

## Q&A at IR Meeting on Financial Results for 2Q/FY2017

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Presenters:

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[Questions and Answers]

FY2017 Q2 results and FY2017 forecasts

**Q. What are the reasons for increase in revised forecasts of Basic profit in each business line (Mineral resources businesses, Tubular products business, and Non-mineral resources businesses) compared with previous fiscal year?**

Profit increase in Mineral resources businesses is the impact of improvement in market situation as well as cost reduction. As for Tubular products business, it is due to recovery in market condition in North America where the rig count bottomed out from 400 to around 900. However, we are cautious on further business recovery as the rig count is just staying around 900. In Non-mineral resources businesses, core businesses delivered strong results as overall, as the world economy is very stable even with geopolitical risks in the Middle East. Construction equipment business, leasing business, and domestic retail business are showing stable performance, and we have good feel that each segment has strengthened its earning power.

**Q. What is the reason of “Others” in cash flows to be 180.0 billion yen of cash out in the second quarter of FY2017?**

Around 110.0 billion yen out of 180.0 billion yen of cash out is due to increase in inventory, and half of that is related to trading business for precious metal which has a trend to decline towards the end of fiscal year after the increase during the year. Remainders are increase in the inventories for steel sheet, tubular products, and real estate for sale. We are not concerned about steel sheet and tubular products, as it is just the impact from price increase, and they maintain good inventory turn. We will continue to monitor it closely in the second half of this year, although it's not a concern as far as cash out increases in appropriate level along with economic recovery.

**Q. How do you evaluate the investment progress of 750.0 billion yen against 1.0 trillion yen of investment plan? In case it won't reach 1.0 trillion yen at the end of BBBO2017, are you going to shift the funds to repayment of interest-bearing liabilities?**

We remain focusing on investing on prime projects rather than sticking to 1.0 trillion yen as a prime target. Although we have couple of projects on the table, it will probably not reach 1.0 trillion yen considering time required for investment procedures etc.

In this fiscal year, we have worked on securing financial soundness as a top priority, and if investments don't amount to the target, basically funds will be used for repayment of the interest-bearing liabilities.

**Q. What are growth drivers and asset size for next medium-term management plan? And what is the dividend policy?**

We have worked on strengthening profitability in BBBO2017, and it has appeared on our results, as Basic profit have been steadily generated around 70.0 billion yen every quarter since the fourth quarter of FY2016. We consider this profit level can be maintained unless the business environment changes drastically.

We have a good feel about further growth, expecting further business recovery in Tubular products business and progress in infrastructure projects. Also, the LNG project in Cove Point will start full operation, and profit contribution from Fyffes is expected from next fiscal year. In addition, reorganization of Sumitomo Mitsui Finance and Leasing Company, Ltd (SMFL) will be carried out in FY2019.

We also plan to sow seeds for next generation businesses such as IoT and Mobility. We have already invested in transportation matching service for trucks, connected-related, and digital media fields. In April this year, we set up an office in Silicon Valley in the U.S. and stationed personnel not limited to IT related in order to promptly sense the latest business movement there and lead it to new investment case.

We will also work on cross organizational businesses utilizing existing platform such as Jupiter Telecommunications Co., Ltd (J:COM) and Sumitomo Mitsui Auto Service Company, Limited (SMAS).

In terms of asset size, it is possible to expect growth with current 8.0 trillion yen of asset level, but asset increase will be required if we will aim higher level of growth.

As to the dividend, we will examine current 25% of payout ratio considering not only from payout ratio but also from cash flow and market point of view.

**Q. Please tell us your plan on share buyback in light of improvements in financial soundness.**

We are pursuing efforts for regaining the balance between Core Risk Buffer and Risk-adjusted Assets as a principal indicator for the Company's management. We are considering buyback cautiously as it would lead the Core Risk Buffer to decrease. We intend to reward

shareholders by stable dividend payments and increasing corporate value to raise the stock price.

#### Projects

##### <Leasing business>

##### **Q. What is the financial impact of the reorganization of leasing partnership and its strategy?**

At this moment, it's only MOU that has been concluded, and the details such as shareholding of SMAS will be discussed among parties. We have been managing SMFL and SMAS businesses together with Sumitomo Mitsui Financial Group for about 10 years, and this reorganization is to enhance further growth of the businesses. We aim to proactively develop business in new fields such as infrastructure related business which SMFL was not able to work on before.

Contract conclusion is planned in March 2018, and execution of reorganization is planned by March 2019 subsequent to the procedure for permission. There will be impact on our consolidated results from FY2019.

##### <TBC>

##### **Q. Please update the current status and risk of impairment loss.**

TBC's wholesale and franchise business is steadily progressing towards the plan by increasing their profit compared to the same period of the previous year.

Retail business is still struggling as the number of their main target of 6-10 years old vehicles is expected to recover from 2018. Two large hurricanes (Harvey, and Irma) have also impacted the business.

We are expecting to achieve our budget by continuously working on cost savings, expanding fleet business, etc, and also by successfully taking in the tire replacement demand towards this winter season.

As for impairment loss, we will carry out an impairment test after reviewing the business plan if necessary, considering the market and the business situation. We consider the chance of having impairment loss during this fiscal year is not high.

##### <Telecommunication business in Myanmar>

##### **Q. Please tell us about your outlook on revenue growth.**

We just made additional investments for full transition to 4G, and we expect that the revenue will continue to grow as the number of subscribers and data traffic are increasing.

##### <SCSK>

##### **Q. Please explain the detail of one-off profit associates with sale of Quo Card business by SCSK.**

Over 3.0 billion yen of one-off profit in the first half of this year is related to this expected sale,

and there are deferred tax assets posted as the usage of tax loss carried forward against income and the difference in book value between accounting and taxation. Actual closing of the deal is planned in the second half of this year.

SCSK is selling it to one of our affiliated company, T-Gaia Corporation. As Sumitomo Corporation, part of profit from this deal will be eliminated from our consolidation as it will be regarded as internal transaction within the group. The impact is expected to be over 4.0 billion yen as our consolidated profit.

#### <Fyffes>

##### **Q. What is current status?**

We have confirmed that it has an excellent portfolio with balanced profit contribution from four commodities of bananas, melons, pineapples, and mushrooms through our post-merger Integration. EBITDA remains as planned at the time of acquisition, and we will start working on creation of synergies by streamlining logistics etc.

#### <Mineral resources businesses>

##### **Q. What are your plans for Mineral resources businesses? How do you consider about the ratio of Mineral resources businesses and other businesses?**

During BBBO2017, we have focused on early completion of ramping-up projects, and profit contribution will be a challenge for next medium-term management plan. Looking by commodities, we will focus on prime projects in the fields where we have knowledge such as zinc, nickel, coking coal, iron ore, copper etc. Mineral resource businesses are required to have higher ROA than other businesses in order to cover market price volatility. Although it is not clearly decided, we consider that roughly 10 -15% of asset allocation is appropriate for Mineral resources businesses and Tubular products business.

#### <Ambatovy>

##### **Q. The forecast has been revised to -14.2 billion yen from -17.8 billion yen. What are the factors for upward revision? Also, how do you see the possibility of impairment loss?**

We estimate that the annual production volume will decline compared with the initial forecast as the operating rate remained low due mainly to the refurbishment of sulfuric acid plant in the first half of this year. On the other hand, prices contribute positively, as cobalt price is at a higher level than the initial forecast, and the assumption for nickel price is slightly exceeding US\$ 5/lb in the second half of this year. In addition, the process of sponsor structural change has been delayed from September and expected to be completed around December.

Based on these factors, annual forecast is expected to improve by more than 3.0billion yen.

Also, when we look at operating rate in October, it has recovered to the initial target of 80%.

We will review and evaluate the necessity of impairment loss based on business plan from next year, but at the moment we assume that the risk is not so high considering current operating rate

and market price.

Others

**Q. Has the identification of Material issues changed any actual investment decision making? For instance suspending the investment from social point of view or exiting from any business?**

We are requiring business unit to specify Material issues that individual business is related to, on internal business application, in order for business unit to reaffirm and boast the social significance of the business. There isn't any business exit due to Material issues, as we have executed our business with a business philosophy of "Benefit for self and others, private and public interests are one and the same".

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