

# Initiatives for mid- to long-term increase in Corporate Value



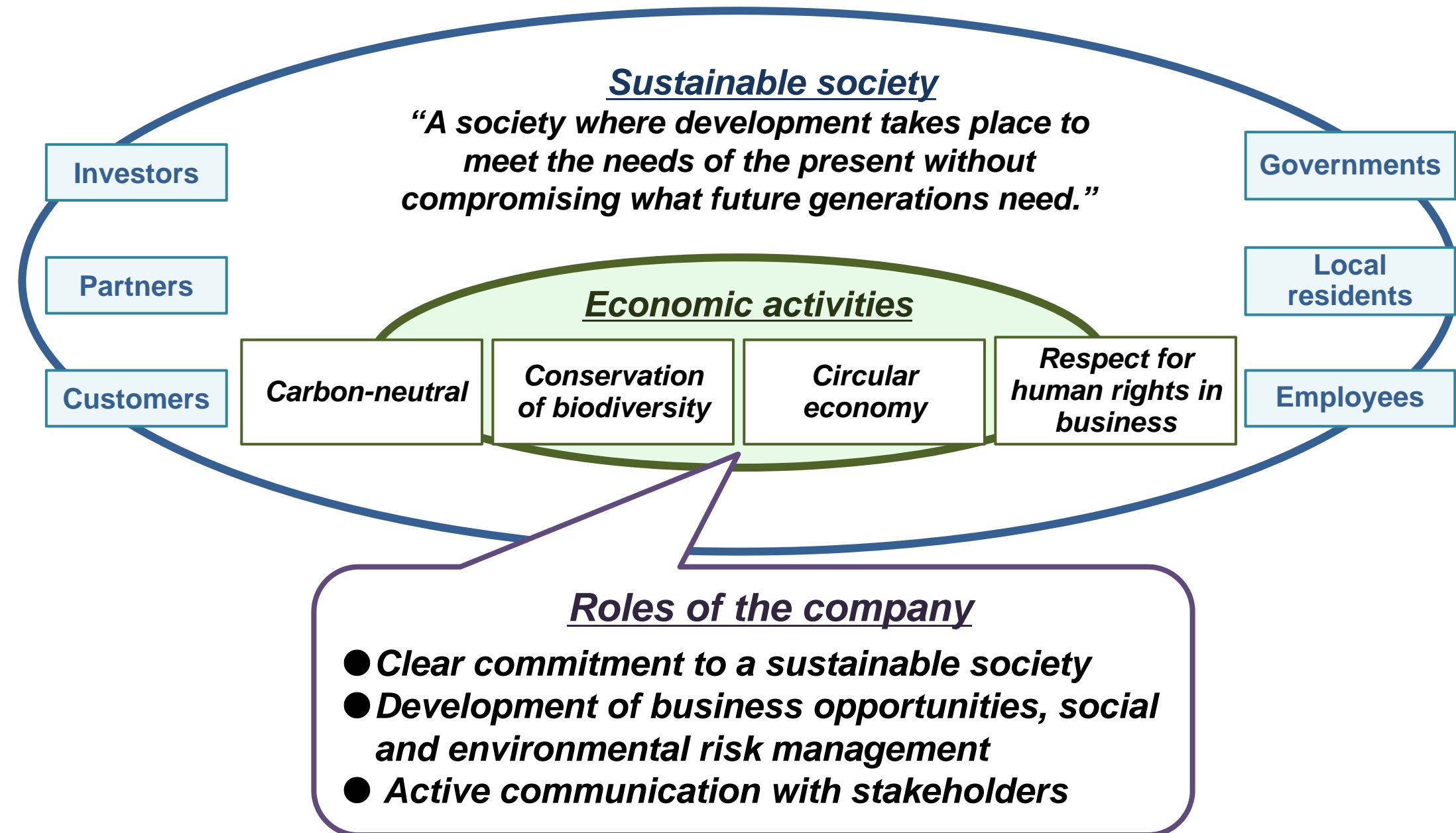
June 26<sup>th</sup>, 2020

Sumitomo Corporation

## **AGENDA**

- 1 . Enhancing Sustainability Management
- 2 . Initiatives on Climate Change Issues
- 3 . Initiatives on Human Rights
- 4 . Social and Environmental Risk Management
- 5 . Corporate Governance
- 6 . HR Strategy

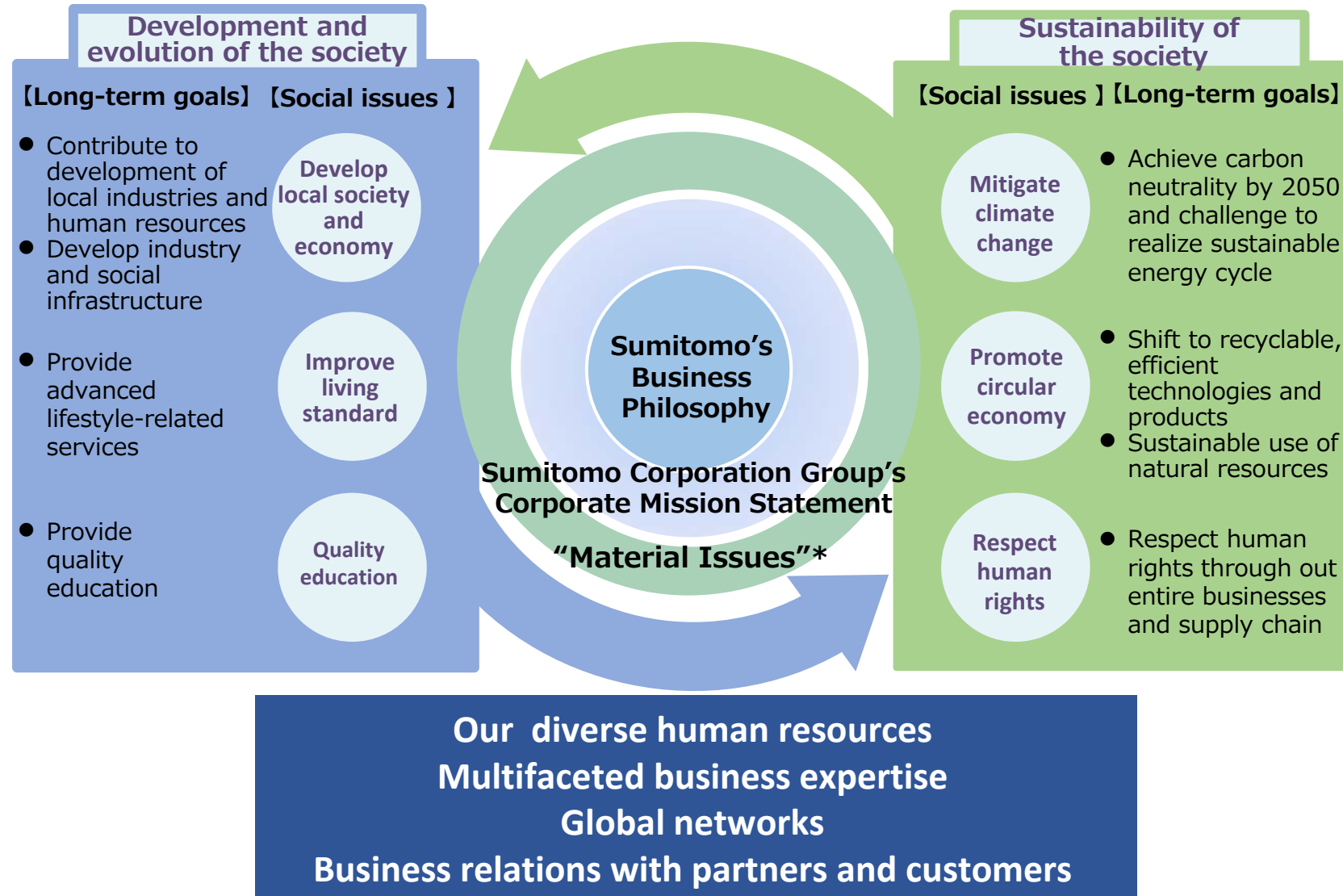
## ■ Roles of the company in a sustainable society



# 1. Enhancing Sustainability Management

## ■ Key social issues and long-term goals for the Sumitomo Corporation Group

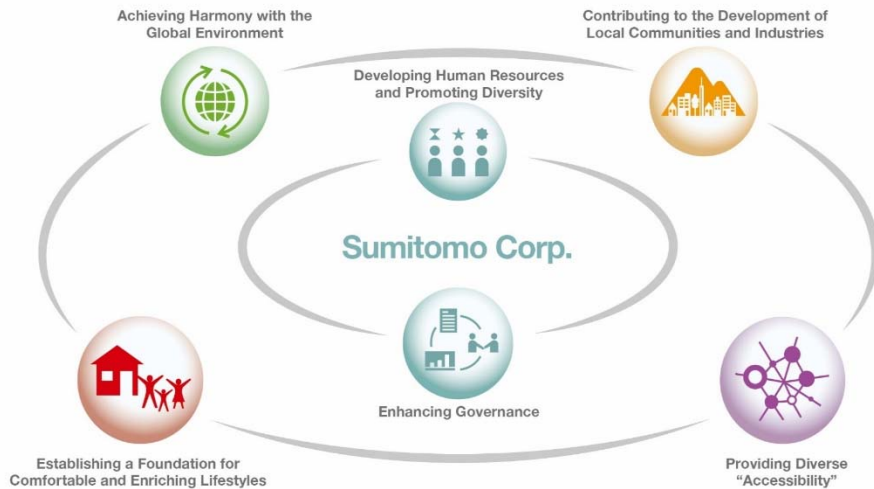
- ✓ Mid-term goals and KPI's will be set and progress will be monitored.



\* Priority issues identified for SC Group to pursue sustainable growth with the society

# 1. Enhancing Sustainability Management

## ■ Initiatives to take a step forward for Sustainability Management

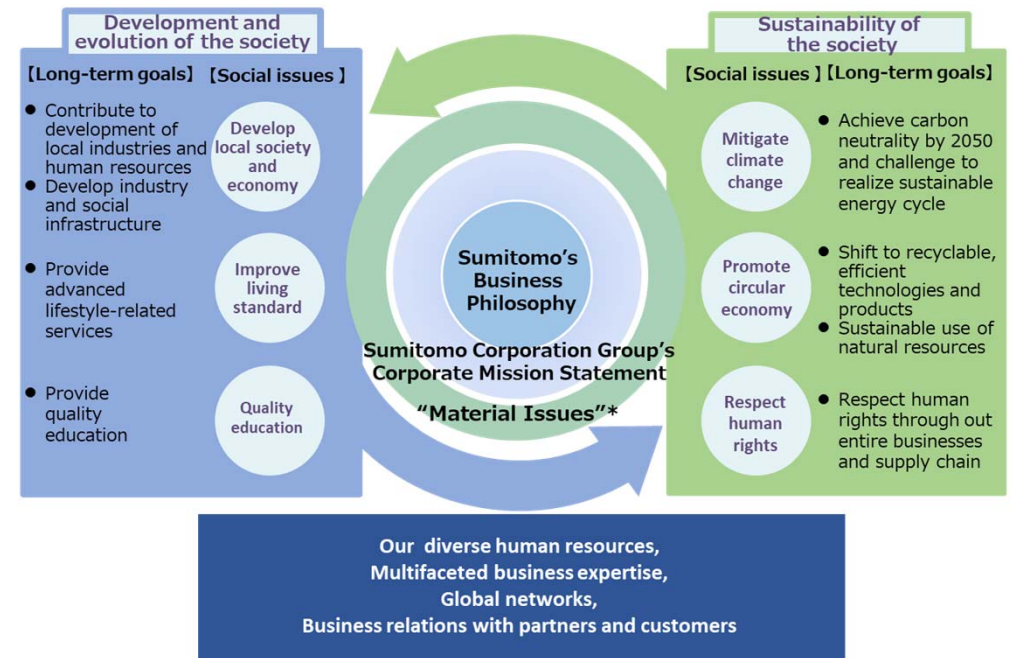


### Sumitomo Corporation group Key social issues and Long- term goals

- Key social issues particularly relevant to the company's business activities.
- Commitment on its role to play in achieving a sustainable society.
- Medium-term goals and KPI will be determined and the progress will be monitored.

### Six Material Issues to achieve sustainable growth with society

- Material issues that we should address with the priority by leveraging our strengths.
- Describe specifically how the company contributes to society.
- The basis of mid- to long-term business strategy and individual business activities.
- Confirm all the strategy and business are adapted to the Material Issues.

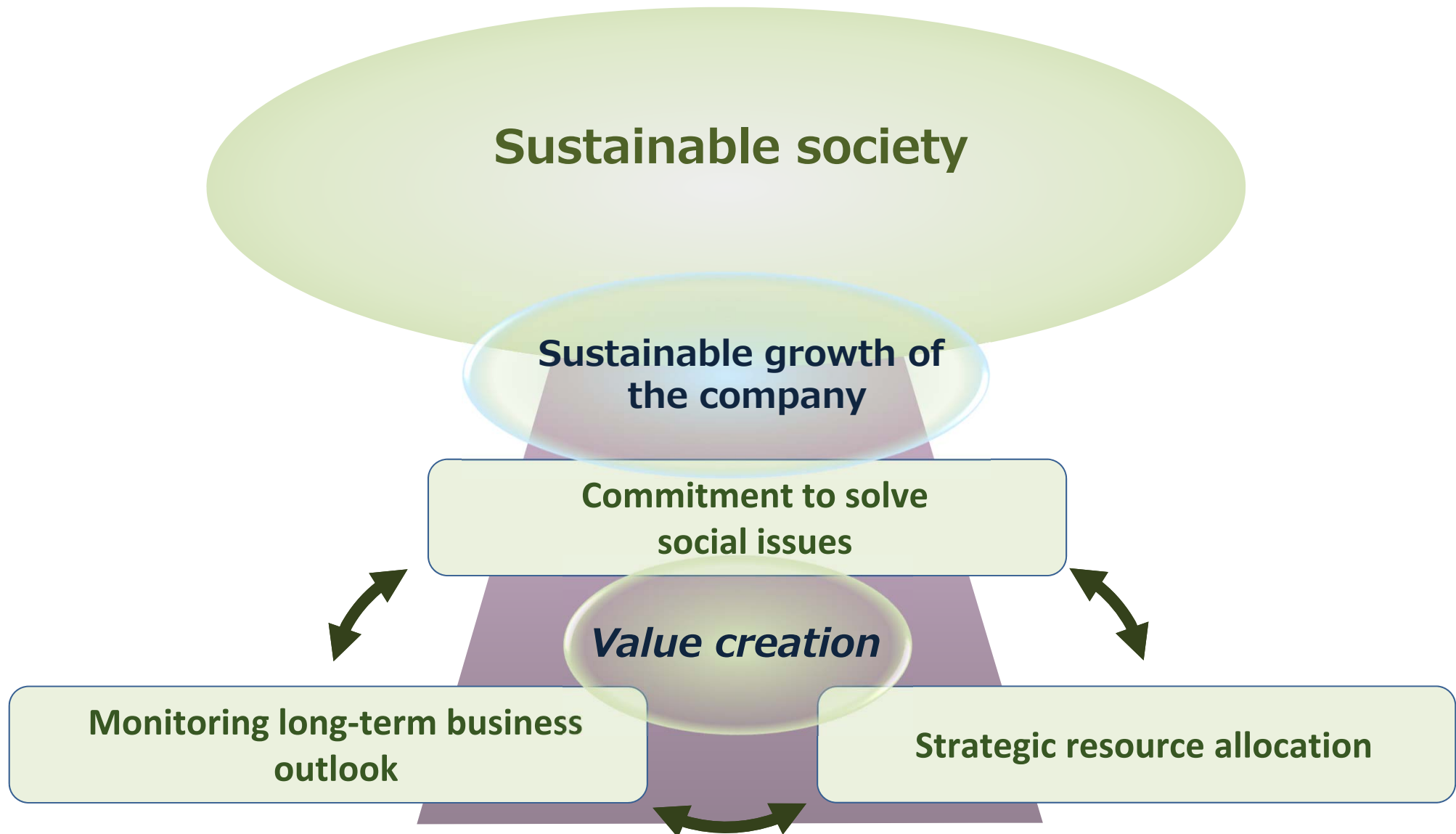


\* Priority issues identified for SC Group to pursue sustainable growth with the society

# 1. Enhancing Sustainability Management

## ■ Sustainability management at Sumitomo Corporation Group

**Pursue sustainable growth with the society**





### ■ Review of Policy on Climate Change issues

#### Basic Policy

- **Aim to make the Sumitomo Corporation Group carbon neutral in 2050\*.**  
Develop technologies and business models for creating a sustainable energy cycle by reducing CO2 emissions and achieving negative emissions\*\* for society as a whole.
- **In addition to reducing and absorbing CO2 emissions from our business, we will contribute to the carbon neutralization of society through cooperative initiatives and recommendations made with business partners and public institutions.**

#### Policy on Business Activities

- **Promote renewable energy, efficient energy utilization and fuel conversion that contributes to reducing CO2 emissions throughout society. We will also work to offer new energy management and mobility services utilizing renewable energy and also to materialize hydrogen technologies and applications.**
- **In the power generation business, we provide a stable supply of the energy, essential for the economic and industrial development of local communities. At the same time, we continuously shift management resources to renewables and other energy sources with low environmental burden in the power generation portfolio.**  
(By the target year of 2035, we aim to shift the composition of the portfolio in terms of net ownership generation capacity as follows: coal 50% to 30%; gas 30% to 40%; and renewables 20% to 30%)
- **Regarding the development of thermal power generation and fossil energy concession, we will work on the premise of carbon neutralization in 2050.**

\* The scope of business targeted for carbon neutralization is as follows

[Scope1・2] Direct CO2 emissions from Sumitomo Corporation and its subsidiaries, as well as indirect CO2 emissions from the generation of energy used by each company (however, for power generation businesses, emissions from those affiliated companies under the equity method are also included)

[Scope3] Indirect CO2 emissions associated with the use of energy resources produced by fossil energy concession of Sumitomo Corporation Group, its subsidiaries, and affiliated companies under the equity method.

Carbon neutrality means net-zero CO2 emissions that combine CO2 emissions from our business and our contributions to CO2 emission reduction.

\*\* Negative emission refers to the absorption, capturing, and removal of CO2 emitted in the past and accumulated in the atmosphere.



### **Additional notes:**

In 2019, the Company has established the following policies regarding coal-fired power generation business and thermal coal mining business. In addition, the revised policy sets carbon neutrality by 2050 and the development of coal-fired power generation and fossil energy concession will be operated to meet the goal.

- We will not have new development in the coal-fired power generation business. However, we make a decision individually about new development in cases where the project is essential to the economic and industrial development of the local community and where the project is complying with the policies of the Japanese and host country governments based on the international initiatives to mitigate climate change issues.
- In the thermal coal mining business, we limit our equity share coal production to our current levels, and desist from new mine development projects.

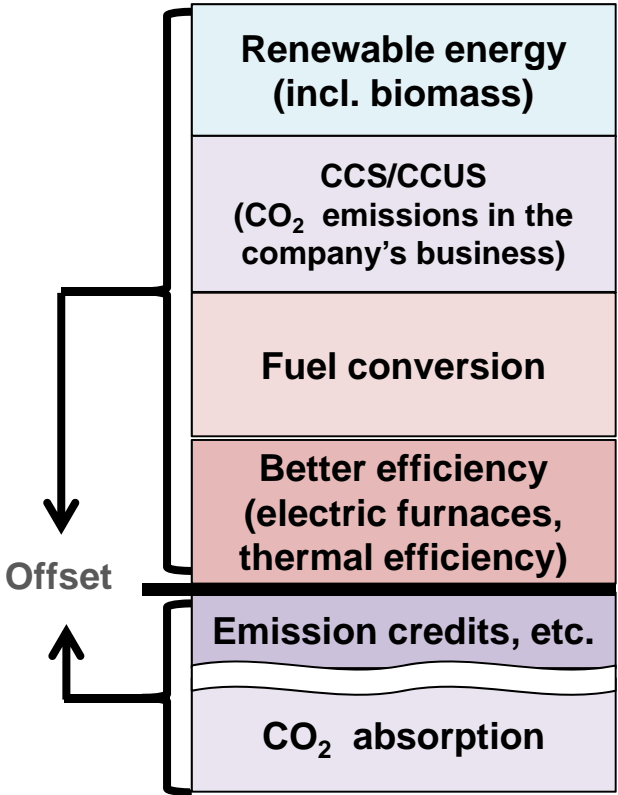


■ Views on the achievement of carbon neutrality

[Scope of carbon neutralization efforts]

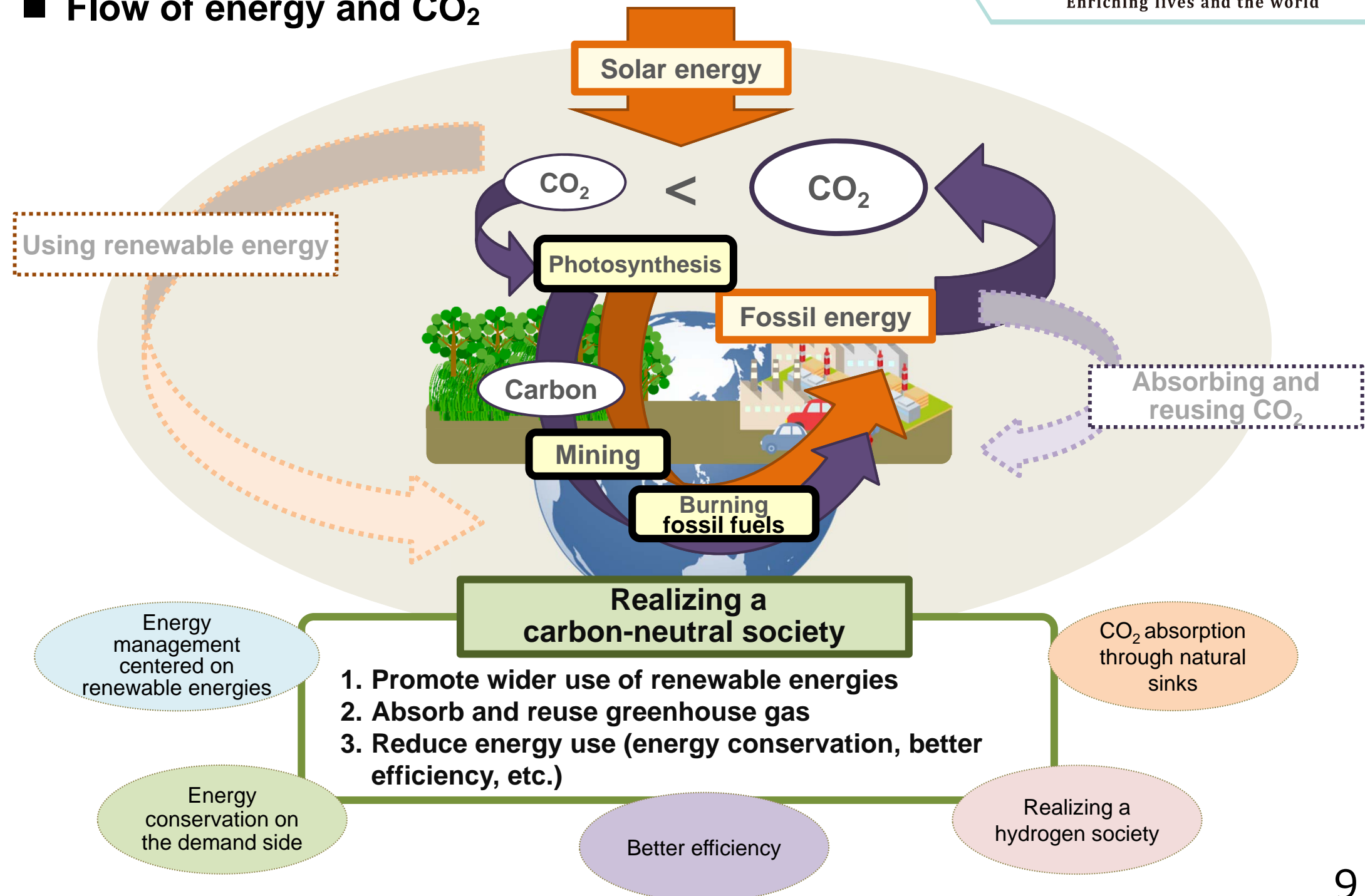
	<u>Scope 1</u> Direct emissions in the company's business, including fuel burning and industrial processes	<u>Scope 2</u> Indirect emissions stemming from the generation of electricity, heat and steam being used	<u>Scope 3</u> Other indirect emissions
Sumitomo Corporation & its subsidiaries	<div>● Direct CO<sub>2</sub> emissions of Sumitomo Corporation and its subsidiaries</div> <div>● Indirect CO<sub>2</sub> emissions stemming from the generation of energy used by these companies [Large development projects, manufacturing, freezing, refrigerating]</div>		<div>● Indirect CO<sub>2</sub> emissions stemming from the use by other parties of the energy resources produced by fossil energy concession [Development of coal mines, oil fields, and gas fields]</div>
Equity-method affiliates	<div>● Direct CO<sub>2</sub> emissions in the power generation business [Power generation business]</div>		

[Net emissions]



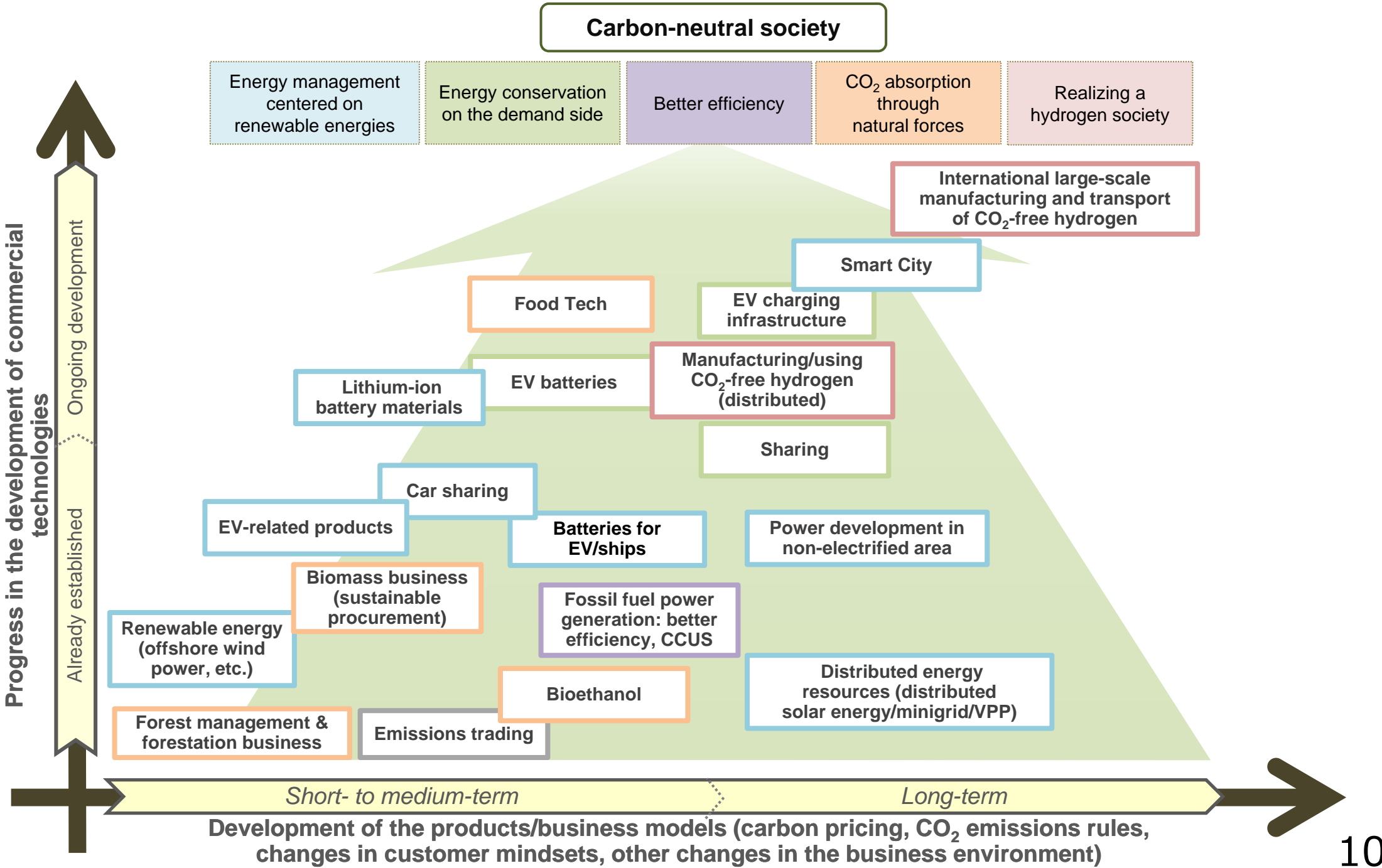
# 2. Initiatives on Climate Change Issues

## ■ Flow of energy and CO<sub>2</sub>



# 2. Initiatives on Climate Change Issues

## ■ The Company’s Initiatives on Climate Change Issues

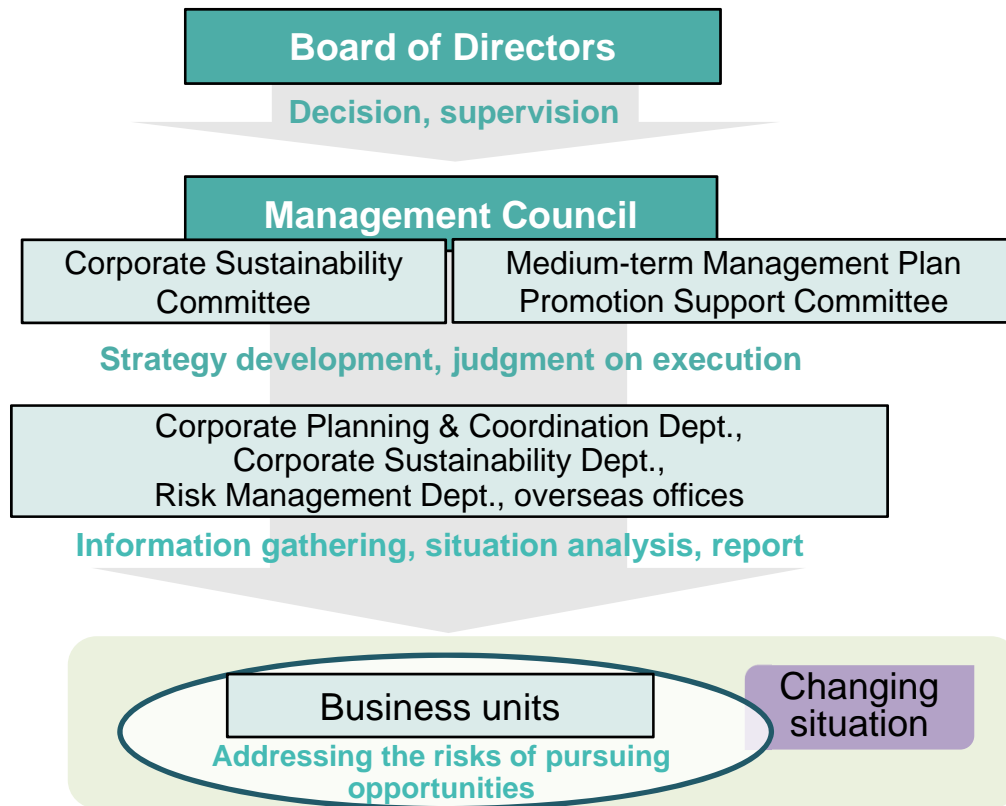


## 2. Initiatives on Climate Change Issues

### ■ Disclosure in line with the final recommendations of TCFD (governance, strategy, risk management, metrics/targets)

#### <Governance>

- Supervision by Board of Directors, decision-making by Management Council



#### <Strategy (scenario analysis)>

- Scenarios
  - IEA “World Energy Outlook 2019”
  - STEPS, SDS
- Target sectors
  - Energy (coal-/gas-fired power generation, renewable energy, etc.)
  - Resources (coal, gas, nickel, copper, iron ore, etc.)
  - Transportation equipment (internal combustion engine parts)
  - Materials industry (aluminum smelting, iron manufacture)

#### <Risk management>

- Individual case management, monitoring of the corporate-wide portfolio
- Comprehensive management system on environmental and social risks

#### <Metrics/targets>

- 2050: Achieve carbon neutrality in the company’s business
- 2035: Portfolio based on net generation capacity
- Power usage of Sumitomo Corporation

# 3. Initiatives on Human Rights



Sumitomo Corporation

Enriching lives and the world

## ■ May. 2020 “Sumitomo Corporation Group’s Human Rights Policy”

### 0. Introduction

*We respect the international norms.*

*“Ten Principles of the United Nations Global Compact”, “International Bill of Human Rights”, “Declaration on Fundamental Principles and Rights at Work”, “United Nations Guiding Principles on Business and Human Rights”*

### 1. Scope of application

*We strive to ensure human rights be respected in the entire Sumitomo Corporation Group.*

### 2. Human rights due diligence

*We strive to identify and to prevent or mitigate any adverse impact on human rights through the application of human rights due diligence processes.*

### 3. Compliance with relevant laws

*We will follow national and regional laws and respect international norms.*

### 4. Stakeholder engagement

*We will engage and dialogue with relevant stakeholders.*

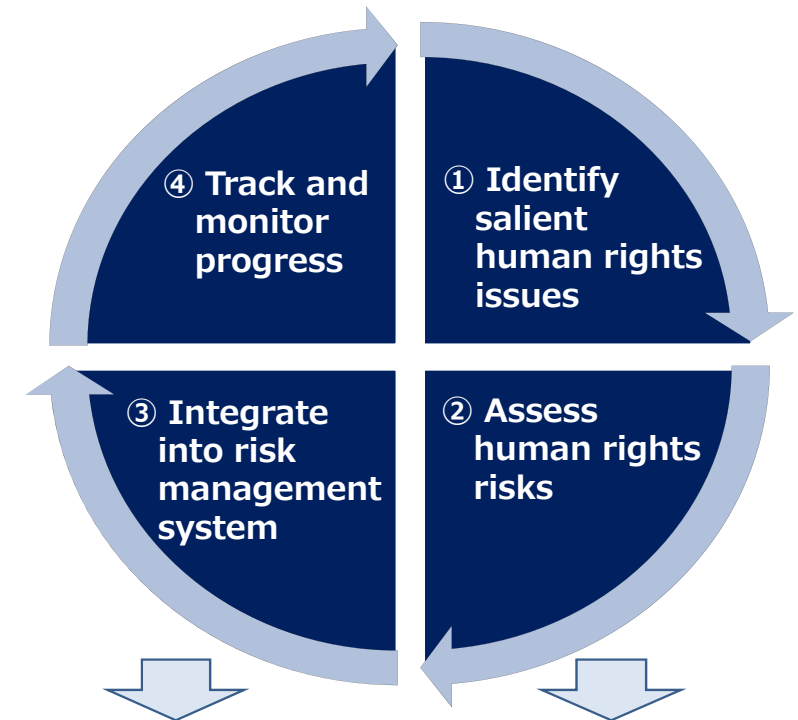
### 5. Education

### 6. Reporting

Formulation of human rights policy



Human rights due diligence

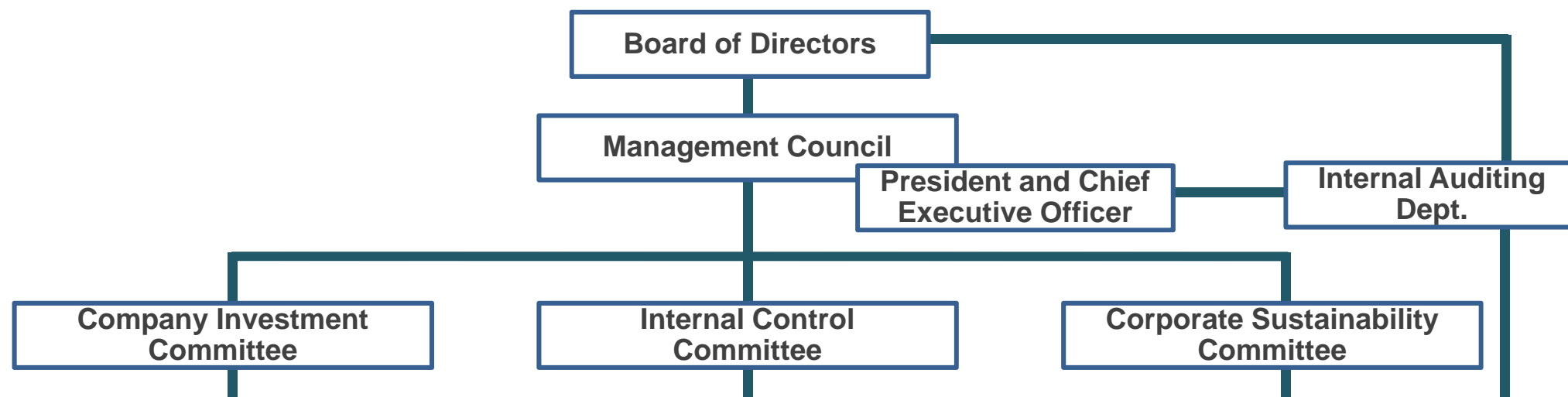


Remediation

Disclosures

# 4. Social and Environmental Risk Management

**Group policies:  
Environmental Policy, Human Rights Policy,  
CSR Action Guidelines for Supply Chain Management**



**Self-management by business dept., support by specialized corporate dept.**

## New investments

Identify and evaluate risks and check their management status while considering the nature of the business

## Risk management after the investment

Monitor the management status of key risks & improve the situation (Group governance/internal audit)

## Improvement measures

Respond to requests from local residents, NGOs, etc.

**April 2020: A social and environmental risk management system was established for the review of new investments**

- Identify key social and environmental risks at the time of investment application taking into account to the nature of individual businesses (use the assessment sheet)
- Corporate Sustainability Dept. will be involved in the deliberation process according to risks.

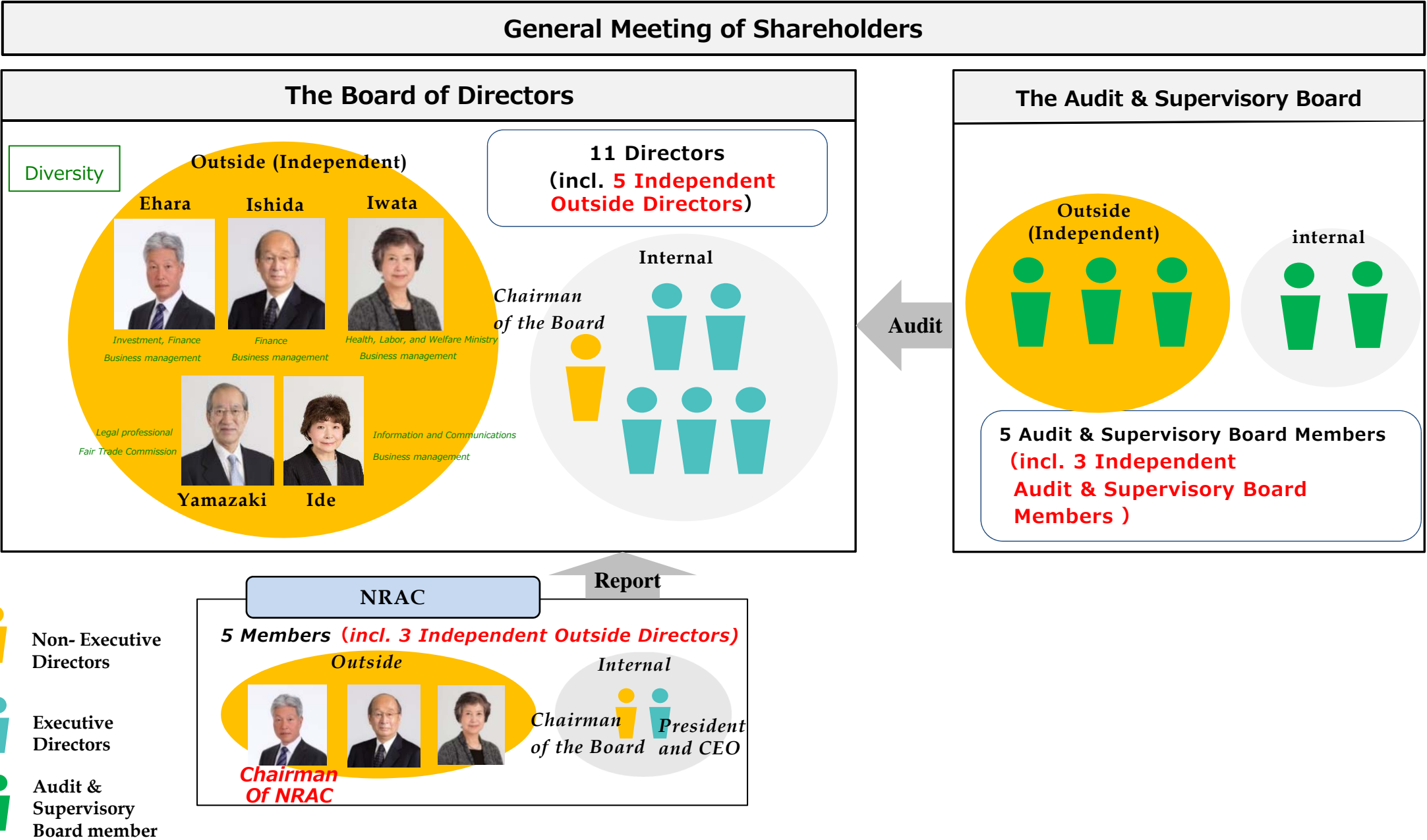
# 5. Corporate Governance

## I. Measures Implemented to Enhance Corporate Governance

	Pre-Jun. 2014	Jun. 2015	Jun. 2016	Jun. 2017	Jun. 2018	Jun. 2019	Jun. 2020
The Board Directors	<p><u>2003</u></p> <ul style="list-style-type: none"> <li>•Decreased the number of Directors (24→12)</li> <li>•Prohibited Chairman of the Board from simultaneously serving as President &amp; CEO</li> <li>•Limited term of office for Chairman of the Board and President &amp; CEO (up to 6 yrs in principle)</li> <li>•Announcement of SC Corporate Governance Principles</li> </ul> <p><u>2005</u></p> <ul style="list-style-type: none"> <li>•Shortened term of office for Directors (2yrs→1yr)</li> </ul>		<p><b>Implemented Evaluation of the Effectiveness of the Board</b> (※ Third party nominated / first 3 years questionnaire only, started interview from 2018)</p>				
Outside Directors	<p>2013 : 2 (out of 12 /17%)</p> <p>2014 : 2 (out of 12 /17%)</p>	<p>3 (out of 13 /23%) (incl. 1woman)</p>	<p>4 (out of 14 /29%) (incl. 1woman)</p> <p>※1 passed away and resigned</p>	<p>3 (out of 9 /33%) (incl. 1woman)</p>	<p>5 (out of 11 /45%) (incl. 2 women)</p>	<p>4 (out of 10 /40%) (incl. 1woman)</p>	<p><b>5 (out of 11 /45%) (incl. 2women)</b></p>
Nomination and Remuneration Committee	<p>2007: established Compensation Committee</p>	<p><b>Nomination and Remuneration Advisory Committee (NRAC)</b> (* est. 2015; Outside Directors comprise majority and the Chairman is Outside Director)</p>					








(After Ordinary General Meeting of Shareholders in June 2020)



## Ⅲ. Diversity of Outside Directors

5 out of 11 Directors are Outside Directors (After Ordinary General Meeting of Shareholders in June 2020)

	Name, Brief History	Term (years)	Areas of Expertise and Experience					
			Business Management	Investment	Finance	Law	Governmental agency	Information and Communications
	<b>Mr. Nobuyoshi Ehara</b> Independent Outside Director/Chairman of NRAC/ Ex-partner of US Investment Bank, Senior executive at private equity firm	4	●	●	●	—	—	—
	<b>Mr. Koji Ishida</b> Independent Outside Director/Member of NRAC/ Former senior executive at major financial firms/ Former member of the Policy Board, the Bank of Japan	3	●	—	●	—	●	—
	<b>Ms. Kimie Iwata</b> Independent Outside Director/Member of NRAC/ Worked at the Ministry of Health, Labor and Welfare/ Former Director and Executive Corporate Officer at a major cosmetics manufacturer	2	●	—	—	—	●	—
	<b>Mr. Hisashi Yamazaki</b> Independent Outside Director/ Former Chief Judge of the Sapporo High Court, Attorney/ Former member of the Fair Trade Commission	2	—	—	—	●	●	—
	<b>Ms. Akiko Ide (Newly Elected)</b> Independent Outside Director / Former Executive Director of major telecommunications company / Former president and CEO of the same group company / Former full time audit and advisory board member of the same parent (holding) company.	—	●	—	—	—	—	●

## IV. Measures to Further Improve the Effectiveness of the Board of Directors

Issues in FY2018	Main initiatives in FY2019	Evaluation of the effectiveness* in FY2019	Evaluation & main issues in FY2019
<ul style="list-style-type: none"> <li>■ Reports by business units on strategy and progress</li> </ul>	<p>Explanation and discussion with a focus on issues in implementing the Medium-term Management Plan 2020 and policies to address the issues</p>	<p><b>Methods:</b> Questionnaire + interviews</p> <p><b>Evaluation process:</b> (1) Analyzed the data compiled by the external consultant (2) Reported to the Board of Directors (March 2020)</p>	<p><b>Evaluation</b></p> <ul style="list-style-type: none"> <li>◆ The Board of Directors has generally been functioning effectively.</li> <li>◆ The initiatives in FY2019 are leading to improvement.</li> </ul>
<ul style="list-style-type: none"> <li>■ Reviewing the duration of discussions</li> </ul>	<p>Limiting discussions to important points in order to enhance deliberation</p>		<p><b>Main issues</b></p> <p>1. Composition of the Board of Directors</p> <ul style="list-style-type: none"> <li>● Further diversity</li> </ul>
<ul style="list-style-type: none"> <li>■ Improving meeting materials</li> </ul>	<ul style="list-style-type: none"> <li>✓ Clarifying key points of discussions</li> <li>✓ Explaining technical terms with footnotes, etc.</li> </ul>		<p>2. Enhancing deliberation on key items to discuss</p> <ul style="list-style-type: none"> <li>● More appropriate agenda setting</li> <li>● Better handling of key agenda items: prioritizing, balancing (duration of discussion), etc.</li> </ul>
			<p>3. Further enhancement of the monitoring function</p> <ul style="list-style-type: none"> <li>● Roles and functions of Outside Directors</li> </ul>

\* Items evaluated: (1) Composition of the Board of Directors, (2) Administration of the Board of Directors, (3) Improvement of deliberation and enhancement of monitoring function at the Board of Directors, (4) Evaluation of improvement measures in the previous fiscal year, etc. Also includes a section for any additional comments.

## V. Enhancing the items for deliberation

### at the Board of Directors

*(Main discussion themes at Board meetings and off-site in FY2019)*

#### **Management plan**

- *Progress review of the Medium-term Management Plan 2020*
- *Issues and directions for the post Medium-term Management Plan 2020*
- *Medium-term Management Plan 2020: revision of quantitative plans*
- *Regular reporting by business units (progress report on the unit strategy, issues, and policies to address these issues)*

#### **ESG-related items**

- *Enhancing sustainability management*
- *Policies on climate change issues*
- *Sumitomo Corporation Group's Human Rights Policy*
- *The UK Modern Slavery Act 2015*
- *Evaluation of the effectiveness of the Board of Directors: reports on results, improvement measures*

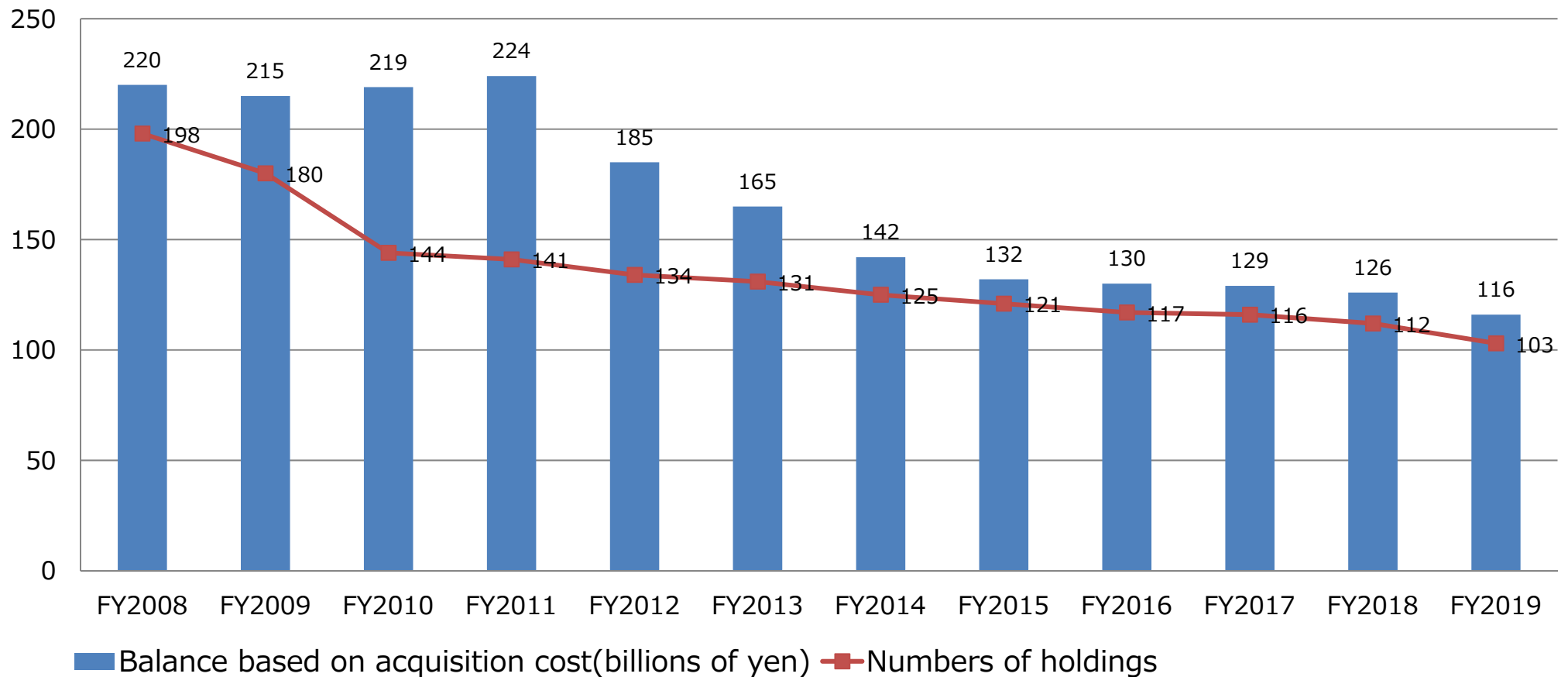
#### **Activity reports by committees**

*Compliance Committee\*, IR Committee, Corporate Sustainability Committee, etc.*

\* It is usually provided in March. The activity report for FY2019 was provided in May 2020.

## VI. Cross-shareholdings

### Balance of cross-shareholdings (acquisition cost)



[Total Fair Value on BS: 211.8billions of yen as of Mar. 31, 2020]

\* 8.33% of shareholders equity

Note: Cross-shareholdings here include not only mutual shareholdings but also unilateral ones.

## **VII. Governance of a Listed Subsidiary** **(Corporate Governance Report)**

### *Views and policies on group management*

- *Share a set of values to be respected throughout the Group\**
- *Aim to respect the autonomy of each group company and entrust to its top management*
- *Establish a business management system in each group company*
- *Share strategies and ensure business quality through dialogue*



*Achieve sustainable growth/development and maximize the corporate value of the Company and the Group*

\* Total number of subsidiaries and affiliates: over 900

### *Significance of having SCSK Corporation (SCSK) as a listed subsidiary*

- *Enhance motivation among the officers and employees, corporate credibility, and corporate presence; increase brand strengths in hiring employees*
- *Establish a solid financial basis including better financing capability*
- *Further develop trust with business partners as well as credibility of businesses and services*

### *Measures to ensure the effectiveness of the governance system at SCSK*

- *Respect the autonomy of SCSK and entrust its management*
- *Ensure independence at SCSK (utilizes Outside Directors, who are independent also from the Company)*
- *Request SCSK for prior discussion or a report regarding the execution of important business of a certain size, etc., for the purpose of Group-wide internal control, etc.*

## Initiatives

**Creating an environment in which diverse individuals can demonstrate their capabilities to the fullest**

- ✓ **Workstyle Transformation 2019**
  - expedite autonomous and flexible workstyle
- ✓ **Establishment of “Alumni Network”**
- ✓ **Enhancing mid-career hires**
- ✓ **Review of appropriate dress code**

**Strategic HR management on a global consolidated basis**

- ✓ **Strategical and cross organizational allocation of talents**
  - Abolish “jersey number”. Active use of interdivisional job rotation
  - Enhancement of DX center,  
Allocation of talents for cross organizational business development
- ✓ **Building the foundation for “allocating the right person in the right place at the right timing”**
  - Global Mobility Policy
  - Succession planning / Global HR Database / Global Grading System



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# To take a leap forward in the future

*~ Break through the traditional Japanese  
HR system ~*