Sumitomo Corporation

# Quarterly Results for FY2018
# (Nine-month period ended December 31, 2018)

**February 6th, 2019**

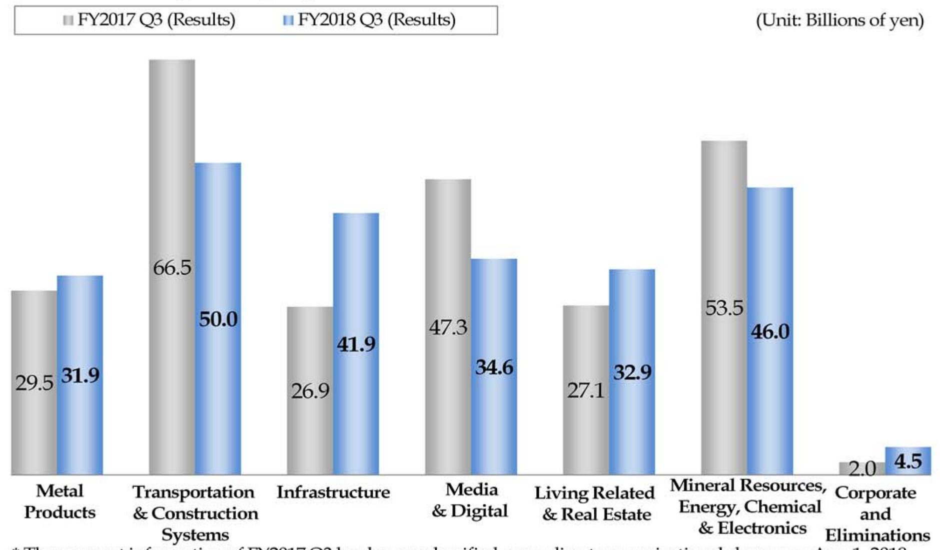
## Sumitomo Corporation

# 1. Operating Results(Profit for the period)

Sumitomo Corporation

| (Unit: Billions of yen) | FY2017 Q3 (Apr.-Dec.) (A) | FY2018 Q1 (Apr.-Jun.) | FY2018 Q2 (Jul.-Sep.) | FY2018 Q3 (Oct.-Dec.) | FY2018 Q3 (Apr.-Dec.) (B) | Increase/ Decrease (B)-(A) | FY2018 Annual Forecasts (announced in May, 2018) (C) | Progress (B) / (C) |
|---|---|---|---|---|---|---|---|---|
| Profit for the period | 252.9 | 91.4 | 88.0 | 62.5 | 241.8 | - 11.1 | 320.0 | 76% |
| One-off profits/losses | approx. +37.0 | approx. +2.0 | approx. +5.0 | approx. - 13.0 | approx. - 6.0 | approx. - 43.0 | - | |
| (excl. one-off profits/losses) | (approx. 216.0) | (approx. 89.0) | (approx. 83.0) | (approx. 75.0) | (approx. 248.0) | (approx. +32.0) | (320.0) | (78%) |

＜Profit for the period by Segment＞




* The segment information of FY2017 Q3 has been reclassified, according to organizational change on Apr. 1, 2018.

〈Summary by segment (Results)〉

■ **Metal Products**
- ✓ Increase in earnings from tubular products business in North America due to market recovery
- ✓ Stable performance of the operation of overseas steel service centers
- ✓ One-off profits in FY2017 (approx. +7 bil. yen)

■ **Transportation & Construction Systems**
- ✓ Stable performance of leasing business
- ✓ Stable performance of construction equipment sales & marketing and rental business
- ✓ One-off profits in FY2017 (approx. + 14 bil. yen)

■ **Infrastructure**
- ✓ Progress in construction of large-scale projects in power infrastructure business
- ✓ Stable performance of IPP/IWPP business

■ **Media & Digital**
- ✓ Stable performance of domestic major group companies and telecommunications business in Myanmar
- ✓ Gain from stock re-valuation by IPO in FY2017
- ✓ One-off profits in FY2017 (approx. +6 bil. yen)

■ **Living Related & Real Estate**
- ✓ Stable performance of domestic major group companies and real estate business
- ✓ Recovery in commodity prices in banana business in Asia

■ **Mineral Resources, Energy, Chemical & Electronics**
- ✓ Increase in earnings from coal mining projects in Australia
- ✓ One-off losses in FY2018 (approx. -15 bil. yen)





The third quarter's profit for the period was 241.8 billion yen, down by 11.1 billion yen year-on-year.

One-off profits and losses are shown beneath it. In the same period of the previous fiscal year, there was a net one-off gain of 37.0 billion yen due to factors including the U.S. tax reform. In this fiscal year, we posted a net one-time loss of 6.0 billion yen, mainly due to an impairment loss in the Nickel mining and refining business in Madagascar. Therefore, on a year-on-year basis, we saw a decrease of 43.0 billion yen. Excluding these one-off items, profit for the period increased by 32.0 billion yen year-on-year to 248.0 billion yen, continuing solid performance.

In the Metal Products business unit, profit for the period was 31.9 billion yen, an increase of 2.4 billion yen year-on-year. In the same period of the previous fiscal year, there were one-time profits of 7.0 billion yen due to the impact of the U.S. tax reform and other factors, so excluding this part, the actual profit growth amounts to nearly 10.0 billion yen. This was mainly due to profit growth in the tubular products business in North America, thanks to the recovery in market conditions, as well as, solid performance of oversea steel service centers.

In the Transportation & Construction Systems business unit, profit for the period decreased by 16.5 billion yen year-on-year to 50.0 billion yen. This was mainly due to the absence of approximately 14.0 billion yen in one-off profits due to the impact of U.S. tax reform and other factors in the same period of the previous fiscal year. Core businesses such as the leasing business and construction equipment business continued to deliver solid performance.

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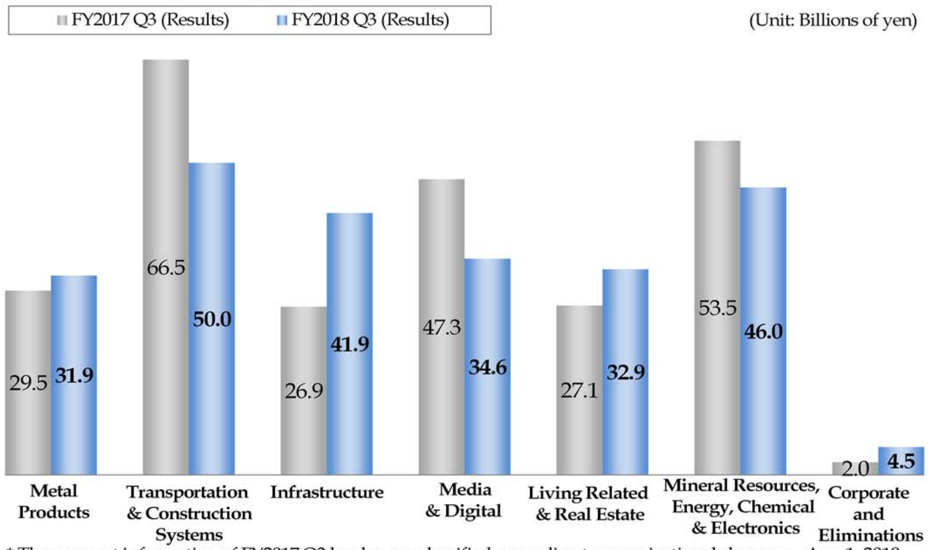
### < Profit for the period by Segment >

(Unit: Billions of yen)

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(Continued)

In the Infrastructure business unit, profit for the period was 41.9 billion yen, an increase of 15.0 billion yen year-on-year. This was due to the progress of the construction of large-scale EPC projects in Asia and solid performance of the IPP/IWPP business.

In the Media & Digital business unit, profit for the period was 34.6 billion yen, a decrease of 12.7 billion yen year-on-year. While domestic major group companies such as SCSK and J:COM and the telecommunications business in Myanmar continued to deliver solid performance, profit declined because in the same period of the previous fiscal year, we had booked gains from the sale of QUO CARD and valuation gains on investments in ventures.

In the Living Related & Real Estate business unit, profit for the period was 32.9 billion yen, an increase of 5.8 billion yen year-on-year. This was mainly due to improved revenues in the Asian banana business, in addition to solid performance of domestic major group companies and real estate business.

In the Mineral Resources, Energy, Chemical & Electronics business unit, profit for the period was 46.0 billion yen, down by 7.5 billion yen year-on-year. While higher mineral resources prices resulted in profit growth in coal mining projects in Australia and other areas, the recording of one-off losses in the third quarter caused a net decrease in profit.

The full-year forecast remains at 320.0 billion yen, as the progress rate up to the third quarter was 76% of the initial forecast, and solid performance is expected through the fourth quarter as well.

## 2. Operating Results(Basic profit)

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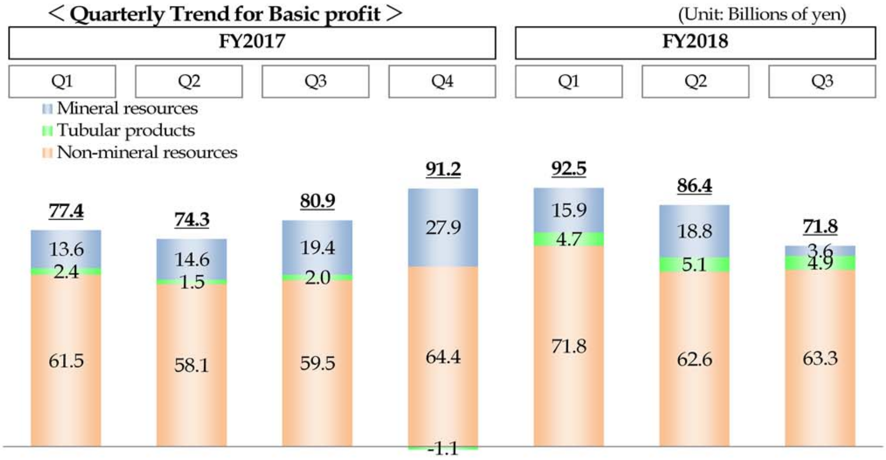
| (Unit: Billions of yen) | FY2017 Q3 (Apr.-Dec.) (A) | Q1 (Apr.-Jun.) | Q2 (Jul.-Sep.) | Q3 (Oct.-Dec.) | FY2018 Q3 (Apr.-Dec.) (B) | Increase/ Decrease (B)-(A) | FY2018 Annual Forecasts (announced in May, 2018) (C) | Progress (B)/(C) |
|---|---|---|---|---|---|---|---|---|
| **Basic profit** * (excl. impairment losses) | **232.6** | 92.5 | 86.4 | 71.8 | **250.7** | +18.2 | **340.0** | 74% |
| Mineral resources | 47.6 | 15.9 | 18.8 | 3.6 | 38.4 | - 9.3 | 65.0 | 59% |
| Tubular products | 5.9 | 4.7 | 5.1 | 4.9 | 14.7 | +8.9 | 10.0 | 147% |
| Non-mineral resources | 179.1 | 71.8 | 62.6 | 63.3 | 197.7 | +18.6 | 265.0 | 75% |

**< Quarterly Trend for Basic profit >** (Unit: Billions of yen)




| (Reference) Key indicators | | | FY2017 Q3 (Apr.-Dec.) | FY2018 Q3 (Apr.-Dec.) |
|---|---|---|---|---|
| Exchange rate | | (YEN/US$) | 111.69 | 111.14 |
| Interest rate | LIBOR 6M | (YEN) | 0.01% | 0.02% |
| | LIBOR 6M | (US$) | 1.51% | 2.61% |
| Copper *1 | | (US$/MT) | 5,948 | 6,645 |
| Zinc | | (US$/MT) | 2,931 | 2,760 |
| Nickel | | (US$/lb) | 4.74 | 5.94 |
| Iron ore *1 | | (US$/MT) | 73 | 69 |
| Hard coking coal *2 | | (US$/MT) | 185 | 203 |
| Thermal coal | | (US$/MT) | 91 | 109 |
| Crude Oil | Brent *1 | (US$/bbl) | 52 | 72 |
| | WTI | (US$/bbl) | 51 | 65 |

*1 These commodities show the prices in Jan.-Sep.
*2 Hard coking coal…Market price

* Basic profit = (Gross profit + Selling, general and administrative expenses (excluding provision for doubtful receivables) + Interest expense, net of interest income + Dividends) × (1-Tax rate) + Share of profit (loss) of investments accounted for using the equity method
Excluding the impact of impairment losses in nickel mining and refining business in Madagascar(-10.4) in FY2018 Q3 and in Indonesian commercial bank (-15.1) in FY2017 Q4





Excluding impairment loss in the nickel mining and refining business in Madagascar, Basic profit for the first three quarters was 250.7 billion yen, an increase of 18.2 billion yen year-on-year.

Looking at the quarterly trends, the numbers for the mineral resources businesses declined in the second quarter and third quarter. However, the second quarter included equity in earnings of an iron ore mining project in South Africa, and the third quarter included one-time expenses, including inventory write-downs in the nickel mining and refining business in Madagascar. The tubular products business and other non-mineral resources businesses continued to deliver solid performance.

## 3. Cash Flows / Financial Position

Sumitomo Corporation

● **Cash Flows** (Unit: Billions of yen)

| | FY2017 Q3 | FY2018 Q3 |
|---|---|---|
| Operating activities | +162.3 | +117.2 |
| Investing activities | -78.7 | -29.2 |
| **Free Cash Flow** | **+83.7** | **+88.0** |
| <Cash in> | | |
| Basic profit cash flow* | +215.4 | +229.7 |
| (Dividend from investments accounted for using the equity method, included in the above) | ( +97.8 ) | ( +82.9 ) |
| Depreciation and amortization | +89.8 | +83.9 |
| Asset replacement | approx. +130.0 | approx. +170.0 |
| Others | approx. -170.0 | approx. -190.0 |
| <Cash out> | | |
| Investment & Loan | approx. -190.0 | approx. -200.0 |

* Basic profit cash flow = Basic profit
- Share of profit (loss) of investments accounted for using the equity method
+ Dividend from investments accounted for using the equity method

〈Summary〉

- ■ Basic profit cash flow
  - ✓ Core businesses generated cash steadily
- ■ Asset replacement
  - ✓ Reorganization of tire business in the U.S.
  - ✓ Reorganization of leasing business (sale of shares owned directly in aircraft leasing business), etc.
- ■ Others
  - ✓ Increase in working capital, etc.
- ■ Investment & Loan
  - ✓ Participation in specialty steel business in India
  - ✓ Participation in offshore wind farm projects in France, etc.

● **Financial Position** (Unit: Trillions of yen)

| | As of Mar. 31, 2018 | As of Dec. 31, 2018 |
|---|---|---|
| Total assets | 7.8 | 8.0 |
| Current assets | 3.5 | 3.7 |
| Non-current assets | 4.3 | 4.3 |
| Other liabilities | 2.0 | 2.1 |
| Interest-bearing liabilities | 3.2 (2.5)* | 3.2 (2.5)* |
| Shareholders' equity* | 2.6 | 2.7 |
| D/E Ratio(Net) | 1.0 | 0.9 |

* Figures in parenthesis in "interest-bearing liabilities" show "interest-bearing liabilities, net".
"Shareholders' equity" is equivalent to "Equity attributable to owners of the parent" in Consolidated Statements of Financial Position.
"Shareholders' equity" includes
Exchange differences on translating foreign operations (80.6 billion yen→86.2),
Financial assets measured at fair value through other comprehensive income (189.8→147.5).

〈Summary (Unit: Billions of yen)〉

- ■ Total assets +202.1
  (7,770.6→7,972.7)
  - ✓ Increase in Trade receivables and Inventories
  - ✓ Increase due to the yen's depreciation (approx. +40 bil. yen)
  - ✓ Increase in investment and loan
  - ✓ Decrease due to reorganization of tire business in the U.S., etc.
- ■ Shareholders' equity +126.4
  (2,558.2→2,684.6)
  - ✓ Increase in retained earnings
  - ✓ Dividend paid, etc.

| | As of Mar. 31, 2018 | As of Dec. 31, 2018 |
|---|---|---|
| Exchange rate (YEN/US$) | 106.24 | 111.00 |

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The left side of the document shows the third quarter free cash flow, a cash inflow of 88.0 billion yen.

In terms of the main contents, basic profit cash flow was a positive 229.7 billion yen, mainly due to steady cash generation by core businesses.

In asset replacements, we collected approximately 170 billion yen through the restructuring of the U.S.Tire Business (TBC Corporation) and the leasing business with the Sumitomo Mitsui Financial Group.

Other cash flows recorded a net cash outflow of 190.0 billion yen, mainly due to an increase in working capital associated with business growth.

Investments and loans resulted in a cash outflow of approximately 200 billion yen, due to participation in the specialty steels business in India and offshore wind farms in France.

As for the financial position, total assets increased by 202.1 billion yen from the end of the previous fiscal year to 7,972.7 billion yen. While the increase of trade receivables and inventories and the depreciation of the yen caused an increase in assets, factors including the reorganization of the U.S.Tire Business (TBC Corporation) had a decreasing effect.

Shareholders' equity totaled 2,684.6 billion yen, up 126.4 billion yen from the end of the previous fiscal year, mainly due to the accumulation of profit for the year.

As a result, net D/E ratio improved 0.1 points from the end of the previous fiscal year to 0.9. That is the outline of the consolidated results for the third quarter of FY2018.

# Appendix

## 12. Individual business situation Ambatovy Nickel Project

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**【FY2018 3Q One-off losses】**

- Impairment loss of Goodwill Approx. –10.0 billion yen

  <Assumption>
  Long-term Nickel price : $7.4/lb
  Nickel production : Approx. 46 KMT (Average of mine life)

- Write-off of fixed assets and Write-down of ore inventory Approx. –5.0 billion yen

**【FY2018 Forecast】**

- FY2018 Forecast is approximately 38.0 billion yen in deficit.

  <Previous forecast:13.6 billion yen in deficit ⇒ Current forecast: Approx. 23.0 billion yen in deficit(*)>
  (*)Exclude above one-off losses:Approx. 15.0 billion yen

  - ✓ Lower production / Decline in Nickel price Approx. –5.0 billion yen

    <FY2018 assumption>
    Nickel price : $5.7/lb (Previous forecast : $5.8/lb)
    Nickel production : 38-40 KMT (Previous forecast : 40-43 KMT)

  - ✓ Cost increase (due to commodity price/Libor interest rates increase) and change of scheme
    Approx. –4.0 billion yen

- Action plan for high-level stable operation is progressing as planned, and the baseline for production is improving steadily.





As for Ambatovy Project, we conducted impairment tests in the third quarter under the assumptions set forth in this section, based on lower long-term nickel prices, current production conditions and other relevant conditions. As a result, we recorded an impairment loss of approximately 10 billion yen on a consolidated basis.

In addition, as a result of revaluation of fixed assets and ore inventories in the project, we booked approximately 5.0 billion yen in losses on write-off and write-down on an equity basis.

Taking into account these one-time losses totaling approximately 15.0 billion yen, we forecast a loss of approximately 38.0 billion yen for FY2018, down from the 13.6 billion yen loss announced in November last year.

As stated in the material, excluding one-off items, the net loss is expected to expand by 9.0 billion yen to 23.0 billion yen, from the previous forecast of 13.6 billion yen. This is due to the fact that operating conditions have not improved as expected, as well as the decrease in nickel prices and increase in other costs.

On-site efforts are being made on a daily basis based on improvement plans aimed at stable high-level operations. Major HPAL facilities, which were the main cause of the decline in production in recent years, are being stabilized through repairs and process changes.

Although we are still in the process of improvement, we believe that we are making steady progress toward stabilizing production, and we will continue to focus on raising our production baseline.