

## ESG Briefing

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# Governance/ Human Resources Strategy

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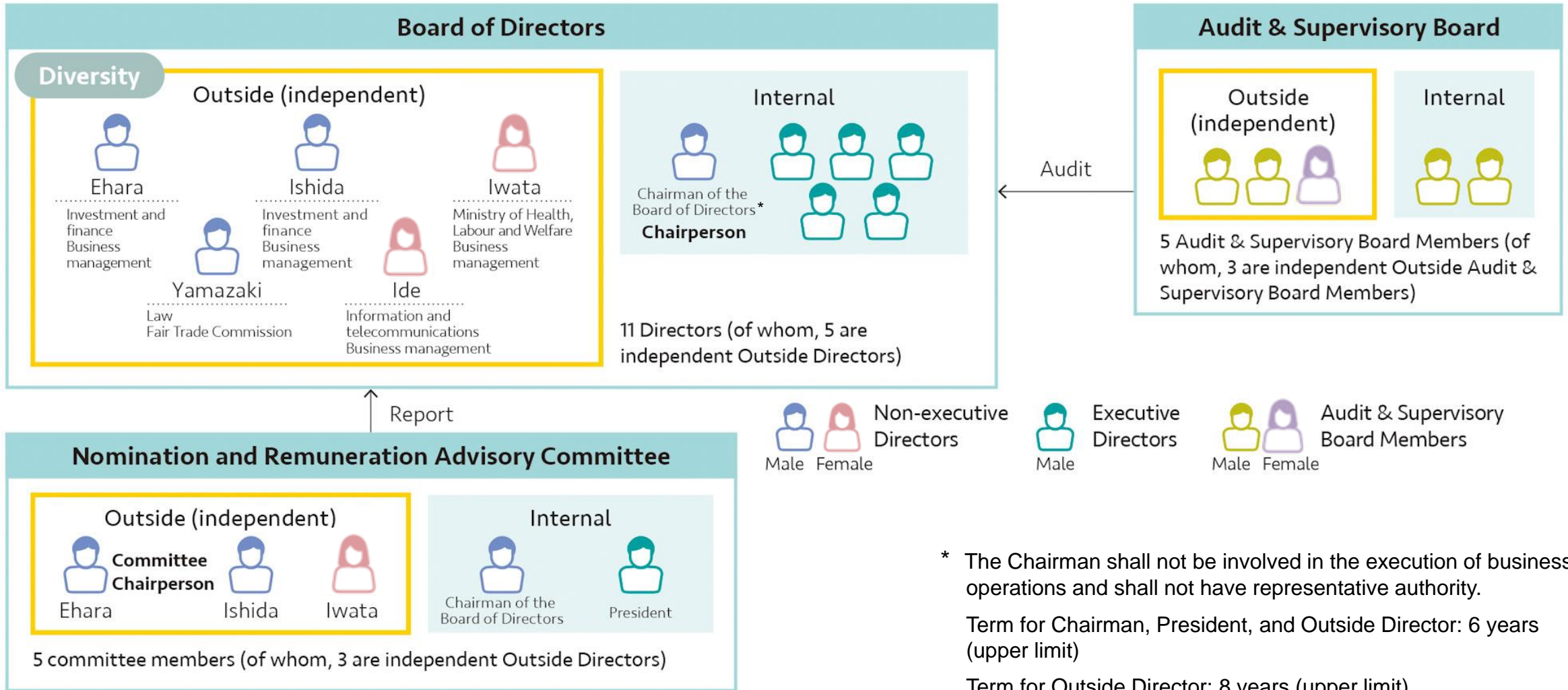
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# 1. Our Corporate Governance System

## General Meeting of Shareholders



\* The Chairman shall not be involved in the execution of business operations and shall not have representative authority.

Term for Chairman, President, and Outside Director: 6 years (upper limit)

Term for Outside Director: 8 years (upper limit)

## 2. Initiatives to Make the Board of Directors More Effective: Issues and Solutions Over the Past Three Years

	Major Issues from Previous Fiscal Year	Improvement Measures
FY2019	<ul style="list-style-type: none"> <li>■ The concept of deliberations, discussion items</li> </ul>	<ul style="list-style-type: none"> <li>➤ <b>Discussions that focus on essential points of matters being discussed</b> (⇒ <b>Specific measures: see p. 5</b>)</li> </ul>
	<ul style="list-style-type: none"> <li>■ Enhancing the monitoring function of the Board of Directors</li> </ul>	<ul style="list-style-type: none"> <li>➤ Explanation of periodic reports from business units with a focus on <b>issues and policies for addressing them</b></li> <li>➤ Explain the <b>issues</b> resulting from the quantitative aspects <b>along with their solutions</b> in quarterly performance reports</li> </ul>
	<ul style="list-style-type: none"> <li>■ Board of Directors meeting materials</li> </ul>	<ul style="list-style-type: none"> <li>➤ Clarification of discussion points (e.g., alignment with strategy, risks and measure policies, profits, etc.)</li> </ul>
FY2020	<ul style="list-style-type: none"> <li>■ Agenda Setting Process</li> </ul>	<ul style="list-style-type: none"> <li>➤ <b>Selection of important agenda items</b> (⇒ <b>Overview: see p. 6</b>)</li> </ul>
	<ul style="list-style-type: none"> <li>■ Composition of the Board of Directors</li> </ul>	<ul style="list-style-type: none"> <li>➤ Discussion about board member <b>composition, diversity and use of the skills matrix</b></li> </ul>
FY2021	<ul style="list-style-type: none"> <li>■ Ongoing efforts to enhance discussions of important management strategies and policies</li> </ul>	<ul style="list-style-type: none"> <li>➤ <b>Additional improvement of discussions on important management strategies and policies</b></li> <li>➤ <b>Reviewing the progress made on the new medium-term management plan</b> (including strategies on the shifting allocation of management resources and our business portfolio, and monitoring various measures for sustainability management) and other initiatives</li> </ul>

(Reference) Change in Affirmative Responses in Evaluation of Effectiveness

Fiscal Year	2016	2017	2018	2019	2020
Enhancing deliberations at Board of Directors meetings	44%	43%	88%	91.7%	87.5%
Board of Directors meeting materials	17%	29%	63%	83.3%	N/A

# 3. Efforts to Enhance Board of Directors Deliberations

## 1. Narrowing down/clarifying issues

✓ More detailed advance briefing for outside directors and audit & supervisory board members  
(Approx. 3 hours x 2 to 3 for each board meeting)

✓ An opening explanation of the main points of the management Council meeting discussion, and the answers to questions and key points of the questions in advance briefing

## 2. Information sharing/opinion exchange/free and open discussion

- ✓ Enhanced off-site sessions
- Theme: **Key management issues including mid-term management plan, ESG, and human resources strategy**
  - Number of sessions: 10 sessions total for FY2020, 21 matters (average of approx. 80 minutes per session)

## 3. Improving explanatory materials

✓ Clarification of points discussed in documents  
(Include specific issues, add an executive summary, etc.)

# 4. Selecting Important Issues to be Discussed During the Year

## Agenda Setting (May 2020)

All Board of Directors members (including the eight outside directors and audit & supervisory board members) selected the following additional agenda items for the year based on the “areas they believed were lacking discussion” in the effectiveness evaluation survey.

Key discussion themes for FY2020:

- (1) Business portfolio and management plan
- (2) Human resources strategy
- (3) IR/SR strategy
- (4) Composition/institutional design of the Board of Directors

“Report on the activities of essential committees” as stipulated in the “Matters to be Reported” section of the Board of Directors’ Discussion Standards

Compliance Committee, Corporate Sustainability Committee, Internal Control Committee etc.

## 【 Main Discussion Themes of FY2020 】

### Management Plans

- Progress review and revision of Medium-Term Management Plan 2020
- Establishment of the new medium-term management plan “SHIFT 2023”
- Regular reporting by business units  
(progress on strategy and the associated issues and response)

### Human resources-related

- Revision of HR management system
- Promotion of women’s participation and advancement in the workplace

### ESG-related

- Enhancement of sustainability management
- Policies on climate change issues and policies on related disclosures
- Sumitomo Corporation Group’s Human Rights Policy
- Evaluation of the effectiveness of the Board of Directors: reports on results, improvement measures
- Composition/institutional design of the Board of Directors

### Other

- Trading house industries and Sumitomo Corporation from the perspective of securities market

## 5. Key Agenda Items Selected for FY2021

The agenda items were set this year (July 2021) by the Board of Directors members (including eight outside directors and audit & supervisory board members)

Key issues to be discussed throughout the year (July 2021 - June 2022) include:

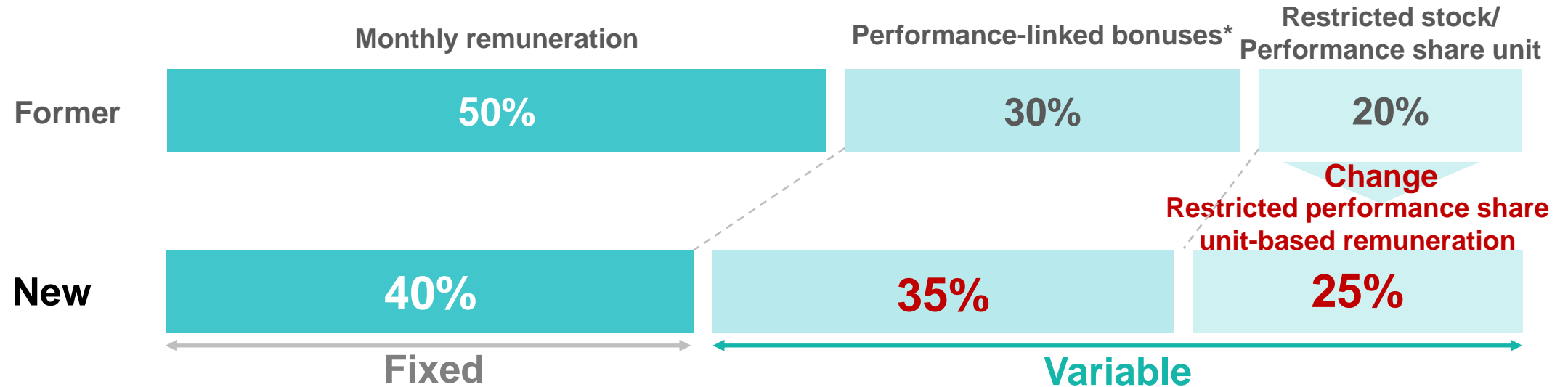
- (1) Reviewing progress made on SHIFT2023 measures and monitoring important large-scale projects
- (2) DX
- (3) Sustainability
- (4) Human resources strategy/D&I
- (5) Effective Corporate Governance Practices
- (6) Shareholder Return Policy

# 6. Revision of Executive Compensation (FY2021 Onward)

Revision of executive compensation based on a report from the Nomination and Compensation Advisory Committee

- ✓ Increase in ratio of variable compensation (performance-based bonuses and stock-based compensation)
- ✓ Consolidated into performance-based stock compensation

## Composition of Representative Director, President and Chief Executive Officer remuneration



\* Bonuses for executives reflect individual evaluations  
(financial to non-financial ratio: 50:50)



## 7. Cross-shareholdings Policy

- ✓ In principle, the company should not acquire or hold listed shares for any purpose other than pure investment.

However, it may hold stocks in exceptional cases when it is judged appropriate to do so based on collaboration and business necessity after a comprehensive evaluation and verification of the economic rationale and significance of doing so, taking into consideration the capital cost of each individual stock.

- ✓ The appropriateness of holding these listed stocks shall be verified by the Board of Directors annually. Based on the results, stocks for which the holding significance is not recognized shall be sold

- ✓ In FY2020, **37 stocks** (including partial sale) and **49.5 billion yen** in listed stocks were sold, bringing total holdings to **84 stocks** and **244.8 billion yen\*** as of the end of March 2021.

※ Proportion of self-owned capital: 9.68%

# 1. - Human Resources Strategy - Goals and Direction

## Global Human Resources Management Policy

Established in Sep. 2020 as a guideline for maximizing potential to secure, develop, utilize human resources

## New HR Management System

Introduced in Apr. 2021 to remove obstacles from the old system and to embody our Global HR Management Policy

### Introduction of Job Grading System

- ✓ Determine individual grading/treatment based on job significance
- ✓ Termination of seniority-based management system
- ✓ Optimal allocation of talent with emphasis on expertise and skills
- ✓ Double track format consisting of Expert / Management job groups

Maximize organizational performance through vitalization of all generations, junior to senior.

### Reformation of Evaluation System

- ✓ Shift from comparative evaluation to absolute evaluation
- ✓ Introduction of 360-degree evaluation to enhance fairness
- ✓ SBU's strategy execution to be evaluated and reflected on bonus
- ✓ Promotion of extensive dialogue

Fair "Pay for Performance". An evaluation system that contributes to human resource development

# 2. - Human Resources Strategy - Promoting Diversity & Inclusion

## “Right talents to the Right Places” (Global)

- ✓ Identifying key positions and creating succession plans
- ✓ Creating a global human resources database
- ✓ Establishing a global mobility policy
- ✓ Promoting local staff to management positions (800 ⇒ 850 managers over the past five years, comprising 60% of managers within overseas offices)

## Expansion of Mid-career Recruitment (Japan)

- ✓ Accelerating the buildup of top-tier professionals
- ✓ Increasing ratio of mid-career hires within total annual hires (5% ⇒ 15% over the past 5 years)
- ✓ Ratio of mid-career hires in management positions: (Approx. 7% ⇒ 10% over the past 5 years)

## Promotion of Women’s Empowerment (Japan)

Target for promotion of women’s empowerment	FY2021 (As of Apr.)	FY2030 (Target)	Measures to support balancing work with life event and improve environment
Female directors and audit & supervisory board members	18.8%	30%+	<ul style="list-style-type: none"> <li>✓ Extensive childcare leave and reduced working hours</li> <li>✓ System for retirement and reemployment to match a spouse’s work transfer</li> <li>✓ Support system for expatriates who move abroad with only their children</li> <li>✓ Remote working and super-flex systems</li> <li>✓ Childcare consulting service</li> <li>✓ Partnership with childcare facilities</li> <li>✓ Promotion of childcare leave taken by men (Acquisition rate in FY 2020 : 53.9%)</li> </ul>
Female management	7.5%	20%+	
Female department manager positions	0.8%	10%+	
<b>Specific measures to achieve these goals above</b> Strengthen recruitment capabilities, succession planning, expansion of human resource development measures, etc.			