

BACHELOR THESIS

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NYILATKOZAT

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.....
hallgató aláírása

BUDAPEST BUSINESS UNIVERSITY
FACULTY OF INTERNATIONAL MANAGEMENT AND BUSINESS
INTERNATIONAL BUSINESS ECONOMICS
FULL-TIME STUDY SCHEDULE
DIGITAL SUPPLY CHAIN SPECIALISATION

THE SOGO SHOSHA OF SUMITOMO

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INTRODUCTION

The aim of the thesis

Sustainability is one of the biggest, if not the biggest, problem in today's fast-paced world. Companies play a vital role in this issue, as their business activities impact the environment, society and the economy. In this thesis, I will introduce a particular player in the Japanese economy, the Sogo Shoshas, and through Sumitomo Corporation (SC), I will examine how they contribute to sustainable development and incorporate sustainability considerations into their business strategy and operations. I have taken different perspectives into account in the research. Based on these perspectives, I examined SC according to themes such as the company's operations and environmental elements, focusing on climate change and their social activities. The thesis covers stakeholder engagement, sustainable financial structure, corporate objectives, and the company's compliance, risk management and information security policies. The environmental aspects focus mainly on achieving carbon neutrality by 2050. It analyses the results of the work done so far, the threats and opportunities, and the outlook. It highlights the importance of water, biodiversity conservation and pollution prevention. The section on the company's social activities provides an insight into the life of the company. This part of the research focused on the company's and its employees' relationship. SC uses various techniques to combat exclusion and discrimination among its employees. During the research, I used different data collection and analysis methods. I analysed documents, reports and information on the company's website to prepare the thesis. I also used literature sources to examine the historical background. These tools provided a deeper insight into the world of Japanese trading houses and the company's sustainability practices. Based on this research, I assume that Sogo Shosha is a unique player in the trading industry and is unlike any other economic player in terms of complexity. In examining the company, I assume that it strives to achieve a more livable society through their operations' economic and social aspects and sustainability. I believe these activities contribute to the environment in both environmental and social terms and are carried out in different parts of the world. Overall, this research aims to explore the operations of Japanese trading houses and the sustainability challenges, characteristics and impacts they face. It also aims to understand how these practices fit into the broader business and social expectations context. The results of this research will contribute to the ongoing discourse and development of sustainable corporate governance and business practices.

The importance of sustainability

Sustainability is society's long-term goal, which is to meet economic growth needs with the least possible impact on the environment. It is not just about preserving nature and ecology. It involves enabling governments and businesses to grow so that all elements of society work in harmony and maintain sufficient natural resources for future generations. Sustainability is essential to preserve the Earth and its non-renewable resources. To protect the environment and living organisms, a sustainable future and a way of life must be proactively developed. Sustainable business practices and economic development are essential parts of sustainability. When businesses and governments follow sustainable practices, they reduce greenhouse gas and fossil fuel emissions through their impact on individuals and communities. These practices contribute to a better quality of life. The three pillars of building a sustainable future are environmental, economic and social. (Coursera Importance of Sustainability, 2023)

Environmental sustainability is the principle of maintaining ecological integrity and ensuring that the Earth's environmental systems remain balanced while people use natural resources. Economic sustainability ensures that people can keep their independence and meet their needs. Social sustainability ensures a community meets basic human needs and has sufficient resources. Sound social systems can ensure healthy, happy communities that respect human rights such as work, health care and equality. The 17 UN Sustainable Development Goals (SDGs) provide an excellent framework for building a sustainable future, but more can be done to achieve them. Sincere work for sustainable development requires continued and consistent collaboration from global companies, governments, non-profit organisations and grassroots movements. At the individual level, learning about sustainability also makes a difference. (TWI What is sustainability, and why is it so important?, 2024)

I. THE UNIQUE WORLD OF SOGO SHOSHA

I.1. The definition of Sogo Shosha

It is a peculiarity of the Japanese language that words have evolved independently of their literal meaning, which is no different in the case of Sogo Shosha. Sogo Shosha is a general trading company that acts as a bridge between suppliers and customers. They anticipate future demand for raw materials, invest in resources, and help new industries develop. They excel in several roles based on their close business relationships with major industries. Sogo Shosha's design approach is different from that of other manufacturers. Their unique approach is supply-demand or problem-oriented, focusing on potential problems or bottlenecks in commercial processes or industrial development. In addition to their role as commercial intermediaries, they also provide financing. Through their extensive communication systems, they can provide information on everything from markets to the weather to ensure smooth trade flows.

Sogo Shosha is often called a conglomerate or a commercial bank, but neither term is accurate. Sogo Shosha and a conglomerate invest in several businesses. The former promotes trade and invests in commercial enterprises, while the latter often invests in enterprises that are not commercial enterprises. Like commercial banks, Sogo Shosha provides trade finance, buys shares and provides direct loans. Unlike commercial banks, however, a key difference is that Sogo Shosha is only partially involved in cash management. Sogo Shosha's core product is a range of highly efficient trading services, including extensive knowledge of products and markets worldwide. Sogo Shosha is closely involved in marketing products in virtually every country. Consequently, they can offer more services than commercial banks or financial institutions. Through their intimate day-to-day contacts, they often have a better insight into the creditworthiness of the businesses they are involved with.

Sogo Shosha is a business organisation that combines the different functions of other businesses. They are actively involved in international trade, sourcing raw materials from all over the world and even selling their products to other parts of the world. They organise cotton export projects in developing countries and provide advice and studies to help their clients to implement them. They can also establish joint ventures in developing and developed countries if the business requires them. (Marubeni Corporation, 1978)

Sogo Shosha is a flexible company that can market up to 20,000 products simultaneously. It deals in wholesale, handling a wide range of raw materials, which it sells in huge quantities. Although SogoShosha has become increasingly active in working with companies that serve consumers directly, its primary role remains sales, supplying raw materials and semi-finished products rather than selling directly to manufacturers. Another vital role of SogoShosha is coordinating and facilitating the introduction of the latest technologies. In summary, Sogo Shosha is essential for international trade and economic development. Not only are they trade intermediaries, but they actively shape trade through their flexible business model and wide range of activities. (SHOSHA Handbook, 2022)

I.2. The History of Sogo Shosha

During the Meiji era (1868-1912), Japan's goal was to transform itself from a feudal state into a modern nation, and Japanese commercial enterprises were launched during this period. The government aimed to avoid the Chinese model of foreign domination and encouraged domestic commercial companies to replace foreign firms that controlled the country's modest international trade. In mid-nineteenth century Japan, circumstances made this goal almost impossible to achieve. (Kazutoshi Maeda, 2006)

Due to international necessities

From 1603 to 1868, Japan's feudal rulers kept the country peaceful but isolated, preventing contact with foreigners. Japan's main ports were closed until the 1860s, but then Japan opened its doors to international trade, mainly under pressure from Russia, the US and other Western nations. Foreigners dominated the country's minimal foreign exchange trade, as foreigners controlled the activity and even financed cargoes from banks in different countries. The business people of the time had to be more familiar with overseas trade rules and regulations and did not even speak foreign languages. They also needed to be familiar with other nations' cultural, social and intellectual differences. Japan recognised it was lagging far behind other countries in developing a capitalist economy. The leaders of the Meiji era agreed that Japan needed to speed up industrialisation to avoid China's mistakes in its international trade policy. (SHOSHA Handbook, 2022)

The earliest trading houses

The Japanese government caught up with Western traders by concentrating trading functions on specialised companies such as Mitsui and Mitsubishi, the earliest trading houses. These companies learned international trade techniques and imported modern technology, turning Japan into a modern industrial state.

In the Meiji era (1868-1912), Japan aimed to transform itself from a feudal state into a modern nation. Thus, the origins of Japanese commercial enterprise can be traced back to this period. In Osaka, entrepreneurs established a modern spinning mill, which created a new industry, and trading companies were needed to store raw cotton.

Over the years, cotton importers traded with Sino-Indian and American products. By the early 20th century, Japan's cotton yarn and fabric exports exceeded imports, allowing the country to modernise its trade structure and process imported raw cotton into finished products for export. Another group of trading companies specialised in other products. For example, it increased its international activities by establishing Nippon Steel in 1896 and opening its first blast furnace in 1901, which increased demand for raw materials for steel production. As Japan's industrial economy expanded, merchants consolidated their power by investing in manufacturing and raw materials.

By the beginning of the Show era (1926), wholesalers began to act as commercial and financial intermediaries for domestic and foreign companies. Japan's expansion in Manchuria in the 1930s led trading companies to extend their activities to investments in manufacturing. This led them to find markets for production in third countries that Japan could not absorb. Before the Second World War, Japan had already built up a distribution network for exports and international trade, and the early trading houses became a critical element in the manufacturing-finance-trade combinations that dominated the Japanese economy. (Marubeni Corporation, 1978)

Recovery and reorganisation (1945-1955)

Sogo Shosha underwent a reorganisation in post-war Japan as the environment changed dramatically. The US invasion order significantly affected Japan's foreign trade boom, leading to the break-up of Mitsui & Co and Mitsubishi Shoji Kasha. They were replaced by the Kandji merchants, who began to expand in the textile and steel trades. Five companies - Marubeni, Goshō, Toyo Menka, Nichimen and C. Itoh - took the lead

as restructuring began and expanded into the metal and machinery industries. By the 1950s, the trading companies had established overseas branches, and Mitsubishi Shoji and Mitsui & Co. restarted operations in 1954 and 1958, respectively. By this time, the Japanese trading community numbered more than 6,000 companies. Several economic effects helped the restructuring and expansion; for example, the Japanese export industry was well affected by the Korean War.

The business boom, followed by a severe economic recession, necessitated a change in the financial structure. The shift towards heavy and chemical industries led to the eclipse of the textile industry. In the late 1950s, trading houses underwent structural changes as the country's trade structure changed and the government lifted foreign exchange restrictions.

After the World War, the Japanese economy underwent a restructuring process that even necessitated the replacement of the two most essential trading houses due to their closure. The era began with difficulties in the aftermath of the Great War, but the Korean War brought a boom in the economy. By then, more than 6,000 companies were in operation. The boom led to a recession, with heavy industry and chemicals taking over, which affected the textile industry. (Japanese Research in Business History, 2013)

Adapting to the development of heavy industry

By the early 1960s, the Japanese industry had restructured, allowing the country's largest commercial companies to take over Sogo Shosha and expand its functions. They began to develop equipment and technology from foreign plants, supporting the growth of domestic industry. As the industry grew, Sogo Shosha had to take on the role of organiser to ensure a stable supply of raw materials.

Domestic and foreign companies have set up joint investment and development ventures in Australia, Latin America, and Africa to source bauxite, nickel, copper, iron ore, and other metals. They also increased the supply of US grains and expanded into food and other raw materials.

Sogo Shosha operated predominantly on a low commission basis, seeking economies of scale and low costs and increasing their role in the domestic economy. The development of supply has fostered the development of demand, and the interaction of these two factors has resulted in the growth of Sogo Shosha's business and profits.

In the early 1960s, Sogo Shosha increased its share of steel, machinery, and chemical and petrochemical products as Japan's heavy and chemical industries became concentrated. In response to changes in the structure of Japanese demand, they expanded their supply of domestic consumer durables. General trading companies, individually or in cooperation with emerging supermarket and department store chains, have reorganised Japan's highly complex distribution channels.

As prosperity has led to increased demand for housing, Sogo Shosha has organised various industries to enter the field of housing construction and urban and regional development. Furthermore, as consumer demand became more diverse and sophisticated, they expanded into fashion, engineering and marketing consultancy to meet and stimulate demand. Sogo Shosha has responded to the threat of large consumer goods companies by developing new, more efficient customer services, streamlining lead times and establishing joint ventures with member banking groups. Over the years, they have also developed manufacturing and integration channels that have helped streamline distribution. (Marubeni Corporation, 1978)

Maturing consumer demand (1965-1973)

As Japan's flagship economic development company, Sogo Shosha continues progressing from strength to strength. Japan's economic expansion has also strengthened, thanks to the dominance of heavy industry and chemicals.

In the 1970s, the GNP index reflected this development, as only the United States produced better figures in the free world. 1969, Japan's crude steel production exceeded 85 million tonnes, second only to the United States among non-communist countries. Sogo Shosha provided overseas resources and exported finished products to steel producers so that they could concentrate on producing high-quality, moderately priced iron steel. As steel producers needed different steel products, iron and steel processing centres were set up in other parts of the country.

The shift towards heavy industry resulted in a large and complex consumer market in the domestic economy. Sogo Shosha responded by expanding its operations, for example, building housing in urban and regional areas and developing a "fashion industry" by licensing Japanese textile technology overseas. The growth of Japan's factory equipment industry and the competitiveness of its engineering technologies boosted the export of its factories. Sogo Shosha recognised the potential of exporting factories to developing countries and set up trading houses to import technology and new capital equipment overseas.

Japanese offshore investment has increased, especially in labour-intensive industries and the development of natural processing of all resources. Sogo Shosa companies contributed to host countries' international balance of payments and provided many jobs. Their participation in foreign businesses and ability to access global markets has increased offshore trade.

The development of Sogo Shosha has been about identifying problems and finding trade solutions. Over the years, they have forged alliances with manufacturing industries to use their unique skills and resources to solve problems. (Marubeni Corporation, 1978)

I.3. Functions of the Sogo Shosha

Trade intermediary functions

Sogo Shosha is a crucial intermediary in Japan's economy, playing a significant role in domestic and foreign trade. Due to its small size and limited natural resources, Japan relies heavily on imports of raw materials. The ten largest Sogo Shosha accounted for 38% of foreign trade in 1950 and 52% by 1976, a significant increase after the decline of general trading companies.

Their activities include assessing the demand for goods in overseas markets, identifying appropriate distribution channels, developing marketing strategies, arranging insurance cover and agreements, providing export or import documentation, examining legal regulations, and arranging financing for export or import transactions.

The role of Sogo Shosha's intermediaries is essential for domestic trade, as they have the Japanese market's experience, administrative structure, knowledge, and expertise. They have access to crucial information and channel trade, facilitate the entry of foreign products into Japan, and organise joint ventures for foreign companies in Japan. They help foreign suppliers interested in the Japanese market, and local companies find buyers or sellers through domestic distribution and contacts.

Sogo Shosha is the primary distribution channel for trade services, with established channels for handling basic foodstuffs, miscellaneous products and raw materials imported from overseas. New distribution channels for fresh fruits and vegetables have replaced central markets, making the Japanese market more attractive to producers on the West Coast of the United States. Other industries, such as logging and lumber, oil and gas, and textile distribution, have also experimented with Sogo Shosha's role in maritime or "third country" trade. Nearly a third of Sogo Shosha's marine business trades oil and oil products with the world's largest oil-producing countries. Foreign traders increasingly recognise the benefits of using Sogo Shosha as trading houses seek lower-priced markets than producers. Over the years, Sogo Shosha has started to offer a wide range of services to foreign companies operating in Japan.

In summary, Sogo Shosha is a crucial intermediary in Japan's economy, facilitating domestic and foreign trade. It plays a vital role in assessing demand, identifying sales channels, developing marketing strategies and arranging financing. It is essential for domestic trade,

facilitates the entry of foreign products and provides services to foreign companies operating in Japan. (Marubeni Corporation, 1978)

Functions of Finance

Sogo Shosha plays a crucial role in Japan's trade development by stabilising trade flows and regulating the volume and speed of trade. They support prominent companies in dealing with financial and management difficulties and adjusting stocks under their control. In Japan, Sogo Shosha performs this function as a risk taker, sharing the risks arising from selling and managing a wide range of products.

Sogo Shosha provides services efficiently and at low margins, depending on the required product type and volume of services. This volume-oriented operating philosophy has been successful during periods of strong economic growth. However, in times of recession and business slowdown, financial liberalism often falls victim to Sogo Shosha, reducing net income and requiring the writing off of significant amounts of "bad debts". The Sogo Shosha maintains close relationships with commercial banks, as most require the Sogo Shosha to assume the entire credit risk.

The unique cooperation between commercial houses and banks has resulted in Sogo Shosha moving in new and diverse directions in its banking activities, further expanding the broad spectrum of its business activities. Also known as an "international financier", Sogo Shosha arranges loans and liabilities arising from international trade and capital transactions. The traditional London and New York markets are the main financial markets for such transactions. However, other markets such as Hong Kong, the Middle East, Panama, Benelux and Tokyo are also attracting attention as new international financial markets. (Marubeni Corporation, 1978)

Procurement and supply management functions

Sogo Shosha is often called upon as a facilitator to create new trade flows. It has played a vital role in the growth of the Japanese steel industry and in developing large-scale resource development projects to meet Australia's future needs. Development to meet industry needs would have been risky for individual steel companies or mining interests. By linking the interests of sizeable onshore steel companies and overseas developers, Sogo Shosha has ensured a return on investment and continuity of resource supply. Companies worldwide have adopted this concept to extract various raw materials, including coal, copper,

zinc, lead, bauxite, nickel, cobalt and uranium. Sogo Shosha has also included crude oil, salt, fish, wood and pulp in its raw material development activities. (SHOSHA Handbook, 2022)

Logistics and infrastructure functions

Sogo Shosha is a Japanese business organisation that collaborates with various agencies to provide services, create new businesses, implement projects, and introduce new products and services. It plays a crucial role in overseas projects, helping to select projects that best meet local and Japanese needs, evaluating problems, organising teams for implementation, and resolving disagreements between members.

Sogo Shosha is involved in financing and marketing the production of new plants, sourcing raw materials, developing local industries and providing other commercial services. In Japan, Sogo Shosha prefers new, promising products that complement its "laundry list" of products, materials, and services. The parties must work together to license domestic manufacturers and overseas suppliers under appropriate terms and conditions, often requiring a joint venture with "p" equity participation. Sogo Shosha's flexibility allows it to adapt to changing circumstances and stay ahead of industry and consumer trends. It has become particularly active in the food industry, investing in several concentrated production units and storing 100,000 tonnes of feed grain and other feed materials on Kyushu Island. Japan has taken a bold step towards stabilising feed grain and food imports, thanks to its links with overseas processors, its global access to food, its ability to transport and distribute products, and its contribution to financing such projects. (Marubeni Corporation, 1978)

Advisory and consultation functions

Sogo Shosha is vital in developing natural resources and raw materials and provides advisory and consultancy services to business entrepreneurs. They help organise business exports, provide market and supply conditions information, and identify the best engineers. Sogo Shosha also acts as a central communication channel for suppliers of materials and equipment for export projects. Their contacts in various industries are indispensable, and financial experts monitor international financial markets.

By the mid-1960s, plant exports began to attract attention, and by the early 1970s, Japan had become the third largest exporter of plants after the United States and West Germany. By 1976, plant exports had reached \$6.5 billion, and the government forecasted they would exceed \$15 billion by 1980.

Sogo Shosha's record in plant exports is in power plants, pipelines, telecommunications systems, oil refineries, steel and non-ferrous metal plants, chemical plants and various raw material processing industries. (Marubeni Corporation, 1978)

Innovation and development functions

Sogo Shosha has a strong track record of investing in new companies to develop new commercial businesses. The company's main areas of investment are resource development, industrial production and product marketing, which account for less than 50% of the company's share capital.

The company's objective is to generate and sustain new commercial turnover, not to generate a return on investment. Host countries like Japan have complemented these investments by contributing to resource development projects and benefiting from specific industrialisation initiatives in developing countries. Sogo Shosha assists companies interested in investing overseas by providing information on host country conditions, marketing their products and participating in managing newly established companies. In other locations, they help identify suitable foreign companies for host countries and invite partners with investment opportunities.

Sogo Shosha's main objectives are to ensure that community-based enterprises are in harmony with the environment and seek close links with efficient production. They are actively involved in efforts to create new trade flows through participation in overseas industrial and project projects, mainly in Australia, Peru, Canada, the Philippines, Indonesia and Malaysia. Technological innovation can significantly affect the marketability of traditional products and threaten competitors. Exporters have to decide whether to continue selling products directly in a country far from their home country, to bear the high costs of initial marketing activities or to issue production licences to recover development costs. (Marubeni Corporation, 1978)

II. OVERVIEW OF THE COMPANY

II.1. History of Sumitomo Corporation

Masatomo Sumitomo, the founder of Sumitomo Corporation, founded the company in Kyoto in the 17th century, where he opened a bookshop and a pharmacy. His book, "Monjuin Shiigaki (The Founder's Rules)", laid down the foundations of business and the importance of prudence, honesty and good management. These teachings were passed on within the Sumitomo group, focusing on integrity rather than easy profits. Riemon Soga, Sumitomo's brother-in-law, ran a copper refining and brass smelting business in Kyoto. In the 16th century, he developed a refining technique called "Nanbanbuki" to extract silver from raw copper. Tomomochi Sumitomo, Riemon's eldest son, married one of Masatomo's daughters and became a member of the Sumitomo family. His father-in-law's legacy passed to Riemon, who expanded the business to Osaka and promoted his father's techniques. The Sumitomo/Izumiya family became the "Nanbanbuki extended family", the leaders of the Japanese copper refining industry. Sumitomo's principle of "benefit to self and others, private and public interests are the same" and "planning imbued with a long-term perspective" made the Sumitomo Group the leading group of companies in Japan and the country. (Sumitomo Corporation Simimoto History, 2024w).

From the launch of Sumitomo Corporation to the consolidation of the management base

Sumitomo Corporation was established in 1919 as The Osaka North Harbour Company Limited. Initially, it operated properties in Osaka North Harbour and participated in the area's development. The company later merged with Sumitomo Building Co., Ltd. in 1944 and was renamed Sumitomo Real Estate Building Co., Ltd. A year later, the company was renamed Nippon Engineering Co., Ltd. From then on, the company's main activity became trading. They decided to offer their customers a more comprehensive product portfolio and expand the industry segments they were involved in. In 1949, Sumitomo listed its shares for public trading on the Tokyo, Osaka and Nagoya stock exchanges. (Sumitomo Corporation History, 2024z)

The evolution of Sumitomo Corporation over the decades

Early on, President Shunya Toji's biggest challenge was to consolidate leadership. Toji encouraged his inexperienced sales staff with the theory that enthusiastic amateurs are always better than professionals. To consolidate leadership, he applied strict credit control. Sumitomo Corporation became even more critical abroad when it transferred its first employees to

Mumbai in 1950. Two years later, it established its US subsidiary in New York, renamed Sumitomo Shoji Kaisha, Ltd. in the same year and listed on the Fukuoka Stock Exchange in 1955.

In the 1960s, the company aimed to become the third largest trading company by increasing sales per capita under the slogan "The Big Three", but expansion required restructuring. In 1962, the sales offices in Osaka and Tokyo were merged, and the company introduced a product division structure, creating nine product divisions: non-ferrous metals, iron and steel, agriculture and fishing, textiles, machinery, electricity, chemicals, real estate, general products and fuels. In 1967, the company set up a project group to support large-scale projects, resource development and the cultivation of new industries with a medium- to long-term investor's perspective.

In the 1970s, the Sumitomo Shoji building was completed in Tokyo, establishing a dual headquarters for operations in Osaka. The company merged with Sogo Boeki Co., Ltd. in the same year. In 1997, they set a goal to become the number one company in business and finance and even targeted government support under the slogan "Big Three & The Best". The company grew and, by the mid-1970s, had more than 100 offices overseas. In 1978, they changed their name to Sumitomo Corporation. A year later, they established a sales division system consisting of four divisions: iron and steel; machinery and electrical equipment; non-ferrous metals, chemicals and fuels; and consumer goods. To celebrate the 60th anniversary of the company's founding, the slogan "Open Eyes on Everything" was introduced, focusing on strengthening overseas operations and exploiting new areas. In 1988, the company's vision to become an integrated enterprise was to expand its revenue base by promoting business activities and adopting the slogan "Seeing Tomorrow, Innovating Today". The financial results were published in the 1989 financial report.

In 1991, the company introduced the "Strategy 95" medium-term management plan to achieve its vision of an integrated enterprise. 1996, the company was forced to introduce a strict internal control system after discovering illegal copper trading. Two years later, the company established its mission statement and introduced a risk-adjusted return on investment.

In the 2000s, Sumitomo Corporation implemented a reform package that focused on cross-sectoral interoperability, improving profitability and strengthening the business base through a series of two-year medium-term management plans. (Sumitomo Corporation History, 2024z)

II.2. Sustainability Aims of the Company

Sumimoto Corporation (SC) conducts business in many parts of the world, focusing on a corporate philosophy passed down through dozens of generations. The company's mission is to make the world a more colourful and enriching place for people. Their philosophy, "The benefit of self and others, private and public interests are the same", a philosophy that has been the foundation of sustainable development for 400 years, can be interpreted to mean that their business activities not only benefit SC but should also serve the society around them because sustainable growth is a shared interest. (Sumitomo Corporation Material Issues, 2024c)

This belief has also been incorporated into the Corporate Mission Statement, which states that the goal is to become a global organisation that is always one step ahead in managing change and creating new value through its business activities. (Sumitomo Corporation Material Issues, 2024c)

They strategically allocate their resources to ensure that they are always prepared for the long-changing business environment influenced by society. They use their strengths to create genuinely beneficial value for society. From a sustainability point of view, they implement measures that serve society and achieve sustainable growth for themselves.

The first figure shows the structure of an organisation promoting sustainability. The Corporate Sustainability Department is responsible for the planning and implementing actions throughout the organisation. The department coordinates with the CEOs accountable for sustainability and the Planning and Coordination Department. They also work with the corporate divisions and overseas regional organisations to ensure that the measures put in place are implemented throughout the company and that business or regional-specific measures are introduced in line with the various initiatives.

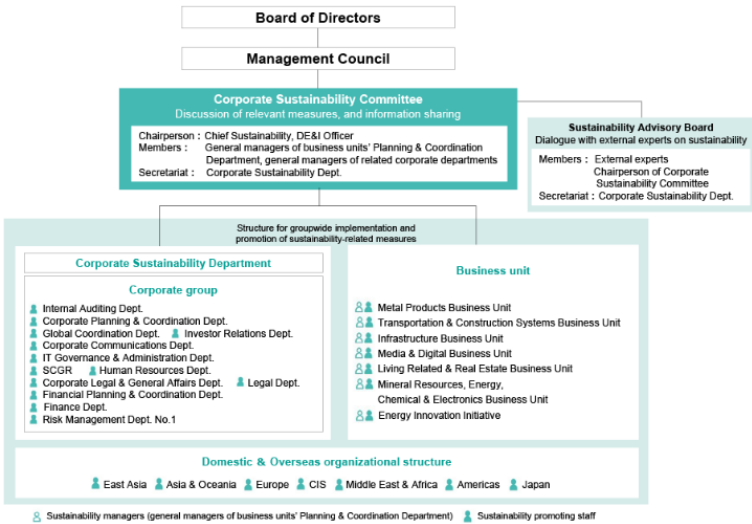


Figure 1: Corporate Sustainable Development System, Source: <https://sumitomocorp.disclosure.site/en/themes/11>

The Corporate Sustainability Committee advises the Management Council on initiatives, measures, and policies to implement the measures correctly. These are then presented to the Management Council and the Board of Directors for further discussion. The former decides some crucial initiatives, while the latter oversees them. A Sustainability Advisory Board, composed of external experts, has also been established to provide recommendations and advice on governance. (Sumitomo Corporation Sustainability Promotion System, 2024b)

Setting social targets to achieve future environmental goals

Important directions have been identified in addressing relevant social issues. These directions are consistent with Sumitomo Corporation's business operations and Corporate Mission Statement and should be prioritised to achieve these goals. Sumitomo has established a cross-organizational task force to address six material issues for sustainable growth per the company's business philosophy and Corporate Mission Statement. The study used the United Nations (UN) Sustainable Development Goals and IIRC guidelines to identify the essential issues for sustainable growth in consultation with institutional investors and experts.

Sumitomo's business units used the Sustainable Development Goals (SDGs) to identify the social issues they are currently addressing and hope to address. They weighed their strengths and future roles, selected critical social problems, and created solutions to overcome the challenges, ensuring a comprehensive approach to business and social issues. They consulted with international organisations and institutional investors, conducted surveys and exchanged views with all employees to understand their interests and expectations of their business, guiding discussions on the issues identified. The Corporate Social Responsibility Committee reviewed the selected issues and finalised the six critical issues for Sustainable Growth in Society with the approval of the Board of Directors and the Executive Committee.

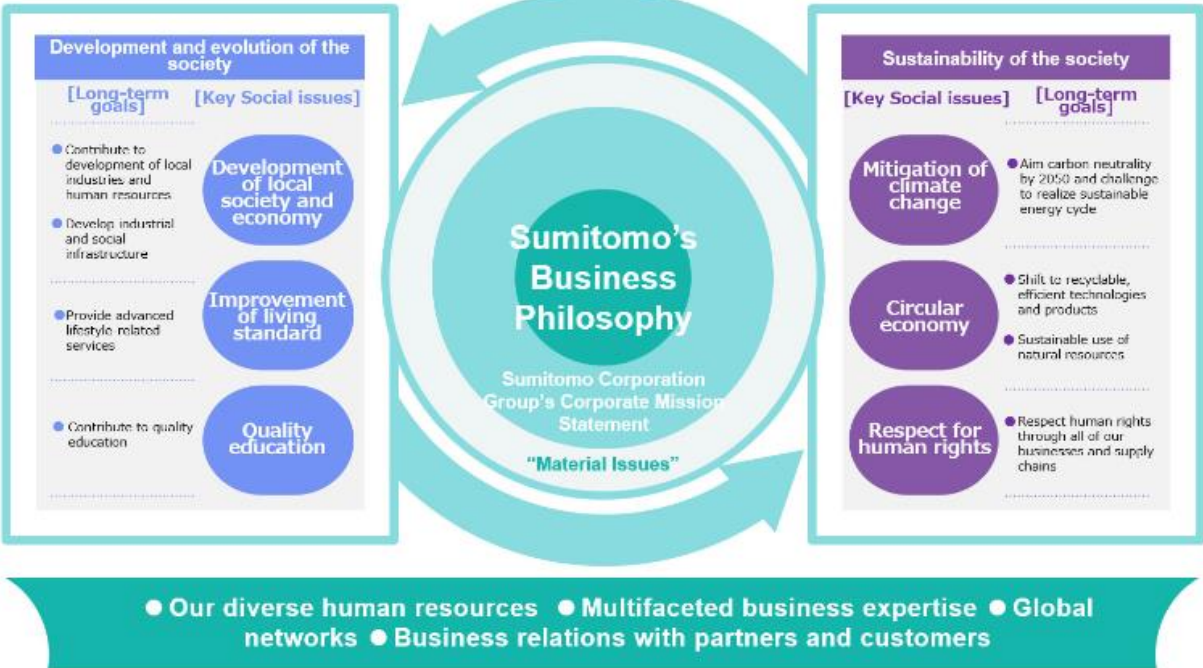
They identified six critical social issues closely linked to their business and set medium—and long-term targets to address them. The six crucial social issues are "Mitigating Climate Change," "Circular Economy," "Respecting Human Rights," "Developing Local Society and Economy," "Improving Living Standards," and "Quality Education," which are clearly shown in the second figure.

To achieve these objectives, the company must demonstrate its strengths as an integrated trading company and leverage its human resources, business expertise, networks, and relationships. The issues show the company's social role and guide Sumitomo Corporation

(SC)'s business. (Sumitomo Corporation Key Social Issues and Medium- and Long-term Goals, 2024d)

The six social issues have two themes: sustainability of society and development of society, and their separation is clearly shown in Figure 2. A fundamental premise of SC's business is that sustainability is a global shared goal. The solutions for social sustainability are generated by further social and economic development. The company seeks to achieve these goals through business, philanthropic, and human resource development initiatives, focusing on quality education and development.

Figure 2: Social and Environmental Goals for Sumitomo,



Source: <https://sumitomocorp.disclosure.site/en/themes/13>

Social development and transformation include developing the local society and economy, improving living standards, and providing quality education. The company is committed to supporting local social and economic development by expanding its business globally. It contributes to local communities' industrial and human resource development by ensuring the provision of industrial and social infrastructure. It is also committed to improving living standards by providing advanced life-related services to address issues such as ageing and urbanisation, contributing to a better life for all. (Sumitomo Corporation Key Social Issues and Medium- and Long-term Goals, 2024d)

They prioritise promoting quality education, which is critical to developing local communities and economies. They also enrich people's lives and promote a sustainable society through various activities, including philanthropy.

The Sustainability of Society group includes Climate Change Mitigation, Circular Economy, and Respect for Human Rights. SC aims to achieve carbon neutrality by 2050, develop sustainable energy cycles, and create new businesses to combat global warming and promote a sustainable society, recognising the urgent need to mitigate climate change. Another important goal of the company is to contribute to the circular economy by recycling, using resource-saving technologies and products, and promoting sustainable sourcing of natural resources, thus ensuring social sustainability and promoting recycling. It is committed to respecting human rights in all aspects of its operations, including in its business interactions with customers, local communities, and employees, and it will continue to do so in its operations and supply chains. (Sumitomo Corporation Key Social Issues and Medium- and Long-term Goals, 2024d)

Establishing a sustainable financing framework

To achieve its goals and efforts, a sustainable finance framework has been established to promote sustainable finance practices among stakeholders through Sumitomo Corporation's "Enhancing Sustainability Management" initiative.

SC Sustainable Finance Framework outlines guidelines for four elements: Use of Proceeds, Project Evaluation and Selection Process, Proceeds Management and Reporting, in line with the International Capital Market Association (ICMA) 2021 Green Bond Principles, 2023 Social Bond Principles and 2021 Sustainability Bond Guidelines, and the 2023 Green Credit Principles and the 2023 Social Credit Principles developed by the Credit Market Association, the Asia Pacific Credit Market Association and the Credit Syndication and Trade Association. Sumitomo Corporation has sought an opinion from a second party, Rating and Investment Information, Inc., to assess whether its sustainable financing framework is consistent with the principles mentioned above and guidelines. (Sumitomo Corporation Sustainable Finance, 2024e)

III. SUMITOMO'S ECO-CONSCIOUS ENDEAVORS

With a 400-year history, Sumitomo Corporation (SC) is committed to industrial development in harmony with local communities and the environment. Initiatives such as creating a low-carbon society, preserving biodiversity, using energy, water and resources sustainably, preventing pollution and controlling waste emissions are all initiatives that contribute to protecting the environment. They have established an environmental policy that commits them to reducing their environmental impact and improving the environment through their activities, based on the ISO 14001 environmental management system. This policy addresses long-term concerns and promotes a sustainable future for all. SC supports improving the environment and reducing negative impacts. The Environmental Management System (EMS) manager assesses environmental aspects in each department, identifying risks and opportunities. EMS promoters then identify significant environmental factors for each business group while the Corporate Sustainability Department reviews these for the entire company. The Corporate Sustainability Committee reviews the ecological targets and sets new targets for the coming year. (Sumitomo Corporation Climate Change, 2024g)

Figure 3 illustrates the environmental governance structure established by the company, with the Corporate Sustainability Committee at its centre. Since the first ISO 14001 certification was obtained in June 1999, the scope of the system has been continuously extended. Around 20,000 employees and individual companies in the Group are involved in these environmental management activities. The ISO 14001 Group Companies Conference, composed of SC and ISO 14001 Integrated Certification Group Companies, shares environmental activities and reports to the Corporate Sustainability Committee. The Committee discusses and reports to the Executive Council and the Board of Directors, depending on the importance of the topic. (Sumitomo Corporation Sustainability Management, 2024a)

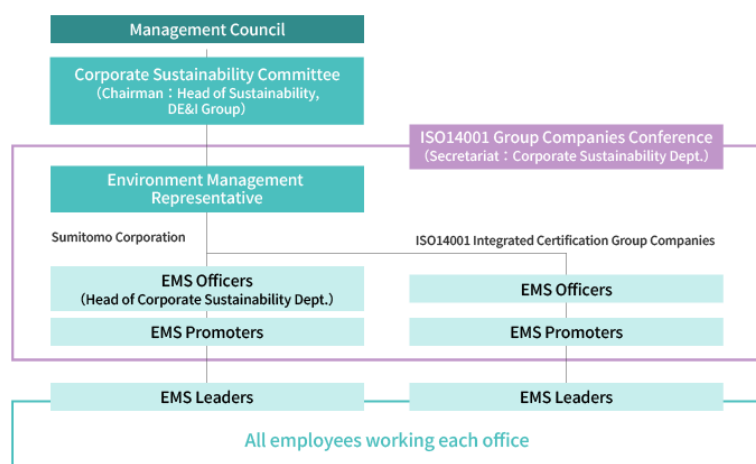


Figure 3: Environmental Management Structure,
Source: <https://sumitomocorp.disclosure.site/en/themes/23>

III.1. Environmental risks and responses

Climate change poses two main risks: transitional risks and physical risks. Transitional risks are due to policy changes, technological developments, market trends, and valuation, and physical risks are due to increased natural disasters and extreme weather events caused by climate change.

Transitional risks in the future may include regulations to promote decarbonisation and decarbonisation, international deliberations, revisions to greenhouse gas reduction plans, and changes in industrial technologies and markets. Businesses such as power generation, automotive, aerospace, shipping, steel, chemicals, cement, aluminium smelting, real estate and forestry face high risks from changes in the business environment. Regular scenario analysis and appropriate countermeasures are considered to minimise the negative impact on business performance. Initiatives such as building carbon-free and recyclable energy systems are being strengthened to contribute to the development of business opportunities.

Physical risks are divided into chronic and acute risks with ongoing and chronic impacts on business activities. These risks include climate change, precipitation patterns, sea level rise, and unforeseen damages such as extreme weather conditions. These affect production sites' facilities, working conditions and supply chains. Their business is focused on energy production, renewable energy, exploration, real estate, agriculture and forestry, where risks are high. They manage risks by assessing local weather and geographic factors during investment, conducting ongoing assessments, clarifying contractual liability, and underwriting non-life insurance policies.

The company annually assesses the impact of physical risks on its sectors and businesses, particularly those with large outdoor sites or operations requiring significant natural resources. The assessment tools analyse the extent of these risks and monitor the response to them on a case-by-case basis.

The company, which operates in different global sectors, refers to UNEP FI¹ reports on the impact of physical risks on critical sectors. These identify the main risk characteristics of each industry and its main business lines. Physical risks can directly affect production site facilities and working conditions and indirectly affect supply chains for raw materials and products. To

¹ United Nations Environment Programme Finance Initiative

manage these risks, the company assesses local weather and geographic factors at the time of investment, conducts ongoing assessments after the investment, clarifies contractual responsibilities and takes out non-life insurance policies.

Physical risk analysis is carried out in sectors and businesses prone to risk, such as power generation, raw materials, energy, real estate and agriculture. Forestry businesses were also assessed using tools such as the RCP8.5 scenario based on the IPCC² scenario of a 4°C increase by 2100. Risk management has been strengthened for these enterprises, including assessing local weather and geographical factors at the time of investment, conducting ongoing post-participation assessments, clarifying contractual liability and concluding non-life insurance contracts. The analysis considers water shortages, floods, sea level rises, temperature rises, forest fires, and the geography of the central business locations and actual business conditions. (Sumitomo Corporation Climate Change, 2024g)

III.2. Scenario Analysis

Climate change is a major global issue that affects businesses and requires scenario analysis based on the TCFD recommendations. Based on the International Energy Agency (IEA) and the Responsible Investment Principles (PRI) scenarios, analyse the impacts up to 2050. These scenarios assess new business opportunities and resilience to significant changes in the business environment, focusing on long-term global trends in climate change mitigation. They do not necessarily imply assumptions about management policies or strategies.

The five forward scenarios illustrated in Figure 4 are IEA STEPS (The Stated Policies Scenario), IEA APS (Announced Pledges Scenario), IEA NZE (Net Zero Emission Scenario), PRI FPS (Forecast Policy Scenario) and PRI RPS (Required Policy Scenario).

The projected policy scenario (STEPS) predicts a 4% increase in demand for natural gas up to 2030, followed by stagnating demand up to 2050 and a 2.5°C increase in global average temperatures up to 2100. (IEA-International Energy Agency Stated Policies Scenario (STEPS), 2022b)

The Announced Commitments Scenario (APS) outlines the extent to which national ambitions can achieve net zero emissions by 2050. It assumes complete and timely implementation of national targets, including 2030 targets and longer-term carbon neutrality commitments. The APS design will consider the pathways developed by national bodies to

² Intergovernmental Panel on Climate Change : Intergovernmental Panel on Climate Change

support net zero emission pledges, including policies on non-policy assumptions. (IEA-International Energy Agency Announced Pledges Scenario (APS), 2022a)

The NZE scenario targets net zero CO₂ emissions in the global energy sector by 2050, which developed economies will achieve earlier than others. (IEA-International Energy Agency Net Zero Emissions by 2050 Scenario (NZE), 2022c)

The PRI: Forecast Policy Scenario (FPS) projects the impacts of policies on the real economy up to 2050, including changes in energy demand, transport, food prices, crop yields and deforestation rates. (PRI Principles for Responsible Investment Forecast Policy Scenario: macroeconomic results, 2022)

The 2021 1.5C Required Policy Scenario (RPS) assesses future policy developments needed to accelerate emission reductions and limit the global temperature increase to 1.5 degrees Celsius. (PRI Principles for Responsible Investment Forecast Policy Scenario: macroeconomic results, 2022)

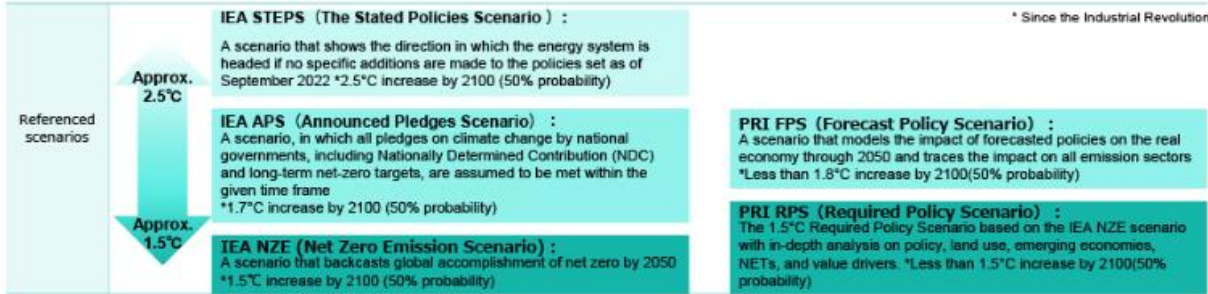


Figure 4: Climate Scenario Selection,
Source: <https://sumitomocorp.disclosure.site/en/themes/24>

This fiscal year, the scenario analysis for businesses in energy, resources, transportation, materials, real estate, and other forestry fields is conducted. The study is based on documents such as the Climate-related Disclosure Standards by the International Sustainability Standards Board, the World Energy Outlook 2022 and Energy Technology Perspectives 2023 by the International Energy Agency, and the Inevitable Policy Response 2021 by the Principles for Responsible Investment. The analysis also considers trends in technological changes and regulations.

These scenarios present market trends in energy, resources, transportation, materials industry, real estate, and forestry. These scenarios include a sharp increase to increase, an increase to moderate increase, a neutral, a moderate decrease to decrease, and a reduction to sharp decrease. The forecasts include potential risks and uncertainties. The company's business environment, policies, and initiatives are detailed, considering the factors and certainty of these scenarios and the unique circumstances of each sector. The company is working on developing thermal power

generation and fossil energy concession businesses to achieve carbon neutrality by 2050. Quantitative indicators, such as profit levels and exposure, are provided for power generation, thermal coal, natural gas, and LNG³. The company's resilience is confirmed through scenario analysis, allowing it to respond to any of the three scenarios for 2030 and 2050. (Sumitomo Corporation Climate Change, 2024g)

III.3. Measurements, Targets and Results

It has set a target to reduce CO₂ emissions by at least 50% by 2035, focusing on power generation and fossil fuel upstream businesses, with a target to reduce CO₂ emissions by 40% or more in coal-based power generation, 50% in natural gas, 50% in renewables and 90% in fossil fuel upstream businesses. The company plans to phase out all coal-fired power generation businesses by the end of the 2040s and achieve zero carbon emissions from thermal coal mines by 2030. The company also aims to increase renewable energy supply by at least 5 GW by 2030. Internal carbon price recovery indices are used to assess the impact of climate change on future business risks and opportunities. The International Climate Change Programme (ICP) is a company-wide initiative to support climate change initiatives. It monitors potential climate change risks and opportunities and their status. The results are shared with the Corporate Sustainability Committee, the Management Board and the Board of Directors, and additional measures are introduced as necessary. Medium and long-term risks and opportunities in each business line are identified for timely countermeasures.

The company aims to achieve carbon neutrality from 2022. Figure 5 shows the CO₂ emissions of Sumitomo, its subsidiaries and other affiliated companies in three coverage areas. The first Scope is direct emissions, the second is indirect emissions, and the third is other indirect emissions. Based on the first two scopes, SC is about 1 million tonnes of desired CO₂ emission reduction without the power generation business. The thermal energy production business is expected to reduce 43 million tonnes, including projects under construction. For other indirect emissions, the two scopes

	Scope 1 Direct emissions	Scope 2 Indirect emissions from acquired electricity etc.	Scope 3 Other indirect emissions
Sumitomo Corporation/ Subsidiaries	Approx. 1 million tons (Excluding power generation business)		Fossil energy concession
Associated companies (equity method)	Thermal power generation business (Includes estimates for projects under construction.) Approx. 43 million tons		Approx. 9 million tons

Figure 5: Targets: Effort for Carbon Neutrality in the company, Source: <https://sumitomocorp.disclosure.site/en/themes/24>

³ Liquefied natural gas

together would reduce 9 million tonnes under the fossil energy concession. (Sumitomo Corporation Climate Change, 2024g)

Figure 6 shows the results from FY 2019 (base data) to FY 2022, as well as the reduction targets for 2035. Total CO₂ emissions were 59,939 tons, a 12.3% reduction by 2022, with a 50% reduction or more target by 2035. The figures for active power generation projects and fossil energy interests were calculated with the advice of a third party. The former includes projects not yet completed. They have achieved a 4% reduction in this area but need a tenfold decrease by 2035, with a target of 40%. The target for coal-fired power generation is 60%, but emissions increased by 1.2% to 34,853 tonnes in the period under review, compared with 34,452 tonnes in the base year. In fossil energy, the increase was 41.8%, almost half the target (90%). (Sumitomo Corporation Climate Change, 2024g)

(Thousand t-CO₂e)

Index		Result of FY2019 (The base year)	Result of FY2022	Percentage of change	Reduction targets of 2035
Entirety		59,939	52,572	▲12.3%	50% or more
Power generation business *		43,126	42,613	▲4.0%	40% or more
	Of which, coal-fired power generation *2	34,452	34,853	1.2%	60% or more
Fossil energy concession		15,808	9,203	▲41.8%	90% or more

Figure 6: Results: CO₂ Emission, Source:<https://sumitomocorp.disclosure.site/en/themes/24>

of 40%. The target for coal-fired power generation is 60%, but emissions increased by 1.2% to 34,853 tonnes in the period under review, compared with 34,452 tonnes in the base year. In fossil energy, the increase was 41.8%, almost half the target (90%). (Sumitomo Corporation Climate Change, 2024g)

III.4. Sumitomo Corporation's Renewable Energy Frontier

The Sumitomo Corporation (SC) focuses on renewable energy, including wind, solar, geothermal, hydropower and biomass, to increase its renewable energy supply from 1.8 GW to 5 GW or more by 2030.

SC operates six solar power plants and two wind power plants. Solar power is Japan's largest electricity producer, with mega solar power plants built nationwide in 2012. Sumitomo started importing polysilicon and other materials for Japanese photovoltaic panel manufacturers in the 1990s and then started developing mega solar power plants in Europe and the United States. The company owns and operates six mega solar projects nationwide.

Following the Great East Japan Earthquake, SC is developing a 92,000 KW mega solar power plant in Minamisoma, Fukushima Prefecture. The project began in 2012 and aims to reclaim coastal areas submerged by the tsunami. The first phase started commercial operation in March 2018, and the second in December 2018. The plant will contribute to Fukushima Prefecture's

goal of expanding its renewable energy generation capacity to meet 100% demand by 2040. The power plants will also serve as a symbol of recovery for the local population.

They are working with Summit Energy Corporation to develop electricity management and ensure a stable supply of solar and wind power. The company plans to deploy storage batteries and large-scale biomass power plants.

The Japanese government has increased the share of renewable energy in domestic energy consumption to 38% by 2030. SC aims to increase its renewable energy supply capacity to at least 3 GW by 2030 and expand its carbon-free energy projects. New projects include a biomass power plant in Sendai, an onshore wind power plant in Fukushima Prefecture and another onshore wind power plant in Kochi Prefecture. In addition, new business areas include domestic offshore wind power generation and district energy management companies providing renewable energy for local consumption.

The European Union has set a target to increase renewable energy use to 32% of total energy consumption by 2030. The European Commission has proposed raising the target to 40%, leading to the rapid development of offshore wind projects. These large turbines are installed in the North Sea, mainly more than 40 kilometres off the coast. Offshore wind power generation offers advantages such as the absence of physical barriers, greater energy conversion efficiency and convenient transport of turbine blades. The shallow waters of the North Sea make it particularly suitable for wind farms. (Sumitomo Corporation Climate Change, 2024g)

SC has been involved in four offshore wind projects in Belgium since 2014 as a partner of Parkwind. The company has participated in the Belwind, Northwind and Nobelwind wind farm projects in the North Sea. Sumitomo has been involved in a fourth project with Parkwind, Northwester 2, since 2018. The construction of Northwester 2 will be the world's largest commercial turbine in operation. SC has experience building and operating conventional power plants and participating in onshore wind projects in North America, China and South Africa.

Over the years, they have become a leading offshore wind energy company and expanded their presence in Europe, including Düsseldorf, Leuven, London and Paris. The company is actively pursuing new business opportunities, operating as a locally integrated trading and business investment company and leveraging its global network. SC has been involved in two offshore wind farm projects in the United Kingdom (UK), Galloper and Race Bank, completed in March and September 2018. The company has also started the Five Estuaries project, an expansion of Galloper, and, in 2018, participated in the Le Tréport and Noirmoutier offshore wind projects

in France, which have a total power generation capacity of 992 megawatts. The European offshore wind market is expanding, and SC aims to expand its business by increasing its participation in projects in European countries, including floating offshore wind farms. The company is also seeking more excellent stability and cost competitiveness in power generation to ensure the continuity of the European electricity supply.

Asia, Oceania, and North America are attracting increasing global attention due to their potential for offshore wind power generation. Japan, Vietnam, and other Asian countries are attracting attention because of their abundant wind resources and government commitment to renewable energy. Despite challenges such as frequent typhoons and shallow waters, SC hopes to apply its European project expertise to initiatives in Japan, Asia, and the oceans.

They set up a fund to expand their renewable energy business and create a strong energy business that contributes to society and preserves the global environment for future generations. In 2019, Sumitomo Corporation, Sumitomo Mitsui Banking Corporation and the Development Bank of Japan established the first fund to invest in offshore wind energy projects overseas through Spring Infrastructure Capital (SIC). The fund has acquired offshore wind farms from the UK's Race Bank and Galloper as seed assets. In 2022, SIC will establish a second fund to acquire Japanese solar power generation projects as seed assets.

Geothermal power generation is a renewable energy source that uses groundwater heated by underground magma near volcanoes to generate electricity. This method has a low environmental impact and is not affected by fluctuations in the fuel market. Compared to other renewable energy sources, such as solar and wind, geothermal energy is unaffected by climatic conditions, ensuring a stable electricity supply. However, geothermal energy production involves risks, such as drilling deep wells to extract enough hot water or steam to generate electricity. Development requires surface surveys, funding, time and luck.

Sumitomo Corporation has been actively involved in geothermal power generation since the 1970s, and Indonesia has the second-largest geothermal resource in the world. The company started operations in 1995 and won its first EPC⁴ contract for a geothermal power plant in 1997. Sumitomo has been involved in 12 projects, accounting for 43% of the country's total geothermal capacity. The company's success has been built on its partnership with Fuji Electric Co., Ltd, the world's leading manufacturer of steam turbines for geothermal power plants, and

⁴ In an EPC contract, the contractor is responsible for the entire project, from designing and engineering to procuring materials and equipment to constructing and installing the project.

Indonesian PT. Rekayasa Industri. Recent projects include the Lahendong power plant in North Sulawesi and the Ulubelu power plant in South Sumatra.

In 2011, SC completed its first geothermal IPP⁵ project in Indonesia, the Muara Laboh project in West Sumatra. The project was located in a remote area and required a four- to five-hour overland journey from the nearest airport. 2012, Sumitomo Corporation signed a long-term power purchase agreement with the state-owned power utility in Indonesia. After obtaining a government guarantee letter, the company began test drilling. However, it became clear that power generation capacity would have to be reduced, leading to a renegotiation of the agreement with the Indonesian government and the power utility. The project was completed in March 2017, and Sumitomo Corporation was contracted to provide EPC services. The company leveraged its expertise in geothermal EPC projects and the electricity infrastructure business to complete the project on schedule and contribute to Indonesia's electricity supply. The project was unprecedented because a Japanese company was developing a geothermal power project in Indonesia at the earliest stages.

Indonesia plans to increase its geothermal energy production capacity by 2.5 times by 2030 to address the country's challenges in transitioning to renewable energy and ensuring a stable electricity supply. The government is seeking the support of Sumitomo Corporation, which has over 20 years of experience in geothermal power plant construction and the Muara Laboh geothermal IPP project. Sumitomo will manage the risks associated with geothermal power projects and aims to work with government agencies and financial institutions to contribute to developing a low-carbon society in Indonesia. (Sumitomo Corporation Climate Change, 2024g)

III.5. Fighting against CO₂; Achieving Carbon Neutrality

The global community is encouraged to address climate change to achieve a sustainable society collectively, and companies have a significant role to play in addressing this pressing issue.

Achieving a sustainable society requires transitioning to a society with minimal CO₂, methane and other greenhouse gas emissions through a shift to renewable energy and energy efficiency in industry and households. Balancing residual emissions and CO₂ absorption is essential for a sustainable energy cycle. In addition to meeting its target, SC is promoting internal carbon

⁵ An independent power producer (IPP) is an entity that is not a public utility but owns facilities to generate electric power for sale to utilities and end users.

pricing and creating new-generation businesses through the Energy Innovation Initiative (EII). The decarbonisation movement is spreading to various industries worldwide, and the company will transform its business portfolio to manage risks and nurture business opportunities while meeting social needs. The company will also focus on CO₂ capture, storage and recovery through new technologies and business models.

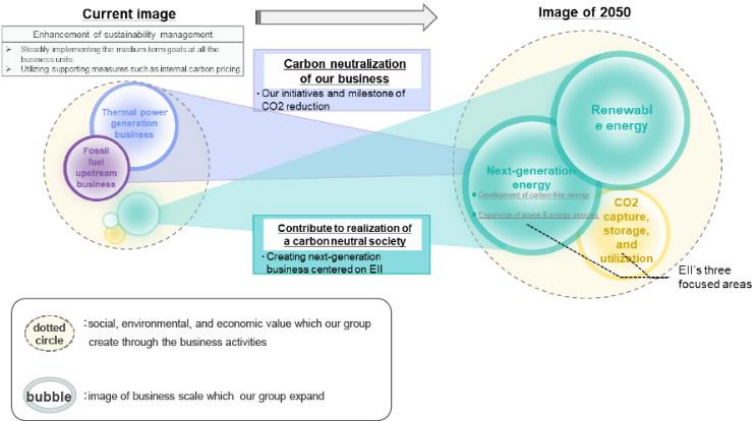


Figure 7: Steady Advancement of the Business Portfolio SHIFT, Source: <https://sumitomocorp.disclosure.site/en/themes/24>

The process is illustrated in Figure 7. At the same time, the company is working to improve its sustainability management by continuously implementing medium-term targets and introducing support measures such as the ICP. The company still relies on its thermal power generation and fossil fuel businesses today. By 2050, they want to move away from this picture and focus on EII as the basis for a new generation of companies. In about 25 years, they would move to renewables and next-generation energy by developing and discovering CO-neutral energy. In addition, there is an emphasis on CO₂ capture, storage and recovery. (Sumitomo Corporation Climate Change, 2024g)

III.6. Conservation of Biodiversity

The Sumitomo Corporation (SC) prioritises the protection of the environment, including the natural ecosystem and biodiversity, in its business activities. The company is aware of its activity's impact on biodiversity and its potential to minimise it. It also assesses social and environmental risks, including their effects on ecosystems, and monitors the status of management and remediation. This approach will help minimise the negative impacts of its activities on biodiversity and contribute to ecosystem restoration. (Sumitomo Corporation Biodiversity, 2024i)

In June 2022, they endorsed the TNFD⁶ and joined the TNFD Forum⁷. Using the TNFD Beta v0.4 framework⁸, an analysis was conducted to understand the impact of biodiversity on their business and plan future initiatives. The results will also be shared with TNFD. The trial analysis followed the LEAP analysis⁹ process recommended by TNFD. It focused on their forestry operations in New Zealand, analysing the characteristics of each of the four sites where they operate. The LEAP flow chart is presented in Figure 8. The summary is to examine the New Zealand forestry business from an overview of all company businesses, evaluate its nature-related dependencies and impacts, identify high materiality risks and opportunities in natural capital, and prepare to establish business targets for these risks and opportunities. (Sumitomo Corporation Biodiversity, 2024i)



Figure 8: Details of the Trial Analysis (LEAP),
 Source: <https://sumitomocorp.disclosure.site/en/themes/27>

TNFD's ENCORE analytical tool¹⁰ showed that businesses involved in metal resource refining, oil drilling, agricultural products, real estate and forestry had the highest risk scores. Renewable resources and alternative energy, including forestry, are priorities regarding financial impact. This led to the trial analysis of Summit Forests New Zealand (SFNZ), a New Zealand-based forestry company.

Forestry, a significant industry in New Zealand, is highly dependent on climate and soil, with a stable environment and soil suitability being key factors. Excessive logging and chemical use exacerbate the business's environmental impact, which can lead to ecological degradation. Risks are organised by cultivation and harvesting, fertiliser and pesticide use, and chemical use. Based on TNFD's beta framework and the World Business Council for Sustainable Development's illustrations of forest business risks, the study identified nine nature-related business risks for SFNZ forestry activities based on impact mechanisms, nature conditions and

⁶ Taskforce on Nature-related Financial Disclosures. A global initiative aimed to develop and deliver a risk management and disclosure framework for organizations to report and act on evolving nature-related risks.
⁷ The TNFD Forum is a global, multi-disciplinary group of institutional supporters, coordinated by the TNFD Secretariat, who share the vision and mission of the Taskforce.
⁸ Providing a risk management and disclosure framework for market participants.

⁹ L=Locate, E=Evaluate, A=Assess, P=Prepare
¹⁰ This analytics suite is focused on quality and performance measures. It is targeted at specific quality and performance data from source systems.

ecosystem services. They are illustrated in Figure 9 by impact mechanisms. This includes land ecosystem use, soil and water pollutants, water use and recharge, and biological changes. Natural conditions include ecosystem extent and condition, species population, and species extinction risk. Ecosystem services include biomass provisioning (including genetic material);



Figure 9: Sub-Categories Within TNFD’s Beta Framework,
 Source: <https://sumitomocorp.disclosure.site/en/themes/27>

water quality improvement, flow regulation, soil and sediment retention and solid waste disposal; pollination, pest and disease control, nursery population or habitat maintenance; flood and storm protection, noise attenuation; global or local climate regulation, precipitation pattern regulation and air filtration. These were used to identify the nine risks associated with SFNZ business activities. These include risks associated with harvesting and development, pesticides and fertilisers, soil quality, natural disasters, impacts on endangered species, introduced species, CO₂, and violations of the rights of indigenous peoples.

A risk analysis was conducted on nine business risks in four areas where SFNZ operates in New Zealand, using tools such as IBAT¹¹ and TNFD. Four material business risks were identified: risks associated with extraction and development, natural disasters, impacts on endangered species and violations of indigenous peoples' rights. In Indonesia, electricity generation is a national challenge, and geothermal power generation is an effective solution. The Indonesian government is planning to increase capacity from 2,400 megawatts to 5,800 megawatts by 2030 and is seeking the support of SC. They are working with government agencies and financial institutions to manage these risks and contribute to a low-carbon society in Indonesia. Using the TNFD beta framework, the study identifies six nature-related and three relevant business opportunities for the SFNZ. The qualitative matrix assessment evaluates the impact on the business (financial and legal aspects) and the likelihood of effects (relevance of the business and risks). The three material business opportunities are "Shift in timber-related markets (CO₂

¹¹ IBAT is a web-based tool that offers quick, efficient, and integrated access to three of the world's most authoritative global biodiversity datasets.

sequestration credits)," "Improvement in timber productivity," and "Change in timber-related awareness." The opportunities are illustrated in Figure 10. (Sumitomo Corporation Biodiversity, 2024i)

The New Zealand Forestry Network (SFNZ) is exploring the potential business opportunities in the timber industry. One of these opportunities is expanding its participation in the New Zealand Emissions Trading Scheme (NZ ETS)¹², which could generate revenue from the CO₂ sequestration value of existing forest stocks. The company is also focusing on raising awareness of timber and promoting the FSC certification already in place in New Zealand. This could lead to increased demand for certified wood and increased revenue. Another potential business opportunity is IoT in the forestry business to understand the health of forests, leading to stable

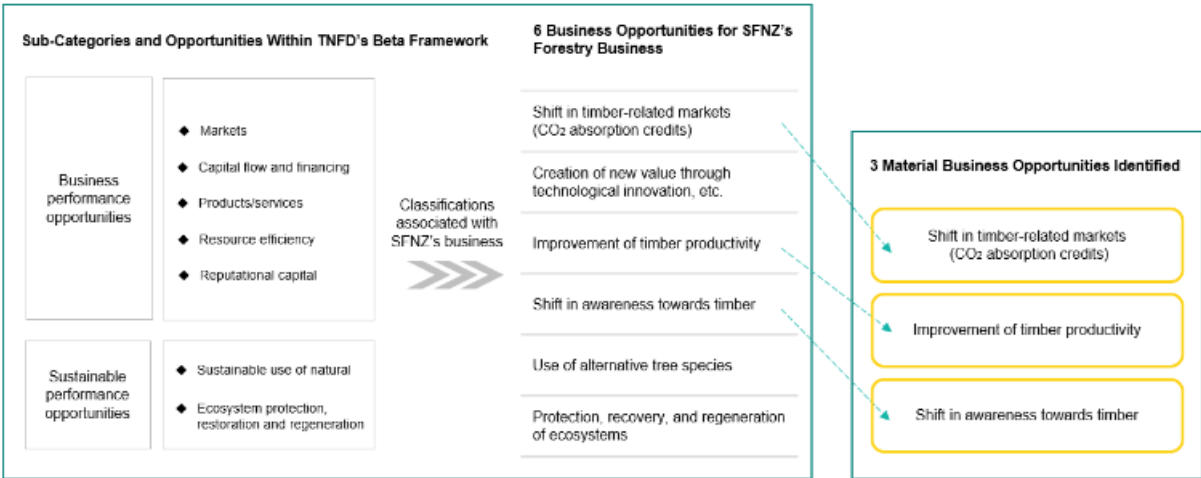


Figure 10: Sub-Categories and Opportunities Within TNFD’s Beta Framework,
 Source: <https://sumitomocorp.disclosure.site/en/themes/27>

production of high-quality timber. The company also uses a Geographic Information System (GIS)¹³ to understand the topography of the 66,000 hectares of forest land. Using technologies such as laser measurement can also contribute to revenue growth.

The pilot analysis has provided feedback to TNFD to increase the usefulness of the information provided to investors through disclosures based on TNFD's framework. The feedback highlighted the difficulty for companies in defining and disclosing their scenarios for each business line due to the lack of normative scenarios. Feedback also suggested specific LEAP analysis guidance for conglomerate companies operating in different sectors. (Sumitomo Corporation Biodiversity, 2024i)

¹² The NZ ETS is one of the Government's tools for reducing greenhouse gas emissions.

¹³ Geographic Information Systems are computer-based tools utilized for storing, visualizing, analyzing, and interpreting geographic data.

III.7. Waste Management in the Company

A growing world population and increasing demand for resources and energy threaten the sustainability of society. To maintain social sustainability, the company aims to build circular economies through recycling, reuse, reproduction, resource-efficient product development and sharing. They will use limited resources efficiently and contribute to sustainable resource recycling by shifting to resource-saving technologies and products and working towards sustainable sourcing of natural resources. Their commitment to environmental sustainability extends beyond compliance with laws and regulations to prevent waste, sludge and exhaust pollution. They also aim to reduce their environmental impact through waste reduction, reuse and recycling to ensure a sustainable society through their business.

Their primary mission in the agrochemicals/fertilisers business is to provide farmers worldwide with high-quality products to increase the productivity of agricultural yields. They provide import, manufacturing, distribution, wholesale and direct sales services and operate in around 40 countries, considering market specificities. Farmers and distributors improperly dispose of agrochemicals in some regions, causing environmental pollution and potential accidents. Agro Amazonia Produtos Agropecuarios Ltda. in Brazil and Summit Agro Mexico S.A. de C.V. in Mexico are working with other companies in the industry to collect and recycle empty agrochemical containers, helping to protect the environment and prevent accidents. They are investing in the Spanish agrochemicals company Futureco Bioscience S.A. to reduce their dependence on agrochemicals while minimising their environmental impact through the introduction of Integrated Pest Management (IPM). Shin-Etsu Chemical Co., Ltd. is promoting a communication disruptor (pheromone agent) that uses insects' natural sex pheromones. This will reduce the targeted pest population and effectively control difficult-to-control pests that invade crops. (Sumitomo Corporation Prevention of Pollution, 2024j)

The company has expanded its European sales territory to Poland, Bulgaria and Turkey; it uses pesticide resistance control methods in 60% of orchards in France. By expanding sales of coated fertilisers and biostimulants, they aim to reduce the use of conventional chemical fertilisers and the environmental impact of farmland. Coated fertilisers allow farmers to control the leaching rate and increase the application rate, reducing the need to apply fertiliser. Biostimulants increase plant tolerance to diseases, pests and cold/heat stress, allowing fertiliser use to be reduced. (Sumitomo Corporation Prevention of Pollution, 2024j)

They have supplied marine fuel to Japanese and foreign shipping companies since 1954. They are now working to reduce the environmental burden on the shipping industry by providing LNG fuel, which emits no sulphur oxides, 40-70% less nitrogen oxides and 20% less carbon dioxide than conventional fuels. They have ordered an LNG-fuelled ship for the 2023 fiscal year. The International Maritime Organization (IMO) aims to reduce global greenhouse gas emissions from maritime transport to zero by 2050. Ammonia, a renewable marine fuel, is considered the next generation of alternative marine fuels as it does not emit carbon dioxide when burned. Green ammonia, produced from renewable electricity, water and air, can significantly contribute to decarbonising the shipping industry as it does not produce CO₂ during its life cycle. A.P. Moller-Maersk A/S and other partners are collaborating on a study investigating the commercialisation of ammonia fuel supply in Singapore, North America, and Oman. The initiative aims to decarbonise the shipping sector by establishing a comprehensive supply chain of non-greenhouse gas-emitting marine fuels. (Sumitomo Corporation Prevention of Pollution, 2024j)

Reducing plastic use and efficient consumption is becoming increasingly essential to tackle global environmental problems such as marine litter and global warming. Tomra Japan, a joint venture between TOMRA Systems ASA (Norway) and TOMRA Systems, offers equipment such as return vending machines (RVMs) to collect used PET bottles efficiently. They also have a recycling system in which PET bottles are collected from RVMs in supermarkets and other retail outlets, ensuring high-quality raw materials with less contamination. Tomra Japan contributes to horizontal recycling by producing fresh PET bottles from used PET bottles.

In 2021, the company launched a new brand called "bottlium" to recycle PET bottles into polyester clothing. By actively recycling PET bottles into reusable clothing, continuing horizontal recycling, and encouraging consumers to collect and recycle better quality resources, Tomra Japan aims to reduce the environmental burden and create a recycling-based society. (Sumitomo Corporation Prevention of Pollution, 2024j)

IV. SUMITOMO'S COMMITMENT: TOWARDS A SUSTAINABLE SOCIETY

IV.1. Respecting Human Rights

The Sumitomo Corporation (SC) addresses human rights issues by adhering to the ten principles of the United Nations Global Compact¹⁴ and the core labour standards of the International Labour Organization. These include freedom of association, collective bargaining, the elimination of forced labour, the abolition of child labour, the elimination of discrimination in employment and occupation, and occupational safety and health. The company aims to eliminate discrimination based on factors such as race, nationality, sex, religion, creed, age, origin, physical or mental disability and other non-business grounds. Sumitomo also adheres to minimum wage requirements based on labour standards and conventions in each country.

The SC is committed to respecting the rights of children and indigenous peoples. The company recognises that its operations directly and indirectly impact children's lives, as they are family members of employees and essential stakeholders in the sustainable development of society. SC has signed the UN Global Compact to support the Ten Principles and respect children's rights and business principles. They are committed to preventing violations of children's rights through their business and social contribution activities.

In addition, the SC respects global norms on the rights of indigenous peoples, including the UN Declaration on the Rights of Indigenous Peoples and the principle of "Free, Prior and Informed Consent (FPIC)." It recognises indigenous peoples' unique cultures and histories and complies with relevant laws and regulations in its business activities. SC employs security companies in its global operations to protect workers' safety, recognise human rights risks, and comply with local laws and regulations. In 2020, SC began human rights due diligence to identify, prevent and correct adverse human rights impacts from its business operations. In fiscal year 2021, the company expanded its applicability to all business units and began conducting due diligence by business unit. The medium-term goal is to strengthen the human rights due diligence risk analysis to accurately assess risks in all business units, including the supply chain, and

¹⁴ The United Nations Global Compact is a non-binding United Nations pact to get businesses and firms worldwide to adopt sustainable and socially responsible policies, and to report on their implementation.

implement risk mitigation measures by 2025. (Sumitomo Corporation Respect for Human Rights, 2024k)

In fiscal year 2022, Sumitomo identified and assessed human rights risks in all strategic business units of the Infrastructure business and the Minerals, Energy, Chemicals and Electronics business. The process was carried out by international guidelines such as the United Nations Guiding Principles on Business and Human Rights, the United Nations Guiding Principles Reporting Framework and the OECD Due Diligence Guidelines¹⁵ on Responsible Business Conduct.

The human rights due diligence process in business entities is illustrated in Figure 11. The eight priority human rights issues identified by the company are Labour conditions, Health and safety of residents, Freedom of association and the right to collective bargaining, Land rights, Forced labor and child labor, Discrimination and harassment, Occupational health and safety, and Personal information privacy. These human rights risks were identified and assessed in the business units through a desk survey, expert consultations and interviews with all SBUs in each business unit. The latter was necessary to determine the units that should be prioritised. The next step is to prevent, mitigate and incorporate human rights risks into the risk management system.

After incorporation, monitoring is carried out to evaluate the initiatives already in place. Information on human rights and human rights impact measures will be published periodically. Once the information is published, the risks are reassessed in the light of the impacts. The last four steps are circular, as shown in the diagram. (Sumitomo Corporation Respect for Human Rights, 2024k)

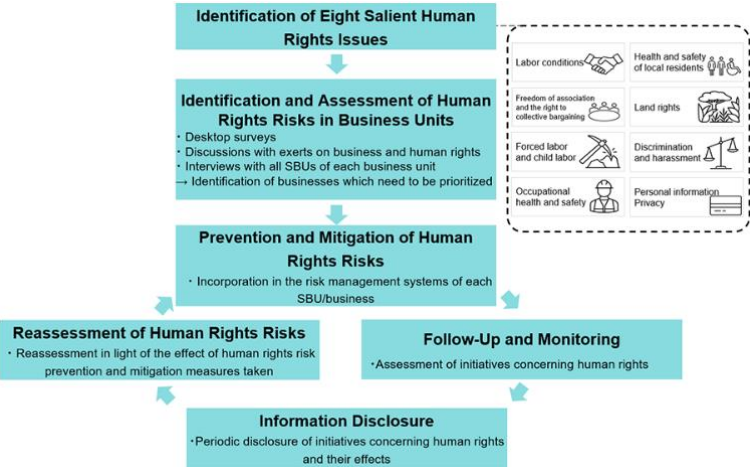


Figure 11: Process of Human Rights Due Diligence in Business Units, Source: <https://sumitomocorp.disclosure.site/en/themes/30>

¹⁵ The OECD Due Diligence Guidance provides detailed recommendations to help companies respect human rights and avoid contributing to conflict through their mineral purchasing decisions and practices.

IV.2. Talent Management Strategies

Global HR management policy defines the ideal employee and company, aiming to enrich lives and the world by building relationships. Sumitomo is modernising the HR management cycle, creating a work environment and culture supporting employee development. Measures include recruitment, development, talent allocation, performance management and fair treatment. The company is also expanding the pool of top-level professionals, promoting diversity, equity and inclusion, and improving how people are treated. This cycle maximises the organisation's performance and diverse workforce, realises the company's vision and creates new value for the company. Important human resources management policies, strategies and actions are discussed at meetings of the Management Board and the Human Resources Management System Committee, and the Board of Directors decides, oversees and monitors these policies. This approach allows employees to grow and develop autonomously and encourages them to take on new challenges to create value.

Sumitomo Corporation (SC) has implemented its "Global HR Management Policy" to create a vision for global human resource management. The policy aims to implement HR management to create an environment of value creation that underpins all HR initiatives. The company aims to be a global organisation that supports individuals who create new value, share the company's vision and mission, and maintain high aspirations. The company also strives to create a Great Place to Work where individuals are passionate about creating new value and are recognised for nurturing talented individuals who take on new challenges worldwide. SC recognises that diversity, equity, and inclusion are crucial to value creation, innovation, and competitiveness. It aims to use diverse wisdom to remove barriers and realise a shared vision. They value a strategic approach to HR management that aims to achieve business growth, flexibility, fairness, objectiveness, transparency, responsibility, accountability, respectful communication, ethical behaviour, and compliance. The company values talent recruitment, diversity, and the promotion of a culture of shared values. (Sumitomo Corporation Talent Management, 2024)

Talent development and training are critical to the company, driving proactive growth and awareness. Performance management is a crucial aspect of talent success, with transparent assessments linking performance management to individual and organisational development. The company is also focused on matching the right talent to the right roles, using a talent assessment and succession planning mechanism to maximise the potential of individuals from diverse backgrounds. Fair treatment is a priority, with the company focusing on total rewards

and respect for diverse value creators. The company also provides a safe, healthy and healthy work environment, promoting psychological safety and encouraging the growth of individuals and trusted relationships.

SC values a diverse and inclusive approach to HR management that focuses on talent recruitment, development, performance management and cultivating a supportive work environment. SC, a global enterprise, seeks human resources professionals with high aspirations, intrinsic motivation and a willingness to create value. Their recruitment policies are fair and equitable, respecting human rights without discrimination. They recruit based on professionalism, skills, experience, potential and ambition, regardless of nationality, gender, age or other characteristics. They actively recruit early career talent and are flexible in hiring other talented individuals throughout the year in line with their management and business strategy. SC values talent as its most valuable leadership asset. The Global HR Management Policy 2020 defines the ideal person who creates global value, shares the company's vision and mission, and maintains high aspirations. Individuals must develop globally valuable skills through on-the-job and off-the-job training to achieve this. By introspecting on their successes and failures in the workplace and acquiring the necessary skills and knowledge, talent can be empowered to take on more advanced roles and improve the company's overall management. (Sumitomo Corporation Talent Management, 2024)

IV.3. Commitment to Diversity, Equity, and Inclusion

Sumitomo Corporation (SC) has highlighted diversity, equity, and inclusion (DE&I) as critical drivers of value creation, innovation, and competitiveness in its global HR management policy. The company recognises the rapidly changing business environment and the need to adapt. DE&I is a central element of the company's management strategy to enhance competitiveness. The company aims to harness diverse individuals' wisdom to improve growth strategies, focusing on the diversity of global talent, particularly individual strengths. The company will review the systems and mechanisms that hinder the inclusion of characteristics such as nationality, gender, age, sexual orientation and gender identity and will promote a culture that values diversity at a deeper level. Overcoming barriers, including psychological and unconscious biases, requires understanding and concrete action. In 2022, the company has added the concept of 'equity' to its global HR management policy, listing it as a concept of diversity, fairness and inclusion. The company promotes global talent selection, strategically identifies and develops talent, develops organisations and cultivates a culture that supports these

points. Sumitomo collaborates with overseas organisations under the Global HR Management Policy to implement DE&I globally. (Sumitomo Corporation Diversity, Equity & Inclusion, 2024m)

SC is committed to promoting the active participation of female employees in business, especially in Japan. The company aims to achieve at least 20% female executives, at least 10% female heads of senior management, and at least 30% Female Directors and Audit and Supervisory Board Members by 2030. Sumitomo will strengthen talent development and allocation to achieve these goals through a new HR system introduced in fiscal 2021. Experienced staff will be actively appointed to senior executive positions, and female and junior staff will be appointed to executive and general management positions. Sumitomo also addresses intangible elements such as correcting long working hours, encouraging paid leave, and reforming employee awareness to create an environment facilitating active participation after childbirth and childcare. (Sumitomo Corporation Diversity, Equity & Inclusion, 2024m)

The Sumitomo Corporation (SC) Compliance Policy and Employment Rules aim to create a safe working environment for the LGBTQ+¹⁶ community by ensuring that sexual speech, harassment, defamation, slander, intimidation, and violence based on sexual orientation or gender identity do not cause fear or discomfort. Awareness-raising activities include mandatory training for all staff and team leaders, regular information dissemination and tools to express LGBTQ+ alliance. The company is also working to improve its systems and environment by developing LGBTQ+ policies, establishing counselling services and creating employment policies that apply specific HR-related systems to employees with same-sex partners.

Their global HR governance policy aims to create a "Great Workplace" where diverse employees can maximise their performance with passion and safety. They offer a range of work-style options to suit individual values and lifestyles, improving their overall quality of life. A performance-driven approach encourages employees to work independently and flexibly, providing a working environment that supports high-added value. SC focuses on reducing long working hours to improve employee efficiency. However, in today's business environment, managing working time solely to reduce working hours is inappropriate. Longer working hours do not always lead to better business performance. Sumitomo must pursue value-creating work styles and separate professional and personal life to be globally competitive. The company encourages employees to take more time off to increase productivity and achieve

¹⁶ LGBTQ+: L=Lesbian, G=Gay, B= Bisexual, T=Transgender, Q=Questioning, Queer

better results within a limited time frame. Teleworking and super-flextime schemes promote flexible working styles by allowing employees to work independently and flexibly beyond traditional frameworks. This promotes high-value-added, performance-oriented work styles, enabling workers to prioritise their mental and physical health, increase their value, and maximise their performance. In 2018, the company introduced teleworking and super flexible working hours schemes to promote employee autonomy. The system allows employees to work from home or contracted satellite offices on certain days. This flexibility is not limited, and employees with childcare or long-term care needs can also work flexibly. Since 2021, the company has encouraged a balanced work style, resulting in an average office attendance rate of around 60% in fiscal year 2022. The Minister of Health, Labour and Welfare awarded the Kagayaku Telework Award for Excellence FY2020 for promoting telework.

SC is committed to addressing harassment, including sexual harassment, abuse of power, and discrimination against pregnant women and minorities, as a severe violation of human rights. The company has implemented measures such as stating in its employment policy that harassment will result in disciplinary action and prohibiting such forms of harassment in its compliance manual. Directors and employees are informed of the company's strict approach to harassment issues through a website and level-specific training. Managers have been trained since 2014 to deepen their knowledge of sexual harassment and abuse of power. To prevent and address harassment issues, a contact point for employees to report harassment has been established within the departments, and the administrative manager supervises it and the compliance manager. (Sumitomo Corporation Diversity, Equity & Inclusion, 2024m)

IV.4. Health and Productivity Management

Sumitomo Corporation (SC) has adopted the "Iki-iki Waku-waku Health and Productivity Management Statement" for the company, emphasising the importance of a healthy body and mind for employee performance and value creation. The company will implement various initiatives based on current corporate conditions. Sumitomo has identified three pillars of health and productivity management: improving health literacy to enable employees to work with energy, providing reassurance in emergencies to take care of employees when they fall ill, and providing global medical support unique to commercial companies. These pillars aim further to promote health and productivity management per the Declaration.

SC has established an in-house internal medicine and dental clinic to support employee health care. The Internal Medicine Department provides general medical care, prevents lifestyle diseases, and performs additional examinations before overseas assignments. The dental department provides regular dental health checks and individual dental hygiene advice. The Employee Relations and Compensation Department conducts health awareness surveys targeting all employees, addresses health issues, and implements prevention and resolution initiatives. The in-house clinic offers regular health check-ups for new employees, overseas transfers and those returning to Japan. Employees aged 35 and over are encouraged to undergo comprehensive medical examinations at external medical facilities with financial support from the Health Insurance Company. The percentage of employees attending regular medical check-ups was 100%.

Sumitomo also provides mental health measures, including self-care education and training for managers. More than 1500 employees use the Sumitomo Corporation Group (SCG) Counselling Centre "for everything, with full confidentiality, " which more than 1500 employees use yearly. Stress tests are carried out for physical and mental health, and expatriate employees can also access counselling services. A psychosomatic medicine specialist is also available to prevent the progression of mental illness and help workers return to work. In FY 2023, the percentage of workers experiencing high-stress levels was around 5.9%, compared to the national average of 14% in FY 2019.

SC established the "Koriton" massage room within its head office in April 2008 to help employees promote their health and recover from fatigue. Users have highly appreciated this service, which improves their health in their free time and increases work efficiency. In the 2017 financial year, more than 3,600 employees used the Koriton massage service. They also have an in-house internal medicine and dental clinic to support employees' health care. The clinic provides regular health check-ups for employees under 35 years of age, health check-ups immediately after joining the company, and pre-and post-assignment health check-ups for overseas transfers. Employees aged 35 and over must undergo a complete medical examination at an external health facility, which the company health insurance company may cover.

Influenza vaccinations are offered at the head office building, and the Health Insurance Company reimburses insured employees and their dependents for receiving such vaccinations at an external clinic. Since 2019, an annual health awareness survey has been conducted to measure the impact of health management measures and identify health problems specific to

the company. Health advice for younger employees has been expanded, and a health support programme for employees under 40 was introduced in FY 2022. SC has also expanded measures to support women's health, partnered with healthcare institutions, and increased support for gynaecological examinations. In addition, an advanced medical reimbursement program was introduced to cover the financial burden of treating medical conditions not covered by insurance. (Sumitomo Corporation Health and Productivity Management, 2024n)

IV.5. Safety Measures

Sumitomo Corporation (SC) provides employees with a safe, hygienic and healthy working environment, focusing on physical and mental health management as the basis for work-life management. The company encourages efficient work practices to free up time for personal life. It promotes a work style that allows employees to maintain and improve their health while remaining highly productive. SC's management principle is "Achieving well-being and realising dreams through sound business operations". The company's corporate mission is to provide financial and emotional enrichment to people worldwide, including employees, shareholders, business partners and local community members. SC has been recognised by the METI¹⁷ and the Health and Productivity Management Distinguished Company - White 500 for its excellent management practices that promote employee health for eight consecutive years. SC is committed to preparing for global emergencies by ensuring employees know the risks and appropriate safety measures. The company has centralised reporting all domestic and international emergencies to the Disaster Response and Safety Management Department and established a company-wide structure to provide the necessary support. The company prioritises employee safety, mutual aid and the rapid recovery of business operations during a major natural disaster. Manuals have been produced to inform officials and employees about this policy.

In fiscal year 2021, Sumitomo implemented a crisis management program to improve the effectiveness of business continuity plans (BCPs). This included formulating plans, conducting exercises, reviews, and improvements through the PDCA cycle¹⁸. In January 2022, a dedicated team was established within the Disaster Response and Safety Management Department to

¹⁷ Ministry of Economy, Trade and Industry

¹⁸ The PDCA cycle is a continuous loop of planning, doing, checking (or studying), and acting

strengthen occupational safety systems and support emergency response and prevention of recurrence of workplace accidents.

SC also collects information on safety management, gathers experience, and shares best practices within the company. Its commitment to maintaining and improving employee health is critical to this effort. SC was awarded the Health and Productivity Management Outstanding Company—White 500 designation by METI for eight consecutive years between 2017 and 2024 for its excellent management practices focused on promoting employee health. SC has implemented various measures to ensure the safety and well-being of its employees. These include promptly reporting accidents to the Disaster Prevention and Safety Management Department, holding monthly occupational safety briefing committees, and providing root cause analysis and interim countermeasures for severe or fatal accidents. The company offers various training programs and seminars to promote crisis awareness and provide employees with the necessary knowledge. The Tokyo head office has established a crisis management team that conducts tabletop exercises and emergency response drills in preparation for natural disasters. The company is also developing impact-based business continuity plans (BCPs) for the team to respond to various disasters, including earthquakes, typhoons, floods and pandemics. They also provide safety manuals and information to raise awareness of safe behaviour at each site. They also offer e-learning and hands-on training programs for beginners and advanced levels. SC works with regional offices to provide fast and practical emergency support. Systems will also be set up to receive real-time information on all worldwide risks and share it with relevant stakeholders. In major natural disasters, SC will prioritise employee safety, mutual assistance and the rapid recovery of business operations. Manuals will be prepared to inform officials and employees of this policy. (Sumitomo Corporation Health & Safety, 2024o)

In fiscal 2021, SC implemented a crisis management program to improve the effectiveness of business continuity plans (BCPs). In January 2022, a dedicated team was established within the Disaster Response and Safety Management Department to strengthen occupational safety systems and support emergency response and measures to prevent the recurrence of workplace accidents.

IV.6. Role and Obligations of the Customer

Sumitomo Corporation (SC) operates television shopping and food supermarkets and manages consumer products and services. However, it avoids handling products that hurt society and contradict corporate social responsibility. These include unsafe products that may violate human rights, defame another company, or infringe intellectual property rights. SC also complies with laws and regulations on safety and quality standards. If a quality problem occurs with a product or service, SC immediately seeks to prevent damage and investigates the cause to prevent a recurrence.

SC, a lifestyle business, has established a food safety management team since 2003. The company aims to address social issues from the consumer's perspective to improve quality of life. They prioritise food safety and security through product management, supplier management, food safety information gathering, and employee training. This ensures compliance with food-related laws and regulations, prevents food-related hazards, and provides safe, secure, processed, and fresh food. SC focuses on increasing consumer satisfaction by addressing social issues and prioritising food safety and health. It offers stable access to high-quality sources of nutrition and develops value-added speciality products and services that meet various needs, including health, nutrition, environmental protection, and sustainability. Consumers are increasingly concerned about food safety due to diet diversification, globalisation and health concerns. At the same time, incidents such as food labelling violations, pesticide residues and unauthorised marketing of additives pose a risk. SC Lifestyle and SC Foods Co., Ltd.'s food business has established a quality management system focused on food safety personnel to prioritise food safety. Initiatives include employee education, food safety management, factory audits and sustainability measurements in the supply chain. These measures aim to ensure food safety and quality while addressing potential problems such as food labelling violations and the unauthorised marketing of additives. Sumitomo Corporation and SC Foods Co., Ltd. conduct due diligence when doing business with new suppliers. The Food Business and the Food Safety Management Department will conduct factory audits after confirming the supplier's quality management system, manufacturing process, transaction status, food safety standard certification status and sustainability compliance status through a preliminary quality management survey. This ensures compliance with food safety management rules. (Sumitomo Corporation Customer Responsibility, 2024p)

Their food safety officer conducts factory audits every five years, targeting factories based on quality, production process management systems, product risk characteristics, handling conditions and other factors. He also conducts new business with overseas suppliers and surveys

to check the status of their sustainability initiatives. This ensures food safety and compliance with food safety management regulations. (Sumitomo Corporation Customer Responsibility, 2024p)

V. SETTING A COURSE FOR SUSTAINABLE GOVERNANCE

Corporate governance is based on the ethical backbone of Sumitomo Corporation (SC) 's business philosophy and management principles. Building a corporate governance system helps the company achieve sustainable growth, enables it to achieve medium—and long-term goals, and serves the interests of shareholders and stakeholders.

The Company has introduced an audit and supervisory board system to ensure effective management oversight and control. This system includes electing independent external directors and external audit and supervisory board members and establishing a Nomination and Remuneration Advisory Committee. The independent External Directors have experience and expertise in different areas, ensuring appropriate decision-making at Board meetings. The Nomination and Remuneration Advisory Committee, chaired by an External Director, will enhance the independence, objectivity and transparency of the Board's function about the nomination and remuneration of senior executives. Three of the five Audit and Supervisory Board members are independent External Directors, including legal experts, auditors, and corporate governance experts. This diversity of viewpoints ensures a control system with various perspectives. The Audit and supervisory Board members can attend all internal meetings, which allows them to obtain the information they need for the audit.

The medium-term management plan "SHIFT 2023" includes further improvements in corporate governance in the chapter "Change in the management baseline". The Company aims to strengthen the functions of the Board of Directors by developing functions to monitor operations, effectively oversee crucial governance policies and strategies, and establish structures to improve the objectivity of the Board of Directors functions. (Sumitomo Corporation Corporate Governance, 2024q)

V.1. Sumitomo's Governance Framework

Sumitomo Corporation (SC) comprises 886 companies in 78 countries and regions worldwide. This significant number of companies are industry leaders and good indicators of the company's strength. SC's companies follow the Jiritsu* management. In 2021, the company established a Group Governance Policy (GMP) to share and better implement policies. The GMP defines roles and responsibilities in corporate governance and sets out the principles to be adhered to: the Jiritsu, dialogue and cooperation principles. The values reflected in the corporate mission

statement and GMP is shared and implemented within the company, ensuring its continued growth and success. This approach enables the company to respond quickly to industry restructuring and sustainability trends, make its group companies the future pillars of its revenue stream, and strengthen its business portfolio, ultimately maximising shareholder value. Jiritsu* management is detailed in Figure 12.

Group management is based on Jiritsu, dialogue, and collaboration. Jiritsu involves respecting the Group's management principles and strategy, allowing each company to develop its business strategies. Dialogue builds trust-based relationships, allowing Sumitomo Corporation to maintain decision-making involvement and monitor business performance. Collaboration enables the Group to leverage its diverse management resources, resulting in a new value that would not be possible by working alone. Sumitomo Corporation acts through directors at each group company to provide advice where necessary. (Sumitomo Corporation Group Governance, 2024r)

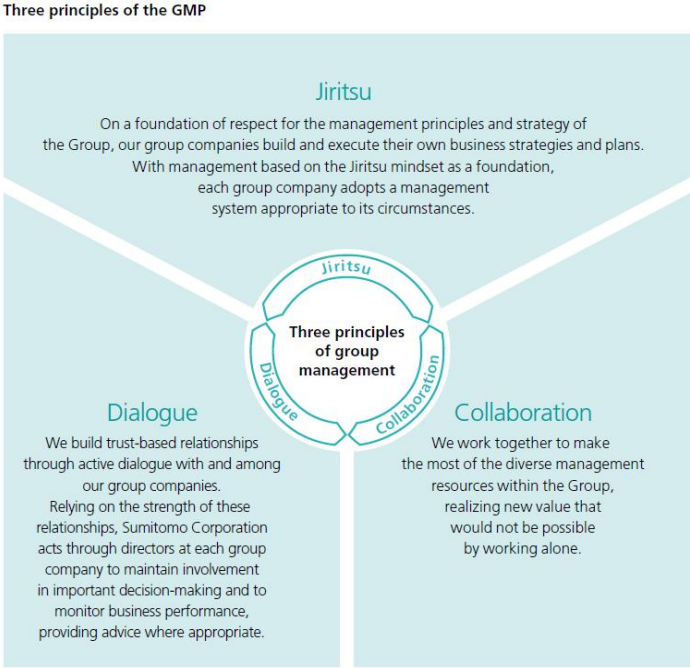


Figure 12: Three Principles of the Management Policy, Source: <https://sumitomocorp.disclosure.site/en/themes/385>

V.2. Compliance Culture: Upholding Integrity in Sumitomo's Operations

Sumitomo Corporation (SC) believes that compliance is based on earning society's trust in the way it conducts its business. Compliance is prioritised over compliance with the company's business activities, even over profit orientation. When a compliance issue arises, employees should immediately report it to supervisors, managers, and the relevant department staff.

To respond to issues as quickly as possible, a Chief Compliance Officer (CCO) has been appointed to take ultimate responsibility for compliance. A Compliance Committee, composed of corporate and business unit CEOs, designs compliance measures that reflect the company's

operations. The company aims to improve internal systems by prioritising compliance, demonstrating its commitment to "Prioritising Compliance".

SC has introduced a whistleblowing system called the "Speak-Up System", which encourages officers and employees to report confidential information. The system provides various contact points, including hotline providers, outside counsel, and Audit & Supervisory Committee members. The system accepts reports of all information made by any officer or employee, including contract employees, secondees, and secondees, and any person who was an officer or employee within one year before making the report. "Speak-up" is an appropriate term for the company's compliance system. Problems may include workplace misconduct, account fraud or harassment and are not limited to violations of antitrust/competition or anti-bribery/corruption laws. In case of difficulties, optimal steps and measures are taken immediately on a case-by-case basis through a joint effort of the departments concerned. The Speak-Up system maintains the strictest confidence, and non-discrimination is ensured to improve the environment. Within the system, people in contact with the company can report problems in 16 languages. This system is available to employees both inside and outside Japan.

The company works with external experts and relevant departments through the Legal Department and the Legal Compliance Department to address compliance issues promptly. Corrective actions, disciplinary measures and preventive measures are taken based on the results. The Compliance Committee Secretariat records compliance breaches, which are then analysed and used to plan future actions. The results are discussed at the Compliance Committee meetings and reported to the Board of Directors, the Audit and Supervisory Committee and the Management Board. The company applies a plan-test-action cycle to raise awareness and ensure compliance.

SC distributes its Compliance Manual to all officers and employees, which covers important issues such as competition compliance, security trade control and anti-bribery/corruption. Training programs are implemented for each employee group, including new hires, CEOs and corporate officers, and annual e-learning programs are provided to ensure an understanding of the company's Compliance Policy and Compliance Manual. SC annually obtains written pledges from officers and employees to ensure thorough compliance with laws and regulations while maintaining ethical standards. Ongoing seminars and training sessions are held on anti-bribery/corruption, antitrust law, subcontracting law, security trade control, insider trading prevention and harassment elimination. Compliance training is held in business teams, domestic

offices, and overseas regions and is led by a compliance manager. Support measures are implemented to strengthen compliance systems at Group companies, including e-learning content on the Sumitomo Corporation Compliance Policy.

SC implements strict measures based on the "Compliance First" principle to prevent corruption. A policy on the prevention of bribery of public officials has been established to regulate the entertainment, gifts, invitations and donations of domestic and foreign public officials. The company continuously reviews its internal rules, guidelines and manuals, taking into account changes in legislation, advice from external experts and social circumstances. These rules are extended to overseas offices and other companies, encouraging them to develop systems appropriate to their bribery risk levels. SC Anti-Corruption Policy, which came into effect in 2017, states that the company will not commit bribery or engage in activities that raise suspicion of corruption of the Japanese government or other public officials. It prohibits officers and employees from providing entertainment or gifts to public officials. It will not make any offers, promises of payment, or authorise the payment of money or anything of value to foreign governments or public officials to influence their actions or decisions to assist them in obtaining or retaining business. The policy also explains the company's anti-bribery system and initiatives to business partners and seeks their understanding and cooperation.

SC adheres to fair competition and antitrust laws in its compliance policy and manual. A separate manual for officers and employees explains the critical aspects of day-to-day management and ensures compliance through regular internal training. Regular training is also a vital part of the company's antitrust policy. Sumitomo Corporation, an integrated trading company, complies with international trade agreements and Japanese laws and regulations. It also implements security trade control measures to prevent civilian weapons and technologies from falling into the hands of terrorists. The company provides internal rules, manuals and guidelines, as well as training and supervision to ensure compliance with laws and regulations related to customs, tariffs, public order and security. This prevents weapons of mass destruction from falling into the hands of states or non-state entities. The company has implemented "Rules for the Prevention of Insider Trading" and internal control systems to prevent rules violations on business and personal transactions. Regular internal training and awareness-raising activities ensure compliance with these policies and internal regulations. (Sumitomo Corporation Compliance, 2024s)

V.3. Managing Company Risks

Risk refers to the possibility of losses resulting from expected or unforeseen situations and the possibility of failure to achieve expected business returns. Risk management activities aim to stabilise performance, strengthen the financial base, and preserve the corporate reputation. They ensure stable profits and solid financial stability by minimising deviations between plan and actual results, keeping risk-weighted assets within equity, and meeting Corporate Social Responsibility (CSR) requirements.

The company categorises its business activities by investments and commercial transactions and manages risks by identifying common and category-specific risk factors. A practical risk management framework has been developed to anticipate changes in the external environment. The company strives to apply best practices while maintaining flexibility to adapt to changes in the business environment. Risk management activities are being developed under the guidance of senior management to respond to new business models. A rigorous investment discipline has been designed to select suitable investments from various options, an optimal governance structure has been built to improve business value after investment, and an incentive plan linked to investment performance has been introduced. The company has implemented a comprehensive framework that considers portfolio changes and the nature of individual risks from investment entry to exit. The process includes clarifying the investment theme and verifying its appropriateness, a key due diligence point. By applying a discount rate to each business risk, the company calculates the "right price" for the investment and evaluates the opportunity from a quantitative and qualitative perspective. This comprehensive approach ensures effective investment management and monitoring.

The Business Unit Investment Committee or the Company Investment Committee investment committee meets at each project consideration and implementation stage. It discusses the strategic positioning, background, ESG and factors affecting the success of the investment. Measures such as strict investment discipline, optimal governance structure, strategy review, medium-term plan and adequate resource investment are implemented to improve investment success. A new remuneration system linked to investment performance was introduced to increase commitment to value creation in 2022. Monitoring efforts will be stepped up, and a clear timeframe will be set for improving investments that are not growing in value as expected. If no improvement is expected, asset recycling will continue. Committees also review strategies

and develop medium-term plans to address changes in the external environment and invest appropriate resources promptly.

Sumitomo Corporation (SC) operates worldwide and has different products and models that impact the global environment and stakeholders such as local communities, business partners, and employees. To achieve sustainable growth, the company monitors social and environmental impacts and oversees its supply chain to ensure that it does not endanger people's lives or the environment. Environmental policy, human rights policy and CSR action guidelines for supply chain management have been established to clarify its approach to social and environmental issues. Risk management should be adapted to each business's specificities, considering its impact on society and the environment. Relevant data is obtained for each company, including information on its interface with society and the associated risks. Communication channels are maintained with local communities, employees and other stakeholders to address serious issues. They also monitor compliance with legislation and international environmental protection and human rights standards. The responsible business units in each business area and related corporate departments work together to raise the standard of social and ecological risk management across the company, drawing on the expertise of external experts.

SC has developed a comprehensive framework for monitoring its business activities' social and environmental impacts. A social and ecological risk self-assessment sheet is used to identify potential risks and opportunities based on each business's nature and regional characteristics. Decision-making is based on social and environmental impacts, and the Corporate Sustainability Department participates in discussions to address social issues. External experts are involved to ensure efficient and effective governance and to avoid the severe effects on stakeholders.

Following investment, the responsible business department and related corporate departments work with Group companies to monitor environmental, human rights, labour, supply chain and other aspects. If a problem arises, corrective action is taken as appropriate. Internal audits are conducted to ensure legal compliance and adherence to international standards on social and environmental issues. Suppose the local community reports a matter affecting the SC's business, non-governmental organisation (NGOs) or other stakeholders. In that case, the company will engage in dialogue and discussion to seek improvement. Suppose a significant social or environmental risk is confirmed. In that case, it is reported as an individual response or referred to the Executive Committee and the Board of Directors for further discussion through internal.

Committees. The structure of the framework is shown in Figure 13. (Sumitomo Corporation Risk Management, 2024t)

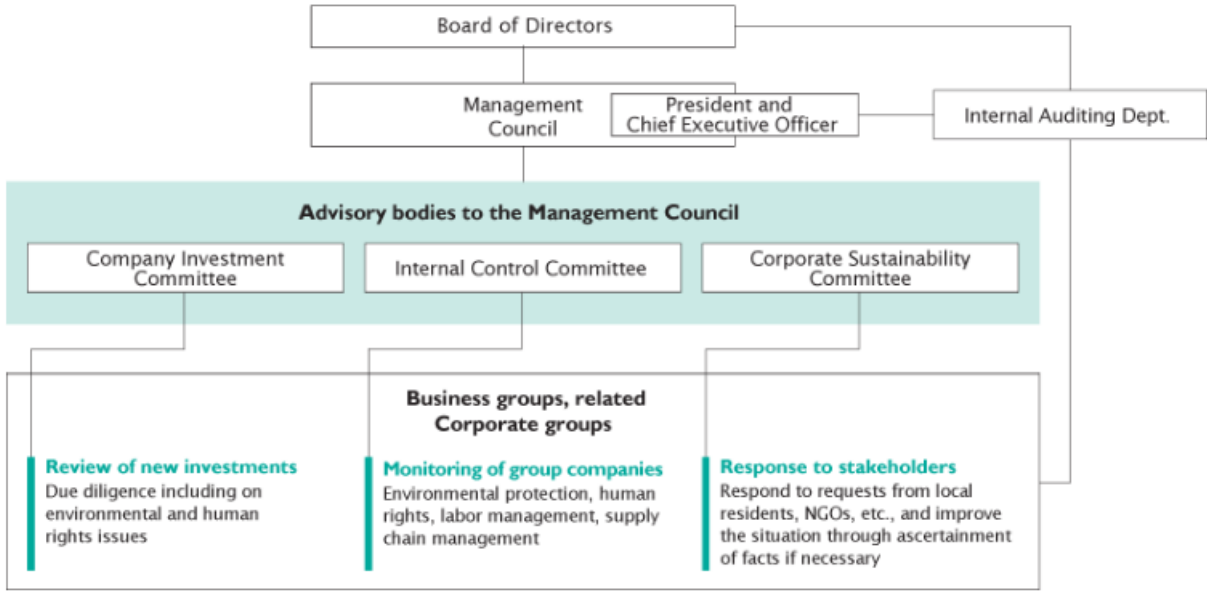


Figure 13: Framework for Social and Environmental Risk Management, Source: <https://sumitomocorp.disclosure.site/en/themes/40>

V.4. Information Security Imperative

The company prioritises information security and sets policies through the IT Strategy Committee, chaired by the Chief Information Officer (CIO). A new information security policy was introduced in October 2017 to ensure compliance.

Organisations' Information managers categorise information assets according to their importance, prescribe procedures for their management, and ensure information security, effective administrative procedures and information sharing. They establish data protection policies, rules and structures for personal data. They take the initiative to minimise the risks associated with unexpected information security events, such as external attacks. They implement system-based safeguards and conduct ongoing employee training and exercises. The company coordinates with specialised third-party organisations to keep up-to-date with relevant information and enable rapid response.

The system is detailed in Figure 14, where the IT Strategy Committee is linked to the Chief Information Officer. The CIO, as the chair of the committee, in addition to the corporate teams, business units, domestic offices and overseas offices, takes responsibility for managing and overseeing the organisation's information and is tasked with rapid response times to deal with contingencies. The IT Strategy Committee and these elements report to their supervisors on any incidents involving leaks of confidential information. The Management Council and the President and Chief Executive Officer receive reports. (Sumitomo Corporation Information Security, 2024u)

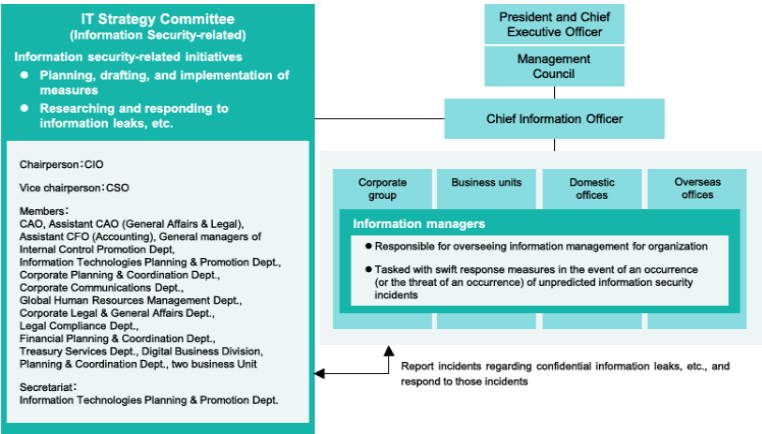


Figure 14: Information Security System, Source: <https://sumitomocorp.disclosure.site/en/themes/41>

The IT Strategy Committee and these elements report to their supervisors on any incidents involving leaks of confidential information. The Management Council and the President and Chief Executive Officer receive reports. (Sumitomo Corporation Information Security, 2024u)

V.5. Internal Control Measures

Sumitomo Corporation (SC) is strengthening its internal controls to maintain stakeholder confidence and achieve sustainable growth. The company works to improve its management and operation by developing, operating, evaluating, and improving appropriate controls. Basic policies are in place to ensure compliance with laws and regulations, safeguard assets, and ensure operational efficiency and the reliability of financial reporting. An Internal Audit Support Unit, established alongside the Internal Audit Department, has taken over control of the company’s internal audit operations. Under the supervision of the Internal Audit and Internal Control Manager, the department actively identifies issues. It uses internal control activities to promote greater effectiveness and consistency in the company’s efforts.

The Company's Board of Directors has implemented internal control systems to improve the effectiveness of internal control. The Company annually reviews the status of the implementation of internal control to ensure that it is in line with requests and maintains effectiveness. The Board of Directors has decided on the internal control system, and the Internal Audit Committee has assessed its implementation and confirmed its efficacy, which was reported to the Board of Directors at its meeting.

Sumitomo Corporation adheres to its Accounting Policy Manual, ensuring timely and accurate financial reporting in compliance with laws, regulations, and standards. The company also adheres to the Internal Control Reporting System in the Financial Instruments and Exchange Act, promoting internal control activities and evaluating and improving business processes to ensure compliance with the Act.

The Internal Audit Department is an independent organisation under the supervision of the Head of Internal Audit and Internal Control, reporting directly to the Chairman and Chief Executive Officer. This department oversees the company’s operations and audits the organisations and companies. The department manages all aspects of internal control, including asset and risk management, compliance and business operations. It assesses the effectiveness and adequacy of internal controls, considering inherent risks. The department also advises on improvements and speeds up maintenance at the auditee's initiative, thus improving management and internal control within the company. (Sumitomo Corporation Internal Control, 2024v)

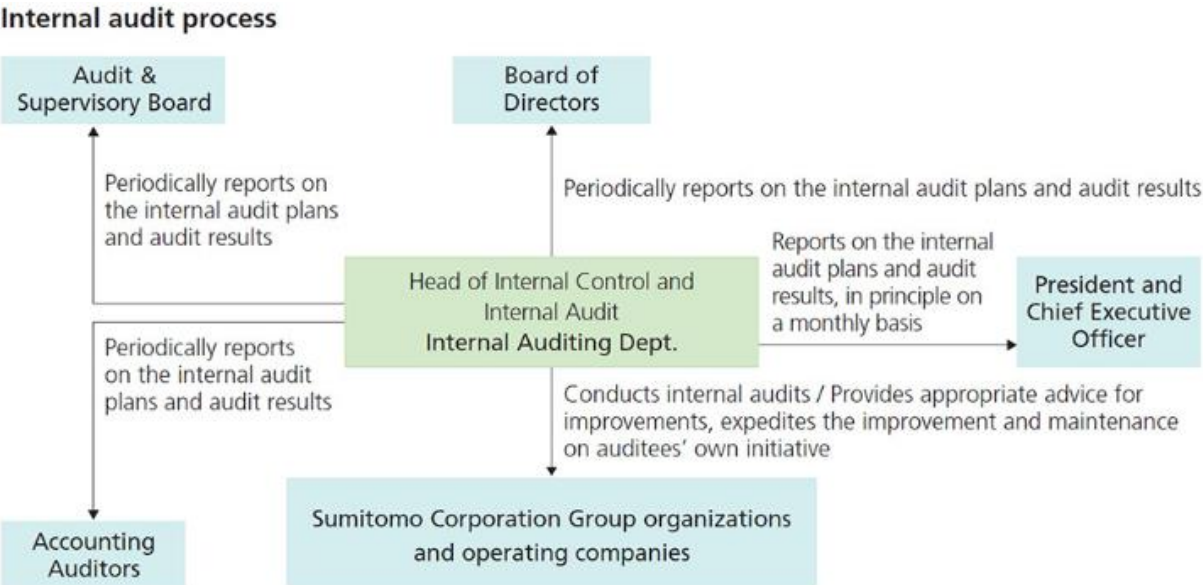


Figure 15: Internal audit process,
 Source: <https://sumitomocorp.disclosure.site/en/themes/42>

CONCLUSIONS

The first part of the bachelor thesis introduced the unique world of Sogo Shosha. The complex and multifaceted services offered by Sogo Shosha companies significantly impact the functioning of Japan and the global economy. These trading houses promote economic integration and cultural exchange and help stabilise international markets by responding flexibly to different economic challenges and opportunities.

The analysis of this thesis has shown that the unique adaptability of the Sogo Shosha model, manifested through its diverse industries and geographic diversity, is a significant advantage for corporate flexibility and innovation. An integrated business model that combines production, trade and investment ensures that Sogo Shosha companies remain critical players in shaping the future of global trade.

To address these challenges, Sogo Shosha companies must continuously innovate and diversify their portfolio to ensure sustainable growth and competitiveness in the future.

Studying the ASogo Shosha model has not only provided insights into how Japanese trading houses operate. However, it has also allowed understanding how these companies are shaping and being shaped by the era of globalisation. As we move forward into the 21st century, it is expected that Sogo Shosha companies will continue to play a significant role in the global economy and promote Japan's economic and social well-being through it.

Sustainability issues are increasingly at the forefront of the global economy, and they profoundly impact companies' operating strategies and market positions as one of the world's leading trading companies, Sumitomo Corporation (SC), plays a prominent role in this area. The company's sustainability strategy is not only a key to business success but also contributes to the achievement of global environmental goals. This paper presents the company's sustainability efforts, highlighting the strategic steps the company is taking to contribute to sustainable development.

At the heart of Sumitomo Corporation's sustainability strategy are three main pillars: environmental protection, social responsibility and economic stability. The company is committed to minimising its environmental footprint in its operations, supporting the communities in which it operates, and ensuring the long-term sustainability of its business model.

They are involved in several environmental projects, most notably the transition to recycling and renewable energy. The company is making significant investments in wind and solar projects that contribute to reducing global carbon emissions. In addition, Sumitomo Corporation is actively involved in developing electric vehicles and the infrastructure to support them, thereby helping to reduce the environmental impact of the transport sector.

In social responsibility, special attention is paid to respecting workers' rights, supporting education and developing local communities. The company runs several programmes to promote workplace equality and improve access to education and health services in developing countries.

Opportunities for innovative and sustainable business models are constantly sought to create economic stability. The company's strategy prioritises investments that ensure the long-term financial stability of the company while contributing to social and environmental goals.

In summary, the company's sustainability strategy is exemplary among global companies. Based on environmental, social and economic pillars, the approach ensures that the company's activities contribute to sustainable development while strengthening its market position and financial stability. Sumitomo Corporation will continue to support the innovation and investment needed to achieve sustainability goals, ensuring a more livable and sustainable world for future generations.

Today, sustainability is no longer an optional path for companies but an essential requirement for success in the global marketplace. Sumitomo Corporation's actions and investments give hope that large companies can make a positive difference and help shape the future of our planet.

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