

Investor Day 2019 Part 1 Summary of Panel Discussion

Date / Time: May 16th, 2019
3:20pm - 4:00pm Panel Discussion
4:00pm - 4:15pm Q&A

Panelists: Outside Director Nobuyoshi Ehara
Outside Director Kimie Iwata

Facilitator: Japan Investor Relations Association
Executive Managing Director, Ms. Yoshiko Sato

Summary of Panel Discussion

Discussion Point (1) Expectation for Outside Directors

What were the expectations for you or what kind of expertise were expected when you were invited as an outside director?

Director Ehara: I believe I was invited to the company because of my expertise accumulated through private equity investments, management, and financial management. Also, I might be invited as a board of director to bring up a point that what kind of decisions should be made when making investments. At Sumitomo Corporation, deepening corporate governance has been an extremely important theme for the past few years, and this is in line with what I aim to achieve. I believe that the board of directors has always considered how executives should be able to deepen and discuss corporate governance, and more concretely to make changes in the board of directors meeting. I believe that they think I can contribute to that aspect.

Director Iwata: I have worked as a national public servant at the Ministry of Health, Labor and Welfare for about 30 years. After that, I have worked for other listed company for about 10 years in corporate management. Since then, I have been involved in the management as an outside director of several companies. I was invited to serve as an outside director of this company for two reasons, I imagine. One reason was that I had different experiences than those of existing executives in the company or other outside directors. I have accumulated my knowledge and values through such different experiences, so I would like to look at management from this perspective. The other reason is, frankly speaking, that I am a woman. When I joined the office, I was the second female director. As a female director, I have different experiences from that of

male directors, in my family, in my company, and in my entire social life. So, I might be expected to make such comments.

There are two things that I always try to do in the Board of Directors. One is to have questions and opinions that can be used to deepen discussions on the agenda of the Board of Directors meetings, major agenda items, and matters of essence. I am trying to make comments without hesitation. The other does not happen all the time, but from the viewpoint of my knowledge and values, when I find some differences in the content of the proposals, I would like to say without hesitation about dissenting opinions and minority opinions. I believe that this is the role of outside directors, and I would like to fulfill my responsibilities by doing so.

Discussion Point (2) Effectiveness of the Board of Directors Meeting

(a) Please let us know the specific episodes that the substantive exchanges of opinions or effective discussions are made in the meeting.

Ehara: Before talking about what is being discussed at the Board of Directors meeting, I would like to touch on how the setup of the Board of Directors itself has changed. There were 18 directors in the past but currently there are 11 members. We are now able to exchange lively opinions by reducing the number of people. The ratio between inside and outside directors also has changed. Currently, we have six internal directors and five outside directors. The company was also considering how to create an easy-to-discuss environment. I have made a lot of comments and advices on this issue. Another important question is what should be discussed at meetings of the Board of Directors in the first place. "Agenda Shaping" is very important. What should the board focus on and what should be discussed is important. As an example, regarding investment discussion, two years ago, there were 77-78 cases in that year, but this has been reduced to 40-50 recently. We thought that we should reconsider the allocation of given time, saying that we are going to have more in-depth discussions on each case because there are many other things need to be discussed.

I believe that the level of discussion is totally different from that of three years ago. What should we look from the viewpoint of the business portfolio? What should we increase? Which should we not increase? There are various discussions from the viewpoint of the business portfolio, i.e. what the corporate strategy should be.

I believe that one of the roles of outside directors is to represent the opinions of shareholders in particular. Therefore, I would like to make statements with viewpoints of shareholders and what they would ask, and to encourage the management to constantly be aware of the viewpoints of shareholders.

Iwata: The same as other companies, this company also evaluates the Board of Directors once a year. I would like to briefly introduce the results of this year. This year, we used a specialized vendor to conduct a survey and interviews with all board members to analyze it. The good thing about using an external vendor is that you can compare with other companies. Looking at the comparison with other companies, there was only one item for which evaluation was low, "ease of understanding of handout materials". Because the business domains are very broad, and there are many backgrounds for each business, and there are many technical terms for each business, it is very difficult for our outside directors to read the materials. And it seems that there are directors who feel the same. However, the executives have been making various efforts, for example, recently introducing an executive summary and a glossary for technical terms. Other evaluation items were significantly higher than or same level as other companies.

When I compare what has been discussed with what I have experienced at other companies, one of them is that there are a lot of investment projects. Each case is very large-scale. Second, there are so-called non-business projects or ESG. While it is common for a project to take less time than an investment, the number of ESG projects is about the same as the number of business projects. As for the important monitoring functions of the Board of Directors, we are monitoring them on a quarterly basis. What we started this year is that we have started to receive reports on the facts behind the numbers from six business units once every six months. There is a case that seems to be increasing in effectiveness. One thing that I have felt is that the series of discussions by the management council members is made before putting it to the final stage, and submit it to the Board of Directors. This is the ordinary case but depending on the agenda, the board members will continue to discuss themes that are still in the middle of the determination at the off-site meetings. This is not a meeting to make a decision, but for brainstorming. This is how it changed. I haven't experienced this much in other companies.

I believe that the biggest contribution I have made over the past year was in last year.

There was a proposal to withdraw from one invested company. I didn't obviously oppose the withdrawal but I told them that it is necessary to look back again at where the true cause of this withdrawal, and need to be shared and to learn from the lessons within the entire company. I also believe there would have been something good in the process, and there might have been a secondary effect. The Board of Directors meeting received a summary two or three months later. I believe that was where I have made the greatest contribution over the past year.

(b) Please let us know how the Board of Directors of the company discussed and exchanged opinions and made decisions, including large-scale investment projects, M&A, etc.

Ehara: It is our responsibility and mission to say that our basic contributions are made without being constrained by internal dynamics. One example of this is Ambatovy Project, although the company is seriously tackling this issue, it is human nature that you don't want to talk about your shame as much as possible. Although it may be necessary to restrain between the departments, something similar to a non-aggression treaty occurs from time to time. As an independent director, I have pointed out that how do I think about the Ambatovy matter in a timetable or what kind of milestones will be created and monitored. There is no doubt that similar discussions have been held in the Management Council, but I believe we are able to provide monitoring from a different perspective. Another example of what we proposed as outside directors was the discussion on coal-fired power generation business. As you know, this is historically strong area for Sumitomo Corporation, however, on the other hand, climate change issue has come to the fore, and we are now seeing considerable stringency in this area. It is difficult for Sumitomo Corporation and all other organizations to discourage their strength within the company. As independent directors, we can speak in a slightly different position for the importance of discussion or its methodology. At times when the tide of the world changes, perhaps people like us, as outside directors, might sense the changes. Regarding the climate change issue, my personal opinion is that the company needs another push and I have made such proposal to the board members.

Discussion Point (3) The Nomination and Remuneration Advisory Committee

How has the opinions of outside directors been reflected in the process leading up to the appointment of CEO Hyodo in 2018?

This committee led to the appointment of the president for the first-time last year. Generally speaking, there is a highest attention from the shareholders/investors to the appointment of CEO and executives' remuneration as part of corporate governance. As a chairman of the committee, I had many thoughts on how do we choose the right person, how do we assure a fair process, a process that is convincing to many people. I think it was significantly important to make the right decision. In the process, it was very surprising that the CEO, at that time, Mr. Nakamura, never asked me to do things in a particular way. As you all know, this advisory committee consists of five members, three of whom are outside directors. I believe this composition tells the grim determination of Sumitomo Corporation. Regarding the process, it took 14 months to make final decision to appoint Mr. Hyodo. The first 4 months of discussion were about what kind of qualifications are required. There was a serious discussion among five members regarding these qualifications. We agreed on four important qualifications and one of the important one was to embody the Sumitomo Philosophy. In the remaining months, we've narrowed the candidates, and we exchanged opinions with those candidates in various ways. There were multiple candidates on the final stage but we reached to a conclusion to decide on one candidate unanimously. In relation to fairness, I believe that we had been successful.

Discussion Point (4) The company's strengths and issues

Please let us know the company's strengths and issues related to the enhancement of its corporate value.

Iwata: Sumitomo Corporation's strengths and areas for improvement remain, and I believe that Material Issue Management is one of the features of Sumitomo Corporation. I was interested in Sumitomo Corporation before I was asked to be an outside director because of comments on SDGs and I acknowledged that Sumitomo Corporation was the company that leads the SDGs discussion in the industry. Sumitomo Corporation decided on six material issues, listening to the opinions of external experts, those we would be able to contribute to the resolving social issues through our global business activities. As it is mentioned earlier that the Board of Directors has spent a considerable amount of time on investment projects, and the relationship with material issues is clearly explained to individual investment projects. I felt that the company is serious about all the matters that were related to concrete material issues, and our possibility to contribute to the resolve these issues through our business. On the other hand, it is

necessary to overcome some of the issues that are still insufficient. One is that all the proposals are tied to cope with material issues, but, sometimes, it seems the reasoning come retroactively. I believe that, ideally, the material issue takes the lead, and new businesses and business opportunities will be created from this. And that business development and material issues should be studied at the same time. But I think there is still a little distance between them. The six material issues often overlap or conflict with one another. For example, the material issue “achieving harmony with the global environment” sometimes conflicts the material issue of “contributing to the development of local communities and industries.” I would like them to go further in such discussions, such as which priority should be given to the relationship between two material issues, or whether they have a way of thinking to overcome the issue rather than prioritizing it.

Ehara: I often feel that when I talk about the management, one way of thinking is to make decisions with an emphasis on short-term objectives or on long-term objectives. I often think that the management is about how to balance these decisions. It is important to understand the trade-off in between. There are many cases that you are looking at short-term performance, but if you think about it deeply, sometimes material issues should be pursued if it has high return on a long-term perspective. I also would like to talk about what we should think is a challenge for this company. It is how to attract the attention of our stakeholders. Among the trading companies, there is a wide range of business field for each of them. So, I believe the stakeholders are making decisions to pick up the specific trading company. I believe that Sumitomo Corporation should give more messages and try to have communications with you. And that attitude is important in an occasion like this, as you have devoted such valuable time to visiting these meetings. At least, we can make you to think Sumitomo Corporation's briefing sessions is important. I believe that it is still in the middle of the road and we haven't achieved it yet. I think we need to provide you with pride and ideas as a leader as well as communicating with you to achieve the goal. If you go to that company, you can see a lot of things in the trading industry. This is what I would like you to feel and I would like to pursue this vision.

Summary of Q&A

Question 1:

Executives' remuneration includes RS(Restricted Stock) and PSU(Performance Share Unit), and these rights are provided to the Chairman as well. However, this is not the

case for outside directors. The Chairman has no right of representation and I believe this is because it enables him to devote his time to be the chairperson; as a supervisor of the company. Please let me know why such stock-based compensation is granted to the Chairman and it is not for outside directors?

Hyodo CEO:

Regarding the executives' remuneration, there is fixed portion and variable portion linked to the financial performance. As for the chairman's remuneration, this variable portion does not exist. This is based the philosophy that the chairman is responsible for monitoring the management as a director of the board, not for the business execution. As for the stock-based compensation, the chairman is currently having the right to receive, and we acknowledge that the further determination is necessary on this matter.

Ehara:

Last year, we undertook a drastic review of our remuneration system. In the first place, we discuss what should the evaluation be based on, should it be based on quantitative or qualitative perspectives. After our review, we have increased the ratio for qualitative portion. Also, we made a considerable change in absolute amount based on two main factors. One is that it is underpinned by good business performance. The other is based on the belief that when the current management team is in charge of execution, it should be rewarded appropriately. We think that our evaluation should not be based on the way to compensate as traditional Japanese companies that executives become chairman and consultant in the future. Although we increased the absolute amount of compensation, if the business performance deteriorates, the paid amount will also decrease. I believe it is closely linked to the interests of our shareholders. We are planning to make changes to our remuneration system in the range of three to five years.

Question 2:

Could you tell us about the way in which discussions are conducted within the company, the direction of discussions, and any changes that have taken place in the board meeting? Particularly in terms of changes since Mr. Ehara was appointed as an outside director?

Ehara: For the time prior to my appointment, please note that the information will be secondary information. By hearing the opinions from members in the past, the

discussions have been revitalized to a level that is not even comparable. Over the past three years since my participation, there has been a clear improvement. One of the reasons for this will be the increase in number of outside directors. There is a fact that one or two outside directors are not enough, and if there are a certain number of outside directors, it would be easy to provide different opinions and will lead to a different outcome.

(End)