

Investor Day 2021 Part 1 Details for Panel Discussion and Q&A session

Date / Time: June 1st, 2021
1:20pm - 1:45pm Panel Discussion
1:45pm – 2:10pm Q&A

Panelists: Outside Director Koji Ishida
Outside Director Nobuyoshi Ehara

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

Panel Discussion

MC: I would like to move on to the panel discussion with Mr. Ishida and Mr. Ehara, who are Outside Directors, as panelists. As you can see in their profiles, Mr. Ishida has been an Outside Director of the Company since 2017, and Mr. Ehara since 2016. Mr. Ishida has served as Representative Director, Managing Director, Senior Managing Director, and Corporate Auditor of Sumitomo Mitsui Financial Group for many years. He has also served as President and Representative Director of Sumitomo Mitsui Finance and Leasing Company, Limited. After holding a number of important positions at Goldman Sachs, an American investment bank, Mr. Ehara founded Unison Capital, a pioneering private equity fund in Japan. He has served as a Representative Director and partner. Under the theme of Achievement of swift recovery to our growth path, I would like the 2 of them to talk about our company as it really is, including their opinions from the standpoint of Outside Directors and discussions at Board meetings. The facilitator for this session is Ms. Sato, who has been playing an active role in the Japan Investor Relations Association for many years. Now, Mr. Ishida, Mr. Ehara, and Ms. Sato, please go ahead.

Ms. Yoshiko Sato: Hello everyone. I am Sato from the Japan Investor Relations Association. President Hyodo just presented as a representative of executive management. In the next session and panel discussion, I would like to ask Mr. Ehara and Mr. Ishida for their frank opinions from the standpoint of outside the Company. We have 2 main agenda items. The first is to take a good look back at Sumitomo Corporation's past. We will discuss it through the Medium-Term Management Plan 2020 that was just completed. The other thing is major impairments in the past, including in FY2014, which is still fresh in my mind. Also in 2020, there was a one-off loss of JPY350

billion. It inevitably looks like they are repeated. I would like to ask the 2 of you about the root cause of this situation. Let's start with Mr. Ehara.

Director Ehara: Yes. It has been almost 5 years since I was appointed as an Outside Director. Over the past 5 years, what I have felt very strongly is that, first, the Board of Directors has been actively engaged in frank discussions. I remember I told you about this 2 years ago, at Investor Day. As for the question from Ms. Sato, when we think about what exactly root cause is, it is not just 1 or 2 things. I believe that the pus that had been accumulating in our company for long years, or various issues with its business structure, became very apparent during the past year when the coronavirus pandemic struck. With regards to what the root cause is, I would like to make one point first. I think that we need to fundamentally rethink our approach to investment. This is the perception of the management team, and there are many opinions among the Outside Directors. What is that exactly? Well, investment can be divided into 3 stages. First is to buy well. Next is to manage well. Third is to sell well. These 3 things are considered to be important. When I think about what kind of efforts Sumitomo Corporation has made in these 3 phases, I feel that it has become quite clear what we need to reflect on. First, I wondered if the investment theme, which is the entrance to the investment, had been designed thoroughly and properly. In other words, was the price at the entrance appropriate? The second part is directly related to value creation. I think our company has a lot of power to increase the value of our company when I listen to our Board of Directors. However, I believe that it is also clear that something is clearly lacking, with regard to the case in question. Now, the third point, and this is the exit. I believe that this is exactly what is included in SHIFT 2023 in a very conscious way. Until now, the dominant thinking has been that once you invest in a company, you hold on to it forever. This has been the case not only with Sumitomo Corporation, but many companies including trading companies in Japan. We believe that we need to rebuild our portfolio, and that Sell-Well will also be a focus in the future.

Sato: Thank you. Next, Mr. Ishida, please.

Director Ishida: This is Ishida. We just had an opinion in broad range right now, and it is difficult to add to them. For me, there was a time when a trading company was an intermediary for business transactions, and when it moved on to business investment, I feel that the basic characteristic of the old days still remains. We will have to think about what to do about that this time. I think that management itself is a little different from, for

example, dividing it up into smaller areas and working on each area individually. I think it is something that the entire company should be working on, using its collective strength. I think that is the way to do the business in future for general trading companies. We are already moving in that direction, but I think it is necessary to be thorough in our efforts.

Sato: Thank you. They recognized the issue very clearly. Also, Mr. Ehara gave us a key word: root cause. I think it's important to be aware of this and face the future with it in mind. The second topic is how quickly we will get on a growth path and how we will proceed with the measures of SHIFT 2023? I would like to ask you about this. Mr. Ishida, you pointed out that there are still some old ways of doing things and that we need to change them in the future. In particular, how do you think the investment decision-making process and subsequent investment management should be reformed?

Ishida: One of the issues in this medium-term management plan is the replacement of the business portfolio. When we replace, we drop the bad stuff. Instead, we're going to put in the good stuff. We can drop the existing bad stuff with management decision. However, it is quite difficult to find good ones, nurture them, and make them eligible for replacement. That is what is being questioned. In this medium-term management plan, the business group will be the ones to bring in the projects, so they will be the ones to cultivate and develop them, so they will have to bring in more and more good projects. At the same time, for example, we have created Strategic Business Unit this time, and we will have a structure where the entire company will be involved in it and work together to develop business and growth strategies. Therefore, I have high expectation. On the other hand, this may be because I used to be a banker, but as long as the salespeople bring the case that they are eager to work on, they themselves are kind of getting into it, so naturally, the business plan will be an ambitious one. We need to take a closer look at each feasibility from a clearly neutral standpoint. Also, we need to carefully consider the post management for those we decided to make an investment. In this sense, when checking, it is difficult to convert the projects into certain patterns and check them in large quantities because the project for each individual company is very unique. In this case, we have a division at headquarters that has been checking and observing various businesses in the past and has experienced both successes and failures in many of them. Therefore, we need to take advantage of them and do the work together with business groups. That is what we need to do going forward.

Sato: Thank you. I would like to ask you as well, Mr. Ehara.

Ehara: At our Board meetings, we hear a lot about new projects. On the other hand, although this is a bit off topic from the question, we receive reports on projects which are facing challenges on an almost regular basis. Personally, I believe that the role of Outside Directors and the executive team is first and foremost to work together as one, to discuss issues in the same direction with a single vector, and to choose the right answers and methods. On the other hand, however, execution is the responsibility of the executive, and I don't think it is the role of an Outside Director to offer opinions on the minor details of execution. However, there are exceptions. The exception to this is urgent projects and issues. Or for large projects in particular. On these issues, we discuss quite frequently. As Mr. Ishida mentioned earlier, our role is to provide opinions from a broader and slightly different perspective than that of the executive officers. If you are immersed in it, you can't help but lose sight of it. Or there are situations where you tend to make assumptions. In these cases, I would suggest, from a slightly different perspective, "What about something like this?" For example, "Why don't you withdraw?" or "How about considering a contingency plan?" I think our main role is to provide a catalyst to stimulate discussion in this way. Therefore, I completely agree with what Mr. Ishida said about the new project. It is not our place to say that this or that is not good enough. However, we will consider whether the reasoning behind the case brought to us is reasonable from a perspective of a person with normal common sense. If we are not fully convinced with the reasoning, we would ask questions to improve the accuracy. I think that is the role I play.

Sato: I understand that you are looking at the projects from a slightly different perspective than the internal perspective of the executive group, especially the project issues. In this connection, you had the projects in the past that were concerned by people related to the capital markets, and also, you are about to undertake a rather large project. I think that the capital markets will continue to watch this. Therefore, how are you going to monitor those projects? In addition, since various measures have been announced in the new medium-term management plan and are now being implemented, how can you ensure that they are monitored closely? What do you think about that, Mr. Ehara?

Ehara: This may be a bit of a personal opinion, but I believe that we can divide them into several groups. One is a relatively simple and straightforward issues to start. The V-shaped recovery that we are implementing in the medium-term plan is based on the idea that we should do that properly first. I do not think that part is particularly difficult. Therefore, I believe that we will be able to build the base for a V-shaped recovery with

confidence. On the other hand, a more challenging part is what we should do to improve our investment capacity in the medium to long term. This will involve multiple factors such as organizational issues, human resource development, and compensation system. Those may not be something that can be immediately changed in a single year. I don't want to say that it will take 5 or 10 years, but I think it may take 1 or 2, even 3 years. At the same time, what is very encouraging is that current management group consider these issues very important. In fact, looking back over the past year, they have taken various measures, and some of those measures have already started running. In that sense, I think we are off to a good start.

Sato: I think you mentioned that we should watch and monitor the situation while considering the time frame. There are a variety of measures in place, and the current management team is working diligently to implement them. On the other hand, frankly, we have an impression that there are quite a few of them. Among them, in particular, what do you think Sumitomo Corporation should strongly commit to? Mr. Ishida, what do you think?

Ishida: There are many measures that are included in the medium-term management plan, but the main thing is to make sure that they are implemented and completed. The Board of Directors will also follow up and receive reports on this on a regular basis. I think it will happen. At the same time, since we posted such a large deficit in the first year of the 3-year plan, I believe that we must implement a profit plan for this fiscal year, by all means.

Sato: Thank you. How about you, Mr. Ehara? What are the areas you would like the Company to commit strongly or reform?

Ehara: I know I'm really repeating myself. But I would really like to see the improvement in the business structure, which I mentioned earlier, although it may take some time. In order to achieve this, I would like Sumitomo Corporation to have its own compass, or axis, and further utilize its own strengths, rather than just thinking that the trading company next door is doing this or that. In order to do that, I think we need to take drastic actions. I personally believe that such a story could emerge in the next year or 2.

Sato: Thank you. I felt that both the management team and the Outside Directors had this strong will and awareness. The President said that the entire company will aim for a

V-shaped recovery under the banner of SHIFT, but I think it is also a question how you are going to organize or shift the Board of Directors in order to fulfill its accountability to shareholders. I would like to ask you about your enthusiasm and thoughts, focusing on the perspective of monitoring that the capital market is paying attention to. Let's start with you, Mr. Ishida.

Ishida: As I mentioned earlier, there are a variety of measures in the medium-term management plan, and if the market has an opinion about what is going on as a whole, the Board of Directors should monitor the progress of individual measures or the progress of large-scale projects in the future. Or, in some cases, mid-term goals for sustainability management, or a new personnel system. I think that putting such things on the agenda and checking them on a regular basis will clearly show our stance to the outside world, and the results will come out.

Sato: Thank you. Mr. Ehara, please.

Ehara: This is an extension of what Mr. Ishida just said. I believe that it is very important to be actively involved in the Board of Directors as an Outside Director. In this context, we discuss at least once every year various agenda items, not only those that are to be brought up for discussion, but also those that need to be discussed. To tell the truth, I think we pick up themes that are important to discuss and have been having some good discussions every time. As a matter of fact, I have been on the Board of Directors of more companies than I can count, and, if you ask whether there is a big concern in terms of monitoring, I think the Board of Directors of Sumisho Corporation is one of the cases that is functioning very well. They do not necessarily have a very close relationship, but I think there is a good sense of tension. They exchange frank opinions with each other without hesitation. Of course, there are a few things that need to be improved. Or personally, it is true that there are things that I would like to see happen in the future. I can report to you that we do not have any Outside Directors who are involved in a passive manner.

Sato: Thank you. According to what I heard, infection prevention measures have been taken and Board meetings have been held in person, so I think discussions have been deepened considerably.

Q&A

MC: I would like to turn to the question-and-answer session for Part 1. I would like to ask President Hyodo to join us here and give us some answers.

Question 1:

I would like to ask you 2 questions. The first point is that I understand the initiatives in the medium-term management plan, which you have explained again. To be honest, I am aware that the acceleration of asset replacement, profitability of investment projects, and seeding are things that your company has been working on for a long time.

If there are any points in this medium-term management plan where you think the effectiveness of your efforts will improve by initiatives that are different from the past, could you please share them again? For the second question, especially from the Outside Directors, I was wondering how much of the Company's efforts to implement initiatives in the medium-term management plan do you think have been shared with employees from the outside perspective? I think the executive team is fully consistent in formulating and implementing this plan. However, as an Outside Director, I would like to know if you can see that these plans are being shared with all employees and that the Company as a whole is taking a shared stance in this regard. Could you share your thought on this?

Hyodo: I would like to answer the first point from the perspective of executive management. Regarding the difference from those in the past, as Mr. Ishida, our Outside Director, quoted earlier in the discussion of the actual implementation of many measures in SHIFT 2023, Sumitomo Corporation has had an internal rule for the past 20 years since 2000. In fact, this rule is still alive today, which is that the resultant responsibility for each business operation will be borne by the lead person in each sales organization. Based on this principle, we have been running a solid cycle of management resources in each divisional unit of the organization for 20 years. However, this is no longer the case starting with this medium-term management plan. From the perspective of Company-wide optimization, a decision-making body called the Management Council will make decisions on a solid cycle for the JPY1.4 trillion for Sumitomo Corporation as a whole. As a body to make recommendations to that end, we have now established an internal organization called GIPC, which will discuss and make recommendations from the perspective of sales and marketing, from a different perspective than the previous Investment and Loan Committee. Of course, for individual deliberations, there is a

Company-wide Investment and Loan Committee, where the pros and cons are thoroughly discussed. On the other hand, from the perspective of the overall management resources of the Company in the medium-term management plan, there is a Management Support Committee. These 3 committees will make recommendations to the Management Council from their respective perspectives, and then decisions will be made on major issues. This is how we changed the structure. In order to clarify the strategic thinking that is the premise for this, we will discuss from the perspective of strategic units, or SBUs as we call them within the Company, so that we can have essential discussions after eliminating organizational theory. On top of that, we will run the 3 committees I just mentioned thoroughly so that it leads to better decision making. We will spin this mechanism anew. These are the internal operations that are completely different from what we have been doing. However, in order for it to function best as a system, and for our original design intentions to come into play, as Mr. Ehara pointed out earlier, our own mindset is very important. This is the basis for making investment decisions. We need to reform ourselves as well as our basic movements. We will be working on this initiative. I will do my best to achieve results in these 3 years.

Ishida: As for your second question, right after the announcement of the medium-term management plan the other day, there was a Company-wide video conference, and the President appeared and took questions from various people in advance including the questions online. There was a question-and-answer session together with the presentation. We had a very lively discussion, and there were some discussions that were difficult for the president to answer, which I took positively. In terms of the thoroughness, I feel that sufficient consideration has been given. One more thing, I would like to take a moment to discuss the topic that was raised earlier. In addition to what the President said, I also have the opinion that the divisional system has become a bit outdated. The SBU was established this time and when we operate centering on it, I think the divisional system will naturally become weaker, or perhaps its grip will become weaker. The reason I say this is that, if you look at the divisional system, each division is much smaller than the division of same operation at the competitors. It is smaller in terms of the scale, manpower, and accumulation. I believe that in order to win there, we need to use the comprehensive functions of the entire company. I think that is the reason why general trading companies are general trading companies. I am now relieved that we are moving in that direction. But how will it work? The Board of Directors will monitor the situation closely.

Ehara: Fortunately, I have the opportunity to come into contact with many different people. Various people are those within the Company. The other day, I spent a total of about 5 hours in a Zoom meeting, or Teams meeting, with general managers. The first thing I felt was a sense of urgency. While there may be some questions as to whether the issue is 100% shared, many people are beginning to realize what I was talking about earlier, root cause. If so, next step is how we would do it or how we will change it. I feel like this is where we are struggling a little bit. In terms of fighting poses, there is no doubt that we have fighting poses in the right direction.

Question 2:

I have only one question. Now that you have explained various things, since we have Outside Directors today, I would like to ask them one question. This was the case with the loss made this time as well, but in comparison with competitors, I think Sumitomo Corporation is sort of slow in its action. You mentioned about selecting unprofitable businesses and withdrawing from them in the medium-term management plan this time. Some of the other companies have been doing this for the past 10 years. Why does the Company have to be so slow and have such a large deficit to change? Earlier, you mentioned that various proposals were made in the Board meeting. After the withdrawal, if the environment returns and the business performance returns, the stock market is concerned that the same thing will happen all over again. In that sense, even if you, as an Outside Director, suggested that the Company should withdraw from this area, or that it should stop doing this kind of thing, was it difficult to get any action in the past? I wonder if such discussions are not often held at the Board of Directors meetings in the first place. What are the reasons for the relatively slow movement of the Board of Directors in terms of effectiveness and its function as a check and balance? If you have any comment on whether the stock market can expect the cycle to be speeded up this time with the changes to be made in SHIFT, I would like you to share.

Ehara: That question sounds like a very good, to-the-point question for me. In retrospect, the last time, we took a significant impairment loss. That was resource-related, and we reflected it. At that time, I thought we could have handled it properly and in a certain way. As you mentioned, the business results that came out after that, good business results if I may say, has masked various issues, and I can't deny that point. This time, the reason why the medium-term management plan is quite different from the previous one is that we started to change the business structure of the Company. We have a divisional system, which is not going to be abolished, but instead of that system, we are going to

adopt a different system to correct those problems. Sumitomo Corporation had some old but good and strong traditional businesses in the past. However, unfortunately, some of them have become obsolete in terms of business model. The Board of Directors, as a matter of course, discussed the need to change this business model. In fact, it is happening. I'll refrain from doing so here but at the last Board of Directors meeting, I felt that it was probably unthinkable for our company a few years ago that we were going through such a change even in this traditional department. I think there is a considerably strong will there. As you said, we should be careful not to be satisfied with a V-shaped recovery, if it is achieved. I believe that we have identified right issues and started to work on them, therefore, we need to complete it.

Ishida: I feel very much the same way about your question. In the end, if a division is responsible for managing the business, when the business created by that division goes wrong, it tends to make every effort and do everything to make it up. That is the nature of the sales department. So, in such a case, things tend to eventually get worse as time goes by, or something like that. Sometimes it goes well, but if it goes bad, it will become even worse. In the end, I think we need to implement a whistle blower, or a system where someone can tell you to cease fire. Therefore, as I mentioned earlier in the previous meeting, a third party unit will confront them with considerable power. Confronting is confronting, but you are doing a good thing for the Company. I think that we will be able to do such things to a certain extent, without hesitation, and that management will also support such things in the future.

Question 3-1:

I would like to ask you one question. When Mr. Ehara explained to us earlier, he said that we must utilize Sumitomo Corporation's strengths to carry out the SHIFT reform. What are Sumitomo Corporation's strengths and, conversely, what are its weaknesses? In particular, when you said you want the Company to improve business structure, what exactly do you want them to improve? Has that been pretty much factored into the SHIFT measures this time? Please tell me how you see it. Thank you.

Ehara: Let me start with the issues. I always wonder how the employees of Sumitomo Corporation feel about the Company. On the other hand, I wondered what investors' expectations were. From these 2 axes, I wondered what a company should be like. I think there is probably a gap between the expectations of investors and the current situation, and the image that employees have of the Company. The question is what it is.

In simple terms, I think it is professionalization. This is what we need to evolve in this organization. That's what I'm talking about. In terms of whether we have it, as an Outside Director, I can honestly say that we are already halfway there. So what is that all about? As the investment function increases, it is the mindset of the investor. We need to have it and learn the skills needed to do so. Of course, we have this to some extent. That is for sure. However, in response to your question, I would frankly say that we still have a long way to go in terms of this professionalization. In order to do this, I wondered what we should do about evaluation and compensation systems. This is the level of discussion we are having. This has been one of the major themes of the Nomination and Compensation Committee for the past year or so. In other words, I would like to see us move toward professionalization, if I say from a very high-level concept. However, since it is such a large organization, I think it is inevitable that it will take some time to realize this. That's what I was talking about earlier when I said it might take a while. However, on the other hand, the management team is aware that that is the issue, therefore, I think it's safe to say that we've started to take action against it.

Question 3-2:

Thank you very much. In the area of evaluation and remuneration that you just mentioned, do you feel that SHIFT has started to include more specific measures than in the previous medium-term management plan?

Ehara: Yes, you can interpret it that way.

Sato: Since we have received so many questions, I would like to have a few words from President Hyodo in response to these questions.

Hyodo: Thank you very much. We have received many questions, and I think that the Outside Directors have chosen their words very carefully today. This week's Board of Directors meeting is also a bit of a challenge, as it has become a regular occurrence for the Board of Directors to meet for several hours, including some pretty tough exchanges of opinions. We exchange opinions very actively on a daily basis. First, we must accomplish what we have set out to do in this medium-term management plan, and I use the word "complete." As I mentioned in my explanation, Sumitomo Corporation's current earning power is probably the most important factor. If the environment in which we earn money improves, the segment that incurred this large impairment, after excluding specific business, will grow its earnings. I think this will happen. The important thing,

however, is to produce solid results in dealing with 177 companies that we have identified in our structural reform. If we get the outcome, we should be able to boost the revenue as we have been aiming and generate over JPY70 billion in 3 years. We already have a plan for that. It all boils down to produce the outcome. As we do this, I would like to push forward with the professionalism that Mr. Ehara pointed out, and to thoroughly strengthen the weak areas and further strengthen the strong areas.

(End)