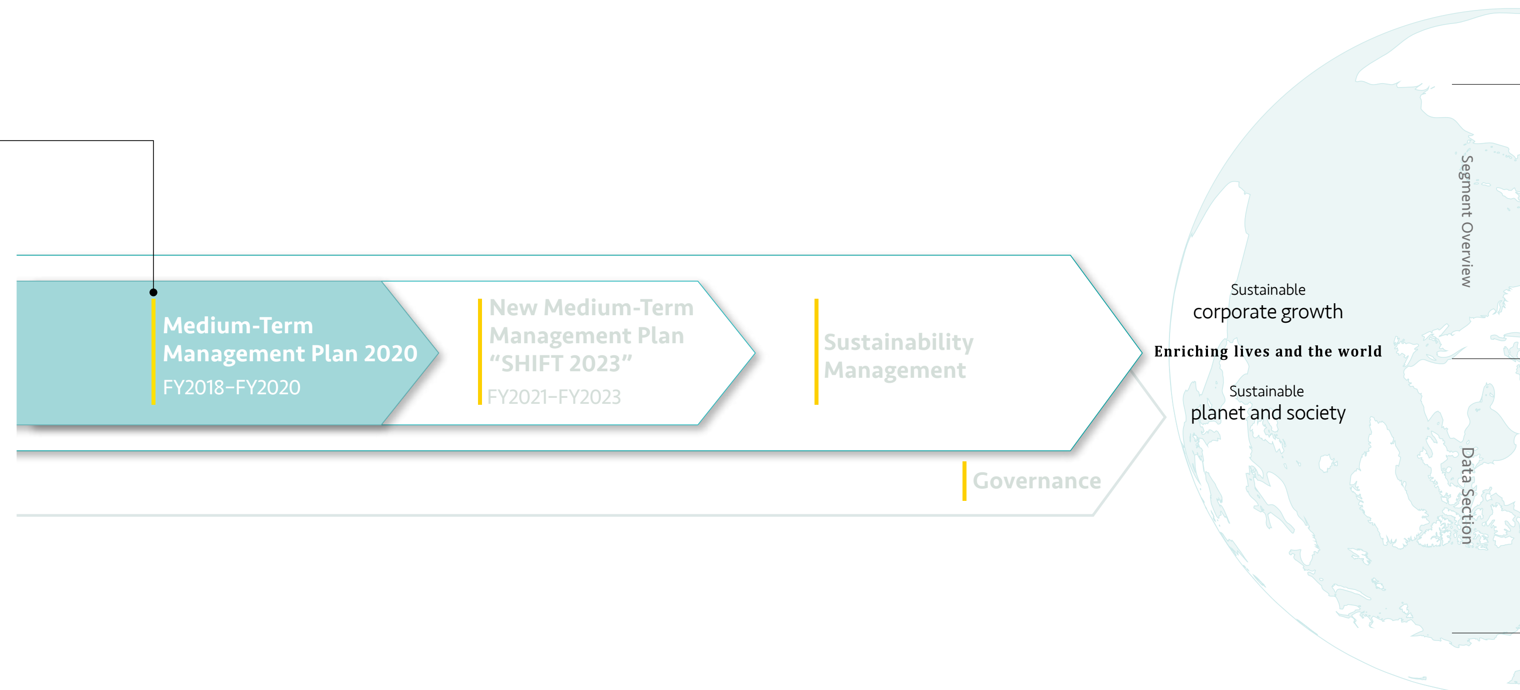
Part 1

Analysis of Issues



Review of Medium-Term Management Plan 2020

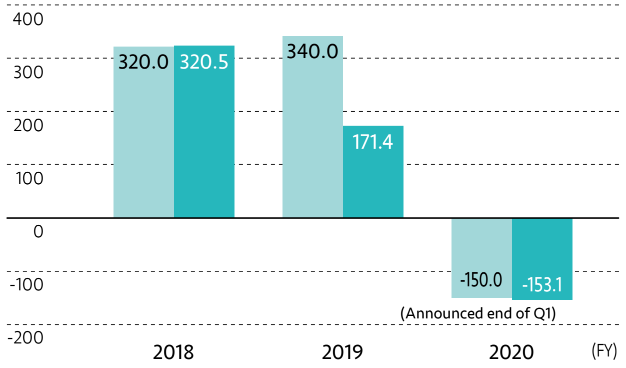
Status of key management indicators

— Consolidated net income, ROA, and ROE

We have endeavored to promote growth strategies by reinforcing our management base under the slogan "Unceasing Challenge for New Value Creation" presented in the Medium-Term Management Plan 2020 covering the three years from FY2018 to FY2020. In the first year, we achieved the initial forecast and record-high profit, but in FY2019 we fell short of the initial forecast due to the impact of a sluggish global economy arising from trade friction between the United States and China and other factors. In FY2020, we recorded a large one-off loss associated with the reorganization of low-profitability businesses on top of the impact of the COVID-19 pandemic. As a result, we recorded loss for the year of ¥153.1 billion. In particular, since the end of FY2019, the pandemic has greatly worsened the business environment while the global economic activity lockdown has revealed the inherent weaknesses in our Group portfolio that we have been facing for years. This brought issues such as improvement of profitability and downward resilience.

The Sumitomo Corporation Group positioned FY2020 as a year under "emergency mode," and tightened companywide cash flow management by selective investments and loans on a strict basis, selling cross-shareholdings, and reducing selling, general and administrative expenses. In addition, we are focusing on rebuilding our business portfolio—such as restructuring or exiting low-profitability businesses and accelerating value creation in existing businesses—and promoting the structural reform.

Profit (loss) for the year (attributable to owners of the parent)



Medium-Term Management Plan 2020: Key management indicators

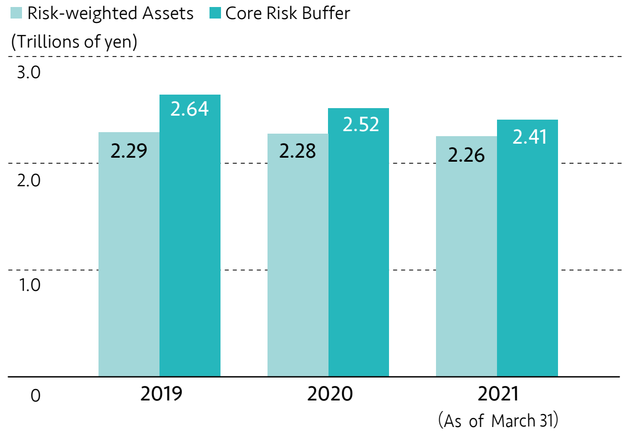
Key management indicators	FY2018	FY2019	FY2020
Profit (loss) for the year	¥320.5 billion	¥171.4 billion	-¥153.1 billion
Total assets	¥7,916.5 billion	¥8,128.6 billion	¥8,080.0 billion
ROA	4.1%	2.1%	–
ROE	12.0%	6.4%	–
Core Risk Buffer (RB) and Risk-weighted Assets (RA)	Maintained	Maintained	Maintained
Investments and loans	Approx. ¥300 billion	Approx. ¥350 billion	Approx. ¥260 billion
Post-dividend free cash flow	¥128.9 billion	-¥30.5 billion*	¥209.5 billion*

* The amount of ¥50 billion has been deducted from the FY2019 and FY2020 results to reflect the increase in depreciation and amortization resulting from application of IFRS 16 "Leases."

— Balance between Core RB and RA and post-dividend free cash flow

Cash inflow has decreased overall compared to the plan at the beginning of Medium-Term Management Plan 2020 due to the sluggish business results. However, we steadily managed cash flow by replacing assets through structural reform, improving working capital, and carefully screening investment under "emergency mode" in FY2020. As a result, we recorded a positive three-year post-dividend free cash flow of ¥310 billion, compared to the initial plan of ¥200 billion. We are also maintaining a balance between Core Risk Buffer (RB) and Risk-weighted Assets (RA).

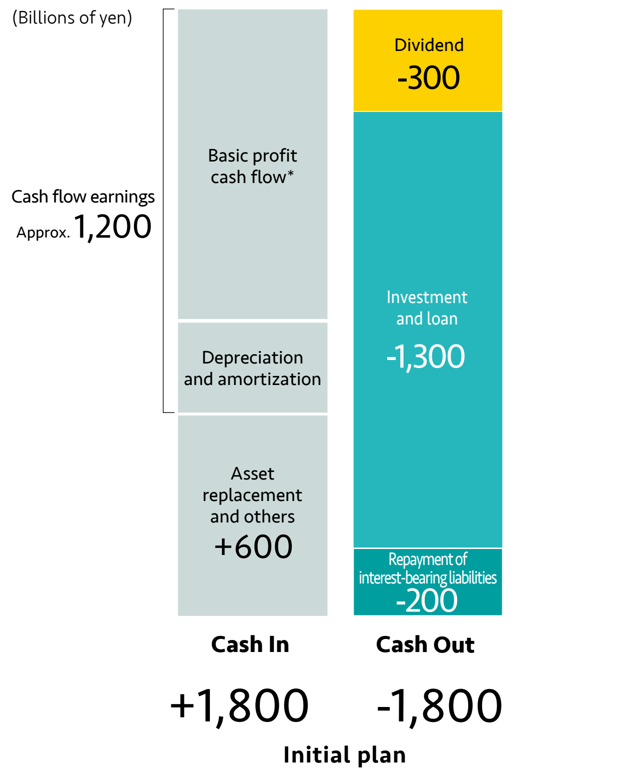
Core RB/RA balance



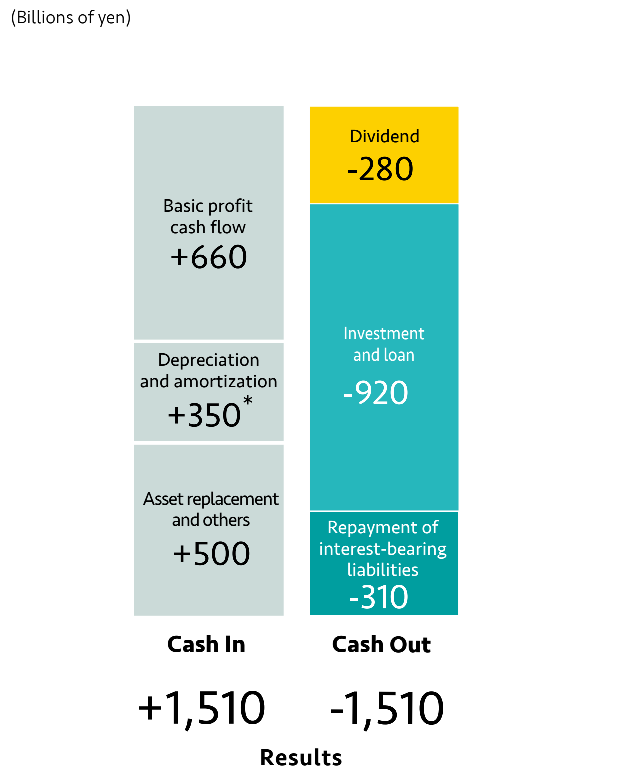
Core RB – RA

2019	2020	2021
¥350 billion	¥240 billion	¥150 billion

Three-year total cash flow (April 2018–March 2021)



* Basic profit cash flow = (Gross profit + Selling, general and administrative expenses (excluding provision for doubtful receivables) + Interest expense, net of interest income + Dividends) × (1-Tax rate) + Dividend from investments accounted for using the equity method



* The amount of ¥50 billion has been deducted from the FY2019 and FY2020 results to reflect the increase in depreciation and amortization resulting from application of IFRS 16 "Leases."

Review of Medium-Term Management Plan 2020

Status of one-off losses in FY2020

In FY2020, we recorded a large impairment loss, including the reorganization of low-profitability businesses, on top of the impact of the COVID-19 pandemic. As such, there were one-off losses on several projects, which totaled ¥351.0 billion for the full year as shown in the table to the right.

— Tubular products business
We recorded a one-off loss amounting to ¥34.0 billion for the full year. This included an impairment loss resulting from the harsh environment of sluggish demand, primarily in North America, integration and restructuring of operating companies as part of structural reform, provisions for promoting reorganization of sites and exiting from businesses, and write-downs of inventory.

— Specialty steel business in India
In light of the intensification of the competitive environment, we revised the business plan and recognized an impairment loss of ¥8.0 billion.

— Automotive financing business in Indonesia
We revised the long-term business plan and recorded an impairment loss based on worsening of the economic situation due to the prolonged impact of the COVID-19 pandemic, which exceeded expectations. Provisions for repayment related to moratoriums associated with the introduction of emergency measures by local governments to address the COVID-19 pandemic were increased. As such, we recorded a total one-off loss of ¥20.0 billion for the full year.

— Automotive sales and marketing business in Libya
We recorded a ¥6.0 billion loss on valuation of foreign exchange due to the depreciation of the Libyan dinar.

— EPC projects in the power infrastructure business
Additional costs were incurred in several EPC* projects in the power infrastructure business due to construction delays caused by the COVID-19 pandemic. As a result, we recorded a total one-off loss of ¥54.0 billion for the full year.

* Engineering, procurement, and construction

— IPP business in Australia (Bluewaters)
Based on the fact that the refinancing requested of the lender for financing the project was not carried out, for which repayment came due, we revised the recoverable amount and recognized an impairment loss. As a result, we recorded a total one-off loss of ¥26.0 billion for the full year.

— IWPP business in UAE (Shuweihat 1)
Our client announced a downward revision of the future demand plan against the backdrop of worsening economic conditions due to the COVID-19 pandemic. In response, we have revised the figures from our initial business plan downward. In conjunction with this, we revised the amount recoverable from the project company and recognized an impairment loss of ¥10.0 billion.

— Fresh produce business in Europe and the Americas (Fyffes)
Considering such impacts of the COVID-19 pandemic as increased costs of manufacturing mushrooms and decreased demand for melons in the U.S. market, as well as intensification of competition in banana wholesale in the European market, we revised the business plan and recognized an impairment loss of ¥38.0 billion.

— Nickel mining and refining business in Madagascar
In light of the temporary suspension of operations due to the COVID-19 pandemic in the first quarter and the drop in the medium- to long-term price outlook for nickel, we revised the business plan of the project company. In addition, based on the business results, including the suspension of operations in the third quarter, we revised the future production volume in the business plan to better ensure highly stable operations after the resumption of operations and recognized an impairment loss related to fixed assets held by the project company. As a result, we recorded a total one-off loss of ¥85.0 billion for the full year.

— Corporate and Eliminations
Deferred tax assets have been reversed due to deterioration of the companywide tax position as a result of the recording of a large one-off loss, and we recorded a total one-off loss of ¥28.0 billion for the full year.

We will continue to engage in the structural reform and asset recycling in FY2021 and beyond, so there is a possibility of losses occurring, but everything that requires attention in Medium-Term Management Plan 2020 has been addressed as of FY2020.

Segment	Projects	One-off losses (Billions of yen)
Metal Products	Tubular products business	-34
	Specialty steel business in India	-8
Transportation & Construction Systems	Automotive financing business in Indonesia	-20
	Automotive sales and marketing business in Libya	-6
Infrastructure	Additional costs occurred in several EPC projects due to delay in construction	-54
	IPP business in Australia (Bluewaters)	-26
	IWPP business in UAE (Shuweihat 1)	-10
Living Related & Real Estate	Fresh produce business in Europe and the Americas (Fyffes)	-38
Mineral Resources, Energy, Chemical & Electronics	Nickel mining and refining business in Madagascar	-85
Corporate and Eliminations	Reversal of deferred tax assets	-28
	Others	-42
Total		-351

Reflection and recognition of issues

Analysis of issues: Reflection

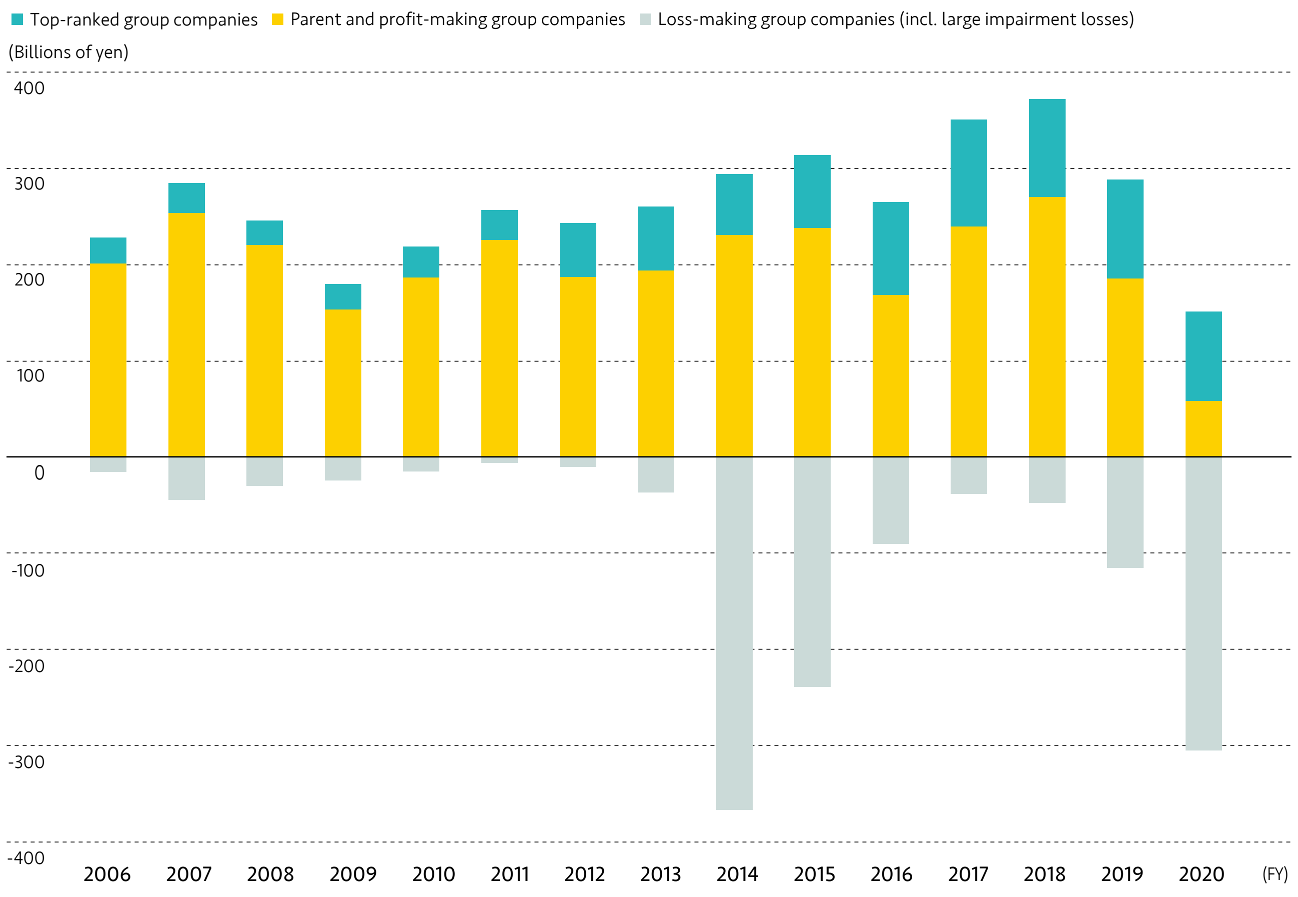
As shown in Figure 1, we have reflected on the trend in consolidated profit (loss) for the year over the past 15 years since FY2006 and have analyzed the issues. To identify the issues, the performance graph was divided into three elements: green in the top row, yellow in the middle row, and gray in the bottom row.

The green in the top row is the total revenues of the top-ranked group companies that have contributed to the Sumitomo Corporation Group's earnings over the years. These are the core businesses that have been refined and grown over the years and have generated stable revenue even under the severe business environment that has arisen due to the spread of COVID-19.

Next, the yellow in the middle row shows the total revenues of the parent and profit-making group companies other than the top-ranked group companies. These businesses are profitable, but profits have not shown strong growth as revenues fluctuate significantly with changes in the business environment. The challenge with these businesses will be to improve their business structure.

The gray in the bottom row shows the total profit and loss of the loss-making group companies. Since the major impairment of our resource interests in FY2014, multibillion-yen losses have constantly weighed on our earnings, and we recorded large one-off losses, including impairments, in FY2019 and FY2020.

Figure 1: Trend in consolidated profit (loss) for the year since FY2006



Analysis of issues: Three measures

In Figure 2, we explore the issue in more depth.

The group companies in the green top row of Figure 1 have increased their earning bases over the years and demonstrated the strengths of the Sumitomo Corporation Group. They will continue to pursue profitability by leveraging these strengths. On the other hand, the issue to be resolved is apparent in the yellow and gray areas, namely, increasing earning power and improving resilience of our business portfolio.

Three measures will be implemented to address this issue.

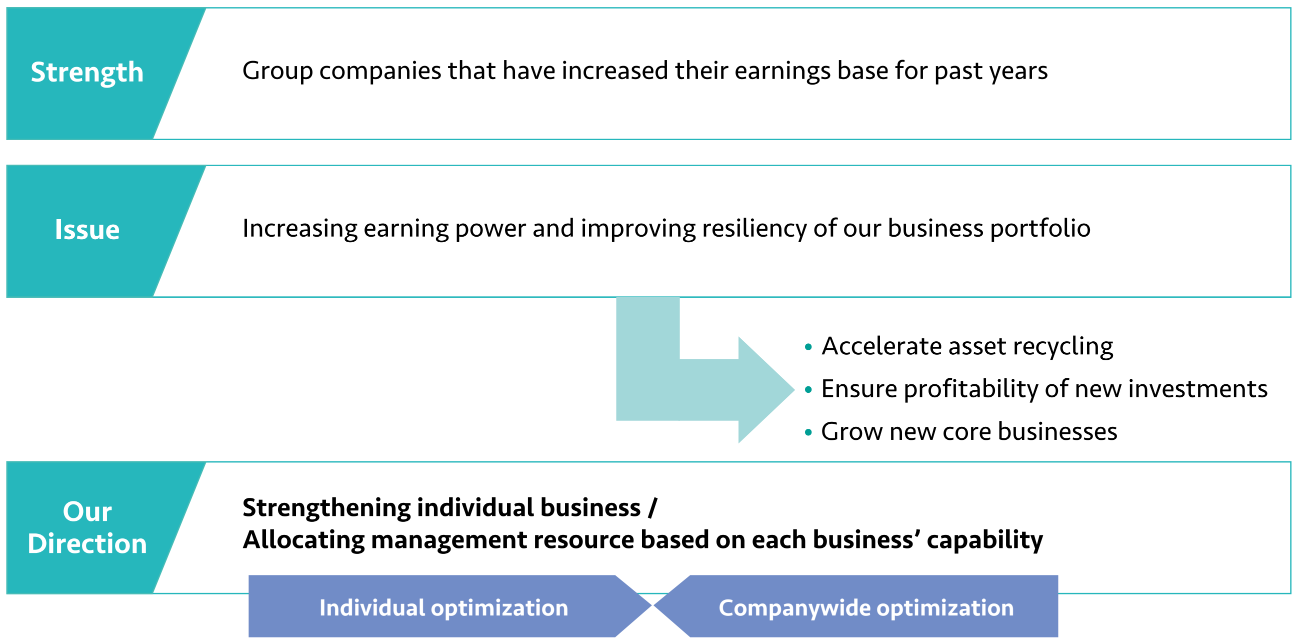
The first is accelerating the asset recycling. One of the short-term measures is to take a thorough look at and liquidate businesses that are judged to be low-profitable and have issues with growth potential. This measure will be promoted with a strong commitment at the management level so that there are no delayed decisions resulting from too heavily prioritizing short-term profits or the individual circumstances at each work site.

Next is ensuring the profitability of new investment and loan projects. Businesses that have been invested in recent years and are not progressing as planned will be turned around steadily. In addition, to avoid repeating the same failures in the future, we will build a system for strengthening investment discipline and enhancing value after investment.

Last, we will develop new core businesses. We will transform our existing businesses so that they are more suitable for the changing times. At the same time, we will focus on developing new core businesses in a more reliable manner while leveraging our strengths and capabilities.

To effectively implement these three measures will require a two-pronged approach. The first part is individual optimization involving thorough strengthening of the business with each business fulfilling its own role. The second is overall optimization through management decisions covering the big picture, allocating management resources according to the capabilities of each business and market growth potential. Under new medium-term management plan "SHIFT 2023," launched in FY2021, we will clearly recognize these challenges and take the appropriate action. (▶ Refer to p. 33)

Figure 2: Issue recognition



Commencement of structural reform

Structural reform in FY2020

The graph below shows the quarterly trend in profit and loss over the past three years. The Group revenue had already been on the decline before the COVID-19 pandemic hit. The drastic changes in the business environment caused by the COVID-19 pandemic made our weaknesses more apparent, but even before that, our overall portfolio earnings were affected by changes in the business environment, such as the trade friction between the United States and China, as well as the inability to respond to the challenges of individual businesses, which forced a decline in both sales and profits. This was caused by our actions taken to address these issues being insufficient.

To remedy the situation, we switched the entire Group into “emergency mode” in FY2020, enhanced our cash flow and cost management, and steadily solidified our footing while implementing the structural reform for future growth anticipating the circumstances during COVID-19 and post-COVID-19. In addition to accelerating our rebuilding and exiting low-profitability businesses, we have been reviewing our cross-shareholdings and writing off losses, including structural reform costs. Furthermore, we have visualized and reevaluated our strategies for all businesses, and in some cases have made major corrections to our strategies to organize and confirm themes that we should address in the future.

The results of the structural reform through the end of FY2020 are shown in the table to the right.

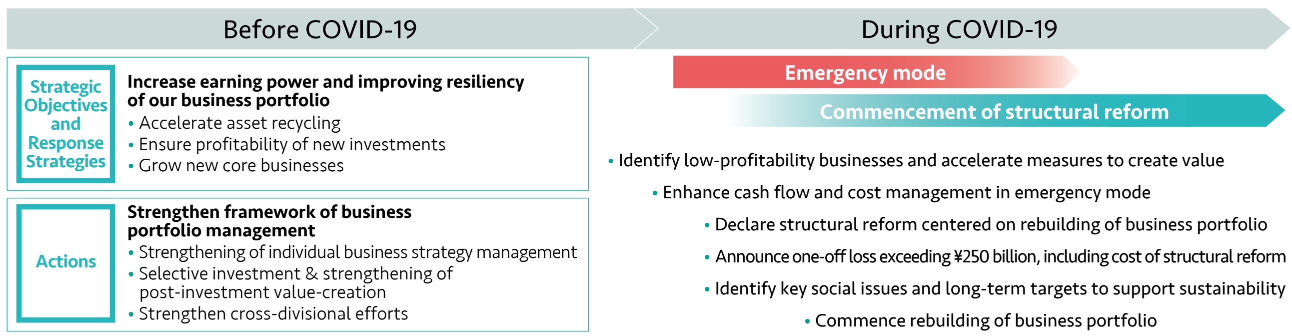
In terms of dealing with low-profitability businesses, we analyzed the profitability of approximately 400 groups of companies and identified 101 of them for exit or divestment, completing the exit from 32 companies by the end of FY2020, despite the extremely difficult business environment. We will make our exit from the remaining 69 companies during the period covered by SHIFT 2023. We also identified 71 companies for establishment of a road map for turnaround. Together with the five companies identified for a major turnaround project, we have established turnaround measures in accordance with the road map and begun our efforts. Although we still have a long way to go, we have formulated concrete plans for these roughly 150 group companies that are expected to improve their earnings by approximately ¥70 billion in total during the period of SHIFT 2023.

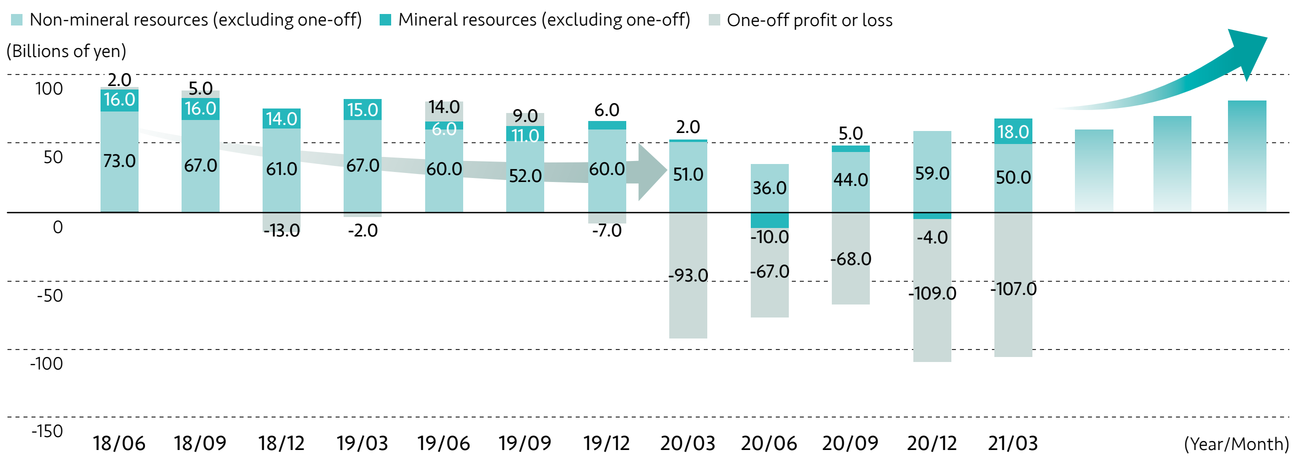
We have also implemented stricter companywide cash flow management through steady implementation of asset replacement, improvement of working capital, and careful selection of investments and loans.

In addition, we have also completed the brush-up and evaluation of all business strategies for the rebuilding of our business portfolio, and will implement the plan-do-check-act (PDCA) cycle while steadily reviewing them.

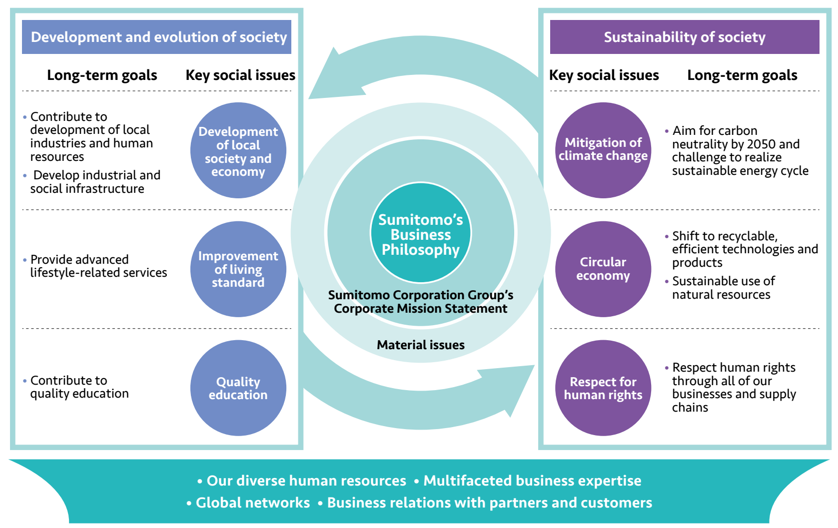
In the midst of this critical situation, we will continue to build on the momentum of the structural reform the entire Group has undertaken to achieve even greater results by incorporating more systematic and effective measures into SHIFT 2023.

Commencement of structural reform





Structural reform results to date

<table>
<tr><th>Specific efforts</th><th>Results</th></tr>
<tr><td>Identify low-profitability businesses and accelerate measures to create value</td><td>• Of the 101 companies identified, exit from 32 companies was completed by the end of FY2020
• By accelerating the efforts, the earnings improvement below is expected during the period of the new medium-term management plan
<table>
<tr><th>Category</th><th>No. of companies</th><th>Earnings improvement (estimated)</th></tr>
<tr><td>Establishment of road map for turnaround</td><td>71</td><td rowspan="3">Approx. ¥70 billion
(from the result of FY2020)</td></tr>
<tr><td>Major projects for turnaround</td><td>5</td></tr>
<tr><td>Exit</td><td>69</td></tr>
</table></td></tr>
<tr><td>Improve cash flow management</td><td>• By steadily implementing asset disposal, ¥110 billion in cash was recovered in FY2020 (¥50 billion of which was from sales of cross-shareholdings)
• Working capital was improved by approx. ¥200 billion in FY2020
• Investments were limited to strategically important ones and made on a selective basis</td></tr>
<tr><td>Tighten cost management</td><td>• SG&A expenses were reduced by more than ¥32 billion in FY2020</td></tr>
<tr><td>Commence rebuilding of business portfolio</td><td>• Individual business strategies as well as portfolio strategy of each business unit were discussed and confirmed</td></tr>
<tr><td>Enhancement of sustainability management</td><td>• Key social issues and long-term targets were identified
• Medium-term targets as milestones were established and incorporated into specific KAI/KPI


Refer to p. 63</td></tr>
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