

## Question & Answer at ESG Small Meeting

[Date&Time]            June 26, 2020   13:30 – 15:00 pm

[Speakers]	Hideki Yamano	Representative Director, Senior Managing Executive Officer, Chief Strategy Officer and Chief Information Officer
	Takayuki Seishima	Representative Director, Managing Executive Officer, Chief Administrative Officer and Chief Compliance Officer
	Shigeki Ohno	General Manager, Corporate Sustainability Department
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### Question & Answer

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**Q1.** To become carbon neutral, you plan to purchase emission rights and utilize CCUS to offset negative emission. Could you give us a general idea of percentage contributed by each measure?

I understand it is further down the road for those technologies to be developed and applied in society. As trading company like Sumitomo Corporation would excel at creating such a business model, do you see some kind of solution to this problem, or do you just think you'll be able to follow suit once such technologies gradually take hold in society?

I believe negative emissions in society are an even larger and more difficult issue. Do you refer to it as a direction for the Company? Or do you have something concrete in your mind that makes you think that negative emissions are achievable?

**A1.** We'll first work to reduce the emissions volume as much as possible, and for the remaining amount, we intend to purchase emissions rights or use CCUS or CCS to offset the emissions. As CCUS hasn't been established as a technology that can be used on an operational basis, we don't have numbers that we can share at this point.

It is one of the strengths of trading companies like us to pave the way for new businesses and commercialization by identifying new technologies needed in the future society and investing management resources in them. As an example, we created a Zero Emission Department at our Company, and we are looking for business opportunities specializing in the area of energy management. In the field of hydrogen technology, we are working toward its commercialization, such as by participating in demonstration experiments for implementing a hydrogen society in the Chubu region. We hope to play a central role in developing and applying these technologies.

We believe we can contribute to the reduction of carbon emissions through innovations and commercializing new technologies as well as the accumulation of various small innovations, such as the development of alternative materials, changes in product composition, and improvements in logistics.

**Q2.** You have gone over policies on climate change issues and human rights. Upon making efforts to ensure the thorough implementation of these policies across the entire Company group, will it have an impact on your basic investment stance on minority interest in which it is hard for you to take the initiative. And also how do you intend to manage those minority interests?

**A2.** Whether the current policy we adopted will have an impact on the Company's investment stance would be both yes and no. As for why it has an impact, some business opportunities go hand-in-hand with social needs, and our basic policy is to expand our business portfolio, where there's a social need alongside opportunity. We will cultivate partnerships and conduct joint investments in, for instance, startups that possess technologies or business models that contribute to "E" and "S", as well as take part in R&D and pilot project.

Meanwhile, the policy will not have an impact, insofar as we will not loosen our investment discipline just because the investment target contributes to "E" or "S." Since these are business interests based on investment, and the business itself has to be sustainable. Thus we don't see the possibility of changing our investment stance, at least for now.

As to management of minority interest, we will thoroughly check with the management team of the Company before executing the investment, regarding whether the firm matches our business philosophy, and the direction in which we plan to advance. Of course, we will refrain from investing in a firm where we have doubts about those points. In other cases, we will negotiate with the management team so that, for instance, we put the term on the written document in certain aspects, or hold a put option.

Meanwhile, after investing in a firm, we have a set of requirements that define our minimum standards for each company called Basic Elements\*, so that they contribute to a business quality that at least meets a certain level, regardless of the industry or the region.

\* Basic Elements

Medium-Term Management Plan 2020 includes initiatives to enhance governance further as part of its drive to reinforce management bases. We have identified and standardized our wide range of knowledge and expertise regarding business operations and risk management, along with group policies. "Basic Elements" serves as guideline for all the group companies, in our aim to enhance corporate value and operational quality. This helps to identify the basic risks that should be controlled as part of the operation of the business. And while maintaining our dialogue with our group Companies, it create an autonomous cycle of PDCA for the improvement of internal control.

**Q3.** The commitment to aim toward the realization of carbon neutrality by 2050 demonstrates very thorough management's resolve. I agree entirely with the view that part of the goal will depend on the Company's own efforts, while another part of it will hinge on developments in the overall external economy. One point, it would be better if you could show breakdown and KPIs, of how much you think you can achieve by 2030 or by 2035 and how much surplus you think you will accumulate on top of that if there are progress on CCUS or hydrogen energy. Also I would appreciate it if I could see how the milestones unfold in step with the TCFD scenarios.

**A3.** We share the same understanding as you. We intend to continually check whether changes in society or progress in technological development are taking place. We will allocate our management resources while assessing those trends. We will also create signposts that will help us determine which areas have made progress, and in which fields we would also like to participate, to monitor the situation regularly.

**Q4.** Please tell us with specific examples on how you manage and supervise the operations of company like Fyffes.

**A4.** We aim to prioritize checking businesses like Fyffes that are labor-intensive or entail risks related to various human rights, and we'll be conducting the due diligence as per the human rights policy

**Q5.** I understood well that you are making efforts to gradually increase the number of independent outside directors. Also you've been providing these outside directors with explanations ahead of board meetings. Please tell us if there any other creative ways in which you are working to coordinate and provide information to independent directors and how you reflect the advice, which is given by outside directors, to the entire board of directors?

**A5.** Regarding provision of information to outside director, about a day to three days before board meetings, the heads of the relevant organizations provide an explanation of the conditions to outside directors, and when the outside directors ask questions at the advance sessions, we provide our response before the board meeting. Also, inputs, given by outside director, are shared with all internal directors in advance of the board meeting. As a result, on the day of the board meeting, the board members can concentrate and enhance the discussions having all the understanding on the agenda.

We're reviewing the backgrounds and skillsets of outside directors, and also working on to enhance the pool of candidates for outside directors. As a target, for instance, we need to consider to have foreign director.

**Q6.** You said that various measures are being taken, but the conventional seniority system is still prevalent. Is it correct that you will be actively conducting job-based hiring instead of membership-based hiring throughout the strategic HR allocation?

**A6.** Till now, bulk-hiring of new college graduates (membership-based) was main. The number of mid-career hires (job-based) was in the single-digit on a Company-wide basis until FY2017, but in FY2018, it increased to above 30. I think the portion of mid-career hires will further increase, and one of challenges is to create a recruiting system for mid-career hiring aimed at increasing the attractiveness of our job offerings.

**Q7.** Does Sumitomo Corporation have a system for the management team to learn about how the realm of DX?

**A7.** To begin with, we newly established a position called CDO last year, and Mr. Nambu, our Executive Vice President, has assumed this position. Not just Mr. Nambu but the entire management team recognizes that, without understanding DX, it is no longer possible to operate the business or create new stories. Thus, their DX literacy has been increasing, including through self-learning efforts. Also, Mr. Hyodo is also very knowledgeable about DX, and in that sense, I don't think that our management team's understanding of DX is by no means at a level that would be problematic.

Also, in terms of actual operations, it's possible that we collaborate with SCSK, In fact, the DX center receives a lot of seconded employees from SCSK. Thus, I believe we have an organizational structure to tackle DX in a way that is by no means inferior to other companies both in terms of operations as I just stated and management decisions.

**Q8.** I believe the president's commitment would be a very important factor when implementing sustainable management including long-term initiative on climate change issue towards 2050. Meanwhile, the president wouldn't be heading the Company for the entire 20 years or 30 years, and succession plan will be very important in implementing sustainability management. Please tell us about how you design the succession plan for the president and how you make connection with sustainability management.

**A8.** The president's term of our Company is a maximum of six years. The selection of the president is outlined in our corporate governance principles. It is described that the president of Sumitomo Corporation must have a deep understanding of the business philosophy of Sumitomo and must put this philosophy into practice. One of the business philosophies of Sumitomo is "benefit for self and others, private and public interests are one and the same." which is the foundational principle behind our sustainability management. Regardless of who is appointed as president, it is fair to say that this is a component of the process that will remain fixed.

[END]