efficient management of our corporate resources and are strongly linked to the management plan.



## Purpose of Risk Management

We define “risk” as the “possibility of losses due to the occurrence of anticipated or unanticipated situations” and as the “possibility of not achieving the expected return on business activities.” We have set the following three items as the purpose for our risk management activities.

1. Stabilize Performance: Minimize discrepancies between the plan and the actual results
2. Strengthen Financial Base: Maintain Risk-adjusted Assets within the buffer (shareholders' equity)
3. Maintain Corporate Reputation: Fulfill CSR requirements and preserve corporate reputation

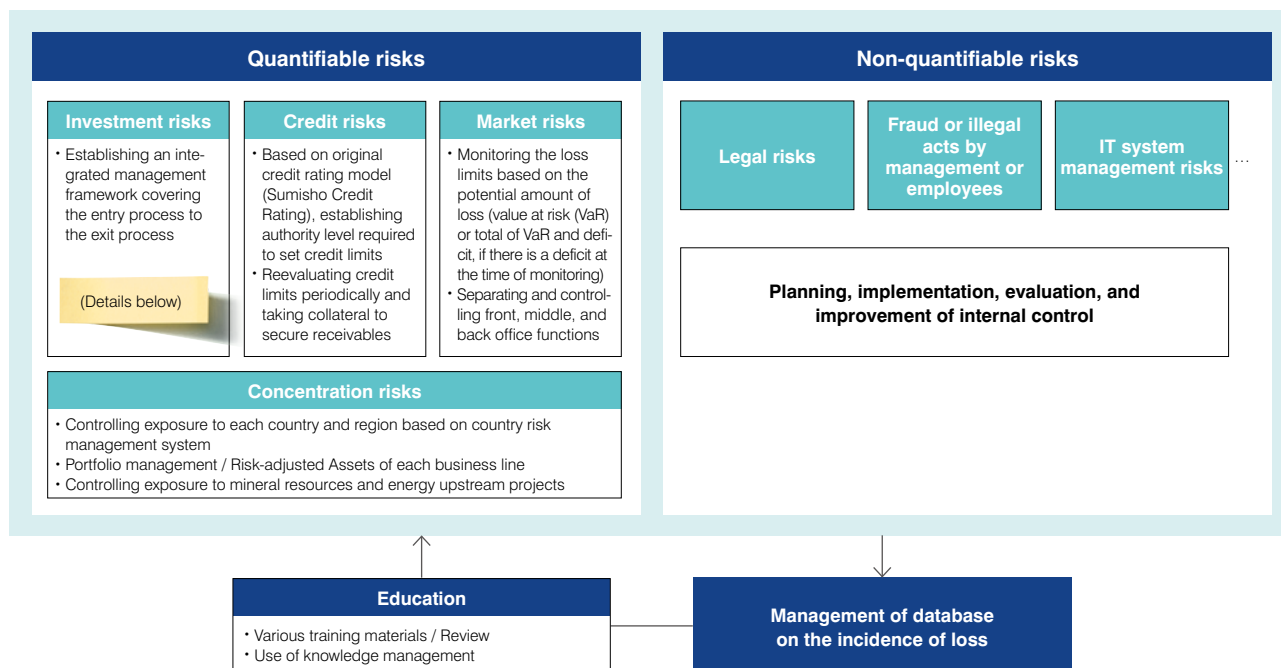
## Risk Management Basic Policy

We classify our risks into two categories: Quantifiable risk and Non-quantifiable risk. Quantifiable risk is defined as “value creating risk,” which we proactively take to generate a return. Our policy is to maximize the Risk-adjusted Return while maintaining Risk-adjusted Assets within our buffer. Non-quantifiable risk is defined as “value breaking risk,” which only generates losses when it surfaces. We are engaged in efforts to prevent or minimize the probability of this risk materializing.

## Risk Management Framework

Quantifiable risk includes credit risk, related to changes in the creditworthiness of business partners; market risk, such as fluctuation in the prices or liquidity of owned commodities; and investment risk, which is the risk of investee's businesses not progressing according to initial expectations. Also, the excessive

concentration of these risks in a specific area is concentration risk. We maintain the amount of Companywide risk within the scope of our buffer and manage risk based on frameworks that are designed to maximize return and realize return befitting respective risk.



## Managing Investment Risk

Once an investment is made, it can be difficult to make a withdrawal decision, and the loss encountered in this situation can be significant. Therefore, in light of the recognition of impairment losses in fiscal 2014, we have significantly reformed our assessment and follow-up processes for investments, establishing an integrated framework to manage investment risk that covers the investment entry process through to the exit process.

For the entry process, we set a rigid hurdle rate to ensure that the returns expected on projects are enough to justify their risks.

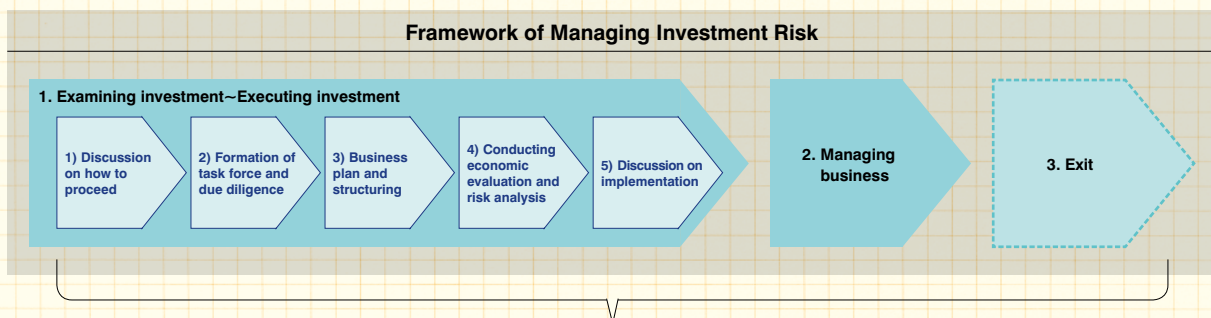
Further, in relation to decision making for investment candidates, in accordance with the criteria of exposure and importance of the investment, we hold meetings of the Business Unit Investment Committees of respective business units and the Company Investment Committee to ensure wide-ranging discussions early in the assessment and implementation stages concerning Head Office strategies, the background and reason for

its selection, and various conditions that could affect the success of the investment.

In particular, for large-scale or highly significant projects, we ensure adequate assessment of whether or not to proceed by forming a Companywide Special Task Force, which comprises not only the business unit directly responsible for the project but also related business units and corporate groups, and concentrates all resources we have available.

Furthermore, regarding monitoring after investment, for important investments the Company Investment Committee leads follow-up activities that include planning and implementation of measures to improve business results.

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



### Company Investment Committee / Business Unit Investment Committee

Management systems established for each process

- For large-scale investments, applications are made to the Company Investment Committee / Business Unit Investment Committee at two stages: the initial assessment stage and at the time of execution.
- Formation of Companywide Special Task Force
- Establishment of quantitative criteria for investment entry

- Monitoring of important projects by Follow-up System of large-scale or highly significant projects
- Establishment of Exit Rule

