Q&A at IR Meeting on Financial Results for FY2017

Presentation Date: May 8th, 2018 (Net conference), May 9th, 2018 (IR Meeting)
Presenters:

Masayuki Hyodo	President and Chief Executive Officer
Koichi Takahata	Senior Managing Executive Officer, Chief Financial Officer
Hideki Yamano	Managing Executive Officer, Chief Strategy Officer and Chief Information Officer
Tatsuro Tamura	Corporate Officer, General Manger, Investor Relations Dept.

[Questions and Answers]

“Medium-Term Management Plan 2020” (FY2018-2020)

Q. What is the plan for cash allocation in the three years of new medium term management plan?

(Overview)

We expect to generate around 1.2 trillion yen of cash adding depreciation, along with increasing in Basic profit cash flow. In addition, around 0.6 trillion yen is expected from continuous asset replacement that we pursue for improvement in quality of portfolio. As a result, 1.8 trillion yen of cash in is planned. For cash out, we plan to pay 0.3 trillion yen of dividends and repay 0.2 trillion yen of interest-bearing liabilities. Investment plan is set at 1.3 trillion yen, albeit depending on cash in and business environment.

(Investment and Loan)

We plan to invest 0.3 trillion yen in the new fields among the total of 1.3 trillion yen, to create new earning pillars in next generation, which Management Ccouncil will operate the fund flexibly. The remaining of 1.0 trillion yen will be allocated to each Business Unit, and investments are managed within their own cash generated from business activities and asset replacement. Half of them will be planned to be used for replacement investment.

(Asset replacement)

Asset replacement and others will be around 0.6 trillion yen for three years with annual cash in of 0.2 trillion yen. Change in working capital will be around 50.0 -100.0 billion yen of cash out during three years subject to economic conditions. Costs for strategic assets replacement which were included in the budget for FY2017 are not included in the budget for FY2018 as there is increase in the awareness of asset replacement for improvement of portfolios.

(Dividends)

We plan 300.0 billion yen of dividends with a payout ratio of 30% as a guideline during three years, against the backdrop of investors' expectation and our stability in profitability. Shareholders return will be considered in the total cash flow management. If any large impairment losses occur, we will discuss thoroughly on the dividend policy in the Board of Directors, though we don't expect such case at this moment and will manage to avoid that.

Q. What are the uses for excess cash generated beyond the plan?

If the cash flow improves more than initially planned, we will consider flexibly for repayment of interest-bearing liabilities and return on shareholders, based on the financial soundness and capital efficiency for total cash flow management at that point.

Q. In terms of "Enhancement of financial soundness", do you have any target figure on balance sheet?

In our previous medium-term management plan, we initiated reduction of interest-bearing liabilities as the level of interest-bearing liabilities was high against our cash earning power. At the end of previous medium-term management plan, the debt redemption years improved from 8 - 9 times to around 6 and half times. We would like to maintain a level that is less than 6 times as the target. We will consider cash allocation for repayment of interest-bearing liabilities and return on shareholders by looking at the financial environment and our ability for cash generation eventually.

Q. What are the policy and direction for portfolio management underlying investment plan?

Current portfolio may change eventually through investment with growth strategies. From perspective of earning base, we intend to balance the business that can aim for upside potential but with downside risk, and business that can generate cash stably with limited downside risk such as infrastructure business.

Q. What is the profit level that you aim in FY2020 at the end of new medium-term management plan?

The total asset size is currently slightly less than 8 trillion yen, and is expected to increase to around 1 trillion yen. In addition, taking into consideration that the ROA of 4% or more is listed as our KPI, the profit will reach to the level of latter half of 300.0 billion yen in FY 2020. We refrain to disclose the exact profit plan for FY2019 and FY2020 this time since uncertainties such as geopolitical risks remain in business environment.

Q. What are the businesses that drive profit growth?

Each of the 6 Business Units will increase the earnings pillars through promoting growth strategies. In Metal Products, not only the growth in existing tubular products business is expected with recovery in the rig count, but we also aim to develop businesses in the oilfield equipment, materials, and services field to expand the business beyond OCTG area. In Transportation & Construction Systems, we can expect further value up in the automotive manufacturing business and mobility service. In Infrastructure, it is not a field that can expect high returns, but boasts a stable earnings base, and we consider it as a pillar of the new medium-term management plan. In Media & ICT, with J:COM and SCSK as our core business, we will upgrade business and revolute in our business model by acceleration of digital transformation. In Living Related and Real Estate, we have prime property assets, and we will grow the business as pillar to support the earnings base. In Mineral Resources, Energy, Chemical & Electronics, we aim to improve profitability of existing large projects and also continue to investigate the opportunity to acquire cost competitive assets.

Q. Please tell us examples in businesses and strategies in three emerging fields

We will take company-wide approach in the Technology x Innovation fields. One of the examples will be mobility service-related business such as automated driving-related business and automotive sharing business. We will consider advancing into digital health business through hybridization of ICT as well as strengthening existing pharmaceutical business and drug store business. Social infrastructure business can expand into the fields of transportation infrastructure and urban development as well as power and water infrastructure fields in the age of population increase and urbanization.

Q. Please tell us how to leverage cross-business platform.

We have continued to encourage cross-organizational collaboration with initiatives such as setting up of working groups since the previous medium-term management plan. In addition, we started to investigate acceleration of digital transformation in company-wide committee under new medium-term management plan.

Human resources management will ensure appropriate evaluation for human resources who can create new business from the company-wide and medium to long term viewpoints.

We will also utilize businesses and group companies that have points of contact with various industries, societies and regions to create new value and realize our full potential.

Projects

<Tubular products business>

Q. Please tell us the reason of the loss in Basic Profit in Q4 FY2017, and what is the FY2018 forecast?

Q4 Basic Profit was -1.1 billion yen due to 3.0 billion yen of write-off in inventories for stainless and associated parts other. For FY2018, we forecast 10.0 billion yen of Basic Profit as moderate improvement is expected in business environment with the U.S. rig count increased to just above 1,000 rigs. Although we need to see how the Section 232 of the Trade

Expansion Act in U.S. impacts, we foresee moderate recovery in the market trend as overall.

<Sumitomo Mitsui Finance and Leasing>

Q. What is the reason that FY2018 forecast declines largely from FY2017 result?

It is due to the absence of one-off profit posted in FY2017 related to reorganization of leasing partnership and others. In terms of ordinary profit excluding one-off profit, FY2018 is expected to be almost the same as FY2017.

<Investment in Indonesian commercial bank (BTPN)>

Q. Please tell us about the impairment loss posted in Q4 FY2017 and about the current idea on synergies with other businesses in Indonesia.

We posted the impairment loss, based on our revised long term business plan that has reflected change in the market competition such as new service started by state owned company for loan for pensioner which BTPN has strength in.

We will continue to pursue the synergies with other businesses as initially expected, by expanding our loan service to the customers of automotive finance businesses.

<Infrastructure Business Unit>

Q. Please tell us the reason of profit increase in FY2018 forecast, and what is your outlook on profit level in FY2019 and onwards?

The profit increase is mainly due to progress in development and construction of projects in power infrastructure business, such as Tanjung Jati B power plant 5 & 6 expansion project. Profit from renewable energy business such as biomass power generation in Japan is also contributing. In FY2019 and onwards, we expect profit contribution from offshore wind power generation in Europe and Water concession business in Brazil participated in FY2017.

<Media & ICT Business Unit>

Q. Please tell us the reason that profit declines largely from FY2017 to FY2018.

For FY2018, in addition to an absence of 6.0 billion yen of one-off profit related to sale of QUO CARD Co., Ltd posted in previous fiscal year, there is an increase in depreciation cost for J:COM which is related to execution of capital investment for extending the service with 4K / 8K. Also as a result of the organizational change from this April, shares of Jupiter Shop Channels are held separately by Media & ICT Business Unit and Living Related & Real Estate Business Unit, which has negative impact of 3.0 billion yen for Media & ICT Business Unit.

<Fyffes and Sumifru Singapore>

Q. Please update us with the current situation.

We have completed PPA after the acquisition of Fyffes. Profit for FY2017 was 0.1billion yen, with its consolidation period being 10 months, due to acquisitions-related costs and over-supply

situation in banana market worldwide. Sumifru was also affected by the market situation. After FY2018, we expect the profit recovers as the market improves.
As Fyffes owns just a few banana farm itself, we will enhance profitability by extending our value chain from production to sales and aim the EBITDA level that initially assumed.

<Mineral Resources Businesses>

Q. Please tell us the strategy and investment plan.

We will take our responsibility to fulfill stable supply of mineral resources and energy to society and industry. We will try to improve profitability of existing large projects such as Nickel mining and refining business in Madagascar and Copper and molybdenum mining business in Chile in the short term and continue to study asset replacement and new investment of cost competitive assets to cover natural decline in existing assets, while keep financial discipline. Investment plan of the segment of 190.0 billion yen includes replacement investments and doesn't be tied to specific new projects.

<Copper and molybdenum mining business in Chile (Sierra Gorda)>

Q. Please tell us FY2017 operating result and FY2018 profit forecast.

In FY2017, while amount of throughput was close to full capacity with the daily amount of around 110KT, the recovery rate of molybdenum was around middle of 50% which still requires continuous improvement. In FY2018, we expect profit decrease of -0.2 billion yen due to lower molybdenum sales volumes. Currently, shareholders are discussing and investigating an investment to increase the amount of throughput.

<Silver, zinc and lead business companies in Bolivia (San Cristobal)>

Q. What is the reason of substantial decrease in FY2018 profit forecast compared to FY2017 result? Also, what is the outlook of this business in medium term?

In FY2017, production volume increased due to higher ore grade, and shipping volume also increased as there were a lot of shipments at the beginning of the FY2017 for port inventory stocked in FY2016. We forecast that production volume decreases in FY2018 as the ore grade for zinc and lead is expected to decline in FY2018. We foresee that production volume continues to decrease with decline in ore grade after FY2019.

<Nickel mining and refining business in Madagascar (Ambatovy)>

Q. What is your outlook on price assumption and operating situation?

In terms of profit for the year, FY2017 result was -14.1 billion yen and FY2018 forecast is -9.8 billion yen. In FY2017, the production volume was 31.5KT, or 52% of design. This was mainly due to the operational constraints in the sulfuric acid plant and the lower production in Jan-Mar which was impacted by the cyclone at the beginning of the year. Our FY2018 forecast of production volume is 48KT, or 80% of design. Although current operating rate is around 60%, we plan to refurbish the sulfuric acid plant in May-Jun and will raise it to 80% after the refurbishment is complete.

In terms of prices, we put our assumption for nickel as US$ 5.52/lb. and for cobalt as slightly lower than US$30/lb.

Others

Q. Being appointed as new President and CEO, what is your management philosophy and what would you like to change in the future?

What I can say with confidence based on my life with this company over 30 years is that I firmly adhere to Sumitomo's business philosophy, our Management Principle and our Six Material Issues. Except those fundamental philosophies, I would like to change things better for what should be changed, without having stereotypes. It requires firm will and considerable perseverance to actually execute. I would like each and every officer and employee to have entrepreneurship with dreams, aspirations and will, and it is essential to try to realize what they first committed. If any change is required in working environment, I would like to pursue that as well.

Q. In terms of enhancement of governance, how are the outside directors involved in formulating strategies?

To give you an example, Nomination and Remuneration Advisory Committee is chaired by outside director. The appointment of President was discussed in the committee from two years ago, and it was proposed to the Board of Directors and decided there.