

ESG Briefing

Governance/ Human Resources Strategy

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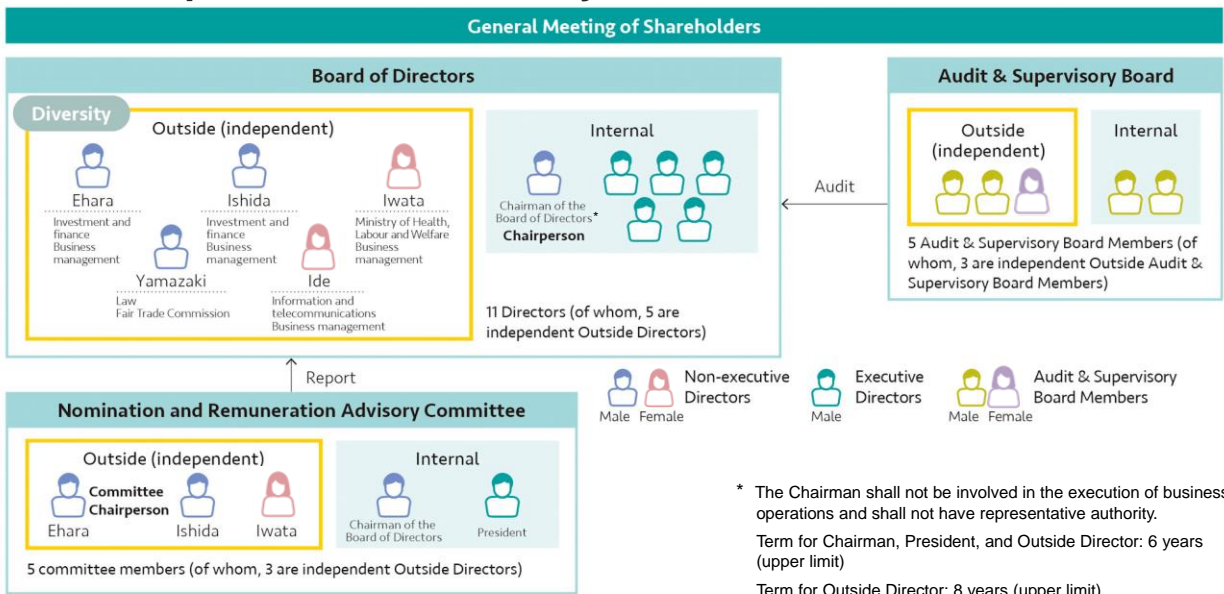
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1. Our Corporate Governance System



■ How we organize our Board of Directors

Above chart describes our corporate governance system.

In terms of Board of Directors and Audit & Supervisory Board, the former consists of 11 Directors: 5 Outside Directors and 6 Internal Directors, and the other does 5 Auditor & Supervisory Board Members (the “Auditors”): 3 Outside Auditors and 2 Internal Auditors. And Women account for 3 of the total of 16 members.

In addition to this, there is the Nomination and Remuneration Advisory Committee as shown on the lower left of the chart.

Although it is not mentioned here, we position the Management Council as the highest decision-making body for the Executive team, which consists of the President, 5 General Managers of Business Units, and 3 Heads of Corporate Group, for a total of 9 members.

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

(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 |

■ Specific efforts for improving the effectiveness of Board of Directors

This page describes the main efforts we have made over the past 3 years to improve the effectiveness of the Board of Directors.

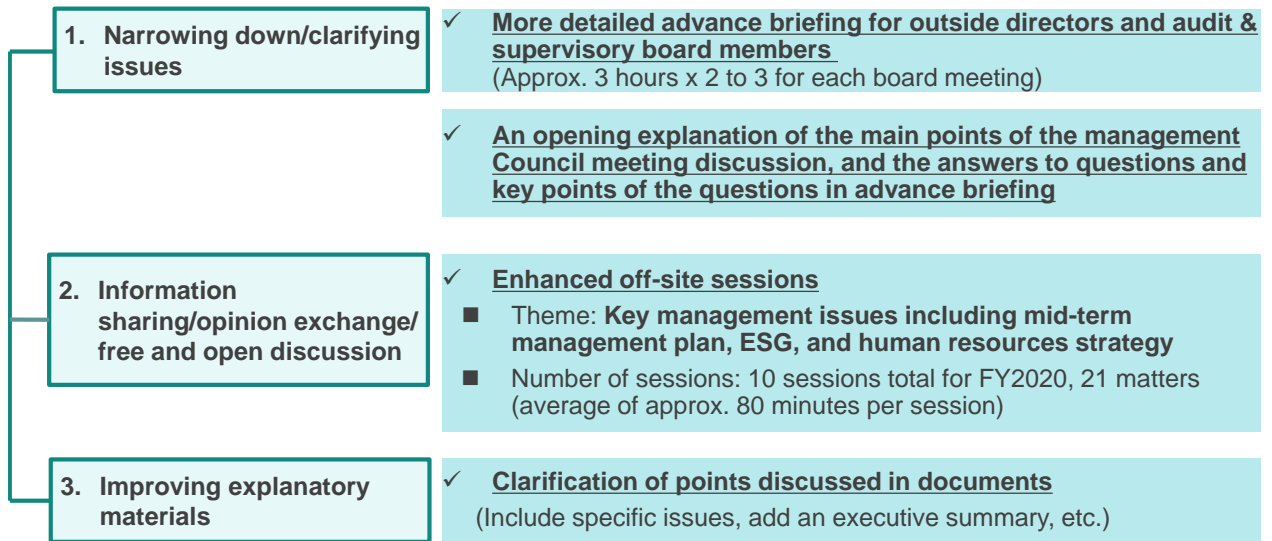
For the evaluation of effectiveness, we asked an outside consultant to conduct a questionnaire and interview toward all the Directors and Auditors individually to obtain their opinions on various issues and evaluation of effectiveness. Through these steps, we have, every year, been working on improvement measures listed above based on the issues extracted by such evaluation.

As one example of reviewing this improvement, you can find figures in the top part of the table at the bottom of the above chart has been increasing, which shows positive responses regarding the enhancement of deliberations at Board of Directors meetings; 40% range in 2016 and 2017 has improved to around 90% since 2018.

As for specific improvement measures, the main points are the 2 areas circled in the red frame above: (1) coordination of discussing points more focusing on important issues to deepen the discussion on the Board of Directors meeting, and (2) “agenda setting”, which is a process, where, at the beginning, the Board of Directors discusses what issues should be discussed at the Board of Directors meetings throughout the year.

It is “on-going efforts to enhance discussion on important management strategies and policies” as shown at the bottom of the table above that we identified as major measures we should take in FY2021.

3. Efforts to Enhance Board of Directors Deliberations



■ Efforts for enhancing the discussion at Board of Directors

Until 3 years or 4 years ago, we used to take a considerable amount of time at the Board of Directors meetings to explain projects outline and related questions. However, currently, we have changed the process of the meetings; we conduct the explanation of projects outline and collect related questions from Outside Directors and Auditors beforehand, and the Executive teams responds to these questions at the beginning of the Board of Directors meeting. This change enables the Board of Directors meeting to start the discussion without explaining the case.

Prior briefing, which includes at the Audit & Supervisory Board as well as at the Board of Directors, usually needs 2 to 3 meetings and each one takes around 3 hours.

And in addition to the official Board of Directors meetings, we have been enhancing our off-site sessions, in which we discuss several items that we regard as important management issues and then we apply to the official process of decision making. In the last fiscal year for instance, we engage in the new medium-term management plan and ESG-related issues, especially environmental and human rights.

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

■ Agenda Setting: selection of important issues to be discussed through the year

Showing 4 items in the box on the left of the above chart which we actually determined to be discussed.

The right side list shows specific topics which were discussed in relation to the 4 items.

We have discussed a very wide range of issues, including the new medium-term management plan, human resources-related, sustainability-related, and governance-related.

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

■ Agenda Setting in FY2021

Likewise, above is showing items that will be discussed for a period of one year commencing July this year.

With the new members of the Board of Directors who were reappointed or newly appointed at the General Meeting of Shareholders in June, we selected 6 items as listed in the box below.

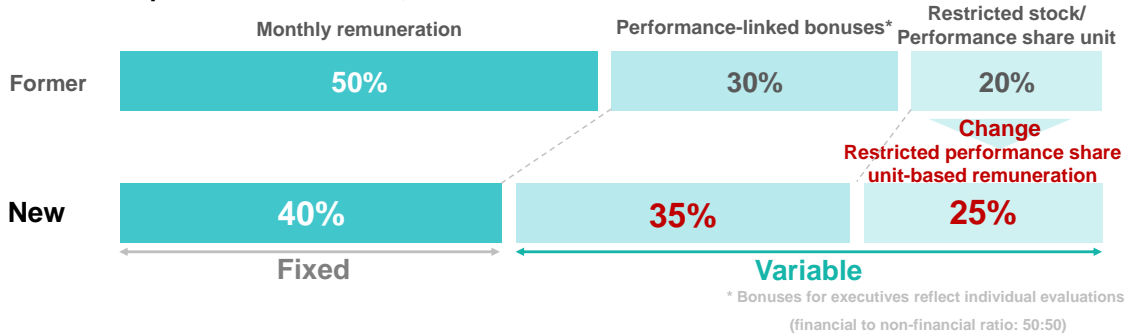
The items listed in (1) through (4) are related to the major initiatives of the new medium-term management plan SHIFT 2023. The fifth and sixth items were picked as contents of what we should do and how we should do it in light of our relationship with our investors, considering that they are important items to be discussed every year.

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



■ Revision of executive remuneration

Every year, we review the levels of remuneration and the remuneration composition ratios for Executive Officers by using market research conducted by external consultants as reference. From FY2021, based on the discussion and report of the Nomination and Remuneration Advisory Committee, we have partially revised the remuneration through a resolution of the Board of Directors.

There are 2 main points for the revision. The first point is the remuneration composition ratios. Considering the monthly remuneration as fixed remuneration, and performance linked bonuses and stock-based remuneration as variable remuneration, we realized that the ratio of monthly remuneration is a little higher compared to market data.

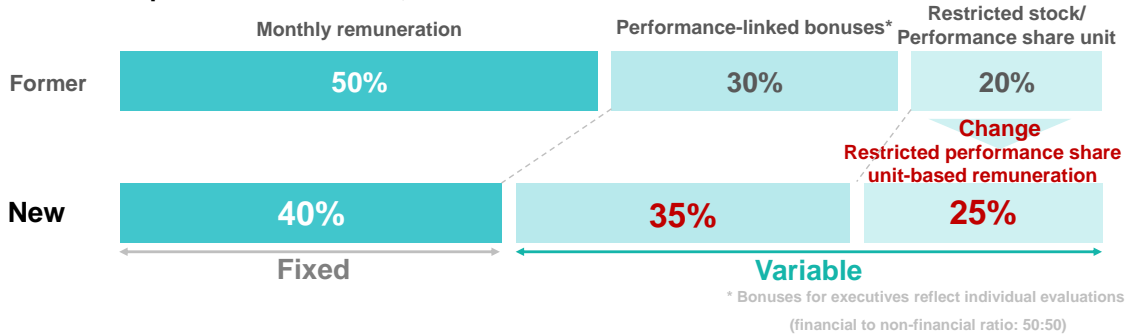
Therefore, we have slightly reduced the ratio of fixed-amount portion, which is monthly remuneration, and increased ratio of variable portions, which are performance-linked bonus and stock-based remuneration. Although the ratios for each Executive Director other than the President are slightly different, we uniformly reduced the fixed ratio and increased the variable ratio.

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Composition of Representative Director, President and Chief Executive Officer remuneration



(Continued)

The second point is stock-based remuneration. Previously, there had been 2 main types of stock-based remuneration: restricted stock-based remuneration and performance share unit-based remuneration.

In particular, regarding this restricted stock-based remuneration, the original design concept is to convert a fixed base amount to the stock price at that point and decide the number of shares to be granted. As a consequence, the number of shares to be granted increases instead when the stock price falls. Some Outside Directors pointed out that this would be more of a fixed remuneration rather than a remuneration that fluctuates with performance, so we have unified it into a performance share unit-based remuneration from this fiscal year.

Also, taking into account the results of last fiscal year, we had decided not to pay any bonuses to the Executive Officers in FY2021.

Additionally, we reduced the monthly remuneration of the members of the Management Council for a certain period of time.

These are dealt with upon a resolution of the Board of Directors, considering the discussion and report of the Nomination and Remuneration Advisory Committee.

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%

■ Cross-shareholdings

We have decided not to hold listed stocks except for pure investment. Conventionally, there has been a little more room for acquisition and holding, but last fiscal year, we had got extremely lower results than expected and conducted business under “crisis mode”, as a consequence, we decided to basically sell all of our listed shares and negotiate with our investees again.

As a result, as you can see in the box at the bottom of the chart, in FY2020, we sold 37 stocks valued at sales price of around JPY50 billion, leading to us holding 84 stocks with a total value of just under JPY250 billion as of the end of March this year.

Regarding the remaining stock value, at the end of March last year, we held 103 stocks with a balance of JPY210 billion. The balance at the end of March this year increased as compared with the one at the end of the last fiscal year, because the stock price which had fallen considerably went up, and therefore the market value of our holdings increased to just under JPY250 billion.

Of the 103 stocks, 37 had been sold, but some had been sold partially, so 84 stocks still remain. However, we will continue our efforts to sell these stocks.

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

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

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

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

■ Human Resources Strategy (Goals and Directions)

In September of last year, we established the Global Human Resources Management Policy, which summarizes our vision of human resources strategy as a company, our vision for individuals and the organization, and the ideas we value in human resources management. As the first step, and the biggest initiative to follow the above, we introduced the New HR Management System in April of this year. The basic concept is "Pay for Job and Pay for Performance".

Under the New HR Management System, we have introduced a job grading system for all managers.

Previously, the system was based on a hybrid of job qualifications and job grading, but we have completely eliminated the job qualifications aspect.

In addition, we abolished the seniority-based system. By doing so, we aim for the optimal allocation of talent with focus on the expertise and skills regardless of age, thus vitalizing all generations and maximizing organizational performance.

In terms of evaluation, from this year, we have introduced 360-degree evaluation, stopped the practice of comparative evaluation, and introduced a system to reflect the evaluation of strategy execution of each organization to the individual's bonus.

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"> ✓ Extensive childcare leave and reduced working hours ✓ System for retirement and reemployment to match a spouse’s work transfer ✓ Support system for expatriates who move abroad with only their children ✓ Remote working and super-flex systems ✓ Childcare consulting service ✓ Partnership with childcare facilities ✓ Promotion of childcare leave taken by men (Acquisition rate in FY 2020 : 53.9%) |
| Female management | 7.5% | 20%+ | |
| Female department manager positions | 0.8% | 10%+ | |
| Specific measures to achieve these goals above Strengthen recruitment capabilities, succession planning, expansion of human resource development measures, etc. | | | |

■ Human Resources Strategy (Diversity & Inclusion)

With regards to D&I, we have positioned it as a fundamental concept of our human resources strategy in the previous medium-term management plan. Through the efforts of the past 3 years under the previous medium-term management plan, the concept of what D&I is and why we should promote D&I has firmly penetrated throughout the Company. From this new medium-term management plan, the stage has shifted to the practical stage, where we have set various specific goals in order to work on and materialize the concept.

We have set 2 major initiatives in Japan.

The first one is the promotion of women’s empowerment. We have set a quantitative target: to increase the ratio of female directors and audit & supervisory board members to 30% or more, the ratio of women in management positions to 20% or more, and the ratio of women in department manager positions to 10% or more.

We have been proceeding various concrete efforts from this year in order to raise the ratio of female department manager positions to 10% or more, which is currently less than 1%.

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(Continued)

The other initiative is the expansion of mid-career recruitment.

In the area of mid-career recruitment, in line with the New Human Resources Management policy and the concept of D&I, we have broken away from the tradition of hiring all new graduates, lifetime employment, and seniority-based system, thereby gradually increasing the ratio of mid-career hires and the ratio of mid-career hired managers.

Securing a certain number of employees by hiring a batch of new graduates will continue for the time being in the current Japanese labor practice. However, in the course of shifting our company’s business portfolio, we will make efforts to secure highly specialized and ready-to-work human resources as one of the important initiatives of our human resources strategy.