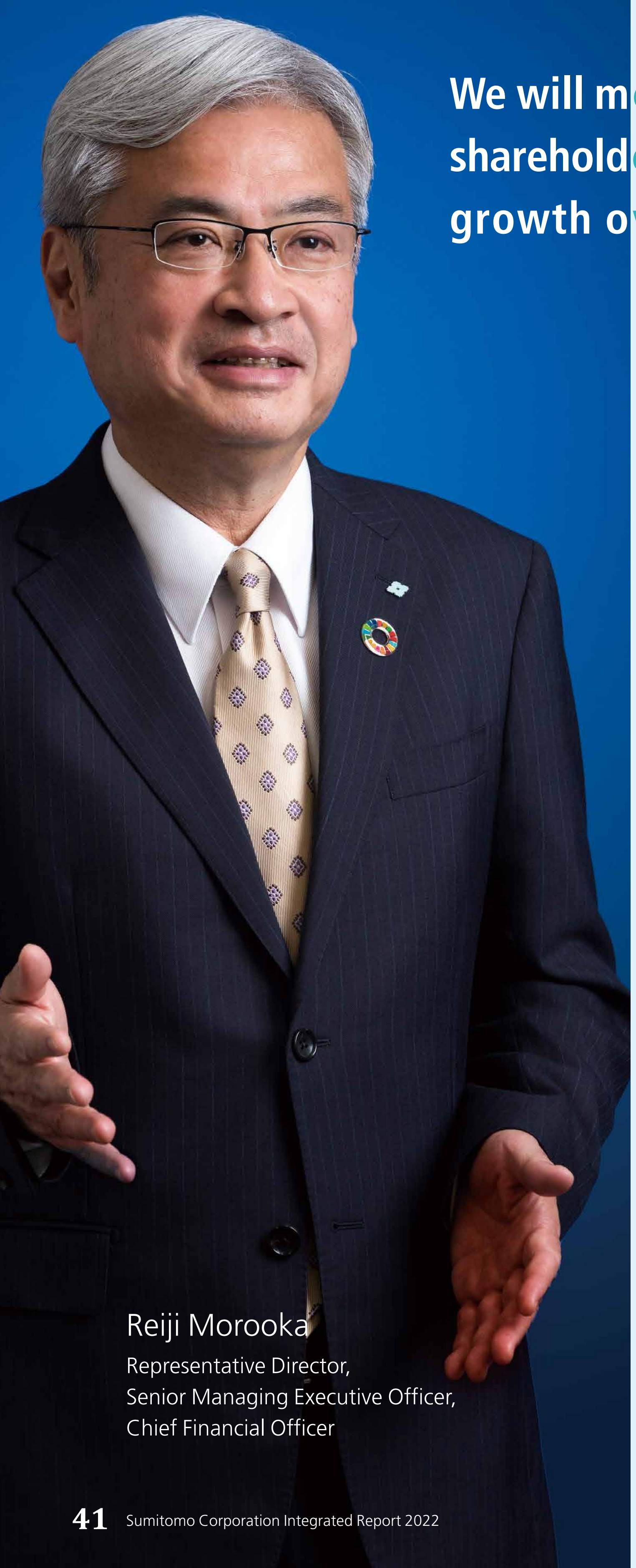
We will meet the expectations of our shareholders by realizing stable profit growth over the medium to long term.



Reiji Morooka
Representative Director,
Senior Managing Executive Officer,
Chief Financial Officer

Status of and outlook for the medium-term management plan SHIFT 2023

Operating results and outlook

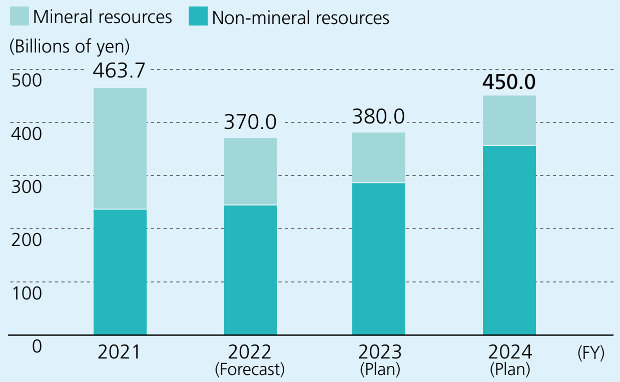
In FY2021, the first year of SHIFT 2023, we posted record-high consolidated profit for the year attributable to owners of the parent of ¥463.7 billion. In addition to our response to changes in the external environment, the effects of various measures set forth in the medium-term management plan, including structural reform, have begun manifesting. We will continue to steadily promote SHIFT 2023 in the second year and beyond with a sense of urgency.

At present, the COVID-19 pandemic continues to disrupt economic activity and, among other factors, the Russia-Ukraine situation that arose in February 2022 is creating chaos in the global economy. Mineral resource prices are hovering at historical highs, and the semiconductor shortage and disruptions in the logistics network continue, making it difficult to put together an outlook. In addition, signs of inflation have begun to emerge worldwide, and the yen continues to depreciate due to such factors as differences in the monetary policies of central banks in each country. After careful review of the impact of these external environmental factors on our business, we are forecasting profit of ¥370 billion in FY2022 and aiming for ¥380 billion in FY2023 and ¥450 billion in FY2024. Although the situation is increasingly uncertain, we will continue to thoroughly promote the measures of SHIFT 2023 and put maximum effort into properly addressing the current changes in the business environment and realizing a portfolio that is both highly profitable and resilient.

Improvement of financial soundness

We will also work on enhancing our cash-generating capacity. We have steadily improved our financial soundness by such means as reducing net interest-bearing liabilities and increasing shareholders' equity. In FY2021, the net debt-equity ratio (DER) has improved from 0.9 at the end of the previous fiscal year to 0.7. By March 31, 2024, which will mark the end of SHIFT 2023, we plan to bring it down to 0.6. Under SHIFT 2023, keeping cash flow discipline and Risk-weighted Assets (RA; total amount of risk) within the range of the Core Risk Buffer (RB; shareholders' equity) is set forth as a measure for the Management Base SHIFT. We will continue to thoroughly implement this measure to establish the management foundation and steadily improve financial soundness to support growth.

Profit Plan



Net DER / ROE / Core RB–RA

	FY2021 results	FY2023 plan under revised SHIFT 2023
Net DER	0.7	Around 0.6
ROE	16.2%	10% or higher
Core RB–RA	¥660 billion	Maintain balance

New policy on return to shareholders

Overview and purpose

In FY2021, we made steady progress on enhancing profitability and our financial base by rebuilding our business portfolio. Under these circumstances, we renewed our policy on return to shareholders in FY2022. It is designed to maintain and enhance our traditional approach centered on dividends, namely that of providing "stable long-term dividends while aiming to increase dividends through medium- to long-term profit growth."

Shareholder Return Policy

- 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.

The target range for dividends on equity (DOE) is 3.5% to 4.5%. DOE is equal to return on equity (ROE) multiplied by the dividend payout ratio, so assuming a dividend payout ratio of 30%, we must achieve an ROE range of 12% to 15%. Achieving medium- to long-term profit growth commensurate with this level of capital efficiency and increase in shareholders' equity will contribute to sustainable growth of the Company and maximization of long-term profit for shareholders through increased return to shareholders and stock price. We will endeavor to make this happen by promoting the various measures of SHIFT 2023.

In addition, establishing a target range for DOE will raise the target minimum dividend, which had been set at ¥70, according to growth of shareholders' equity while preventing substantial fluctuations in the amount of dividends. Through this, we hope to realize better long-term stable dividends and sustainable growth.

In FY2021, the annual dividend was set at ¥110 per share based on the previous policy of maintaining dividends of at least ¥70 per share, with a target consolidated payout ratio of about 30%.

Risk management, selective investment & strengthening of post-investment value creation

Enhancement of risk management from a macro perspective and strategy for portfolio management

Enhancement of risk management from both a micro and a macro perspective is essential for stable profit growth over the medium to long term.

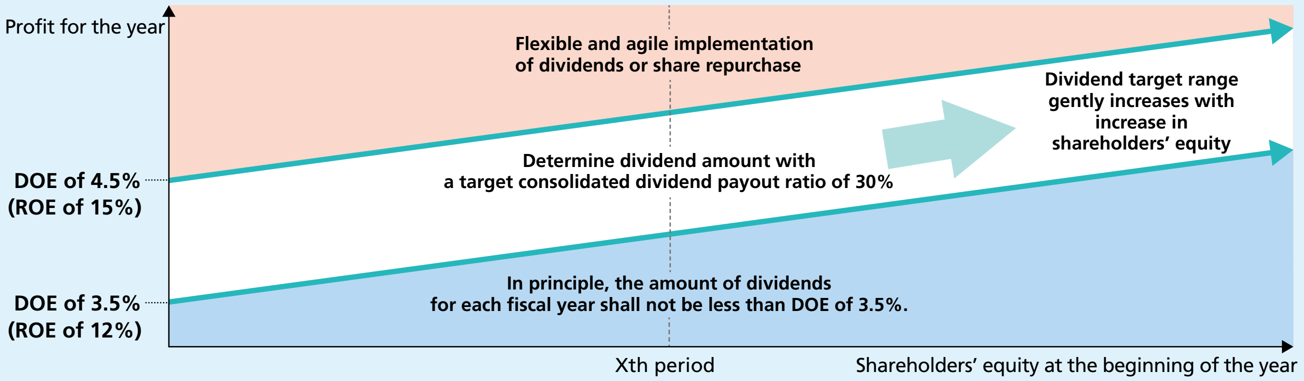
As a part of the Full Potential Plan (FPP), in FY2020 we identified the investments for exit or divestment and made the decision to exit from 101 companies. The exit from 64 of these companies is complete (32 in each FY2020 and FY2021), and we will continue this work. In terms of earnings improvement, the target for FY2023 was to achieve an effect of ¥70 billion compared to FY2020, including turnaround projects. In FY2021, the improvement effect was ¥100 billion, or ¥70 billion even when excluding external environmental factors, which means the SHIFT 2023 plan for the total amount of earnings improvement has been achieved. However, looking at individual companies, there is still much room for improvement, so we will continue to work on value creation at each company.

In addition, country risk management is growing in importance as geopolitical risks emerge and uncertainty increases. Utilizing a new consolidated accounting management system will allow us to more accurately keep track of our country portfolio starting in FY2022. We will strengthen our portfolio management, keeping track of our situation from a macro perspective based on various factors.

Selective investment & strengthening of post-investment value creation from a micro perspective

Enhancing risk management for individual investments is another important issue. As part of the Framework SHIFT, we are working on various improvements to selection of investments and post-investment value creation. The primarily elements are the Investment Selection Guidelines established in FY2021, Investment Performance-linked Compensation, and Enhancement of Corporate Governance. The Investment Selection Guidelines categorize projects that should not be invested in based on a comprehensive analysis of the factors behind past large-scale investments falling short of plan or posting losses. Promoting understanding at the work-site level, when reviewing investments, we always check for applicable items referring to the Investment Selection Guidelines. If there are applicable items, we carefully discuss to what extent the risks can be eliminated to make the investment decision.

Approach to Shareholders' Return



The purpose of Investment Performance-linked Compensation is to promote thorough discipline through an increased sense of ownership among the officers and employees in charge of new large-scale investments and commitment to achieving the business plans prepared when executing the investments. In FY2021, we introduced a system for general managers and above who are responsible for investments to be assigned exclusively to the investment for a certain period following execution. We also introduced a performance-linked compensation system corresponding to the investee's plan for a certain period (around three to five years).

Regarding Enhancement of Corporate Governance, we are promoting the implementation of our Group Management Policy (GMP). The GMP sets forth three principles of group management, namely Jiritsu*, Dialogue, and Collaboration. As our group companies become more diverse and the markets and industrial structures go through major change, we are working to shift from the previous style of corporate governance in which the focus was that the Company substantially takes on the management role of the group companies to one in which the functions of supervision and execution are separated and further autonomy is promoted in management of group companies. We will promote the improvement of our corporate value by clarifying the management responsibilities of group company executives, expediting decision-making, and advancing discontinuous strategy planning and execution in anticipation of environmental changes. Group company boards of directors will carefully discuss growth strategies and business plans, and with the agreement of group company executives, we will monitor progress through management of KPIs and KAIs. Moreover, the Board of Directors will design the systems for appointment and dismissal, evaluation, and compensation of executives, which are the key to corporate governance, and properly implement them.

Along with the importance of business management to realize the improvement of group value, human resources management has grown even more important to support it. We established the Talent Management Task Force to support the selection of management teams at individual group companies and provide them with training. We are also promoting various initiatives to expand human resources for management of group companies.

* Jiritsu is a Japanese term. In the GMP, we define it to mean "following the rules necessary for the management of a Sumitomo Corporation Group company, such as the Sumitomo Corporation Group's management principles, strategies, and policies, to discipline oneself, to think, make decisions, act for oneself in order to achieve goals, and to be accountable to stakeholders."

Message to our stakeholders

We believe we are making steady progress on the Business Portfolio SHIFT, Framework SHIFT, and Management Base SHIFT set forth in SHIFT 2023. However, we are still working on realizing a portfolio that is both highly profitable and resilient, which is the goal of SHIFT 2023, and we are aware that we have not yet reached a level of profit that will satisfy our stakeholders. We will not let up but will instead accelerate these three "shifts" and work on various measures to increase our capability to create value. We will present the process and results to stakeholders as we promote dialogue.