

## Part 1

# **Business Unit Strategy under SHIFT 2023** **Metal Products Business Unit**

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# Overview of Business Portfolio

Automotive, shipbuilding,  
railway

Construction materials, civil  
engineering, industrial  
machinery

Electrical machinery, home  
appliances

## Steel Products Business SBU (= Sumitomo Corporation Global Metals)



Domestic and overseas sales of hot- and cold-rolled steel sheets and surface-treated steel sheets  
Operation of subsidiary companies including steel service centers and construction material products processing



Sales of steel plates to domestic and overseas customers in shipbuilding, construction equipment, and industrial machinery  
Sales of steel plates and shaped steel related to overseas resource and infrastructure business



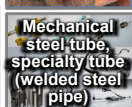
Domestic and overseas sales of multi-functional, high-quality wires, steel rods, and tool steel  
Operation of subsidiary companies serving as processing and distribution network nodes



Global trading of railway materials and equipment  
Operation of subsidiary companies including manufacturing and sales companies and expansion into services  
Railway materials and equipment sales and services in domestic and Asia market



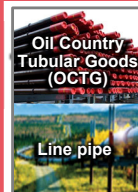
Sales of forged products and components for automotive, construction equipment, and industrial machinery  
Operation of automotive component manufacturing subsidiary companies



Sales of steel pipes tailored to specific customer requirements  
Sales of specialty sheets for petroleum refining, petrochemical, LNG, and other plants

Energy

## OCTG and Line Pipe Business SBU



OCTG and line pipe distribution and supply chain management for major energy companies

## North America Tubular Group Companies SBU



OCTG and line pipe distribution to shale companies in North America

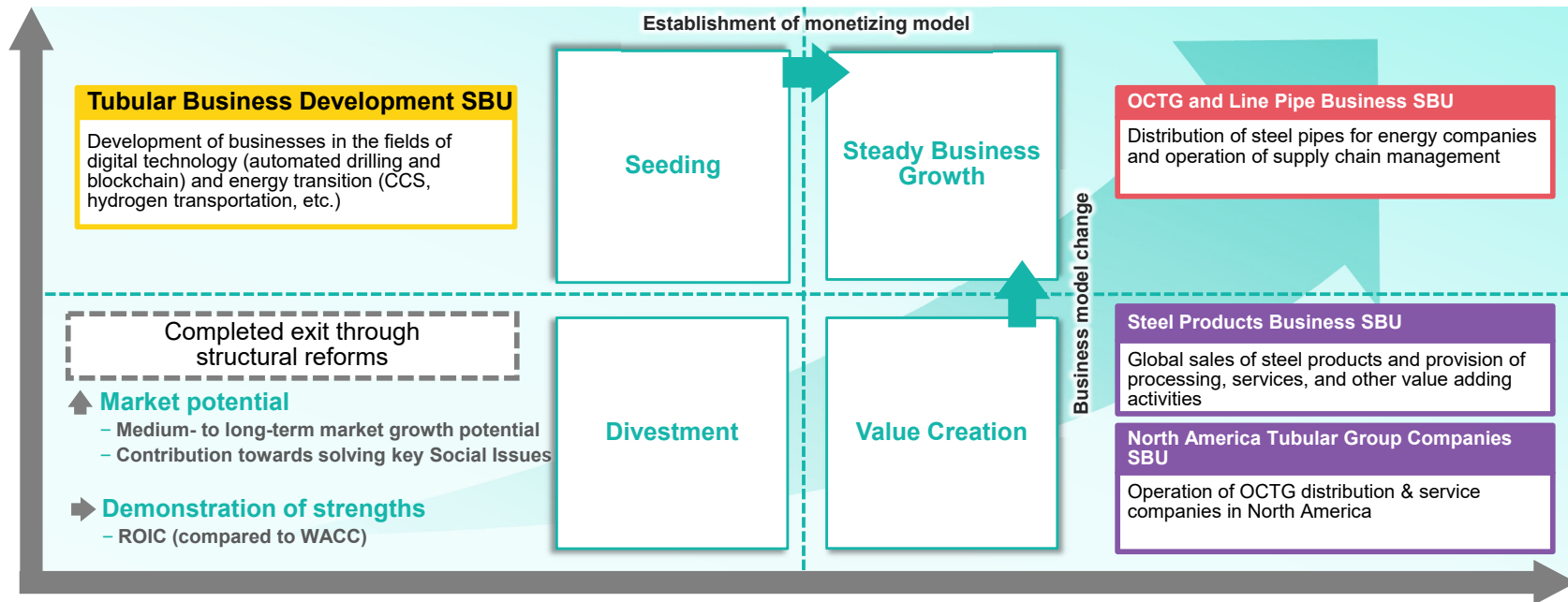
## Tubular Business Development SBU



Sekal (autonomous drilling solutions)  
Development of software that automates the purchasing and supply chain process

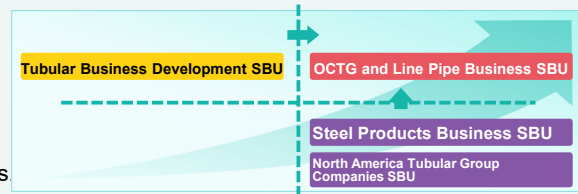
# State of Business Portfolio (Four Quadrants)

- Regarding businesses under value realization, we largely completed exit by the end of FY2021 through structural reforms, which will be described subsequently.
- Together with capital investments in the OCTG and line pipe business, which has stable earnings, we are currently enhancing and transforming the business models of the steel products business and North America tubular group companies.
- We are developing new businesses at the Tubular Business Development SBU in preparation for medium- to long-term changes in the business environment of the steel pipe business.



# SHIFT 2023: Results of Structural Reforms in First Fiscal Year

- During the previous medium-term plan, the performance was on a downward trend even after excluding one-off losses, and businesses with low contributions to the business unit's performance were identified and structural reforms were conducted at the respective SBUs.
- As a result, in FY2021, profitability improved significantly, further boosted by favorable market conditions



## Steel Products Business SBU

- Made exit centered on companies with relatively low PL/CF contributions, efficiency, and growth potential
- Formulated roadmap toward soundness of businesses to be continued, and progressing largely according to plan

## OCTG and Line Pipe Business SBU

- Promoted restructuring of Edgen's businesses in Eastern Hemisphere
- Reduced risk exposures (e.g., diluting share of thermoplastic composite pipe business (Stroh))

## North America Tubular Group Companies SBU

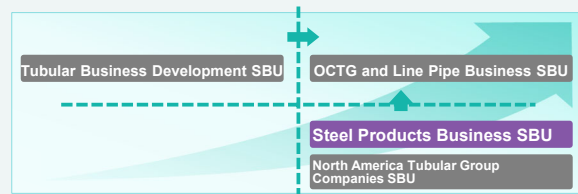
- Consolidated group companies, offices and operation sites to strengthen business portfolio
- Strengthened resilience to downward pressure by improving inventory risk profile

## Tubular Business Development SBU

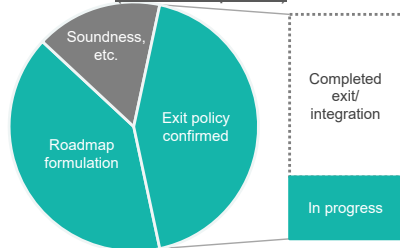
- Executed streamlining measures at HOWCO, including closing sites and reducing headcount

# Structural Reform Example 1: Reorganization of Steel Products Business Portfolio

- Following the companywide structural reform project, we defined and implemented our business portfolio reorganization policy.
- This allowed us to remove hidden factors that adversely affect performance and significantly improve profitability.



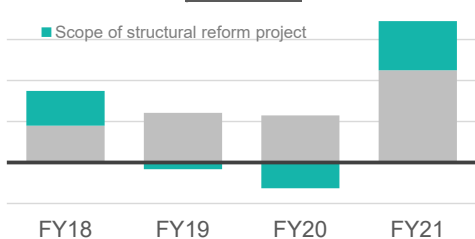
Structural reform project categories  
(no. of companies)



## Established sorting criteria for operating companies, and implemented policy of either continuation or exit

- For all operating companies under the business unit, scores were assigned based on the established scoring model that considers PL/CF contribution, efficiency, and growth potential, and categorized into soundness, roadmap formulation, and exit candidates based on the results.
- Operating companies under roadmap formulation are those that formulate roadmaps toward soundness within a given period; progress is monitored companywide, and reclassify as exit candidates if soundness is not achieved within the period.
- For exit candidates, exit plan was formulated and procedures—such as selling or dissolving—were implemented.

Trend of operating company performance

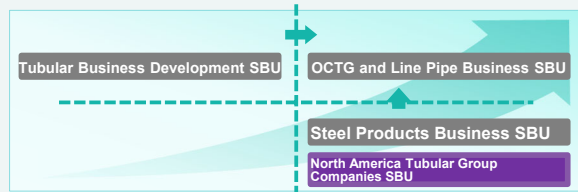


## Recovered earnings of operating companies and built resilience to downward pressure by structural improvement of factors that worsen performance

- Operating companies under roadmap formulation and exit candidate in the above structural reform project eventually became factors that worsen performance during the poor market of FY2019 and FY2020.
- Those under roadmap formulation accomplished structural reforms based on the plan and recovered in profitability. For exit candidates, even if contributions to earnings can be expected during market upturns, selection was conducted from the perspective of whether they should be included in the long-term portfolio.

## Structural Reform Example 2: Business Model Transformation of North America Tubular Group Companies SBU

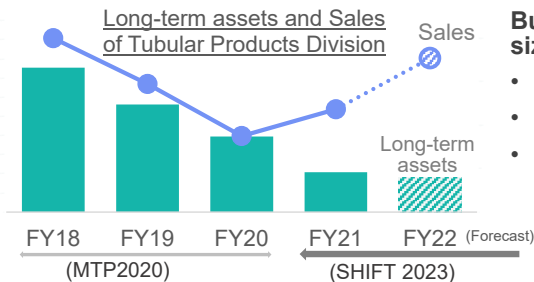
- As a result of consolidating group companies and operation sites, we significantly reduced asset size and fixed costs. We also reviewed our inventory risk profile.
- We strengthened our resilience to downward pressure from potential future market downturns through a series of business transformations.



	Start of FY2019	End of FY2021
OCTG distributors	6	2
Line Pipe distributors	1	1
Manufacturing & processing	5	0
Total	12	3

### Consolidated group companies, offices and operation sites to strengthen business portfolio

- In consideration of the increasing business risk arising from the trend of decarbonization, exited from manufacturing and processing of steel pipes for oil and gas industries based on a medium- to long-term perspective.
- In the distribution business, integrated OCTG distributors in North America, from six to two companies. Strengthened the capability of stable supply for customers by reinforcing purchasing power. Also improved management efficiency by consolidating business sites including inventory yards.
- Built systems to properly secure earnings during market upturn and drive next generation business anticipating energy transition.



### Built resilience to downward pressure in preparation for possible market downturn by right-sizing assets, etc.

- Significantly compressed total assets through integration and consolidation of group companies.
- Reduced fixed costs by integrating and closing business sites and reducing headcount.
- Significantly reduced inventory risk by transforming inventory business model.

# Changes in Trend of Global Steel Industry and Business Unit's Actions

Changes in environment

## 1 Global crude steel production (efforts and changes toward decarbonization and carbon neutrality)

- China has more than 50% of the global share ⇒ Market structure is one where international prices of iron and steel raw materials and scrap are significantly influenced by China
- Efforts toward carbon neutrality ⇒ Shrinking of blast furnace crude steel production in China results in promoting imports of upstream semi-finished products; product export limitations result in shift toward domestic demand

Crude steel production of major countries and regions in 2021 (1,000 tons)

China	1,032,790	(53%)
EU	152,575	
India	118,244	
Japan	96,334	
US	85,791	
Russia	75,585	
Korea	70,516	
Global	1,951,924	

## 2 Steel industry's efforts to reduce CO<sub>2</sub> emissions (challenge of hydrogen reduction steelmaking, expansion of electric furnace demand, local production for local consumption, and pursuit of renewable energy sources)

- Technological development competition for hydrogen reduction steelmaking with a view to 2050 (Japan, South Korea, China, and Europe). Expansion in electric furnace investment and electric furnace product demand during development.
- Development of large-scale demand globally for reduction steel and scrap, significantly changing global distribution (enclosing domestic demand of countries producing scrap).

Changes in steel industry

## 3 Structural reforms and strategy changes of steel industry

- Structural reforms (integration and closing of steel works and production lines) and new investment in and acquisition of electric furnaces.
- Exit from unprofitable business and product manufacturing, and selection of strategic product groups.

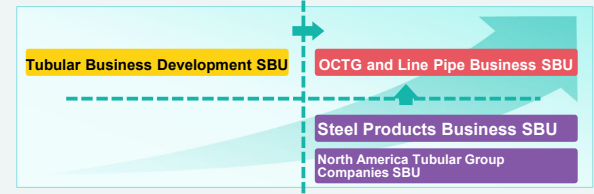
Our measures

## 4 Business model transformation as Sumitomo Corporation

- Strengthening of regional sales capabilities in view of local production for local consumption; further deepening of collaboration with regional organizations; participation in upstream steelmaking businesses (reduction steel business and electric furnace business).
- Collaboration with Mineral Resources, Energy, Chemical & Electronics Business Unit, Infrastructure Business Unit, and EII; participation in study by Zero Carbon Steelmaking Business Study Team. (Capabilities for proposals to steel manufacturers)
- Collaborate in environmental infrastructure business arising from metal products field. (CCUS, hydrogen pipelines, offshore wind power generation monopile manufacturing, etc.)

# SHIFT 2023: Efforts from Second Year

- We aim for business model transformation at the respective SBUs to respond to changes in steel industry trends.
- Alongside solving the remaining issues of structural reform and the continual improvement in business efficiency, new businesses will also be developed.



## Steel Products Business SBU

- Increase ROIC by thoroughly improving profitability of existing businesses using DX
- Pursue minimum inventory operation at steel service centers
- Switch to products with high added value (such as silicon steel for electric vehicles)
- Enhance strategy of each region where local production is advancing, and consider ESG investments with a view to decarbonization

## OCTG and Line Pipe Business SBU

- Strengthen relationships with strategic partners (added-value improvement and renewal of long-term contracts) and increase ROIC of SCM projects
- Improve operational efficiency through DX
- Continue to expand steel pipe sales to CCS/CCUS applications and hydrogen transport

## North America Tubular Group Companies SBU

- Continue to review inventory risk profile to strengthen resilience to downward pressure during market downturns
- Promote ESG and DX business at Summit Industrial Park (SIP) in West Texas

## Tubular Business Development SBU

- Sekal (autonomous drilling solutions): Grow earnings by expanding sales to the Middle East and North America following the North Sea model and by strengthening service provision
- Energy transition field: Develop new businesses by collaboration with EII
- Business model transformation through DX implementation and initiatives in new fields



