

## ESG Small Meeting for Investors/Analysts

# Enhancement of Governance and HR Strategy



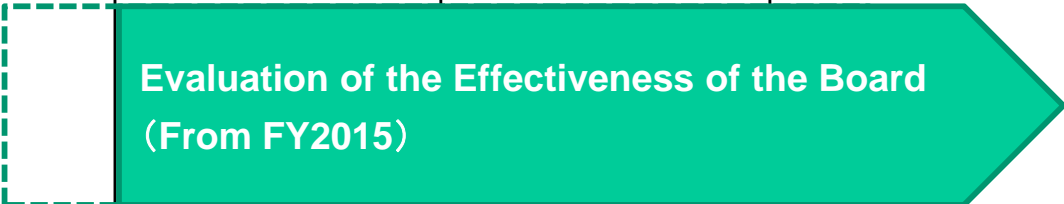
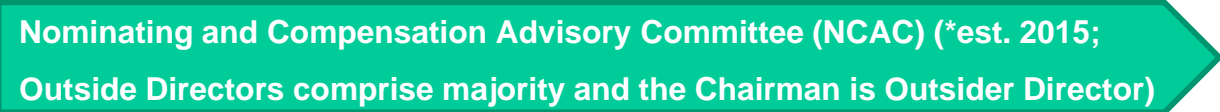
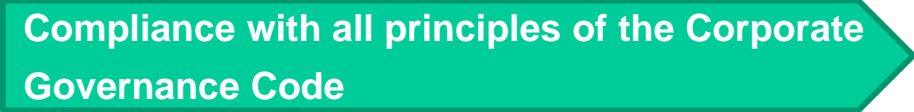
Sumitomo Corporation

October 24, 2018

# 1. Governance

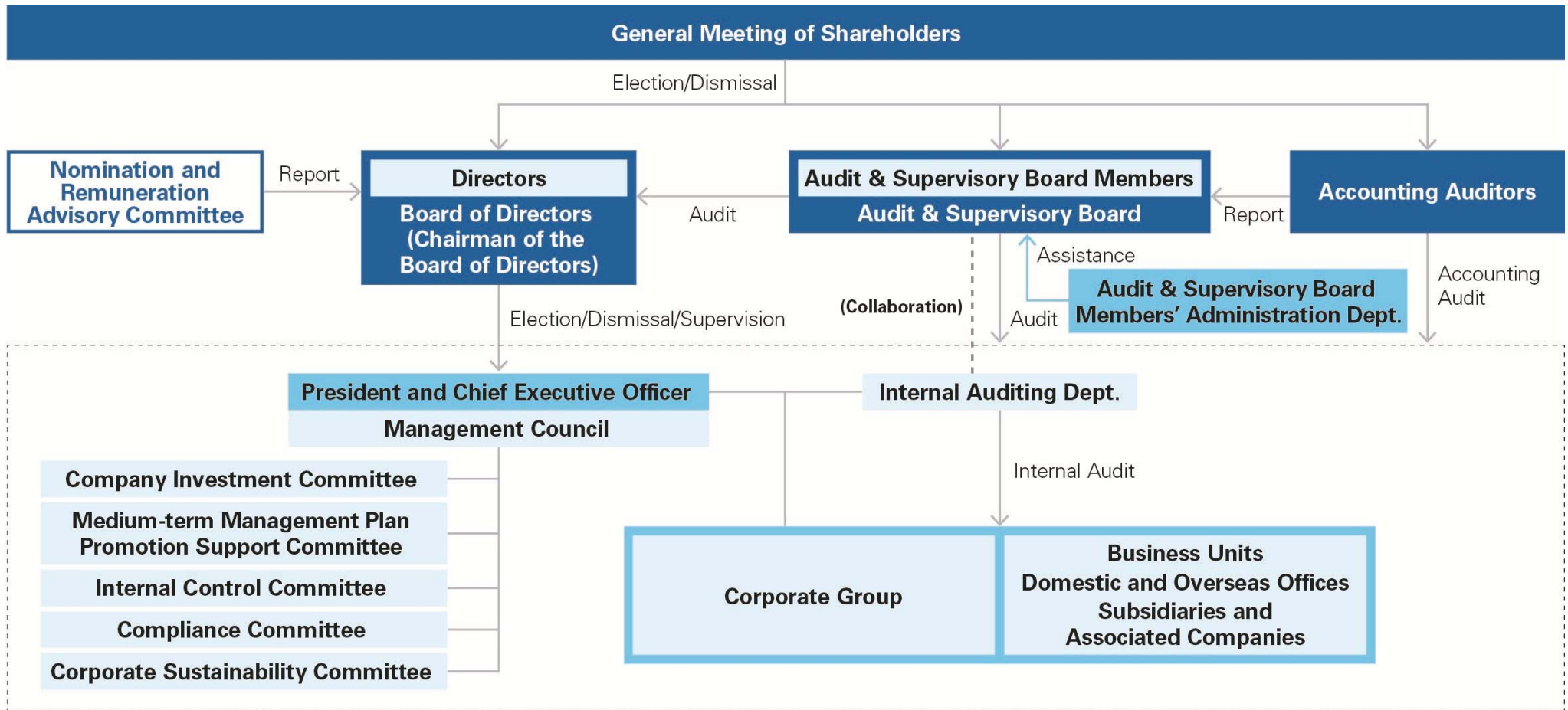
# I. Measures Implemented to Enhance Corporate Governance

▶ We have continuously enhanced our corporate governance to achieve sustainable growth and to increase corporate value over the mid-to-long term

		Pre 2014	2015	2016	2017	2018
The Board Directors		2003 : • Prohibited Chairman of the Board from simultaneously serving as President & CEO • Limited term of office for Chairman of the Board and President & CEO (up to 6 yrs in principle) • Announcement of SC Corporate Governance Principles • Decreased the number of Directors (24→12) 2005 : • Shortened term of office for Directors (2 yrs → 1 yr)				
	Outside Directors	2013 : appointed 2 Outside Directors	Increased from 2 to <u>3</u> (incl. 1 female director)	Increased from 3 to <u>4</u> (incl. 1 female director)	3 Outside Directors (incl. 1 female director) <small>(* 1 resigned and 1 passed away)</small>	<b>Increased from 3 to 5 (incl. 2 female directors)</b>
Nomination and Compensation Committee	2007 : Established Compensation Committee					
Others						

## II. Corporate Governance Framework

- ▶ Adoption of the “Board of Directors” and the “Audit & Supervisory Board”
- ▶ Election of Outside Directors and Outside Audit & Supervisory Board Member for the reinforcement of the oversight function



## II. Corporate Governance Framework

### Composition of the Board

- Candidates are nominated and selected by the NCAC
- Consists of **16** Members (**8** are Independent Outside Members) who have a wealth of experience, a high degree of specialized knowledge and expertise etc.

(After June 2018)

#### ✓ Selection Process

- Candidates are selected by means of discussion based on NCAC's report of the outcome of its deliberations.
- Those with wealth of experience, a high degree of specialized knowledge and expertise are selected.

#### ✓ Ensuring Diversity in the Board

- The composition of the Board are designed to ensure diversity of experience, knowledge, expertise, gender, etc.
- Number of members of the Board: **16**
  - **11** Directors (**5** Independent Outside Directors)
  - **5** Audit & Supervisory Board Members (**3** Independent Outside Audit & Supervisory Board Members)

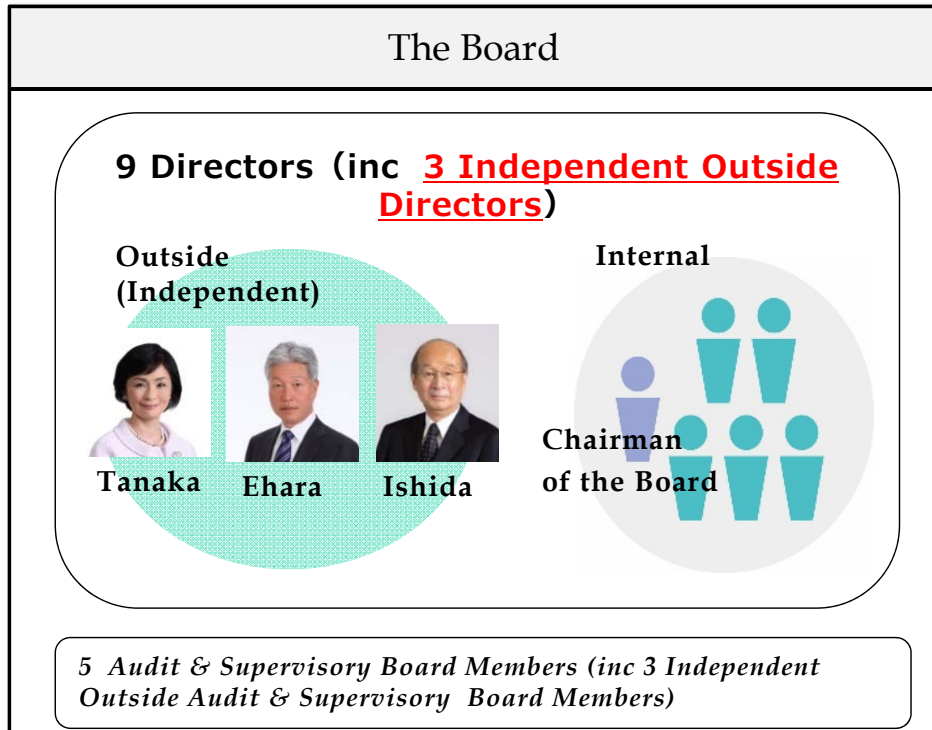
	Directors	Executive Officers
Chairman of the Board	<b>Kuniharu Nakamura</b>	
Representative Director, President & CEO	<b>Masayuki Hyodo (CEO)</b>	
Representative Director, Executive Vice President	<b>Hideki Iwasawa (CAO) Masahiro Fujita</b>	
Representative Director, Senior Managing Executive Officer	<b>Koichi Takahata (CFO)</b>	
Representative Director, Managing Executive Officer	<b>Hideki Yamano (CSO·CIO)</b>	
(Independent) Outside Director	<b>Yayoi Tanaka Nobuyoshi Ehara Koji Ishida Kimie Iwata Hisashi Yamazaki</b>	
Senior Managing Executive Officer		Other Senior Managing Executive Officers (7)
Managing Executive Officer		Other Managing Executive Officers (9)
Executive Officer		Other Executive Officers (23)

# II. Corporate Governance Framework

 Non- Executive Directors

 Executive Directors

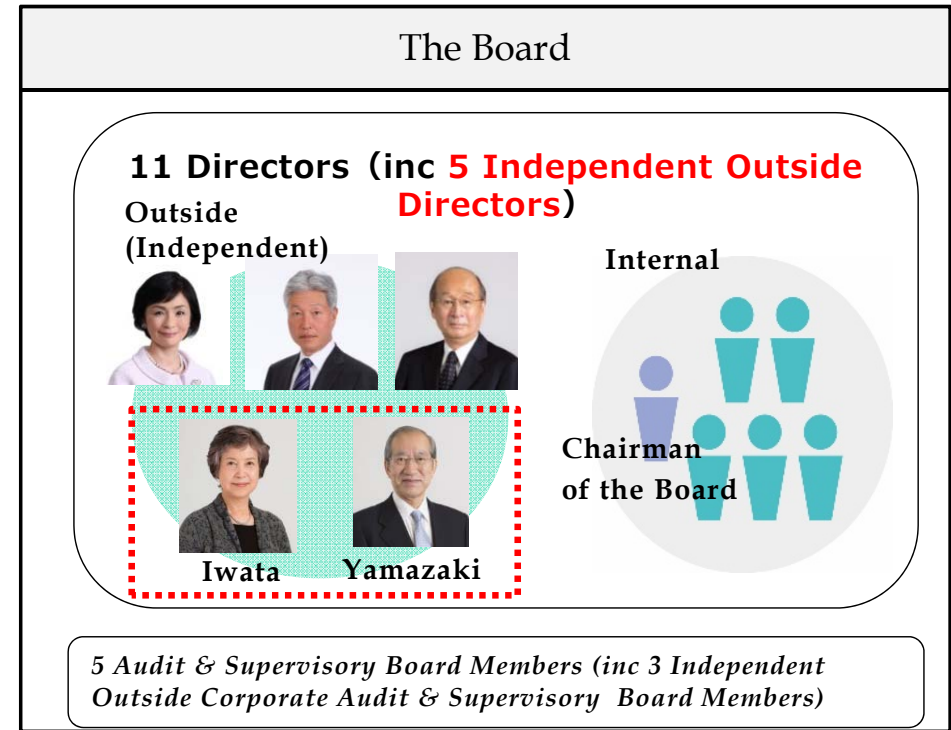
As of March 2018



NCAC



After Shareholders' Meeting in June 2018








NCAC



## II. Corporate Governance Framework

### Diversity of Outside Directors

✓ 5 out of 11 Directors are Outside Directors (2 of whom were additionally appointed in June 2018.)

		Areas of Experience				
		Business/ Management	Investment	Finance	Law	Academic Research/ Govt agency work
	<b>Ms. Yayoi Tanaka</b> Independent Outside Director/Member of NCAC/ Private sector member, Administrative Reform Promotion Council, Cabinet Secretariat Member, Policy Evaluation Committee, Ministry of Internal Affairs and Communications	—	—	—	—	●
	<b>Mr. Nobuyoshi Ehara</b> Independent Outside Director/Chair of NCAC/ Ex- partner of US Investment Bank and Securities, Senior executive at private equity firm	●	●	●	—	—
	<b>Mr. Koji Ishida</b> Independent Outside Director/Member of NCAC/ Former senior executive at major financial firms/ Former member of the Policy Board, the Bank of Japan	●	—	●	—	●
	<b>Ms. Kimie Iwata (New-election)</b> Independent Outside Director/ Worked at the Ministry of Health, Labor and Welfare/ Former Director and Executive Corporate Officer at a major cosmetics manufacturer	●	—	—	—	●
	<b>Mr. Hisashi Yamazaki (New-election)</b> Independent Outside Director/ Former Chief Judge of the Sapporo High Court, Attorney/ Former member of the Fair Trade Commission	—	—	—	●	●

#### Actions in previous medium-term Management Plan (BBBO2017)

##### Promotion of Managerial Reforms – Enhancement of Corporate Governance

#### ■ Strengthen Executive-Level Decision-Making Process and Risk Management

1. Change the Management Council into the highest decision-making organization
  - ✓ Important matters can be determined through multi-faceted discussions
2. Expanding the transfer of authority to business unit GM and further improvement on risk management system
  - ✓ Generation of sense of risk-owner and enhancement of supporting system

#### ■ Enhancement of the Board's monitoring function

1. Change composition of the members
  - ✓ Increase the ratio of Outsider Directors :  
2 out of 12 (in Apr 2014) → 5 out of 11 (in Jun 2018)
2. Review the standards for matters to be discussed
  - ✓ Further concentrate deliberation on more important matters
3. Deliberation on nomination/compensation for Directors, etc. by NCAC
  - (1) Nomination of a candidate for the CEO Successor
  - (2) Revision of Executive Compensation Structure



#### NCAC

#### ➤ Nominating Process of the CEO Successor

Outside Directors' opportunities to contact Executive Officers in many occasions



Agreed on the qualifications for the CEO and the schedule for the nominating process in Summer 2016

Shortlisted candidates

Finally decided Mr. Hyodo as the candidate and proposed him to the BOD for the CEO selection at the end of 2017

## NCAC

### ➤ New Executive Compensation Structure (From 2018)

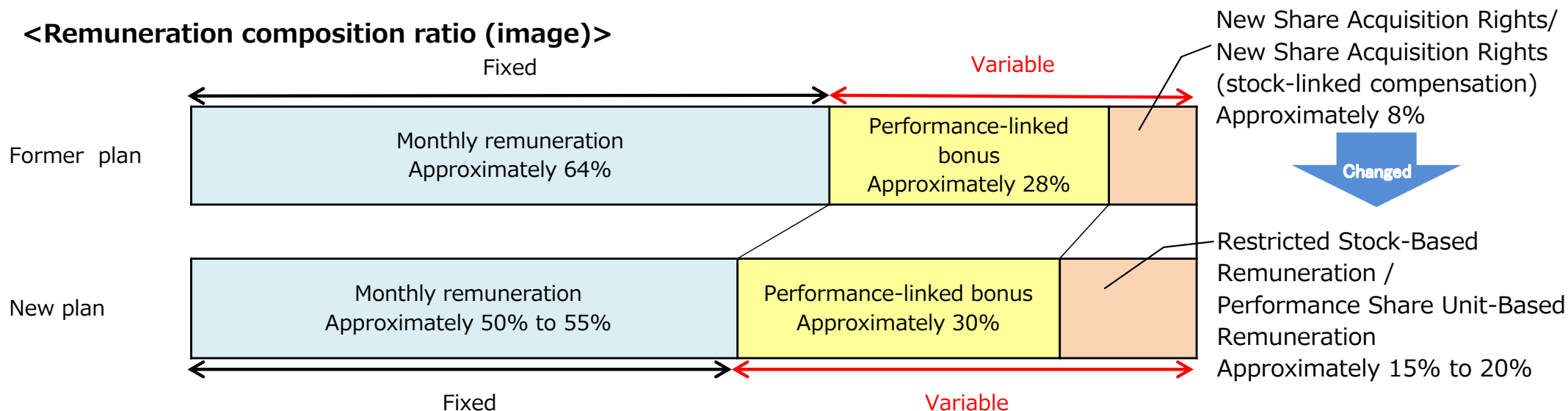
#### 【Purpose】

We adopted a new executive compensation structure in order to raise the incentive to Directors and Executive Officers to increase corporate value sustainably and to align interest with shareholders.

#### 【Outline】

- (1) Change of Structure and the Ratio of the Compensation
  - We increased the portion of the performance-based compensation and the stock-based compensation, within the total compensation.
- (2) Stock-based Compensation
  - Introduction of Restricted Stock (RS) and Performance Share Unit (PSU)

#### <Remuneration composition ratio (image)>



(Note) The aforesaid chart is an image calculated based on a certain level of company performance and stock price, and the above ratios will change according to fluctuations in such company performance and stock price.

### Initiatives to increase Corporate Value

Strengthening of Management Basis ~ Enhancement of Corporate Governance

#### Medium-Term Management Plan 2020:

##### (1) Reinforcement of the Monitoring Function of the BOD

- ✓ Periodic monitoring of the progress of the medium-term management plan and the portfolio strategy.

##### (2) Reinforcement of the Group Governance

- ✓ Assessing and strengthening internal control of the Group.

#### Others :

##### Compliance with the revised Corporate Governance Code

- Establishment of process for nomination/dismissal of CEO
- Establishment of systems to fully act as an asset owner of corporate pension
- Disclosure of direction for reducing cross-shareholdings, etc.

Every year, the Board conducts an evaluation of the effectiveness of the Board and implement measures as discussed at the Board.

### **Outline of the Evaluation of the Effectiveness of the Board (for 2017)**

#### 1. Evaluation Process

Method : Questionnaire Survey. Analyzed and evaluated by an external consultant, and the results were reported to the Board

Items : Roles and duties of the Board, Composition of the Board, Roles and qualifications of a director, Operations of the Board

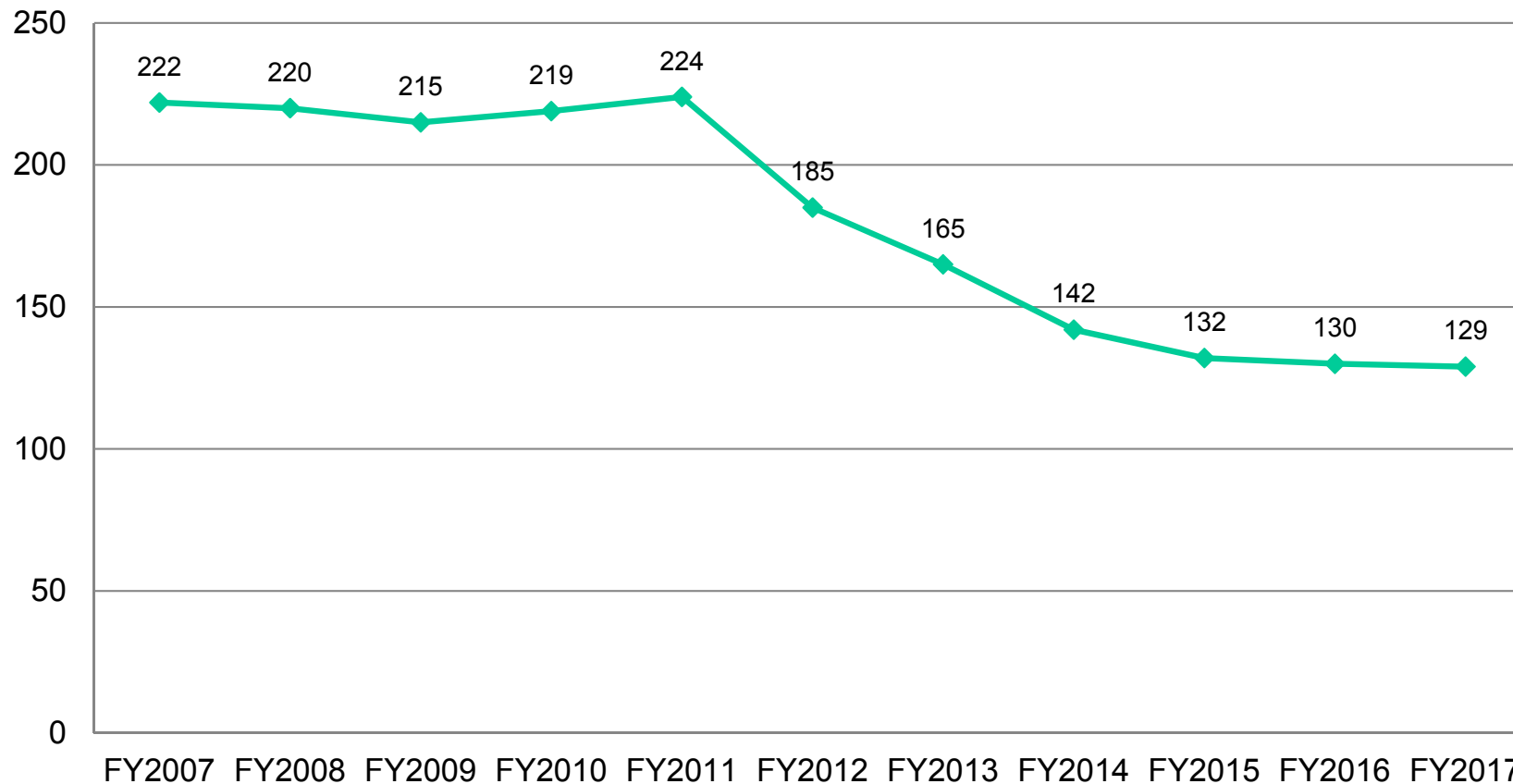
#### 2. Summary of the Results

- Generally, positive results were received for all evaluation items. Comments were received to the effect that a variety of reforms aimed at realizing an effective Board have been implemented, and these efforts are steadily producing results and are highly acclaimed by Outside Directors and Outside Audit & Supervisory Board Members.
- Meanwhile, there were recommendations to further enhance discussions at the Board meetings, and to improve information provided to directors.

## V. FYI: Others (CG Code – Cross-Shareholdings)

The Company has steadily reduced its cross-shareholdings over the past years by continuously reviewing the purpose, rationality etc. of cross-shareholdings.

### The Balance of Acquisition Cost (Unit: Billions of yen)

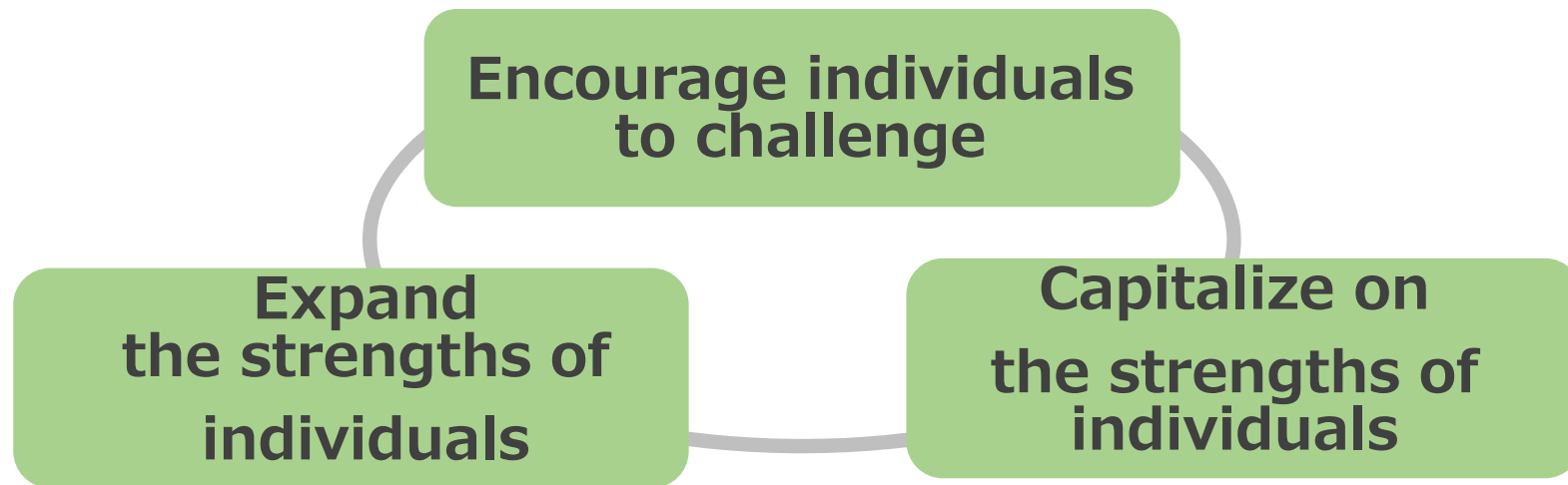


[FY2017/E fair value: 339\*]  
\* 4.36% of the total assets

## **2. HR Strategy**

**(1) Basic Concept of HR Strategy**

**(2) Measures for Strategic HR Management**



Value, Respect, and Include individual differences

**“Diversity & Inclusion”**

~Make diversity a source of competitiveness ~







**Creating an environment in which diverse individuals  
can develop their capabilities to the fullset**

**Strategic HR Management in accordance with  
Medium-Term Management Plan 2020**

**Placing the right person in the right place  
at the right time on a global basis**

### Creating an environment in which diverse individuals can develop their capabilities to the fullset

- ✓ **Launching a structure for retaining highly professional human resources**
- ✓ **Promoting opportunities for mid-career human resources**
- ✓ **Modification of compensation system which evaluate based on their contribution for senior employees**
- ✓ **Creating a work environment to realize self-sustaining and flexible workstyles**
  - Introducing “Telework” (Remote-work)
  - Introducing “Super-Flex System” (no “core time”)
- ✓ **Promotion of health and productivity management**

### Strategic HR Management in accordance with Medium-Term Management Plan 2020

- ✓ **Strategic allocation of human resources**
- ✓ **Expanding training for executive management candidates**
  - Interdivisional job rotation
  - Establishment of global cross-organizational team
- ✓ **Introducing measures for supporting the spirit of challenge**

### Placing the right person in the right place at the right time on a global basis

- ✓ **Create a global human resources database**
  - Establishment of SC group HR database including HR in overseas
- ✓ **Enhance succession planning**
  - Develop succession planning for key positions in SC group including HR in overseas
- ✓ **Introduce the Global Grading System**
  - Set a common standard for the measurement of grading in SC group
- ✓ **Introduce the Global Mobility Policy**
  - Establishment of global policy for compensation and fringe for rotation of overseas personnel between overseas region