

## Question & Answer at IR Meeting on Financial Results for FY2020 Q2

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[Presenters]	Masayuki Hyodo	Representative Director, President and Chief Executive 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)

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#### <Q1>

- What is the trend of business results excluding one-off profits and losses for Q1 and Q2 for Metal Products Business Unit and Transportation & Construction Systems Business Unit?
- Is there any contributing factor in the one-off losses to the flow profit in next fiscal year? For instance, decreasing the burden of depreciation, etc. If there is, could you tell us the amount?

#### <Q2>

- For the IPP business, is it correct understanding that there are no more business that will cause impairment loss?
- There was a large loss in the past, and JPY 250 billion of one-off losses are forecasted in this fiscal year. What do you think the cause is?

#### <Q3>

- Is there any other business that may have similar risks to the one in IPP business in Australia? Also please tell us about the risk of impairment loss in the new investment you started with the current medium-term management plan, such as in Healthcare and Parking lot operations?
- Could you tell us your thought whether the dividend of JPY70 can be maintained in the next fiscal year?

#### <Q4>

- As to impairment loss issue, I think the issue is not only with the valuation of the project but also with the investment discipline. Could you tell us how the investment discipline is discussed within your Company?
- You explained that you will shift the management resources to business that growth is expected. Could you tell us specifically which field you consider as growth business?

#### <Q5>

- It is mentioned that the possibility of additional impairment loss is limited for tubular products business. Please tell me on what assumption it is based?

- I think that the sale of Marcellus shale project in the US is positive direction in terms of asset replacement. Could you tell us how large you are trying to replace assets on what time frame?

<Q6>

- Could you tell us whether there are any changes to the initial outlook at the beginning of the fiscal year in terms of business environment?
- I have an impression that even in the area where you have strength is leveling off or diminishing. Could you tell us the sense of business environment as well as that of revenue, and whether you have the growth engine to generate profit toward the next fiscal year?

<Q7>

- You have been selected for the DX Stocks by the Ministry of Economy, Trade and Industry. Could you give me an idea when the impact on revenues start to show?
- What is the status of your Company's dialogues with Berkshire Hathaway?

<Q8>

- Could you tell us if there are any concerned projects in the area of Mineral Resources Business other than Nickel mining and refining business in Madagascar?

<Q9>

- You have set a target to reduce the percentage of coal accounted for owned power generation capacity from 50% to 30% by 2035 while raising renewable energy ratio from 20% to 30%. Please tell us about your strategy for replacing the current portfolio ratio.

## Question & Answer

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<Q1>

**Questioner 1:** In the financial results this time, there are number of one-off losses both in Q1 and Q2, which makes it difficult to grasp the actual conditions. In particular, I would like to ask about Metal Products Business Unit and Transportation & Construction Systems Business Unit. Please explain the figures excluding one-off profits and losses for Q1 and Q2 for the breakdown of the tubular products and steel products included in the Metal Products Business Unit, and the automotive related business, construction equipment, and other lease-related businesses included in the Transportation & Construction Systems Business Unit.

I also would like to ask you to explain what kind of trend you have in your mind for these segments. In addition, you forecast that profit excluding one-off profits and losses will decrease toward the second half. Could you tell me if you are being conservative in your forecast or if there are any items you regard as a clear risk?

**Sugai:** Please refer to page six, which is the business performance excluding one-off losses by segment. You can tell figures for the first and second half. First, for Metal Products, steel products are slightly recovering in Q2 compared to Q1 which seems to be a bottom. We want to maintain this trend. As to household electrical appliances, it has not fully recovered, and we are watching closely whether it will recover toward the second half or not. On the other hand, automotive related, it is gradually recovering in China and we expect South East Asia will follow.

Regarding tubular products, we posted impairment loss in this quarter. In particular, rig count is performing worse than in March, and it dropped to 250 rigs. But this has been recovering to nearly 300 rigs as of the end of October, and we think it is hitting the bottom.

On the other hand, comparing the first and second half, it drops in the second half. It may seem to be somewhat conservative. But severe business environment continues for tubular products business in North America, and please understand that we cannot be optimistic.

Regarding Transportation & Construction Systems Business Unit, there is a division for leasing, aircraft and shipping businesses. Although we are not able to disclose the detailed figures, leasing business has declined as a whole since credit costs and other costs are increasing.

Regarding automotive related business, manufacturers suspended the operation until the end of May due to the impact of COVID-19 in North America and Mexico where we have business. Those manufacturers started to resume the operation since the end of May and it started to recover toward the Q2. Although it seems it has hit the bottom, we are still cautious if it will recover toward the second half amid the reemergence of COVID-19 in Europe and the US.

With regards to construction equipment, although it is relatively steady among other businesses, it has been impacted by COVID-19 severely in North America where we have strength. On the other hand, in China, it has almost recovered to previous normal situation. Consequently, it has contributed to the profit of construction equipment to a certain extent.

**Questioner 1:** Is there any contributing factor in the one-off losses of JPY135 billion posted in the first half to the flow profit in light of next fiscal year? For instance, decreasing the burden of depreciation, etc. If there is, could you tell me the amount that will be contributed in each business unit?

**Sugai:** As to Nickel mining and refining business in Madagascar, depreciation going forward will decrease as it is the impairment loss of fixed asset not a goodwill. Regarding tubular products, impairment loss has already been posted in the previous fiscal year for non-depreciable goodwill. And JPY12 billion of impairment loss posted this time also includes so-called depreciable goodwill, so it is possible that we will see more reflection going forward on P/L.

<Q2>

**Questioner 2:** It is about one-off losses on page six. For the impairment loss of IPP business in Australia this time, I think it is not related with the impact of COVID-19. Although originally there was a description under "Others" as "Other impairment losses", then you see what you have not worried came out. This is slightly negative. For the IPP/IWPP business, is it correct understanding that there are no more business that will cause impairment loss?

**Sugai:** As to IPP business in Australia, it may have given the impression that it has come up suddenly as we did not include this in the list of expected one-off losses at the time of announcement in Q1. But we had an understanding of risks since that time and it has been included in the figure of JPY250 billion to a certain extent. However, since we were in the process of negotiation and not sure how the negotiation would progress, we could not disclose it unfortunately. In light of this, we do not expect to see more matters that you are not aware of going forward.

There are some small matters included here, and for large matters, we try to describe them on the material. The amount of loss will depend on the result of impairment loss test.

**Questioner 2:** There was an announcement in Q1 for the expected loss of JPY250 billion in annual base, and you are restructuring unprofitable business currently. This is the second time following to the large loss in the past, so what was the background? Could you tell me what kind of discussion is going on within the Company? Was there an issue with the process, or PMI after the acquisition, or did you simply buy with the higher price

than it should be? My impression is that the responsibilities have become unclear after giving decision-making authority of investment to the Management Council after the loss last time.

**Hyodo:** We are sorry that we made everyone concerned about the large loss we made this time. In short, the major cause of this is that it was expensive purchase. I think we were too optimistic about the future prospect in the business plan we formulated. There is various criticism and reflection even within the Company and we think that valuation is very important. In addition, there is something that we should reflect with the process of PMI. In particular, the governance of the Company. Governance is not just controlling something. Governance is the management as a shareholder to maximize the potential of the organization owned by the Company as well as to support as a shareholder. There are many things we should reflect in these things and we are currently conducting reviews thoroughly.

<Q3>

**Questioner 3:** Is there any other business that may have similar risks to the one in IPP business in Australia? For what are listed under the JPY250 billion, we understand you have included what you are aware of. However, what is your view about the risk of causing impairment loss in the new investment you started with the current medium-term management plan, such as in healthcare and parking lot operations? I would like to ask your view in relation to impairment loss.

**Sugai:** We do not expect any similar matters for the future that will cause additional impairment loss as IPP business in Australia. This is a slightly unique matter. We believe that other IPP-related Business is progressing steadily despite the COVID-19 outbreak.

Regarding healthcare, we are investing managed care service in Malaysia. We do not have any concerns about the possibility of the impairment loss as it is progressing in line with our estimation.

As to the parking lot operations in Northern Europe. The performance of the hourly rental in front of stations etc. has decreased since people staying home due to COVID-19 outbreak. On the other hand, other types of operations, including monthly fee-based ones, they have been stable, as the number of cars will not decrease suddenly just because of COVID-19. We expect hourly rental business will recover going forward, therefore we are not concerned about the possibility of the impairment loss.

**Questioner 3:** Since you announced the annual forecasts in Q1, business performance has been in line with the plan and, given the forecast is slightly conservative, it is in the trend to exceed the plan. Also, one-off losses have been managed within JPY250 billion. If this situation continues, are you able to maintain the dividend of at least JPY70? Or considering the fact that the performance is worsening this fiscal year in terms of the balance sheet, should we have a conservative view that it is difficult to maintain the current dividend? Could you tell me your thought about it at this point?

**Shiomi:** Regarding the dividend, when we announced the business performance of the last fiscal year at the beginning of this fiscal year, we were unable to provide the forecast for the current fiscal year. However, since we wanted to maintain our dividend policy even in this situation, in light of our dividend policy of paying shareholders a stable dividend over the long term, we declared the dividend plan of JPY70 this fiscal year as well by managing cash flow. As of Q2, cash flow has been managed. Therefore we have not changed this dividend plan for this fiscal year.

For next fiscal year, we cannot say that there is no possibility that the environment with COVID-19 will continue. On the other hand, since we are going into the new medium-term management plan, we will explain about dividend again in the new plan. However, there is no change in the policy of paying stable dividend for the

long term to return the profit to shareholders. We would like to announce the formula for dividend in the new medium-term management plan after the discussion and determination within the management.

<Q4>

**Questioner 4:** As to shale project in North America in relation to the impairment loss issue, this time you have withdrawn again after posting impairment loss as same as the previous case. I think the issue is not only with the valuation of the project but also with the investment discipline. Therefore could you tell me how this point is discussed within your Company?

**Sugai:** As you pointed out, we posted a large impairment loss in 2014, and another impairment loss was posted after that. Then, we have finally withdrawn from the project this time. We have regrettably determined to withdraw from the project with the understanding of incurring further loss. Although the book value has decreased to certain extent after the loss was posted, we made our decision based on our comprehensive judgment considering cash recovery etc. Regarding investment discipline, after posting large impairment loss in 2014, we have thoroughly examined the case by formulating special committee and by discussing on a Company-wide basis. We are currently discussing towards the next medium-term management plan utilizing these study.

**Questioner 4:** On page seven, it is described as shifting management resources to growth business by working on the matters with concern and restructuring unprofitable businesses. Regarding this point, could you tell me specifically from which field you are considering to withdraw and which business you regard as a growth business?

**Shiomi:** In terms of the restructuring of unprofitable business, in current medium-term management plan, we are proceeding the full-potential plan. This is described in page seven as shifting to full potential. This is to maximize the potential in each individual business and to turnaround the company with earning power to meet the investment. We have reviewed the plan of individual business that does not satisfy the business plan and working on to value them up in each of six business units.

Meanwhile, the economy has gone downturn due to COVID-19 outbreak since the end of last year, and there has been an increasing pressure to unprofitable businesses. We have been conducting business under "emergency mode" this fiscal year, and as short-term response, we are drastically reviewing the businesses including withdrawals as urgent structural reforms is needed. In this context, it is possible that the cost of such withdrawal will come out within this third and fourth quarter although those are small figures. Also, for businesses we are not able to realize the withdrawal in this fiscal year, we are going to start it in the early stage of next fiscal year. We are currently working diligently to secure management resources for the next medium-term management plan and beyond in order to get on the next growth track. Therefore, please take this as a positive initiative.

**Hyodo:** We are currently in the midst of the process of discussing what areas we regard as growth areas which we will focus on in the future at the strategy meeting, so that we can incorporate those discussions into the next medium-term management plan and announce it officially. At the internal meeting scheduled for next week, we will discuss basic concept of the plan. We are currently in the process of discussion with a view to making a decision.

To talk briefly about it in advance, we continue to value the business that have been developed together with heavy industries which Sumitomo Corporation has built as its tradition, mainly Metal Products and Transportation & Construction Systems. So we will continue these businesses, but we will change the way we do these businesses. Therefore, the size of the so-called quantified B/S and its importance in the structure of revenues will decline relative to the portfolio of the entire Sumitomo Corporation Group.

Conversely, the growth fields are media and digital related businesses, as represented by J:COM, which we are conducting joint ventures with KDDI. Or the real estate business that is our original business. We have an associated company called SMFL MIRAI Partners Company, Limited under SMFL, which is a joint venture with SMBC Financial Group, and this is part of our planned business expansion. The real estate business will be worth continuing to focus on from the aspect of development of a new town.

For others, we are currently focusing on the fields such as infrastructure and healthcare and considering how we should incorporate them into our overall portfolio. Including the consideration of the allocation of management resources, we will continue our discussion. We would like to disclose the results once the decisions are made.

<Q5>

**Questioner 5:** As to one-off losses on page five, it described that the possibility of additional impairment loss is limited for tubular products business. Do you judge that there will be no more additional impairment in the future because the book value has been almost eliminated? Or is it because you have some sort of assumption? On what assumption is this idea based for the shale development in the US?

**Sugai:** We are, as experts, watching the situation of shale development, in practice, we use the forecast of rig counts by six companies, to test for impairment. We calculate what business plan we are able to establish based on the rig count forecast which includes the medium-to long-term. Unfortunately, we cannot disclose the book value. However, since we have made two major impairment losses, one in March for JPY60 billion and the other for JPY12 billion this time unfortunately, the book value has been reduced considerably.

**Questioner 5:** I think that the sale of Marcellus shale project in the US is positive direction in terms of asset replacement. How will this move be undertaken in the future? You are planning to issue a one-off loss of JPY250 billion in this fiscal year. After all, it may look it achieved the balance in terms of the amount of exposure, if impairment loss is just posted as a result of the review of the business. But the important thing is how to change the business as replacement of asset. Therefore, as a result, how much is the loss resulting from the sale and other things among the loss that will incur in the second half of the fiscal year? You have explained that there will be some small items in the current fiscal year as well as in the next fiscal year. I would like to know how large you are trying to replace assets on what time frame. Could you let me know your thought about it?

**Shiomi:** For the restructuring of unprofitable businesses, individual projects will be small amount. Therefore, in terms of scale it will be tens-of-billions yen. We are not planning to replace a large portfolio at this point in time. We will consider doing so in the replacement of overall portfolio with existing businesses and businesses that will be newly undertaken including the dynamic replacement in the new medium-term management plan for the next fiscal year. As for this fiscal year, we prioritize the withdrawal from unprofitable business with that sense of scale.

**Questioner 5:** You have remaining businesses in tens-of-billions yen in the second half that you want to sell within the current fiscal year. Also they do not include any major businesses, and whether you will replace the asset for those major businesses will be the major theme in the next medium-term management plan. Is it correct?

**Shiomi:** In the next medium-term management plan, we will review the individual business from the perspective of whether it would be better to move the business from here to there within the existing portfolio, even if it is a cash cow business, in replacement of portfolio when starting new business. Although it is not yet fully decided in this plan, we are in the process of discussing and proceeding with such a plan internally.

**Sugai:** In relation to the impairment loss, it was just explained that there are a number of small items and part of them will be for the next fiscal year. However, at least in terms of accounting, it is our idea at this point that we will complete it to a certain extent within this fiscal year. A new situation may occur in the next fiscal year, but it is our current policy to carry out all accounting-related processes, such as impairment losses and allowances, for items that we can recognize during the current fiscal year. We do not plan to carry over items including small ones to the next fiscal year and beyond.

**Hyodo:** Let me add comment just to avoid to be misleading by the term of drastic structural reform. We are very sorry for causing concern among shareholders and stakeholders in relation to impairment losses. Our policy is not to accumulate something that is large and new that is commensurate to the impairment losses. In order to create long-term business value while ensuring sustainability in the true sense of Sumitomo Corporation, as well as to increase corporate value, we naturally intend to consider scale or ways of doing things while considering the overall balance of our financial position if there is a good business, regardless of its size. However, we will not carry out any initiative to do so for the purpose of changing our portfolio. But we will do this while clearly showing the growth field, so that the overall portfolio will change as a result while steadily accumulating good assets. Now we are about to stand on the starting line while shifting management resources to growth field, I hope you will understand in this way.

**Questioner 5:** I understood that even if the size of assets declines to some extent as a result of financial impairment or loss on sale, you will not immediately come up with the idea of adding a new business. And you will carefully select new business while narrowing down the balance sheet to some extent, and fulfilling the purpose of improving your financial position. That would be the direction of the next medium-term management plan. Is it correct?

**Hyodo:** Yes, you are correct.

<Q6>

**Questioner 6:** As to the rig count, I think what was initially estimated was that the first quarter was the toughest and it would head recovery, though it is hard to forecast how fast and when. Now, I think that there is a concern about another wave in Europe and the US, and it may lead to the situation that downsizing of oil-related businesses is seen not only in tubular products in North America. Could you tell us whether there are any changes to the outlook at the beginning of the fiscal year, for instance if there are cases of rather a slowdown from the first half to the second half, or the cases where the business environment becomes even more severe in the next fiscal year?

**Hyodo:** It will be a very rough in macro level approach. As you have pointed out, the environment as a whole has a large number of volatile factors, and it is difficult to identify the assumption on which we can base our management. However, it doesn't mean that we cannot assume our prospect as it is in downturn. It is a mixture of good and bad. Some people call it as K-shape recovery. Rather than the right, bottom leg of K stretching long, the upper leg will increase from one, two to three while lower leg hitting the ground. That is the image I have. It is not that we expect the worst period in the future in six business units we have now. Rather, based on the assumption of recovery, we will take necessary measures to manage the downside if different situation emerges from that assumption.

**Questioner 6:** I think that solid performance is seen in the area of your strength such as Infrastructure, Media and ICT, and Living Related & Real Estate. However, I have an impression that even these area where you have strength is leveling off or diminishing, which could be seen in the case for Infrastructure where some large-scale projects have peaked out in progress. On the other hand, you have proceeded with making investment as the seed for the future. In these area of your strength, could you tell me the sense of scale of business

environment as well as that of revenue, and whether you have the growth engine to generate profit toward the next fiscal year?

**Hyodo:** Whether we have continuous drive in the growth area, the answer is yes. For example, in areas where we have strengths, we have been strongly continuing to pursue business opportunities both domestically and overseas. There are a number of projects that will contribute to the enhancement of our revenue base in the short, medium, or long term. For those projects, after thoroughly discussing good and bad aspects, we are continuously working on it with firm and good control based on the investment discipline. Therefore, there are some projects that will contribute to our business results for the next fiscal year, some projects that we have made in the previous fiscal year, and some projects that will be launched. Therefore we do not expect the worst period at all. We are committed to recover to a growth trajectory in the next fiscal year onward.

<Q7>

**Questioner 7:** I think you have been selected for the DX Stocks by the Ministry of Economy, Trade and Industry. It is hard to see from the outside when the impact on revenues start to show in this fiscal year or next fiscal year. Could you tell me if there is anything that is possible for us to infer from the outside on the impact of DX.

**Hyodo:** It is an honor that we have been selected as DX Stock. With Mr. Nambu, CDO, as the head, over a hundred of people at the DX Center are working to strengthen the earning power of each business. Alternatively, in collaboration with SCSK, we are working on the project to build DX system in order to upgrade the performance of our customers' companies. I am not able to show you quantitatively, however, a number of businesses have already begun to emerge that will develop in such a way that we can present quantitative amount. We are working on it intensely. That is the current situation.

**Questioner 7:** What is the status of your Company's dialogues with Berkshire Hathaway? Could you tell me if there is anything you can tell?

**Hyodo:** On the day that the announcement was made, I received a letter from Mr. Buffett. I responded by the letter asking him to introduce me to the person in charge and we had the web conference. We discussed that, if there is any business that can be collaborated together among the businesses hold by our company and Berkshire, we should discuss specifically including the meeting by top management. There are no specific projects as of today.

<Q8>

**Questioner 8:** Could you tell us if there are any other projects in the area of Mineral Resources other than Nickel mining and refining business in Madagascar?

**Sugai:** Regarding the question of Mineral Resources related, the major projects follows after Ambatovy is San Cristobal. To give you a brief explanation, for San Cristobal, the operation was suspended until the mid of May in relation to COVID-19. Since then, prices have been rising steadily over time and the operation was resumed. But production in August was again halted for two or three weeks and expatriates had to come back to Japan. While we intend to continue the local operation as much as possible, the situation continued until August and September where the operation had to be suspended in that way. It is currently in operation, therefore, I believe they will contribute to profit again from now on. Other than this, I think there is no mine at which operations have stopped again due to the impact of COVID-19. For iron ore mining projects in South Africa and coal mining projects in Australia, they are in operation. I do not think it is 100%, but I understand there is no major impact of COVID-19.



<Q9>

**Questioner 9:** Please tell us about the power generation business from the standpoint of ESG. First, you have set as a target to reduce the percentage of coal accounted for owned power generation capacity from 50% to 30% by 2035 while raising renewable energy ratio from 20% to 30%. In reality, the scale of renewable energy is considerably smaller than that of coal thermal power, so I think it would be difficult to change its ratio unless you reduce the ratio of coal capacity by selling it gradually. Please tell us about your strategy for replacing the current portfolio ratio for the power generation business.

**Hyodo:** As you have pointed out, it is hard to find good investment in renewable energy in light of scale compared to coal thermal power project. We have several large offshore wind farms in our pipeline. Specifically, we are working on our business in Europe. In addition, we are currently considering the establishment of a plan and mechanism to strategically develop offshore wind farms over the medium to long term. For example, we would not be able to keep engaging the same scale of 2,000-megawatt class of coal-fired power plants as we do not have enough fund. Therefore, we will do it with devising ways. In other words, our strategy is to expand our renewable energy portfolio while also fulfilling capital recycling.

Meanwhile, in order to reduce the relative ratio of coal-fired power plants or gas-fired power plants, we believe it is necessary to accumulate considerable renewable energy, particularly wind power. Although this is challenging, we are determined to expand the business together with our partners with thorough management of B/S by financial technologies while carefully considering the cash cycle.

**Questioner 9:** I think it will be included in capital recycling, but you have considerable amount of large offshore wind farms, and with that as a base, you intend to challenge to increase the ratio of it in order to change the overall composition.

**Hyodo:** That's right. Specifically, the business in Europe is large, and of course there are projects in Japan as well. It is through a bid in either case, so we have to win the bid. It is a challenge, but we intend to steadily build it up while devising things together with our partners.

**Hyodo:** Unfortunately, the financial results for the second quarter were in the red, and we deeply regret to record a large impairment loss, which we are planning for full-year this fiscal year. I would like to make a good next medium-term management plan that firmly incorporates our commitment that we will stand at the starting line for creating the clear future for Sumitomo Corporation based on the direction of portfolio reforms and restructuring of unprofitable business.

The financial results for the third and fourth quarter will continue to be challenging, including thorough improvement of unprofitable businesses. In this context, all our colleagues, as I have mentioned today, are committed to incorporating a better environment into business performance.

We would like to continue to make efforts to improve business performance in the area excluding one-off events so that we can achieve the better financial results even by JPY1. We would like to ask for your continued guidance and encouragement.

Thank you for your time today.

[END]