Question & Answer at IR Meeting on Financial Results for FY2020 Q1

[Date]	**August 7, 2020**	
[Presenters]	**Masayuki Hyodo**	**Representative Director, President and Chief Executive Officer**
	Hideki Yamano	**Representative Director, Senior Managing Executive Officer, Chief Strategy Officer and Chief Information Officer**
	Takayuki Seishima	**Representative Director, Managing Executive Officer, Chief Administration Officer and Chief Compliance Officer**
	Masaru Shiomi	**Representative Director, Managing Executive Officer, Chief Financial Officer**
	Hiroyuki Sugai	**Executive Officer, General Manager, Accounting Controlling Department**
	Masahiro Yamane	**General Manager, Investor Relations Department**

List of Questions (Detailed Question & Answer follows)

<Q1>

・What are you trying to change by restructuring? Looking ahead to the medium-term management plan that begins from the next fiscal year, please describe your current management philosophy, as well as your future image, along with your time frame.

・The dividend plan remains at JPY70. If the loss exceeds current estimation, do you think it will be unavoidable to revise the dividend plan? Also, is it factored in that credit rating may face a risk of downgrade?

<Q2>

・Regarding the FY2020 forecasts, assumption seems to be different from what other trading companies expect to recover. Could you tell us the background?

・As part of crisis response, you are working on cutting costs. But isn't it the measure which should have been taken already? Also, what is the timeframe for drastic crisis response to be taken on concerned business like TBC, Fyffes, and Ambatovy?

<Q3>

・What is your analysis on the deviation from the mid-term management plan when it was announced? And how that will be utilized in the crisis response that you are currently working on?

・Does the fact that the Metal Products Segment worsened in the second quarter and beyond than in the first quarter suggest that the impact of COVID-19 will worsen from the second quarter onward? Or is it due to some special factors?

<Q4>

・Please tell us your thoughts on rebuilding the Company-wide portfolio.

・Please tell us what your Company's exposure will be like by the Plan of Arrangement announced by Sherritt, especially the loan you lend to Sherritt.

・It seems a bit disadvantageous to exchange the 6.5% share held by Sherritt with the loan that you lend to Sherritt. What is your thoughts?

<Q5>

・What is the current situation with the aircraft leasing business?

<Q6>

・Please tell us the direction of Tubular Products business. And What is the current situation on technology related and medical-related business that have been the fields of focus.

Question & Answer

<Q1>

Questioner: As to the one-off loss of JPY250 billion, which is a huge amount. I will never forget the announcement on September 29, 2014. The loss of JPY240 billion announced then is unexpectedly as large as this time. The impairment and one-off loss this time seems to have been triggered just by the COVID-19 and, if I dare to speak in a harsh way, the true cause of this is that the Company has essentially kept failing to enhance its value.

While the President has just given us an explanation in short-term, medium-term, and long-term perspectives, what image should we have after the restructuring has been implemented, considering the loss is the second time? What are you trying to change by this? The perspective could be from a business portfolio or risk management, but looking ahead to the medium-term management plan that begins from the next fiscal year, please describe your current management philosophy, as well as your future image, along with your time frame.

Hyodo: In September 2014, I was the General Manager of Corporate Planning & Coordination Dept. at that time, and I remember it well. We caused a great deal of anxiety at the time about the large-scale impairment that you pointed out. This time, again, as an impairment losses and others of JPY250 billion, I would like to take this very seriously as President.

In terms of the value enhancement you just mentioned, I believe that this is attributable to the fact that the Company was not able to fully increase its enterprise value as Sumitomo Corporation. In general, your comment is to the point. This COVID-19 issue has emerged while we are in the middle of working on the initiative under the mid-term management plan to make our promise to the market that we would first increase the value of our current businesses. This has brought us into the situation that we have to expect such a large amount of impairment/loss, or expenses to promote restructuring. We are very sorry for the inconvenience caused to our shareholders.

Even though both situations are much alike as a whole, there are some differences between the current loss expected and the previous situation in 2014. What we need to do now is to work on the considered projects, of which the market is well aware. This includes TBC, Fyffes, and the Nickel Mining and Refining Business in Madagascar. I believe it is extremely important for us to resolve issues and concerns that burden us, raise the overall value of our business, so that we can address them in a positive manner. I intend to do this with the determination to accomplish this.

Let me talk about my self-evaluation as I have been working as President for two years.

First of all, three Segments in particular, the Metal Products; Transportation & Construction Systems; and Mineral Resources, Energy, Chemical & Electronics in the Sumitomo Corporation's current portfolio, operate globally, spanning a wide range of industries in the so-called primary industry, secondary industry, minerals and materials, as well as various industries in the value chain surrounding the manufacturing business. From the quarterly results trends in business results since the global economy entered the downward trend last fiscal year, we believe that these Segments in principle have a correlation with the economy.

These three Segments are highly susceptible to the suspension of global economic activities due to the impact of the COVID-19 pandemic. Meanwhile, the remaining three Segments, the Infrastructure centering electric power, Living Related & Real Estate, and Media & Digital, for which we have been working on diversifying their business portfolios for around 30 years, are relatively resilient to economic fluctuations or to COVID-19.

In building this portfolio mix as a whole, the fields that we must reinforce are the media-digital or technology-related peripheral business and social infrastructures as well as health care–related business we are working on under the current medium-term management plan, which is not economically sensitive, but a fundamental part of the infrastructure of life in society. By further promoting these initiatives, we intend to further strengthen the three Segments that firmly underpin our current business performance rather than the abovementioned three Segments and strengthen profitability from our portfolio as a whole, as well as our resilience to economic fluctuations.

Questioner: The dividend plan remained at JPY70 in the expectation of well-maintained balance between Risk-weighted Assets and Core Risk Buffer. The excess of the buffer at the end of March this year was JPY240 billion, and the accumulation of retained earnings for the current fiscal year will be slightly positive after the payment of dividends. It seems that this will barely offset a loss of JPY250 billion at the end of the current fiscal year.

If the impact of the loss exceeds the expectation of the current situation, the balance will not be able to be maintained. In that case, do you think that revise of dividend will be unavoidable? And credit rating may face a risk of downgrade. Is the current dividend of JPY70 factoring in the situation?

Hyodo: In the event of a situation that threatens our financial soundness and undermines our foundation, we would revise our dividend policy as we announced on May 8 of the previous fiscal year, and this policy remains unchanged today. On the other hand, we would like to firmly maintain stable long-term dividends with the thorough commitment to cash flow management. We have not changed this approach.

Accordingly, we have a comprehensive decision to maintain this dividend as an important matter that is exactly the same as our growth investment or the repayment of interest-bearing debt.

As to the question of what action will the Company take in case Risk-weighted Assets exceed Core Risk Buffer, if there is no problem with securing our financial soundness in the future, it is highly probable that we will pay dividends in line with the policy that I have just explained.

On the other hand, with regard to whether or not to provide a lower limit, I believe that it is not appropriate to present the current lower limit of dividends in order to ensure the flexibility of management and actively promote growth strategy. Regarding the dividend policy, we would like to maintain the current policy.

<Q2>

Qestioner: You explained that JPY100 billion without one-off losses would be the best of the full-year results for this fiscal year. Many of your competitors seem to have forecast their performance in the expectation of improvement after the bottoming-out in the first quarter. Your company is looking at JPY26 billion for the first quarter, and JPY100 billion for the full year, and this appears to be based on the assumption that the Metal Products and Transportation & Construction Systems will be sluggish for the first quarter, and, in particular, Metal Products will get even worse.

It makes your Company look like you will not be able to improve in the next term as well. Some of the assumptions state that steel products will recover. What are you factoring in? Especially, Metal Products and Transportation & Construction Systems seem to have difficult time, and this is a little different from what other trading companies expect to recover. Could you tell us what you are envisioning?

Hyodo: I think each company has its own philosophy. Our approach is unique when we look at the overall portfolio of Sumitomo Corporation's businesses. For example, our business in Indonesia includes many very important businesses. For example, the COVID-19 pandemic has been affecting the Indonesian sites for the power generation business, which Infrastructure Segment engages in. Nevertheless, they have continued business operation, biting the bullet. If the situation becomes even more severe, the impact on our business results will be different from that of other companies.

Regarding the OTO/SOF business, the Indonesian government lockdown order has not been lifted at present. Originally, it was supposed to be lifted at the end of July, but they are thinking about postponing it until the middle or the latter half of August this year. I would like to ask for your understanding of such situations.

Looking at the Domestic Business in Japan, amid these circumstances, SCSK, J:COM, and Summit stores in the metropolitan region are actively operating its business.

Regarding the Metal Products Segment that you have pointed out, we should assume a certain level of risk when considering the entire portfolio of our metal products business, as to why it will worsen even though we should expect it to show a continuous growth. To smooth out ups and downs, we assume that the current harsh conditions will continue, at least for the full year. We believe that the idea that this is the pillar of management will lead us to succeed in sound management.

As you pointed out, it may sound a bit too conservative, but I hope you understand that we are assuming such a situation.

Questioner: Concerning crisis response and crisis consciousness, I hate to say this, but competitors in the same industry are working on cutting costs due partly to lockdown. Your Company's gross profit decreased by 24%, and selling, general and administrative expenses increased, possibly from some special factors. You talked about short-, medium-, and long-term crisis response for the future, but the thing is what you do. Thorough cost-cutting measure should be taken now.

In addition, you will be able to drastically eliminate loss if you suspend the businesses of TBC, Fyffes, and Ambatovy, which were discussed earlier. However, it is difficult because there are various obstacles. What is the timeframe for drastic crisis response? Did you ever have a discussion including the possibility of withdrawal of Ambatovy?

Sugai: It is true that gross profit has declined while selling, general and administrative expenses have increased. A number of companies are newly included into the consolidated results, and this has led to an increase in SG&A expenses. Of course, it is also contributing to the gross margin increase, but gross margin is unfortunately declining in North American Tubular Products and other businesses. SG&A expenses have improved by about JPY7 billion under the same conditions to compare them equitably. We believe that we are making steady progress in reducing expenses.

To respond to crises, we are proceeding across the entire Company with Full Potential Plan(FPP). We may not have announced this language publicly, but we are working on projects called "All Greens." In short, the entire company is working to bring the red lamps to the green. Through this initiative, we will make a decision by the end of the fiscal year if we should withdraw or not on projects and are in the middle of doing that.

Shiomi: Let me supplement an explanation of crisis response including timeframe. We are currently switching to the crisis mode, and we have suspended the announcement of forecasts for FY2020 at the time of consolidated results announcement for the previous fiscal year. Under the crisis mode, we will focus on strengthening cash management and thereby maintain or improve financial soundness in a challenging business environment with severe costs amid the lack of P&L targets.

Therefore, while firmly solidifying the current financial soundness, when the business climate returns to its original state or returns to a new state through post–COVID-19, Sumitomo Corporation will certainly catch up on a growth path and capture growth as quickly as possible.

Therefore, we will return to the growth path by implementing cash management, including thorough accomplishment of the present FPPs, and then undertaking new initiatives to invest in growth.

<Q3>
Questioner: When the medium-term management plan was announced, you did not disclose any specific figures, despite the fact that profits increase could be expected in line with investment. The net profit of the latter half of the JPY300 billion range seemed achievable in terms of investment scale. However, the current figure of JPY100 billion is a net profit plan that excludes one-off profits and losses.

What is causing the difference from the plan? Is it the case a certain Segment profit is almost in line with what we were seeing two years ago, but another Segment profit is significantly different? Is this due to the impact of COVID-19 or market conditions, or was synergy not produced as expected?

Have you analyzed the causes of the deviation from the mid-term management plan or plans for investments before that? Could you tell us how that will be utilized in the crisis response that you are currently working on?

Hyodo: In fact, when we laid out the Medium-Term Management Plan 2020 two years ago, although we did not certainly disclose any concrete figures, we were aiming JPY300 billion to the latter half of JPY300 billion. In FY2018, we achieved about JPY320 billion. Looking back, amid the global economic cycle trending downward from the second half of FY2018, revenue for Metal Products, Transportation & Construction Systems, and Mineral Resources and Energy sectors have been continuously declining, where we have distinctive features of our portfolio which was expanded along with the industrial value chain.

This is a little out of topic, but when we achieved JPY320 billion, we have not explained how much the concern faced by Sumitomo Corporation was burdening us. But, in my sense, if the issue were properly addressed, a couple units of JPY10 billion in profit would have been added. In other words, it is important for us to properly address it in the current medium-term management plan. However, in the midst of just doing so, these conditions occurred due to further downside of the current economic cycle and the COVID-19 pandemic.

It doesn't make any sense to excuse it at all, so I don't mean to excuse it at all. As I explained earlier, when we intend to make ourselves a company that can grow in the future, we will work to strengthen our businesses by further expanding our portfolios putting an emphasis on our strengths—Media & Digital, Living Related & Real Estate, and Infrastructure Segments—which are insusceptible to economic fluctuations, while striving to firmly increase profits rather than expanding the impact of the business cycle even further.

In addition, with regard to the concerned businesses, we intend to manage the business based on such a philosophy that we can further strengthen our forward-looking initiatives by appropriately reallocating saved management resources from business withdrawal.

Questioner: I would like to ask about the Metal Products and the Transportation & Construction Systems Segments. Compared with the profit in the first quarter, profit for the second quarter onward seems reasonable for the Transportation & Construction Systems Segment, as it is estimated to be black for the second quarter onward. On the other hand, does the fact that the Metal Products Segment worsened in the second quarter and beyond than in the first quarter suggest that the impact of COVID-19 will worsen rather than stay flat from the second quarter onward? Are you already expected to see negative figures in the second and third quarters due to some special factors?

Sugai: As we have explained in the forecasts excluding one-off profits and losses in page seven, it is stated in Tubular Products business, under the Metal Products Segment that a difficult business environment will continue due to sluggish demand, particularly in North America.

At present, the rig count is at a historic bottom of around 250. At the outset, we assume the rig count is based on the outlook for crude oil prices. With regard to crude oil prices, crude oil prices have mostly moved to our expectations or slightly higher levels, but these rigs are below that. This figure has been declining since April, but we now see that the second and third quarters may be lower than the first quarter, so this part is reflected in the Metal Products Segment.

Therefore, as the crude oil price is now above USD40, not too different from our view, we hope that the rig count will increase based on the oil price. But we make an assumption for the outlook for tubular products business that the rig count will not grow much in the latter half of the year, though our assumption may be conservative.

<Q4>

Questioner: What is your thoughts on rebuilding the Company-wide portfolio with a sense of urgency? On page eight of the presentation materials, which is explaining cash-flow plan and collection by asset replacements, assets of JPY220 billion will be recovered by replacement in the current fiscal year. Perhaps if you're going to turn to more stable portfolios shifting from Metal Products, Transportation and Construction Systems, and Mineral Resources, Energy, Chemical & Electronics Segments by replacing your assets over JPY220 billion or so during the year, it's hard for me to imagine the portfolio after the reallocation is done in terms of size of scale. Please tell us your thoughts about the changes that you are making, including the new medium-term management plan that begins in the next fiscal year. Are you replacing the greater amount of assets?

Hyodo: In addition to Cash from the asset replacement, there are cash from actual Basic Profit, and cash equivalent to depreciation amount to JPY200 billion plus α per year. Until now, there has been an internal approach to the management of divisional cash flow discipline, but we have decided to adopt the idea of allocating a substantial portion of the entire Company's cash flow to the shift of portfolios.

Therefore, the answer to this question is yes, and we have already begun the idea that, not to build a strategy in a fairly similar fashion, but to change to the portfolio that we are willing to make, and to allocate the funds to achieve this.

Questioner: Does that mean that so far the assets sold in the Segment were basically allocated within the same Segments, but they will be gathered as one pool and allocated to the entire company?

Hyodo: You are right.

Questioner: In that case, the size of this JPY220 billion or so in this fiscal year is equivalent to about JPY200 billion of cash flow after dividends in three years. Do you think that the Company would not be changing without much larger asset replacement?

Hyodo: The cash recovery from the asset replacement and others is about JPY220 billion per year. In addition, if we put the amount of Basic Profit cash flow and depreciation, the figures will be about JPY1 trillion in three year. We intend to use the entire amount of Basic Profit cash flow and depreciation, and cash recovered from asset replacements for allocation based on the intention of the whole Company in the future, so the amount of resource is not only JPY220 billion per year by asset replacement. We are thinking of doing something a little bigger.

Questioner: I would like to ask you about the Ambatovy that was recently announced by the Sherritt. It seems that the problem of Ambatovy, which is happening now, can be divided roughly into three categories. The first is the operational suspension due to COVID-19 now. The second is that the capacity utilization has not ramped up enough for some time. The third is that the operator Sherritt is financially difficult.

There have been recent developments in this financial problem. I would like to ask what your Company's exposure will be like by this Plan of Arrangement, especially the loan you lend to Sherritt?

Sugai: Our exposure will remain the same, as we will exchange the share held by Sherritt with the loan that we lend to the Sherritt by this Plan of Arrangement.

Our share of equity will increase, and we will firmly align our phase with our partner, KORES, for future operation.

Although Sherritt has been the operator, our team at the site are capable of managing the daily operations, and hence there will be no impact to this even with Sherritt's departure.

Questioner: I am not sure of the balance of the loan, but I guess it is around tens of JPY10 billion, but this time, the 6.5% share held by Sherrit will be exchanged on the assumption that this project will generate a certain amount of value. To be honest, it seems a bit disadvantageous to exchange it at that price, considering that your company has posted impairment losses couple of times. What do you think about it and why do you have to take it this time? How do you think of it?

Sugai: At this point in time, of course we have made an assessment on Ambatovy's value, as we are conducting an impairment test. We have made the decision that this exchange is more advantageous, so we are doing this. If this is the other way around, of course, it will not be possible to take this.

<Q5>

Questioner: About the aircraft leasing business. This time, it seems that you have not recorded any significant impairment losses, but other companies have experienced significant airframe impairment losses. What is the current situation with this leasing business? In particular, you have some exposure to LATAM, and Chapter 11 has been applied to it. Please tell us about this point.

Sugai: As you have pointed out, at least in the first quarter, there are no significant impairments of this kind or write down on the aircraft. What's happening is that most airlines ask to defer their debts or ask to do a grace. Many of these cases have emerged.

Therefore, what we have to do in the near term is to record an accounting allowance for the rescheduling of this liability. This is a credit cost, so I think that it is negative that we must closely monitor this. Therefore, although the first quarter is not yet showing significance, I think that we must be prepared for the second quarter and onwards to a certain extent.

On the other hand, As to the airframe impairment, I think we have a solid portfolio, and if they are unable to make such payments, we will collect the airframes and lend or sell them to another company. Many of them should be qualified to deal with. Therefore, there is no significant impairment at this point in time.

In addition, I believe there is a lot of view that the airline industry will not recover and be falling for a two to three years or so, but return to its original level after four to five years. We believe that we will be conducting impairment tests on this basis, so credit cost, rather than impairment costs, is currently a matter of concern.

Questioner: Is it right to understand that this airframe impairment is not included in your company's forecast of JPY250 billion one-off losses for the full year?

Sugai: I'm sorry, please allow us to refrain from commenting on this matter.

<Q6>

Questioner: As to the tubular products business. It seems that this is a very strict time now only with few rig counts. I think this is an extremely characteristic business for your company and a traditionally strong business. Could you tell us the direction of how you will be doing this business from now on?

Second, I think the President has talked about technology or medical-related business in terms of the fields of focus, but what is the current situation in concrete terms? Please tell me which company is doing what because I am not able to recognize it.

Hyodo: First of all, regarding the direction of tubular products business, based on the major tides of sustainability management or the spread of ESG values, it is an old fashioned idea that Tubular Products' needs in the oil and gas sector are in the same trend as before, and we will be able to generate profits by holding so-called large inventories and using them as advantages to deliver them to customers. Of course, we will maintain a certain level of inventories, but rather, we will do so by combining high-value-added services responding to the requests for small quantities and a wide variety. Of course, if the market booms, it will be incorporated into profits as an upside, but it is our intention to think about a certain level of stable operation as the basis.

In the past, we had tubular products portfolios with large inventories, but we do not expect to have such volumes. We will focus our efforts on a fairly well-managed level. Instead, shifting management resources to high-value-added businesses, rather than to existing business models with such large inventories, we have actually acquired Norwegian Sekal, a business company that we acquired last year. We have actually begun

PoC with major oil companies. We are trying to grow our revenues from here on, and we are trying to develop business and improve our value by using our technology. These are our strategies.

In the area of health care, we began the managed care business in Malaysia by acquiring a Malaysian companies that are actually engaged in this business. Conceptually, we cover network of clinics in our business, manage the health care system of society as a whole digitally and provide all the management between patients and doctors through digital systems. We are trying to develop this model further in the Asian market.

In the case of Japan, there are some differences in the approach and values to the medical system and medical care, so we are working to expand the scale of our business and develop a business model by further strengthening dispensing pharmacies from a slightly different perspective. We are planning to develop this into our solid pillar.

Hyodo: I apologize to have caused worries to shareholders regarding the full-year forecast today. Sumitomo Corporation has not actually been able to increase value. I would like to thank you for your ongoing support and encouragement as we are determined to dispel any concerns before the end of our medium-term management plan and take full advantage of our strengths and firmly establish a foundation for further growth.

As for the detail of JPY250 billion, considering various situations, we couldn't disclose it in detail today. However, we intend to fulfill our accountability while carrying out our management firmly on a quarterly basis, so we will look at the timing and make sure to provide an additional explanation of the details. Thank you for your continued support. That is all. Thank you for your participation today.

[END]