



Masayuki Hyodo
Representative Director
President and Chief Executive Officer

Under SHIFT 2023, we will restructure our business portfolio and return to a growth trajectory.

Facing our challenges earnestly and going back to business basics

In FY2020, the Sumitomo Corporation Group recorded approximately ¥350 billion of one-off losses, which led to a loss of ¥153.1 billion for our annual results. As president, I fully acknowledge the serious responsibility that we caused grave concern among our stakeholders. The management including myself truly regrets this result and it is a disappointment for all Group employees as well. We will achieve recovery in our performance as soon as possible by facing our issues resolutely and properly eliminating the reasons identified through repeated discussions so that we do not repeat such a situation ever again.

In terms of each business, the causes of this severe setback are wide-ranging. In summary, it came about owing to vulnerabilities in the business portfolio of the Sumitomo Corporation Group: a weakness in resilience to changes in each business environment.

COVID-19 just revealed the issues our Group has been facing. The issues themselves have developed over time and have been held in our Group's business portfolio for many years. From that perspective, it is necessary to reflect on the past performance of our management over a period of at least 20 to 30 years to avoid making the same mistakes in the future. (▶ Refer to p. 29)

The business portfolio of the Sumitomo Corporation Group is like the head and tail of a coin. The head represents

businesses that steadily earn profits even in a difficult environment, while the tail shows those businesses that record losses or are underperforming. To achieve early recovery in our Group's performance, it is essential to grow businesses that already show strength and simultaneously turn around the ones that remain low in profitability.

Based on this recognition, our Group embarked on the structural reform in FY2020. (▶ Refer to p. 31) Regarding our response to low-profitability businesses, even in this difficult environment we conducted careful dialogues repeatedly with our business partners, and we made an exit from over 30 group companies. We have also developed detailed road maps for another approximately 150 group companies to either turn around or exit from them. And compared with FY2020, we expect to improve earnings by around ¥70 billion within three years by steadily implementing those road maps.

For promoting the structural reform, I often use the phrase "back to basics." I think it is important to consistently build up the basics of business to maintain an appropriate level of profit and provide value to customers while managing risks and costs (in both trading activities and business investments). The Sumitomo Corporation Group conducts many different types of business, and based on this approach, the structural reform means creating the best state for each initiative within its unique situation.

Every business goes through both good and bad times. The true strength of a company is put to the test in a

challenging business environment where decision-making becomes critically important. With Sumitomo's Business Philosophy and the Sumitomo Corporation Group's Management Principles at our core, we will make the right decisions to protect the value of our Group and the interests of our stakeholders. We will unite as one to overcome the present difficult situation.

“SHIFT” business portfolio based on the new medium-term management plan

The Sumitomo Corporation Group announced the new medium-term management plan “SHIFT 2023” in May 2021. (▶ Refer to p. 35)

The word “SHIFT” signifies the transformation of our business portfolio, management resources, individual business strategies, and business models as well as the frameworks and organizational systems supporting them. At the same time, the term incorporates the strong determination of our management—including myself—and every employee conducting and supporting the front lines of business to transform our mindset and behavior. We will SHIFT our business portfolio so that it has higher profitability and stronger resilience while we properly grasp major trends in present-day society, such as “digitalization” and “requirements for sustainability.”

To achieve Business Portfolio SHIFT, the Sumitomo Corporation Group will accomplish the structural reform in three phases.

The first phase is reform in the short term: it encompasses exiting from or turning around low-profitability businesses. We have been undertaking such actions since the previous fiscal year. We will definitely deliver results by conducting thorough asset recycling



within a period of time that has been set.

The second phase is an approach in the short to medium term. The management resources recovered in the first phase will be selectively invested to reinforce and grow core earning pillars leveraged by our Group's strengths to expand business scale.

The third phase is an approach in the medium to long term. While we continue our short- to medium-term reforms, at the same time we will challenge to exploit, with due focus on commercial viability, new business opportunities in seeding fields that will emerge along with structural changes in society. In addition, always considering the business environment from a long-term viewpoint, we will examine the balance of business opportunities and management resources allocation, develop human resources, establish systems and frameworks, and transform our corporate culture. We will continue these initiatives unceasingly.

Under Business Portfolio SHIFT, we divide current businesses into four categories according to business strategy based on market potential and demonstration of strengths. (▶ Refer to p. 37) I am encouraging employees that, to achieve

a companywide Business Portfolio SHIFT, we should first have each and every business fulfill its respective current role and then aim for all businesses to enter the “Steady Business Growth” category. However, even businesses currently categorized as “Steady Business Growth” may fall into decline if they do not catch up with the shifting environment and social needs that change with time. We will strengthen our overall portfolio by enhancing our capability to respond to change and aiming for improvement in the aggregated corporate value of the Sumitomo Corporation Group.

Ensuring plan effectiveness by introducing new frameworks

In SHIFT 2023, we introduce four measures and promote Framework SHIFT to ensure effectiveness. (▶ Refer to pp. 45–48)

Among them, we positioned introduction of the Strategic Business Unit (SBU) as an important measure. We established the SBU so as to make each business strategy visible and to strengthen individual business strategy management. As of April 2021, we have established 73 SBUs. For the purpose to improve profitability, the SBUs brush up their business strategies, follow them up through KPI/KAI management, and at the same time, they put their utmost efforts, learn from one another, and improve themselves.

In an integrated trading company conducting various businesses, the business group administering each business has significant authority, and some would say this creates siloed structures which impede companywide optimization. However, it is also a fact that the DNA of individual business groups has created the driving force for generating profits. The driving forces include the presence and track records developed over

time in each industry, relationships of trust with industry affiliates and clients, specialized knowledge and expertise, and teamwork developed through collaboration with one another. To leverage such areas of strength, the Sumitomo Corporation Group established the principles of “autonomous management and self-responsibility” for the business group around 20 years ago, and has been managing the Company based on the principles since then. The Company has delegated authority and management resources to the business group while holding them firmly responsible for results.

Meanwhile, we cannot achieve overall optimization of the whole Group if we only pursue individual optimization of the business group. To create new businesses that will become future earning pillars and enhance measures for addressing social issues and for covering business areas from a companywide perspective that transcends existing organizations, we have established “Initiative” as a new organization that is unhindered by existing boundaries. The Energy Innovation Initiative (EII) is the first of those initiatives.

We will go beyond the creation of the above Initiative. From the perspective of companywide optimization, we have reviewed the advisory committees of the Management Council to further work on the reallocation of human resources and funds and to accelerate Business Portfolio SHIFT. Upon commencement of SHIFT 2023, we have redefined the role of the Global Innovation Promotion Committee (GIPC) as the promoter of companywide optimization. (▶ Refer to p. 48) With GIPC—which includes the management member of the business group—in the series of discussion related to the companywide business portfolio, we will bring in a good balance between the values of the corporate group and the business group through positive friction and achieve companywide optimization in the allocation of management resources.

Enhancing group management

The approaches of companywide and individual optimization also apply to group management. There is, for example, overall optimization for the entire Group and individual optimization for individual group companies. Resolving conflicts between the two is truly the essence of group management. It is necessary to make proper value judgments at each level based on our Management Principles, which form the basis for our actions. To properly practice this approach within the Group, we established the Group Management Policy this July to serve as basic rules for mutual respect between Sumitomo Corporation and group companies. The aim is to achieve coexistence and coprosperity within overall and individual optimizations. (▶ Refer to p. 85)

Pursuing true Diversity and Inclusion

To create a stronger organization, it is essential to have more active involvement of human resources supporting our various functions. At the Sumitomo Corporation Group, “Diversity” covers visible attributes, such as nationality and gender, as well as invisible attributes, such as ideas and values, and “Inclusion” signifies thinking and behavior that seek to understand and subsume these differences with an open mindset. We recognize Diversity and Inclusion as the core enabler for value creation, innovation, and competitiveness. Diversity and Inclusion eliminates any barriers. It pursues the realization of our shared vision by leveraging the mix of our diverse wisdom. The leadership we seek is to recognize and respect individual differences, share determination, philosophy, and vision with diverse coworkers. It also implements decisions—made after

thorough discussions—with the cooperation of everyone.

In Japan, one pressing issue with Diversity and Inclusion is promoting women’s participation and advancement in the workplace. Values biased toward men hinder the growth potential of a company. Thus, as a company, we are not only promoting the initiative but have established quantitative targets to be achieved by FY2030 to increase our numbers of female managers, general managers, directors, and corporate auditors. We have a strong commitment to work toward achieving these targets. (▶ Refer to p. 51)

The same applies overseas. The Sumitomo Corporation Group cannot achieve further growth if we do not make progress in recruiting and assigning local human resources with thorough knowledge of local markets. We will resolutely pursue true Diversity and Inclusion where human resources rich in diversity can thrive regardless of their attributes.

Designing a future with DX and sustainability

Under SHIFT 2023, we will rebuild our business portfolio responding with the two major trends in society: “digitalization” and “requirements for sustainability.” We will also take on the challenge of creating and developing new businesses with a view toward social structural changes.

Regarding digitalization, or business transformation through Digital Transformation (DX), we have vigorously promoted our DX strategy across the entire Group led by the DX Center. As a result, the DX Center has grown over three years from just 15 staff members to 150, and the number of DX projects has increased to 300. Through such initiatives, we will deliver certain results and lead transformation in the industry. (▶ Refer to p. 41)

We will also accelerate our initiatives with respect to sustainability. Continuing from the previous plan, “Medium-Term Management Plan 2020,” we will seek to enhance sustainability management. We have established medium-term goals that embrace specific action plans for six key social issues and long-term goals set in June 2020. (▶ Refer to p. 63)

Such goals are especially pertinent with regard to climate change issues. From the perspective of rising social importance and impact on the Group’s businesses, we will make full efforts toward achieving carbon neutrality of our business activities by 2050. Hitherto in the macroeconomic system, CO₂ emitted as a result of social and industrial economic activities was neglected as a negative externality, whereby no one bore the cost of processing. Now, the world is creating new frameworks that do not lead to CO₂ accumulation in the atmosphere by society as a whole, bearing the appropriate cost of CO₂ processing and incorporating it into economic circulation. The Sumitomo Corporation Group will actively participate in constructing such new social and economic systems in developing our businesses.



These fields are ones in which trading companies typically excel. And as noted above, we established the EII this April. We will accelerate our initiatives toward achieving a sustainable society. At the same time, we will transcend existing organizational boundaries to accumulate our expertise and take on the challenge of new value creation in the energy field. (▶ Refer to p. 67)

Returning to a growth trajectory and bringing about the future

In 2019, the Sumitomo Corporation Group celebrated the 100th anniversary of its founding and created “Enriching lives and the world” as our Corporate Message looking ahead at the next 100 years. It is a message that represents our unwavering pledge to further enrich the world, society, and people’s lives through sound business activities.

Regardless of how times change, our basic stance—founded on Sumitomo’s Business Philosophy and the Sumitomo Corporation Group’s Management Principles—will never change. Our Group is now in a period of transformation. We will complete Business Portfolio SHIFT based on SHIFT 2023 to achieve early recovery in earnings and a return to a growth trajectory. We promise to grow sustainably as a corporate group that demonstrates its strengths and which society can always turn to and rely upon by overcoming the change of environment.

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Masayuki Hyodo
Representative Director
President and Chief Executive Officer