

# Financial impact awareness and swift responses to risks and opportunities

In November 2021, Sumitomo Pharma announced its support for the TCFD recommendations\*1. Concerning climate change-related risks and opportunities, we will proceed with initiatives and information disclosure in line with the TCFD recommendations, promote dialog with stakeholders and ensure that we are properly prepared for climate change. In addition, we will further reduce the risks of climate change and precisely make use of its opportunities by thinking about our preparedness for climate change from both aspects of "mitigation" and "adaptation." Sumitomo Pharma will include its response to climate change in "Environmental initiatives", one of the material issues forming the foundation for business continuity. With an awareness of the financial impacts of environmental changes on our business, we will incorporate responses to risks and opportunities in management strategies.

\*1 <https://www.sumitomo-pharma.com/ir/news/2021/20211102.html>

## Governance

In fiscal 2021, under the environmental management system\*2, we extracted and evaluated environmental risks and opportunities due to climate change at each location in our 8 business sites, identified important risks and opportunities and devised measures to deal with them. In fiscal 2022, we will pursue initiatives integrated with the risk management systems\*3 to extract and evaluate risks and opportunities due to climate change for all of Sumitomo Pharma's divisions and domestic group companies. These initiatives to tackle climate change will be expanded to include overseas group companies in the future. Also, from fiscal 2022 onwards, they will be reported to the Board of Directors regularly at least once a year and be further enhanced under the Board's supervision.

\*2 <https://www.sumitomo-pharma.com/sustainability/environment>

\*3 [https://www.sumitomo-pharma.com/profile/risk\\_management](https://www.sumitomo-pharma.com/profile/risk_management)

## Strategy

We analyzed and evaluated risks and opportunities due to climate change according to a 2°C\*4 scenario and a 4°C\*4 scenario. The results of an examination of ongoing measures and those that have been planned and begun showed that there were no risks which would have a major financial impact on the Company for either

scenario. While no opportunities having a major financial impact have been found at present, we will continue to pay close attention to the effect of climate change on infectious diseases, one of our research areas.

Going forward, continuously reviewing scenarios to reflect the steady march of global warming and rapidly changing global trends, we aim to respond swiftly to risks and opportunities considered to have a major financial impact.

\*4 Scenarios created with reference to "RCP2.6" and "RCP8.5" issued by IPCC (Intergovernmental Panel on Climate Change) as well as various predicted values and peripheral information from the IEA (International Energy Agency) and Ministry of the Environment

## Management of risks and opportunities

Risks and opportunities due to climate change will be managed through integration with the risk management promotion structure from fiscal 2022\*5. After extracting and evaluating risks and opportunities for individual divisions and group companies, they will be aggregated and important risks and opportunities identified. Risks will be extracted according to the 6 categories in the TCFD recommendations (Transition risks: "Policy and Legal Risks", "Technology Risk", "Market Risk", "Reputational Risk"; Physical risks: "Acute risk", "Chronic Risk", and the 5 opportunity categories ("Resource Efficiency", "Energy Source", "Products and Services", "Market" and "Resilience") as the starting point. Specifically, envisaged risks will be evaluated according to the 2 aspects of "degree of impact" and "potential". Degree of impact will be evaluated on any of "economic impact", "impact on the human body", "reputational impact" and "impact on business" while potential will be evaluated by frequency of occurrence on a time scale of 1 year (short term), 3 years (medium term) and 10 years (long term). Scenarios for risks and opportunities with a high overall evaluation for degree of impact and potential will be analyzed, risks and opportunities will be identified for each scenario and the financial impact will be calculated. In addition, measures will be drawn up for the identified risks and opportunities, fiscal year plans drawn up for initiatives and progress assessed each year. If required, goals will be managed in accordance with mid- to long-term environmental goals\*6.

\*5 In fiscal 2021, implemented at each business location under environmental management system

\*6 [https://www.sumitomo-pharma.com/sustainability/environment/goals\\_performance.html#burden04](https://www.sumitomo-pharma.com/sustainability/environment/goals_performance.html#burden04)

## Metrics and Targets

Measures for individual risks and opportunities are as shown in the above table - Risks and Opportunities due to Climate Change. The measures against "Flooding, inundation and landslides caused by typhoons and heavy rain disrupt supplies of raw materials and purchased products as well as the sales and supply of the Company's products" given in Physical Risks, "Acute" (i.e., Formulation of BCP, inventory optimization, diversification of suppliers) are common to those for risks in the value

chain (including those not due to climate change) and actions are already being carried out. Also, for reductions in GHG emissions and water usage amounts, we have set mid- to long-term goals\*<sup>6</sup>, evaluate progress each year\*<sup>7</sup> and disclose this together with actual results\*<sup>8, 9</sup>.

\*7 [https://www.sumitomo-pharma.com/sustainability/environment/goals\\_performance.html#burden03](https://www.sumitomo-pharma.com/sustainability/environment/goals_performance.html#burden03)

\*8 [https://www.sumitomo-pharma.com/sustainability/environment/global\\_warming.html#global03](https://www.sumitomo-pharma.com/sustainability/environment/global_warming.html#global03)

\*9 [https://www.sumitomo-pharma.com/sustainability/environment/resource\\_saving.html#resource01](https://www.sumitomo-pharma.com/sustainability/environment/resource_saving.html#resource01)

### Risks and Opportunities due to Climate Change

Scenario	Risk classification		Risk details	Financial impact	Countermeasures
2°C and 4°C	Physical risks	Acute risks	Flooding, inundation and landslides caused by typhoons and heavy rain disrupt supplies of raw materials and purchased products as well as the sales and supply of the Company's products.	Major* <sup>10</sup>	<ul style="list-style-type: none"> <li>Formulate BCP to reinforce stable supply structure</li> <li>Avoid supply disruptions by optimizing inventories</li> <li>Enhance stability of procurement by diversifying suppliers</li> </ul>
2°C	Transition risks	Policy and legal risks	Introduction of carbon tax results in tax burden depending of CO <sub>2</sub> emissions.	Approx. ¥540 million/year* <sup>11</sup>	Implement various measures toward achieving fiscal 2050 goals* <sup>6</sup> <ul style="list-style-type: none"> <li>Reinforce fiscal 2030 goals*<sup>6</sup> with a view to achieving long-term goals.</li> <li>Continue planned investment in carbon neutral equipment.</li> <li>Continue energy saving measures and consider alternative fuels.</li> </ul>
		Market risks	Introduction of carbon tax results in increasing costs of supplies, deliveries, and related energies.	Approx. ¥3.45 billion/year* <sup>12</sup>	<ul style="list-style-type: none"> <li>Encourage business partners including suppliers to reduce greenhouse gas (GHG) emissions.</li> <li>Make continuous efforts toward resource and energy savings through technology development and improved operational efficiency.</li> </ul>

Scenario	Opportunity classification	Opportunity details	Financial impact	Countermeasures	
2°C and 4°C	Opportunities	Resource efficiency	Reducing water withdrawal helps to reduce costs. It also indirectly contributes to the reduction of GHG emissions generated in the process of supplying tap water and treating wastewater, and to the maintenance of ecosystems by protecting water intake sources.	Minor* <sup>10</sup>	Implement various measures toward achieving fiscal 2030 goals* <sup>6</sup> <ul style="list-style-type: none"> <li>We have installed water-saving nozzles on the faucets at some facilities. Going forward, we will continue to proactively promote initiatives in this area.</li> </ul>

\*10 Carry out qualitative evaluation (major, medium, small) for items whose financial impact is difficult to calculate

\*11 Calculated by multiplying CO<sub>2</sub> emissions in fiscal 2020 of approximately 54,000 t (Reporting entity's Scope 1+2) by IEA's assumed carbon price for developed countries of ¥10,000/t-CO<sub>2</sub> (hereafter, "assumed carbon price")

\*12 Calculated by multiplying fiscal 2020 CO<sub>2</sub> emissions for Scope 3 Category 1 "Purchased goods and services" and Category 4 "Transportation and distribution (upstream)" of approximately 345,000 t by assumed carbon price.