

Question & Answer at ESG briefing - Part2

[Date&Time]	October 7, 2021	15:10 – 15:40 pm
[Speaker]	Takayuki Seishima	Representative Director, Senior Managing Executive Officer, Chief Administration Officer and Chief Compliance Officer

Question & Answer

Questioner 1: When I look at your materials, I see that there is a table that basically describes a form of the skills matrix for Outside Directors. I was wondering why you haven't created a skills matrix for Internal Directors, so I would like to know if you are planning to do so.

Recently, skills matrix is becoming more and more popular among many companies, but there have actually been cases where Executives with circles on their names could not answer questions that corresponded to the circles. I personally think that who is actually making the decision is a very important one. At this time, or in the future, who is supposed to make a decision when creating a skills matrix for the Internal Directors, or who is going to make the decision. Thank you.

Seishima: We are planning to handle it in the corporate governance code by the end of December, and we are having very heated discussions internally, including at the Board of Directors meeting. We will disclose a skills matrix for the Internal Directors as well.

We have not yet decided on the content of the disclosure. After carefully considering the purpose and meaning of this skills matrix, we will think of what skill sets, skill items, and experiences are necessary for Sumitomo Corporation to implement its management strategies. We will then discuss to confirm if the system is in place to cover such content or not, and then make use of it. We are on the stage of discussion.

As you pointed out, I would like to present the results after carefully determining what sufficiently qualifies the members to be regarded as skilled enough.

Questioner 1: I understand. Thank you.

Questioner 2: I have a question regarding page 8 of this presentation. This time, you have unified performance-linked stock remuneration, in other words, trust fee, but in the case of trust fee, the delivery of shares would take place after retirement or after several years.

If that is the case, I wonder if there is a time lag between the period during which the current shareholders or institutional investors hold their shares and the period during which the Executives hold their shares. I was wondering if there was any discussion on this issue before the decision was made to unify the system.

Seishima: Thank you for your question.

First of all, please be advised that our stock-based remuneration is designed to grant actual stock during the service, not a trust fee type. From this fiscal year, we made performance share unit-based remuneration, or

PSU, a hybrid type, and transfer restrictions until the date of the relinquishment of the post is attached at the stage of PSU stock issuance.

Consequently, we have designed the system to encourage all of our executives to fulfill their responsibilities by raising our company's stock price as much as possible during their service, in other words, increasing a corporate value in a medium- to long-term perspective.

Questioner 3: I think the most recent task for your company is to restructure your business portfolio, and I would like to know how you plan to allocate Talents in line with this. You just explained what has changed in terms of the human resources strategy in your presentation, and I would appreciate it if you could also share how this will take actual effect.

Also, what measures can be taken to make sure that the people who have currently been playing active roles can continue to demonstrate their abilities in new business fields?

Seishima: The shift of Talents accompanying the shift in business portfolios will occur in various areas. Each individual has different skills, experience, and personalities, so it is not something that can be shifted easily.

The basis of the shift of Talents is that HR will serve as the center between each organization and considering the requirements of each organization, coordinate the match.

Of course, depending on the business that we are working on or expanding in the future, we will also need Talents with expertise that we do not possess internally. It is our basic policy to respond to these requirements by expanding mid-career recruitment.

It's easy to say, but it's a very difficult task. However, we recognize that the shift of Talents is a very important issue which must be approached in the mid-term plan.

With regards to your final question, rather than in the context of a shift in the business portfolio, it is of course necessary to take initiatives such as recurrent education and reskilling. We are also reviewing the content of such training in parallel.

Questioner 4: You have Outside Directors with a diverse set of professionalism and backgrounds such as Japanese and foreign bank, labor relations, and legal affairs. On the internal level, with the participants today, there also are corporate staff.

As for the presentation time at Part I, you were talking on the shift in business portfolio. I think you need to have a sense of direction and an image of business portfolio for the future. There is no doubt in my mind that the area of renewable energy is an ocean, for instance. I think you need to have a discussion in the Board of Directors about whether this is really an ocean in which your company can demonstrate its strength.

I would like to know if there are any lacking items such as current discussions, skills, and knowledge. Could you please tell me about this?

Seishima: Since last year, we have been discussing the necessary skills, and what kind of skills should be added. In this context, IT, DX-related, technology, sustainability, and foreigners in terms of diversity are raised as option, for instance.

The Board of Directors may need to have exactly the right knowledge, experience, and skills for each of these issues, or it may need to be able to use those of an advisor to cover for the missing knowledge, experience, and skills. We will think of it as a package.

We are discussing various options, such as whether we should keep the current Board of Directors or not, or find other ways. As I mentioned earlier, we are having a very heated discussion.

Questioner 4: Thank you very much. I think that, fundamentally speaking, the existence of Directors is to oversee the direction of corporate management and whether it is being carried out properly, and to have the right to make decisions with their each vote which is the original and approximate meaning of their existence. I think there are various ways of thinking about this, such as if you have a study meeting held by an advisor, it will be sufficient for you just in terms of receiving knowledge. In such a situation, what do you think is required of Directors and what do you think is the meaning of making them Directors?

Seishima: I think it's an even bigger question. The role of Directors, or the composition of the Board of Directors, or the institutional design of the Board of Directors. I take it that this is a question that encompasses many factors.

Last year and the year before, we had several discussions about these factors. The Directors, individually, have very different opinions. We haven't reached the stage where we can conclude it. However, I am aware that quite a few of Directors feel, to a great extent, that the current Board of Directors meetings are highly effective, and that there is active discussion and a healthy exchange of opinions, so we understand that we don't need to change immediately. And, we don't have a unified sense of direction as to what we should aim for, while discussing a lot.

Questioner 5: I would like to ask you a few questions about your company's promotion of women's empowerment. As you explained earlier, you have indicated that by FY2030, you would like to have 20% or more for women in manager positions and 10% or more in General Manager positions.

Looking at the statistical data disclosed by your company, for example, if I look at the ESG communication book, you hired 102 new male graduates and 51 new female graduates, for a total of 153 in 2020. Therefore, 33.3% of the employees are women, but if I look at the statistics in the recruitment information on your company's website, it shows that 130 of them are "professionals" and 23 are "clerical" employees.

If all the men are "professionals", then only 28 women are "professionals", which is just under 20% of the total number of "professionals". Can we assume that the target of 20% or more for the ratio of women in manager positions was set considering the above?

Should we understand the background of the current low ratio of female General Managers is because in the first place, the number of female "professionals" were not as high as they are now? I would like to know more about the background. Thank you.

Questioner 6: In the integrated report, Ms. Iwata, as Outside Director, commented that though there are many talented "clerical" employees, there are restrictions in their roles and scope of responsibilities just because of the fact that they are "clerical" employees. Will there be any changes in the new HR management system from this aspect?

I would also like to ask you about the FY2030 targets you have set. What will be the driver for you to achieve 20% or more for managers, and 10% or more for General Managers?

Seishima: First of all, our company has 2 types of positions: "career track" positions and "clerical" positions.

From April this year, the "career track" position has been replaced by the "professional" position. The name of the "professional" position carries our hope that each member will become a top tier professional who can compete in the global field to create and develop businesses.

There are naturally both men and women in these professional positions. One of the questions was that there are very few women in General Manager positions. It's not that women are not promoted easily, but historically, it was only in the 2000s that we started hiring a certain number of women in the former "career track" positions.

These people are now around the age of 40, which is still early for becoming a General Manager in the prior seniority-based system. That's why there are only a few female General Managers at this moment. However, since the 2000s the ratio of female recruitment in the former "career track" positions has been around 20-30%, and our target has been set based on this transition. I hope that the Company will be able to naturally aim for a 50-50 gender ratio in the future.

With regards to "clerical" positions, there are more than 800 employees in the Company, and as pointed out, many of them are very talented.

In line with the concept of "Pay for Job, Pay for Performance", and as advocated in the Global HR Management Policy, our aim is to promote capable and talented people to their respective appropriate positions, regardless of gender. This should not be an exception for "clerical" employees, and they too should be able to play a more active role and take on more challenging tasks. At this point, we are not at a stage to explain specifically to the public, but we are taking various measures to achieve this goal.

Questioner 7: The new HR management system adopts a job-based system. I assume development of human resources and bold personnel transfers will be difficult without a functioning talent management system. From this perspective, can you elaborate from the actual operation side?

Seishima: With regards to the talent management system, of-course we have a so-called HR-tech system, which holds the data of all employees as well as those who have retired. The data for instance, includes what kind of career they have and their evaluation history.

On the other hand, when we consider talent management, we will not only look at such data list, but we will also focus on supporting each individual's autonomous career development based on how he or she wants to develop their career. We would like to enhance our approach to Talent development and career development in this direction.

Of course, it is ideal for everyone to have a high level of loyalty to the Company, to be proud of working for Sumitomo Corporation, and to enjoy a long and fulfilling corporate life. However, especially in this age when life is said to last 100 years, I would like each individual to have the will to build his or her own career considering how they want to be in the future, rather than the conventional approach based on lifetime employment, where the employee would go anywhere appointed by the company and as a result develop their career.

Nowadays, it is becoming more and more common for people to change jobs seeking a more attractive position outside the Company. On the organization side, we need to make sure that we remain attractive as a company towards the employees and to be able to continuously provide attractive work to them. On top, each individual should develop themselves so that they can be hired if and when they find an attractive organization that they want to transfer to in the future.

In other words, both the Company and the individual must respectively continue to develop, thus strengthening the organization and the individuals, while also considering the individual's own career development. When individuals consider their career development, their superiors and colleagues in their respective organizations should also actively take part by paying close attention, communicating closely, and supporting them in their personal growth. This is the direction we aim for.

In today's situation, everyone is already thinking hard from their early twenties about what their career will look like in the future. The people on the organization side need to be aware of this, and we need to be able to engage with each individual under such acknowledgement. I believe that this is the starting point for our talent management system.

[END]