

Question & Answer at ESG briefing - Part1

[Date&Time]	October 7, 2021	14:05 – 14:40 pm
[Speakers]	Hideki Yamano	Representative Director, Senior Managing Executive Officer, Chief Strategy Officer and Chief Information Officer
	Shigeki Ohno	General Manager, Corporate Sustainability Department

Question & Answer

Questioner 1: The scope of carbon neutrality is shown on page 6 in the presentation. You have indicated the following quantities: 1 million tons for Scope 1 and Scope 2 for Sumitomo Corporation parent-company-level and subsidiaries base, 43 million tons for associated companies (equity-method), and 16 million tons for Scope 3.

However, according to the ESG Communication Book that was released recently, Scope 1 plus 2 is 2,179 thousand tons, and Scope 3 is 34 thousand tons, which seems that the difference is from the scope of carbon neutrality. I think it could cause confusion. Please advise the details of these difference.

Ohno: We released ESG Communication Book on September 14 this year, and the data shown on page 120 are disclosed based on the strict definition of the GHG Protocol. As to 2.18million tons for Scope 1 and Scope 2 figures shown on page 120 in ESG Communication Book and 1 million tons shown in upper left-hand corner of the scope of carbon neutrality in the presentation (p39 in ESG Communication Book), they both show the sum of CO2 emission of Sumitomo Corporation parent-company-level and subsidiaries. The difference comes from the way the power generation business is included. We have some power generation businesses that are run by Sumitomo Corporation parent company itself and subsidiaries. These figures are included in "Thermal power generation business: 43million ton" at the left-hand bottom of the scope of carbon neutrality.

As to Scope 3, we have been collecting data on CO2 emissions from our operation on the parent-company-level or real estate-related business, based on the Japanese law called the Energy Conservation Law. This is the emission from the tenants to whom we lease. The quantity is around 30,000 tons and is not a large number.

Meanwhile, from the perspective of impact on the climate change issue, the impact is larger in the direct emissions from the power generation business that we are actually involved in the operation of under the equity method (Scope 1), or emissions from fossil energy concession where fossil fuels excavated by our company are burned at the end of the supply chain (Scope 3). We have decided to include these in our carbon neutrality target and have set the mid-term goals. As to our strategic response to the climate change issue, our targeted amount for carbon neutrality is currently about 60 million tons as shown in the page 6 of the presentation material. Going forward, we will continue to disclose the progress annually, therefore please refer to the materials disclosed in the future.

Yamano: We would like to work on improvements to make it easy to understand. Thank you very much for making your points.

Questioner1: This is a request, but in the GHG Protocol, especially since Scope 3 is meant to reveal value chain risks, it also means that double-counting is occurring.

The equity method could be defined as category 15 or category 11 of Scope 3. I understand your 16 million tons of emission from fossil fuel concession is disclosed as Scope 3 comply with Category 11.

If possible, I think it would be less confusing for us if you disclose the data in the form of category 15 or 11, and with the units of 1 million tons would be sufficient.

One of the issues we are facing now is that various consulting organizations are providing GHG quantitative data, or rather, estimates, on their own. If there is a lot of data, it seems that one will use the data from a consulting organization, but we think it would be more helpful if companies were more consistent in their disclosure, including in this area.

Yamano: We would like to think about how to disclose information in a way that is easy for readers to understand. Thank you very much.

Questioner 2: I looked at the TCFD disclosure in the ESG Communication Book, and I think it is very good that the scenario analysis has been expanded to include the physical risks that you mentioned earlier.

I would like to ask you about the scenario that was adopted this time. I think you are using the Net Zero Emission Scenario, and your assessment for business environment of thermal power generation and fossil fuel upstream businesses has been changed from neutral to negative, and you have written about your current awareness of the issues in detail in your policies and initiatives.

Earlier, you mentioned that including the goals themselves will be reviewed on an ongoing basis. I would like to know how you assess your goal itself and what kinds of discussions were held based on the results of this scenario analysis.

Yamano: To compile the ESG Communication Book, we discussed what kind of scenario should be adopted. As views on climate change have become more severe, we decided to include the Net Zero Emission Scenario announced by the IEA as one of the scenario options, because we believe it will be more useful to our readers.

We understand that Net Zero Emission Scenario shows only one possibility and one path. But we thought it would be worthwhile to analyze and present to you how our business would be affected if such a development were to occur. The results of the analysis are as described in the Book, but as you pointed out, there are areas that will be largely affected compared to the previous 2°C scenario.

As I mentioned earlier, these scenarios are based on a variety of assumptions, so it doesn't necessarily mean that our business will be affected immediately. However, we will continue to monitor how complex and serious the world's social issues are becoming, and we will consider our company's approach.

Regarding TCFD analysis, I think it is important to monitor and conduct observation every year, so we will continue to use the Net Zero Emission Scenario to analyze our risks and opportunities and present them to you.

Questioner 2: For instance, in terms of power generation business, there are some aspects that cannot be measured by the current Net Zero Emission Scenario, such as what will happen to the policies of the country where the business is actually operated. I would like you to be flexible and observe the changes including such aspect every year.

Questioner 3: In this year's general meeting of shareholders, I remember that there was a question regarding Matarbari 3 and 4 plant. I would like to know if there is any update on this point.

Another question is that that when it comes to climate change, I think all the trading companies will be heading in the same direction, and as a result, will enter the red ocean. I would like to hear your opinion on this.

Yamano: Regarding Matarbari project, in our corporate culture, we thought it would be better to show everything that might happen in the future without hiding anything, so we added the information about Matarbari in our policy on climate change issue.

We have been contracted to construct 2 coal-fired power plants in Bangladesh, Matarbari Units 1 and 2, and they are currently under construction. The Matarbari project has expansion plans for Units 3 and 4. The Japan and Bangladesh governments are currently discussing the details of this plan. Whether or not the plan itself will be approved has not yet been determined, but discussions are currently underway between the 2 countries.

As an ongoing contractor, we have daily contact with the customer, and we are in a position to know that the plan exists. And, of course, our customer and related parties are expecting us to cooperate with their expansion projects.

We have made it clear that our policy on coal-fired power generation business is that we will not be involved in or undertake the construction of any new projects unless they are in accordance with the Paris Agreement. Along with consistency with the Paris Agreement, we will also take into account the opinions of stakeholders and make a decision based on that. This is our firm policy regarding coal-fired power generation, and it remains unchanged.

However, as aforementioned, we do not know whether the Matarbari project will be approved in the future, we have decided to clearly state the note to our policy. At this moment, there is no change on this note. But there is no change in our commitment to comply with the Paris Agreement also.

On the other hand, there are still headwinds blowing against coal-fired power plants and it is getting stronger. And as we move toward COP26, the so-called governmental financial assistance and yen loans to these projects will become more and more difficult. Therefore, although our policy will not change, we are carefully watching how the agreement between the 2 countries goes.

And as for the second question. For example, the world is moving toward decarbonization and low-carbonization, and what you are saying is that if all the trading companies go into renewable energy and other areas like that, the competition will be more severe.

We share the concerns. Of course, in the field of renewable energy, for example, we have been accumulating experience for a long time, and we have abilities, experience, and knowledge that are not inferior to those of other companies. However, there is no doubt that competition will intensify, and if that happens, there will be more competitors.

However, if we start participating in a project at an earlier stage, we can demonstrate our functions. If we get involved in the project from an even earlier stage and advance our own developments, we will be able to demonstrate even greater functionality, and we will be able to compete in the blue ocean instead of the red ocean. We believe that room exists.

Questioner 4: In SHIFT 2023, you announced a review of your business portfolio, and I would like to know if you can explain the relationship between business opportunities related to climate change, and risk mitigation. I would like to know how it leads to increase in corporate value not just the reduction of GHG.

Yamano: In terms of the power generation portfolio, we are planning to shift the portfolio in terms of net ownership capacity for coal, gas, and renewable energy to 20%, 50%, and 30% respectively, as a mid-term goal for 2035.

In the case of the power generation business, it is a very long-term project, but we have formulated our medium-term management plan considering how we program that now.

Although we have not disclosed it in detail, our power generation business department has started to move toward the achievement of this vision in 2035, including the allocation of management resources and personnel. And that is all included in SHIFT 2023.

Another example is that we recently announced the sale of our thermal coal mining asset. In our policy it states that we will achieve zero equity production from thermal coal mines in 2030 as mid-term goal, and it was executed towards this goal.

I believe that the establishment of EII is one of the most distinctive initiatives related to climate change in SHIFT 2023. EII will develop the next generation energy business such as carbon-free energy and new power generation and energy related businesses. It may be difficult show concrete results in this 3-year period of medium-term management plan, we will create new businesses that will greatly contribute to the enhancement of our corporate value and we have taken sound steps forward to create this new organization. We have committed our company's resources to it as well.

Questioner 4: We would like you to disclose the status of the power generation business and the thermal coal mining business, so that we can confirm the progress for the year.

Also, I would like to know how the sustainability management contributes to the increase of corporate value. Not just for 3 years, but to achieve your goals in 2035 or 2040, what kind of business portfolio do you need to have? And can you show how it leads to increasing corporate value?

Yamano: We would like to disclose the progress of our initiatives, not just on a yearly basis, but when there is progress.

As to how our initiatives leads to increase in corporate value, I think it is necessary to give specific examples to explain how the things you just pointed out have led to an increase in corporate value, so I would like to leave this as an issue for future consideration.

Questioner 5: In your company's medium-term goal for CO2 reduction, the target year is 2035. But the government has set a target of 2030. Also, I think many of the investors compare all the major trading companies side by side. Having such situation, please advise why the target year is 2035.

Also, I would like you to disclose more about how you are sure you will achieve a 50% reduction. I think you will need to make more proactive management decisions as a leading company and reform your business portfolio. Please advise your thoughts on this.

Yamano: First of all, when we discussed this goal in 2020, we decided to set the year 2035, which is the middle year of the goal of achieving carbon neutrality by 2050. But based on your point, we would like to consider how to disclose it in future.

As for your point about whether carbon neutrality can be achieved in this way, we are still working diligently to achieve the goal of net zero emissions, in 2050, which we believe is feasible. There is no change in the fact that we are working hard to achieve this goal. We would like to make every effort to disclose information so that you can understand that the certainty of this is solid.

*** Question that couldn't be answered during the QA session due to time constraint:**

<Question>

Please let us know how far you are planning to cover by your grievance mechanism and how to establish the mechanism.

<Answer>

Our grievance mechanism is for all stakeholders involved in or related to Sumitomo Corporation group's business activities including its supply chain. First of all, it is essential to have a direct and easy contact point for all stakeholders and to take swift actions on complaints or concerns received from stakeholders. Recently, we have opened a contact window in our website, both in English and Japanese, to receive any complaints on sustainability-related issues such as human rights or environment. This enables our stakeholders to send their comments without a temporal or geographical constraint.

Any complaint or concern will be promptly shared internally through Corporate Sustainability Department that specializes in addressing sustainability-related issues, and necessary actions will be taken to resolve issues.

Furthermore, we have strengthened risk analysis in human rights due diligence which we started in 2020 and will complete our risk assessments of all businesses by 2025. Having these risk assessments through human rights due diligence and sustainability-related comments from our stakeholders, we are aiming to establish a more effective grievance mechanism for our stakeholders.

[END]