

IR Day 2023 Part 1: Questions and Answers

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<Questioner 1>

When thinking about which trading company to invest in, which capital out of the seven capitals in the value creation model does the management team recognize that Sumitomo Corporation is outstanding?

<Hyodo>

Rather than focusing on which of the seven capitals stands out, we believe that adhering to Sumitomo's business philosophy and utilizing the seven capitals based on that philosophy is our strength and the very reason for our existence. Because we operate businesses based on our business philosophy, we can build up trust and connect it to new businesses. At the same time, it is essential to strengthen our strengths comprehensively, including both financial and non-financial capital.

<Higashino>

It is difficult to pick one, but I believe that human capital is the company's greatest strength. In our company's case, we have many talented people who have inherited Sumitomo's DNA working on site to develop various businesses. Based on human capital, we can develop our other capital such as network and relationships with clients.

<Questioner 1>

Lowering the cost of capital has been cited as an issue to improve corporate value over the medium to long term. What kind of discussions are you having to lower the cost of capital? For example, with regard to shareholder returns, there may be a path forward in which a company adopts a dividend policy similar to that of other trading companies, which increases the stability of dividends and lowers the beta value, leading to a lower cost of capital.

<Hyodo>

It is important to properly manage dividends and shareholder capital. What I feel strongly from the market, and one of the important themes of this medium-term management plan is strengthening our downside resilience. In addition to existing businesses, we will reform and strengthen our ability to discern when expanding into new businesses and the system for making decisions as a company, accumulate high-quality assets, secure stable profits with low volatility, and accumulate new capital. We believe that it is important to demonstrate this through performance, and this will also lead to lower capital costs.

<Questioner 2>

Considering the nature of the industry, I think human capital is a strong asset in all trading companies. Is Sumitomo Corporation leveraging the strength of its human capital to generate sufficient profits? If not, do you think you can generate more by combining these seven capitals?

<Hyodo>

Our business philosophy is that rather than an organization led by one charismatic and highly talented individual, it is better to run an organization correctly by combining integrated strength, organizational strength, or the individual abilities. I believe that a group of human capital backed by

the above will function well. Therefore, as we promote structural reforms under this medium-term management plan, we are focusing on changing our system to one that allows us to continue to fully demonstrate our integrated strength and teamwork capabilities, and this effort must be continued.

<Questioner 2>

Regarding the relationship between economic value, social value, and environmental value, in today's capitalist society, demands for economic value are becoming stronger. Thus, even if social value is high, if it takes a long time to create economic value, it may be difficult to continue. Is there any business within Sumitomo Corporation that is currently in the red, but you would like to develop evaluating its social and environmental value?

<Hyodo>

I believe that the most important thing is to achieve results that are important from the perspective of overall optimization and the performance of the Sumitomo Corporation Group as a whole, and that is to meet the returns demanded by shareholders.

Each business is different in its growth stage, from the dawn to maturity, and each has a different role to play. Therefore, I think it is important to make decisions on a business-by-business basis, so that the portfolio as a whole can ultimately be operated and managed to its full potential.

In some cases, we should give up and withdraw from the business at the earliest possible time and invest management resources further in other areas with strength. In other cases, the losses are mounting, but the role of this business is to endure the moment. We will continue our efforts to create the next period of growth, as long as the Company's overall portfolio allows it.

To give you a concrete example, in the past, the power generation business I was involved in was in the red for nine consecutive years, which is not something I am very proud of. By adding the management perspective of properly utilizing the experience and know-how accumulated through these activities, this business has now become one of the pillars of profit. The management at that time did not withdraw from the business because it was in the red.

I guess we need to think and make decisions one by one.

<Questioner 3>

Regarding Tomod's business, what are the factors that make it different from its competitors, which have more than 10 times the number of stores and sales? While Tomod's is unique in its location in the metropolitan area, I feel that there is little room for opening new stores. Keywords such as overseas and digital were also explained, but what are Sumitomo Corporation's expectations for the future?

<Higashino>

We have an area strategy centered on Tokyo metropolitan area, and while it is certainly not large in terms of scale, we will expand the base of our current stores and expand our revenue base. In addition, a major feature of Tomod's is dispensing, but in addition to over-the-counter dispensing, which is currently the main focus, various types of dispensing, such as at-home dispensing and online dispensing, are expanding in addition to the spread of automatic dispensing that has already been introduced. The strategy of Tomod's dispensing area is to delve deeper into this field of dispensing. Beyond that, we are also looking to combine this with our various consumer businesses. For example, Tomod's and Summit supermarket have overlapping store opening areas, and currently the number of members of both businesses is around 4 million, the annual number of shoppers of Tomod's and Summit is approximately 250 million, and sales are 400 billion to 500 billion yen. We have already begun integrating customer data, and by combining Tomod's and Summit, we will provide our customers with a more convenient lifestyle. In addition, in terms of consumer business, we have JCOM, which has around 5 million customer households. By combining these two, I think we can paint a slightly bigger picture and we are working on it.

<Takayama>

From the perspective of expanding scale, one of our strategies is to roll up dispensing pharmacies and drugstores in Japan.

<Questioner 3>

Regarding overseas industrial parks, from the perspective of synergies, can you tell us specifically what kind of business is being generated because of the industrial park business?

You were talking about JPY10 billion by FY2030, but are there quite a lot of such derivative businesses at present?

<Hyodo>

I had been working in the power generation industry for nearly 40 years, and during that period, thanks to Sumitomo Corporation's involvement in the industrial park business in Asia, the trust and expectations of Sumitomo Corporation cultivated in each ASEAN country became the driving force behind the formation of specific projects and the acquisition of permits and licenses from the governments of the countries concerned.

Specifically, Indonesia has the oldest industrial park and although its scale is small, it played a role to connect Indonesian industry with Japanese companies through our partnership. This led to Sumitomo Corporation's multi-faceted business development in Indonesia, which led to the power generation business as one of the major examples.

<Questioner 4>

After listening to the explanations of Tomod's and Overseas Industrial Park, I understood that by digging deeper into each business, it became a platform and then went overseas. In terms of how you develop your business, it feels like you are developing your business from a dot to dot level, but I would like to hear your thoughts on the time frame for expanding by surface, as well as your new initiatives to accelerate this process.

<Hyodo>

I understand that your question is about how we will expand our business to the scale expected to our company. Each of the 54 SBUs has set it as a theme and is implementing it. Speaking of energy and power business, I would like to think of the ASEAN countries in terms of the current Japanese government initiative, AZEC, to work on the development of renewable energy in Asia in a multi-faceted manner. Likewise, each of the 54 SBUs will build and implement a strategy based on the global market and lead to scale of growth that we are aiming for.

Industrial parks will never reach the JPY10 billion figure if they are doing business in dots. In addition, if we are trying to fulfill the objectives of an industrial park by standalone, it is difficult to expand to the development of the surface. Instead, the 54 SBUs will come together to create added value, which is often described in terms of synergies, but which no other company can imitate, and which we will do ourselves while building a strong presence in the country.

Some may argue that this way of thinking is not keeping up with the speed demanded by today's era, but to prevent this from happening, we are reviewing and upgrading our strategies one by one. We will produce results that are connected to the enterprising spirit in Sumitomo's business philosophy.

<Questioner 4>

From the perspective of merging environmental value and economic value, for example, there is a trend called carbon pricing, and some companies are selling materials at a premium and accepting this idea. Also, In the real estate business I think there is a movement to directly link environmental and social value to economic value, by setting higher rents in the zero-emission buildings and improving yields as a result. What are your thoughts in these areas?

<Higashino>

First, I will explain the internal situation surrounding decarbonization. The CO2 emitted by our group was 60 million tons/year on fiscal 2019 basis.

We select individual businesses that have a particularly large impact and analyze whether they pose a risk in terms of CO2 emissions, whether they have value, and whether they will contribute to reducing society's CO2 emissions. The aim of introducing internal carbon pricing within the company is based on the idea that the company will actively support businesses that contribute to reducing or absorbing CO2. Therefore, we recognize that the question of how to link CO2 and economic value to change our business portfolio or create new businesses is a very important issue, and we are shifting our direction towards that.

Regarding zero emissions, our company is also developing office building business, logistics facility business, and commercial facility business, but basically the real estate we develop in the future will be projects to obtain certification such as CASBEE or LEED and reduce CO2. Of course, we are moving forward by absorbing the cost burden on the business side, where it can be absorbed, and on the other hand, having customers bear the cost. In recent years, the way customers think has changed, and they are willing to move into buildings that have environmental value even at higher rents than other buildings. When we engage in real estate business, we want to work towards zero emissions and eliminating CO2, and connect that to economic value as well.

<Hyodo>

Commercial decarbonization efforts involve adding value to CO2 and selling it as a product. A specific example that has been concluded is the CO2 footprint of high-grade steel produced by a Japanese steel mill, especially the steel pipes that we handle. We explained the fact that the product reduced CO2 to our customers, and then asked them to pay a premium for the steel pipe. That covers the CO2 reduction costs generated on the steel mill side, and also lead to further investment for CO2 reduction. It is important for us as a trading company to build a business model like this. In addition, for example, in the case of the aluminum that we produce in Malaysia, which is refined using hydropower, our customers pay a premium rather than the LME price because it is CO2-free green aluminum, and we can invest in reducing CO2 emissions. We would like to build these kind of businesses one by one.

<Questioner 5>

Regarding the overseas industrial park business, did it go well from the beginning, or did you have any troubles or incidents that served as lessons and then made a big leap forward? Although I do not have a specific company in mind, I believe that there are many cases in which companies ended up withdrawing or selling because of problems other than economic value, such as labor or environmental problems. How did you overcome the challenges in this project and increase social and economic value to this extent?

<Hyodo>

As a result, there are no industrial park businesses that are failing. However, the reality is that we continue to work hard until we succeed. Some industrial parks have had the bitter experience of being at the wrong time and in the wrong location resulting in a very long start-up period, struggled to generate profits.

In fact, the first industrial park we started in Indonesia was a little too early, and it took more than five years to become profitable. Many of the joint ventures that Japanese companies have entered into have withdrawn midway through, leaving only our company as the sole remaining partner. Nevertheless, the results of our continued efforts to achieve the initial objectives have led to a track record of contributing to the development of Indonesia during the Asian currency crisis, and built a base of consensus for the resumption of the power generation project I was working on. I think these are very important lessons learned.

Therefore, all industrial park projects currently being developed in other countries will be based on the same concept, and efforts will be made until the project objectives are achieved.

[END]