

Question & Answer on New Medium-Term Management Plan Briefing Session

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[Presenters]	Masayuki Hyodo	Representative Director, President and Chief Executive Officer
	Hideki Yamano	Representative Director, Senior Managing Executive Officer, Chief Strategy Officer
	Takayuki Seishima	Representative Director, Senior Managing Executive Officer, Chief Administration Officer
	Masaru Shiomi	Representative Director, Managing Executive Officer, Chief Financial Officer
	Yasuhiro Yoshida	Executive Officer, General Manager, Accounting Controlling Department
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List of Questions (Detailed Question & Answer follows)

<Q1>

- I understood that the evaluation and remuneration linked to the performance of the investee companies will also be linked to the evaluation system of the employees. In terms of the compensation system for internal directors, how you are planning to change the compensation system?
- Regarding the coal-fired power generation business, please tell us what kind of action plan, including the time frame, you are currently envisioning to meet this new target of reducing CO2 emissions by 60% or more by 2035?

<Q2>

- Regarding “Identify categories of projects we should not invest in based on factor analysis” on Page 14, please share with us if these are the types that you will no longer be doing.
- Regarding the Full Potential Plan, which I believe has been in place before, I have the impression that the faces of problematic projects have not changed much over the past five years and are difficult to improve. If there are examples of past acquisitions that were not in line with the original forecast, but have improved as a result of the acquisition, please introduce some of those cases of improved profitability.

<Q3>

- Can we understand that the target ROE of 10% or more in the medium-term management plan is achievable with the net profit target of JPY300 billion? Also, with regard to shareholder returns, I understand that you have not had in mind much about the share buyback. Is it correct that you are planning to increase dividends

eventually this time as well rather than share buyback?

- On page 10 and 11, I think this is an image of Value Creation and Steady Business Growth probably achieving a return of about 4% ROA on an asset basis. With the 4 different roles and positions, I think there are some differences in the profitability required. Please tell me if there are any additional explanations on the characteristics and figures for them.

<Q4>

- In the final year of the medium-term management plan, when you are aiming to achieve a record high profit, what specific businesses are you looking at as the biggest drivers?
- On page 11, you mentioned JPY760 billion in Steady Business Growth. What is the major part of this amount?

<Q5>

- Please let me know where Ambatovy project is included among 4 categories on Page 10. Although I see the construction equipment rental in the area of Steady Business Growth, with the trend toward EVs, where do you place the businesses of Transportation and Construction Systems, especially automotive related business, and how do you plan to develop them?
- Regarding the climate change issue on page 24, I would like to confirm that the actual figures shown in the table “scope of carbon neutrality” is as of ended March 2020? Also, the fossil fuel upstream business that you have listed in Scope 3, does it refer to the category 11 (Use of Sold Products) of Scope 3? In the middle of the left side of the same page, it says that all coal-fired power generation business will be completed and withdrawn by the second half of 2040, and that for thermal coal mine business, the goal is to achieve zero by 2030. Please tell us your thinking on whether these figures can be achieved in a natural way of ending the interests.

<Q6>

- Regarding the structure of executive compensation, I think you have explained that the remuneration structure will be changed linked shareholders' interest or on the same boat with the shareholders. Will you introduce some kind of further framework going forward? Or will the basic policy be to increase the ratio in this area? Please let me know about its approach.
- Regarding the goal relating to the climate change issues which was announced this time, how are the goals here consistent with the Paris Agreement? Depending on the evaluation organization, there are various ways to evaluate the consistency, but if you have your own interpretation or policy, please let us know.

<Q7>

- You mentioned that the target of Value Creation and Steady Business Growth is JPY120 billion or more in total. I would like to know whether this timeframe is beyond this medium-term plan. In addition, I believe that the Companywide investment funds is JPY300 billion for core business expansion. I would like to know how this part differs from the rest, and if there is any special way of thinking about this part in terms of discipline and aiming for certainty of success.
- For coal-fired power generation business, it is stated that the production volume of thermal coal mine interest is set to be zero by 2030. Is it correct to understand that the menu includes the completion of the sale of all the current concessions by 2030?

<Q8>

- Regarding Pacific BioEnergy Corporation, which is engaged in the production and sale of woody bio-pellets, I think it is in a growing field because it is applicable to the next generation or the circular economy. Could you tell me whether this company is positioned in the growing field? Please let me know its position in your strategy and what would be the road map for going forward.

Question & Answer

<Q1>

Questioner 1: First, I feel that the word "SHIFT" in this medium-term management plan indicates your strong determination to carry out the structural reform. As you can see on the bottom right of the page 14, I understood that the evaluation and remuneration linked to the performance of the investee companies will also be linked to the evaluation system of the employees. In terms of the compensation system for internal directors, in what way is SHIFT linked to this compensation system?

Hyodo: First of all, the most important thing about SHIFT is, of course, all the measures in the medium-term management plan that I have explained today are important, but I believe that it is very important for all executives and employees to have the mindset that we will not make the same mistakes again, based on our past reflections. As indicated by our stock price in the market, we believe that it is important to thoroughly work on this area. On top of that, I believe that we should introduce a different remuneration system for the executives, including myself, that is more focused on results. This has not been officially decided yet, but we would like to move in this direction so that the amount of remuneration will be determined more in line with the results.

Seishima: There are some changes that need to be resolved at the general shareholders' meeting in June, so we are not at a stage where we can explain the details at this time. As President Hyodo just commented, we are planning to shift the remuneration system from fixed remuneration to variable remuneration, or to change the remuneration system to one where the interests of shareholders basically coincide, and where we are more conscious of the need to manage our business from the perspective of shareholders.

Questioner 1: Regarding the climate change issue, I have a question about the coal-fired power generation business. Please tell us what kind of action plan, including the time frame, you are currently envisioning to meet this new target of reducing CO2 emissions by 60% or more by 2035. There will be more than 5,000 megawatts in net ownership generation capacity for coal-fired power generation including Van Phong in Vietnam, I would like to know how these figures will change in 2035 in absolute terms, or whether you have in mind the sale of TJB, or Tanjung Jati B, in Indonesia as part of the process of reducing these figures. If you can explain this action plan, I would appreciate it.

Yamano: One of our newly announced policies for dealing with climate change is to reduce CO2 emissions from coal-fired power generation by at least 60% of the current level by 2035. This 60% reduction is based on the assumption that we will not be working on any new projects in the future, and that the projects that we are currently implementing will be completed. Currently, coal accounts for about 50% of our power generation portfolio, including Van Phong, but by 2035, as I mentioned, we expect it to drop to 20% of our total power generation portfolio due to the completion of existing projects without new ones.

Questioner 1: So rather than encouraging sale of assets, would it be correct to say that this figure is created by a natural decline based on not renewing current contract?

Yamano: It is fine with that understanding.

<Q2>

Questioner 2: On Page 14, it says at the left-hand side of the page, "Identify categories of projects we should not invest in based on factor analysis." Since there are impairment losses booked this time and repeatedly in the past, I believe this point is very important. Please share with us if these are the types that you will no longer be doing.

Shiomi: At the bottom of the box at left which is the guidelines for investment selection, it says "Maintain thorough discipline in investments." As for investment discipline, in the fiscal year that ended, we concentrated on short-term structural reforms, and we are sorry that we recognized such a large one-off loss. We are now examining the investment discipline again, taking into account these things, current situation and the past investment examples. One way of thinking about it is that although our company had identified what was good to invest, we didn't have the ability to materialize profits in line with the business plan we drew up. Also, some projects were quite opportunistic, the expected profits were not generated on schedule or being overpriced. Because we have adopted IFRS, the amortization of goodwill will not be booked and will inevitably be impaired by fair value basis. At the first timing of making an investment, we will firmly control and verify such points, with each of our internal organizations pointing out such things and considering what we should be doing. We have already put together our ideas, so we are now at the stage of converting them to specific rules and guidelines internally. In this medium-term plan, I would like to firmly incorporate this process.

Questioner 2: Regarding Full Potential Plan, which I believe has been in place before, I have the impression that the faces of problematic projects have not changed much over the past five years, and that is why it is difficult to improve. Maybe it is partly due to the external environment. I understand that you are withdrawing from some projects but is it actually possible to improve profitability by making changes? If there are examples of past acquisitions that were not in line with the original forecast, but have improved as a result of the acquisition, please introduce some of those cases of improved profitability.

Shiomi: The profit plan that we had initially drawn up did not produce the corresponding profit on schedule, because we did not have the ability to realize such profit on this investment in the first place. Or, for those that cannot achieve such a profit amount due to significant changes in the environment compared to the original plan, we will continue to work on it steadily in the last fiscal year and in this medium-term management plan based on the scenario of withdrawal. On the other hand, if a roadmap can be drawn up with some degree of certainty, and if it is judged that the plan can be operated in a way that brings it closer to or exceeds the original plan, we have already started to work on the roadmap, not only in the business department, which is the original department for the investment, but also in all the corporate departments within the Company, by allocating skilled employees, in order to realize this plan. We must make sure that we produce these results during the period of this medium-term management plan.

Hyodo: As an example, the first thing that comes to my mind is the case of Tanjung Jati, which I was in charge of, although it is a bit old. The other is Summit Store, which has been doing very well for several years now. What both of them have in common is that we need to build or strengthen a system to firmly produce and enhance the top line, which is the basis of business, and then control the downside resiliency and fluctuating factors in order to maintain the bottom line. If we can incorporate the basics of this business into each of the businesses as a system and build it up and turn it around, the business performance will surely improve. I think it is important to accumulate business that adhere to these basics, and to carefully determine the profitability and probability of the business.

<Q3>

Questioner 3: The target ROE in the medium-term management plan is 10% or more, but is it correct that you will be able to achieve it with this JPY300 billion? Also, with regard to shareholder returns, I understand that you have not had in mind much about the share buyback. Is it correct that you are planning to increase dividends eventually this time as well rather than share buyback?

Shiomi: The ROE of 10% or more is as you pointed out. Profit plan of JPY230 billion, this is the budget for this fiscal year. Then, it is JPY260 billion, then more than JPY300 billion. In the 2 fiscal years before that, in FY2018, the figure was JPY320.5 billion, the highest ever. We will bring our company to a level beyond this. If we are able to achieve this medium-term management plan, we will be able to get corresponding equities back, so we have drawn up the plan that will enable us to achieve ROE of 10% or more. As for our return policy, if I were to turn what I just said about share buyback, the main intention of this medium-term management plan is to enhance our capital and then return to our original growth path. Therefore, we would like to prioritize the return by dividend first. In the next medium-term management plan, which will be implemented from 2024 onward, we will make a decision on how we will return profits from growth to our shareholders and other stakeholders based on a clear vision of what Sumitomo Corporation can be at that time.

Questioner 3: Another point is that on pages 10 and 11, you categorized the business strategy and divided it into 4 parts. I think this is an image of Value Creation and Steady Business Growth probably achieving a return of about 4% ROA on an asset basis. With the 4 different roles and positions, there are some differences in the profitability required, and I would like to know if there are any additional explanations on the characteristics and figures for them.

Hyodo: I just explained the snapshot of today's situation, but those in the category at left bottom in Divestment as of now should originally be in the upper right category. If a business cannot go to the upper right, it will be withdrawn from the portfolio, and the portfolio as a whole will become those in the category of Steady Business Growth in the upper right, and that is the essential target. As you asked, if we can achieve an overall ROA of 4% or higher, we will be able to achieve that finally, please think in the way that all in the category of Steady Business Growth will become 4% businesses. We will operate these indicators firmly internally, specifically by controlling ROIC and WACC. As a result, the overall efficiency of Sumitomo Corporation will be improved. This is what we will aim for.

<Q4>

Questioner 4: In the final year of the medium-term management plan, when you are aiming to achieve a record high profit, what specific businesses are you looking at as the biggest drivers? On page 11 of the document, it says more than JPY80 billion from Value Creation and more than JPY40 billion from Steady Business Growth. For them, please let me know what you expect will be the driver in particular?

Shiomi: The drivers for achieving record profits in FY2023 are entirely Steady Business Growth and Value Creation. In addition to the Steady Business Growth, there is the so-called Seeding that we have been investing for growth since the previous mid-term plan. In this part, we are aware that they will not yet reach a level of growth that will have a significant impact on the overall scale of profits in the next 3 or five years,

On the other hand, the businesses that are included in the Steady Business Growth are those in which we have strengths originally. This time, due to the impact of the coronavirus pandemic and the global economic recession, we were in a rather poor condition last fiscal year, but these businesses will return to normal, or not simply return to normal. As I explained earlier in the medium-term management plan, for next 3 years, we will promote our core businesses as more profitable businesses by changing the shape of our strong businesses to some extent in the mid-term sustainability management in response to DX and our long-term commitment to sustainability management. The head of each segment, individual SBU in specific terms, has also drawn such a picture as well. We will realize the plans for the Steady Business Growth by firmly setting KAIs and KPIs and tracking the degree of its achievement. In addition, for Value Creation, we would like to achieve it through realizing the value creation firmly.

Questioner 4: Regarding investments and loans, you mentioned JPY760 billion in Steady Business Growth. What is the major part of this amount?

Shiomi: As for the JPY760 billion in investments and loans, a large percentage of these investments are for renewal, they are mainly for renewal of our strongest businesses. In addition to this, we plan to make investments that will contribute to the digital transformation and the mid-term goals of sustainability management, while leveraging our existing strengths.

Yamane: It is the upper right corner of the table on page 10. The overview of the businesses is shown here, and I think this area will be the main focus of our business.

<Q5>

Questioner 5: When I look at the table on page 10, there are 2 businesses that I am very interested in in your company, and one is where Ambatovy is. This is probably the reason for the increase in profit of more than JPY40 billion, including this fiscal year, so please tell us where this is included. One more thing, I see the construction equipment rental in the area of Steady Business Growth, with the trend toward EVs, where do you place the businesses of Transportation and Construction Systems, especially automotive related business, and how do you plan to develop them?

Shiomi: As for your first question, the Ambatovy is included in Value Creation. I think there are many ways to think about transportation and construction systems, but I think it accounts for the largest part of the Steady Business Growth. The construction equipment rental business in the US has been very stable, or rather, has remained steady even in this environment. In order to take advantage of such business know-how, we invested in a rental business in Asia in the year that ended. We are aiming to increase profits as a part of our efforts in Steady Business Growth by expanding in these areas, expanding regionally, and expanding various new interests. Also, for automotive related, as for the shift to EVs from the current gasoline vehicles to new energy sources, I think it is fair to say that the parts and the electrical components of the vehicles are in the category of Steady Business Growth. On the other hand, for "beyond mobility" if I may say, are included in the Seeding. We will not be able to pursue a large scale of profit in the next medium-term management plan, but we will work to make Seeding a solid base for large profits in the future. Even in the same segment, each of these 4 quadrants has different business, and our goal for the next 3 years of the medium-term management plan is to gather more and more of them in the upper right corner.

Questioner 5: For the climate change issue on page 24, thank you very much for disclosing the figures on the bottom left of page 24, including the equity method this time. The question is whether this is the figure in which the actual figures for the fiscal year ended March 2020 have been expanded for the scope of disclosure this time, or whether they have been updated to the fiscal year ending March 2021. Also, the fossil fuel upstream business that you have listed in Scope 3, does it refer to the category 11 (Use of Sold Products) of Scope 3? Or, as category 15 (Investments) and are you counting the upstream interests that your company has directly in terms of investment? In the middle of the left side of the page, it says that all coal-fired power generation business will be completed and withdrawn by the second half of 2040, and that for thermal coal mine business, the goal is to achieve zero by 2030. Please tell us your thinking on whether these figures can be achieved in a natural way of ending the interests.

Yamano: For the table at the bottom left of page 24, these figures are the emission as of 2019, as noted. As for the basis for the calculation of the 16 million tons of fossil fuel upstream business on the right, this is a figure at the investee in Category 11 (Note) of Scope 3 of the GHG Protocol. This is the amount of emissions from the use by third parties of the fossil energy produced by the investee. Also, the target is set in the upper left corner to reduce emissions from fossil fuel upstream business by at least 90%. Basically, the current interest business is coming to an end of digging. Or, as a result of not making further purchase and other things, we calculated that we can achieve this number and level. However, since this is the management of a company, there is a possibility that various options will be taken in the future, but basically, the figures are based on what I have just told you.

(Note) Correction: In the briefing session, we responded as “Category 15”, however, in our definition, we categorize this emission for scope 3 of affiliated companies under equity method as “Category 11”.

Questioner 5: I understand that all coal-fired power generation business will be completed and withdrawn by the second half of 2040. In the case of your coal-fired power generation business, I think that Tanjung Jati B, which is generating a lot of revenue as you mentioned earlier, accounts for a large part of it. Would it be possible to withdraw gradually from unit 1 to 6?

Yamano: Each contract has a specified period of performance, so the basis for the calculation I just mentioned is that the contract will not be extended at the time of its expiration.

<Q6 >

Questioner 6: Please tell us about the structure of executive compensation as mentioned in the first question. I think you have explained that the remuneration is based on the shareholders' perspective or on the same boat with the shareholders.

I believe that your company has already adopted both restricted stock-based compensation and performance share unit-based stock compensation. Will you introduce some kind of further framework from here? Or will the basic policy be to increase the ratio in this area? Please let me know about its approach.

Seishima: We need to review the ratio of RS and PSU, restricted transfer units and performance-based units, or these 2 systems. We are planning to make changes to this section to make it more shareholder-oriented. As for the June General Meeting of Shareholders, we will send out the convocation notice to all shareholders in the middle of May, and will also post it on our website at the appropriate time. I hope you will find the details there.

Questioner 6: Please tell us about the climate change in the sustainability in the medium-term plan. How are the goals here consistent with the Paris Agreement? Depending on the evaluation organization, there are various ways to evaluate the consistency, but if you have your own interpretation or policy, please let us know.

Yamano: As you know, Japan and many other countries that are signatories to the Paris Agreement are now considering various action plans with the goal of achieving carbon neutrality by 2050. Last year, we made a declaration of carbon neutrality for the year 2050, and in this sense, we believe that we have set a goal that is consistent with the Paris Agreement. However, we believe that simply setting these targets does not convey effectiveness and commitment, so this time, we have decided to set a medium-term target for 2035, which is specifically the amount of CO2 reduction. By setting specific goals, we will take action to achieve these goals, and we will also set specific KPIs and KAIs. In other words, we have reiterated our commitment to this project, and that is how we positioned it.

<Q7>

Questioner 7: My question is about page 11 where you have explained about allocation of investments. This time, you have provided the image of specific amount of profit increase for return in each category. However, from the perspective of investment discipline, I think it is important to know how long it will take to realize the plan in order to increase the probability of success. You have defined the Seeding as sowing seeds literally and as the part from which you would not seek the immediate return, and the target of Value Creation and Steady Business Growth is JPY120 billion or more in total. I would like to know what kind of timeframe you have in mind for investment management and whether it is the timeframe beyond this medium-term plan. In addition, I believe that the Companywide investment funds is JPY300 billion for core business expansion. I

would like to know how this part differs from the rest, and I would like to know if there is any special way of thinking about this part in terms of discipline and aiming for certainty of success.

Shiomi: As for the time frame, for JPY120 billion or more which you mentioned, this is for the next medium-term plan. For next 3 years starting this year in SHIFT 2023, we plan to increase profits for that. Therefore, we would like to achieve more than JPY120 billion by steadily improving our performance every year. In addition, even beyond the medium-term management plan and the next medium-term plan onward, for the investment we will make during the term of this medium-term plan, we will continue to expand our business and earnings as the business in which we can leverage our strengths. On the other hand, this companywide investment funds of JPY300 billion for core business expansion is included in the Steady Business Growth and Value Creation.

Questioner 7: The production volume of thermal coal mine interest is set to be zero by 2030, so I think the menu of fossil fuel sales is included in the Divestment. Is it correct to understand that the menu includes the completion of the sale of all the current concessions by 2030?

Yamano: The meaning here is that we do not work on new projects. And the existing projects will be sold or terminated, meaning that the mine life will end and the production volume will be zero.

<Q8>

Questioner 8: Regarding Pacific BioEnergy Corporation, which is engaged in the production and sale of woody bio-pellets, and since it is biomass, I think it is in a growing field because it is applicable to the next generation or the circular economy. Since profits is a loss of JPY4 billion in the last fiscal year, FY2020, and a loss of JPY900 million in the fiscal year before that, it appears that the risk of another impairment may have sprouted up after the large impairment loss. Could you tell me where this company is positioned in the page 10 and what is the roadmap for the next 3 years?

Shiomi: For Pacific BioEnergy Corporation or PBEC, we were not able to achieve the profit plan as expected due to the high cost of raw materials, such as scrap wood and thinned wood. Therefore, we have booked impairment loss in FY2020. We expect the profit flow itself to improve from this fiscal year onward, but we are categorize this company in the area between Disinvestment and Value Creation.

Hyodo: Thank you very much for taking time out of your busy schedule to participate in our briefing today.

I spent an hour and a half today communicating with you, including a Q&A session. If we make a plan and then implement it, what we need to do is to get the result. We need to capture the true cause of the problem and remove it. On top of that, we will continue to strengthen ourselves and produce results to earn your trust.

Our company posted a loss of JPY350 billion in the previous fiscal year, but we analyzed a lot of things in that situation and made a medium-term management plan based on that analysis. There are similar words, but the content is different. The entire company will be working on this, and I hope you will look forward to it.

Thank you very much for today.

[END]