



PART

01

Growth Strategy

Demonstrating the true value of the Sumitomo Corporation Group through the integrated promotion of the Business Portfolio SHIFT and enhancement of sustainability management

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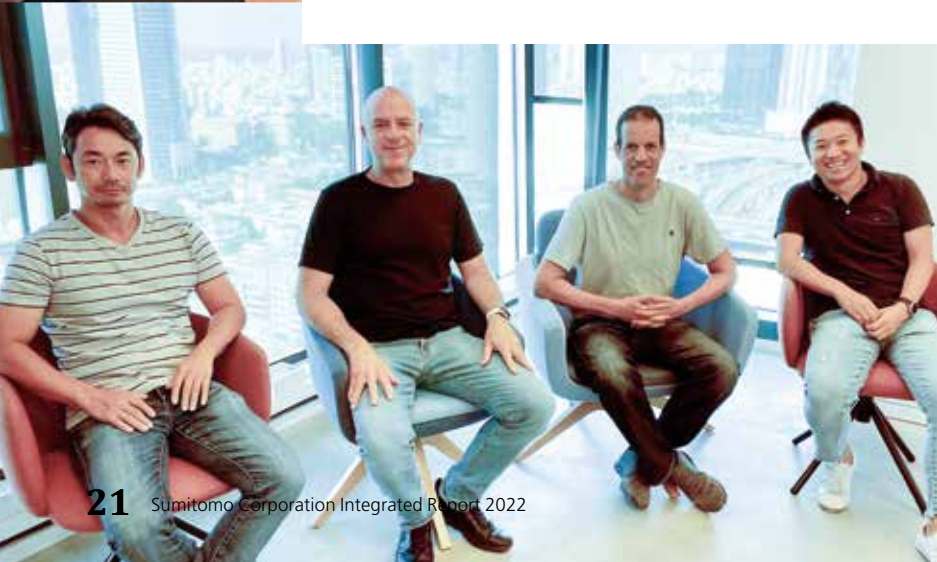
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## We will achieve sustainable growth by promoting a growth strategy based on sustainability management.

Utilizing knowledge cultivated on the job site in the promotion of SHIFT 2023

Up to now, I have been involved in various real estate businesses in Japan and overseas. Most recently, I have been working on businesses that are relatively close to the consumer, such as managing healthcare and retail in the Living Related & Real Estate Business Unit.

In the real estate business, which is also the founding business of the Group, we have continuously evolved the business model in response to the changing economic conditions and social structure of the times. In the healthcare and retail businesses, we are working on various businesses with a strong focus on development of regional societies and economies and improvement of standards of living, which are the Group's key social issues.

I had worked in the sales field all my life but starting from this fiscal year I am serving as Chief Strategy Officer (CSO), leading the execution of the management strategy. I consider it my mission to take advantage of my experience on the front line of business to complete SHIFT 2023, tying that into the creation of new value further down the road.

The basis of our SHIFT 2023 plan is structural reform in order to shift our business portfolio to have both high profitability and resilience. To achieve that, it is essential that we enhance our businesses, leveraging the strengths of the Group, and create new businesses to address changes in the social structure. We will pursue sustainable growth by promoting a growth strategy through the planning and implementation of specific action plans.

Hirokazu Higashino

Representative Director,  
Managing Executive Officer,  
Chief Strategy Officer and  
Chief Information Officer

Promoting the Business Portfolio SHIFT to enhance earning power

In FY2021, the first year of SHIFT 2023, we achieved record-high consolidated profit for the year attributable to owners of the parent of ¥463.7 billion by making progress on some measures for exiting low-profitability businesses, promoting turnaround, and creating value at a faster pace than initially planned. Some impact from the external environment, such as rising mineral resource prices, was included but we see this as the result of steadily implementing the measures set forth for structural reform at each business. We also made steady progress on turnaround projects, including the Ambatovy Project nickel mining and refining business in Madagascar, the TBC retail and wholesale tire business in the United States, and the Fyffes fresh produce business in Europe and the Americas. There is a solid sense of a recovery in earning power.

On the other hand, we will need to work on some initiatives from a medium- to long-term perspective, such as those to secure profitability commensurate with invested capital in all businesses, to expand our earnings base while increasing invested capital, and to create new core businesses that will drive future profit expansion. It is important that we produce results as quickly as possible, and I will put even more effort toward that end.

Strengthening the framework for ensuring the effectiveness of the Business Portfolio SHIFT

The Framework SHIFT plays an important role in achieving the Business Portfolio SHIFT. As such, under SHIFT 2023, all of the Group's businesses are categorized into Strategic Business Units (SBUs) based on the strategies they share. Approximately 60 SBUs are grouped into the four strategic categories of Steady Business Growth, Value Creation, Seeding, and Divestment, based around the two axes of market potential and demonstration of the Group's strengths. The aim is to enhance the portfolio of the entire Group

by achieving a return on invested capital (ROIC) that exceeds the weighted average cost of capital (WACC), having each SBU recognize its own functions and strengths and further produce synergy with other SBUs.

In addition to the strengthening of business strategy management, we are also working on reallocation of management resources across business units and enhancement of post-investment value creation.

Specifically, at management strategy meetings held twice a year, we are reviewing and discussing the progress achieved by SBUs on KPIs and KAI set along with the SBU's policies, strategies, and targets. These discussions include a review of strategies themselves from the standpoint of groupwide optimization as necessary. By clarifying the business strategy and the path to profitability of each SBU, we are strictly analyzing and monitoring to ensure that SBUs categorized as Steady Business Growth and Value Creation categories in particular can fully demonstrate the strengths and generate earnings that greatly exceeds the cost of capital of the business.

Progress in strategy category

With regard to SBUs falling under the Value Creation category, we were able to make steady progress on turnaround projects such as Ambatovy, TBC, and Fyffes as mentioned above, which contributed significantly to a recovery in performance in FY2021. We will continue to execute the Value Creation plans established for each business.

In the Steady Business Growth category, we are working to further expand the scale of our business by investing additional capital in fields where we possess strengths, including increasing our construction equipment rental assets in the United States, entering the telecommunications business in Ethiopia, strengthening collaboration in the retail business, and accelerating the development of our healthcare business. We are also working on transformation of our business model utilizing DX to grow our earning pillars. Although uncertainty is increasing in the external environment with

the emergence of geopolitical risks and global inflation, we will thoroughly manage the risks and execute planned investments while observing the changes.

In the Seeding category, we will accelerate our commercialization efforts in 5G, Beyond Mobility, and Sustainable City (Smart City) with a view to resolving key social issues and long-term market growth.

With regard to the Divestment category, we are carrying out asset replacement ahead of schedule, including selling part of our fossil energy concession, and working to recover more management resources than set forth in the plan.

### Creating and cultivating next-generation businesses with enhanced sustainability management as the driving force

In order for the Group to grow sustainably, we will need to promote businesses that capture the essence of the value demanded by society. To that end, it is important to embody the idea that “benefit for self and others, private and public interests are one and the same” \* as set forth in Sumitomo’s Business Philosophy. This value has been passed down and is found within the current Sumitomo Corporation Group’s Management Principles. It is also the concept that lies at the foundation of the Group’s sustainability management. Based on this thinking, we are working on various activities under the theme of enhancement of sustainability management.

\* This phrase refers to the idea that Sumitomo’s business must go beyond benefiting Sumitomo itself to also benefit the nation and society.

### Further enhancing sustainability management

Various social issues, including climate change, loss of biodiversity, depletion of natural resources, and human rights issues, are becoming more serious and threatening the sustainability of society. There are growing expectations for companies to resolve social issues, and I get a strong sense that the business environment and business rules are changing significantly in conjunction with this. These changes are irreversible, and while it

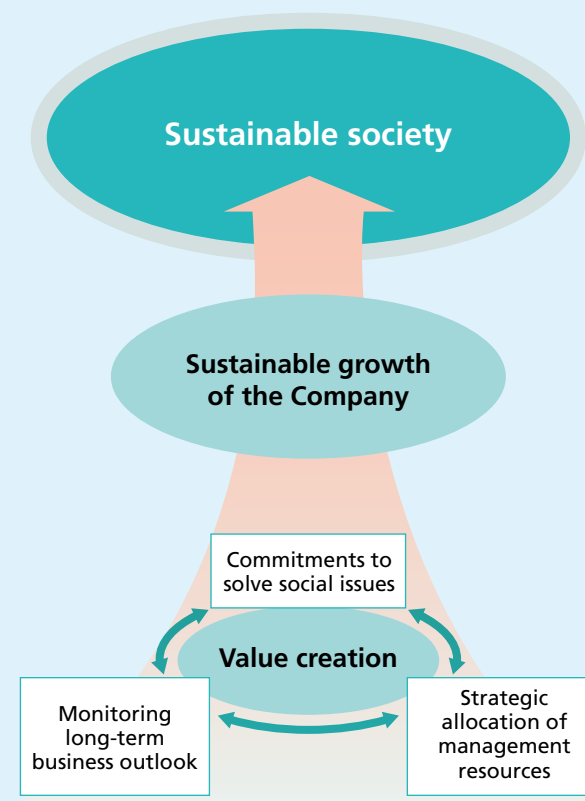
is necessary to address the risks associated with the increasing seriousness of social issues, the situation has brought about many business opportunities to meet new social needs. Given these times we are in, with the pursuit of sustainability as the cornerstone of growth strategy, the Group aims to enhance corporate value over the long term by strategically reallocating management resources and executing the Business Portfolio SHIFT toward the creation of value demanded by society.

The Group is focusing on the six key social issues and long-term goals established in June 2020, which are based on the idea of balancing “development and evolution of society” with “sustainability of society.” We also established medium-term goals in May 2021 as our specific action plan.

In accordance with these goals, we will continue to review our policies as climate change mitigation needs are changing at an increasingly faster pace. In February

### Sustainability management at the Sumitomo Corporation Group

#### Pursue Sustainable Growth with Society



2022, we made it clear that we will not be involved in any new coal-fired power generation business, neither in independent power producer (IPP) nor engineering, procurement, and construction (EPC), with no exception. In May 2022, we disclosed a more specific milestone for achieving carbon neutrality by 2050 ▶ p. 36. As a specific initiative, in FY2021 we sold part of our fossil energy concession and pushed steadily forward with the Business Portfolio SHIFT for decarbonization. At the same time, we began studies on decarbonization and low-carbonization for our existing coal-fired power generation businesses. We are also working on carbon neutralization of our business, and in the Energy Innovation Initiative (EII) launched in April 2021, we will contribute to the carbon neutrality of society through the creation of next-generation energy businesses ▶ p. 29. Moreover, in terms of fundraising, we established a green financing framework in March 2022 and issued green bonds in May in the same year.

In the area of circular economy, we are promoting recycling, resource-saving business through the expansion of sharing businesses on top of reducing food waste and developing biochemicals. In addition, as part of our efforts to reinforce the sustainable procurement system for major natural resources, we established and disclosed the Sumitomo Corporation Group Forest Management Policy and the Sourcing Policy for Forest Products in March 2022.

In regard to respect for human rights, which is a subject of worldwide interest, we have begun human rights due diligence in each business unit based on the Sumitomo Corporation Group’s Human Rights Policy established in 2020, and plan to complete the work in all business units by 2025.

### Creation and cultivation of next-generation businesses

Under SHIFT 2023, we see demands for the realization of a sustainable society as opportunities from a long-term perspective, and have positioned the fields we can work on while demonstrating our strengths as next-generation growth fields. We have identified business



opportunities in five fields, namely social infrastructure, retail/consumer, healthcare, and agriculture in addition to the aforementioned energy innovation. While utilizing DX, which has the potential to transform existing business models, we are working on new developments and creating core businesses that will be the Group’s cornerstone in the future. These efforts will also contribute significantly to the key social issue of “development and evolution of society.” Several projects are already underway in the fields of agriculture, healthcare, and retail/consumer, increasing the feasibility of the strategy. We have also launched efforts for the generation of synergy transcending business units and anticipating a larger market.

None of these efforts will be accomplished overnight, but we will actively engage in discussions based on awareness of making changes that go beyond the framework of the organization, which has dramatically increased under SHIFT 2023. While keeping close tabs on the two major social trends of requirements for sustainability and digitalization ▶ p. 53, we will take the lead in transition and strive for the realization of a sustainable society and the sustainable growth of the Group.



# Medium- to Long-Term Growth Strategy

## Key social issues and medium- and long-term goals

As part of enhancing sustainability management, the Company has identified six key social issues to be addressed. We have established medium- and long-term goals for each of the issues and aim to resolve them.



For further details on the progress made toward the medium- and long-term goals and specific initiatives undertaken, please see our ESG Communication Book.  
<https://www.sumitomocorp.com/en/jp/sustainability/report>



	Key social issues	Long-term goals	Medium-term goals	Progress
Sustainability of society	<b>Mitigation of climate change</b> Refer to p. 35 	Aim for carbon neutrality by 2050 and challenge to realize sustainable energy cycle	<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*<sup>1</sup> in terms of net ownership generation capacity.</li> <li>Reduce indirect CO<sub>2</sub> emissions*<sup>2</sup> 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*<sup>3</sup>.</li> </ul>	<ul style="list-style-type: none"> <li>Reduced the Group's CO<sub>2</sub> emissions by 7.4% (compared to 2019)</li> <li>Reduced CO<sub>2</sub> emissions of the power generation business by 4.1% (of which, reduced 3.6% for coal-fired power generation business) (compared to 2019)</li> <li>Power generation portfolio at end of FY2021 comprised 53% coal-fired, 31% gas-fired and 16% renewables in terms of net ownership generation capacity</li> <li>Reduced indirect CO<sub>2</sub> emissions associated with the fossil fuel upstream business by 16.7% (compared to 2019)</li> </ul>
			<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)*<sup>4</sup>, 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>	<ul style="list-style-type: none"> <li>Expanded the supply of renewable energy in Japan and overseas (2021: 1.5GW)</li> <li>Established the Energy Innovation Initiative (EII)</li> <li>Experimental demonstration of a hydrogen supply chain in partnership with the private sector and government ministries of Australia and Japan</li> <li>Establishment of a joint venture for the development and operation of a solar PPA business</li> <li>Acquired additional forest assets in New Zealand</li> </ul>
	<b>Circular economy</b> 	Shift to recyclable, efficient technologies and products	<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>	<ul style="list-style-type: none"> <li>Increased the usage of recyclable raw materials, etc. through manufacturing plastic substitute materials (plant-derived materials)</li> <li>Promoted waste recovery/recycling businesses such as the PET bottle recycling business</li> </ul>
		Sustainable use of natural resources	<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>	<ul style="list-style-type: none"> <li>Promoted sustainable forest management through the establishment of our Forest Management Policy and Sourcing Policy for Forest Products</li> </ul>
	<b>Respect for human rights</b> Refer to p. 39 	Respect human rights through all of our businesses and supply chains	<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*<sup>5</sup> based on assessment results.</li> </ul>	<ul style="list-style-type: none"> <li>Completed development of content for human rights education tool (e-learning) (begin rollout in FY2022)</li> <li>Commenced human rights due diligence on a business-unit basis with the aim of covering all businesses by 2025. (In FY2021, covered the Media &amp; Digital Business Unit and the Living Related &amp; Real Estate Business Unit.)</li> </ul>
			<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>	<ul style="list-style-type: none"> <li>Implemented e-learning on initial responses in the event of an accident, conducted lifesaving courses, and introduced a system for sharing disaster situations</li> </ul>
			<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>	<ul style="list-style-type: none"> <li>Planned and hosted Diversity Week—an intensive period of diversity and inclusion (D&amp;I) programs—as part of our ongoing internal awareness-raising efforts to instill D&amp;I in the organization</li> </ul>
Development and evolution of society	<b>Development of local society and economy</b> 	Contribute to development of local industries and human resources	<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>	<ul style="list-style-type: none"> <li>Promoted the overseas industrial park business</li> <li>Developed human resources at sites in each business by providing training opportunities</li> </ul>
		Develop industrial and social infrastructure	<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>	<ul style="list-style-type: none"> <li>Increased treatment capacity by 56% (compared to FY2020) by expanding the water business</li> <li>Began developing telecommunications infrastructure in Ethiopia</li> </ul>
	<b>Improvement of living standard</b> 	Provide advanced lifestyle-related services	<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>	<ul style="list-style-type: none"> <li>North Hanoi Smart city: Progress being made in land expropriation; drafted a town management business plan and concept</li> <li>Established additional local 5G base stations</li> </ul>
	<b>Quality education</b> 	Contribute to quality education	<b>Provide quality and equal learning opportunities through 100SEED*<sup>6</sup> 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>	<ul style="list-style-type: none"> <li>Implemented 44 projects for 100SEED activities in 16 countries around the world to address local educational issues</li> <li>More than 5% of employees participated at the head office and regional organizations in Japan and abroad</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  
\*6 Social contribution activity program with employee participation at the Sumitomo Corporation Group



## Focus

# Taking up the challenges of the EII

**Q.** Please tell us about the background and aim behind the establishment of the EII.

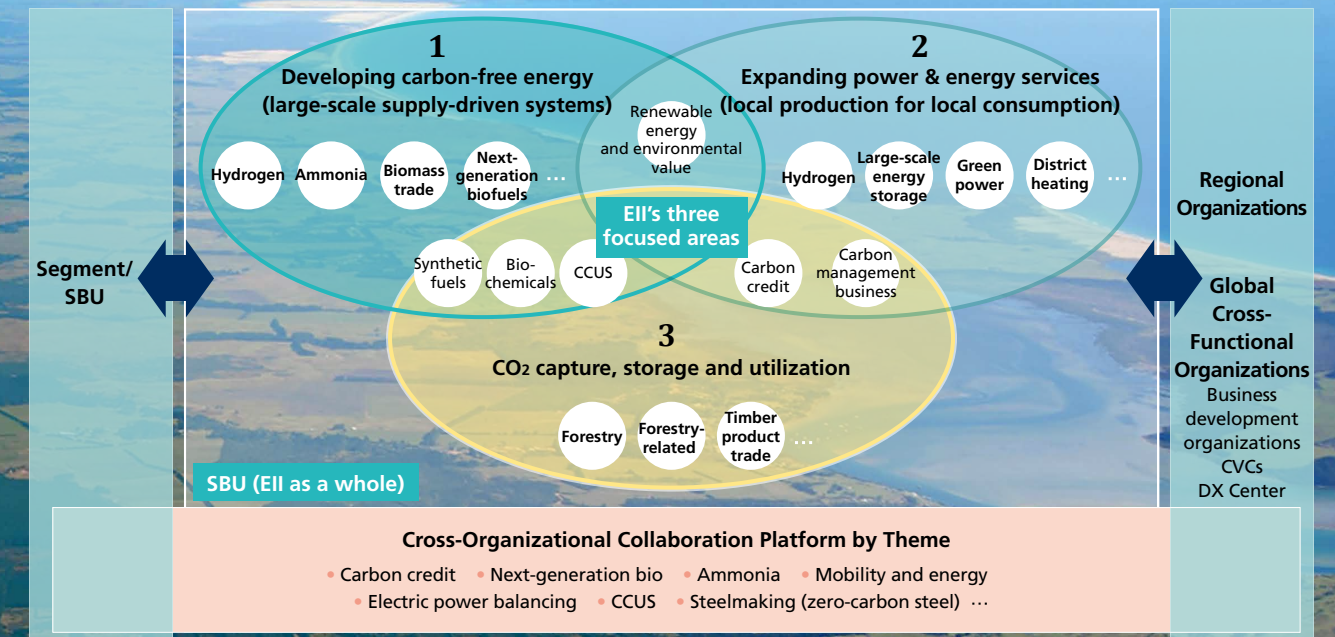
**A.** With increase in global population and economic growth, energy demand continues to grow, while climate change has become an urgent issue to be addressed on a global scale. At the 27th United Nations Climate Change Conference (COP27), which will be held in Egypt in November 2022, discussions will likely take place on global initiatives to achieve the 1.5°C target, with an awareness of the issue of energy and food security, the importance of which has been reaffirmed following Russia's invasion of Ukraine. In 2020, we identified mitigation of climate change as one of our six key social issues. We established the EII in April 2021 to resolve that issue. The EII is a new business organization that transcends the framework of traditional segments. We consider the changes in social structure brought about by the energy

transition as a major business opportunity, and achieving a carbon-neutral society through a decarbonization and recycling energy system is the main theme of our efforts. It is positioned within the Seeding strategy category in which we aim to cultivate next-generation businesses from a medium- to long-term perspective, and we are working on the creation of the next-generation businesses with a scale commensurate with the business segment. Initially, the organization and team members promoting business in the next-generation energy field in each business unit were brought together from the perspective of companywide optimization to form the EII, and it started out with around 100 members. In April 2022, we began putting together a global EII structure/organization, and are currently designing and creating innovative businesses with a staff of approximately 200.

**Q.** About a year and a half has passed since the launch of the EII. Please tell us about the activities and progress during this period.

**A.** The first thing we worked on after the launch was putting together the grand design for the decarbonization and recycling energy system that we seek to create. What should the future energy systems be in order to realize carbon neutrality? Rather than focusing and working on a part of the energy value chain by itself, we took a bird's-eye view of the entire value chain and identified three focused areas. The first is developing carbon-free energy, in which we aim to develop large-scale supply-driven systems such as hydrogen, ammonia, and next-generation bio-energy. The second is expanding power & energy services, in which we propose a local production for local consumption model and energy management utilizing distributed power sources and energy storage technology. The third is CO<sub>2</sub> capture,

Development of Business Foundation in the Three Focused Areas



storage and utilization, in which we aim to create value through carbon management, including utilization of our forest assets and our technology in other innovation fields. These three focused areas do not exist independently of each other but rather are interrelated. We believe that new synergy and demand will be created only when these are combined. For that reason, we are also pursuing synergy with existing businesses inside and outside the EII, including other business segments. In addition, going beyond the EII, to promote businesses in the next-generation energy field throughout the Company, we have launched and are implementing cross-organizational collaboration platforms between different organizations by theme, such as zero-carbon steel and Carbon dioxide Capture, Utilization and Storage (CCUS), which is a technology for utilizing CO<sub>2</sub>. First, we will consolidate information in the next-generation energy field from the entire Company and accelerate discussions on commercialization and systematization. The EII has been striving to discover new businesses through cross-company, cross-functional activities while also working on business expansion and development centered on the three focused areas and business lines. As a result, many projects are underway at our work sites. Although there are still many things we cannot present outside the Company, we will continue to work on value creation through next-generation businesses that contribute to the achievement of a carbon-neutral society.

**Q.** What are the strengths of the EII in promoting these efforts?

**A.** The Group has close relationships with various industrial sectors through its existing businesses. The needs and challenges along the way to carbon neutrality and the related business opportunities are inherent in all of these industrial sectors, customers, and markets. To what extent we can capture both demand that is already manifest and latent demand and tie it into business will be of importance, and the key to achieving that in the process of creating businesses in the field of next-generation energy is cross-organizational collaboration. I believe the EII is the mechanism for realizing that potential. The EII is a business organization with the responsibility of turning a profit like other business segments, but its focus is on creating new next-generation businesses to develop future earning pillars from a medium- to long-term perspective rather than on pursuing short-term returns. This is precisely why we continually consider overall optimization and pursue synergy through collaboration not only with other business segments but also with external organizations. In other words, we are expected to provide and demonstrate cross-functional capabilities. A typical example of this is the aforementioned platforms for cross-organizational

## Shingo Ueno

Executive Vice President and Head of Energy Innovation Initiative



## Medium- to Long-Term Growth Strategy

### Focus: Taking up the challenges of the EII

collaboration. In aiming for commercialization via the platforms, we do not necessarily have to assume systematization within the EII. We always consider policies and structures from the standpoint of companywide optimization. Another major strength of the EII is that we can provide proposals that combine various elements while keeping in mind the big picture of the value chain. For example, we are promoting the creation of a clean, lively, safe, and secure town for the residents of Namie, Fukushima, which is home to Japan's largest hydrogen manufacturing plant, together with the municipal government. More than 10 years has passed since the town of Namie was evacuated due to the Great East Japan Earthquake of 2011 and the accident at the nuclear power plant, but the population remains at around 10% of what it was prior to the earthquake. We are, therefore, focused not only on tangible aspects such as fully utilizing hydrogen and renewable energy within the region but also on intangible aspects aiming to create mechanisms and forums leading to town revitalization by increasing the resident and daytime populations. If it were only a matter of introducing hydrogen infrastructure and battery storage stations, then there are probably other companies that could also do it. However, working hand-in-hand with residents to promote the spread of hydrogen and renewable energy so that they will be rooted in their daily lives and actively contributing to town development while bringing together various functions from a bird's-eye view is a unique strength of the EII.

#### Example Initiatives in the EII's Three Focused Areas



#### 1 Developing carbon-free energy (large-scale supply-driven systems)

Green hydrogen project in Sarawak, Malaysia

Please refer to our ESG Communication Book for details.  
<https://www.sumitomocorp.com/en/jp/sustainability/report>



#### 2 Expanding power & energy services (local production for local consumption)

Battery station business in Namie, Fukushima, which employs reusable batteries from EVs made by 4R Energy Corporation

Please refer to the news release below for details.  
<https://www.sumitomocorp.com/ja/jp/news/release/2022/group/15640>  
(in Japanese only)



#### 3 CO<sub>2</sub> capture, storage and utilization

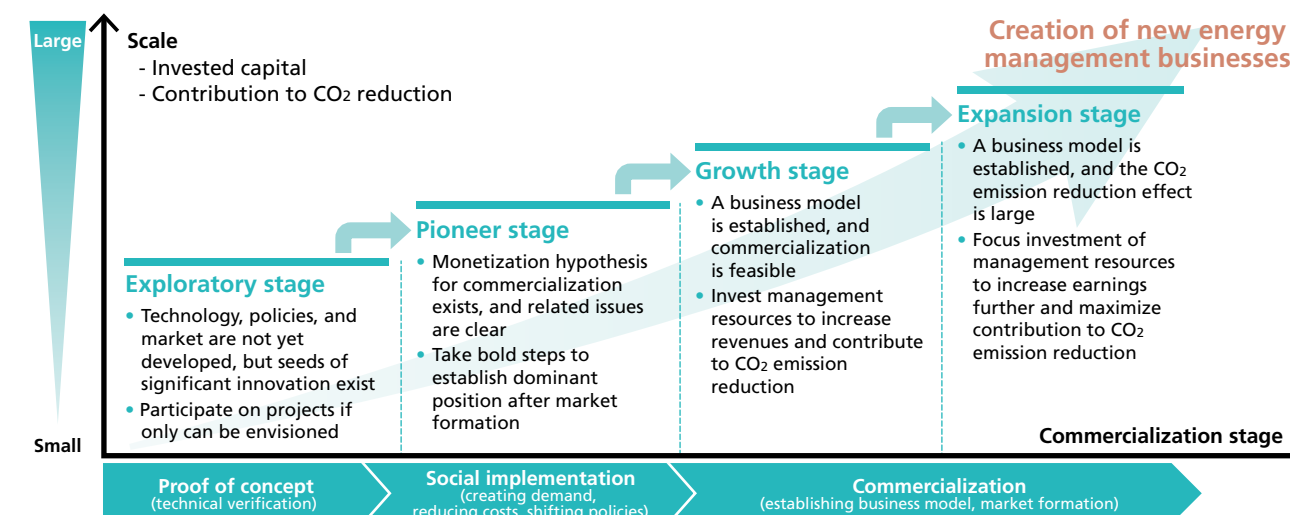
Sustainable forestry business in the North Island of New Zealand

Please refer to the news release below for details.  
<https://www.sumitomocorp.com/en/jp/news/release/2021/group/15250>

**Q.** In SHIFT 2023, the EII falls under the Seeding strategy category, or taking on structural changes in society from a medium- to long-term perspective. What is the strategy for the future?

**A.** We are already proceeding with many projects for the future. First, we are working on further cash generation and improving the return on invested capital (ROIC) in existing business lines with ongoing operations such as forests and biomass trading. At the same time, many of the projects at the EII are in the technical demonstration or social implementation stage, and in new fields such as these, our aim is to contribute to profits through commercialization either during or after the period of the next medium-term management plan. Progress must be monitored while maintaining awareness of this timeline, so the EII has categorized all businesses into three stages and is implementing a PDCA cycle. Specifically, projects in the field testing and technical verification stages are categorized into the "exploratory stage," those in the social implementation stage into the "pioneer stage," and businesses and projects that have already been commercialized into the "growth/expansion stage." Under SHIFT 2023, the companywide portfolio allocation for capital invested in creating next-generation businesses is around 10% for the exploratory stage, 60% for the pioneer stage, and 30% for the growth/expansion

#### Growth Story for the Creation of New Energy Management Businesses



stage. We plan to focus on accumulating quality projects through the development and verification of hypotheses for the next medium-term management plan. We will then take appropriate measures according to the stage, establish KPIs and KAls according to the purpose of each stage, and steadily implement them through a PDCA cycle. As a result, we aim to establish an earnings base similar in scale to a business unit by 2030. Rather than simply pursuing economic value, we will work toward the vision of achieving a carbon-neutral society. To that end, for example, we are looking into visualizing and measuring the contribution to CO<sub>2</sub> reduction through the businesses worked on by the EII and the services provided and establishing quantitative targets for it.

**Q.** Lastly, what is your outlook for the future?

**A.** The EII is an organization with a vision of achieving a carbon-neutral society through a decarbonization and recycling energy system and of establishing a future earnings base for the Company. To reduce CO<sub>2</sub> emissions, which are said to have reached approximately 36 billion tons per year, and realize global

carbon neutrality, it is said that a massive investment on clean energy of approximately 4.5 trillion U.S. dollars per year will be required by around 2030. As mentioned earlier, geopolitical risks have arisen in relation to fossil fuels, stemming from the Russia-Ukraine situation in early 2022. Changes are taking place in the environment surrounding us on a scale and at a pace beyond what we anticipated. Looking ahead, uncertainty will only increase, and the changes will become even more extreme. It is in times such as this that the EII must bear in mind a grand design to plan and develop businesses from a long-term and broad perspective without getting hung up on the changes happening in front of us. We already have the necessary elements and strengths. Putting these together, we will take up the challenge of proposing and developing business models to contribute to resolving issues facing society and customers. Designing and creating innovative businesses is truly the mission of the EII. Our aim is to build a sustainable decarbonization and recycling energy system that reduces environmental impact and creates business value at the same time by pursuing initiatives that bring internal and external parties together to cover the entire energy value chain. Please continue looking forward to the future of the EII.

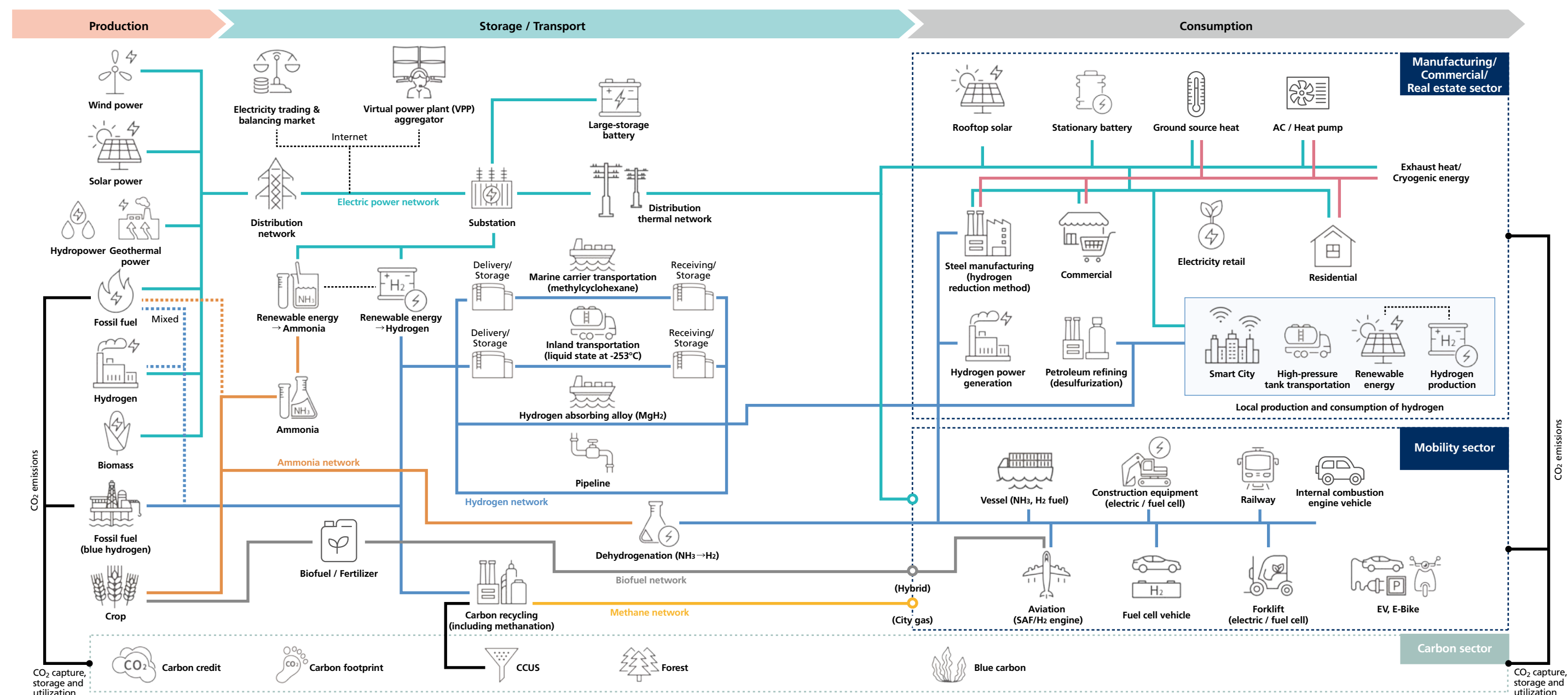
## Promoting the creation of next-generation businesses with a comprehensive approach to the energy system

The grand design of the decarbonization and recycling energy system that we seek to create, which provides a bird's-eye view of the entire value chain, is shown below. It covers many elements, from production to consumption, but rather than existing independently of each other, they are interrelated,

forming a single energy system. We will continue to leverage cross-organizational collaboration and our global network, which are strengths of the Sumitomo Corporation Group, to promote each project.



Please see the special feature on the hydrogen business, which is the key to our carbon neutrality initiative, in the ESG Communication Book (Story Book).  
<https://www.sumitomocorp.com/en/jp/sustainability/report>





## Mitigation of climate change

### Implementing specific actions to contribute to carbon neutrality

#### Basic approach to climate change issues

Mitigation of climate change is a serious issue that must be overcome if we are to realize a sustainable society. Global initiatives for the early achievement of a carbon-neutral society are accelerating.

The Sumitomo Corporation Group places great importance on the global agreement in the Paris Agreement,

and we seek to contribute more actively to the achievement of the carbon neutrality targets for society set forth in the agreement. In 2019, the Board of Directors decided on the Group's Policies on Climate Change Issues to clarify the role we are to play in overcoming climate change issues. We continue to review these policies in light of global circumstances surrounding climate change.

#### Policies on Climate Change Issues

##### Basic Policy

- Aim to make the Sumitomo Corporation Group carbon neutral in 2050\*1. Develop technologies and business models for creating a sustainable energy cycle by reducing CO<sub>2</sub> emissions and achieving negative emissions\*2 for society as a whole.
- In addition to reducing and absorbing CO<sub>2</sub> emissions from our business, we will contribute to the carbon neutralization of society through cooperative initiatives and recommendations made with business partners and public institutions.

##### Policy on Business Activities

- Promote renewable energy, efficient energy utilization and fuel conversion that contributes to reducing CO<sub>2</sub> emissions throughout society. We will also work to offer new energy management and mobility services utilizing renewable energy and also to materialize hydrogen technologies and applications.
- In the power generation business, we provide a stable supply of the energy, essential for the economic and industrial development of local communities. At the same time, we continuously shift management resources to renewables and other energy sources with low environmental burden in the power generation portfolio. (in 2035: 20% for coal-fired, 50% for gas-fired, and 30% for renewables in terms of net ownership generation capacity\*3)
- Regarding the development of thermal power generation and fossil energy concession, we will work on the premise of carbon neutralization in 2050. We will not be involved in any new coal-fired power generation business neither independent power producer (IPP) nor engineering, procurement, and construction (EPC). For IPP business, we aim to reduce CO<sub>2</sub> emissions by 60% or more by 2035 (compared to 2019) and we will end all the coal-fired power generation business in the late 2040s. 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.

\*1 The scope of business targeted for carbon neutralization is as follows.

[Scope 1 and Scope 2] Direct CO<sub>2</sub> emissions from Sumitomo Corporation and its subsidiaries, as well as indirect CO<sub>2</sub> emissions from the generation of energy used by each company (however, for the power generation business, emissions from those affiliated companies under the equity method are also included).

[Scope 3] Indirect CO<sub>2</sub> emissions associated with the use of energy resources produced by fossil energy concession of Sumitomo Corporation Group, its subsidiaries, and affiliated companies under the equity method. Carbon neutrality means net-zero CO<sub>2</sub> emissions that combine CO<sub>2</sub> emissions from our business and our contributions to CO<sub>2</sub> emission reduction.

\*2 Negative emission refers to the absorption, capturing, and removal of CO<sub>2</sub> emitted in the past and accumulated in the atmosphere.

\*3 As of 2020: Coal 50%, gas 30%, renewables 20%

#### Carbon neutrality at the Sumitomo Corporation Group

Sumitomo Corporation has set forth achieving carbon neutrality within the Group by 2050 as a long-term goal. As shown in the diagram below, we have established specific milestones for reducing CO<sub>2</sub> emissions in order to achieve the goal. In FY2021, we sold some of our interests in the fossil fuel upstream business and pushed forward with the portfolio shift through promotion of the renewable energy business. At the same time, we began studies on how to promote decarbonization and low-carbonization for our existing coal-fired power generation business.

By clarifying milestones for achieving carbon neutrality, we will develop next-generation energy businesses for the growth and evolution of regional society as well as for achieving carbon neutrality within the Group, thus contributing to realizing carbon neutrality in society.

#### Policy on and approach to our coal-fired power generation business

##### Sumitomo Corporation Policy

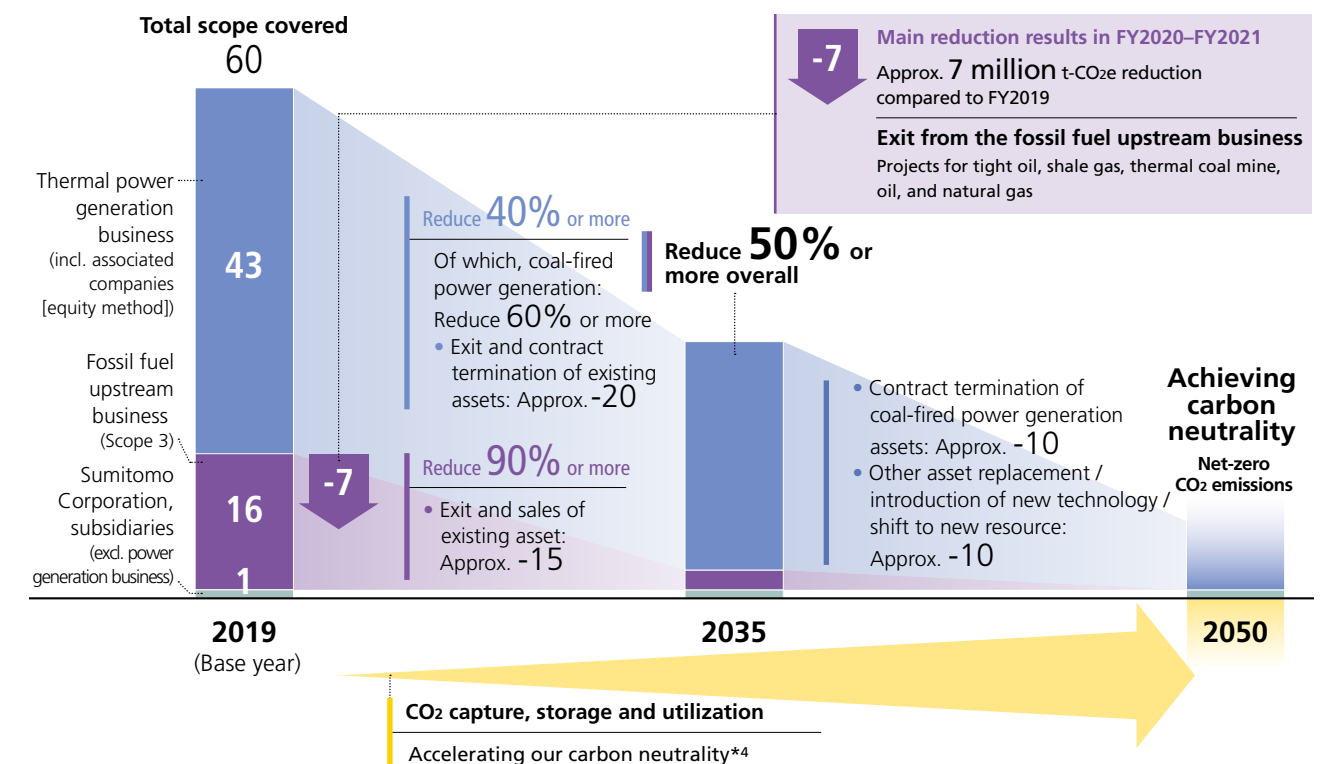
- No involvement in any new coal-fired power generation business, neither in IPP nor EPC, without any exception
- End all coal-fired power generation business by the late 2040s

##### Approach to Efforts

From the perspective of our social responsibility, including the development of local communities and economies and our obligation to supply, we will pursue every option, not eliminating the possibility of accelerated withdrawal from the business, while implementing the following efforts to accelerate the decarbonization of our company and society as a whole.

- Consensus building based on sincere dialogue with host countries, local communities, and other stakeholders
- Pursuit of consideration and efforts toward the decarbonization and low-carbonization of existing facilities
- Maximum support for host countries to shift power sources to renewable energy and other sources

#### Milestones for Reducing Emissions to Achieve Carbon Neutrality (Millions of tons of CO<sub>2</sub>e)



\*4 By means recognized by international standards such as capture and storage by forests and other technical methods



## Medium- to Long-Term Growth Strategy

### Mitigation of climate change

#### Scope of carbon neutrality efforts at the Sumitomo Corporation Group for 2050

With regard to the scope of carbon neutrality within the Group, in addition to Scope 1 and Scope 2 CO<sub>2</sub> emissions at Sumitomo Corporation and its consolidated subsidiaries (approx. 1 million tons\*<sup>1</sup>), we also include the CO<sub>2</sub> emissions of the power

generation business, which emits a large portion of these emissions (approx. 41 million tons\*<sup>1,2</sup>), including associated companies (equity method), and Scope 3 indirect CO<sub>2</sub> emissions generated by other organizations with the use of fossil fuel in the fossil fuel upstream business (approx. 13 million tons\*<sup>1</sup>).

\*1 Figures are from 2021 results.

\*2 Includes CO<sub>2</sub> emissions from the power generation business (approx. 1 million tons) at Sumitomo Corporation and its consolidated subsidiaries.

#### Scope of Carbon Neutrality (2021 Results)

	Scope 1 Direct emissions	Scope 2 Indirect emissions from acquired electricity, etc.	Scope 3 Other indirect emissions
Sumitomo Corporation/ Subsidiaries	Approx. 1 million tons (excluding the power generation business)		Fossil fuel upstream business  Approx. 13 million tons
Associated companies (equity method)	Power generation business (including facilities under construction) Approx. 41 million tons		

#### Results vs. CO<sub>2</sub> emission reduction targets

We have established the targets below for achieving carbon neutrality within the Group by 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 in the coal-fired power generation business)
- **Fossil fuel upstream business**  
CO<sub>2</sub> emissions: Reduce 90% or more

The progress made on each of the targets is as shown below. As shown in the 2021 results, we are making steady progress on achieving the CO<sub>2</sub> emission reduction targets for 2035 and on achieving carbon neutrality by 2050. We will continue to disclose relevant information to our stakeholders.

#### CO<sub>2</sub> Emissions

(1,000 t-CO<sub>2</sub>e)

Metric	2019 results (Base year)	2021		2035 target for reduction
		Results	Reduction	
Overall	59,939	55,497	-7.4%	50% or more
Power generation business* <sup>3</sup>	43,126	41,368	-4.1%	40% or more
Of which coal-fired power generation* <sup>3</sup>	34,452	33,202	-3.6%	60% or more
Fossil fuel upstream business	15,808	13,162	-16.7%	90% or more

Note: Advice has been received from a third-party agency for calculation of the results for operational projects in the power generation business and for the fossil fuel upstream business.

\*3 Includes facilities under construction

#### Disclosure based on the TCFD

Recognizing the importance of disclosing information related to our initiatives to address climate change issues, we have been supporting the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) since March 2019. We established medium- and long-term goals for mitigating climate change as a key social issue. In compliance with the framework recommended by the TCFD, including efforts such as reviewing Policies on Climate Change Issues, we disclose relevant information on governance, strategy, risk management, and metrics and targets on our corporate website and in our ESG Communication Book.

In addition, we are working to further enhance information disclosure through opportunities for dialogue, such as ESG briefings.

##### Governance

With regard to the various opportunities and risks related to climate change issues involved in the Group's diverse business activities, the Board of Directors receives periodic reports on strategies in the Group's diverse activities in each business field, their progress, and the status of risks affecting the Company's entire business portfolio, and monitors whether appropriate management is being carried out. In addition, the Board of Directors adopts resolutions establishing Policies on Climate Change Issues and discusses the handling of important issues related to policies on responses to climate change issues. As an example, the Management Council repeatedly discussed the path to achieve the Group's long-term goal of "becoming carbon neutral in our business activities by 2050 and taking on the challenge of realizing a sustainable energy cycle," the Policies of our power generation and energy-related businesses, and the initiatives necessary to realize a carbon-neutral society. Based on this, the Board of Directors reviewed the Policies on Climate Change Issues and resolved the medium-term goals for Climate Change Mitigation.

##### Strategy

In the course of developing businesses globally in a wide range of industries, the Group will steadily promote a shift in its business portfolio by responding to the risks posed by changes in various technologies and business models due to decarbonization, while at the same time meeting the new social needs and cultivating diverse business opportunities that arise in the wake of these changes. We have established emission reduction milestones and are advancing efforts to achieve those milestones to make our business carbon neutral by 2050. In addition, various stages of business development are progressing globally to create next-generation businesses that will contribute to the realization of a carbon-neutral society.

We have positioned our efforts for climate change mitigation as the development of strategic business opportunities, and we are pushing ahead with the sophistication of risk management, the capture of business opportunities, and the disclosure of related information based on scenario analysis. In the scenario analysis of transition risks and opportunities, we refer to the IEA's\*<sup>1</sup> "World Energy Outlook" and other sources, and for businesses involved in sectors\*<sup>2</sup> in which the changes in the business environment related to

climate change mitigation are significant, we use multiple scenarios to analyze the impacts on our business until 2050. Furthermore, in analyzing physical risks, we refer to IPCC\*<sup>3</sup> scenarios, identify sectors\*<sup>4</sup> in which the impacts from the actualization of the risks would be significant, and analyze both chronic and acute physical risks in each sector.

The scenario analysis results are reported to the Management Council and the Board of Directors, and are reflected in key decision-making on addressing climate change issues.

##### Risk Management

Our Group's activities cover businesses across a broad range of fields and regions, and involve various social issues. We always attach great importance to these social issues, and in order to appropriately control the social and environmental impact of the entire Group's business activities, establish policies such as the Environmental Policy, Human Rights Policy, CSR Action Guidelines for Supply Chain Management, Anti-Corruption Policy, and Compliance Guiding Principles, and publicize and thoroughly enforce them within the Group. With regard to the handling of the risks of climate change, each business unit assesses the introduction of regulations and market changes for related business sectors and conducts business activities, and as a part of companywide portfolio management, the Corporate Sustainability Department summarizes the status of major risks to the Group, taking into consideration global efforts relating to climate change and regulatory trends. The results are periodically reported to the Management Council and the Board of Directors. If there are any unacceptable risks from the perspective of the portfolio as a whole, measures including reduction of exposure are investigated with organizations responsible for risk management.

##### Metrics and Targets

We have established the targets for the Group toward achieving carbon neutrality by 2050 as described on the previous page.

Details will be published in the ESG  
Communication Book (Disclosure Book).  
<https://www.sumitomocorp.com/en/jp/sustainability/report>




\*1 International Energy Agency \*2 Energy, Resources, Transportation, Material industry, Real estate

\*3 Intergovernmental Panel on Climate Change \*4 Energy, Resources, Transportation, Material industry, Real estate, Agriculture



## Respect for human rights

### Ascertain human rights risks in all of our businesses and supply chains and promote continuous improvement

Our approach to respect for human rights	Through the implementation of human rights due diligence, stakeholder dialogue, internal education, and other such efforts based on the Sumitomo Corporation Group's Human Rights Policy established in May 2020, the Group strives to demonstrate respect for human rights as part of its corporate social responsibility and achieve sustainable growth together with society.
Long- and medium-term goals	<p><b>Long-term goals</b></p> <ul style="list-style-type: none"> <li>Respect human rights through all of our businesses and supply chains</li> </ul> <p><b>Medium-term goals</b></p> <ul style="list-style-type: none"> <li>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</li> <li>Ensure a safe workplace environment</li> <li>Achieve a diverse organization grounded in mutual respect</li> </ul>
Progress in FY2021	<ul style="list-style-type: none"> <li>Thoroughly instill respect for human rights                             <ul style="list-style-type: none"> <li>Carried out human rights due diligence for two business units</li> <li>Myanmar telecommunications business: Conducted assessment of human rights risks in conflict situations</li> </ul> </li> </ul> <p>For further details on initiatives concerning ensuring a safe workplace environment and achieving a diverse organization grounded in mutual respect, please see our ESG Communication Book.  <a href="https://www.sumitomocorp.com/en/jp/sustainability/report">https://www.sumitomocorp.com/en/jp/sustainability/report</a></p> 

#### Sumitomo Corporation Group's Human Rights Policy

Sumitomo Corporation declares in its management principles that it aims to be a global organization that contributes broadly to society and places prime importance on utmost respect for the individual. We will respect human rights to fulfill our corporate social responsibility, and pursue sustainable growth with society. Sumitomo Corporation became a signatory in 2009 to the Ten Principles of the United Nations Global Compact, which advocates for values common to its own management principles, including those regarding human rights and labor. We also respect the International Bill of Human Rights and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, and we operate in accordance with the United Nations Guiding Principles on Business and Human Rights.

- 1. Scope of application:** Sumitomo Corporation endeavors to ensure that all executives and employees within the Group fulfill their responsibility to respect human rights. In addition, we encourage our suppliers and business partners to accept, understand, and practice this policy so that we can work together to fulfill our social responsibilities, including respect for human rights in the relevant value chain.
- 2. Human rights due diligence:** Sumitomo Corporation strives to identify and to prevent or mitigate any adverse impact on human rights through the application of human rights due diligence processes. Where we identify that our Group's practices have caused or contributed to an adverse impact on human rights, we will endeavor to take appropriate remedial measures.
- 3. Compliance with relevant laws:** Sumitomo Corporation will comply with national and regional laws and regulations applicable to its group operations. When those laws and regulations are incompatible with internationally recognized human rights, we will seek to employ measures to respect international human rights norms.
- 4. Stakeholder engagement:** Sumitomo Corporation will seek to improve and progress human rights measures through engagement and dialogue with relevant stakeholders.
- 5. Education:** Sumitomo Corporation will appropriately educate its executives and employees within the Group in order to ensure that this human rights policy is understood and implemented effectively.
- 6. Reporting:** Sumitomo Corporation will disclose appropriate information regarding its efforts to respect human rights.

#### Promotion of human rights due diligence with respect to all businesses

Based on the Sumitomo Corporation Group's Human Rights Policy, we began human rights due diligence in 2020 so that we can identify, prevent, mitigate, and account for how we address any adverse human rights impact that the Group's business activities may contribute to. Our human rights due diligence is carried out via a process in line with international guidance such as the United Nations Guiding Principles on Business and Human Rights and the United Nations Guiding Principles Reporting Framework. We also identified salient human rights issues that should be prioritized in order to evaluate the impact on human rights within the Group and the related risks. Specifically, we have positioned the following as material issues: freedom of association and the right to collective bargaining, forced labor and child labor, discrimination and harassment, labor conditions, occupational health and safety, health and safety of local residents, land rights, and personal information and privacy. These are also related to the four core labor standards of the International Labour Organization.

#### FY2021 results and future initiatives

In FY2021, we expanded the scope of due diligence to all businesses in accordance with the medium-term goal to assess human rights risks in all businesses, including supply chains, and implement measures to mitigate risks by 2025. As part of these efforts, we identified and assessed human rights risks in the Media & Digital Business Unit and the Living Related & Real Estate Business Unit. In each of these business units, we confirmed that specific measures have already been taken such as supplier surveys and improvement activities to address human rights risks of concern in light of the business characteristics based on the products and regions. We also recognized latent human rights risks in each business and tied this into consideration of countermeasures. We will continue to work on human rights due diligence along with internal education activities such as implementing human rights education programs for all executives and employees, dialogue with stakeholders, information disclosure, and other initiatives.

#### Human Rights Due Diligence / Process of Identification of Salient Human Rights Issues



\* Also promote human rights due diligence in SBUs/businesses other than those identified in human rights due diligence by department.

For further details on human rights due diligence, please see our ESG Communication Book (Disclosure Book).  
<https://www.sumitomocorp.com/en/jp/sustainability/report>





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

### 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.

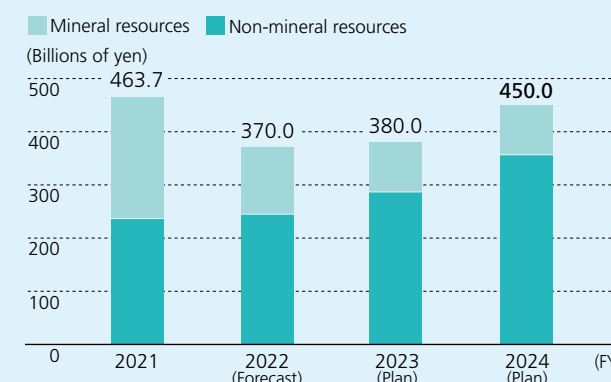
At present, the COVID-19 pandemic continues to disrupt economic activity and, among other factors, the Russia-Ukraine situation that arose in February 2022 is creating chaos in the global economy. Mineral resource prices are hovering at historical highs, and the semiconductor shortage and disruptions 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.

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

#### 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 primary 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.

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 KAI. 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.

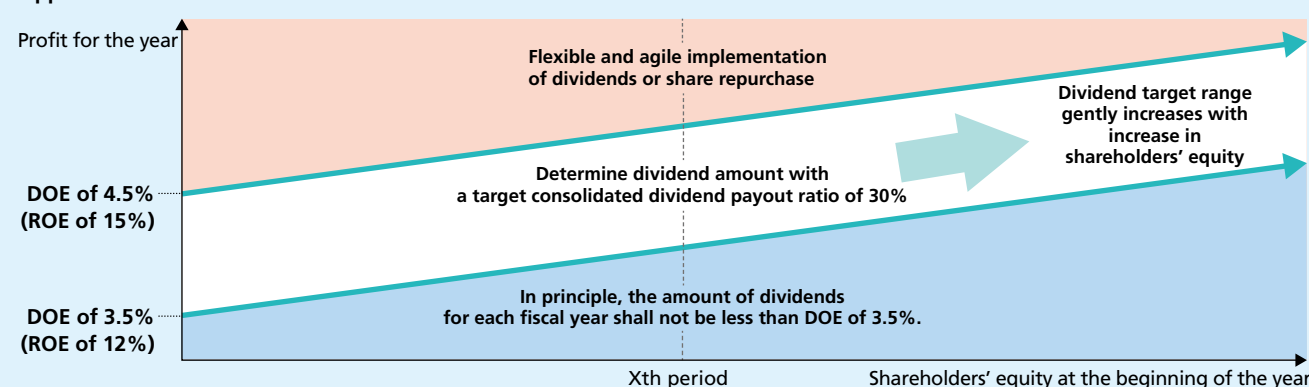
Along with the importance of business management to realize the improvement of group value, human resources management has grown even more important to support it. We established the Talent Management Task Force to support the selection of management teams at individual group companies and provide them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

#### Approach to Shareholders' Return



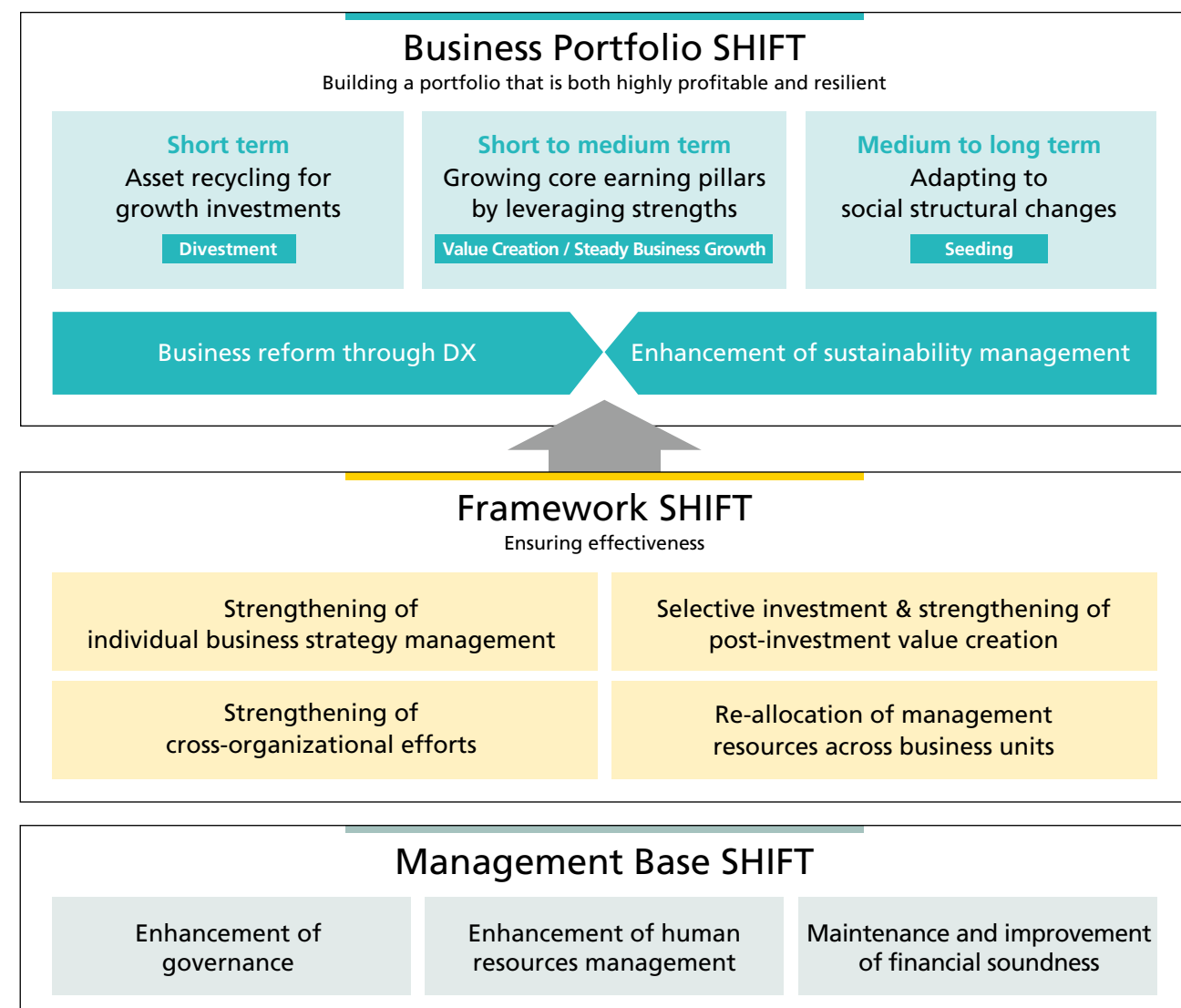


## Steadily advancing the three “shifts” to bring SHIFT 2023 to completion

In FY2020, which was the final year of the previous medium-term management plan, the Group’s business performance deteriorated significantly due to drastic changes in the economic environment, and we made a concerted effort to push forward with structural reforms. The new medium-term management plan SHIFT 2023, which covers FY2021 to FY2023, continues that momentum.

At the core of SHIFT 2023 is the Business Portfolio SHIFT. Reassessing all businesses by SBU, we will categorize them

according to the four categories of Divestment, Value Creation, Steady Business Growth, and Seeding to transition to a business portfolio that is highly profitable and resilient. We will also promote a Framework SHIFT and a Management Base SHIFT to ensure the effectiveness of the Business Portfolio SHIFT. In FY2021, we continued to work on the three “shifts,” and are beginning to see steady results. We will continue to accelerate our efforts to bring SHIFT 2023 to completion.



### FY2021 Initiatives

#### Business Portfolio SHIFT

Strategy Category	Main SBUs	Initiatives
Divestment	Upstream of Fossil Fuels	<ul style="list-style-type: none"> <li>Sold part of our thermal coal mining interest in Australia and partially sold oil and gas business in the United Kingdom and North Sea</li> </ul>
	Upstream of Metal Resources	<ul style="list-style-type: none"> <li>Sold copper and molybdenum mining business in Chile</li> </ul>
Value Creation	Steel Products Business	<ul style="list-style-type: none"> <li>Enhanced management efficiency through rigorous structural reform and accelerated the cultivation of environmental responses and regional strategies</li> </ul>
	Cable TV Business	<ul style="list-style-type: none"> <li>Strengthened main services (internet, video distribution, mobile phones)</li> <li>Expanded living-related services (insurance services, online medical consultations, etc.)</li> </ul>
	Upstream of Metal Resources	<ul style="list-style-type: none"> <li>Shifted management resources to copper, nickel, and other products that are likely to experience an increase in demand in the medium to long term from the perspective of sustainability, and promoted optimization of the upstream asset portfolio</li> </ul>
Steady Business Growth	Leasing	<ul style="list-style-type: none"> <li>Increased prime assets and expanded business areas with a focus on global assets, real estate, environmental energy, etc.</li> </ul>
	Renewable Energy IPP	<ul style="list-style-type: none"> <li>Expanded the renewable energy business in Japan and overseas</li> <li>- Started construction for onshore wind power project in Abukuma, Fukushima</li> <li>- Purchased additional equity stake in Indonesian geothermal power generation project</li> </ul>
	Smart Infrastructure	<ul style="list-style-type: none"> <li>Commenced telecommunications services in Ethiopia</li> </ul>
	Domestic Real Estate	<ul style="list-style-type: none"> <li>Accumulated prime assets mainly in strategic areas, and steadily implemented balance sheet (B/S) management by utilizing external funds such as investment funds and real estate investment trusts (REITs)</li> </ul>
	Agribusiness	<ul style="list-style-type: none"> <li>Strengthened existing businesses through the expansion of products and functions in agricultural material trades and direct sales as well as geographic expansion</li> </ul>
Seeding	Tubular Business Development	<ul style="list-style-type: none"> <li>Continued to expand sales of software that contributes to automation and efficiency at energy development sites</li> </ul>
	Smart City	<ul style="list-style-type: none"> <li>Created high-value urban development by introducing smart services based on the needs of residents</li> <li>- Promoted consultation on Smart City town management in northern Hanoi</li> </ul>
	5G	<ul style="list-style-type: none"> <li>Commenced 5G base station sharing operations</li> <li>Promoted local 5G-related projects</li> </ul>
	EII	<ul style="list-style-type: none"> <li>Steadily promoted partnership and participation in projects in the fields of hydrogen, large-scale energy storage, and distributed solar power generation while accumulating assets in steady business growth fields such as forest business</li> </ul>

#### Framework SHIFT

- Each SBU set objective indicators to measure the attainment of strategic targets (KPIs/KAs), monitored the progress, thoroughly implemented a PDCA cycle to ensure the effectiveness of the plan, and enhanced awareness of our commitment.
- Introduced stricter investment discipline and an investment performance-linked compensation plan to improve the probability of successful business investment.
- Established the Energy Innovation Initiative (EII), which transcends the current framework of business units, for next-generation energy and enhanced companywide efforts.

#### Management Base SHIFT

- The Board of Directors continuously monitored progress on SHIFT 2023 to enhance corporate governance. Also implemented the Group Management Policy, aiming to maximize the Group's corporate value.
- Established the foundation for reform of human resources management, including by introducing a job grading system, revamping the evaluation system, and unifying job positions by eliminating conventional position-based management. Also implemented various measures, including acceleration of global D&I and a human resources shift in conjunction with rebuilding the business portfolio, and promoted global allocation of the right talents to the right places.



## Progress on the Business Portfolio SHIFT

## Focusing on exiting from low-profitability businesses and improving profitability to create results in each of the four strategy categories

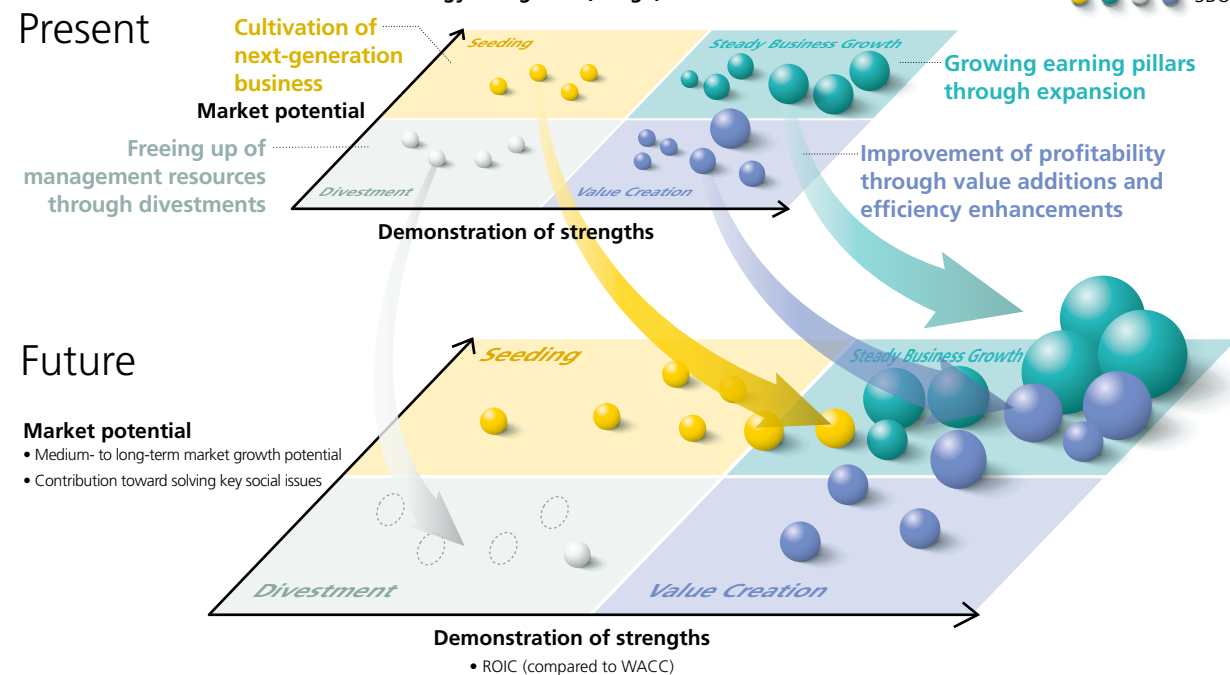
In monitoring of investment targets and support for execution (Full Potential Plan), we divested from unprofitable businesses while accelerating the improvement of profitability and efficiency of low-profitability businesses through measures to create value (hereinafter “turnaround”). Among the 101 companies that were classified as exit or divestment from approximately 400 companies that were analyzed prior to the establishment of SHIFT 2023, we exited from 32 companies in FY2020. In FY2021, we exited from 32 of the 69 remaining companies. In addition, measures taken by each work site have generated steady results for 76 companies classified as turnaround projects. In particular, we improved earnings of the nickel mining and refining business in Madagascar, the tire retail and wholesale business in the United States [▶ p. 51](#), and the fresh produce business in Europe and the Americas as a result of the review of the business strategy, managerial system, and operations of each business.

As a result, the earnings improvement effect from exit,

divestment, and turnaround projects was approximately ¥100 billion. As for improvement excluding external environmental factors, the initial plan of SHIFT 2023 (approx. ¥70 billion improvement) was achieved in the first fiscal year of SHIFT 2023.

At the same time, looking at progress on the Business Portfolio SHIFT by strategy category, the freeing up of management resources steadily progressed in SBUs in the Divestment category. SBUs in other categories also promoted their strategies steadily, including those in the Value Creation category, which aims for improvement of profitability through value additions and efficiency enhancements; the Steady Business Growth category, which aims at growing earning pillars through expansion of business scales; and the Seeding category, which aims to grow new earning pillars through the cultivation of next-generation business. Also, when pursuing the Business Portfolio SHIFT, we have particularly incorporated the perspective of digitization and sustainability, to build a business portfolio that can evolve and grow together with the society.

The Business Portfolio SHIFT in Four Strategy Categories (image)



## Progress on Monitoring of Investment Targets and Support for Execution (Full Potential Plan)

## SHIFT 2023 Plan

	No. of companies	Earnings improvement (estimated) (compared to FY2020)
Exit	69	Approx. ¥70 billion*1
Turnaround	76	

## FY2021 Results

	No. of companies	Earnings improvement (compared to FY2020)
Exit	32	Approx. ¥100 billion*2
Turnaround	76	

\*1 Included in ¥130+ billion earning improvement (excluding one-off profits/losses) through SHIFT 2023

\*2 Included in ¥259 billion earning improvement (excluding one-off profits/losses) in FY2021. Improvement excluding external environmental effects: Approx. ¥70 billion.

## Major turnaround projects and improvement effects

**Ambatovy:** Nickel mining and refining business in Madagascar

Approx. ¥38 billion improvement

**Fyffes:** Fresh produce business in Europe and the Americas

Approx. ¥8 billion improvement

**TBC:** Wholesale and retail of tires business in the United States

Approx. ¥4 billion improvement

## Progress on the Business Portfolio SHIFT

## Initial Plan of SHIFT 2023

Business strategy category	Divestment	Value Creation	Steady Business Growth	Seeding
Cash generated through asset disposal (3-year total)	¥110 billion	¥210 billion	¥200 billion	—
Investments and loans (including renewal investment; 3-year total)	—	¥330 billion	¥760 billion	¥50 billion
Excluding one-off profits/losses (FY2023)	¥0+ billion	¥120+ billion	¥200+ billion	—

## FY2021 Results

Cash generated through asset disposal	¥60 billion	¥90 billion	¥60 billion	—
Investments and loans (including renewal investment)	—	¥50 billion	¥230 billion	—
Excluding one-off profits/losses	¥40 billion	¥190 billion	¥220 billion	—
Progress/examination status of major projects	<ul style="list-style-type: none"> <li>• Sold part of our thermal coal mining interest in Australia</li> <li>• Sold copper and molybdenum mining business in Chile</li> <li>• Partially sold oil and gas business in the United Kingdom and North Sea</li> </ul>	<ul style="list-style-type: none"> <li>• Implement structural reform in tubular products business</li> <li>• Improvement in the nickel mining and refining business in Madagascar, TBC, and Fyffes</li> </ul>	<ul style="list-style-type: none"> <li>• Investing in telecommunication business in Ethiopia</li> <li>• Additional acquisition of forest assets</li> <li>• Acquisition of water sewage treatment business in Shandong, China</li> <li>• Expansion of managed care business (into Vietnam)</li> </ul>	<ul style="list-style-type: none"> <li>• Keeping expansion of selling software for automation and optimization in energy development</li> <li>• Entering the 5G base station sharing services business</li> <li>• Proceeding with projects in the fields of hydrogen, large-scale storage batteries, and distributed solar power</li> </ul>

Note: The “—” in the above chart shows that the amount is less than ¥10 billion.



# Implementation of the Business Portfolio SHIFT

## Case Study

Steady Business Growth Domestic real estate business

## Further enhancing an earning pillar

### Strengths of the domestic real estate business

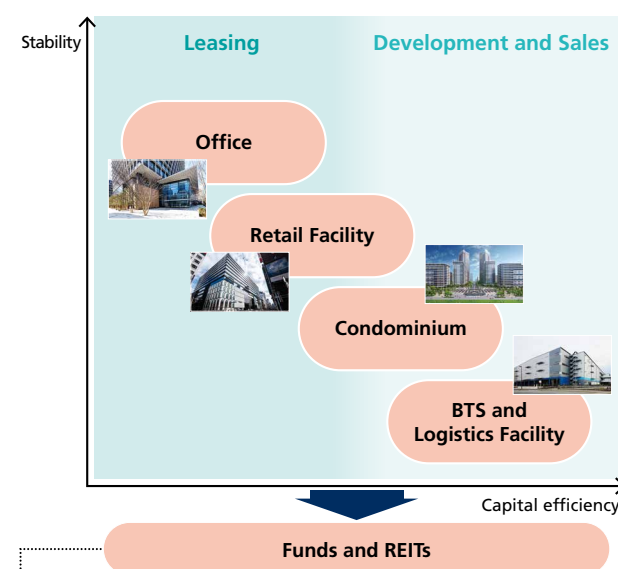
The domestic real estate business offers high capital efficiency.

Sumitomo Corporation traces its roots back to the Osaka North Harbour Company Limited, a real estate developer founded in 1919. Later, as we developed into an integrated trading company, we expanded the reach of the founding business of real estate to include office buildings, residences, retail facilities, funds and REITs, build-to-suit (BTS) development, and logistics facilities. During this process, we have evolved into an integrated developer with an extensive lineup of services and solutions covering nearly every corner of the real estate business.

Today, our real estate business includes leasing where we own and manage a property after development (office buildings, retail facilities, etc.), development and sales targeting capital gains (condominiums, logistics facilities, etc.), and asset management (funds and REITs) headed up by our wholly owned subsidiary Sumitomo Realty Management Co., Ltd. (SRM).

The strengths of the Sumitomo Corporation Group's real estate business include a portfolio resilient against changes in the external environment built atop a balance of these segments, hands-on advanced planning and development capabilities honed since our foundation, and synergies generated through cross-functional collaboration within the Group. We are maximizing these strengths to steadily and efficiently grow earnings.

### Product Portfolio of the Domestic Real Estate Business



### SOSiLA Logistics REIT, Inc.

Amid major changes taking place in logistics, in 2019 the Group established a listed logistics REIT from its portfolio mainly of SOSiLA brand logistics facilities developed by the Group. These properties have been lauded for their highly accessible locations, designs mindful of diverse logistics needs, and facilitation of logistics streamlining. In terms of ESG investment, this REIT will provide investment opportunities to a broad range of investors in the future.



### Strengths of Sumitomo Corporation's Domestic Real Estate Business

1. Risk resilience using diversified portfolio
2. Hands-on advanced planning and development capabilities
3. Collective strengths of the Sumitomo Corporation Group (collaboration with SMFLMP\*1, Summit stores, etc.)



Example of collaboration: Summit store developed jointly with SMFLMP (Summit store: Setagaya Funabashi)

\*1 SMFL MIRAI Partners Company, Limited, a subsidiary of SMFL



### Further promotion of the Steady Business Growth category

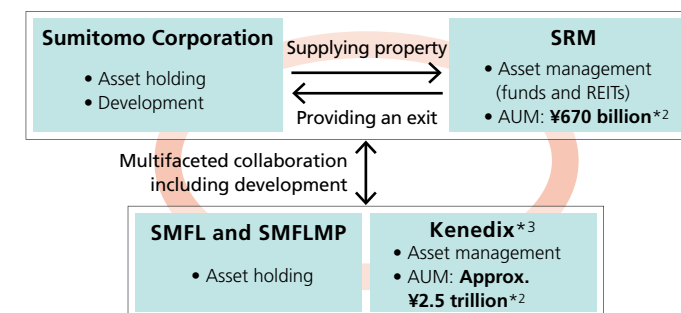
Increasing high-value-added assets and shifting to a more efficient asset portfolio

Changes in the business environment are expected to continue in the future. These include changes in work and offices due to the COVID-19 pandemic, rising demand for logistics facilities amid the growth in e-commerce, and increasing demand for high-quality, high-environmental-performance real estate amid growing awareness of ESG.

To capture business opportunities associated with such changes, we are looking to increase our portfolio of

high-value-added and quality assets in an effort to shift our portfolio toward more efficient assets. This will involve promoting the development of new asset classes with medium- to long-term growth potential, such as student apartments and senior residences, and considering entering the data center business. In this process, we will increase SRM's assets under management (AUM) and actively promote collaboration with Sumitomo Mitsui Finance and Leasing Co., Ltd. (SMFL; 50% joint venture). Through these initiatives, we bring AUM, profits, and assets to another level in demonstrating our commitment to the steady growth of the real estate business in the Steady Business Growth category.

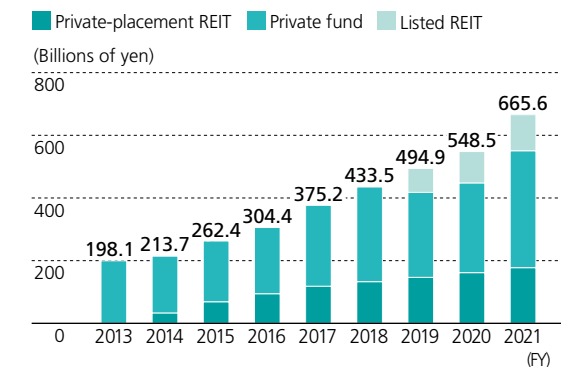
### Example of Collaborative Structure



\*2 SRM's AUM as of March 31, 2022 and Kenedix, Inc.'s AUM as of December 31, 2021

\*3 A leading Japanese asset management firm and subsidiary of SMFL

### SRM AUM



### Goals for the Domestic Real Estate SBU at the end of the medium-term management plan

Profits: Approx. **¥45 billion**  
(Previous medium-term management plan: Over ¥30 billion achieved)

Assets: Over **¥700 billion**  
(End of the previous medium-term management plan: Approx. ¥600 billion)

SRM AUM: **¥800 billion**  
(End of the previous medium-term management plan: Approx. ¥500 billion)

### Aiming for sustainable and vibrant community development



Kazuki Shimogaito  
Business Promotion Team 1, Building Business Dept.

Currently, I work in the Building Business Department, where I primarily manage existing large office buildings and develop new buildings. My work provides me with a sense of accomplishment.

Sumitomo Corporation's real estate business is promoting a number of initiatives based on the recognition that environment-friendly community development is a clear issue of the future. I'm in charge of the Sumitomo Corporation Takebashi Building, where we shifted to 100% renewable power in 2021 supplied from Summit Energy Corporation as part of our commitment to the environment and to help lower the community's carbon footprint. I will continue working daily to achieve environment-friendly community development that creates new value while being closely in tune with the DNA of each community.



## Short- to Medium-Term Growth Strategy

## Implementation of the Business Portfolio SHIFT

## Case Study

## Value Creation Wholesale and retail of tires business in the United States

## Taking on the challenge of enhancing corporate value



## Review of our tire business

## TBC faced difficulties in fulfilling its potential

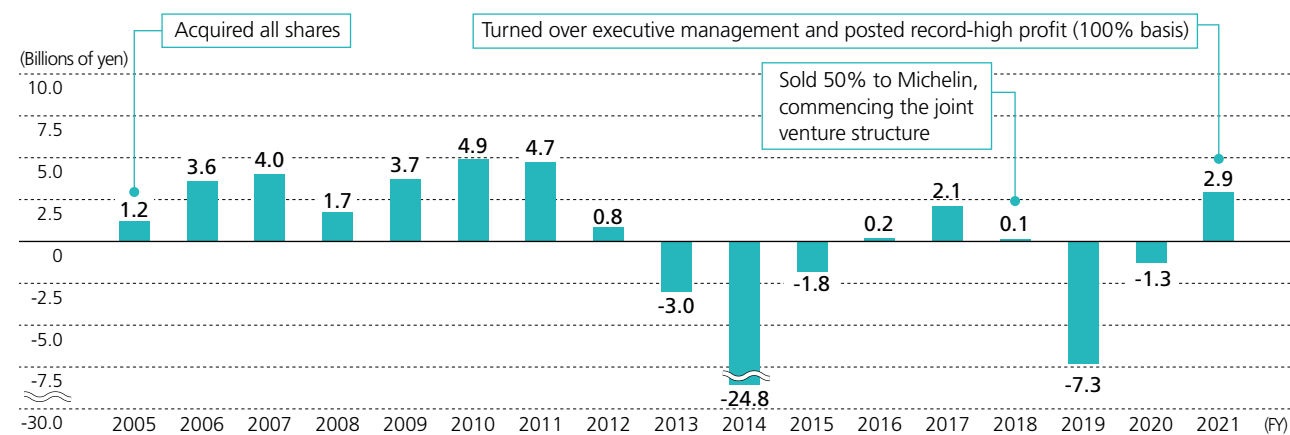
TBC Corporation is a tire distributor in the United States engaged in both tire wholesale and retail. At the time Sumitomo Corporation acquired all of its shares in 2005, TBC had the largest number of retail outlets in the United States next to chains directly owned by manufacturers. Following the acquisition, TBC steadily improved its earnings, posting record-high profit in 2011. Starting in 2012, however, TBC saw earnings decline mainly in the retail segment for six years. During this time, we turned over TBC's management team and successfully restructured its retail business, but TBC still fell short of a full-fledged recovery in earnings and return to a growth trajectory.

At the same time, to fully restructure TBC's core wholesale business, we made the bold decision in 2018 to sell 50% of TBC's shares to Michelin, the world's second-largest tire manufacturer. Michelin excels at digital-driven advanced logistics and capturing demand from the growing corporate fleet vehicle market, not to mention that it's a top tire brand. Merging the supply chain and customer base of TBC, with its strengths in low-priced tires and private brands,

with Michelin made it possible to build an effective and mutually beneficial relationship. As a result, TBC expanded its industry-leading scale and product lineup and established the foundation to become the dominant player in tire wholesale.

However, organic synergies failed to materialize and with a lack of results even three years after the merger, we talked on a number of occasions with Michelin to find a breakthrough, ultimately deciding to revamp TBC's management structure. Until then, we had supported TBC as a shareholder by entrusting operations to the local management team, but we decided to speed up the reorganization by dispatching executive officers from Sumitomo Corporation and Michelin. Michelin appointed a member of its Group Executive Committee as CEO, and we appointed a business division's general manager as CAO. Furthermore, a Management Council was established, including a full-time CFO with experience leading cost cutting locally. TBC's Board of Directors, comprised of only shareholders, and the Management Council worked closely together, to increase the quality of and speed up execution by dividing roles and duties among Management Council members. Under this new management structure, we looked back at the history of management and faced underlying problems thoroughly.

## Equity in Earnings (Losses) of TBC



## Value creation measures

## Revamped management structure and ushered in structural reforms

To maximize TBC's strengths with its industry-leading foundation, the first order of business for the new management team was to reform TBC's corporate culture. Positioning the Executive Committee as a venue to pursue companywide optimization, the team decided to make proposals and decisions on personnel affairs, marketing, purchasing, ordering, real estate contracts, system development, and others, which had previously been entrusted to each department, at the monthly Executive Officers' Meeting. The team also worked to improve engagement with officers and employees by actively disclosing companywide performance and issues through town hall meetings and video messages as well as building a system to encourage employees to share their opinions and proposals, through Pulse Survey, for example. Based on a customer-centric philosophy, we transformed forums for dialogue with suppliers, sales partners, and franchisees, which had previously focused on the topic of short-term transactions, into an opportunity for management teams on both sides to understand each other's medium- to long-term strategies.

These corporate culture reforms formed the foundation for the transformation of TBC's financial and earnings

structures. The thorough pursuit of companywide optimization helped to integrate the supply chain across department lines, increasing productivity as well as eliminating redundancies in order placement and purchasing, which increased negotiating power. The turnover rate among employees declined as engagement improved employee satisfaction, helping to lower recruiting and training costs. Furthermore, the customer-centric philosophy established trust, increasing the number of customers accepting price hikes or reduced discounting in times of rising costs, which greatly improved profits. As a result, TBC's operating profit for FY2021 reached its highest level since the acquisition.

Looking ahead, TBC's management team and shareholders will fulfill their roles and responsibilities, along with deepening dialogue and collaboration with one another, as the company wraps up its restructuring. The key to this process will be the following six initiatives. The ultimate vision is for TBC to provide indispensable solutions to the entire North American tire industry.

1. Pursue scale
2. Identify key customers
3. Focus on attractive product segments
4. Differentiate services
5. Improve operating processes with digital innovation
6. Continue corporate culture reforms

## Promoting value creation under the slogan "One TBC"



Shinichi Kato

Managing Executive Officer, Sumitomo Corporation  
Chief Administrative Officer, TBC Corporation

TBC's business structure was unable to translate industry-leading scale and coverage into competitiveness and customer satisfaction. The root cause was the company's partial optimization and passive corporate culture. I teamed up with the CEO dispatched by Michelin to make a breakthrough.

As an example, we integrated the company's decentralized and inconsistent systems and supply chain to visualize and share

information on inventories across department lines. As a result, despite ongoing personnel shortages on the front line, we increased productivity and customer satisfaction, enabling cost savings and reducing discounting. In the face of products being out of stock and delivery delays caused by worldwide logistics disruptions, we managed to minimize opportunity loss by using inventory on hand internally and successfully doubled our earnings power over the past year.

These results have given a boost of confidence to employees. Drawing upon their proposal and execution capabilities, we will continue to lower the break-even point and improve inventory turnover, and thoroughly promote selection and concentration of our businesses.



## Focus

## Business reform through DX

## Q. What part does DX play in SHIFT 2023?

A. DX and sustainability are two major themes in society that have a significant impact on our business portfolio. DX is a powerful tool for achieving the goals of SHIFT 2023. As an integrated trading and business investment company, we are in a position to identify issues that various industries face as well as to discover and implement solutions and ways to address those issues. Our strength is that we are able to ascertain the true nature of the issues from both macro and micro perspectives and then provide comprehensive solutions while implementing digital technologies and utilizing data. Leveraging this strength, we will contribute to the cultivation of next-generation core businesses from a medium- to long-term view and to improving overall profitability of the Group through enhancement of existing businesses utilizing DX.

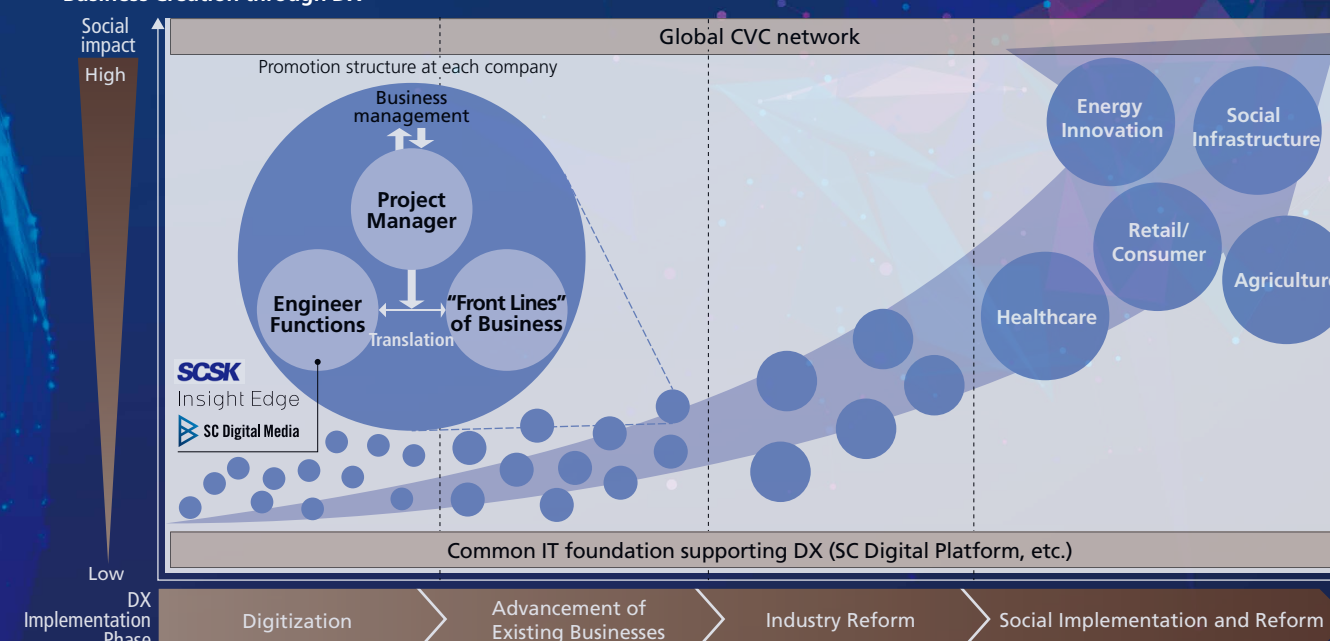
## Q. How do you plan to promote your DX strategy?

A. We have formed a professional group that understands the business and are promoting the strategy in close contact with business work sites. With our IT tool, "SC Digital Platform" and human support for digitalization as a common foundation, we will not only promote digitization such as robotic process automation (RPA) for improving the efficiency of existing operations, but also carry out measures to enhance the business models and judgment of existing businesses to improve our DX implementation capabilities. Currently, we are concentrating our resources on businesses with impact that will bring about social implementation and reform and supporting business innovation and value improvement to tie this into the portfolio shift of SHIFT 2023.

## Q. As many companies put DX into their strategies, there seems to be a shortage of human resources to implement it. Please tell us about your organizational structure and training of DX professionals.

A. We launched our DX Center in 2018 as a cross-functional organization. Over the past four years, we have gone from 15 to approximately 150 members worldwide. To promote DX, it is important to train human resources who understand not only the technology, but also management, the industry, and are capable of creating businesses, so we are working continually toward that end at business work sites and through training and other efforts. In addition to establishing DX Centers in four overseas regions and strengthening the organizational structure while hiring professionals, our operations are uniquely integrated with specialized teams, including Insight Edge, Inc., which is a DX technology subsidiary, SC Digital Media

## Business Creation through DX



K.K., which provides data marketing functions, and SCSK Corporation, which is in charge of developing digital solutions and integrated operations. Another distinctive characteristic of the Company is that we have a global corporate venture capital (CVC) network. Including Presidio Ventures, Inc., which was established in 1998, we currently have five global bases of operations (the others being Hong Kong/Shanghai, Tel Aviv, London, and Tokyo). They serve as our so-called "eyes" and "ears" for cultivating new businesses and business models, such as cutting-edge technologies possessed by start-ups, as they promote DX projects.

## Q. What kind of progress has been made over the past four years or so since DX initiatives were launched in earnest?

A. There are currently around 300 DX projects moving forward companywide, and approximately 30% of these are efforts aimed at business model reform. The SBUs, which are where the implementation takes place, have taken ownership to move forward on the quantitative and qualitative targets that have been set. The DX Centers work closely with the SBUs on improving cost effectiveness while monitoring the status. We hope to make further advances and refine the operations going forward.

## Q. As ESG management gains traction, how do you think ESG and DX intersect?

A. There are three axes to the value we provide through DX. The first is operational value,

whereby we automate and optimize various operations by changing data into business value, including optimization of inventory and streamlining of operations. The second is customer value in which we provide solutions to bring about reform in customer contact points and B2B business models. The third is social value, which leads to social change on a grand scale through the utilization of data and mechanisms to help resolve social issues including climate change. In regard to social value in particular, we are working on visualization of carbon management and launched a new green transformation (GX) management service in April 2022. Building on this, we will further accelerate our ESG management initiatives.

## Q. Lastly, can you tell us about your outlook for the future?

A. We will leverage the DX knowledge we have cultivated to accelerate the Business Portfolio SHIFT of the Group and actively provide solutions to our customers. As a partner providing integrated solutions based on DX, in other words, "digital solutions integrated trading and business investment company," we will utilize digital technology and data to reform business internally and externally, thereby creating value on a large scale with social impact. In addition, by providing packaged DX solutions, we will seek to build a flexible organization for supporting our customers in everything from improving profitability to structural and corporate culture reform.



**Toshikazu Nambu**  
Representative Director,  
Executive Vice President,  
Chief Digital Officer



## Short- to Medium-Term Growth Strategy

## Focus: Business reform through DX

## DX Example 1 Digitization

## Realizing substantial reduction of time spent on operations and improving employee IT literacy

Robotic process automation (RPA) refers to automation of operations using robots. The Sumitomo Corporation Group launched full-scale groupwide promotion of RPA led by DX Centers in FY2018, believing that RPA would lead to advancement of existing businesses and development of new ones with the extra time it would free up. In collaboration with group company SCSK, a leading IT solutions provider, we put together a development system to actively promote the sharing of knowledge between group companies. As a result, 100,000 hours of operations were cut in FY2019, 200,000 in FY2020, and 440,000 in FY2021. In qualitative terms, we have seen an improvement in the IT literacy of individual employees and increased awareness of operational improvement utilizing digital technologies through the introduction of RPA. Moreover, we have recognized secondary benefits such as expansion of our business scope and promotion of full-scale DX initiatives. We will continue to promote improvement and advancement of groupwide operations through the introduction of RPA.



## Three measures to promote RPA

1. Preparation of development system (external/internal)
2. Development of versatile RPA that can be used companywide
3. Sharing of knowledge between companies within the Sumitomo Corporation Group

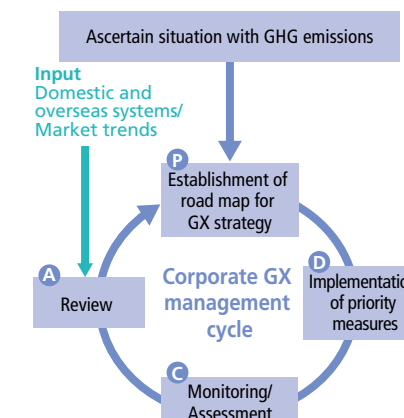
## DX Example 3 Industry Reform

## Supporting the reduction of corporate GHG emissions and contributing to the realization of carbon neutrality

Climate change is a global issue that requires action that transcends borders. Companies are expected to enhance their disclosure of information on risks and opportunities related to climate change as well as help resolve this issue through their business. However, there are many that have not been able to keep track of their own greenhouse gas (GHG) emissions and thus are unable to set targets or take specific actions to reduce their emissions. In response to this need, Sumitomo Corporation launched a GX (Green Transformation) Concierge service in April 2022 to provide support for preparing a plan and road map for simply and efficiently tracking GHG emissions and reducing them. There have been few other services providing integrated support up to preparation of a GHG emissions reduction plan. Our aim is to roll the service out to 1,000 locations of 100 companies in Japan by FY2023 to contribute to promoting carbon neutrality.



## Flow of GX Concierge Service



## DX Example 4 Social Implementation and Reform

## Developing a DX enabler business for the manufacturing industry and resolving industrywide problems

We launched a one-stop DX enabler business for the manufacturing industry in April 2022. This service includes everything from identifying the issues facing manufacturers to proposing digital solutions and consulting to resolve those issues. First, we will provide the service to Japanese manufacturers facing issues common to the industry from an office in Thang Long Industrial Park, which we operate in Vietnam. This is a service that only an integrated trading company could provide. In addition to the knowledge we have accumulated by promoting DX for manufacturing sites, we take advantage of expertise in the digital service provision of group company SCSK and our contact point with Japanese manufacturers in Southeast Asia that have set up

operations in our industrial parks. In FY2023, we will launch the business in earnest, and aim to provide the service throughout Southeast Asia in the future.



Demonstration room inside Thang Long Industrial Park

## Value Provided in Manufacturing DX

## Business consulting

- Supply chain optimization
- Reduction of manufacturing costs
- Analysis of impact on quality

## System integration

- Supply chain management
- Inventory management
- Implementation/planning of manufacturing

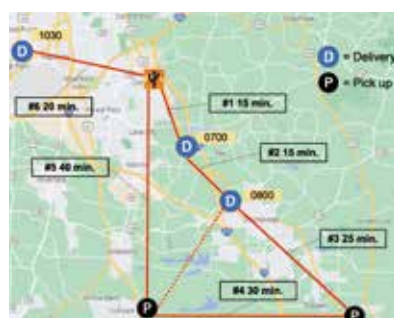
## SaaS for manufacturing

- Visualization of equipment operational status
- Digitization of daily reports
- Document control
- Automation (AI) of inspections
- Salary management
- Disclosure of CO<sub>2</sub> emissions

## DX Example 2 Advancement of Existing Businesses

## Promoting advancement of operations and improvement of asset efficiency through in-house DX

The construction equipment rental business in North America and Asia is one of our key businesses for further expanding profits. We have long considered IT to be a key business strategy topic, and since FY2021 we have been promoting further improvements to operational and asset efficiency through collaborations with DX Center and Insight Edge. In the construction equipment rental business, delivery times and turnover of delivery trucks are greatly impacted by combinations of equipment load and what order or route is selected for delivery and pickup. By optimizing these constraints through data analysis, we will strive to improve asset efficiency and increase customer satisfaction, thereby further strengthening the competitiveness of our business. We will also utilize the expertise we accumulate through these efforts for other businesses and tie it into improving corporate value groupwide.



Improving delivery route efficiency (illustration)



## Focus

# Evolving HR management for sustainable development

### Top-Tier Professionals at Sumitomo Corporation

Numbering approximately 74,000 people, our Group's diverse talent is the most important management capital when it comes to continuously creating new value in order to enrich society and people's lives. They play the leading role in these efforts. Maintaining and strengthening our human capital as well as enhancing the pool of human resources is the responsibility of management.

Sumitomo's Business Philosophy, which has been cultivated over the 400-year history of Sumitomo, has been handed down to our people in unbroken succession from their predecessors. The philosophy places an emphasis on trust, having an enterprising spirit for pursuing value creation and continually innovating the business while quickly and accurately responding to social changes, and upholding a grand design that emphasizes value creation with a long-term perspective rather than seeking short-term gain. On the global stage, our talent—who share and embody this abiding

belief—take on the challenge of value creation for a new era, utilizing the well-rounded management base and diverse business functions that we have built up over a span of more than a century. It is they who are the Top-Tier Professionals unique to Sumitomo Corporation.

### Changes in the business environment and the skill sets required

We have transformed our business to meet economic and social needs that change with the times. It is our Top-Tier Professionals in various domains that have driven this transformation, expanding the horizons of our business while acquiring new skill sets in keeping with the times.

Today, the business environment surrounding us is shifting even further. The international situation is marked by increasing uncertainty, digital technology is evolving at an accelerating pace, and there is increasing social demand to resolve key social issues such as climate change, a circular economy, and respect for human rights. We are required now to demonstrate an enterprising spirit and create businesses for a new era while quickly adapting to these changes, and it is essential that we upgrade our skill sets accordingly.

In addition, we are promoting dialogue and coordination to encourage Jiritsu management among group companies to enhance group management. As such, we must acquire more advanced skills when it comes to management, governance, and supporting the growth of group companies.

Moreover, as career trajectories diversify and there is a need to develop a diverse group of professionals, I believe a system that will facilitate the autonomous career development of each of our employees is a must.

### Expanding the pool of Top-Tier Professionals

We introduced a new human resources system to embody our Global HR Management Policy, which sets forth our basic approach to HR management. We are promoting reform of HR management based on the concepts of "Pay for Job, Pay for Performance" and "Development of Top-Tier

Professionals," while also positioning the enhancement of HR management as one of the core management strategies under SHIFT 2023. In April 2021, we abolished seniority-based management, introduced a job grading system, and renewed our evaluation and compensation systems. Moreover, in April 2022 we expanded the scope of the job grading system to include those who are re-employed after retirement and eliminated conventional career groups ("Professional" and "Clerical") to unify career tracks, thereby establishing a system allowing all employees to play an active role without getting hung up on the old framework. We will continue increasing the effectiveness of operations under these new systems, while at the same time continue to diversify recruiting methods, enhance people management skills, and implement HR development measures to develop potential successors for key leadership roles in order to enhance our pool of Top-Tier Professionals.

I believe that through the promotion of this HR management reform, each officer and employee will reach their potential and experience growth, thereby evoking higher engagement, which will lead to improvement of the Group's competitiveness and corporate value. Starting in 2022, we are conducting an engagement survey, and while checking the effects of and progress on various measures, we are working to realize the goal of "building a Great Place to Work" as set forth in the policy.

In addition, we will continue to promote Diversity and Inclusion (D&I) as the core enabler for the Group's value creation, innovation, and competitiveness. In Japan, we are focused on the promotion of women's advancement in particular, and have disclosed quantitative targets for 2030 as a waypoint for achieving our vision. These targets are not something that can be easily achieved as an extension of our previous efforts. We will implement various measures, including recruiting and training, to accelerate our efforts to achieve them. By promoting the elimination of any barriers to D&I and actively recruiting talent possessing diverse experience and career backgrounds, going beyond differences in attributes such as age, gender, and nationality, we will bring together diverse knowledge, which will strengthen the organization and increase corporate value.

### Further enhancing the link between the growth strategy and the human resources strategy

Under SHIFT 2023, we are steadily working on KPIs and KAIs established at the SBU level and coming together as a group to achieve our goals, including the Business Portfolio SHIFT. We introduced evaluations based on the progress of strategy execution as a measure to enhance organizational commitment to accomplishing this strategy. Under this system, progress toward achievement of the KPIs and KAIs is evaluated, taking into account both importance and difficulty, and by reflecting this in individual bonuses, we aim to cultivate a results-oriented corporate culture and achieve both individual and organizational growth.

We are also promoting optimal allocation of talent according to the Business Portfolio SHIFT. Over the three-year period until FY2023, we plan to reallocate approximately 100 employees across business units. We already completed roughly two-thirds of the shift in FY2021, the first year of the plan.

These important HR management policies, strategies, and measures are discussed at meetings of the Management Council and the HR Management System Committee, which is an advisory body to the Management Council. The Board of Directors defines directions and engages in supervision and monitoring accordingly.

In addition, we established the Talent Management Task Force, which is in charge of enhancing governance at group companies and improving management evaluation, compensation, and succession. We introduced an investment performance-linked compensation plan to increase the probability of successful business investment with the aim of enhancing the performance of business investments.

Our human capital is key to the sustainable growth of the Group. We will promote active disclosure of human capital to investors and other stakeholders and further dialogue with them as we work on further enhancing HR management.

### Takayuki Seishima

Representative Director,  
Senior Managing  
Executive Officer, Chief  
Administration Officer and  
Chief Compliance Officer



Focus: Evolving HR management for sustainable development

## Creating new value for today and tomorrow

► Refer to Value Creation Model on p. 13

### We will pursue our vision for “SC People” and “SC Organization” based on our Global HR Management Policy.

The systems and environment surrounding employment are changing rapidly. In Japan, a major shift is taking place in the individual's view about work from career advancement within a particular company based on lifetime employment to realizing a career and personal growth matching their own preferences.

In response to these changes, we have set forth a vision for employees (SC People) and companies (SC Organization) in a new era within our Global HR Management Policy. Based on the concepts of expanding Top-Tier Professionals, implementing thorough “Pay for Job, Pay for Performance,” and enhancing people management skills, we are striving to establish a work environment and workplace culture to serve as a foundation for growth and to improve the HR management cycle of recruitment, development, right talent to the right assignments, performance management, and fair treatment.

Our vision for individuals and organizations is to provide a place where highly motivated talent can realize autonomous growth and self-realization and for their passion in taking on challenges to become the driving force for organizational growth and value creation, with that cycle, in turn, attracting further Top-Tier Professionals to enrich our reservoir of human capital.

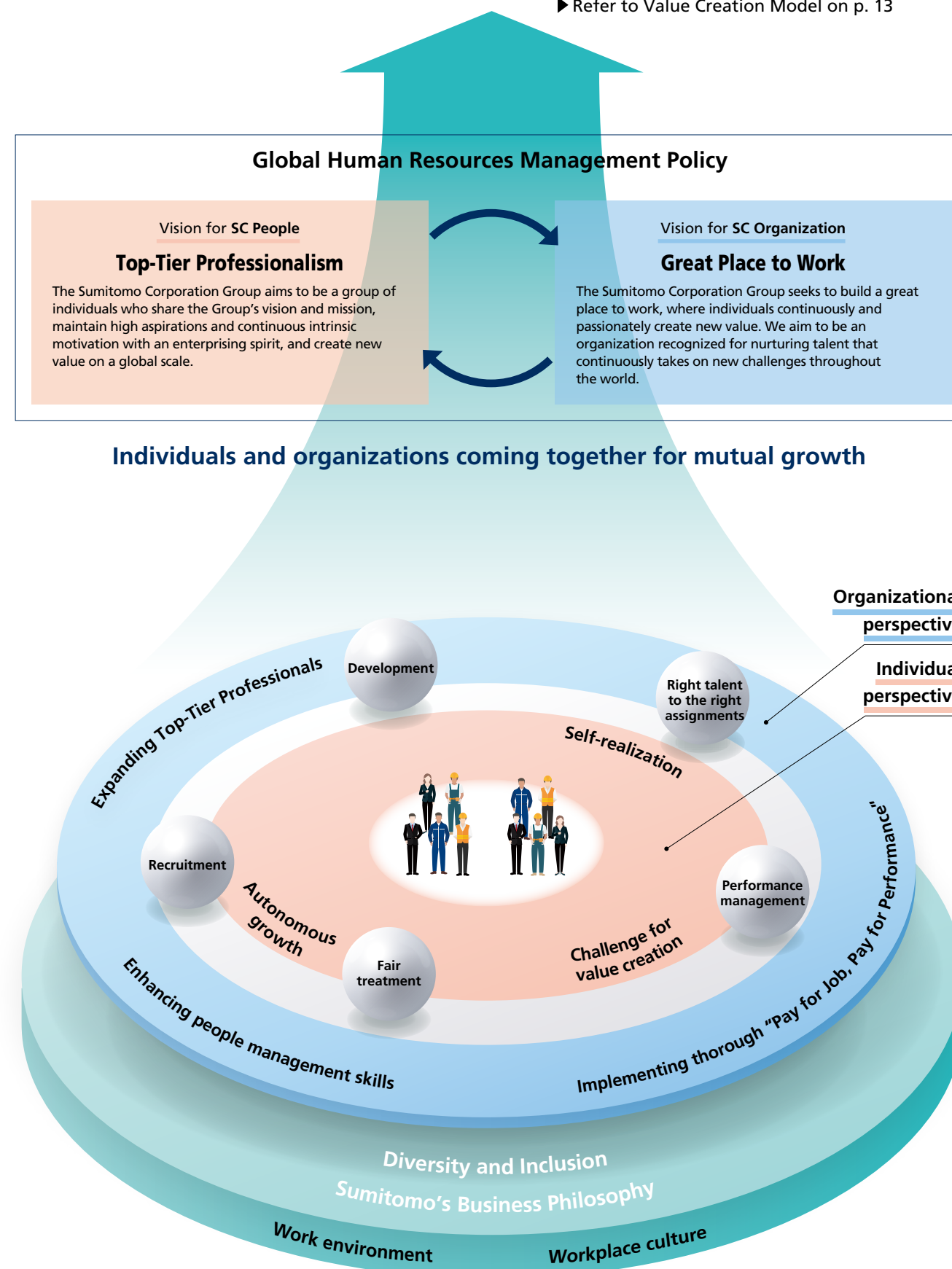
The roughly 74,000 people that make up the Group's diverse human resources will drive the creation of new value, maximizing the performance of SC People and SC Organization to achieve that vision.

#### Recruitment

Diversification of recruiting methods	Enhancing mid-career hiring at each level in addition to recruiting new graduates for the purpose of addressing changes in the business environment and improving diversity <ul style="list-style-type: none"> <li>Expansion of reach to various candidates from junior-level employees to management-level candidates (by direct sourcing, etc.)</li> <li>Utilization of an alumni network</li> </ul>
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#### Development

Sumisho Business College (off-the-job training program)	Off-the-job training programs provide opportunities to acquire broad-based business knowledge and skills along with insight <ul style="list-style-type: none"> <li>Number of courses: 301 (FY2021)</li> <li>Total training time for all employees: 65,983 hours (FY2021)</li> </ul>
Development of managerial talent	Developing talent who understand and embody Sumitomo's Business Philosophy, can take charge of business management, and can work with the management of group companies through diverse practical experience (on-the-job training) and long-term training programs for selected employees (off-the-job training) <ul style="list-style-type: none"> <li>Long-term selection training participants: 84 (FY2021)</li> </ul>
Overseas training program	Dispatching MBA, overseas, and language trainees <ul style="list-style-type: none"> <li>Number of dispatched employees: 76 (FY2021)</li> <li>Number of destination countries: 22 (FY2021)</li> </ul>



#### Right talent to the right assignments

Introduction of a job grading system (April 2021)	Grades are determined according to the significance of duties. Seniority-based promotion has been eliminated. The job grading system creates a foundation for promoting flexible and optimal assignment of the right talent to the right assignments. In FY2022, the scope will be expanded to those re-employed after retirement.
Shift of human resources	Swiftly and flexibly reassigning human resources according to the Business Portfolio SHIFT, taking into account individual aptitude and preferences <ul style="list-style-type: none"> <li>Approximately 100 employees to be reassigned under SHIFT 2023 (3 years)</li> <li>Nearly two-thirds of the shift of human resources was completed in the first year (FY2021)</li> </ul>

#### Performance management Fair treatment

Reform of evaluation system (April 2021)	<ul style="list-style-type: none"> <li>Absolute evaluation/360-degree evaluation: Shift to an effective evaluation system focused on diverse individuals</li> <li>Evaluation based on the progress of strategy execution: Reflecting progress on SBU strategy execution in compensation</li> <li>Investment performance-linked compensation: Compensation that reflects the performance of new, large-scale investments</li> </ul>
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#### Work environment Workplace culture

Inheritance of Sumitomo's Business Philosophy	Conducting training annually at Besshi Copper Mine (predecessor to Sumitomo Corporation) All employees learn the history of Besshi Copper Mine upon joining the Company
Acceleration of Diversity & Inclusion (D&I)	Rolling out measures positioning D&I as a source of competitiveness globally. In Japan, women's empowerment is regarded as a priority issue and measures are implemented with numerical targets. <ul style="list-style-type: none"> <li>Establishment of a succession plan (Facilitation of systematic training and promotion from a medium- to long-term perspective)</li> <li>Holding of Diversity Weeks (March 2022) (Messages from management, various training/employee roundtables, etc.)</li> </ul>
Health and productivity management	Rolling out various measures based on the belief that physical and mental health are of utmost importance for individuals to achieve their full potential <ul style="list-style-type: none"> <li>Selection as a "White 500" enterprise with outstanding health and productivity management for the sixth consecutive year since 2017</li> </ul>
Workstyle reform	Remote work/Super flextime system introduced in 2018 <ul style="list-style-type: none"> <li>Received the Excellence Prize of the Minister of Health, Labour and Welfare's awards for enterprises that promote telecommuting (Brilliant Telework Prize) in FY2020</li> </ul>
0→1 Challenge	In-house entrepreneurship program aimed at creating new businesses, developing human resources, and fostering a culture of taking on challenges <ul style="list-style-type: none"> <li>Number of entries in FY2021: 123</li> </ul>

## Short- to Medium-Term Growth Strategy

## Selective investment &amp; strengthening of post-investment value creation

## Strengthen investment risk management framework and promote proper evaluation of investments and improvement of value

We have adopted a unified framework that covers everything from the entry into the investment to the exit and that takes into account changes in the portfolio as a whole, as well as the nature of the risks involved in each individual investment opportunity, while reviewing the process for assessing and following up investment projects as appropriate.

When assessing investment projects, the investment theme is clarified at the initial stage of the process and is verified as a key point of due diligence. In addition, by applying a discount rate appropriate to each business risk, we are able to calculate an “appropriate price” for the investment and evaluate the opportunity from both quantitative and qualitative aspects.

With regard to the decision-making process, the Business Unit Investment Committee or the Company Investment Committee meets at each stage of consideration and implementation, depending on the scale and importance of the project. From an early stage, these committees conduct in-depth discussions regarding the strategic positioning of the project, the background to and the reasoning behind the selection of the project, ESG, and the various factors that may affect the success of the investment.

In addition, we have developed and strengthened a system that helps prevent repeating past regret at each stage of the investment process. Specifically, we will increase the value of each business by steadily implementing measures, including establishment of strict investment discipline for selecting investments, development of an optimal governance structure for increasing the value of each business after investment, and investing the right resources at the right time. Furthermore, to increase our commitment to value creation, we introduced a new compensation system linked to investment performance in 2021. Stepping up our monitoring efforts, we will set a clear time frame and make improvements to investments that do not increase in value as expected. If improvement is not expected, we will continue to engage in thorough asset recycling.

## Investment Risk Management Framework

Phase I Consideration of project  
—Execution of investment

## 1 Selection/consideration of investments

## Deliberation by consideration stage committee

- Confirmation of consistency with strategy
- Clarification of investment thesis
- Confirmation of validity of hypothesis in implementing the relevant investment thesis
- Confirmation of target level of return
- Discussion of significant risks and countermeasures

## 2 Decision-making and execution

## Deliberation by execution stage committee

- Confirmation of adequateness of stand-alone value, synergies, and full value
- Analysis of downside scenarios
- Discussion of countermeasures to deal with significant risks
- Formulation of proposals for governance/monitoring system

## Phase II Post-investment follow-up

## 3 Post-investment PMI

## Drawing up, execution, and regular review of the 100-day plan

- Development of management infrastructure including governance system
- Setting and monitoring of optimal KPIs
- Drawing up of revised medium-term plan

## 4 Business management

## 5 Monitoring and countermeasures revision

## Monitoring of investment performance and support for execution (Full Potential Plan)

- Identification and evaluation of management status based on quantitative criteria
- Investments judged to have further potential: Draft and execute concrete strategy to maximize business value of investments; withdrawal from investments with limited growth potential

## Key Points to Enhance in Medium-Term Management Plan SHIFT 2023

## Thorough investment discipline through establishment of guidelines for selecting investments (from 2021)

- Comprehensively analyze factors behind sluggish investment performance or occurrence of losses related to large-scale investments of the past
- Identify categories of projects that the Company should not invest in based on factor analysis
- Setting of guidelines: In principle, avoid investments falling under the categories above
- Apply to actual new investments starting in FY2021

## Revision of the Investment Committee system (2021)

- Eliminated overlap between Management Council members and Investment Committee members to enhance neutrality as advisory body
- Diversified committee members to promote discussion from more varied perspectives than before

## Evaluation/compensation linked to investment performance (2021)

- Introduced new assessment/compensation system (investment performance-linked compensation plan) for strengthening commitment to achieving target business plan (2021) and apply it to new investments

## Incorporation of ESG standpoint

## New investments

- Prepare self-assessment sheet related to social and environmental risks when applying for investment and identify risks based on business/regional characteristics and other factors
- The Corporate Sustainability Department participates the Company Investment Committee
- Bring in internal experts such as environmental consultants to confirm such things as impact on stakeholders

## Enhancement of corporate governance

- Measuring management team performance by setting KPIs/KALs and thoroughly implement a PDCA cycle through the investee's board of directors based on the Group Management Policy established in FY2021
- Established the Talent Management Task Force in 2021 to support improvement of governance at group companies along with management assessment, compensation, succession planning, etc.
- Provide support for internal training and individual projects

## Place functions and resources into carefully selected measures

- Carefully select value improvement measures with a high probability of achievement when making investment decisions and further flesh out/implement them through post-merger integration (PMI)
- Invest sufficient functions and resources in a timely fashion for quick results

- Applies to personnel with responsibility for implementation with respect to achievement of target business plans (primarily supervisor class, including general managers)
- After investing, relevant personnel are suspended rotation to work for a certain period of time (three to five years), and a part of compensation is linked to the performance of the investee during that period

## Incorporation of ESG standpoint

## Business management after the investment

- Through dialogue with group companies, carry out regular monitoring from the viewpoint of the environment, human rights, labor management, the supply chain, and other aspects
- Check management situation against laws and regulations as well as international standards based on business characteristics when conducting internal audits

## Improvement measures

- Consider improvements according to business characteristics if issues are discovered through group governance or internal audits
- Work on improvements while engaging in dialogue and discussion if there are concerns or requests from local residents, non-governmental organizations (NGOs), or others



## Enhancement of group governance

### Promoting maximization of corporate value based on the Group Management Policy

The Sumitomo Corporation Group consists of 893 companies in 79 countries and regions. These companies are the source of the Group's strength. Their business domains fall under a wide range of industrial fields, and many of them are industry leaders.

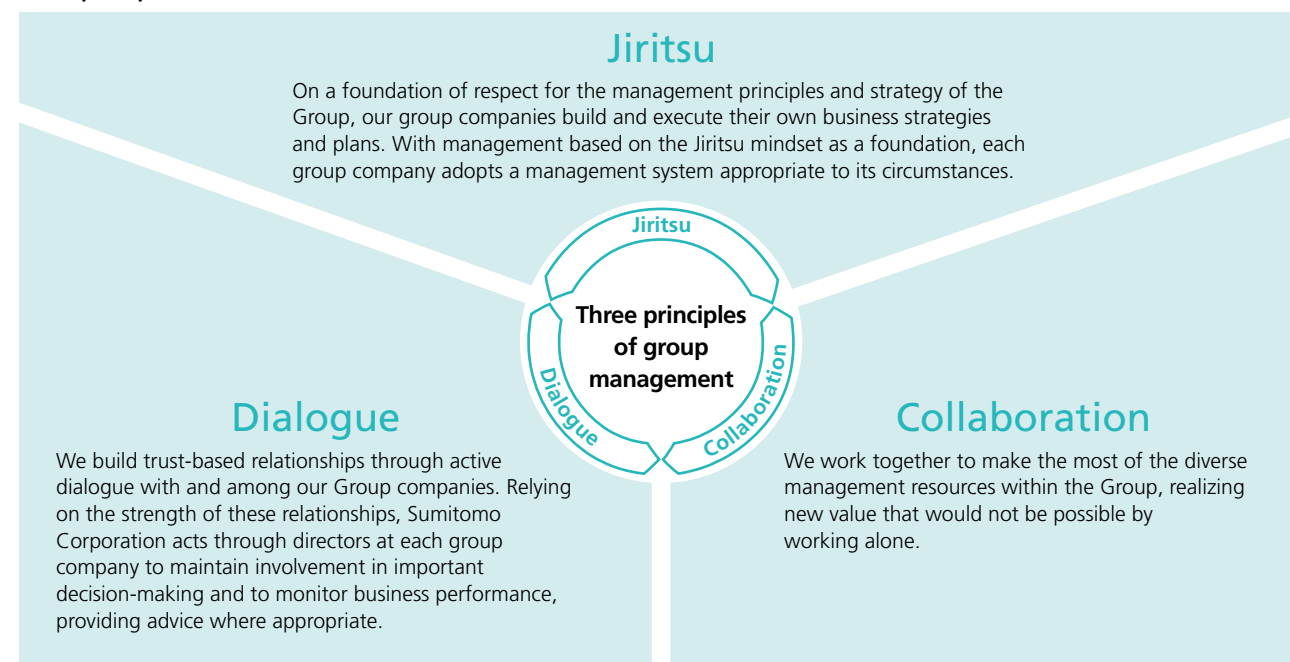
The group companies respect the Sumitomo Corporation Group's Corporate Mission Statement and management strategies, and engage in Jiritsu\* management. Our approach to group management is to contribute to important decision-making at Board and other meetings through active dialogue based on relationships of trust as a shareholder, and to create new value through collaboration among group companies including Sumitomo Corporation. For the purpose of sharing and better implementing this basic approach and policies within the Group, we established the Group Management Policy (GMP) in 2021.

The GMP clarifies the roles and responsibilities in group management, setting forth the three principles of Jiritsu, dialogue, and collaboration to be respected by Sumitomo Corporation and its group companies.

The values set forth in the Sumitomo Corporation Group's Corporate Mission Statement and the GMP are shared and implemented within the Group. This allows us to swiftly and appropriately respond to industry structural transformation and trends surrounding sustainability and to grow our group companies into future earnings pillars, thereby further solidifying the Group's business portfolio and maximizing corporate value.

\* 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."

#### Three principles of the GMP



### Aimo Park: An example of group management

#### Parking operations contributing to the mobility society of the future

The percentage of people living in metropolitan areas is increasing every year, and it is said that by 2050 approximately 70% of the global population will be concentrated in cities. With this urbanization, traffic congestion, air pollution, lack of parking, and other issues have become social issues. In addition, realizing carbon neutrality by eliminating overall greenhouse gas emissions in order to resolve the issue of climate change has become a challenge for society as a whole.

Under these circumstances, parking spaces, which are a part of the social infrastructure, are expected to play an important role in the mobility society of the future. This includes support for promoting use of EVs through the installation of charging equipment and promotion of a sharing economy through their utilization as car sharing hubs.

In 2019, Sumitomo Corporation acquired all shares of Aimo Park, Northern Europe's largest parking lot operation company, which manages roughly 7,000 locations in three Northern European countries with around 400,000 spaces.

#### Implementing Jiritsu, dialogue, and collaboration to realize improvement of corporate value

Through active dialogue and collaboration between Sumitomo Corporation and group company Aimo Park at meetings of the Board of Directors and promotion of its Jiritsu-style management,

we aim to strengthen the business foundation and create new value, thereby contributing widely to a mobility society. We have invited three local people from various fields with a wealth of experience in corporate governance to become Outside Directors, which comprise about half of the Board of Directors, to ensure diversity and expertise in Board operations.

At meetings of the Board of Directors, these diverse members take time to discuss not only immediate management issues but also medium- to long-term subjects for value creation, such as transformation, growth strategies, and talent management, in light of Aimo Park's vision and mission. They provide the group company with constructive advice and feedback on issues.

Moreover, in promoting the business, we are working to earn the trust of stakeholders such as local governments, real estate companies, and parking lot users while utilizing the Group's knowledge and proposal capabilities related to mobility, DX, real estate, and energy management and promoting close collaboration. Aimo Park's management and Board of Directors and Sumitomo Corporation will continue to fully leverage their functions and fulfill their responsibilities in their respective positions to improve corporate value.



Members of the Board

#### Aimo Park, Northern Europe's largest parking lot operation company

**Main business**  
Operation and management of mostly off-street parking facilities



**Main locations**  
Stockholm (Sweden)  
Oslo (Norway)  
Helsinki (Finland)

**Vision**  
To be the most attractive mobility partner, striving to stay ahead, create value and contribute to society.

**Mission**  
Enriching everyday life of people through smart parking and mobility solutions.

#### Management system

