

## **Question & Answer at IR Meeting on Financial Results for FY2018**

<b>[Date]</b>	<b>May 10, 2019</b>	
<b>[Presenters]</b>	<b>Masayuki Hyodo</b>	<b>Representative Director, President and Chief Executive Officer</b>
	<b>Koichi Takahata</b>	<b>Representative Director, Executive Vice President, Chief Financial Officer</b>
	<b>Hideki Yamano</b>	<b>Representative Director, Managing Executive Officer, Chief Strategy Officer and Chief Information Officer</b>
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	<b>Masahiro Yamane</b>	<b>General Manager, Investor Relations Department</b>

### **List of Questions (Detailed Question & Answer follows)**

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<Q1>

- You plan to achieve 10% increase in profits in your FY2019 forecast for Non-mineral resources businesses. We would like to confirm the certainty of this growth and growth drivers in Transportation & construction system business unit and the Living related & real estate business unit. In addition, how much returns will be earned from the results of investments during this Medium-Term Management Plan?
- Dividend for FY2019 is 90 yen including commemorative dividend. What will be the plan for FY2020?

<Q2>

- The progress of the investments seems to be slow. Are you going to review the overall cash flows?
- FY2018 result for Ambatovy was large deficit. What is the current status? What is your profit and loss image when the 50,000-ton production level is achieved in mid to long term?

<Q3>

- What is the assumption of FY2019 forecast for Metal products business unit, as it is somewhat sluggish compared to FY2018?
- How do you evaluate the progress of investments on next-generation businesses(FY2018: Approximately 10.0 billion yen.)? Also, is there any new initiatives taken in existing business?

<Q4>

- Regarding Ambatovy, Sherritt fell into default under the Shareholders Agreement in March, and they lost their voting rights of the project. While the structure of the shareholders remains unchanged, what impact do you expect in the future?
- What is the future initiatives for Infrastructure business unit after the existing large-scale EPC projects are completed?

<Q5>

- J:COM's FY2019 forecast shows slight decrease compared to FY2018. What is the outlook?
- What is the mid to long term outlook for San Cristobal?

<Q6>

- What is the outlook for tubular products business and reason for profit increase in Sumitomo Corporation Global Metals in Metal products business unit?
- What is the outlook for FY2020 company's profit, considering FY2019 forecast being 340.0 billion yen?

<Q7>

- How do you consider the dividend for FY2020?

<Q8>

- What is the current operating status and profit and loss for cove point LNG project (exporting business of US-produced natural gas)?
- Regarding Fyffes, in which business group was the impairment loss occurred? What is the background?

<Q9>

- What is your plan for future development on utilization of platform's business?

<Q2(Additional)>

- Through what process was a commemorative dividend decided, and what kind of background has led to a commemorative dividend of 10 yen?

## Question & Answer

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**Q1:** I would like to ask two questions. The first is the question from the perspective of growth. The plan for Non-mineral resources for the current fiscal year on page five in the slide. In this macroeconomic environment, you plan to achieve a 10% increase in profits, from 268.0 billion yen to 296.0 billion yen, in the current fiscal year, so we would like to confirm the certainty of this growth as the first point.

In addition, on page 10, how much returns will be earned from the results of investments made in the first year of the Medium-Term Management Plan? As it will be a key growth driver, I would like to ask about the realization of those returns.

The second point is the dividend, which is on page six. I am very aware that it is a little too early to ask such a question. I know about the increase in the dividend per share due to medium- to long-term earnings growth as a basic policy. But I have to ask you whether the figure of 90 yen for this year, including the commemorative dividend, will continue to the next fiscal year. Could you tell us about your current stance on this matter?

**Hyodo:** First of all, about the certainty of the growth potential of non-mineral resources on page of five of close to 10% under this environment. We have examined each of the businesses in each of the 23 divisions of six business units, and we are accumulating the planned figures based on the trends toward the end of the previous year and the situation in January, February, and March, and expected mineral resources prices. I am confident in the figure.

Regarding the return from new investments of 300.0 billion yen made last year on page 10. As part of our efforts to strengthen governance, we make investment decisions after thoroughly reviewing the investment criteria used in our investment decision-making process. We have high expectations for investments as we are thoroughly checking based on WACC for the individual investments. Therefore, we intend to cultivate

the businesses as businesses that will firmly support ROA and ROE, which are the economic efficiency indicators that we are presently calling for at the company level.

Lastly, regarding dividends, our basic dividend policy remains unchanged. In other words, we will maintain a dividend payout ratio of approximately 30% by achieving stable and sustainable growth. Therefore, the points will be whether the amount of 340.0 billion yen in the next fiscal year will continue to increase further. We will make it increase. Therefore, as I mentioned last year, if we assume the expansion of the balance sheet through the investment plan, we can see the figure of the latter half of 300 billion yen range. We will maintain the current dividend policy and pay a steady and sustainable dividend.

We will pay a commemorative dividend of 10 yen this year in line with the interim dividend. This is for the current fiscal year, and we will decide the dividend for the next fiscal year in accordance with the dividend policy described above, based on the business results for the current fiscal year.

**Q1(Continued):** Regarding the growth of non-mineral resources during the current fiscal year if you calculate the actual results excluding one-off profits/losses, I believe that profits from the Transportation & construction system business unit and the Living related & real estate business unit will be approximately 10.0 billion yen or more. Please explain the breakdown of 28.0 billion yen in non-mineral resources.

**Takahata:** As for Transportation & construction system business unit, excluding one-off profits/losses, the SMFL increased its stake to 50% and this will contribute to the increase in profits. Other new businesses are also planned, so in terms of SMFL, it will increase by about 5.0 billion yen. I believe this is disclosed in the materials.

In addition, while we are not able to make a concrete figure due to the relationships with partner, the restructuring of TBC of tire business in the U.S., which had been struggling for a while, was completed in FY2018, and sales volume increased due to the integration of wholesale business with Michelin. The market was difficult for a while, but from around the end of 2018, the demand for replacement tires of six to ten years' age cars, which TBC specializes in, has been recovering, and we plan to make a profit in FY2019. These two are the biggest drivers for the unit.

I believe that the construction machinery and other equipment will be at cruising speed. And in the Living related & real estate business unit, we are also improving our existing businesses. As for the FYFFES of fresh produce business in Europe, we've seen a lot of challenges in FY2018, but we've been implementing initiatives to each of our segments, and we'll return to profits.

And the real estate is very stable. As I have mentioned before, we will not hold the real estate for a long time. Rather, we will reinvest the real estate while making a certain amount of capital gains, in other words, making a certain amount of asset turnover. This is going around at cruising speeds, so the two units will become drivers in fiscal 2019. This is our assumption.

**Q2:** I would like to ask two points. The current outcome of the investments and loans seems to be slow compared to the planned outcome including investment for next generation business. Cash was quite earned in the first year, and I had a frank question if the investments and loans would really emerge from the outset to that extent. It has been a slow start in the first year, and I think that there is a lot of room for you to raise the dividends this time, but don't you really need to review the overall cash flows?

Second, I believe reduction of Ambatovy's deficit will increase profit the most during the current medium-term management plan period. Although Ambatovy's deficit will decrease in the second year, I believe that the deficit was larger than you had anticipated in the first year of the medium-term management plan

period. What is the difference between the picture originally envisioned and the current situation, and what will be the situation in the next year or two years later, aiming 50,000 tons?

**Hyodo:** First of all, regarding the necessity of reviewing cash flows, you said that the accumulation of the amount of investment was small in the first year. This is true, but each business unit will steadily accumulate projects in the current pipeline from this fiscal year onwards. Therefore, at this stage, we do not intend to significantly revise the cash flow plan for the three-year medium-term management plan. However, it is important to manage risks to earn profits in the future, rather than to just accumulate the investments, so I would like to conduct management in a thorough PDCA while observing the cash trends of the entire company, the status of the development of existing businesses and new businesses in the second year of the plan.

As to the situation in Ambatovy, as you pointed out, I explained last year that I hoped that production would stabilize as soon as possible, that, although production was impacted by cyclones last year, we should gradually be able to see the effects of measures taken by the project. You may think we are explaining the same today. In fact, last week I went to the project site and talked with the management who leads the project on site and looked at the actual plant facilities. Of course, the local management has already identified the problems and has taken action, but it is a giant chemical plant and so it will take a considerable amount of time.

For this reason, we will focus on what we are doing today, and above anything else we will increase nickel production volume. As the total volume increases, the production cost per ton will theoretically decrease, and as you pointed out, the deficit will shrink.

In addition, our revenue fluctuates significantly depending on the market conditions for nickel.

This part is unchangeable. However, looking at the current market conditions for nickel and the market inventory volume, although nickel price is declining slightly at this moment, it is likely that the market will recover toward the second half of the year. In the long run, demand especially for high-grade nickel, or "class one" nickel which is what our Ambatovy produces, is firm. Based on this judgment, we intend to continue our efforts.

**Q2(Continued):** In the final year of the Mid-Term Management Plan or when the 50,000-ton production level is achieved, how much will earnings from Ambatovy improve? Of course, this may depend on market conditions, but what is your profit and loss perspective?

**Takahata:** If we can achieve a stable production of 50,000 tons, on the assumption that cobalt is roughly \$20 per pound, Ambatovy should reach PL breakeven or generate profit at a nickel price of mid-\$8 per pound or more. Therefore, considering the current market conditions, it is somewhat distant.

**Q3:** First, I would like to ask the status of Metal products business unit. This year's plan is somewhat sluggish, with considerable growth last year. There is also a question about how the tariff will be. Please tell us about the current status of inventories in the U.S. and how you are looking at market trends and formulating plans.

Secondly, on page 11, the company plans to invest around 300.0 billion yen over the next three years to create next-generation businesses. You've been talking about changing the business model. At the beginning, you will invest 10.0 billion yen this fiscal year. How do you think about sense of speed around here?

I don't think you included the Q-Park. I don't think the amount is disclosed. Do you think you're coming in line with the plan when you include the Q-Park? Could you tell us if you have any additional information on

the situation you are facing in order to create new businesses since the start of the Medium-Term Management Plan?

The reorganization of TBC, which you mentioned before, also sells at retail. I think you can do something for next generation business like other peers do. Could you tell us a little more about your efforts for the next generation business?

**Hyodo:** About the growth of Metal products business unit, the impact of tariffs on the North American market was more positive for the market price than we had assumed in the previous fiscal year.

On the other hand, fluctuations in overall oil prices have been firm, as you know. As evidenced by the stable trend of rig counts in North America, there is a steady demand for tubular products and related services.

With regard to this point, we have formulated plans for the current fiscal year based on the assumption that the market price and demand will continue to be stable, rather than growing at the same rate as last year.

Regarding steel sheets business, last fiscal year, including Japanese mill companies, we were hit by natural disasters. In some cases, shipments of steel sheets products themselves have been sluggish. However, domestic demand and overseas demand are especially strong in Asia. Demand for building materials is also supporting the company's performance. I believe that this trend will continue this year and we are presenting the current figures.

Regarding new business initiatives, if we accumulate the projects in the pipeline that we are currently planning in six business units, we would expect to spend over 300.0 billion yen of cash in the following two years.

However, we are thoroughly scrutinizing and thoroughly implementing measures that will contribute to our future earnings potential. It seems to be slow, but there are a lot of materials what we are actually considering.

In addition, you mentioned TBC. As you said, a small change in the angle of our current existing business also implies significant business opportunities. This is true. Accordingly, we are also working to plug in new service functions by adding IT and new technologies to these functions. I believe this will be in the category of increasing the value of existing businesses.

For example, with respect to TBC, initiatives related to e-commerce have begun. We are experiencing particularly strong growth in so-called fleet players in the U.S. market. We will also use TBC's network and assets to provide these services. We are also considering these initiatives. I hope that the results will be achieved.

**Q4:** I have two points. I have a question about Ambatovy. As a news flow, I think there were reports of Sherritt's default under the Shareholders Agreement in March, and that they would lose their voting rights of the project. I believe your company has also given an explanation in a press release.

While the structure of the shareholders remains unchanged given these developments, do you think there is a need for your company to become more deeply involved in this project in the future? Including responses to additional cash-calls, etc. Please comment to the extent that you can, how your involvement in project management and cash flow may change.

The second point is that the large-scale EPC projects in power infrastructure business, which are described in the results trends, will emerge significantly. Also, previously, you mentioned it at a briefing on your

Business unit IR meeting. Then, what direction will it take? I would like to ask you some hints about the accumulation of orders, future initiatives and changes, and whether there are any new developments.

**Hyodo:** Regarding Ambatovy, the point you pointed out has certainly occurred in March of this year. In principle, the three shareholders will strive to stabilize the profitability of this business based on the shareholders agreement. This consensus remains unchanged.

Therefore, we are now working together with Sherritt and Korea Resources Corporation by playing their respective roles.

If the situation is improved, we will continue as we have done in the past, and if anything we don't anticipate happens, we will have a firm discussion based on the agreements. I would like to refrain from commenting on future matters.

What about the future development of EPCs and other businesses related to power infrastructure? First of all, as you pointed out, the EPC project will end when the existing contract is over.

Therefore, as the major revenues and the peaks of progress of the remaining contracts will be over this fiscal year and next year, the main source of revenues for Infrastructure business unit will have to rely on other pillars.

In anticipation of this, we are working to build up new assets in the power infrastructure business, which we have already built up, into our pipeline. New power infrastructure businesses and other infrastructure businesses that replace EPC's revenues will make a contribution, and there will be some fluctuations. However, we expect that Infrastructure business unit will continue to move forward in line with our anticipated growth lines.

**Q5:** I have two points. The first is the Media & digital business unit. It generally has solid performance, however J:COM's profits are gradually declining that continues in the current fiscal year. What is current status of J:COM, and when do you expect this to turn a profit increase? Please tell us about the situation.

The other is about San Cristobal. This fiscal year's total profit will be 9.3 billion yen owing to quantity declines and it is a picture of a considerable decline in profits. I think it may gradually decrease. The second question is the extent to which this decline will occur, in other words, what is the prospects for volume over the medium term.

**Hyodo:** As for J:COM, we have strategically begun to make upfront investments for the 4K which we are already in service and 5G eras. We will continue to make relatively heavy investments over the next few years with the aim of providing even higher services in the future. The amount of depreciation will be so heavy that it appears that the effects of revenues increasing are eliminated, including the actual ARPU.

We will provide new services to our customers. At the same time, we expect to see a growth curve in the years ahead by increasing revenues, and we are currently making upfront investments.

Regarding San Cristobal, the mountains will eventually be mined out. I think this San Cristobal mine life is limited around 10 more years.

As a result, production will continue to decline in the future. We anticipate that the level of earnings we forecast this year will continue over the next few years. Along with this, we are working to accumulate new high-quality assets, and continuing asset replacement.

**Q6:** I have two points. First, please tell us about Metal products business unit. I would like to ask you about your assumptions about the current situation and what is happening amid the relatively good situation in the previous year.

In particular, the basic profit of the tubular products business was 3.3 billion yen in the fourth quarter. That's a bit less profitable than previous quarters. I'm interested in how we should look at in the new fiscal year.

Sumitomo Corporation Global Metals is looking for an increase in profits for the new fiscal year. Could you tell us the background of this increase in profits for Metal products business unit?

Secondly, you plan to increase profits by 340.0 billion yen this fiscal year. Please tell us how much you expect and are looking for further growth in the next fiscal year and beyond.

Infrastructure business unit has maintained a high level of profitability for two consecutive years. Living related & real estate business unit also increased profit by 10.0 billion yen this year. Is this possible to continue, or is there something else what compensates for it? Could you please tell me the color of each business unit, the factors that you expect to increase earnings, or the factors that you should be concerned about or that will eliminate earnings?

**Hyodo:** Firstly, looking at the trend of the last fiscal year, we can see that the actual number in the profit of OCTG (Oil country tubular goods) business does not increase, but rather falls from the first half to the second half of the year, or is flying horizontally.

The panic buying after the tariff was introduced occurred in the first half of the year. And the unit price of these products remained high. In the latter half of the year, prices have stabilized and entered a normal mode. On the other hand, oil prices are relatively stable, so I hope that this stable demand and unit price will continue in the current fiscal year. We now expect it to continue.

Nevertheless, negotiations between the United States and China are still taking place at this time. I don't think this will have a direct impact on North American oil production. Indirectly, changes in global economic trends will naturally have an impact. That is why we need to look closely at it.

In terms of SCGM (Sumitomo Corporation Global Metals), we are transferring business that Sumitomo Corporation has been working on to SCGM. We are working to expand the scope of our revenues through strategic approaches to the entire market. In both cases, the numbers are now looking slightly higher.

**Takahata:** As the President explained. We have been transferring the businesses in a step-by-step manner. Firstly, the Company transferred its domestic steel sheets and domestic operating companies. And in light of the fact that these companies have stabilized considerably and that the SCGM's professionals have also developed considerably, it will transfer its overseas operations. Perhaps in the 2019 fiscal year, this is the stage when almost all of the transfer is completed. As a result, the number is gradually increasing.

**Hyodo:** Regarding the second question. The forecast is 340.0 billion yen, but what are the growth prospects for the third year of the Medium-Term Management Plan?

There are no figures that can be announced externally today. If we carry on developing and replacing new businesses, which we are currently considering under the Medium-Term Management Plan with firmly maintaining ROA, the economic efficiency of our management indicators, then the figures of latter half of 300 billion yen range will rationally be achieved. With this in mind, we are currently working on new businesses and increasing the value of our existing businesses.

**Q6(Continued):** As the final year of the Mid-Term Management Plan, what you have been implementing under the Mid-Term Management Plan has emerged to some extent. In theory, can I understand that this resulted in the figure in the range of latter half of 300 billion yen?

**Takahata:** Yes. That's right.

**Q7:** I have only one question.

I think there was an initial question about dividends. It will be 90 yen for FY2019. If you earn 350.0 billion yen profit in FY2020 for example, the dividend payment will be 82 yen with the payout ratio 30%. I think the dividend will be reduced at first glance. Is this understanding right? Or, since the next fiscal year is the final year of the Mid-Term Management Plan, is there any other idea that it will be able to compensate for this? I hope you will answer this question to the extent you can talk about it.

**Hyodo:** Our dividend policy is unchanged from the previous plan. As you pointed out, we will maintain the dividend payout ratio and steadily increase the actual amount based on the results. We will continue this year and next.

Therefore, the commemorative dividend of 10 yen is an initiative for the 100th anniversary of this year. The next fiscal year is the 101st year, so there will not be a commemorative dividend. We decide on dividends based on the results of growth, and we will adhere to this policy.

**Q8:** I have two questions.

Please tell us something about Cove Point LNG Project's (exporting business of US-produced natural gas) current operating status and profit and loss, if you have any updates. This is the first point.

Second, I understand that goodwill of FYFFES was impaired by 2.0 billion yen in FY2018. For what business group was it impaired? Could you tell us the background to this as well? Thank you very much.

**Takahata:** Although it took time, production finally stabilized. In FY2018, we have steadily supplied 2.03 million tons and are now on track. This means that we will be on a stable track in the future.

The actual amount of profits from Cove Point itself cannot be disclosed due to relationships with business partners, but Cove Point is included in figures of PACIFIC SUMMIT ENERGY(PSE). In FY2018, due to robust performance of gas trading business, the total profit was 5.3 billion yen.

The decline in PSE's profit in FY2019 is because of the assumption that gas trading business will be a cruising speed.

As for FYFFES, it was mushroom business among three business groups, which is mainly produced in Canada. There have been problems in manufacturing facilities and impact from unseasonable weather. As a result of an impairment test on the assumption that it will take some time to recover, we posted an impairment loss of approximately 2.0 billion yen in mushrooms business.



**Q9:** I think the leasing business for the use of this platform's business in the briefing materials is very profitable for each side and interesting. I believe it is important that the top executives make such an effort. Do you intend to do a variety of other developments like this? I would like to ask you about it.

**Hyodo:** As you pointed out, it is an extremely important point for the top management to talk firmly with each other, and how to develop the company's management philosophy and businesses together over the long term.

KINTO is a new challenge that we are working with Toyota along with auto leasing company, which is a affiliated company of SMFL. In this regard, our automobile sales force has been discussing with Toyota how we will contribute to the next mobility society through long-term initiatives. I would like to do a lot of such initiatives as this.

In other words, in order to realize our philosophy of contributing to society through the business development, we, general trading company, will jointly create a new platform in the future. At the same time, we believe that it is extremely important to have many players and stakeholders participate in our current businesses and develop them into more prosperous businesses.

**Q2(Additional):** Through what process was a commemorative dividend decided? I feel actually it does not have to be 10 yen, or you could pay a little more cash. Please tell us what kind of background has led to a commemorative dividend of 10 yen.

**Hyodo:** Based on the process of organizational decision making. In the case of Sumitomo Corporation, the Medium-Term Management Plan Promotion Support Committee is the advisory body led by Yamano and Takahata. After thorough discussion of what measures we should take for the 100th anniversary, including how to use cash as a whole, the Management Council deliberates on it, and the Board of Directors makes decisions based on this process.

We have discussed that 10 yen is reasonably appropriate. There is no further reason. Am I making sense?

I think steady growth will lead to the next dividend therefore I could not judge to pay a higher dividend reasonable or not. We decided the amount after considering these issues.

[END]