FY2018 Business Unit IR Meeting

(Metal Products Business Unit)

<Summary of Q&A>

Date: May 28, 2018

Attendees: Makoto Horie, General Manager, Metal Products Business Unit
Takeo Tokura, General Manager, Planning & Coordination Dept.
Kazunari Sakata, General Manager, Steel Sheet Products Div.
Keigo Shiomi, General Manager, Metal Products for Automotive Industry Div.
Akihiko Shono, General Manager, Light Metals & Metal Products for Transportation Div.
Masahiko Yokohama, General Manager, Tubular Products Div.
Kazuyuki Onose, General Manager, Automotive Manufacturing Business Div.

Overall

Q: What are the drivers for increasing profits toward FY2020?

A: By business line, we anticipate that the tubular products business will continue its recovery trend. In North America, we will expand our local business of tubular products, as well as those of railway related and automotive related products. As demand for steel sheet products is likely to increase in emerging countries, we would like to thoroughly capture such demand. We also would like to further grow our aluminum business by leveraging our aluminum smelting project in Malaysia as a core business. As a result of these initiatives, it is our plan to achieve our ideal business portfolio in which around 40% of profit comes from tubular products business.

Q: What are Sumitomo Corporation's strengths in each business?

A: Our strengths in the tubular products business are that we have the large customer base and trading volume, and provide inventory management services to our customers. We are leveraging such strengths and further focusing on expanding our services. As entire Sumitomo Corporation group, our automotive-related business has great presence in the automotive supply chain including sales, leasing and financing. Our strengths in this field are our abilities to collect information in a rapidly changing automotive industry and to respond to such changes. In the aluminum business, as we have the cost- competitive aluminum smelting business with a production capacity of 760,000 tons, we are planning to further expand the value chain by leveraging this business as a core component. In the railway related products business, we believe that we provide the most comprehensive array of products among all Japanese trading houses in North America. Starting from our export business of Japanese products, currently, we are engaged in the maintenance business in addition to the manufacturing of wheels, axles for trains and other railway related equipment. In the steel sheet products business, we have steel service centers as stable revenue source. We will further try to capture the growth in demand for steel sheet products in emerging countries by leveraging our information network and bargaining power.

Individual Fields/Businesses

Q: In relation to the growth in demand for steel sheet products in the world, what is your steel service center processing capability?

A: We have approximately 30 steel service centers both inside and outside Japan including those under construction, with an official processing capacity of 8 million tons in total. While Sumitomo Corporation's steel service centers started its business with Japanese home appliance manufacturers in the 1970s, services for automotive manufacturers and local companies have been increasing recently. It is important to expand transactions with the automotive industry to increase our operating rate. Also, in order to capture the growth in demand for steel sheet products in emerging countries, we will seek opportunity to invest in not only to steel service center business but also in cold-rolled steel sheet and galvanized steel sheet manufacturing business.

Q: Could you tell us about your approach to the growing trend toward lightweight materials in automotive industry?

A: In connection with material changes for automotive weight saving, we are planning facility investment, rather than a large scale business acquisition, to expand our processing capability of high tensile strength steel and aluminum steel, etc. In addition, as a result of the reorganization on April 1, 2018, the Automotive Manufacturing Business Division has become a co-controlled division between the Metal Products Business Unit and the Transportation & Construction Systems Business Unit. The biggest aim of this reorganization was to adapt to the trend of CASE, etc. in a timely manner. As an example of correspondence to automotive electrification, Sumitomo Corporation has group companies engaged in manufacturing of motor cores, parts for motors and shafts. By combining such capability organically, and/or in alliance with other companies, we would like to create new value for our customers.

Q: The investment in Mukand in India seems larger than your past investments. What are the backgrounds and strategies behind this investment?

A: This is an investment project that we had pursued for more than 10 years in anticipation of the growth in specialty steel demand for automotive industry in India. Mukand is the No. 1 specialty steel manufacturer in India with a 25% market share in domestic automotive industry.

The majority of its sales are for motorcycle and automotive industry where continued growth is expected in the future. Although there is a movement to electrification, we predict that it will take for a while to achieve a complete shift to electric vehicles. We think that it will go through the path of hybrid vehicle (HV) or plug-in hybrid vehicle (PHV), and as long as the internal combustion engine exists, we expect that the demand for specialty steel in India will increase continuously. Given the current tight supply-demand situation in India, it is expected to continue for a while. Moreover, Mukand has been qualified as a supplier by a Tier 1 Japanese automotive manufacturer, and this proves its competitiveness in the product qualities.

Q: What is your strategy for expanding the value chain in the aluminum business?

A: It is our basic concept to expand the value chain from the aluminum smelting business in Malaysia which is our core business. The plan is to secure competitiveness by investing into upstream segment such as bauxite mine and alumina refinery while expanding its business to the downstream segment for adding more value to the products.

Q: What is your strategy behind the acquisition of Champions and the current situation?

A: It has been only two months since the acquisition. As to the situation in April, it was in accordance with our expectation. As Champions is a distributor designated by Vallourec, there is strong affinity with our distribution business. Also, there has been limited overlap with our existing customers. Synergies among Champions and other distributors in our group are expected through inventory sharing as well as integration of corporate functions, etc.