

# New Medium-Term Management Plan

2021–2023

May 10, 2021

Sumitomo Corporation

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**Medium-Term Management Plan 2020**

Unceasing Challenge for New Value Creation

| Medium-Term Management Plan (2021–2023) |

| Enhancement of sustainability management |

“Sustainable growth of Sumitomo Corporation” and  
“Contribution to the development of a sustainable society”

# 1

## Review and Identification of Issues

# Performance Review

- We achieved the initial forecast and record-high profits in FY2018, but fell short of the initial forecast in FY2019 due to factors including trade friction between the United States and China. In FY2020, we fell into the red as a result of recording a large one-off loss associated with restructuring of unprofitable businesses on top of the impact of COVID-19.
- Likewise, efficiency ratios exceeded the target in FY2018, but not in FY2019 or FY2020.
- As a result of enhanced cash flow management in “emergency mode”, we exceeded a post-dividend free cash flow target of ¥200 billion for the three years.

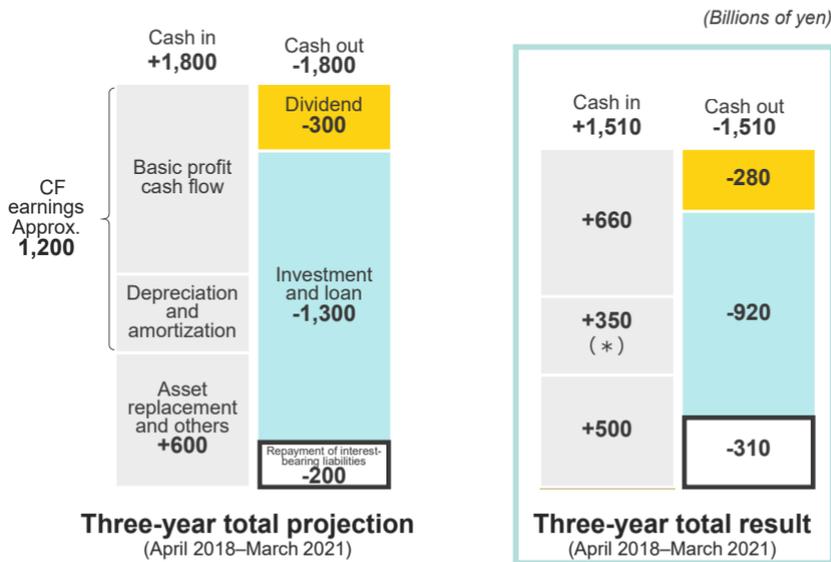
## Profit (loss) for the year (attributable to owners of the parent)



## Efficiency ratios

	Target	FY2018	FY2019	FY2020
ROA	4% or higher	4.1%	2.1%	-
ROE	10% or higher	12.0%	6.4%	-

## Three-year total cash flow



\* 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.”

# Strategic Objectives and Response Strategy

## Strategic Objectives

**Increase earning power and improving resiliency of our business portfolio**

Response strategy (1)

[Short term]

**Accelerate asset recycle**

Response strategy (2)

[Short to medium term]

**Ensure profitability of new investments**

Response strategy (3)

[Medium to long term]

**Grow new core businesses**

## Action

**Strengthen framework of business portfolio management**

(Improve effectiveness of measures)

Framework Shift (1)

**Strengthen management of individual business strategy**

Framework Shift (2)

**Execute investments selectively & Strengthen post-investment value-creation**

Framework Shift (3)

**Strengthen cross-divisional efforts**

# Commencement of Structural Reform

Before COVID-19

During COVID-19

Strategic objectives and response strategies

- Increase earning power and improving resiliency of our business portfolio

- ✓ Accelerate asset recycle
- ✓ Ensure profitability of new investments
- ✓ Grow new core businesses

Actions

- Strengthen framework of business portfolio management

- ✓ Strengthen management of individual business strategies
- ✓ Execute investment selectively & strengthen post-investment value-creation
- ✓ Strengthen cross-divisional efforts

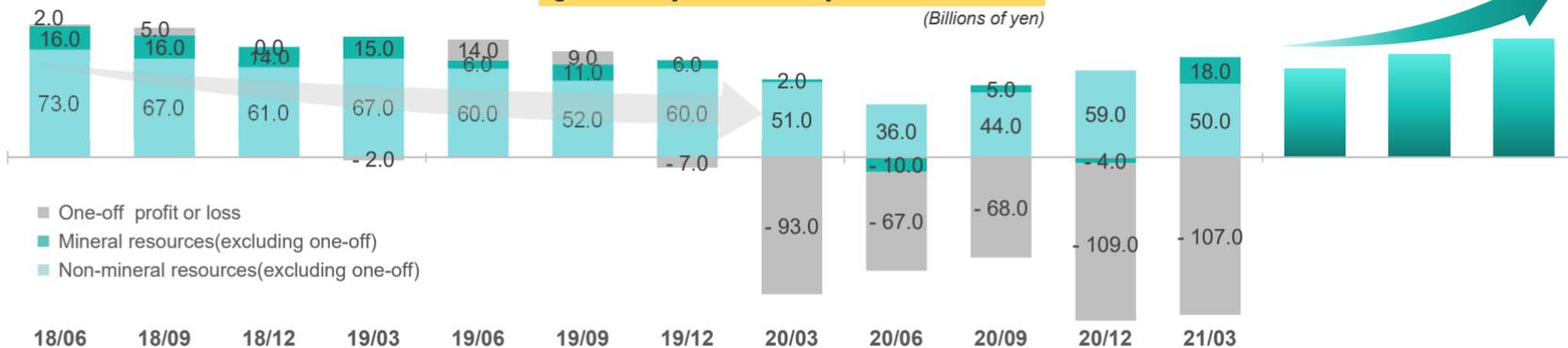
Emergency mode

Commencement of structural reform

- Identify low-profitability businesses and accelerate measures to create value
  - Enhanced cash flow and cost management in emergency mode
    - Declare structural reform centered on rebuilding of business portfolio
    - Announce one-off loss exceeding ¥250 billion, including cost of structural reform
    - Identify key social issues and long-term targets to support sustainability
      - Commence rebuilding of business portfolio

## Quarterly trend in profit and loss

(Billions of yen)



# Results to Date

Specific efforts	Results										
<ul style="list-style-type: none"> <li>■ Identify low-profitability businesses and accelerate measures to create value</li> </ul>	<ul style="list-style-type: none"> <li>✓ Of the 101 companies identified, exit from 32 companies was completed by the end of FY2020</li> <li>✓ By accelerating the efforts, the earnings improvement below is expected during the period of the new medium-term management plan</li> </ul> <table border="1" style="margin-top: 10px; width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #00a68f; color: white;">Category</th> <th style="background-color: #00a68f; color: white;">No. of companies</th> <th style="background-color: #00a68f; color: white;">Earnings improvement (estimated)</th> </tr> </thead> <tbody> <tr> <td>Establishment of road map for turnaround</td> <td style="text-align: center;">71</td> <td rowspan="3" style="text-align: center; vertical-align: middle;">                     Approx. ¥70 billion (from the result of FY2020)                 </td> </tr> <tr> <td>Major projects for turnaround</td> <td style="text-align: center;">5</td> </tr> <tr> <td>Exit</td> <td style="text-align: center;">69</td> </tr> </tbody> </table>	Category	No. of companies	Earnings improvement (estimated)	Establishment of road map for turnaround	71	Approx. ¥70 billion (from the result of FY2020)	Major projects for turnaround	5	Exit	69
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Establishment of road map for turnaround	71	Approx. ¥70 billion (from the result of FY2020)									
Major projects for turnaround	5										
Exit	69										
<ul style="list-style-type: none"> <li>■ Improve cash flow management</li> </ul>	<ul style="list-style-type: none"> <li>✓ By steadily implementing asset disposal, ¥110 billion in cash was recovered in FY2020 (¥50 billion of which was from sales of cross-shareholdings)</li> <li>✓ Working capital was improved by approx. ¥200 billion in FY2020</li> <li>✓ Investments were limited to strategically important ones and made on a selective basis</li> </ul>										
<ul style="list-style-type: none"> <li>■ Tighten cost management</li> </ul>	<ul style="list-style-type: none"> <li>✓ SG&amp;A expenses were reduced by more than ¥32 billion in FY2020</li> </ul>										
<ul style="list-style-type: none"> <li>■ Commence rebuilding of business portfolio</li> </ul>	<ul style="list-style-type: none"> <li>✓ Individual business strategies as well as portfolio strategy of each business unit were discussed and confirmed</li> </ul>										
<ul style="list-style-type: none"> <li>■ Enhancement of sustainability management</li> </ul>	<ul style="list-style-type: none"> <li>✓ Key social issues and long-term targets were identified</li> <li>✓ Medium-term targets as milestones were established and incorporated into specific KAI/KPI</li> </ul>										

# 2

## Concept of the New Medium-Term Management Plan

# SHIFT→2023→

# SHIFT 2023 Overview

## Business Portfolio SHIFT

(Building a portfolio that is both highly profitable and resilient)

[Short term]

Asset recycling for growth investments  
(Divestment)

[Short to medium term]

Growing core earning pillars by leveraging strengths  
(Value Creation / Steady Business Growth)

[Medium to long term]

Adapting to social structural changes  
(Seeding)

Business reform through digital transformation (DX)

Enhancement of sustainability management

## Framework SHIFT

(Ensuring effectiveness)

Strengthening of individual business strategy management

Selective investment & strengthening of post-investment value-creation

Strengthening of cross-organizational efforts

Re-allocation of management resources across business units

## Management base SHIFT

Enhancement of governance

Enhancement of human resources management

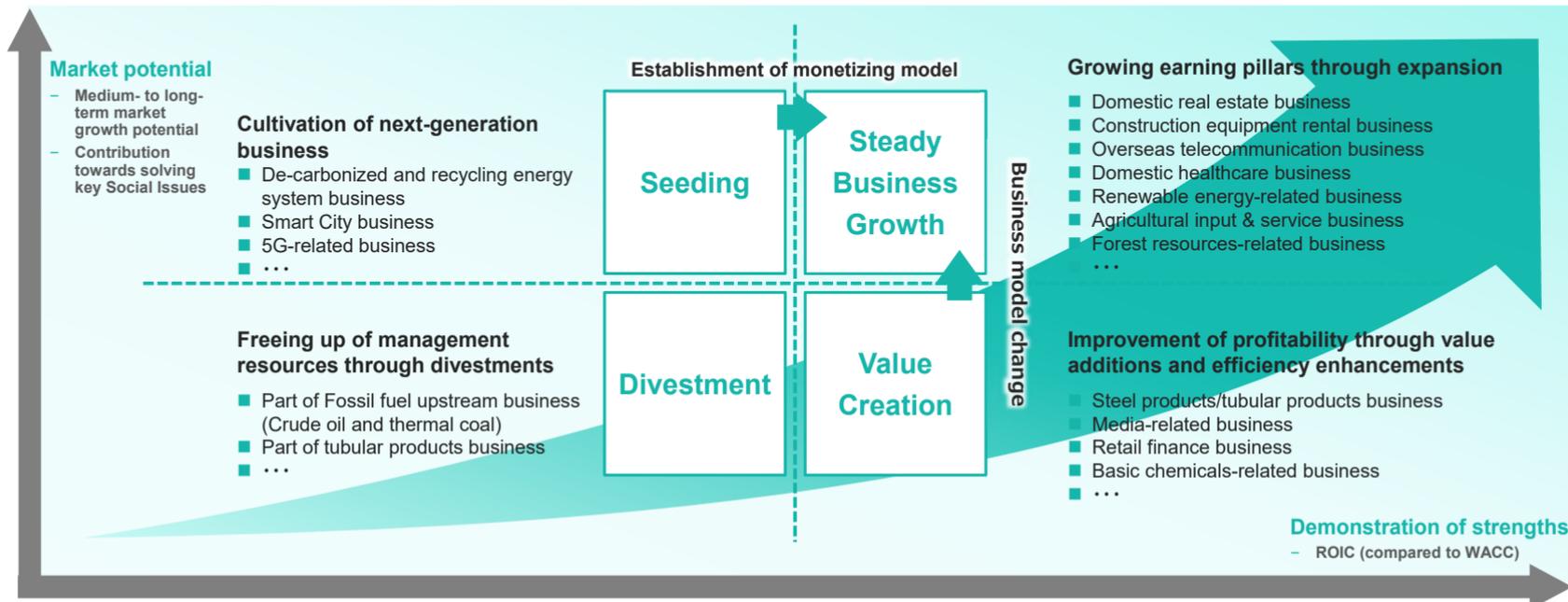
Maintenance and improvement of financial soundness

# 1. Business Portfolio SHIFT

## (1) Clarifying individual business strategies' position through categorization

- Clarify positioning of individual strategic business units based on "market potential" and "our demonstration of strengths," and set relevant goals.
- Shift portfolio to potential markets where our strengths can be fully demonstrated in order to increase both profitability and resilience.

Business Portfolio SHIFT		
(Shift to high-growth)	(Shift to medium-growth)	(Shift to low-growth)
Asset recycling for growth (divestment)	Strategic asset recycling (divestment)	Adapting to social structural changes (challenge)
Business shift through digital transformation (SST)		Enhancement of Sustainability Management
Framework SHIFT		
Strengthening of individual business strategy management		Execute investments selectively & strengthen plant investment evaluation
Strengthening of cross-organizational efforts		Re-allocation of funds and human resources —> Global business shift
Management base SHIFT		
Enhancement of governance	Enhancement of sales resources allocation	Management and improvement of financial structure



## 1. Business Portfolio SHIFT

### (2) Quantitative picture by business strategy category

- Plan to generate ¥450 billion in cash through asset disposal in total.
- Plan to invest around ¥1,100 billion mainly on Value Creation and Steady Business Growth categories where our strengths have been demonstrated and probability of success is high.



		Asset recycle for growth investments	Growing core earning pillars by leveraging strengths		Adapting to social structural changes
		Divestment	Value Creation	Steady Business Growth	Seeding
FY2020	Asset scale	¥400 billion	¥3 trillion	¥4.4 trillion	¥50 billion
	Profit scale	-¥10 billion	¥40 billion	¥160 billion	-
		↓	↓	↓	↓
SHIFT 2023	Cash generated through asset disposal (Three-year total)	¥100 billion	¥180 billion	¥170 billion	-
	Investments and loans (including renewal investment) (Three-year total)	-	¥330 billion	¥760 billion	¥50 billion
	Profit improvement (from FY2020)	¥10+ billion	¥80+ billion	¥40+ billion	-



## 2. Framework SHIFT

### (1) Strengthen of individual business strategy management



#### Process

#### Aim/Key points

1

Defining strategic business units (“SBU”)

- Group individual businesses based on common strategy regardless of existing organizations
- Stimulate discussions on strategy

2

Evaluation of each SBU’s strategy

- Analyze external environment and our strengths by SBU and evaluate SBU strategy
- Benchmark ROIC against WACC to assess SBU’s strength

3

Determining allocation of management resources according to each SBU strategy

- Categorize SBUs as Steady Business Growth, Value Creation, Divestment and Seeding
- Build business portfolio with high profitability and resiliency by shifting management resources

4

Establishment of KPI and KAI according to SBU category

- Establish detailed targets for accomplishing roles according to SBU category

5

Thorough PDCA

- Review progress and update strategy as necessary through Management strategy meetings (twice per year)
- Evaluate organizations based on the progress of SBU strategy execution

# (2) Selective investment & strengthening of post-investment value-creation



### Decision on investment/actions for increasing value post-investment (execution of plan)

### Post-investment management

#### Selection of investments

#### Post-investment value-creation

#### Results monitoring/Link between evaluation and remuneration

#### Guideline for investment selection

- Comprehensively analyze factors behind failure to achieve plan or occurrence of losses related to large-scale investments of the past
- Identify categories of projects we should not invest in based on factor analysis
- Setting of guideline: In principle, no investment for above categories
  - ➔ Maintain thorough discipline in investments

#### Change in Investment Committee system

- Increase impartiality as advisory body
- Ensure diversity of committee members

#### Enhancement of group governance

- Visualize management by setting KPI/KAI and thoroughly implement PDCA through investee board of directors
- Form optimal management team. Development of consensus for value creation
- Evaluate management/establish remuneration to promote realization of improved value

#### Place functions and resources into carefully selected measures

- Carefully select value improvement measures with a high probability of achievement when making investment decisions
  - ➔ Further flesh out/implement through PMI
- Invest sufficient functions/resources in a timely fashion for quick results

#### Full Potential Plan

- Regularly evaluate situation and outcome post-investment using uniform, companywide quantitative criteria
- Categorize unprofitable businesses as shown below, and strengthen monitoring
  - (1) Exit
  - (2) Establish road map for turnaround
  - (3) Major projects for turnaround
  - ➔ Sound investment portfolio with clear time frame
  - ➔ Thorough asset recycle

#### Evaluation/remuneration linked to investee performance

- Consider introduction of evaluation/remuneration system to strengthen commitment to realization of value improvement (Linked to changes in investee performance/value)

## 2. Framework SHIFT

### (3) Strengthening of cross-organizational efforts



New business development framework going beyond domains of existing business units

#### ■ Initiative

An organization capable of handling the entire business process, from planning to commercialization, which aims to create future profit level equivalent to a business unit

#### ■ Working group

A cross-organizational group in which multiple business units engage in joint business strategy and new business development in relation to specific themes

#### ■ Regional business development

An organization that develops new regional businesses in coordination with business units

#### ■ DX Center/CVC

A functional organization that supports new business development from the angle of Digital Transformation (DX)

#### ■ 0→1 Challenge

Mechanism for supporting development of new businesses born from free-flowing ideas of employees

#### ■ MIRAI LAB PALETTE

A forum for creating new businesses through innovation going beyond organizational and company boundaries

Ongoing efforts, advancement/evolution



### Energy Innovation Initiative as first step

Will aim to create de-carbonization and recycling energy system and engage in cross-organizational efforts in three business fields

#### Developing Carbon-Free Energy

- New energy supply business for hydrogen
- CO<sub>2</sub> free hydrogen and ammonium

#### Expanding Power & Energy services

- Large-scale storage batteries business/reusable batteries business
- Power Energy platform business using distributed power resources and environmental attributes
- Multiple Service of Energy Infrastructure with Zero-emission Solution

#### CO<sub>2</sub> Capture, Storage and Utilization

- Non-edible plant-derived next-generation bio-energy business
- Methanation and other carbon recycling
- Forest and marine-based environmental value creation business, carbon capture and storage (CCS), carbon emissions trading etc.

## 2. Framework SHIFT

### (4) Re-allocation of management resources across business units



## Re-allocation of management resources

### Further utilization of “companywide investment funds”

- (1) Expansion of companywide investment funds: ¥300–400 billion
- (2) Change in scope: Allocate more resources to fields in which our strengths have been demonstrated and profits are expected to expand

Category	Scale	Concept
<ul style="list-style-type: none"> <li>Core business expansion</li> </ul>	¥300 billion	<b>Substantially increase profits of existing businesses</b>
<ul style="list-style-type: none"> <li>Next-generation business creation</li> </ul>	¥30 billion	<b>Create next-generation businesses</b>
<ul style="list-style-type: none"> <li>Technology x Innovation 1-&gt;100</li> </ul>	¥20 billion	<b>Cultivate new innovative technology businesses</b>

### Shift of human resources

- Promote optimal allocation of human resources in conjunction with rebuilding of business portfolio
- Strategically allocate human resources to businesses to which companywide investment funds is allocated

## Global Innovation Promotion Committee

### Pursuit of companywide optimization based on individual businesses and initiatives

Add function of discussing SBU strategies from the perspective of companywide optimization and of proposing the allocation of “companywide investment funds” and human resource to the Management Council

## Corporate Strategy Promotion Committee

### Pursuit of companywide optimization based on companywide portfolio

Strengthen function of providing recommendations to the Management Council in order to build a highly profitable and resilient portfolio by taking a big picture approach to the companywide portfolio while considering changes in the social environment

### 3. Management Base Shift



#### Purpose, policy, theme

#### Specific measures

#### Enhancement of governance

- Strengthen the function of the Board of Directors to further enhance corporate governance
- Improve effectiveness of group governance

- Establish effective supervision of key management policies and strategies (allocation of management resources, strategies related to business portfolio, sustainability management, etc.) and to further strengthen objectivity
- Introduce and roll out group management policy

#### Enhancement of human resources management

- Human resources management reform to realize Global HR Management Policy
- Promote Diversity & Inclusion
- Promote allocation of right people in right positions on a global basis
- Health and productivity management and work style innovation

- Revise the HR management system
  - Break free from traditional seniority system thinking and thoroughly implement “pay for job, pay for performance”
  - Cultivate and deploy multiple-track career and top tier professionals
  - Improve evaluation/remuneration system, including introduction of 360-degree evaluations
- Promote Diversity & Inclusion measures tailored to each country/locations
- Develop platform for allocating right people in right positions on a global basis
- Promote health and productivity management and pursue new work styles for the new normal

#### Maintenance and improvement of financial soundness

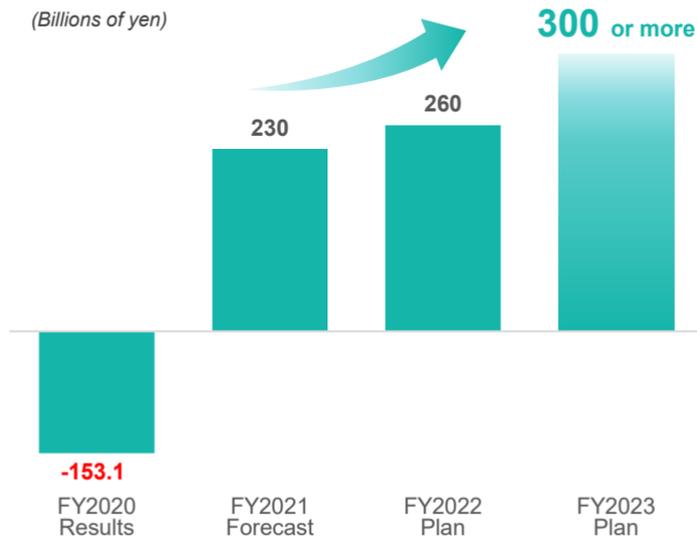
- Continued discipline in cash flows
- Maintaining Risk-weighted Assets within Core Risk Buffer

- Maintain investment discipline, without over-reliance on interest-bearing Liabilities (Ensure positive three-year total post-dividend free cash flow)
- Continue managing Risk-weighted Assets (total amount of risk) within the Core Risk Buffer (shareholders' equity)

# Quantitative Plan

- With the profit improvement from structural reform and the promotion of measures from the medium-term management plan, and aim to achieve **¥300 billion or more and record-high profit in FY2023**.
- With approximately ¥1.4 trillion of cash inflow, inclusive of **basic cash flow of ¥640 billion for three-year in total**, the Company will make investments and loans of around ¥1.1 trillion, while securing positive post-dividend free cash flow for three-year in total.

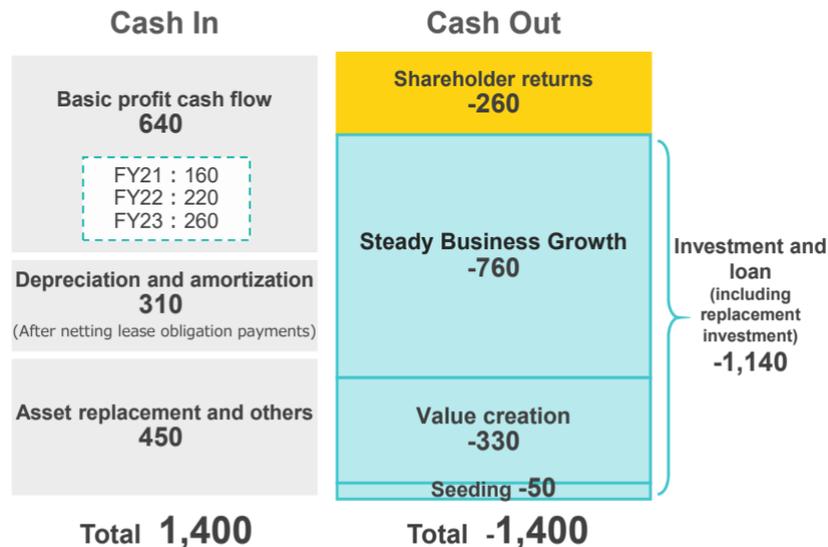
## Profit (loss) for the year (attributable to owners of parent)



## Allocation plan of three-year total cash flow

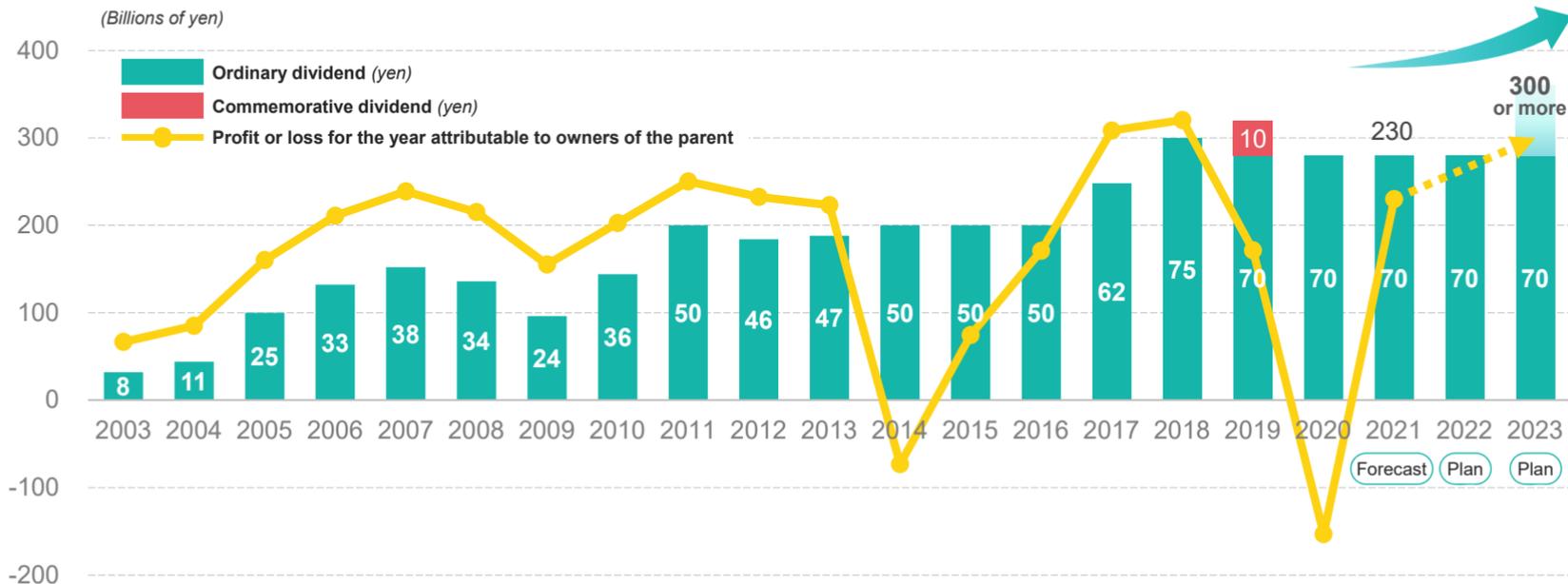
Note: Assuming profit for the year of ¥300 billion in FY2023

(Billions of yen)



# Shareholder Return (Dividend Policy)

- Sumitomo Corporation aims to increase dividends by achieving medium- and long-term earnings growth while adhering to its fundamental policy of paying shareholders a stable dividend over the long term.
- Under the medium-term management plan (SHIFT2023), we decide the annual dividend based on the status of fundamental earnings capacity, cash flows, and other factors, with a consolidated payout ratio of about 30% as a guideline, maintaining at least ¥70 per share, the same amount as the annual dividend for FY2020.
- In FY2021, we plan to provide a dividend of ¥70 per share (interim dividend of ¥35 and year-end dividend of ¥35).



# 3

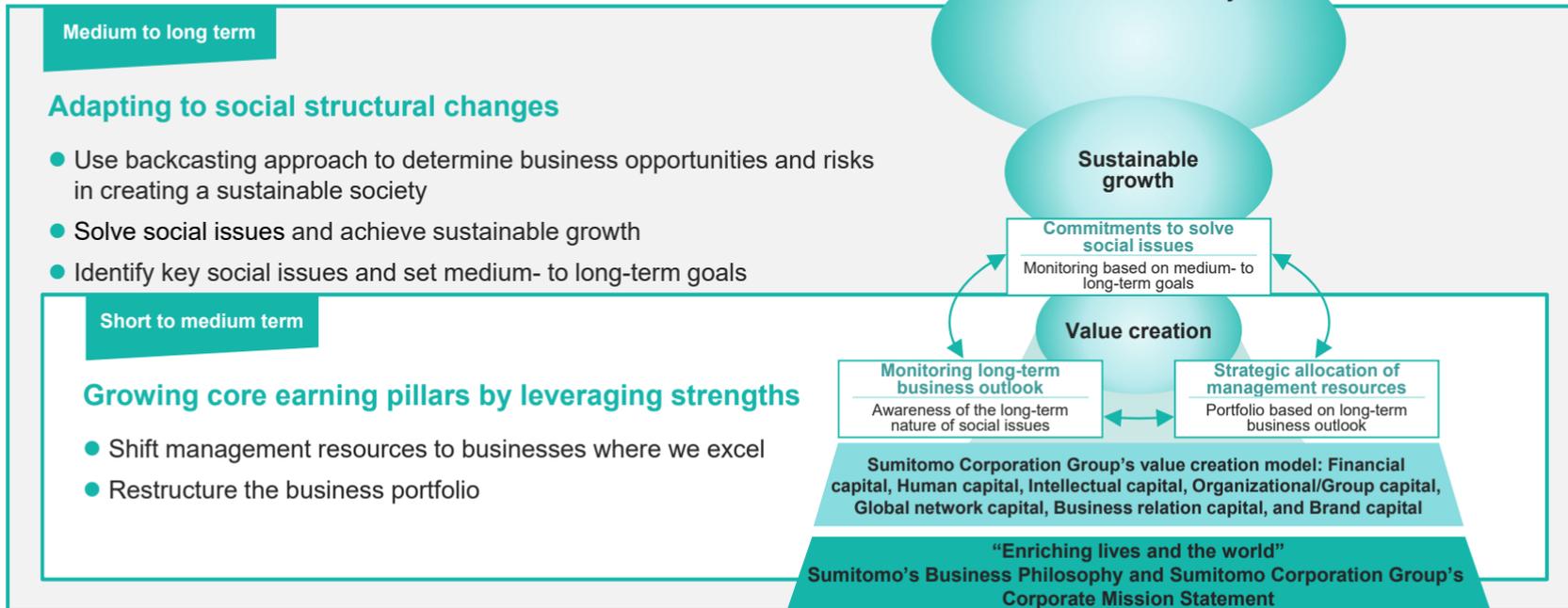
## Enhancement of Sustainability Management



# Overview

- Transform the Sumitomo Corporation Group's business activities suitable for the realization of sustainable society

## Pursue sustainable growth with society



# Setting medium-term goals to address key social issues and long-term goals

Key social issues	Long-term goals	Medium-term goals (newly set)
Sustainability of society	<ul style="list-style-type: none"> <li>■ Aim for carbon neutrality by 2050 and challenge to realize sustainable energy cycle</li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Reduce the Group's CO<sub>2</sub> emissions 50% or more by 2035 (compared to 2019)</b> <ul style="list-style-type: none"> <li>- Reduce CO<sub>2</sub> emissions of the power generation business by 40% or more by 2035 (of which reduce 60% or more for coal-fired power generation business); power generation portfolio in 2035 to comprise 20% coal-fired, 50% gas-fired and 30% renewables (*1) in terms of net ownership generation capacity.</li> <li>- Reduce indirect CO<sub>2</sub> emissions (*2) associated with the fossil fuel upstream business by 90% or more by 2035.</li> <li>- Reduce CO<sub>2</sub> emissions in all other businesses (*3).</li> </ul> </li> <li>■ <b>Establish businesses that will form the foundation for a sustainable energy cycle in society</b> <ul style="list-style-type: none"> <li>- Develop hydrogen and other forms of carbon-free energy, increase supply of renewable energy (3GW or more by 2030)(*4), and expand new power and energy services.</li> <li>- Expand businesses encouraging electrification, fuel conversion, improved energy and coal efficiency, and energy conservation.</li> <li>- Capture, store and utilize CO<sub>2</sub> via carbon recycling, forestry business, CCS, and emissions credit trading, etc.</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>■ Shift to recyclable, efficient technologies and products</li> <li>■ Sustainable use of natural resources</li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Use renewable and recyclable raw materials, collect waste, and promote improved efficiency of product usage</b> <ul style="list-style-type: none"> <li>- Expand use of raw materials derived from recycled or renewable resources.</li> <li>- Improve efficiency of product usage and expand businesses that promote longer product life (sharing, sales of used items, leasing, rentals, etc.) .</li> </ul> </li> <li>■ <b>Reinforce the sustainable procurement system for major natural resources used by the Group</b> <ul style="list-style-type: none"> <li>- Identify major natural resource-related commodities requiring sustainable procurement, establish procurement policy, promote certification, and strengthen voluntary auditing system.</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>■ Respect human rights through all of our businesses and supply chains</li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Promote and ensure respect for human rights in accordance with the United Nations Guiding Principles on Business and Human Rights and Sumitomo Corporation Group's Human Rights Policy</b> <ul style="list-style-type: none"> <li>- By 2023, achieve 100% participation rate in human rights education based on the Guiding Principles, and 100% implementation rate in regional organizations and subsidiaries.</li> <li>- Strengthen risk analysis in human rights due diligence to accurately assess risks in all businesses, including the supply chain, and implement risk mitigation measures by 2025. Establish a more effective grievance mechanism(*5) based on assessment results.</li> </ul> </li> <li>■ <b>Ensure a safe workplace environment</b> <ul style="list-style-type: none"> <li>- Strengthen efforts to achieve zero accidents at major business workplaces, focusing on manufacturing, processing, and projects involving large-scale construction.</li> </ul> </li> <li>■ <b>Achieve a diverse organization grounded in mutual respect</b> <ul style="list-style-type: none"> <li>- Provide a safe working environment that is free from discrimination and harassment.</li> <li>- Promote human resource management that enables individuals to demonstrate their abilities regardless of nationality, age, gender, sexual orientation, gender identity, or any other attributes or values.</li> </ul> </li> </ul>

(\*1) As of 2020 : coal 50%, gas 30%, renewables 20% (\*2) Indirect CO<sub>2</sub> emissions generated by others with the use of fossil fuel (\*3) Contribute to CO<sub>2</sub> reduction by setting targets for individual businesses (\*4) As of 2020 : 1.5GW (1GW = 1 billion W) (\*5) A process that employees, local residents or other stakeholders can use to lodge complaints regarding human rights violations and other issues related to enterprise's business activities including its supply chain, for resolving such issues

# Setting medium-term goals to address key social issues and long-term goals

Key social issues	Long-term goals	Medium-term goals (newly set)
Development and evolution of society	<ul style="list-style-type: none"> <li>■ Contribute to development of local industries and human resources</li> <li>■ Develop industrial and social infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Develop local industries, create jobs, and develop human resources through the Group's global business operations</b> <ul style="list-style-type: none"> <li>- Promote sustainable, highly productive and value-added industries, and coexist with local communities through business.</li> <li>- Create employment and develop management and highly skilled human resources at the Group's business sites.</li> </ul> </li> <li>■ <b>Establish industrial and social infrastructure that contributes to the sustainable development of society</b> <ul style="list-style-type: none"> <li>- Promote infrastructure that enables access to high-quality energy, water, transportation, logistics, communications, and financial services, as well as businesses that enhance urban functions.</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>■ Provide advanced lifestyle-related services</li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Deliver advanced lifestyle services that help to solve social issues such as urbanization and aging populations</b> <ul style="list-style-type: none"> <li>- Provide more advanced services and new functions that improve the standard of living, such as mobility, media and telecommunications, healthcare services, and smart city development, based on new technologies and concepts.</li> </ul> </li> </ul>
Quality education	<ul style="list-style-type: none"> <li>■ Contribute to quality education</li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Provide quality and equal learning opportunities through 100SEED(*) activities</b> <ul style="list-style-type: none"> <li>- Quantitatively expand the scope of learning opportunities.</li> <li>- 100% satisfaction of beneficiaries.</li> <li>- Continue to have at least 5% of all employees participate annually (scope is Sumitomo Corporation, regional organizations and Group companies).</li> </ul> </li> </ul>

(\*) Social contribution projects with employee participation at Sumitomo Corporation Group

# Responses to climate change issues

## Changes in business portfolio associated with achieving carbon neutrality in 2050

- Reduce CO<sub>2</sub> emissions 50% or more by 2035 (compared to 2019)

### Power generation business

CO<sub>2</sub> emissions: Reduce 40% or more (of which 60% reduction or more for coal-fired power generation business)

Net ownership generation capacity: coal 20%, gas 50% renewables 30%

### Fossil fuel upstream business

CO<sub>2</sub> emissions (\*1): Reduce 90% or more

For coal-fired power generation business, no further involvement in IPP (Independent Power Producer) nor EPC (Engineering, Procurement, Construction) business(\*2) and will end all the coal-fired power generation business in the late 2040s. For thermal coal mine interest, no additional investment and aim to achieve zero equity production from thermal coal mines by 2030.

### ■ Scope of carbon neutrality(\*3)

	Scope 1 Direct emissions	Scope 2 Indirect emissions from acquired electricity etc.	Scope 3 Other indirect emissions
Sumitomo Corporation/ Subsidiaries	Approx. 1 million tons		Fossil fuel upstream business Approx. 16 million tons
Associated companies (equity method)	Thermal power generation business (Including facilities under construction) Approx. 43 million tons		

## Develop new businesses for realizing a sustainable energy cycle

- Develop hydrogen and other forms of carbon-free energy, increase supply of renewable energy, and expand new power and energy services
- Expand businesses encouraging electrification, fuel conversion, improved energy and coal efficiency, and energy conservation
- Capture, store and utilize CO<sub>2</sub> via carbon recycling, forestry business, CCS, and emissions credit trading, etc.

### Responses to climate change risks

- Regularly monitor the status of major risks in light of global trends in climate change at the Management Council and the Board of Directors
- Consider measures including reduction of exposure based on risk status

### Information disclosure on climate change risks

Disclose governance, strategy (including scenario analysis(\*4), risk management, targets and KPIs related to climate change based on TCFD recommendations, and continue to enhance the content of disclosure.

\*1 Indirect CO<sub>2</sub> emissions by others associated with the use of energy resources produced

\*2 As the only exception, we acknowledge the project of Unit 3 and 4 of Matarbari plant in Bangladesh, which is under discussion between the Bangladesh and Japanese governments, as a potential expansion project of the Unit 1 and 2 project which we participate as a contractor. We will judge the possibility of participating in the Unit 3 and 4 project based on dialogue with our various stakeholders and also after we confirm the project's consistency with the Paris Agreement (this will be the last project of coal-fired power generation business that we may have a possibility to consider).

\*3 As of 2019

\*4 Based on the IEA's Stated Policies Scenario and Sustainable Development Scenario, conduct analysis for power, resources, transportation equipment and materials industries which are highly impacted by climate change

# APPENDIX

- (1) Key management indicators
- (2) Strategy and quantitative plan by business unit
- (3) Historical data for medium-term management plan

# (1) Key management indicators

	Start of SHIFT 2023	End of SHIFT 2023
	Results as of March 31, 2021	Reference scenario as of March 31, 2024
Profit / loss for the year	<b>- ¥153.1 billion</b>	<b>¥300 billion or more</b>
Total assets	<b>¥8.08 trillion</b>	<b>Around ¥8.5 trillion</b>
Shareholders' equity	<b>¥2.52 trillion</b>	<b>Around ¥3.0 trillion</b>
Interest-bearing liabilities (net)	<b>¥2.30 trillion</b>	<b>Around ¥2.3 trillion</b>
D/E ratio (net)Net DER	<b>0.9 times</b>	<b>Around 0.8 times</b>
ROA	-	<b>Around 4%</b>
ROE	-	<b>10% or higher</b>
Risk-weighted assets (RA)	<b>¥2.26 trillion</b>	-
Core risk buffer (RB)	<b>¥2.41 trillion</b>	-
Core RB – RA	<b>+¥150.0 billion</b>	<b>Maintain balance</b>
Three-year total post-dividend free cash flow	<b>+¥310.0 billion</b>	<b>Ensure positive</b>

## (2) Strategy and quantitative plan by business unit

# Metal Products Business Unit

### 1. Main business unit strategies

#### Steady business growth/Value creation/Divestment

**Steel Sheet & Other Steel Products** : Increase value of ongoing business, cultivate and expand existing businesses as well as explore new ones, in line with regional strategies

**Products and Services for Railway** : Shift to service- and recycling-oriented business model in the United States, our main market

**Forging & Casting Products for Transportation Equipment** : Build new business model by expanding portfolio and utilizing DX

**OCTG & Line Pipe** : Stabilize earnings by enhancing and automating existing businesses

**North America's Tubular Products Business Group Companies** : Improve profitability and stability by optimizing team at group company according to market size

#### Seeding: New efforts based on changes in social structure

**Promotion of Integrated Energy Business** : Create new businesses related to carbon neutrality and diversification of energy portfolio

#### Efforts to promote DX

- Creation of services contributing to labor-saving
- Further enhancement of supply chain management through DX
- Digitalization of processes from inquiry to contract signing and fulfillment
- Ecosystem for energy resources drilling automation

#### Efforts to enhance sustainability management

- Provision of steel products and services contributing to a carbon neutral society, such as renewable energy and CCUS
- Promotion of high-value-added industries, training of human resources, and job creation through development of global steel-related businesses
- Promotion of efforts to eliminate work-related accidents at steel/tubular, processing, and sales businesses products manufacturing

### 2. Business unit profit plan

Billions of yen	FY2020 Results	FY2021 Forecast	FY2022 Plan
<b>Profit (loss) for the year</b> (attributable to owners of parent)	<b>-39.8</b>	<b>13.0</b>	<b>21.0</b>



\*Due to the revision of the organization on April 1, 2021, the actual results for FY2020 have been rearranged.

- **Factors behind YoY change in FY2021 (up ¥52.8 billion)**
  - ➔ **Recovery of steel products business associated with diminishing impact of COVID-19**
  - ➔ **Absence of one-off losses in FY2020 such as structural reform loss and impairment (up approx. ¥45.0 billion)**
- **Factors behind YoY change in FY2022 (up ¥8.0 billion)**
  - ➔ **Improved profitability from increased value of existing businesses and contribution of new businesses to earnings**

## (2) Strategy and quantitative plan by business unit

# Transportation & Construction Systems Business Unit

### 1. Main business unit strategies

#### Steady business growth/Value creation/Divestment

**Automotive Manufacturing** : Reorganize portfolio based on strategic rebuilding

**Tire Business** : Concentrate management resources in North American business

**General Leasing** : Enhance global assets (aircraft, etc.) and prime assets in real estate and environment/energy fields

**Construction Equipment Rental** : Expand business foundation of U.S.-based Sunstate Equipment Co., LLC and incorporate growth of Asian market through Aver Asia (S) Pte

**Aircraft** : Diversify business model and portfolio for post-COVID-19 world (aircraft leasing and engine/helicopter businesses)

#### Seeding: New efforts based on changes in social structure

**Mobility-Related Business**: Develop mobility services that address new needs of society

#### Efforts to promote DX

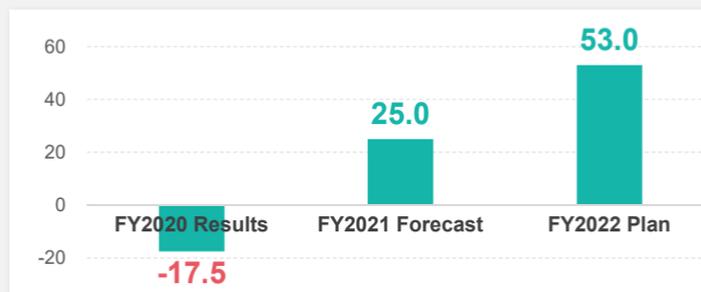
- Boost asset efficiency by improving inventory turnover in automotive sales & marketing business and construction equipment sales service
- Develop and deploy new services by utilizing DX in mobility business

#### Efforts to enhance sustainability management

- Expansion of businesses encouraging the shift to EVs, improved energy efficiency, etc.
- Expansion of businesses contributing to circular economy (sharing, used product sales, and recycling), etc.
- Expansion of jobs at global manufacturing, sales, and financing locations and contribution to development of regional society and industry through training of managerial and highly skilled human resources

### 2. Business unit profit plan

Billions of yen	FY2020 Results	FY2021 Forecast	FY2022 Plan
Profit (loss) for the year (attributable to owners of parent)	-17.5	25.0	53.0



\*Due to the revision of the organization on April 1, 2021, the actual results for FY2020 have been rearranged.

#### Factors behind YoY change in FY2021 (up ¥42.5 billion)

➔ Improvement in one-off losses vs. FY2020: approx. ¥30.0 billion (-¥20.0 billion in automotive financing business in Indonesia and other one-off losses in FY2020)

Increase in normal profit

- Automotive manufacturing business: Restoration of profitability associated with market recovery
- Leasing business: Increase in profit associated with accumulated assets and market recovery

#### Factors behind YoY change in FY2022 (up ¥28.0 billion)

Increase in normal profit

- Leasing business: Increase in profit associated with accumulated assets and market recovery
- Automotive sales & marketing/construction equipment sales and rental businesses: Increased profit associated with market recovery

## (2) Strategy and quantitative plan by business unit

# Infrastructure Business Unit

### 1. Main business unit strategies

#### Steady business growth/Value creation/Divestment

**Social Infrastructure Business** : Expand quality infrastructure assets that address needs of local society as a whole

**Renewable Energy Business** : Expand renewable energy business centered on offshore wind farm in Japan and other countries

**Energy Services** : Strengthen electric power retail business (Summit Energy Corporation) taking advantage of environmental value

#### Seeding: New efforts based on changes in social structure

**Smart City** : Engage in high-value urban development by introducing smart services based on residential needs

**Energy Services** : Collaborate with the Energy Innovation Initiative (EII) to promote commercialization in the Expanding Power & Energy Services area

#### Efforts to promote DX

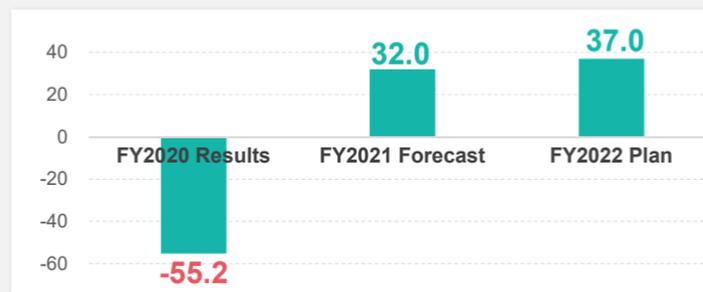
- Improvement of accuracy of predictions and reduction of costs using AI-assisted electricity demand prediction system
- Improvement of foundations of people's lives by building digital platform for companies and employees at overseas industrial parks using smartphone app
- Development of app for optimizing allocation of human resources at logistics centers utilizing quantum technology, leading to improvement of productivity and promotion of diverse work styles

#### Efforts to enhance sustainability management

- Reduce CO2 emissions of the power generation business by 40% or more by 2035 (of which reduce 60% or more for coal-fired power generation business); power generation portfolio in 2035 to comprise 20% coal-fired, 50% gas-fired and 30% renewables in terms of net ownership generation capacity
- Contribution to development of local communities and industries through quality infrastructure business in line with local demand
- Development of businesses contributing to circular economy, such as plastic bottle recycling and logistics container rental business

### 2. Business unit profit plan

Billions of yen	FY2020 Results	FY2021 Forecast	FY2022 Plan
Profit (loss) for the year (attributable to owners of parent)	<b>-55.2</b>	<b>32.0</b>	<b>37.0</b>



\* Due to the revision of the organization on April 1, 2021, the actual results for FY2020 have been rearranged.

- **Factors behind YoY change in FY2021 (up ¥87.2 billion)**
  - ➔ **Absence of one-off losses in FY2020**
- **Factors behind YoY change in FY2022 (up ¥5.0 billion)**
  - ➔ **Strong performance by power generation business**

## (2) Strategy and quantitative plan by business unit

# Media & Digital Business Unit

### 1. Main business unit strategies

#### Steady business growth/Value creation/Divestment

**CATV Business** : Expand service areas, online services, and work on personalized services

**TV Shopping Business** : Increase customer loyalty by installing new products and digital marketing, and expand customer base by new live-streaming services

**Digital Solutions Business** : Co-create new businesses related to DX with SCSK and enhance functions to promote DX (including knowledge and network through CVC)

**Overseas Telecommunications Business** : Enhance and roll out telecommunication infrastructure and added-value businesses in emerging countries

Promote business alliance in various fields with Vodafone Group Plc

**Mobile-Related Business** : Work on new businesses adapting to changes in mobile devices distribution market (higher device prices, shift to online sales, etc.)

#### Seeding: New efforts based on changes in social structure

**5G-Related Business** : Launch 5G base-station-sharing business and work on private 5G-related business

**Data Utilization Business** : Develop data marketing and branding businesses

#### Efforts to promote DX

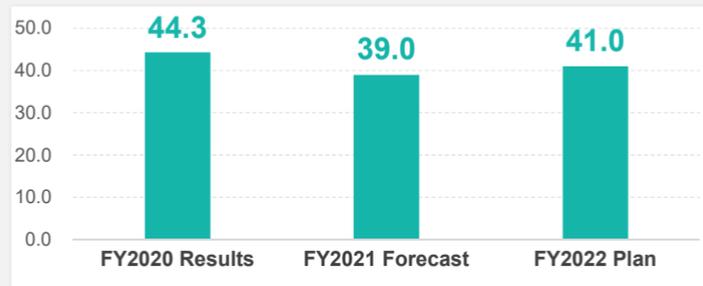
- Aim for results with social and significant impact, focusing on our strong fields (retail, manufacturing, etc.) as the organization to promote companywide DX
- Promote operational efficiency and creation of new businesses, leveraging digital technologies at group companies (e.g., J:COM's online medical consultation)

#### Efforts to enhance sustainability management

- Offer entertainment and lifestyle-related online services that improve convenience and contribute to enriching our lifestyles (Expanding demand for non-contact, non-face-to-face services due to the COVID-19 pandemic)
- Contribute to social and economic development by building telecommunication infrastructure in emerging countries
- DX initiatives contributing to reduced environmental burden

### 2. Business unit profit plan

Billions of yen	FY2020 Results	FY2021 Forecast	FY2022 Plan
Profit (loss) for the year (attributable to owners of parent)	44.3	39.0	41.0



- **Factors behind YoY change in FY2021 (down ¥5.3 billion)**
  - ➔ Firm performance of main businesses in Japan
  - ➔ Myanmar telecommunications business affected by political change
  - ➔ Gain from stock re-valuation and capital gain in CVC(\*) in FY 2020
- **Factors behind YoY change in FY2022 (up ¥2.0 billion)**
  - ➔ Firm performance of main businesses in Japan
  - ➔ Anticipatory expenses to be incurred in relation to launch of new businesses

(\*) Corporate Venture Capital

## (2) Strategy and quantitative plan by business unit

# Living Related & Real Estate Business Unit

### 1. Main business unit strategies

#### Steady business growth/Value creation/Divestment

**Domestic Real Estate** : Accumulate assets such as new offices and logistics facilities in strategic areas  
Further promote balance sheet management utilizing external funding

**Retail/Food Distribution** : Further expand business foundation of Summit, Inc. and pursue synergy through stronger collaboration with SC Foods Co., Ltd.

**Domestic Healthcare** : Further enhance business foundation of Tomod's Inc., build foundation for dispensing pharmacy business, and focus on community-based integrated care market

**Overseas Healthcare** : Enhance and expand managed care business operations

#### Seeding: New efforts based on changes in social structure

**Retail** :Providing optimal products and services through the utilization of data from the retail business group

**Healthcare**: Building a healthcare infrastructure in Japan and overseas, creating new businesses

#### Efforts to promote DX

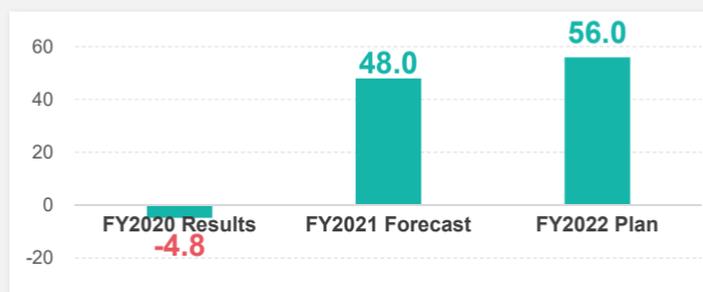
- Improvement of consumer convenience and provision of optimal products and services utilizing data available from our brick-and-mortar customer base and business sites in retail business
- Introduction of fully automatic drug dispensing at Tomod's
- Introduction of online dispensing in managed care business

#### Efforts to enhance sustainability management

- Efforts to reduce energy consumption in retail business
- Acquisition of environmental certification in food distribution and domestic real estate businesses
- Supply chain management with respect for human rights in relation to food distribution and Fresh produce business in Europe and the Americas
- Laying of healthcare foundation in Japan and overseas

### 2. Business unit profit plan

Billions of yen	FY2020 Results	FY2021 Forecast	FY2022 Plan
<b>Profit (loss) for the year</b> (attributable to owners of parent)	<b>-4.8</b>	<b>48.0</b>	<b>56.0</b>



\* Due to the revision of the organization on April 1, 2021, the actual results for FY2020 have been rearranged.

- **Factors behind YoY change in FY2021 (up ¥52.8 billion)**
  - ➔ Impairment loss in fresh produce business in Europe and the Americas and other one-off losses recorded in FY2020
  - ➔ Strong performance by real estate business
- **Factors behind YoY change in FY2022 (up ¥8.0 billion)**
  - ➔ Strong performance by real estate business
  - ➔ Improved performance by European fresh produce business

## (2) Strategy and quantitative plan by business unit

# Mineral Resources, Energy, Chemical & Electronics Business Unit

### 1. Main business unit strategies

#### Steady business growth/Value creation/Divestment

**Upstream Mineral Resources & Energy** : Divest in phases thermal coal/crude oil upstream business for realizing sustainable society and shift product portfolio to copper, nickel, lithium, and other resources where demand is expected to grow over medium to long term

**Aluminum Value Chain** : Enhance model combining smelting and ingot trading

**Gas Value Chain** : Seize opportunities presented by global gas shift and expand value chain

**EMS Business** : Enhance manufacturing capabilities and expand global network

**Agricultural Input & Service** : Further expand agricultural input & service business and enhance functions

#### Seeding: New efforts based on changes in social structure

**Shift to EVs** : Expansion of rare metal trade and acquisition of new prime assets essential for spread of EVs

**CO<sub>2</sub> Utilization Business** : Roll-out of CCS/CCUS and carbon credit trading and others

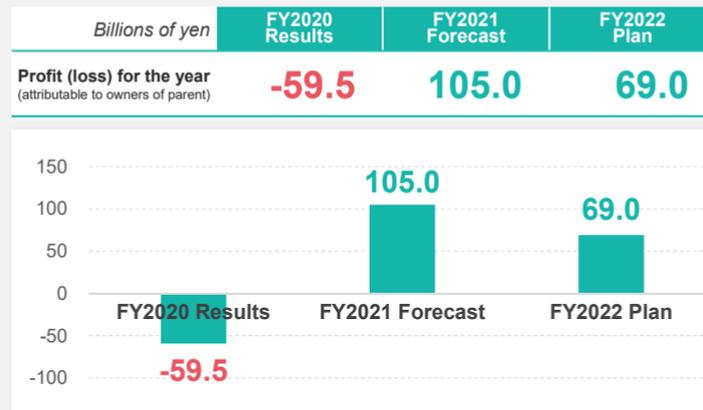
#### Efforts to promote DX

- **Agritech** : Expansion of farm management system and agricultural-related services
- **Manufacturing DX** : Conversion to smart factory using AI
- **Mining DX** : Stabilization of operations and reduction of costs through data utilization
- Medical treatment app and genome-related business

#### Efforts to enhance sustainability management

- 90% or more reduction of indirect CO<sub>2</sub> emissions generated from fossil fuel upstream business by 2035 compared to 2019
- We will not make any further investment in the thermal coal mining interest and aim to achieve zero production from thermal coal mines by 2030.
- Exploration and development in hydrogen and other next-generation energy businesses through collaboration with EII
- Promotion of businesses contributing to the circular economy, including biodegradable material and recycling business

### 2. Business unit profit plan



\* Due to the revision of the organization on April 1, 2021, the actual results for FY2020 have been rearranged.

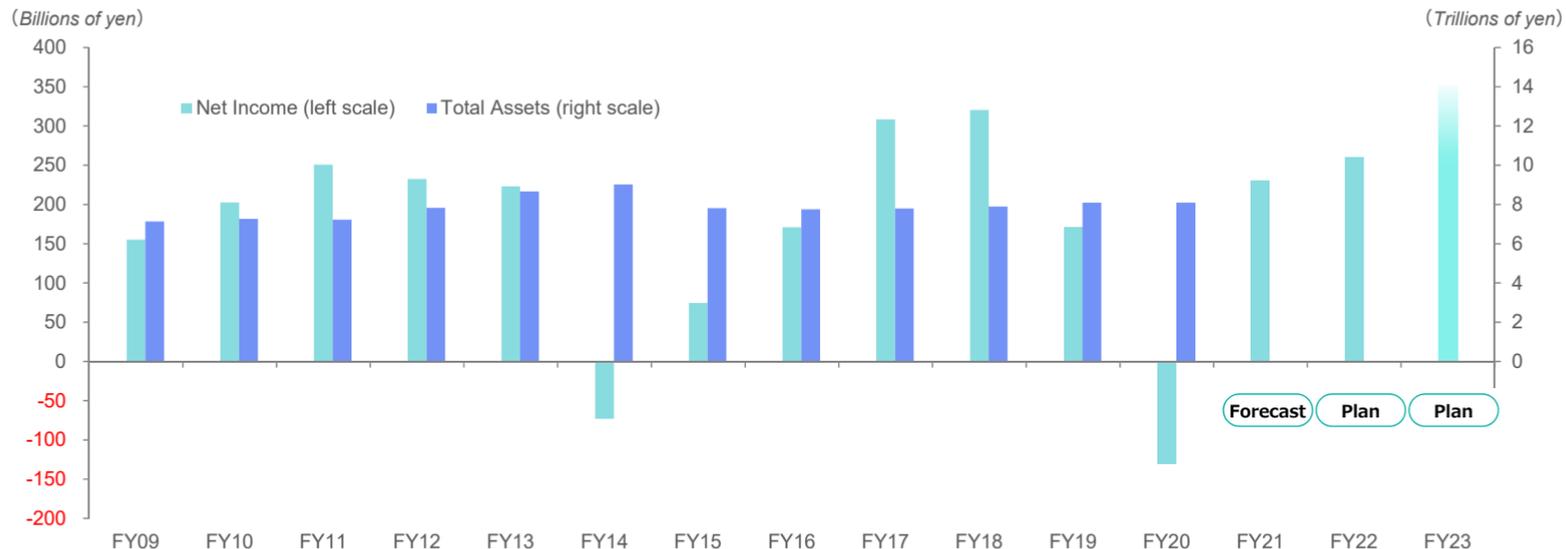
#### Factors behind YoY change in FY2021 (up ¥164.5 billion)

- ➔ Absent of one-off losses in FY2020 and recovery of business associated with diminishing impact of COVID-19
- ➔ One-off profit in mineral resources and energy business in FY2021
- ➔ Assuming that market prices continue to be favorable

#### Factors behind YoY change in FY2022 (down ¥36.0 billion)

- ➔ Absence of one-off profits in mineral resources and energy business in FY2021
- ➔ Mineral resources and energy market sluggish despite continued steady growth in chemicals and electronics from FY2021

### (3) Historical data for medium-term management plan



FOCUS'10 (2 year)	$f(x)$ (2 year)	BBBO2014 (2 year)	BBBO2017 (3 year)	Medium-Term Management Plan 2020 (3 year)	SHIFT 2023 (3 year)
A growth scenario on a new stage	Growth across regional, generational and organizational boundaries	Heading for an even higher level of profit growth by thorough enhancement of our earning power	To make group-wide efforts in overcoming issues and to outline a path toward the realization of "What We Aim to Be"	Unceasing challenge for new value creation	<b>Business Portfolio SHIFT</b> Building a portfolio that is both highly profitable and resilient