

## Question & Answer at IR Meeting on Financial Results for FY2019

[Date]	May 11, 2020	
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### List of Questions (Detailed Question & Answer follows)

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<Q1>

- What specifically does the wording of “drastic structural reform” indicate in the page 4 of the presentation material?  
I would like to ask for a concrete explanation of the roadmap over the next year or what kind of return can be expected as a result of the structural reform, etc.
- The ordinary dividend, which was set at JPY70 this time, is the same as the previous year, however, it is true that the level of the dividend payout ratio is far above the 30% of your Company's current dividend policy. In deciding the current JPY70, were there discussions about the lower limit on dividends? What sort of discussion did you have on decision to make it JPY70 this time?
- The results of “increasing value of existing businesses” have not been delivered up to the present time. Is it planned to complete during the period of this Medium-Term Management Plan, on calculating the restructuring charges?

<Q2>

- As for Metal Products and Transportation & Construction Systems, the profit excluding one-off profits or losses for Q4 are low level. Should we have an image that the new fiscal year will turn out to be in the red, or should there be some particular reason for the decrease in margins in the Q4, so apparently this profit part seems to be smaller than it really is? Please tell us about profit excluding one-off profits or losses of Metal Products and Transportation & Construction Systems for Q4.

- Regarding aircraft leasing business, I think that probably the credit risk has increased, or that lease payments will be postponed for a little. What is the current situation? Also, if you have any figures, please tell us the book value of your Company's investment.

<Q3>

- In two years from the beginning of the Medium-Term Management Plan, you are investing in the form of growth investment for DX or strategic positioning. Are they likely to have flowered to some extent in the next year and a half? Conversely, since some investments have been made when the enterprise value was slightly higher, is it better to look at them with some sense of concern as an impairment reserve?
- Among the companies which have small impact, or which you said are relatively solid, there are companies that are not making as much profit as you would expect in Q4, such as SCSK and Jupiter Shop Channel. On the other hand, FYFFES seems to be showing strong Q4 profit, compared to previous years. What affected the Q4 profit levels in such companies, and what is the outlook for the new fiscal year?

<Q4>

- How much is the residual value of the book value left by impairment booked in Q4 in the Tubular Products business in North America? In addition, Could you tell us what you think about the assumptions for mineral resource prices in this Q4?
- As for COVID-19, it is gradually easing the curfew. For Metal Products—in particular, the steel sheet and Transportation & Construction Systems, please tell us if there is any case that this movement is starting to be positive on the business.

<Q5>

- Could you tell us how Ambatovy and San Cristobal will resume operation, including the government's policy in the future?
- Why do you repeat investments and impairments in areas where you do not have strengths, oil and gas sector? Based on this, what is your direction for the future of the oil and gas business?

<Q6>

- As a part of structural reform for Metal Products business, and what is your direction for tubular product business in terms of the capital allocation going forward?
- As for cash flow, from what point of view, what items will be accelerated? I hope you can also explain about this area.

<Q7>

- Regarding to Infrastructure, Media & Digital, and Living Related & Real Estate in which the impact of COVID-19 are relatively small, what are your thoughts on the level of profitability that can be a stable source of revenues despite being influenced by the impact of COVID-19 to some extent?
- What is the impact of COVID-19 on real estate? What do you think of this?

## Question & Answer

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<Q1>

**Questioner:** I would like to ask you two questions.

The first question is, on the fourth page of the document, the wording of “drastic structural reform” on the lower right. What specifically do you indicate? For example, the current fiscal year is the final year of the Medium-Term Management Plan, and I would like to ask for a concrete explanation of the roadmap over the next year.

The second point is the dividend. I think the ordinary dividend, which was set at JPY70 this time, is the same as the previous year. However, for example, last year, and this year as well, it is true that the level of the dividend payout ratio is far above the 30% of your Company's current dividend policy, so I think it will probably be discussed again in terms of the dividend policy for the new Medium-Term Management Plan from the next fiscal year.

In deciding the current JPY70, I think you looked at the dividend policy for the next fiscal year. As was the case with other companies, were there discussions about the lower limit on dividends? What sort of discussion did you have on this occasion to make it JPY70 this time?

**Hyodo:** First of all, the words "drastic structural reform" may be strident rhetoric, but honestly, I have a very strong sense of challenge, as the President of the company, that we have been working on to increase the value of existing businesses and that we have not produced solid results. If it is not possible to achieve the results as an extension of the present, it is necessary to carry out sound measures including capital policy. We intend to include such initiatives.

As I mentioned earlier, in the Tubular Products business model, we have a comparatively higher amount of inventory, and we take advantage of the inventory to build a system that can respond quickly to the needs of customers in the oil sector. By selling more tubular products through JIT process, the Company has been able to provide value and increase revenues. Perhaps, however, this business model will not work in the future if we remain unchanged. Specifically, we implemented investment in Sekal AS, with the idea of providing value by more efficient drilling and increasing revenues from the service.

Another initiative to shift this idea, to change by 180 degrees, is to implement DX. In other words, we will further advance our efforts to provide the value by improving the efficiency of oil rigs and exploration developed by Sekal AS.

We would like to do everything we can across a broad range of investments and business portfolios. However, in the time like this, we have to strengthen our organizational management base, as well, so we will be reforming corporate governance which is the area for CAO, who is not joining today. Another important theme is to reform the management of the organization, in terms of global operations, which we are now working on, and invigorating the Board.

While firmly promoting points to be improved from this governance perspective, I would like to work hard to invigorate the Board of Directors so that, as you pointed out in the second question, constructive dialogue can take place, for example, through discussions on market and shareholder expectations, while receiving the strict opinions of outside directors who are representatives of shareholders at the Board of Directors. As the President, I am determined to implement structural reforms that include such issues. Second, as you pointed out, this fiscal year is the final year of the three-year Mid-Term Management Plan, but it would have been the year in which we will produce results for the three years. I am well aware that the business environment we envisioned two years ago and the scenarios we are pursuing to implement our growth strategies have been changing. The fundamental reversal has been occurring in the environment.

Therefore, the way in which we pursue our growth strategy must be transformed. I have explained the intention of ensuring cash liquidity and financial soundness, and of continuing our business and focusing on overcoming this COVID-19. The way of thinking about the dividend in such management is, all in all, the long-term stable allocation, which we are committed to, and the board has rigorously discussed how to consider, and, of course, we had repeated discussions with the executing unit. Accordingly, we are proposing the dividend this time.

**Shiomi:** This year, we have announced a dividend policy that targets a dividend payout ratio of 30% under the current Medium-Term Management Plan. As we have already explained, we believe that the business environment is an emergency, looking at our current performance. We are based on the recognition that we must operate this Company under the so-called crisis mode.

With such a recognition, in line with our long-term stable dividend policy, which we have maintained for many years, we have decided to pay a dividend of JPY70 per share, which is the same level as the previous year. This means that the judgement is away from the dividend payment ratio of 30%.

Furthermore, you also asked about the discussion on the lower limit, but we are in a situation where we are unable to come up with a clear indicator of how long such a crisis response will continue. Therefore, we are not able to disclose our earnings forecasts for the current fiscal year. However, in this situation, keeping firmly in mind how long this crisis will continue or if there will not be any further emergency, we have decided in our management that we are not going to include the lower limit, in order to secure flexibility in the management.

**Hyodo:** As Mr. Shiomi has said, we do not use the word lower limit on dividend to promise lower bounds. However, positively saying, JPY70 is currently presented, and as I have explained, unless there is a situation that could undermine the financial soundness, we would like to pay this dividend based on the concept of a commitment to long-term stability. For clarity, we do not mean to say that we are going to lower it because there is no lower limit.

**Questioner:** I understand well. Following up the first point, the term "structural reform" does not balance out about what the President has just mentioned—that is, the results of value enhancement have not been delivered up to the present time. I think we may find it difficult to trust. During the restructuring over one more year, there will be some pains, and although forecast have not yet been disclosed, is it planned to complete during the period of this Medium-Term Management Plan, on calculating the restructuring charges, as well, not only the impact of COVID-19? How can we view this approach?

**Hyodo:** Thank you. I think that it is important to do what we should do now in order to create the future, in order to achieve sustainable growth. We are not ready to disclose the forecast, so it is not good to talk about such explanations, but because of my personality, we do not have the idea of not doing what needs to be done in order to protect the current figures—for example, making further downward revisions to our business performance. We would like to carry out what needs to be done now. As you have pointed out, we have to deliver results. Not only saying a word, we will also produce results, leading to the next one.

<Q2>

**Questioner:** I have two questions.

First, there was a talk about JPY53 billion for profit excluding one-off profits or losses for Q4 today. In particular, Q4 alone records JPY2 billion for profit excluding one-off profits or losses in Metal Products and JPY4 billion in Transportation & Construction Systems, so this is low level. If anything, demand will decline further from April onward, and it will come from this point, so should we have an image that the new fiscal year will turn out to be in the red, or should there be some particular decrease in margins in the Q4, so apparently this profit part seems to be smaller than it really is? Please tell us about profit excluding one-off profits or losses of Metal Products and Transportation & Construction Systems for Q4. Can we see it as a measure of performance?

Secondly, there is an increase in the number of people who are concerned about aircraft leasing in the leasing market. I think that probably the risk of credit has risen, or that lease payments will be postponed for a little. What is the current situation? Also, if you have any figures, please tell us the book value of your Company's investment. How much risk are you taking on air leasing?

**Shiomi:** First of all, profit excluding one-off profits or losses was JPY53 billion for Q4, and we expect this trend to continue in FY2020. A reasonable outlook cannot be made, but we believe that the two segments, both the Metal Products and Transportation & Construction Systems, will also be affected by the current business conditions.

Therefore, although we believe that these divisions could be in the red, other segments have solid performance, such as Infrastructure, Media & Digital, and Living Related & Real Estate. Partly due to the support of these segments, we do not expect to record a loss for the Company as a whole in FY2020. However, there is a possibility of a slight downward pressure on Metal Products and Transportation & Construction Systems.

For the second question, regarding trends in aircraft leases, as you mentioned, the number of passengers is declining in the aircraft industry, and this is also inevitable due to the impact of COVID-19, we are aware that many of these industries face considerable difficulties in terms of performance.

On the other hand, for SMBC AC invested by our Company indirectly, we have certainly received a request for the deferral of lease fees, etc. However, we are currently considering in this Company, including the specific measures to be taken for this.

**Questioner:** Because it is an equity-method affiliate, it is conducted through SMFL, so any losses will not be taken in excess of the investment amount, so would you be able to disclose anything like SMFL's investment book value?

**Shiomi:** We are very sorry that we have not disclosed this information.

<Q3>

**Questioner:** I have two questions.

First, in two years from the beginning of the Medium-Term Management Plan, you are investing about JPY90 billion in the form of growth investment for DX or strategic positioning. Are they likely to have flowered to some extent in the next fiscal year, or the next year and a half, through this structural reform? Conversely, since some investments have been made when the price of goods is slightly higher, is it better to look at them with some sense of concern as an impairment reserve? I would like you to explain about the current situation.

Second, you just explained your profit in the Q4 in terms of Metal Products and Transportation & Construction Systems. Conversely, among the companies which have small impact, or which you said are relatively solid, there are companies that are not making as much profit as you would expect in Q4, such as SCSK. On the other hand, FYFFES seems to be showing strong Q4 profit, compared to previous years. What affected the Q4 profit levels in such companies and Shop Channel, and what should we expect or worry about after the new fiscal year?

**Hyodo:** As a focus of the Medium-Term Management Plan, we are currently investing JPY90 billion in DX and three priority areas, including social infrastructure and healthcare. However, at the end of two years, we have not yet invested up to the half, JPY150 billion.

In addition to studying investment destinations after carefully screening and examining them, there are some cases in which we decided to invest in some infrastructure projects, but it takes a long time until funds are actually invested—that is, the timeline is long. In this sense, since in some cases funds are to be steadily accumulated in the future, I am not recognizing that this includes investments in the form of buying at a higher price and entering into impairment, which is a matter of concern.

For example, in the Parking Lot business in Northern Europe, we have begun to provide high-value-added services that involve DX in the management of parking lots, which are at the core of each city in Northern Europe. Urban activities have been stagnant due to the impact of this COVID-19, and in the short term, there is a downward pressure on business performance. However, if economic activity returns, it is expected that urban activities will gradually return to a growth trajectory, so I think it is of no matter. In urban development in northern Hanoi, concrete investment in this area will begin in the future, and the fact that these businesses will firmly capture the economic growth of the region will contribute to business performance in the future.

**Sugai:** First of all, for SCSK, it is pointed out that the Q4 is not making a lot of profits, and this is as you say. That's because this is very technical, but SCSK will be moving to IFRS from this April, and we have already made adjustments in IFRS so that the parent company accountably has partially revised the revisions in the fiscal year ended March. The performance of SCSK itself has risen a little more. It seems to be explained in their consolidated results announcement, but please understand it as a modification when the parent company's consolidated results are incorporated.

Then, FYFFES, its fiscal year ends in December, and the winter melon has very robust performance until December. Also, for bananas, there is a slight increase compared to what we had initially seen in the budget. In addition, there were some one-time gains. For these three factors, Q4 is showing a strong performance.

I think you have another question about the Shop Channel. Looking at it as a whole, the depreciation costs have increased. As it is preparing for 4K broadcasting and new system introduction, the amount is slightly increasing, but sales are still growing gradually. Q4 looks lower than Q3, but actually, Q3 has an anniversary in November, and we are doing an increasingly large markets campaign every year and the year-end sales campaign including New Year food sales. We understand that the so-called ordinary quarterly trend of Shop Channel is such that Q3 is the most outstanding and Q4 is not falling.

<Q4>

**Questioner:** Two points, please.

First, tell us more about the idea behind impairment booked in Q4. The Impairment losses of JPY60 billion were recorded in the Tubular Products business in North America this time. How much is the residual value of the book value left by this? I personally believe that the Tubular Products business in North America will become more difficult in the future, but what is your thinking, and how much residual value will remain when the impairment is made? In addition, there is a little impairment in resources, such as shale gas, but it seems that there is not much impairment elsewhere. Could you tell us what you think about the assumptions for resource prices in this Q4? This is the first point.

The second point is for metal products—in particular, the steel sheet. Additionally, Transportation & Construction Systems. In the explanation given so far, you have explained that the situation is difficult because it is very susceptible to the current COVID-19. It is gradually easing the curfew. Please tell us if there is any case that this movement is starting to be positive on the business.

**Hyodo:** It is dynamic in China, after all, and there is a situation in which the demand for automobiles, the so-called steel sheets for automotive manufacturing, is beginning to show signs of recovery, and we are being forced to deal with it. However, with regard to Japan, the US, and Europe, I understand that the situation is likely to be severe for some time now.

**Sugai:** About impairment. First of all, as for tubular products, the so-called goodwill has almost disappeared, due to the impairment this time. We do not disclose the book value after the impairment, so we would like to be forgiven.

Then, about the price assumptions with regard to tubular products, it is influenced by crude oil prices. Some third parties are forecasting future prices, which were updated at a fairly late March. This figure reflects the result of the impairment test based on the future prices.

In terms of resources, you said impairment was only for shale gas, and I imagine that you are thinking of others, probably Ambatovy. For Ambatovy, the long-term price of nickel and others has not yet been lowered, including by third parties, so we reviewed the price and tested for impairment. Because this Company's financial closing is in December, therefore we conduct impairment tests based on our plan and future forecasts at that time and on the pricing assumptions. Then we have determined that there is no need for impairment since there is no significant deviation from the pricing assumption as of the end of March.

**Questioner:** You have just taught that some judgment has been made at the December stage, but at what month do you conduct other tests?

**Sugai:** We will naturally do this in December, as well, and of course, we test important projects in March. Therefore, we always conduct a certain level of quarterly checks on projects that have basically attracted your attention.



<Q5>

**Questioner:** Two questions.

First, what are the conditions for the resumption of operations at Ambatovy and San Cristobal? This has probably stopped even now, and I think your Company has made a decision to stop operation. Could you tell us how these will resume operation, including the government's policy in the future? This is the first point.

Second, I think tight oil has been impaired this time, so I am asking about this. After acquiring the asset in 2012, the asset was impaired about two years later, and then investing again in 2018 to take advantage of this experience. I think that this asset was again impaired, so why do you repeat investments and impairments in areas where you do not have strengths? Based on this, what is your policy for the future of the crude oil business? This is the second point.

**Hyodo:** First of all, the entry and exit of national aircraft are currently stopped at Madagascar, and people are not allowed to enter and exit the country. Therefore, from the perspective of securing personnel for the long term to support the stable operation of the mine and the local staff of several thousand people in total on the project site, and the status of social lockdown is guided by the government, so the situation is that the plant has been stopped, and the standstill is now in place as "Safety First."

Therefore, in order to resume operations, Madagascar's society itself needs to be unlocked and an environment is in place in which the human resources necessary for a system for stable plant operation can work effectively, and we need to determine the necessary conditions.

With regard to San Cristobal, since the government itself issued a ban on going out, we have to deal with it based on a lockdown policy now in a standstill position. We are now preparing for the resumption of operations, and we are ready to respond as soon as the government's policy comes out.

Secondly, I would like to emphasize the idea of firmly investing in and tilting toward stronger areas. I would like to talk about the oil and gas sector, I explained earlier today, but in detail, investments in oil and gas sector in the future will be based on considering things in 10 or 20 years, instead of one or two years as the time frame for returns. We will carefully select where to prioritize and invest in the future, and in particular, in this COVID-19 response modalities as I said, and we would like to develop our own portfolios that contribute to carbon neutrality. In this sense, I would like to say that investment in so-called upstream interests in oil and gas sector will not be prioritized.

<Q6>

**Questioner:** Let me ask two questions.

The first point is the structural reforms of the Tubular Products business. The issue of climate change has been discussed, and I think it was from a broader perspective and a longer perspective, rather than from a

long-term perspective in terms of structural changes in your businesses and reforms in your Tubular Products business.

As the direction you are trying to take for Metal Products business, and what is your direction for Tubular Products business in terms of the capital allocation going forward? Would it be argued that by doing so more intensively, as comprehensive energy with the infrastructure sector as a whole, and the proportion of products sales will ultimately decline? I would like you to explain where you are aiming.

The second point is cash flow. It was said that JPY200 billion and JPY87.5 billion for the dividend have been expected at the outflow for the current fiscal year. On the other hand, the inflow is likely to change. Could you please tell us if you have any hints on where to bring the balance of payments?

For example, will the Company aim to achieve a cumulative post-dividend cash flow of JPY200 billion over a three-year period and accelerate asset sales accordingly? Or will the post-dividend-cash-flow point of view move, and can the amount of money move, as well? From what point of view, what items will be accelerated? I hope you can also explain about this area. Thank you very much.

**Shiomi:** We understand that the cash outflow target of JPY200 billion you mentioned is JPY200 billion investment, which has been almost contracted in the current fiscal year. We understand that the dividend is JPY87.5 billion namely JPY70 per share. Regarding cash inflows, we will continue to promote investment recycling and, of course, secure basic profit cash flow. In this context, we will consider the balance of cash allocation in this fiscal year. We must make earnest efforts to secure cash inflows, the funds needed to invest in growth to a reasonable extent, or to make carefully selected investments here.

As for some extra portion of the cash outflow of JPY200 billion, repayment of interest-bearing liabilities may be lower than the target in the current Medium-Term Management Plan of JPY200 billion temporarily. However, the assumption is that funds are allocated to investments that have been carefully selected when making investments. Regarding interest-bearing liabilities, as I have explained, we intend to continue to reduce the size and pursue the stability of our financial base. However, we would like to reinvent our management approach if we are able to make appropriate investments at the expense of some degree.

**Hyodo:** As for the basic approach in the field of energy, which naturally involves tubular products, it has become only about the issue of COVID-19 recently, but climate change is an extremely important issue. We, the Sumitomo Corporation Group, will continue to tackle this issue head-on. I personally believe that this is an extremely important issue as a person who has been engaged in coal-fired power generation for the past 30 years. I would like to explain what I think about the major directions that the Company should take, as follows.

Today, the earth is only one, and the world's population is now more than seven billion people. Is it expected to decline in size? I believe that there will be no change in the trend toward achieving economic growth, continuing to increase the population, and enriching everyone's lives. In doing so, we will respond to society's need to supply more energy we need, and perhaps the way we fulfill our responsibilities on the supply side will have to be largely changed, and we must change accordingly.

In other words, the total amount of energy will be increased while reducing CO2. I believe that we must work to maintain a proper balance between supply and demand based on our own philosophy. If so, will we exit from Tubular Products business involving oil and gas? The answer is no. Since renewable energy is a highly dispersed and unstable energy resource, majority will shift to renewable energy if we are to create a stable energy supply system that mankind needs, but I think the importance, that is, the role of fossil fuel needed to adjust supply and demand and to form a stable grid, will not disappear.

We will develop business models that will contribute to more efficient drilling, as people will need stable gas and oil drilling in these situations, and will develop businesses that contribute to business performance while fulfilling the roles tubular products currently plays in different ways. We intend to continue our Tubular Products business based on this idea. As one of these events, the Company has been investing in Sekal AS and working on reforming our business model. We intend to steadily proceed with this matching technique.

It will take a bit longer, but the climate change issue cannot be resolved simply by switching its primary energy source from fossil to renewable energy, as discussed by the IEA and the Paris Agreement. In addition to this, energy users and demand-side management are extremely important. In this sense, we need to contribute through the development of cities and the development of towns that contribute to low energy consumption through technology. Therefore, we would like to advance our business from a variety of perspectives and engage in new businesses.

<Q7>

**Questioner:** I have two questions.

First, what are your thoughts on the level of stable revenues of Infrastructure, Media & Digital, and Living Related & Real Estate in which the impact of COVID-19 are relatively small, despite being influenced to some extent?

Then, what is the impact of COVID-19 on real estate? What do you think of this?

**Shiomi:** For the first point, certainly, as a source of stable revenues, we are thinking of securing operating cash flow this fiscal year, focusing on these three segments. On the other hand, if we look at the impact of COVID-19 on the infrastructure front lines, it is a construction stop. Regarding Living Related & Real Estate, we do not think that there will be no negative factors in retail sales, such as Summit, due to the extent to which COVID-19 restrictions on outings will have an impact, despite the increase in sales.

The assessment in this point will change in the process of various assumptions, so we would like to assess the current situation as to whether this will always be positive, flat, or slightly downward. Basically, we believe that the three business segments are less affected.

**Sugai:** A brief description of the current situation for each segment is provided on page five of the material. What is happening with real estate in the short term is as shown here. We also operate some

commercial facilities, so-called shopping malls, and some of them are closed, so we do not have sales in each of the tenants. Then, there is a case that the corresponding revenue is not rising.

Needless to say, we have already begun negotiations to reduce the rent a little from the tenants who are in the building. Therefore, in the short term, that side comes out. Moreover, what will happen in the medium- to long-term will be difficult to assess, at this point in time. For example, as to how the prices of residential condominiums will move, or we are also doing business with office buildings, et cetera, so what will happen to rent in this area? I think there is a chance that it will be slightly affected. At the present point in time, we are paying close attention to the impact of this.

**Hyodo:** Thank you very much for your participation today in your busy schedule. Today, we held a briefing in a way that we could not see you, and for the past month, the attendance rate of Sumitomo Corporation workers at its headquarters has averaged between 2% and 10%, with all other people working from home. The impact of this situation on our lifestyles is not small, and many things are said in the world. But I believe that society's demand for ESG, including the issue of climate change, remains unchanged. We would like to keep our operations ready so that we can produce firm results, while managing our operations along the trend toward the settlement of this COVID-19 situation. We would like to ask for your continued support. Thank you very much for today.

[END]