

Investor Day 2021 Part 3 Details for Panel Discussion and Q&A session

Date / Time: June 1st, 2021
3:35pm - 4:00pm Panel Discussion
4:00pm – 4:20pm Q&A

Panelists: Outside Director Akiko Ide
Executive Vice President and CDO, Toshikazu Nambu

Facilitator: Managing Executive Officer, GM of DX Center, Bin Haga

Panel Discussion

MC: We will now begin part 3. Part 3 will be a panel discussion on the theme of DX-based Corporate Transformation (CX), with Ms. Ide, an outside director, and CDO Nambu, as panelists. Ms. Ide, as you can see on the screen, has held various important posts such as an executive officer of NTT DoCoMo and as an audit and supervisory board member of NTT. Since June of last year, she has been appointed as an outside director of the Company. Mr. Nambu is also our Executive Vice President and General Manager of Media Digital Business Unit and, from 2019 onwards, he has also been our CDO, Chief Digital Officer. Also, we would like to ask Mr. Haga, who is the General Manager of the DX Center, which is a dedicated organization for DX that we established in 2018, to act as facilitator for this session.

Haga: Now, I, Haga, would like to lead the panel discussion. First of all, looking back, I'd like to ask you both for your opinions about our current DX activities. At the beginning of the presentation, Mr. Nambu gave us a review of the past 3 years and the DX activities. Again, what has exceeded your expectations or what has not yet met your expectations? And based on that, if there are any key points that you would like to share with us, would you please share with us?

Nambu: Thank you very much. I used the word "digitization" a little earlier. It has become very popular in terms of how to use digital technology and knowledge as a business model in the field, and it has become a major tool for business. In that sense, I think that we have achieved the DX ready state in the past 3 years. It will be a force to be reckoned with. The challenge, as I mentioned earlier, is to push up each business to a figure with scale that will become a pillar of our SHIFT 2023. I think we need to do this, and I think

we can.

Haga: Thank you very much. In summary, the importance of digitization has been recognized in each field. The soil is ready. But it has not yet reached the scale of a trading company. Ms. Ide, from the standpoint of an outside director, you have been watching the DX activities for the past year. In light of your experience, I would like you to share with us your initial impressions of our company's DX.

Ide: As I mentioned earlier, I had been involved in the information and telecommunications industry of the NTT Group for more than 40 years before becoming an outside director of Sumitomo Corporation. In fact, one of the pillars of the NTT Group's medium-term management strategy is to support customers' DX promotion. In that sense, I feel that I have experienced the initiatives that Sumitomo Corporation is currently undertaking, and I have a sense of familiarity with the DX Center, and the agenda for the Board of Directors meeting on promoting DX within the Company. While there are many other things that are new to me, I feel very comforted by these familiar words. As you explained earlier about the timeline of DX activities, I believe that many companies are doing this kind of thing as they work on DX, but I think it is really important, and yet difficult, to instill within the Company the importance of using digital technology to develop new business. My first impression is that Sumitomo Corporation has been very creative in terms of its DX promotion system and in fostering internal momentum. Rather than just asking the IT Department to do it because the sales and business divisions wanted to improve the efficiency of their own operations, the Company was able to gather people from the business divisions, as well as IT experts and specialists who could apply the new technology to the business, and created the center. It was very meaningful for the future efforts in DX as a general trading company. As for fostering momentum within the Company, I've been looking at the pages of various organizations on the Company intranet, and I've been reading DX Center's DX Channel and other publications very closely. I think it's so wonderful, and too good for internal use only. I believe it's very important that everyone has a sense of ownership in this. An ongoing struggle that each department is working on DX, including what does not work, has been written. Also, it's a very interesting read, with headings like, Is there any emotion in digitalization? and Visualize the sleeping factory. There are examples of the effort that make people want to read this very much. In terms of getting those who work on all businesses feel like DX-ready in their business, I think it has been very creative. That was my first impression.

Haga: Thank you very much. In terms of the formation of our efforts, we actually have a public relations unit within DX, and I think you pointed out how we can expand this within the Company. Ms. Ide, I'm sorry to continue, but I'd like to ask you to give us your thoughts on the significance of Sumitomo Corporation's involvement in DX, as well as your impressions of the Company's strengths.

Ide: This is also from my own experience, but in the process of promoting information communication and IT, it is necessary to have the skills of a general trading company in order to promote such things, which was also said in the business I was in the past. I have heard people say, "if you are involved in local communications, you must do it with the feeling that you will be a general trading company for the community."

Since I came here, I've been thinking about what that means, and I've come to realize that a general trading company is involved in so many industries. It's also on a global basis, and they have existing industry knowledge and understanding of the issues in the field. In addition, as you mentioned about Summit business, the fact that you have a variety of data on commercial distribution and so on, and that you have it all in one place, makes it possible for you to make comprehensive efforts in the sense that you can utilize that data in other industries. Moreover, various partnering, where to work with, who to ask for what, and the ability to put that together. These are the skills of a trading company person, which I admire, and I am sure you have. I am sure that this is something that you have developed as a trading company person when you are involved in various businesses. In that sense, in addition to that, it may be necessary to learn how digital technology can be used, but the business of a trading company is very well suited to DX, and I think it makes sense for a trading company to work on DX. I don't know for sure what Sumitomo Corporation should definitely do. One of the group companies is SCSK, a system integrator with a long history and a certain scale, and SCSK itself is doing business in various industries. So I think collaborating with SCSK is one of Sumitomo Corporation's strengths.

Haga: Thank you very much. Mr. Nambu, could you make a comment on Ms. Ide's thoughts?

Nambu: Thank you very much. Since Ms. Ide did all the talking, I didn't have much to say, and I'm sorry that I've just summarized everything. I'm working on DX, and from a trading company's point of view, I have a macro, micro and real view of the industry, or rather the entire industry. The legal strength, the legal issues of the players, and the strength of

the players in terms of biopolitics can all be overlooked. This is one of the characteristics of our company, but not just watching, we can also understand the micro issues by being thoroughly involved in the business and staying close to it for many years. The solution to this is technology or virtual data. The fact that we have global partners for this solution means that we can find a comprehensive solution, not just a single device or delivery. We can create a business model beyond that. We would like to go to this point, so in that sense, it is meaningful as a general trading company. As for Sumitomo Corporation, our strength lies in our understanding of the industry and our ability to identify issues.

Haga: If you could explain the case of Summit a little more clearly. What kind of place will it be in micro or macro?

Nambu: First of all, from a micro level, I was in charge of the Summit business for a while, and I wondered how much we were contributing to society while the cost-versus bottom line profit was thin. In particular, the fact that there are so many fresh food items means that we can't hold a lot of inventory. We are making it as we process it. We are rotating them in the daily distribution, anticipating the near future. We have no choice but to throw it away or lower the price. It's very individualized and optimal, including the way prices are set these days. This issue is something that can only be seen through operations, which is responsible for as much as 20% of the revenues. This is a waste. We know this. If that can be solved, then the optimization of the entire industry before and after that, in other words, what the buyer decides can also affect the optimization of manufacturing. I'm having them do it so that we can suggest something by looking at both of these.

Haga: Thank you very much. As for this point, Ms. Ide. I am sure that NTT is also involved in various micro and macro businesses, but from the perspective of a trading company, how do you view these micro and macro businesses as our characteristics?

Ide: I am not sure if I understand this, but there are not many people who are in a position to look at the entire supply chain or value chain. It may also be a question of total optimization and partial optimization, but when there is a movement to voluntarily seek partial optimization in each area and a movement to create total optimization by those who are in a position to look at the whole, it is difficult to know what will happen when both of them happen at the same time, so I think it is up to making the most of the position of having a bird's eye view of the whole.

Haga: Thank you very much. I think you're right. I'd like to move on to the main objective of today's discussion, which is the positioning of our DX activities in the new medium-term management plan. First of all, I would like to ask you, Mr. Nambu, if you could explain again the position of our company's DX in the new medium-term management plan SHIFT 2023 in concrete terms, both qualitatively and quantitatively.

Nambu: I believe that DX is a powerful weapon for achieving the objectives of all the SBUs in the current mid-term business plan, as the president mentioned earlier. Of course, if we expand the area and run the business at low profitability without increasing profitability, this is no good. In that case, in order to increase the profitability of the Company, each unit has been studying technology thoroughly for the past 3 years, and there is a way to provide a solution. Then, we can add value to it.

I think that the DX Center will continue to be there for them, and by going inside with SCSK to create something that will make their thoughts come true quickly, it will lead to the great success of their business. So, with this in mind, we will walk with the SDGs as our goal. I believe this is an important pillar of this medium-term management plan.

In that sense, as Mr. Ueno presented earlier, as for the EII, not just a point solution, but we will think about what to do with the whole system of energy storage and transmission. I think it is a weapon for this purpose.

Haga: Thank you very much. It's the connection between the different fields. I understand that one of the roles of DX is to draw a bird's eye view of what the system architecture looks like. Ms. Ide, you mentioned earlier that the Board of Directors has been discussing various aspects of the DX strategy. Based on these discussions, if you have any expectations for DX in SHIFT 2023, or if there are any areas that the Group should further strengthen, please share with us.

Ide: As for the DX agenda at the Board of Directors' meetings, recently there was a report on the DX Center's efforts, but in addition to the DX as the main topic, each business unit has an annual report to the Board of Directors. In this report, each business division is the subject of its own discussion of DX as a measure. For example, in the metal products business unit, the tubular products business and DX. Or in the lifestyle real estate division, retail and DX. There are 2 ways to talk about DX. When we recently had a discussion about how to monitor SHIFT 2023, there was an opinion that, of course, the DX Center, as the driving force for company-wide business development, needs to create and monitor its own KPIs, but that it should also monitor how each business unit is

promoting company-wide DX, and that we should improve our ability to provide such solutions. Also, in my opinion, and this is just what I said, I myself came from such a business background, so I have high expectations. After all, it should be seen how much effect the investment on DX will produce, just like any other investment. At the beginning of the process, I think there is a lot of support within the Company for building momentum and getting everyone involved. While sending out human resources, providing education and training, investing in venture capital, we will gradually understand what is going out or what we have spent on various things. Then I think there will come a time when we should ask. In this sense, although there are some things whose effect are very easy to understand, such as the effect of RPA on productivity improvement. As for those that are a little more difficult to achieve, I think there are many ways to do it, for example, if we can do something like this at this volume in this industry, or if we can start a service that provides solutions for this kind of thing, or if we can create a joint venture company and make a profit from it. There are many different patterns and timings. I think we should have some kind of image of the results of our efforts, and the Board of Directors would like to have an image of the results, even if the certainty is not yet certain.

Haga: Thank you very much. I am listening as if you are talking to me. Mr. Nambu, regarding quantitative effects and results. If you have any additional comments on this, please let me know.

Nambu: I struggled with this for 3 years, but since it's a business, naturally we have to check the return on the capital invested on a scale. I believe that we must always ask ourselves if it is the right action to take. If you look at DX, my own way of organizing it is that in the initial stage, we need to achieve operational excellence, or increase the top line by adding value, increasing operational efficiency, and lowering costs. In addition, to increase the value of the operation itself by adding value and making a profit. The second thing is to create new applications and businesses like vertical SaaS, which was mentioned earlier in the presentation. We are also collaborating with SCSK and we have Insight Edge. Each of them will add value and generate revenues as a service business. Lastly, when we make new investments or enter new business areas, we use digital technology to increase the evaluation and success angle of those investments. This sum will be the return. Then, we will have to define the return perspective and action items, including personnel matters, in a clear manner for each SBU, but we will also have to monitor and quantify how DX contributed to the content and what actions were taken. I think this is an important part of the current mid-term plan.

Haga: Thank you very much. We received feedback that it is a company-wide activity. It's about how we can use this DX to improve value, including SBU. In the future, we will quantify it and make it more visible. It is also important in the sense of checking the progress of the project. We're almost out of time, so finally, I would like to conclude by asking what kind of role the Sumitomo Corporation Group can play in society with regard to the promotion of DX in the future, from a long-term perspective. For example, I would like to ask Mr. Nambu about the story of DX involving the industry. You talked about consumer products earlier, but what do you think is the key to success?

Nambu: Again, I think it's about setting the agenda. There are 6 areas, including DX. In terms of the SDGs, to identify what is needed in society and what Sumitomo Corporation can do to meet these needs, there are many things that a single company cannot do alone. So we will form alliances in order to achieve our goals. By taking the perspective on how to use digital technology, I believe that Sumitomo Corporation, a trading company with a network that extends beyond the global and industrial sectors, can be of great help.

Haga: I think it is truly an open collaboration. Ms. Ide, from the current perspective, I would like to ask you for any advice on how to build partnerships with other companies beyond the industry, with Sumitomo Corporation acting as a driver.

Ide: Rather than giving advice, I think it is a very rewarding job for employees to be involved in this kind of business. Considering that trading companies are made up of human resources, since I joined here in June, I have been reviewing the personnel system in addition to DX. For example, it may not have been done for this DX, but doing HR with the right person in the right place, or making something like a uniform number system horizontal from a certain rank, in short, making divisions cross-functional, breaking down the vertical division as a trading company, as mentioned in the previous session. If we, as a general trading company, can cross-functionally develop human resources who can solve the world's problems or who have the ability to conceive of new businesses, we will be able to make a significant contribution to society. I believe that using digital technology in this area will produce great results.

Q&A

Question 1:

Regarding Mr. Nambu's explanation earlier, please tell me one point. You told us that DX is a tool for reform for all SBUs during this medium-term management plan period, but during the period, I think there are areas where the effects of DX are easy to see and areas where it is difficult to see. For example, you mentioned earlier about Summit, but where do you see the effect during this medium-term management plan period, and do you feel that you are actually getting a return on the capital invested? Thank you.

Nambu: As I mentioned earlier, the return on DX is the sum, so there are different places where the revenues or the economic benefits of DX come from. Even in that department, if the operation becomes efficient and then there is time for innovation, and new business is created, this will also take time, so I believe that the point of effect will be different. However, they have put it right in each SBU, and we would like to monitor it. As for where to prioritize, in the B-to-C world, as I mentioned earlier, it is easy to take measures such as sophisticating decision-making based on data and incorporating it into daily and monthly delivery. In that sense, in the B-to-C world with the COVID-19 pandemic, it will be more effective. I would like to scale this properly. In addition, as EII mentioned earlier, the new energy world will have different segments and aspects, so I think it will be easy to come up with something new to supplement it. I would like to look at not only software but also hardware. Also, since I'm also in charge of this project, this will be self-praise, but I'm hoping that SCSK, Insight Edge, and other technology companies will be able to increase their revenues by continuing these activities. Looking at them collectively, I would like to lean on these things. I hope this answers your question. Thank you.

Question 2:

I have one question. Regarding DX and your company's GHG emissions reduction, you mentioned earlier that DX would be useful for next-generation energy, but what do you think about the role of DX in reducing GHG emissions? For example, there are areas that have a high affinity with digital technology, such as efficient operation of power plants and optimization of the grid. Please tell us about your thoughts on that area, including existing IPPs.

Nambu: It depends on what the GHG protocol will be in the future, but in any case, based on the quantitative target, how do we quantify it as a sensor in our entire business

domain? Based on the daily operation, I think that this DX-like technology will be essential in quantifying the compliance of it. Also, as was discussed a little earlier, even if we continue to stop or leave certain projects, we can't do anything about it if we don't have a clear picture of what is happening as a whole. So, in that sense, when some kind of platform is needed, we hope to be able to provide some kind of service there, depending on the region or field, on the assumption that we have a comprehensive understanding of the business.

Haga: This may still be a concept, but I think we can use the power of digitization to visualize the amount of CO2 reduction using blockchain. We have been talking with various related parties about the idea of using blockchain to capture the CO2 emissions of various industries, such as the shipping industry and automobiles. This is one of the things we are working on to realize from the perspective of the SDGs. Talking about the SDGs, I think the food loss and other issues that mentioned earlier also come into it, so when we do our DX activities within the DX Center, we are having a lot of discussions right now about making sure that we look at things from the perspective of the SDGs. One example of this is the visualization of CO2 reduction, which we are now discussing to make it possible to trade on the blockchain.

Question 3:

In the promotion of this DX strategy, along with a broad range of cross-sectional functions, I think there will also be an element of customization based on the needs of each business in the field, or more retail. Then, you will secure engineers and human resources to meet the demands much more than before. I'm also wondering what kind of scale you will be operating on as a unit. As for securing professional human resources to meet the growing needs, as you mentioned SCSK within the Group, what kind of room is there for expansion in terms of human resource strategy, such as sharing engineers or, conversely, separating them? I would like to ask you about this. Thank you.

Haga: As mentioned earlier, SCSK is our most important partner in the promotion of DX. With 14,000 employees on the consolidated basis, one of the things we want to do is to serve as a consultant to them when they are dealing with any kind of DX. SCSK has also announced in the medium-term management plan that they will commercialize DX, so we are very much looking forward to meeting their needs and our business creation capabilities as a general trading company. SCSK, and Insight Edge. We currently have less than 20 AI engineers in our company. We can accumulate know-how on various DX

initiatives internally. Therefore, it can be used for other new projects. Our sales force, who know what is going on in the field, is actually perfusing into these areas. Every year, around 10 people from come from each division, so people with a sense of what's going on in the field can work on projects using DX there and then go back. The overall design is to enhance the DX-responsiveness of Sumitomo Corporation as a whole through such measures.

Nambu: If I may add a few things, as Mr. Haga mentioned earlier, we will perfuse from the DX center to the business units, so we are in the conceptual stage with a lot of digital. We are trying to get the business body to do as much as possible to figure out what to use. On the other hand, the combination of SCSK and DX Center is a more specialized group that looks at various things on the horizontal axis and also understands the business. It is a combination of both. But I don't think it's possible to do it in-house. I think it's important to have people who have a strong awareness of the market, or a group of partners. For this purpose, there are accelerators and CVC, but in addition, we would like to combine them with people from all over the world, since we have locations all over the world, and we would like to make them multinational, so that we can become a business transformation group connected to digital aspirations.

MC: I'd like to ask you about digital human resources, or rather, DX human resources. Ms. Ide, how are you looking at it? If you have any comments, please share with us.

Ide: As I mentioned earlier, I think we are in the process of having people from the business divisions come to the DX Center to gather DX knowledge and develop their skills. Perhaps these people will return to the business divisions and, in their respective divisions, run on their own, or perhaps they will repeat the process of promoting DX on their own initiative. If it can be done by SBU units, for example, is it necessary to have the DX center in the core in the future? Including this question, I think we need to think about what to do with human resources in the future. But it seems like if the whole world is competing with each other to hire people with such skills from outside, every company is trying to do it now. In other words, in a sense that people who are familiar with the business of a trading company should do this job, we will grow them internally. Of course, it is essential to call in experts from outside the Company, but all employees should have that kind of sense and become digital human resources, or re-skill. I think it will be a combination of doing things on a large scale and developing the core human resources through various means.

MC: Yes. Thank you very much, Ms. Ide. The time is almost up. DX is currently in progress. Mr. Nambu, would you like to comment at the end of this session?

Nambu: Thank you very much. We have received many valuable questions. By creating SBU units as a pillar of Sumitomo Corporation's medium-term management plan, while watching it closely, I would like to carry out activities that bring value to the outside, rather than closing it inside the Company as I mentioned at the beginning. I would like to ask for your support. I would like to make it visible.

(End)