

**Investor Day 2022 Part 2
(Panel Discussion by outside directors)**

[Date] September 14th, 2022, 3:40pm - 4:20pm

[Speaker] Koji Ishida Outside Director

Kimie Iwata Outside Director

Yoshinori Takayama Corporate Officer, General Manager, Investor Relations Dept.

[Facilitator] Ms. Yoshiko Sato Japan Investor Relations Association Executive Managing Director

< Takayama >

Now, I would like to start the part two of the panel of outside directors.

Director Ishida has served for many years as Representative Director, Managing Executive Officer, and Standing Corporate Auditor of Sumitomo Mitsui Financial Group, as well as President & CEO of Sumitomo Mitsui Finance and Leasing. In 2017, he was appointed as Outside Director of our company.

Director Iwata has held important positions at the Ministry of Labor and, after retiring, she has served as a manager or outside director in private companies and was appointed as Outside Director of our company in 2018.

In addition, we have asked Executive Managing Director Yoshiko Sato, who has been active in the Japan Investor Relations Association for many years, to facilitate this session, as she did last year.

The theme of this year's meeting is how the supervisory function should support the enhancement of corporate value, and we asked participants to submit questions in advance of the meeting. Thank you for taking time out of your busy schedule to fill out the survey. The questions we received were numerous and varied, but we prepared the panel to cover them as much as possible with the advice of our expert, Ms. Sato. However, there may still be some items that are not covered, so we would like to address them in the question and answer session of the second half of the meeting. Well then, I will hand over to Mr. Ishida, Ms. Iwata, and Ms. Sato.

< Ms. Sato >

Hello. I am Sato from the Japan Investor Relations Association. Thank you.

In the previous year, we held a discussion with our outside directors on the theme of aiming for an early return to a growth trajectory, and this time, as mentioned today, regarding the supervisory function that supports the enhancement of corporate value, we would like to discuss how the Board of Directors should proceed with monitoring in order to enhance corporate value in the midst of various structural reforms, as well as some specific themes based on the questionnaires we received from you.

First, let me introduce the first of the major themes. The first is the effectiveness of the Board of Directors and the role and function of outside directors.

First of all, I would like to ask you about the effectiveness of the Board of Directors. To improve corporate value, how do you feel that the Board of Directors is monitoring the progress of SHIFT 2023 and sustainability management?

For example, I would like to know if you feel any actual examples of effectiveness as an outside director in addressing the time frame of short- to medium-term structural reforms and medium- to long-term sustainability management.

In addition, in the questionnaire, you also disclosed the evaluation of the effectiveness of the Board of Directors, but what scale do you use to evaluate the effectiveness of the Board of Directors from the standpoint of outside directors. I asked a lot of questions all together, but please answer these questions.

< Iwata >

Thank you. This may be a long answer, but I believe that the most important role of Sumitomo Corporation's Board of Directors today is to ensure that SHIFT 2023 is truly implemented.

As mentioned in the presentation earlier, this SHIFT 2023 has a three-tiered structure. We have three "shift": a shift in business portfolio, a shift in framework, and a shift in management base, and each has short-term, medium-term, and long-term issues. Therefore, I believe that the monitoring of SHIFT 2023 will allow the Board of Directors to supervise the executive side from the short, medium, and long term perspectives.

As for the relationship between the monitoring of this SHIFT and the agenda of the Board of Directors, every year the Board of Directors discusses what the key agenda items will be for the year, and we have decided on seven key agenda items for this year: Progress review of SHIFT 2023, Monitoring of individual businesses, DX, Sustainability, Enhancement of governance, Personnel strategy and D&I, and Shareholder return.

You can see that these are all issues that correspond to the three-tiered SHIFT 2023.

As an outside director, you asked me to talk about examples where I could see the effectiveness of the Board of Directors, so I tried to recall and organize some of the issues. First, I think some relatively short-term issues are those concerning structural reforms. One of these is the monitoring of the full potential plan, which we do every quarter.

As has been mentioned many times in today's presentation, we have designated companies that should develop a roadmap to become healthy and companies that will realize value through withdrawal, and we are looking to see if these efforts are made on time and on schedule. The plan was to improve earnings by JPY70 billion during the period of this medium-term management plan through the full potential plan, but as mentioned in the earlier presentation, earnings have already improved by more than that amount before the end of the period, so I think we are doing very well here. Of course, this is an effort on the part of the executive side, but the Board of Directors decides on a format quarterly and is monitoring it now. I believe that the fact that the Board of Directors requires regular reports also brings a kind of discipline within the Company.

Another case study on structural reforms concerns a large withdrawal project. This was my request at a meeting of the Board of Director a few years ago, and I am very happy that it has come to pass, and it has taken root, but when there is a major withdrawal project, I would very much like to see it summarized and the entire company learn from it.

Therefore, after the investment is completed, we require a summary of whether the initial investment decision was a good one, whether the post-merger integration was done properly, how the subsequent management performed, and whether the timing and partner for withdrawal and sale were good. The Board of Directors is informed of what lessons can be learned from the summary and these lessons are shared with the entire company. I think this is also a very good initiative.

Regarding medium- to long-term issues, one of the things that we are realizing the effectiveness of is, after all, the issue of global warming. In particular, the question is how quickly we can withdraw from thermal power generation and fossil energy interests, and as the Board of Directors, or rather as a member of the Board of Directors, I have been pushing the executive side for a long time.

At the same time, I have also been saying that this issue is not a risk aversion but an opportunity for growth, and I have been urging the integration of this issue into the growth strategy. Frankly speaking, at the beginning, there was a gap in awareness between the executive side and the outside directors, but I feel that this gap has been resolved today.

Another example, a medium- to long-term case, is the issue of promoting diversity, especially the issue of women's empowerment. I think that Sumitomo had thought to itself that it was doing well, that it was making efforts now compared to its own past, that it was not inferior to other trading companies, and that it was doing its best. As the outside directors have experience in other industries, we felt that the trading industry as a whole, not limited to our company, is an industry in which women's activities are very underdeveloped.

Therefore, many directors, not only myself, have pointed out this issue at the Board of Directors meetings, and I have pointed it out many times, and I feel that the executive side is finally getting serious about it. Since the beginning of this fiscal year, we have had opportunities for outside directors to speak directly to management and employees on this topic, and although it will take a number of years before we see results, I am confident that we will.

Finally, I will explain briefly. The difficult question is how we measure this effectiveness or what scale we use. I don't have a quantitative scale or a financial scale, so I think there are two important axes.

One is, as I mentioned earlier, what to do with the agenda. It's an agenda setting of what will be discussed at the Board of Directors meeting. Then the other thing is, of course, the content of the discussions, how high the quality of the discussions is on each agenda item. I look at the effectiveness of the Board of Directors on these two axes: agenda setting and the content of the discussions. That is all.

< Ms. Sato >

Thank you very much. How about you, Mr. Ishida?

< Ishida >

Director Iwata has just introduced a very broad range of examples, so I would like to mention only what I think is the most important thing in terms of effectiveness, and what I think is the most important thing during monitoring.

I am still wondering if the decision-making process for management decisions is transparent. This is the first thing I am most concerned about. If it is transparent, those in charge will naturally be held accountable, and accountability means that even if they are not actually questioned, they will be able to ask and answer various questions within themselves and wonder if this is the right thing to do.

In this sense, I think it is very important that transparency be ensured so that the substance of the matter can be clearly presented to the outside directors, so that they can look at it carefully, ask questions about what they don't understand, and make a decision based on that. And if the judgment is wrong on that basis, I think that would still mean that such a person should not be appointed as an outside director. That is all.

< Ms. Sato >

Thank you very much. I would like to ask you another question, Mr. Ishida. You have just mentioned an important point, but the external environment has changed very drastically in recent years. Could you also tell us about monitoring in this context, and what areas are important to you?

< Ishida >

I think that is a very important issue. The business environment is changing very dramatically. On top of that, more than ever before, the general public, governments, NPOs, and citizens, who are not in the category of stakeholders of so-called business partners, have very strong requests, demands, or expectations of companies. In order for a company to live with this as a whole, it must coexist with society after all, so I think it must follow a course of coexisting with

society and with its stakeholders. I think that coexistence with society is what we call sustainable management. Maybe it is a little old.

Once these things are firmly in place and discipline has been established, it is necessary to have a very firm grasp of the risks involved and deal with them when the actual business environment undergoes major changes. Or, on the other hand, if the risk is getting bigger, the risk for others is also getting bigger, so it is possible to get deals very cheaply and on good terms in some cases, so we are not just shrinking back, but we are capturing those things, and that is our stance. I think these things are important. Since such things cannot be understood on a single project basis, I believe that it is necessary to exchange opinions with the internal directors well at any given time.

In addition, although it may be a little different, when the so-called business environment changes, we must respond appropriately, change ourselves, and gradually replace the contents of our work to create a new company there. That's what every company with a long history has been doing until now. In that sense, I think the most important thing for a company is the ability to change. It changes itself. Such courage and power. I am very concerned about these things.

So, in that sense, SHIFT 2023 is about change, and I think it is a very timely mid-term plan in that regard. The problem is that it is easier said than done, but as I mentioned earlier, various new trends are emerging and changing, such as FPP, strategic business units, governance arrangements at companies, suspension of annual operations, and selection of younger employees. So, I would like to take a close look at that. Did I answer your question?

< Ms. Sato >

Thank you very much. Now for the second half of the first theme. I have two questions for you, Ms. Iwata, and I would like to ask them together due to time constraints, but I would like to ask about the role of outside directors and the exercise of their functions.

First, outside directors are expected to represent stakeholders, and especially from the standpoint of those involved in the capital market, outside directors are expected to represent shareholders. In that case, I would like to ask how you incorporate the opinions of investors and how you align your perspective with theirs.

Another point is that in the corporate governance report, etc., evaluations by third parties and evaluations by directors say that it was generally good or that the majority of opinions were positive, but I wonder if there are things or issues that are expected to improve. I would like to know if there is anything you can tell us about that. Please answer these two points.

< Iwata >

Of course, there are many stakeholders, so we are working hard to see each stakeholder's point of view. Regarding our shareholders, as I mentioned earlier, the Board of Directors has always taken time to discuss our dividend policy every meeting, but the question of how the capital market views our company has never been a topic of discussion.

I am sure there were others with the same opinion, but I would have liked the Board of Directors to receive more information on how the capital market views the Company, so we now have a report from the IR Committee once a year. This is where we are supposed to get feedback on IR and SR activities.

This is the Board of Directors, but as an individual, I have no experience as an investor myself, so I feel that it is difficult to understand the investor's point of view without a lot of effort, even though I understand the concept in words. For example, at the Board of Directors' meeting, we discuss the consolidated results quarterly, and at the meeting before the consolidated results, I ask the executive side what kind of reaction they think investors will have or what kind of reaction they think the stock price will have when we announce the consolidated results. At the Board of Directors meeting immediately after the announcement of consolidated results, I ask the president or CFO quite frequently how to view the reaction of the capital markets following the consolidated results.

In this regard, we work together with the execution side and try to be as investor oriented as possible, and we use this as an opportunity to think about what the current performance means from the investor's perspective.

I receive IR activity reports and analyst reports from the Company quite frequently by e-mail, so I try to read through them, but what I think is good is that I have started to listen to the recording of the consolidated results briefing that is available on the website. That way, I can directly feel what they expect from the Company and what they are disappointed with, so I make such an effort. Taking a true shareholder's perspective is easier said than done, and I think it is.

Recently, based on what investors and analysts have been saying, I think that they evaluate our efforts in structural reforms, and I feel that this is true. However, some people say that they cannot see the engine of growth, and I strongly feel that this is true.

From now on, it is not only about structural reforms and monitoring, but also about how existing businesses can really increase their value. Then, new business. We are sowing a lot of seeds, but we need to know when and where they will grow strong, and I feel that we need to monitor this closely as well. And then the other one.

< Iwata >

Frankly speaking, regarding evaluation of the Board of Directors, we use a third party to conduct a questionnaire and all of us are interviewed individually, and the results are compiled, but there is no third party evaluation and there is no third-party evaluation there. So, it is not a third-party evaluation in the strict sense, but our self-assessment. We evaluate ourselves every year, and although it may seem a little strange for me to say this, I think we are doing a pretty good job of self-evaluation as parties involved.

However, of course there are always things that need to be improved, and we have received many different opinions, especially in the free text sections and in the results of interviews, so I think it makes sense to continue the current effectiveness evaluation.

The common problem that many of us have now is an operational side, and we think the Board of Directors meeting is too long. In order to make the Board of Directors meeting more efficient, we have a pre-briefing session, which takes about the same amount of time as the actual Board of Directors meeting, so on the day of the meeting, we start exchanging opinions without explaining any materials. Even so, on a long day it can take up to four hours. So, the point is how we can we further screen the agenda, and which of the themes we can receive less frequently regarding the reports we are receiving. It is quite difficult, though, to cut down further. I think that is an issue that many people have in common.

< Ms. Sato >

Thank you very much. The second theme is executive compensation and the activities of the compensation advisory committee, which was the subject of quite a few questions in the survey. I would like to ask Mr. Ishida about this all at once. As I mentioned just now, executive compensation was revised in FY2021 and FY2022. What did you emphasize in its scheme? We would also like to know what was discussed at that advisory committee meeting.

Also, regarding the nature of executive compensation, there are some common examples such as fixed-linked ratio, non-financial indicators, and setting a cap on the amount, but we would like to know about these areas to the extent possible. Thank you.

< Ishida >

First of all, when it comes to how we think about compensation for executives, there are not many people who actually quit, but the way we think about it is that we should consider the size of our company and the nature of our work to retain, acquire, or maintain motivation, and then distribute, hand out, or decide on the appropriate compensation.

The first thing to consider is how to decide the amount of the Company's profits, which is the so-called benchmark, the Company's forecast at the time, or the figures in the three-year plan, which includes an effort factor in the sense that we want to reach that level. Accordingly, the first thing to consider is how much will be distributed when we reach that point. From there, from the perspective of so-called performance-linked, there is a discussion of how much to increase when profits go up a bit more and how much to decrease when they go down, and what that curve would look like.

Based on this premise, there was a change in FY2021, but FY2021 means that it was made in FY2020. At that time, there was a large deficit, and we had look at the recovery process from that point conservatively, so we lowered the standard revenues level compared to the past.

FY2021 itself had a very different story, and we almost had better consolidated results than we had expected. Then the curve, bonus scheme, and salary scheme lack normativity. The target value was then raised to the next figure, which is the figure for FY2022, as written here.

So, if the environment for profits as a whole improves, even if we make the same amount of money, they will be evaluated differently. I think this is obvious to anyone who runs a company.

Then, the fixed salary accounts for the salary structure of our company a little too much. In order to increase the magnitude of the performance linkage, we should reduce the fixed salary and divide it into variable. That is what was discussed and that is exactly what was done. Also, when we write a curve, then we think how far it should go. For example, if profits increase to JPY1 trillion, there is a discussion about how much to draw the line to where we would hypothetically pay. We changed it from JPY200 billion to JPY600 billion this time. Before that, it was up to JPY400 billion.

The idea behind the upper limit was to create a salary curve based on a certain level of environment for revenues. For example, if profits exceed JPY600 billion and reach JPY700 billion, there must have been changes in the business environment that we did not expect, and a big wind blew, so we decided to think about it again.

The lower JPY200 billion is not necessarily zero, but when it reaches that level, there must have been various unforeseen problems, so we decided to examine them and think about them. That's how we made changes.

Another change was bonuses. For the bonus, we divide the change in our stock over the year by the change in TOPIX and multiply that directly by the total amount. The range was 120 and 80, I think. If the results of our medium-term management plan were to emerge in one year and be reflected in the stock price, we would like to extend this to the officers.

< Ms. Sato >

Thank you very much. Also, I am sure that there are specific explanations in the materials published by Sumitomo. With that, I would like to conclude the panel discussion and hand over to General Manager Takayama.

[END]