

IR Meeting on Financial Results for FY2025 Q2: Questions and Answers

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[Presenters]	Shingo Ueno	Representative Director, President and Chief Executive Officer
	Reiji Morooka	Representative Director, Executive Vice President, Chief Financial Officer
	Yoshiyasu Fuse	Head of Accounting Controlling Dept.
	Yoshinori Takayama	Executive Officer, Head of Investor Relations Dept.

<Questioner 1>

Based on production trends and market assumptions, the outlook for nickel prices in the second half appears higher than current levels. Could you clarify the likelihood of additional capital contributions and their relation to the ¥20.0 billion buffer? Also, any updates or indications regarding the progress of 'all available options' would be appreciated.

<Ueno>

Ambatovy is currently operating smoothly with no major issues, and no additional capital contributions have been required over the past six months. While a significant decline in nickel prices could impact cash flow and potentially necessitate funding, the current situation is supported by favorable cobalt market conditions, and cash flow remains stable. The ¥20 billion buffer is not allocated for any specific project. Despite political unrest, operations at the site and in Toamasina remain unaffected, and stable production continues. Regarding 'all available options,' as discussions involve multiple stakeholders and counterparties, a resolution will take time. We remain committed to maintaining stable operations while continuing to explore options, including a potential sale.

<Questioner 1>

The revised full-year forecast of ¥530.0 billion leaves a ¥120.0 billion gap to the final-year target of ¥650.0 billion under the medium-term management plan. Could you share the scale of reasonably expected profit drivers to close this gap, and how confident you are in achieving the ¥650.0 billion target? We would also appreciate your view on the impact of the Van Phong sale.

<Ueno>

The ¥650.0 billion target assumes the successful completion of the full acquisition of SCSK and the purchase of the U.S. aircraft leasing company. The expected earnings and synergies from these transactions will need to be carefully assessed going forward. For businesses with limited growth potential, we believe the target is achievable through value enhancement and portfolio reshuffling.

<Fuse>

As announced on our corporate website on October 29, we have signed an agreement to transfer 50% of our equity interest in Van Phong to two companies and have initiated the application process

with the Vietnamese government. Following the agreement, we will no longer recognize profits corresponding to the transferred portion, resulting in 50% profit recognition in the second half of this fiscal year, which is in line with the initial plan. The transaction is scheduled to be completed in FY2026, but we do not expect a significant gain on the sale.

<Questioner 2>

Page 2 of the presentation indicates an expected ¥15.0 billion profit increase in main growth areas for this fiscal year. Could you elaborate on the factors behind the downward deviation from the initial plan, and how you assess the feasibility and growth potential for recovery in the next fiscal year and beyond?

<Morooka>

At the beginning of the fiscal year, we projected a ¥53.0 billion profit increase in 'growth areas,' comprising ¥20.0 billion from 'main growth areas' and ¥33.0 billion from 'other growth areas.' This has now been revised to ¥15.0 billion and minus ¥5.0 billion, respectively. In 'main growth areas,' while Energy Transformation was negatively impacted by the Van Phong equity transfer, the other seven areas are expected to show year-on-year growth. For 'other growth areas,' the initial plan assumed inorganic profit contributions, mainly from new investments in Mineral Resources, which have not materialized and thus represent a major downside factor. However, these investments are expected to be executed during the current medium-term management plan and contribute to achieving the ¥650.0 billion profit target. On the organic side, profitability in automotive distribution declined due to intensified competition, but countermeasures are being implemented. In the coal business, in addition to price factors, flooding in coking coal mine also had an impact.

<Questioner 2>

The full acquisition of SCSK was announced on October 29. Our understanding is that collaboration with SCSK has been ongoing since the previous medium-term management plan. At the press conference, synergies were mentioned—could you share any specific examples of such synergies?

<Ueno>

The full acquisition of SCSK, announced on October 29, reflects our response to the rapid acceleration of the AI and digital revolution. Collaboration with SCSK has been ongoing since the previous medium-term management plan, and we are committed to driving transformation in business models and industry structures through digital and AI initiatives as part of the Sumitomo Corporation Group's vision. We have been enhancing collaboration with SCSK, Insight Edge (AI-focused subsidiary), SC Digital (consulting and marketing subsidiary), and the DX Center established in 2018. These efforts have already led to tangible business model innovations, such as a discount timing prediction system for Summit supermarkets, order forecasting for Shop Channel, power supply-demand optimization, and pilot implementation of AI-powered robots in logistics. We

also plan to commercialize these applications externally, and view our collaboration with SCSK as highly valuable.

<Questioner 3>

The current medium-term management plan initially projected ¥1.8 trillion in cumulative growth investments over three years. However, with recent large-scale investments, even after utilizing the ¥0.3 trillion management allocation, the total is expected to exceed the original plan. While additional borrowing may be considered, could you comment on any potential impact on shareholder returns and whether there are concerns about a slowdown in new investments from next fiscal year onward?

<Ueno>

If the full acquisition of SCSK proceeds, total investment will exceed the medium-term management plan's ¥1.8 trillion framework, even with the ¥0.3 trillion management allocation. This may temporarily worsen Net DER due to increased borrowing. As a result, the target for positive free cash flow after shareholder returns has been extended to FY2028 at the latest. We will focus on more selective investments going forward, while maintaining our commitment to a total payout ratio of 40% or more and a progressive dividend policy.

<Questioner 3>

With the sale of Fyffes' melon business, which had consistently posted losses, we expect this to be a profit driver from next fiscal year. Could you share the scale of the loss recorded this fiscal year? Additionally, regarding Highline, we understand that closure of aging facilities is planned—what is the outlook for improvement in the mushroom business, and is there any possibility of withdrawal from it?

<Fuse>

Fyffes posted a ¥1.7 billion loss in Q1–Q2, mainly due to hurricane-related impacts on the melon business, despite strong performance in bananas and pineapples. The full-year forecast of a ¥1.5 billion loss includes a ¥6.0 billion loss from the planned sale of the melon business, implying an operational profit of ¥4.5 billion. Cost reductions through supply chain optimization are expected in H2. The sale will significantly improve profitability and asset efficiency, with the fresh produce business in the Americas and Europe expected to exceed capital cost by FY2026. The loss from the melon business sale was already factored into the group's initial plan. For Highline, production-side improvements such as cost optimization are showing results. However, sales have declined year-on-year due to prolonged consumer frugality amid high inflation and uncertainty around U.S. tariff policies, leading some U.S. customers to reduce purchases of Canadian products. In response, the closure of aging facilities has been accelerated.

<Questioner 4>

Both the ¥880.0 billion investment in SCSK and the approximately ¥300.0 billion investment in the U.S. aircraft leasing company currently yield an ROI of around 4%, which is below Sumitomo Corporation's company-wide WACC of over 5%. Could you elaborate on the internal discussions that led to the investment decisions, particularly regarding expected synergies and post-acquisition growth potential?

<Ueno>

For SCSK, we expect continued profit growth, supported by its record of 13 consecutive years of increasing earnings and synergies from the integration of Net One Systems. Our investment decision was based not only on current returns and ROIC, but also on a comprehensive evaluation of future corporate value, and we concluded that the investment is economically sound.

Regarding the U.S. aircraft leasing company, in addition to the value of its current leased fleet, we see significant future value in its backlog of aircraft orders with Airbus and Boeing. Given the tight production capacity of aircraft manufacturers and the difficulty of placing new orders over the next four years, the company's position is highly attractive, and we believe the investment is economically justified.

<Questioner 4>

You mentioned the plan to return Net DER to current levels by the end of FY2028. How does the company define an appropriate level of Net DER?

<Morooka>

While the current medium-term management plan sets a basic policy of maintaining positive free cash flow after shareholder returns, the timeline has been extended due to recent large-scale investments. Maintaining financial soundness is a key priority for a trading company, and we aim to first return Net DER to current levels by FY2028. The appropriate level of Net DER and leverage will be reviewed thereafter.

<Questioner 5>

Could you share your views on SCSK's future growth prospects?

<Ueno>

We expect SCSK's growth to accelerate significantly, particularly through the synergies generated by its full integration with Net One Systems. SCSK is expected to play a major role in key areas such as system integration (SI), network integration (NI), and cybersecurity, where market demand is projected to grow rapidly. Given these factors, we view SCSK's growth potential as highly promising and credible.

<Questioner 5>

Could you comment on the business feasibility and the potential for withdrawal from the offshore wind power project off the coast of Saikai City in Nagasaki Prefecture?

<Ueno>

Like other companies, we are facing a challenging environment and need to make continuous efforts to reduce costs. As for the electricity selling price, we aim to raise it by accelerating sales to customers who recognize the green value of our power. We are determined to persevere and continue the project.

<Questioner 6>

We are projecting SCSK's annual growth rate of around 3%, and with the inclusion of Net One Systems under the current medium-term management plan, approximately 8%. However, we believe that a double-digit growth rate is required to justify this investment. In addition to the synergies already being realized, we would like to ask what specific strategies or areas will be further strengthened to enhance future growth potential.

<Ueno>

While SCSK plays a significant role in areas such as system integration (SI), network integration (NI), and cybersecurity, the company itself is also aiming to expand into other domains. To that end, it is working to enhance its capabilities, including through talent acquisition. Sumitomo Corporation will support SCSK in internalizing additional functions such as consulting, AI and data engineering, BPO, and data centers. For functions that SCSK cannot cover, Sumitomo Corporation may take the lead directly. Together, SCSK and Sumitomo Corporation aim to build a structure capable of delivering comprehensive digital solutions. On the global front, in addition to supporting the overseas expansion of Japanese companies, we also plan to enter global markets through partnerships with overseas peers. Through this functional expansion and globalization, we aim to further accelerate growth.

<Questioner 6>

What is the reason for insisting on the goal of achieving positive free cash flow after shareholder returns, even if it means extending the timeline from three to five years?

<Morooka>

We recognize that maintaining financial soundness is a fundamental policy of high importance for our company, which operates a large business portfolio and utilizes substantial interest-bearing debt. From the perspectives of ROIC, WACC, and growth potential, we continuously monitor all businesses and aim to enhance the quality of our portfolio by accelerating asset replacement. In doing so, we remain committed to our basic policy of achieving positive free cash flow after

shareholder returns.

<Questioner 7>

In the past, many of investments were asset-heavy and required a long lead time before contributing to profits. However, recent investments—such as the U.S. aircraft leasing company and SCSK—have been characterized by shorter timeframes to profitability. Going forward, will the focus of investment shift more toward growth-oriented models, or will the traditional asset-holding approach remain central? How do you view the changing balance of business models?

<Ueno>

The large-scale acquisitions you mentioned are expected to contribute to profits both in the short and medium to long term. While some investments may not generate immediate returns, we aim to maintain a balanced approach by also including such projects in our portfolio. The full acquisition of SCSK marks a significant shift in our business portfolio. We will allocate management resources—while being mindful of time horizons—into fields where irreversible growth is possible, and drive the transformation of our business portfolio accordingly.

<Questioner 7>

You mentioned accelerating asset replacement, and I understand that this includes not only addressing underperforming assets but also improving asset efficiency. Regarding the ¥400.0 billion plan for the remaining period of the medium-term management plan, could you share your view on the expected scale of additional asset replacement?

<Morooka>

As previously mentioned, we will continue to address underperforming assets with a sense of urgency. However, asset replacement also includes cases where, despite being profitable, the ROIC does not meet the WACC, or where the WACC is met but future growth is limited, as well as assets that could generate higher added value under different ownership. We aim to accelerate the transformation of our portfolio by considering these factors. While the current medium-term management plan sets a target of ¥800.0 billion in asset replacement, we are actively discussing internally how to exceed this and achieve even greater cash inflows. We intend to provide a clearer sense of scale by the end of the fiscal year. Going forward, we also aim to make gains from asset replacement a recurring source of earnings.

<Questioner 8>

Regarding the accounting impact of the full acquisition of SCSK, since the additional shares were acquired after control had already been obtained, I understand that the difference in investment value will be deducted from shareholders' equity. Given the potential impact on the debt-to-equity ratio (DER), I would like to ask about the extent of this impact.

<Fuse>

SCSK is already a consolidated subsidiary, so there will be no change in the overall size of the balance sheet. As you correctly noted, approximately ¥150.0 billion in non-controlling interests will be reduced from shareholders' equity, and the remaining amount—after deducting this from the total planned investment of approximately ¥880.0 billion—will be recorded as a reduction in capital surplus. It is also worth noting that this transaction will not result in the recognition of goodwill.

<Questioner 8>

The performance of the telecommunications business in Ethiopia appears to be under pressure based on the results in the first half. Looking ahead to the next fiscal year, I would like to ask for your outlook regarding the potential for narrowing losses and achieving profitability through the expansion of the customer base.

<Morooka>

Although the number of customers is increasing, ARPU (average revenue per user) has not been rising. The industry structure is extremely challenging, and the significant decline in dollar-based pricing due to currency devaluation has also had a negative impact. Compared to neighboring countries such as Kenya, unit prices remain very low. Going forward, we plan to expand our sales coverage to grow the customer base, while also working to improve profitability by optimizing capital and maintenance expenditures—for example, by relocating unprofitable base stations.

<Questioner 9>

Following the large-scale investments in SCSK and the U.S. aircraft leasing company, I would like to ask about the changes in cash flow allocation. Specifically, how do you expect the net debt-to-equity ratio (Net DER) and the balance of interest-bearing debt to evolve? Also, with the investment period extended by two years, what kinds of reductions compared to the original plan are envisioned to achieve your targets?

<Morooka>

We will provide specific figures by the end of the fiscal year. Internally, we are thoroughly discussing how to accelerate asset replacement, carefully select investments while pursuing future growth, and steadily enhance our cash flow generation capacity, including through organic growth. At the same time, we remain committed to maintaining a shareholder return ratio of 40% or higher. We are working to comprehensively manage both cash inflows and outflows in line with these priorities.

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