

Annual Results for FY2021

May 10, 2022
Sumitomo Corporation

Cautionary Statement Concerning Forward-looking Statements

This report includes forward-looking statements relating to our future plans, forecasts, objectives, expectations and intentions. The forward-looking statements reflect management's current assumptions and expectations of future events, and accordingly, they are inherently susceptible to uncertainties and changes in circumstances and are not guarantees of future performance. Actual results may differ materially, for a wide range of possible reasons, including general industry and market conditions and general international economic conditions. In light of the many risks and uncertainties, you are advised not to put undue reliance on these statements.

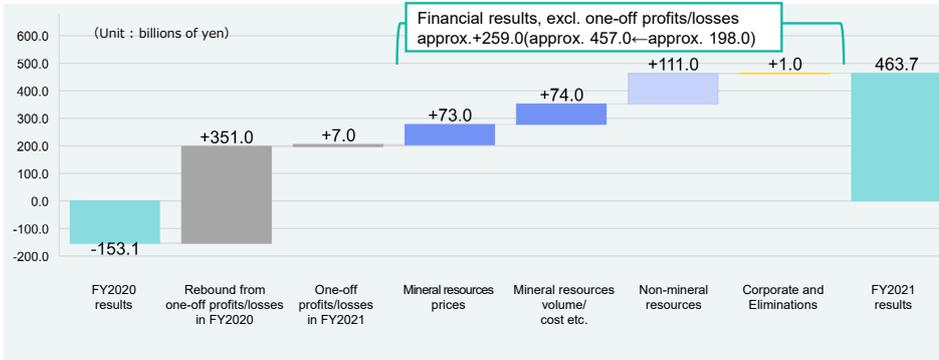
The management forecasts included in this report are not projections, and do not represent management's current estimates of future performance. Rather, they represent forecasts that management strives to achieve through the successful implementation of the Company's business strategies. The Company may be unsuccessful in implementing its business strategies, and management may fail to achieve its forecasts. The Company is under no obligation -- and expressly disclaims any such obligation -- to update or alter its forward-looking statements.

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1. Operating Results (Profit/Loss for the Year)

(Unit: billions of yen)	FY2020 Results (A)	Q1 (Apr.-Jun.)	Q2 (Jul.-Sep.)	Q3 (Oct.-Dec.)	Q4 (Jan.-Mar.)	FY2021 Results (B)	Increase/Decrease (B)-(A)
Profit/loss (-) for the year	-153.1	107.3	133.7	94.1	128.6	463.7	+616.8
One-off profits/losses	approx. -351.0	approx. +14.0	approx. +3.0	approx. -7.0	approx. -3.0	approx. +7.0	approx. +358.0
excl. one-off profits/losses	approx. 198.0	approx. 93.0	approx. 131.0	approx. 101.0	approx. 132.0	approx. 457.0	approx. +259.0
Mineral resources ^{*1}	13.0	22.0	53.0	32.0	53.0	160.0	+147.0
Non-mineral resources ^{*2}	177.0	68.0	70.0	72.0	78.0	288.0	+111.0
Corporate and Eliminations	8.0	3.0	8.0	-3.0	1.0	9.0	+1.0



^{*1} Mineral resources is a sum of Mineral Resources Division No.1, Mineral Resources Division No.2 and Energy Division.
^{*2} Non-mineral resources is calculated by subtracting "Mineral resources" and "Corporate and Eliminations" from the total.
^{*3} Due to reorganization carried out as Apr. 1 2021, the breakdown of FY2020 results, excl. one-off profits/losses are reclassified and described.

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<Profit/Loss for FY2021> (compared to FY2020)

- [One-off profits/losses] (FY2020)**
- ✓ One-off losses including impairment loss in several businesses such as nickel mining and refining business in Madagascar (F2021)
 - ✓ Profit from the sale of copper and molybdenum mining business in Chile (Sierra Gorda) (approx. +¥37.0 bil.)
 - ✓ Receipt of insurance proceeds from upstream Mineral Resources & Energy business (approx. +¥27.0 bil.)
 - ✓ One-off losses related to the Russian and Ukrainian situation (approx. -¥58.0 bil.) (SMFL's aircraft leasing business (approx. -¥50.0 bil.))
- [excl. one-off profits/losses]**
- **Mineral resources**
 - ✓ Increase in earnings by higher mineral resources prices
 - ✓ Resume of operation in nickel mining and refining business in Madagascar
 - **Non-mineral resources**
 - ✓ Tubular products business in North America and automotive related business : recovery
 - ✓ Leasing business : improvement in earnings
 - ✓ Real estate business : large scale properties delivered

(Reference)Key indicators	FY2020 Results (Apr.-Mar.)	FY2021 Results (Apr.-Mar.)
Exchange rate (YEN/US\$)	106.10	112.39
Interest rate TORF 6M (YEN)	NA	-0.03%
LIBOR 6M (US\$)	0.37%	0.34%
Copper * (US\$/MT)	6,169	9,319
Nickel (US\$/lb)	6.80	9.40
Iron ore * (US\$/MT)	109	160
Coking coal (US\$/MT)	118	313
Crude Oil (Brent) * (US\$/bbl)	42	71

Market price
 * These commodities show the prices in Jan.-Dec.

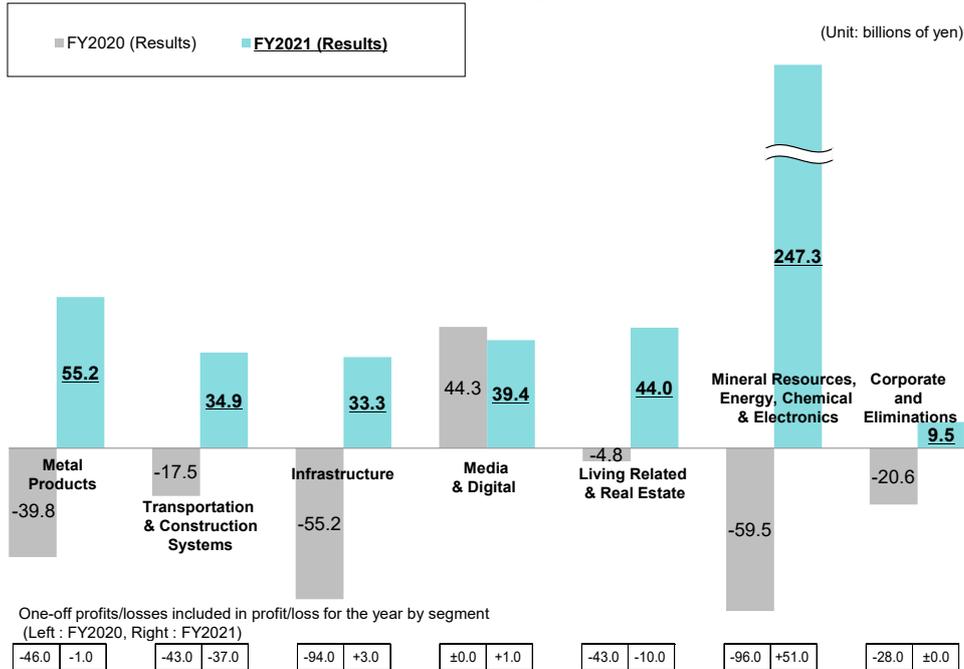
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Profit for FY2021 was JPY463.7 billion.

Although we posted a total of JPY58 billion in one-off losses in the aircraft leasing business and other businesses due to an impact of the Russian-Ukrainian situation in Q4, we continued robust performance due to revenue opportunities associated with the resumption of global economic activities. In addition, the higher mineral resources prices and other factors provided a tailwind that enabled us to achieve a record-high level of profit.

As President and CEO, I have been gradually feeling confident in the steady improvement in revenues in each of our businesses as a result of the various measures set forth in our medium-term management plan, SHIFT 2023.

2. Profit/Loss for the Year by Segment



<Profit/Loss for FY2021(Compared to FY2020)> [Summary by segment] (excl. one-off profits/losses)

- **Metal Products** approx.+49.0 (approx.56.0—approx.7.0)
 - ✓ Recovery of overseas steel service centers
 - ✓ Recovery of tubular products business in North America
- **Transportation & Construction Systems** approx.+46.0 (approx.72.0—approx.26.0)
 - ✓ Improvement in earnings of leasing business
 - ✓ Recovery of automotive related business
- **Infrastructure** approx.-8.0 (approx.31.0—approx.39.0)
 - ✓ Progress decreased in several EPC projects in power infrastructure business due to the end of construction
 - ✓ Performance of overseas IPP/WPP business is stable but impacted by low wind conditions in Europe
 - ✓ Impact of soaring price of wholesale electricity market in domestic electricity retail business
- **Media & Digital** approx.-6.0 (approx.38.0—approx.44.0)
 - ✓ Stable performance of major domestic group companies
 - ✓ Decrease in profit from overseas telecommunication business
- **Living Related & Real Estate** approx.+15.0 (approx.54.0—approx.39.0)
 - ✓ Market recovery in the U.S. in fresh produce business in Europe and the Americas
 - ✓ Large scale properties delivered in real estate business
- **Mineral Resources, Energy, Chemical & Electronics** approx.+160.0 (approx.196.0—approx.36.0)
 - ✓ Increase in earnings by higher mineral resources prices
 - ✓ Resume of operation in nickel mining and refining business in Madagascar
 - ✓ Stable performance in chemical trade and agricultural input business

* Due to reorganization carried out as Apr. 1 2021, the breakdown of FY2020 results are reclassified and described.

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The second page lists results by segment.

In the Media & Digital segment, although profits declined YoY in the overseas telecommunications business, profits increased substantially across the board in the other segments, partly due to the absence of the one-off losses recorded in the previous fiscal year.

A summary of the operating results of each segment, excluding one-off profits/losses, is shown on the right side of the document.

The overseas steel service centers business in Metal Products, and the automotive-related business in Transportation & Construction Systems recovered, resulting in increased profits. And the increased profits in Mineral Resources, Energy, Chemical & Electronics is mainly due to the effect of higher resource prices and stable performance in the chemical trade and the agricultural input business.

3. Cash Flows / Financial Position

● Cash Flows (Unit: billions of yen)

	FY2020	FY2021
Operating activities	+467.1	+194.1
Investing activities	-120.1	+49.0
Repayments of lease liabilities	-62.6	-68.4
Free Cash Flow (After netting repayments of lease liabilities)	+284.4	+174.7
<Cash in>		
Basic profit cash flow ^{*1}	+130.8	+359.5
(Dividend from investments accounted for using the equity method, included in the above)	(+85.6)	(+114.0)
Depreciation and amortization (After netting repayments of lease liabilities)	+108.3	+102.0
Asset replacement	approx. +110.0	approx. +220.0
Others	approx. +200.0	approx. -220.0
<Cash out>		
Investment & loan	approx. -260.0	approx. -290.0

< Summary >

- **Basic profit cash flow**
 - ✓ Steady cash generation by core businesses
- **Asset replacement**
 - ✓ Sales of copper and molybdenum mining business in Chile (Sierra Gorda)
 - ✓ Sales of the domestic and overseas real estate etc.
- **Others**
 - ✓ Increased in working capital, etc.
- **Investment & loan**
 - ✓ Participation in the telecommunication business in Ethiopia
 - ✓ Participation in the water sewage treatment business in China, etc.

● Financial Position (Unit: trillions of yen)

As of Mar. 31, 2021		As of Mar. 31, 2022	
Total assets 8.1		Total assets 9.6	
Current assets 3.5	Other liabilities 2.6	Current assets 4.6	Other liabilities 3.4
Non-current assets 4.6	Interest-bearing liabilities ^{*2} 2.9 (2.3)	Non-current assets 4.9	Interest-bearing liabilities ^{*2} 3.0 (2.3)
	Shareholders' equity ^{*3} 2.5		Shareholders' equity ^{*3} 3.2
D/E Ratio(Net) : 0.9		D/E Ratio(Net) : 0.7	

< Summary >

- **Total assets +1,502.2** (8,080.0→9,582.2)
 - ✓ Increase due to the yen's depreciation (approx. +440.0)
 - ✓ Increase in operating assets
 - ✓ Increase in investments accounted for using the equity method, etc.
- **Shareholders' equity +669.9** (2,528.0→3,197.8)
 - ✓ Profit for the year
 - ✓ Increase due to the yen's depreciation
 - ✓ Dividend paid, etc.

	As of Mar. 31, 2021	As of Mar. 31, 2022
Exchange rate <YEN/US\$>	110.71	122.39

^{*1} 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
Tax rate is 25% for the fiscal year ended March 31, 2022 and 31% for the fiscal year ended March 31, 2021

^{*2} "Interest-bearing liabilities" is sum of bonds and borrowings (current and non-current), excluding lease liabilities.
Figures in parenthesis in "Interest-bearing liabilities" show "Interest-bearing liabilities, net".

^{*3} "Shareholders' equity" is equivalent to "Equity attributable to owners of the parent" in Consolidated Statements of Financial Position.

Next, I would like to explain cash flows and the financial position on page three.

First, please see the top of the document for cash flows. Free cash flow after netting repayments of lease liabilities was a cash inflow of JPY174.7 billion in the current fiscal year. The main breakdown is as follows: Basic profit cash flow was a cash inflow of JPY359.5 billion, mainly due to steady cash generation by core businesses.

Regarding asset replacements, we have recovered JPY220 billion in funds through the sales of copper and molybdenum mining business in Chile and the domestic and overseas real estate, etc.

As for other cash flows, there was a cash outflow of JPY220 billion due to an increase in working capital as a result of expanded transactions.

In terms of investments and loans, the total cash outflow was JPY290 billion, including new investments such as participation in telecommunication business in Ethiopia and water sewerage treatment business in China, as well as additional and replacement investments in existing businesses.

Next, I will explain the financial position on the right side of the document.

Total assets increased by JPY1.5 trillion from the end of the previous fiscal year to JPY9.6 trillion. In addition to an increase of approximately JPY440 billion due to the depreciation of the yen, this was due to an increase in other operating assets such as trade receivables and inventories, in line with an increase in transactions.

Shareholders' equity increased by approximately JPY700 billion from the end of the previous fiscal year to JPY3.2 trillion, due to the recording of profit for the year and the effect of foreign exchange rates. This results in reducing a net D/E ratio to 0.7 times.

4. Forecasts for FY2022, Plans for FY2023 and FY2024

(Unit: billions of yen)	SHIFT 2023					FY2024 Plans	(Reference) Key indicators					
	FY2021 Results (A)	Increase/Decrease (B)-(A)	FY2022 Forecasts (B)	Increase/Decrease (C)-(B)	FY2023 Plans (C)		FY2021 Results	FY2022 Forecasts	FY2023 Plans	FY2024 Plans		
Profit for the year (Initial plans announced in May 2021)	463.7 (230.0)	-93.7	370.0 (260.0)	+10.0	380.0 (300.0 or more)	450.0	Exchange rate (YEN/US\$)	112.39	120.00	120.00	120.00	
One-off profits/losses	approx. +7.0	approx. -17.0	approx. -10.0	approx.+10.0	-	-	Interest rate	TORF 6M(YEN)	-0.03%	0.00%	0.00%	0.00%
excl. one-off profits/losses	approx. 457.0	approx.-77.0	approx. 380.0	-	approx. 380.0	approx. 450.0	LIBOR 6M(US\$)	0.34%	2.40%	NA	NA	
Mineral resources	approx.+160.0	approx. -29.0	approx.+131.0	approx. -37.0	approx.+94.0	approx.+94.0	SOFR 6M(US\$)	NA	2.00%	2.50%	2.50%	
Non-mineral resources	approx.+288.0	approx. -47.0	approx.+241.0	approx.+46.0	approx.+287.0	approx.+353.0	Copper ※ (US\$/MT)	9,319	9,571	8,811	8,818	
Corporate and Eliminations (Impact of Exchange Rates including in Corporate and Eliminations) *	approx.+9.0	approx. -1.0	approx.+8.0	approx. -9.0	approx. -1.0	approx.+3.0	Nickel (US\$/lb)	9.40	10.32	9.56	8.41	
	(-)	(approx.+25.0)	(approx. 25.0)	(-)	(approx. 25.0)	(approx. 25.0)	Iron ore ※ (US\$/MT)	160	124	94	94	
							Coking coal (US\$/MT)	313	319	214	200	

* Market price
 ※ mark indicates commodity prices for Jan-Dec.
 * Sensitivity of profit for the year to exchange rate (FY2022 forecasts): ± approx. ¥1.2 billion/US\$ change

Financial forecasts, excl. one-off profits/losses approx. -77.0 (approx. 457.0 → approx. 380.0)

Financial plans, excl. one-off profits/losses -(approx. 380.0 → approx. 380.0)

(Unit: billions of yen)

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* The exchange rate assumption (YEN/US\$) for the mineral resource business and non-mineral resource business for the year from FY2022 to FY2024 is 110.00 (The exchange rate assumption for the entire company (YEN/US\$) is 120.00). The difference between the exchange rate assumptions for the corporate and each business (about 25.0 billion yen of impact including currencies other than US\$) is included in Corporate and Eliminations.

Next, I will explain our profit plan for the next fiscal year and beyond.

As shown in the numerical table at the top of the document, the profit plan for FY2022 is JPY370 billion. The profit image for FY2023 is set at JPY380 billion. In addition, the profit image for FY2024 is newly set at JPY450 billion.

In the initial plan announced last May, as indicated in the parentheses, we had projected JPY260 billion for FY2022 and more than JPY300 billion for FY2023, but we have revised these figures upward based on the results of the SHIFT2023 initiatives during the past year.

Since the announcement of the current medium-term management plan, we have been discussing strategies internally, not only regarding the period of the medium-term management plan, but always with a specific quantitative image for the next three years, in order to shift our business portfolio through optimal allocation of management resources. Therefore, we have also shown the profit image for FY2024 this time.

The exchange rate assumption for each business had been set at JPY110 per US dollar, but in consideration of the rapid depreciation of the yen since the beginning of March this year, we have revised the exchange rate assumption for the entire company to JPY120 per US dollar. The impact of the difference in exchange rate assumptions, which includes currencies other than the US dollar, is approximately JPY25 billion for each fiscal year and is included in corporate and eliminations.

4. Forecasts for FY2022, Plans for FY2023 and FY2024

(Unit: billions of yen)	SHIFT 2023					FY2024 Plans	(Reference) Key indicators					
	FY2021 Results (A)	Increase/Decrease (B)-(A)	FY2022 Forecasts (B)	Increase/Decrease (C)-(B)	FY2023 Plans (C)		FY2021 Results	FY2022 Forecasts	FY2023 Plans	FY2024 Plans		
Profit for the year (Initial plans announced in May 2021)	463.7 (230.0)	-93.7	370.0 (260.0)	+10.0	380.0 (300.0 or more)	450.0	Exchange rate (YEN/US\$)	112.39	120.00	120.00	120.00	
One-off profits/losses	approx. +7.0	approx. -17.0	approx. -10.0	approx. +10.0	-	-	Interest rate	TORF 6M(YEN)	-0.03%	0.00%	0.00%	0.00%
excl. one-off profits/losses	approx. 457.0	approx. -77.0	approx. 380.0	-	approx. 380.0	approx. 450.0	LIBOR 6M(US\$)	0.34%	2.40%	NA	NA	
Mineral resources	approx. +160.0	approx. -29.0	approx. +131.0	approx. -37.0	approx. +94.0	approx. +94.0	SOFR 6M(US\$)	NA	2.00%	2.50%	2.50%	
Non-mineral resources	approx. +288.0	approx. -47.0	approx. +241.0	approx. +46.0	approx. +287.0	approx. +353.0	Copper ※ (US\$/MT)	9,319	9,571	8,811	8,818	
Corporate and Eliminations (Impact of Exchange Rates including in Corporate and Eliminations) *	approx. +9.0	approx. -1.0	approx. +8.0	approx. -9.0	approx. -1.0	approx. +3.0	Nickel (US\$/lb)	9.40	10.32	9.56	8.41	
	(-)	(approx. +25.0)	(approx. 25.0)	(-)	(approx. 25.0)	(approx. 25.0)	Iron ore ※ (US\$/MT)	160	124	94	94	
							Coking coal (US\$/MT)	313	319	214	200	

* Market price
 ※ mark indicates commodity prices for Jan-Dec.
 * Sensitivity of profit for the year to exchange rate (FY2022 forecasts): ± approx. ¥1.2 billion/US\$ change

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The exchange rate assumption (YEN/US\$) for the mineral resource business and non-mineral resource business for the year from FY2022 to FY2024 is 110.00 (The exchange rate assumption for the entire company (YEN/US\$) is 120.00). The difference between the exchange rate assumptions for the corporate and each business (about 25.0 billion yen of impact including currencies other than US\$) is included in Corporate and Eliminations.

(Continued)

The waterfall chart at the bottom shows the factors behind the increase and decrease in profit for each year.

In FY2022, we expect a decrease of JPY77 billion from FY2021, excluding one-off factors, but this is mainly due to the impact of deterioration in the external environment, and we expect steady growth in profit excluding these factors on an ordinary income basis.

Of this amount, the mineral resources businesses are expected to decrease in profit by JPY29 billion due to the impact of the sale of upstream projects in the previous fiscal year and the absence of the strong performance of the midstream and downstream businesses in the previous fiscal year, although the impact of the recent surge in mineral resources prices has been factored in.

In the non-mineral resources businesses, we expect a JPY47 billion decrease in profit. This is due to the fact that we have factored in the impact of the Russian-Ukrainian situation, mainly in Transportation & Construction Systems, and that the steel sheets business was affected by the soaring market prices in the previous fiscal year. We expect the real estate business and media-related domestic major group companies to continue to perform well.

Subsequently, through FY2023, although the mineral resources businesses are expected to see a decrease in profit due to the assumption of lower mineral resources prices, the non-mineral resources businesses are expected to increase profit by JPY46 billion by steadily expanding revenues, mainly in the businesses categorized in steady business growth shown on the slide.

Please refer to the Appendix later for the profit trends by segment for each fiscal year.

5. Cash flow revised plan in SHIFT 2023

(Unit : billions of yen)	SHIFT 2023		3-year Total Initial Plans (May 2021)
	FY2021 Results	3-year Total Revised Plans (May 2022)	
Basic profit cash flow	+359.5	+910.0	+640.0
Depreciation and amortization (After netting repayments of lease liabilities)	+102.0	+320.0	+310.0
Asset replacement	+220.0	+660.0	+520.0
Others	-220.0	-190.0	-70.0
Investment & loan (including renewal investment)	-290.0	-1,230.0	-1,140.0
Free cash flows (adjusted)	+174.7	+470.0	+260.0
Dividend	-100.0	-350.0	-260.0
Free cash flow (post-dividend) (adjusted)	+74.7	Ensure Positive	Ensure Positive

<Cash Flow Allocation Policy>

- No change in the basic policy of ensuring positive free cash flow (post-dividend) (adjusted).
- Use increased basic profit cash flow to fund additional investments and loans, and return profits to shareholders.
 - * Breakdown of basic profit cash flow by year
FY22: 270.0 (initial plan 220.0)
FY23: 280.0 (initial plan 260.0)
- While prioritizing additional investments and loans, we will make flexible decisions on the allocation of residual cash, including allocations to repayment of interest-bearing debt and additional shareholder returns.

* When announced in May 2021, the total amount was shown for asset replacement and others in the 3-year total initial plans (May 2021), but this has been changed to show the respective breakdown amounts.

Next, I will explain the cash flow plan.

On the left side, we present three-year total revised cash flow plans of SHIFT 2023.

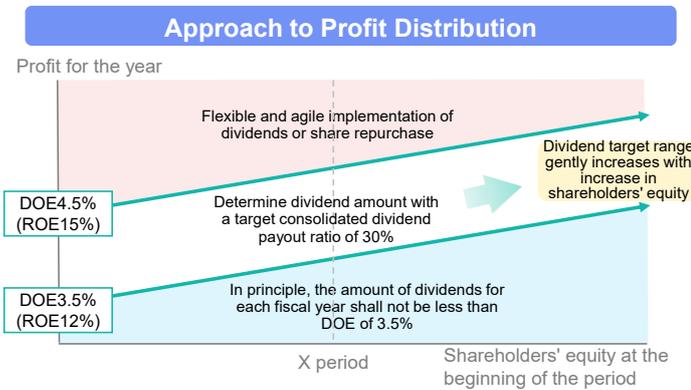
There is no change in our basic policy of ensuring positive free cash flow after dividend. The revised plan calls for investments and loans of approximately JPY1.2 trillion, and we will continue to focus on areas where the market is highly attractive and we can fully demonstrate our strengths.

6. Shareholder Return Policy

In light of the progress made in improvement of our revenue base and financial soundness through the progress in structural reforms, and other factors, we have reviewed our shareholder return policy for FY2022 and beyond.

- The annual dividend amount will be determined based on the consolidated dividend payout ratio of 30% within the DOE range of 3.5 to 4.5%, taking into consideration the status of fundamental earnings capacity, cash flows and other factors.
- If 30% of the profit for the year exceeds the above range, we will pay dividends or repurchase our shares for the excess portion in a flexible and agile manner.

* DOE: Dividend on equity ratio



Supplementary Explanation

- The annual dividend forecast is determined based on a dividend payout ratio of 30% of the annual forecasts of profit for the year within a DOE range of 3.5% to 4.5%.
* DOE is calculated based on shareholders' equity at the beginning of the period.
- The amount of annual dividends shall be determined based on a payout ratio of 30% of actual profit for the year. In principle, however, the amount of annual dividends shall not be less than that of the immediately preceding dividend forecast.
* In the event that the annual forecasts of profit for the year is revised during the term, the revised dividend forecast shall not, in principle, be less than the dividend forecast immediately prior to the revision.
- If 30% of actual profit for the year exceeds DOE 4.5%, we will flexibly implement dividend payments or share repurchase in addition to the above.
* In the case of dividends, the dividend payout ratio shall be 30% or more in principle.
- In principle, the interim dividend shall be half of the annual dividend forecast at the time of the interim dividend payment.

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Next, I would like to explain our shareholder return policy.

In FY2021, the first fiscal year of the medium-term management plan, we made progress in improving our revenue base and financial soundness due to progress in structural reforms and tailwind factors in the external environment. In light of these circumstances, we have reviewed our shareholder return policy from this fiscal year.

First, our basic approach to shareholder returns remains unchanged, which is to pay stable dividends over the long term and to increase dividends in line with profit growth over the medium to long term.

In order to realize long-term stable dividend growth in a better manner, we have set a target range of DOE of 3.5% to 4.5%, and within this range, we will determine the base dividend amount based on a dividend payout ratio of 30%.

DOE is the ratio of dividends to shareholders' equity. A DOE of 3.5% to 4.5% is equivalent to a ROE of 12% to 15% when considering a payout ratio of 30%. In order to ensure this level of capital efficiency and increase in shareholders' equity, we will achieve our steady profit growth over the medium to long term. And we will continuously return the results to shareholders through dividends. In addition, we will flexibly pay out additional dividends or buy back our own shares in the event that annual profits exceed the range mentioned above due to one-off factors or unexpected tailwinds, thereby providing upside shareholder returns.

7. New Shareholder Return Policy

New Shareholder Return Policy (Effective from FY2022)

- ✓ Aim to increase dividends through mid- to long-term profit growth, while adhering to the basic policy of paying stable dividends over the long term
- ✓ Annual dividend amount to be determined based on the consolidated dividend payout ratio of 30% within the DOE range of 3.5 to 4.5%, taking into consideration the status of fundamental earnings capacity, cash flows and other factors
- ✓ If 30% of the profit for the year exceeds the above range, we will pay dividends or repurchase our shares for the excess portion in a flexible and agile manner.

Dividends for FY2021 and FY2022

【FY2021】

Based on the previous policy, the annual dividend will be 110 yen per share (110 yen in the forecast announced in February), applying a consolidated dividend payout ratio of 30% to the actual profit for the year of 463.7 billion yen. (Interim: 45 yen per share, year-end: 65 yen per share (plan))

【FY2022 (forecast)】

Applying the above new policy to the annual forecasts of 370.0 billion yen in profit for the year, the annual dividend will be 90 yen per share.



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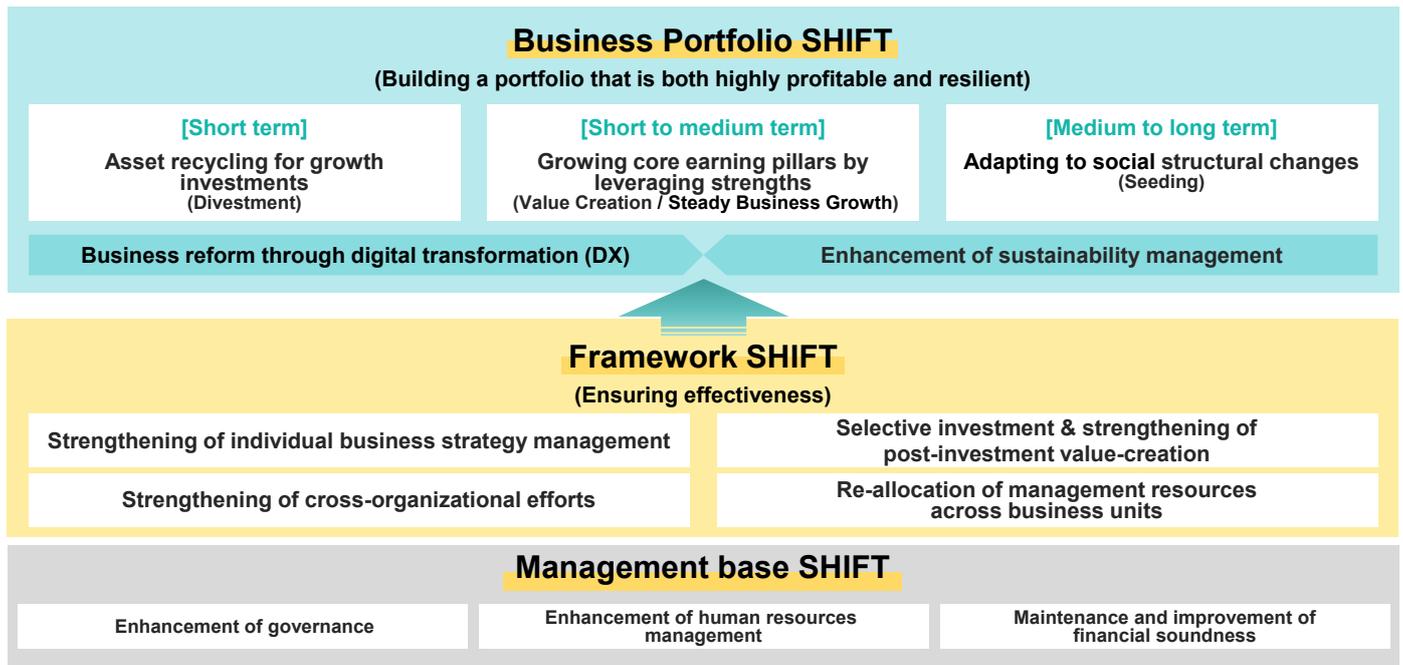
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For FY2021, based on the existing policy, the annual dividend per share is JPY110, applying a consolidated dividend payout ratio of 30% to profit for the year of JPY463.7 billion. Since the interim dividend was JPY45, the year-end dividend is expected to be JPY65.

For FY2022, the full-year forecast for profit for the year is JPY370 billion, and in light of the new shareholder return policy explained earlier, we have set the annual dividend at JPY90 per share.

Progress of Medium-Term Management Plan 「SHIFT 2023」

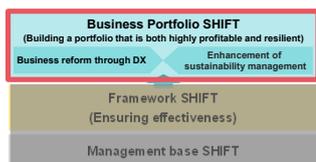
8. Overview of Medium-Term Management Plan SHIFT 2023



Next, I will explain the progress of our medium-term management plan, SHIFT2023.

This is an overall view of SHIFT2023, which has been introduced in the past. In the pages that follow, I will briefly explain the progress of each measure.

9. Business Portfolio SHIFT (Short Term and Short to Medium Term Initiatives)



■ Identify low-profitable businesses and accelerate measures to create value

- Analyzed profitability of approx. 400 groups of the companies, and identified 101 companies to exit. In addition to 32 companies completed in FY2020, have exited from 32 companies in FY2021.
- Approx. ¥100.0 bil. was earning improvement from Exit and Turnaround category. As for Improvement excl. external environmental effects, the initial plan of SHIFT 2023 (approx. ¥70.0 bil. Improvement) was achieved in the first fiscal year of the SHIFT 2023.

Full Potential Plan Progress							
Category	At the start of structural reform	FY2020 Results	At the end of Medium-Term Management Plan SHIFT 2023		FY2021		
	Targeted companies	No. of companies	No. of companies	Earnings improvement (estimated) (compared to FY2020)	Plan No. of companies	Results No. of companies	Earnings improvement (compared to FY2020)
Exit	101	32	69	approx. ¥70.0 bil.	39	32	approx. ¥100.0 bil.
Turnaround	76		76	Included in ¥130.0+ bil. earning improvement (excl. one-off profits/losses) through SHIFT 2023	76		Included in ¥259.0 bil. earning improvement (excl. one-off profits/losses) in FY2021

Targeted total 177 companies for structural reform

Major turnaround projects

- Nickel mining business in Madagascar: approx. ¥38.0 bil. improvement
- Fyffes: approx. ¥8.0 bil. improvement
- TBC: approx. ¥4.0 bil. improvement

Improvement excl. external environmental effects: approx. ¥70.0 bil.

This is the “short-term” and “short- and medium-term” initiatives for Business Portfolio SHIFT.

I will explain the progress of structural reforms based on the Full Potential Plan, which we have been continuing to work on. In FY2021, we have exited from 32 companies. Earnings improvement from these exits and the value creation in 76 turnaround companies was approximately JPY100 billion on a YoY basis.

The amount of improvement due to actual performance excluding the effects of the external environment, such as the impact of increase in mineral resources prices, is approximately JPY70 billion, which is included in the JPY100 billion. The initial target value for three years was approximately JPY70 billion, and this improvement was achieved in the first fiscal year of SHIFT 2023.

The amount of earnings improvement for major turnaround projects is also shown in the balloon on the right side of the slide.

10. Progress of the Business Portfolio SHIFT (during SHIFT 2023)

Business Portfolio SHIFT (Building a portfolio that is both highly profitable and resilient) Business reform through DX Enhancement of sustainability management	Business Strategy Category	Divestment	Value Creation	Steady Business Growth	Seeding
		Asset recycle for growth investments	Growing core earning pillars by leveraging strengths		Adapting to social structural changes
SHIFT 2023 Initial Plans (May 2021)	Cash generated through asset disposal (Three-year total)	¥110.0 billion ^{*1}	¥210.0 billion ^{*1}	¥200.0 billion ^{*1}	—
	Investments and loans (incl. renewal investment) (Three-year total)	—	¥330.0 billion	¥760.0 billion	¥50.0 billion
	excl. one-off profits/losses (in FY2023)	¥0.0+ billion	¥120.0+ billion	¥200.0+ billion	—
FY2021 Results	Progress / examination status of major projects	<ul style="list-style-type: none"> The sale of thermal coal mining interest in Australia The sale of copper and molybdenum mining business in Chile Partial sale of Oil and Gas business in the U.K. North Sea 	<ul style="list-style-type: none"> Implement structural reform in tubular products business Improvement in the nickel mining and refining business in Madagascar, TBC and Fyffes 	<ul style="list-style-type: none"> Investing in telecommunication business in Ethiopia Additional acquisition of forest assets Acquisition of water sewage treatment business in Shandong, China Expansion of managed care business (into Vietnam) 	<ul style="list-style-type: none"> Keep expanding of selling software for automation and optimization in energy development Entering 5G base station sharing services business Proceeding hydrogen, large-scale storage batteries and distributed solar power area
	Cash generated through asset disposal	¥60.0 billion	¥90.0 billion	¥60.0 billion	—
	Investments and loans (incl. renewal investment)	—	¥50.0 billion	¥230.0 billion	¥0.0 billion
	excl. one-off profits/losses	¥40.0 billion	¥190.0 billion	¥220.0 billion	—
SHIFT 2023 Revised Plans (May 2022)	Cash generated through asset disposal (Three-year total)	¥120.0 billion	¥280.0 billion	¥230.0 billion	—
	Investments and loans (incl. renewal investment) (Three-year total)	¥10.0 billion	¥290.0 billion	¥850.0 billion	¥60.0 billion
	excl. one-off profits/losses (in FY2023)	¥20.0 billion	¥180.0 billion	¥190.0 billion	-¥10.0 billion

*1 In the amount of "Cash generated through asset disposal" in SHIFT 2023 Initial Plans, cash-in from "Others" was deducted from the amount which was announced in Presentation for medium-term Management Plan and FY2021 Q2 results.

Next, I will explain the progress made during the period of SHIFT2023, including medium- and long-term initiatives.

The upper side of the slide plots each strategic business unit or SBU in four categories: divestment, value creation, steady business growth and seeding, and the main progress is shown in the middle row.

Regarding the cash generated through asset recycling, we are making steady progress in recovering management resources, including in the category of divestment.

Investments and loans are made mainly in the focused businesses categorized in steady business growth. Specifically, we are making investments totaling approximately JPY230 billion in FY2021, including new investments such as entering the telecommunications business in Ethiopia, as well as additional and replacement investments in existing businesses.

The breakdown of the revised SHIFT 2023 plan by strategic category is shown at the bottom of the slide. This time, in addition to refining the strategies of each SBU, we are slightly revising the plan, including the reclassification of categories.

11. Framework SHIFT and Management Base SHIFT



Thorough PDCA and strengthen commitment for ensuring effectiveness of measures

- Internal dissemination and thorough implement of KPI/KAI management.
- Monitoring the progress of the strategy of each SBU and reviewing strategy at the strategy meeting twice a year.

Initiative for improving the probability of investment success

- Comprehensively analyzed the factors that led to unachieved or loss occurrence for large-scale investments in the past. Based on the analysis of such factors, formulated the guideline for investment selection.
- In principle, investments are not allowed for projects that is not followed the above guideline.
- Introduction of new evaluation/remuneration system to strengthen the commitment to value enhancement.

Development of our group management policy

- Implemented the policy aiming to maximize the Group's corporate value.

Monitoring of SHIFT 2023 progress by Board of Directors

- The Board of Directors continuously monitors the progress of each measure of SHIFT 2023 including business portfolio SHIFT and structural reforms.

Enhancement of disclosure in Corporate Governance Report

(Updated Dec. 2021)

- Skill matrix is formulated and disclosed for all the Board of Directors and Audit & Supervisory Board Members, based on revision of Corporate Governance Code, etc.
- Updated cross-shareholding policy (Updated as "As a general rule, the Company will neither acquire nor hold shares in other listed companies for purposes other than pure investment.")

Human Resources System Revision

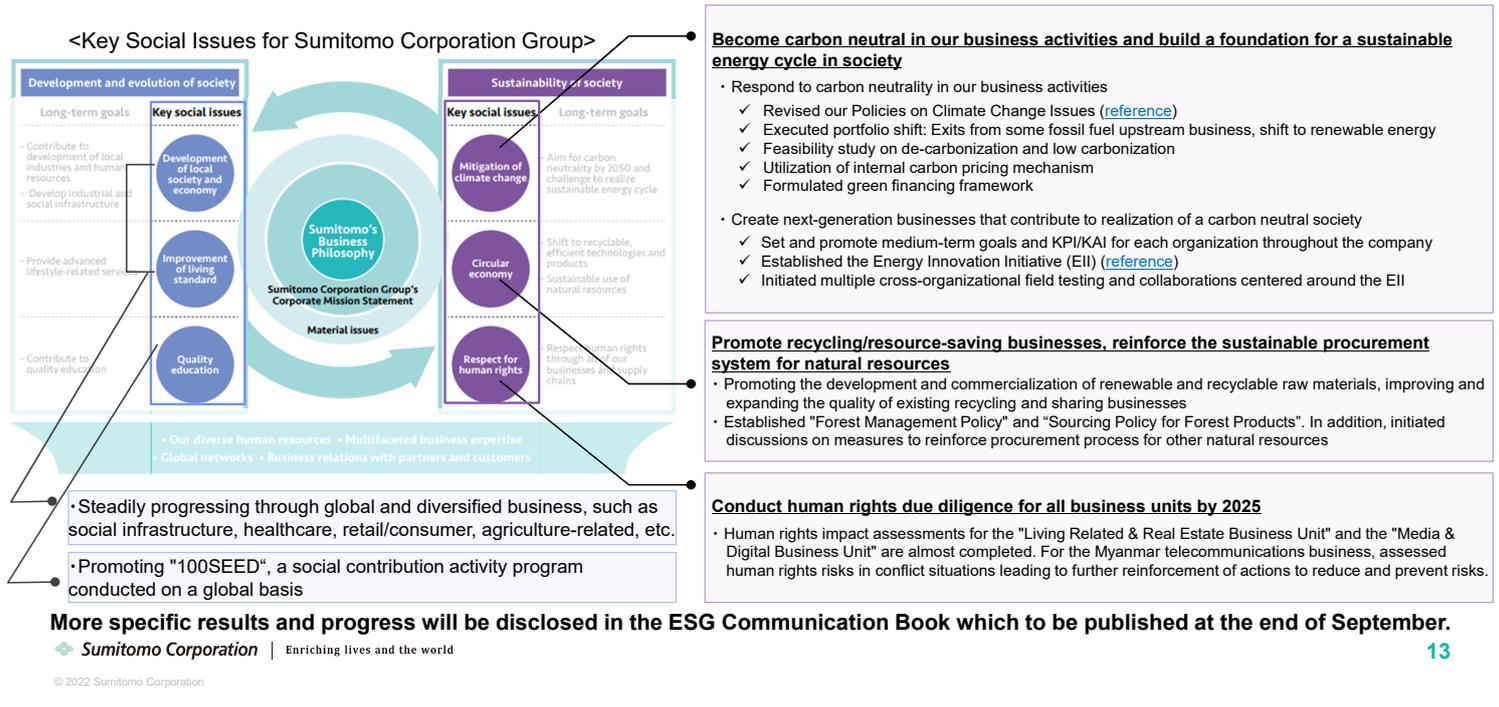
- Based on the "Pay for Job, Pay for Performance" concept, introduced job grading system, and revised the evaluation/remuneration system.
- Together with the allocation of the right talents to the right places that is unhindered by their attributes such as nationality, age, gender, and so on, promoting professionalism in all level.

This page is a summary of the efforts made in FY2021 for Framework SHIFT and Management Base SHIFT, which supports Business Portfolio SHIFT.

Even though the external environment has changed dramatically since the start of SHIFT 2023, including the Russian-Ukrainian situation, we will continue to strengthen our efforts for each of the three SHIFTs in FY2022 and beyond without loosening the reins of structural reform, while keeping an eye on future changes in the short, medium, and long terms.

12. Progress of the Group's Efforts to Address Key Social Issues

Steadily implement actions to address medium-term goals in FY2021



Finally, I would like to explain our progress in enhancement of sustainability management.

The Group is steadily implementing actions to resolve the six key social issues and to achieve its mid-term goals.

What is important in these efforts, as shown on the left side of the slide, on the left and right sides of the spiral, is that we aim to achieve both of the two themes: development and evolution of society on the left and sustainability of society on the right. This is the basis of our activities.

Based on this policy, with regard to mitigation of climate change, we have been working not only on various initiatives to achieve carbon neutrality for our group, but also on specific efforts to create next-generation businesses that contribute to realization of a carbon neutral society.

And, in the area of circular economy, we are promoting recycling and resource-saving businesses as well as reinforcing our sustainable procurement system for natural resources. In respect for human rights, we have already started human rights due diligence with the aim of covering all of our business operations by FY2025.

In addition to these efforts for sustainability of society, we also aim to contribute to the development and evolution of society in our medium-term management plan by utilizing digital technology in a variety of business fields, including social infrastructure.

13. Initiatives to Mitigate Climate Change (SHIFT of Our Business)

Create new value by pursuing
 “Sustainability of society” and “Development and evolution of society”

dotted circle : social, environmental, and economic value which our group create through the business activities (Our group's [Value Creation Model](#): Integrated Report p5.6)
bubble : image of business scale which our group expand

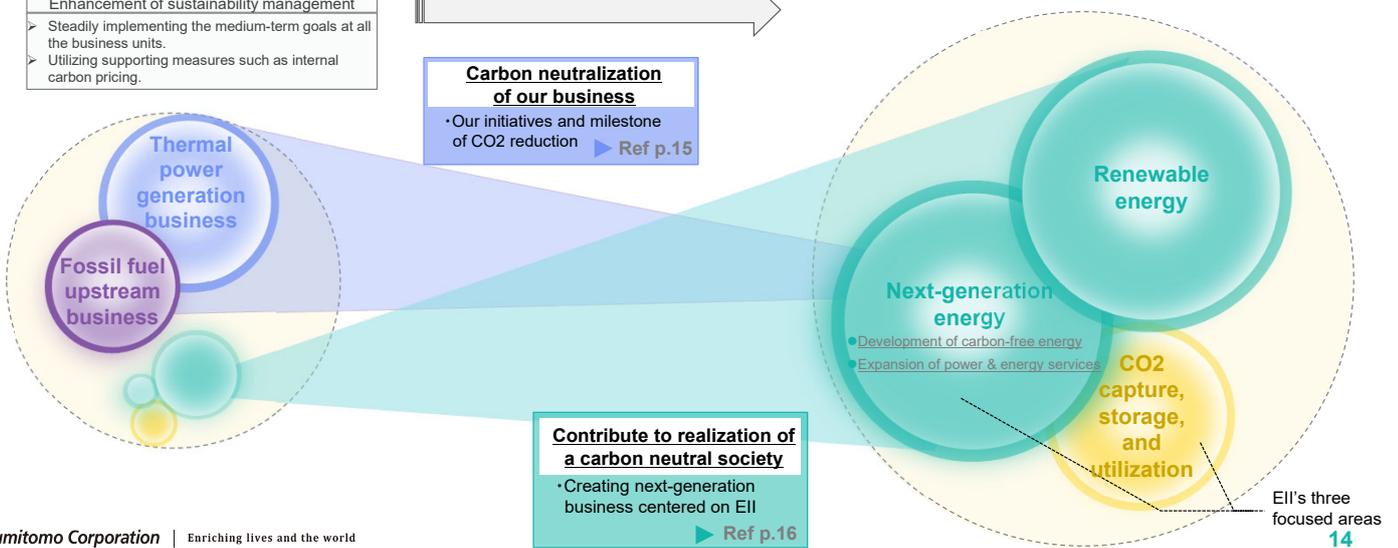
Current image

Enhancement of sustainability management
 > Steadily implementing the medium-term goals at all the business units.
 > Utilizing supporting measures such as internal carbon pricing.

Carbon neutralization of our business
 • Our initiatives and milestone of CO2 reduction ▶ [Ref p.15](#)

Contribute to realization of a carbon neutral society
 • Creating next-generation business centered on EII ▶ [Ref p.16](#)

Image of 2050



This slide presents the essence of our approach to climate change mitigation efforts in simplified form.

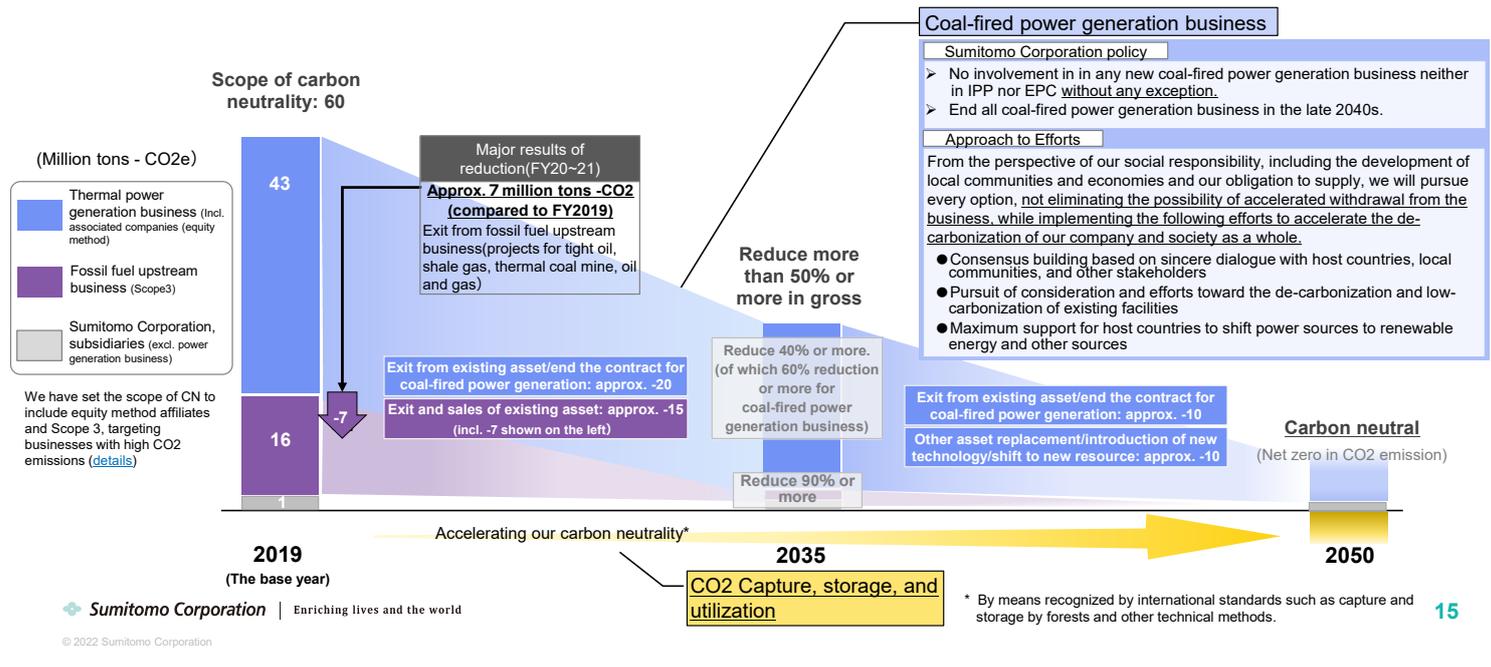
We will create new value by develop next-generation energy businesses and contributing to the realization of a carbon neutral society, with the aim of contributing to the development and evolution of local communities while at the same time achieving carbon neutrality for our Group.

As indicated in our Value Creation Model, our group is creating and enhancing the businesses based on sustainability management.

By contributing to the realization of a carbon-neutral society and the development and evolution of local communities, we will create environmental and social value while at the same time creating economic value.

14. Become Carbon Neutral in Our Business (Our Initiatives and Milestones of CO2 Reduction)

Contribute to carbon neutrality in society and accelerate carbon neutrality in our businesses



We have clarified and shown the milestones toward 2050 for the Group's carbon neutrality, as shown in the blue portion of the previous slide.

We will strive to reduce Scope 1 and Scope 2 emissions at our parent company and subsidiaries, and will also manage and reduce emissions from thermal power generation business, which have large total emissions, including equity method associated companies.

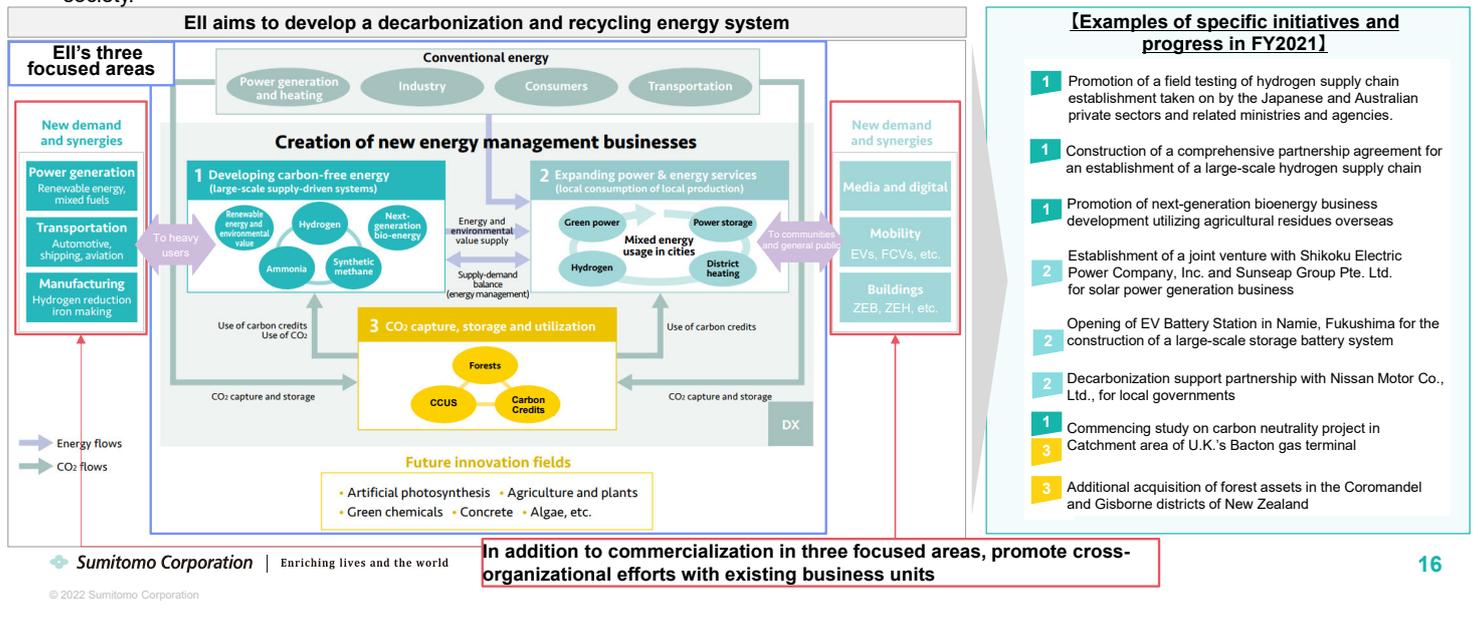
In addition, we are committed to achieving carbon neutrality including up to Scope 3 in our Fossil fuel upstream business. To date, we have made steady progress in shifting our portfolio.

Regarding the coal-fired power generation business, we have already announced that we would not engage in new development without exception.

We also have the policy that we will complete and withdraw from all coal-fired power generation business by the late 2040s at the latest, but we will continue to consider and pursue all options, including accelerating the withdrawal of projects, while supporting host countries' decarbonization or shift to low carbon emissions.

15. Contribute to Realization of a Carbon Neutral Society (Creation of Next-Generation Businesses Centered Around the EII)

- Promoting business development in the EII's three focused areas and cross-organizational efforts with existing business units to build de-carbonized, recycling energy businesses
- Globally proceeding various stages of business development to create next-generation businesses that contribute to realization of a carbon neutral society.



16

I would like to explain in some detail about the contribution to the realization of a carbon neutral society, as shown in green portion on page 14.

We see the changes in social structure brought about by the energy transition in global society as a business opportunity, and we are steadily advancing our initiatives to create the next-generation businesses centered around the Energy Innovation Initiative (EII).

As shown on the right, many projects are already underway in the three focused areas, including field testing for future commercialization. In addition, our existing business units are also making efforts to realize a carbon neutral society, and we will strengthen our cross-organizational efforts with EII, to expand synergies in the future.

As I have explained, our Group will not only steadily implement the various measures set forth in the SHIFT 2023 medium-term management plan to ensure Business Portfolio SHIFT, but also form a strong portfolio to solve social issues from a long-term and medium-term perspective, thereby strengthening our earning power.

[END]