

FY2018 Business Unit IR Meeting
(Transportation & Construction Systems Business Unit)
<Summary of Q&A>

Date: December 17, 2018

Attendees: Shoichiro Oka, General Manager, Transportation & Construction Systems
Business Unit

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Transportation & Construction Systems Business Unit

Eiji Ishida, General Manager, Lease, Ship & Aerospace Business Division

Kazuyuki Onose, General Manager, Automotive Manufacturing Business Division

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Shinichi Kato, General Manager, Automobility Business Division

Koji Aso, General Manager, Construction & Mining Systems Division

Overall

Q: What do you expect as a driver of profit growth from next year?

A: Our existing business and the evolving version of our existing business will increase profits. We look forward to new business development in our leasing business and a turnaround of TBC. Automotive sales and distribution business is expected to make a certain contribution to profits if the sluggish Middle East and Africa recover. Automotive manufacturing business is strong, and I think we can strengthen profitability by steadily advancing our growth strategy. As for the development of new businesses, the company will make money from existing businesses and sow seeds so that it can reap the benefits of the next medium-term management plan or later.

Q: What are your priorities for your ¥180 billion three-year investment plan?

A: Candidate projects exceed 180 billion yen, from which we will invest in projects that meet the strategies of our unit and company. At present, since there is no upper limit on the amount of investment in each field, it is difficult to say the breakdown of 180 billion yen. We will make the necessary investments in the remaining two and a half years.

Q: Please tell us about your know-how and what you have been careful about and what you should be careful about in the future in the management of equity-method affiliates.

A: I think there are businesses that trading companies can have a majority and that partners should have a majority. The most important know-how in the management of equity-method affiliates

is the selection of partners. It's important that whether we can choose a good partner who has professionalism and can work with us or not. The second point is collecting cash through dividends from the affiliates and related transactions.

Q: What would be the impact on business if the global economy slowed?

A: Leasing & financing is a business that generates profits from the number of contracts and assets over the contract period, so even if the macro deteriorates rapidly, it will not be significantly affected. On the other hand, sales and distribution of construction machinery and ships are considerably affected by market fluctuations.

Q: About the risk of obsolescence of existing business by DX. For example, I believe that fintech will eliminate barriers to entry in the retail finance businesses such as Indonesia's OTO/SOF and BTPN. What are your specific concerns?

A: All businesses not limited to OTO/SOF recognize the risk of obsolescence of their current business bases without incorporating new technologies.

We are promoting to change the business model from the model of such as selling a car to the mobility services corresponding occupancy rate by implementing new technologies in existing business. OTO/SOF and BTPN are studying technologies to enable smartphone payment systems, and position confirmation and collection using telematics.

Individual fields / Businesses

Q: With regard to the restructuring of the leasing business centered on SMFL, I'd like to know more about the expansion of the scope of initiatives and business development in the future.

A: We decided to share 50% each with SMFG. In the future, we will strive to increase profits by taking business risks in a sound manner and expanding our overseas operations.

We will focus on areas with a financial affinity for which solid cash flows are expected, areas where assets are liquid, such as aircraft leases, and areas where a certain level of business scale is expected. For example, in the case of real estate, rather than simply taking a fixed lease charge for a single property, we will develop a business model called multi-tenancy that takes a little more risk of fluctuations in profits.

Q: With regard to the initiatives on MaaS and CASE, please tell me the image of strategy and expansion in the future.

A: Our primary focus is to leverage the startups we invest in and mix the ideas and technologies of startups with our existing business base.

MaaS, however, since the market environment and legislation do not necessarily allow for horizontal deployment, it is vital to ensure success in each country. However, I think there are some investments that can be expanded horizontally as infrastructure investment.

Q: Will the development of EVs bring about changes in the value chain of the current business?

A: We think that the mechanism of automobiles will be simplified by the introduction of EV, and the profit pool will shift from upstream which is the development and manufacturing of automobiles to downstream. We think that it must be big opportunity for us since we have developed after-market business, both in Japan and abroad.

Unlike conventional cars, EVs are thought to be built into energy networks, and they will incorporate renewable energy along with our infrastructure business line. It is also expected to introduce a new profit model in which surplus energy generated in automobiles is returned to the energy grid.

Q: Regarding TBC, what is the progress of the integration with Michelin and what is the profit contribution image after the integration is completed? What initiatives are being taken to create a platform for mobility services?

A: As TBC plans to consolidate 60 TBC and 80 Michelin locations to 100 locations, and promote to consolidate its systems and to reorganize its organization and personnel, we expect a consolidation cost of US\$30 to 40 mil occurred in this year. It is expected that the progress will be more smoothly than initially expected, and that the profit will improve by decreasing integration costs in fiscal 2019 and beyond.

In the future, individual ownership of cars will gradually decrease, but the fleet will increase accordingly, resulting in an increase in mileage. Also, since business inquiries about MaaS customer locations, charging, car washing, cleaning, meeting points between customers and delivery points for vehicles are also on the rise by utilizing TBC's 2,500 store network, future developments are expected.

Q: What is the current situation of BTPN?

A: BTPN is a listed company, and we are not in a position to talk about anything more than what's announced, but it's doing well. It was originally a bank specializing in pensions, but over the past several years it has been working to develop businesses for small and medium-sized enterprises and individual business owners, as well as mobile banking. We see the sign the

efforts have gradually been reflected in the results.

Q: I would like to know the image of future profit growth in the automotive manufacturing business, such as the synergy with the metal division and the connection to new initiatives.

A: The joint management system has been in place since this April, and it is still difficult to show concrete results. As the metal unit has many coil centers around the world, and trained personnel are growing, the know-how is also applied to the automotive parts business, which leads to the improvement of on-site management.

In Kienle+Spiess which is a German motor core manufacturing project, and Mukand which is an Indian specialty steel manufacturer funded by the Metal Business Unit, synergies can be expected to be realized by expanding business for automobiles.

Q: Can you give us an image of profit contribution related to automobile manufacturing such as business in Kiri Corporation and Mexico? In addition, please tell us if there are any concerns about the trade war.

A: Although the absolute amount of profit is not disclosed, about 80% is the profit from business investment in the manufacturing businesses such as Kiri Corporation and companies in Mexico, and the rest is the stable profit from trading business.

The impact of the trade war is positive and negative as NAFTA changes to the USMCA, with particular attention to the relationship between Mexico and the United States. In addition, the impact on the Chinese business will be closely watched as it has already affected the flow of various goods between the United States and China, and has led to a reluctance to buy Chinese cars.

Q: With regard to the new cooperation with Zhongxin Group (Platform acquisition), I would like to know the history of starting the joint venture, the role of the Sumitomo Corporation Group and Zhongxin Group, and the risks and returns.

A: We have never had any relationship with Zhongxin Group, but we have been conducting research based on the idea proposed by Chinese local staff and Chinese office is still leading the project. The company has been No. 1 in China for three consecutive years in terms of customer satisfaction, and has a strong affinity with us in terms of its future business development, such as its focus on high-quality products.

Because the company does not have the know-how of Japanese auto parts manufacturers in handling after parts, it is expected to utilize our network. Our know-how in retail business and in promoting DX is also expected.

After-sales parts are generally expected to generate high margin, and a certain level of growth

can be expected after the peak of the new car sales based on the business experience in Europe and the U.S. We expect that, due to the progress of the sharing economy, increase in the utilization rate of assets will lead to expand sales of after-sales parts. We will focus on the development of the next generation mobility business using the repair network as the next business stage.

Q: Are there any recent changes in the construction equipment business, such as the impact of the recent decline in resource prices?

A: Construction equipment business has two core businesses, rental, sales and service. In the past 10 years, it has grown at about 5% a year, although it varies from market to market. The industry generally assumes that the economy will grow by 4% to 5% by 2025. Demand for construction machinery is expected to remain strong as infrastructure development in emerging countries and infrastructure renewal in developed countries are expected. New car sales are largely affected by market conditions, but as a result of past efforts to capture the after-sales market, such as parts sales and repair services, they have contributed to the current stable profit.

Q: What is the expansion potential of the construction equipment business?

A: At the start of TRANSWEST MONGOLIA, which mainly sells construction equipment to mines in Mongolia, we transferred our employees and know-how from Canada and are doing well. It is a good example of a lateral expansion unique to our group, and it is also successful in Russia. Building a sense of unity among our group through annual global conferences and other events has led to the development of current businesses.