IR Meeting on Financial Results for FY2026 Q1: Questions and Answers

[Date]	July 31, 2026	
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<Questioner 1>

Based on actual results and underlying profit, the progress rate stands at 29% and, as you explained, it appears to be off to a strong start. Excluding some factors, concentrated in Q1, such as domestic real estate and gains from the sale of power generation assets, which businesses are actually performing better than initially planned at the beginning of the fiscal year? Also, how do you currently view the sustainability of this performance going forward into Q2 and beyond?

<Morooka>

We see potential upside versus the initial plan mainly in Automotive Group and Mineral Resources Group.

For Automotive Group, the initial forecast incorporated a significant negative impact from the situation in the Middle East. While the business was affected in Q1, the impact was much less than originally anticipated. Although some impact is still expected from Q2 onward, we believe it is likely to be smaller than the level factored into the initial plan. Together with the steady performance of other automotive-related businesses, Automotive Group is expected to perform somewhat better than initially planned.

Mineral Resources Group continues to benefit from strong commodity prices.

We also believe that Energy Transformation Business Group is progressing steadily against the initial plan. Excluding gains from asset sales, the gas value chain business has performed strongly, and we expect this favorable trend to continue to some extent going forward.

As for Steel Group, performance remains broadly in line with the initial plan, which already reflected the expected impact of the situation in the Middle East. Looking ahead, improving supply-demand conditions in the North American energy tubular business could provide some upside versus plan.

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To elaborate on Mineral Resources Group, three businesses performed well in Q1.

First, the copper business benefited in part from stronger commodity prices. Second, our aluminum smelting business in Malaysia delivered strong earnings, supported by higher aluminum prices and lower alumina prices. Third, the precious metals trading business also performed strongly during the quarter.

In terms of sustainability, we expect the favorable environment for the aluminum business to continue, with profits likely to increase further from Q2 onward. We believe the aluminum business could outperform the initial forecast.

<Questioner 1>
How should we assess the progress of the asset recycling plan for the power generation business, including asset sale gains recognized in Q1? In addition, what is management's view on the sustainability of capital gains going forward?

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While we are unable to disclose gains from individual asset sales, the asset recycling plan for this fiscal year is progressing steadily.
Within the overseas IPP/IWPP business, part of the year-on-year increase in earnings from the Europe and U.S. business was attributable to gains from the sale of a Belgian offshore wind power project recognized in Q1. The remainder was driven by increased earnings from the U.S. power generation business following the renewal of power purchase agreements.
Looking ahead, our policy remains unchanged. We aim to maintain and further increase Energy Transformation earnings at the JPY100 billion level, including capital gains generated through asset turnover.

<Questioner 2>
Could you provide an update on the progress of PMI following the acquisition of Sumisho Air Lease, a U.S.-based aircraft leasing company, and whether the business remains on track to deliver its planned earnings contribution?

<Morooka>
PMI is progressing smoothly, and the organizational structure is steadily being put in place.
Including the contribution from Sumisho Air Lease, we continue to expect Commercial Aviation SBU’s underlying profit to reach the initial forecast of JPY38.7 billion.
Although extraordinary costs were slightly higher than initially expected, they had already been factored into the initial plan. These costs are primarily related to workforce reductions associated with the integration of certain functions, including fleet management, sales activities and marketing, into SMBC Aviation Capital.

<Questioner 2>
Could increasing pipeline investment in the Middle East provide upside for Steel Group? If so, when could such opportunities begin contributing to earnings? In addition, could you elaborate on recent market conditions for the North American energy tubular business, including the impact of rising rig

counts, and explain to what extent any market improvement is reflected in the current plan?

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With respect to the Middle East, new pipeline-related opportunities are emerging. We are leveraging our global network to pursue these opportunities, although no contribution from such projects is currently reflected in our plan. If realized, they could provide additional upsides going forward.
We will continue to monitor developments, including the timing of potential contributions from these opportunities, and will provide an update as part of our Q2 review.
Turning to North America, demand remained relatively stable in Q1 as customers continued to prioritize financial discipline. However, we are beginning to see some positive developments.
On the demand side, higher oil prices have encouraged some operators, particularly small and medium-sized oil companies, to increase rig counts.
On the supply side, imports have declined partly due to tariffs, while spare capacity at domestic mills has also tightened. As a result, tubular product prices are expected to rise.
Importantly, our current plan does not assume any improvement in market conditions for the North American energy tubular business.

<Questioner 3>
Could you explain the outlook for Construction & Mining Systems and Agribusiness, both of which have shown relatively low progress within the Eight Growth Areas?

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Construction & Mining Systems continues to improve overall.
The Canadian sales and support business remained solid, supported by a recovery in general construction equipment demand. The U.S. rental market is also showing signs of a gradual recovery. As a result, Construction & Mining Systems delivered year-on-year profit growth. Q1 progress was affected by restructuring expenses at Sunstate and seasonal factors. However, we continue to expect a gradual market recovery and remain on track to achieve the full-year plan through price improvements and high equipment utilization.
As for Agribusiness, our core business, Agro Amazonia in Brazil, remains in its seasonally slower period, as demand typically peaks between August and November. The operating environment remains challenging due to higher input costs linked to the Middle East situation, elevated interest rates, weak grain prices, lower farmer purchasing appetite, and potential weather-related risks associated with El Niño. To address these challenges, we continue to strengthen credit management and reduce SG&A expenses. At the same time, some businesses are performing well, including the agrochemical distribution business in Argentina. Taking seasonality into account, we believe current progress is broadly in line with expectations. We will continue to assess the impact of market conditions and provide an updated view at the time of the Q2 results announcement.

<Questioner 3>
Why is growth in Digital AI Group's underlying profit significantly lower than growth in SCSK earnings, and should investors be concerned about achieving the full-year plan?

<Morooka>
The primary reason is that Digital AI Group's underlying profit includes investment interest costs, whereas SCSK earnings do not. SCSK's earnings are typically weighted toward the second half of the fiscal year, and its order backlog remains very strong. In addition, SCSK will join the group's consolidated tax regime in July. As a result, SCSK is expected to benefit from a reduction in tax costs of nearly JPY10.0 billion on an annual basis. Taking these factors into account, we see no issue with achieving the initial full-year plan for either SCSK or Digital AI Group.

<Questioner 4>
Has domestic real estate outperformed the initial plan due to faster-than-expected asset sales, or is current performance simply in line with plan?

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Asset turnover within the domestic real estate business is progressing in line with the plan. As in the previous year, gains from asset sales can be concentrated in certain quarters depending on the timing of property sales. While quarterly earnings may fluctuate due to timing differences, our full-year outlook remains unchanged, and we continue to expect the business to achieve its plan.

<Questioner 4>
How did the Automotive Group perform relative to the assumptions incorporated into the initial plan regarding the situation in the Middle East, and what are your expectations for Q2 and beyond?

<Morooka>
At the beginning of the fiscal year, we assumed that demand would weaken significantly following the deterioration of the situation in the Middle East and that vehicle sales would decline sharply. Continued uncertainty surrounding the situation, including concerns about inflation, increased demand for automobiles as tangible assets. Because inventory was already available locally, we were able to sell existing inventory and mitigate the impact on sales volumes in Q1. Nevertheless, the situation in the Middle East remains unresolved and continues to place pressure on regional economies. Demand is beginning to soften, and we expect the decline in demand originally assumed in our plan to materialize going forward. In addition, higher transportation costs are expected to put further pressure on the business environment.

<Questioner 5>
How should we assess progress against the FY26 asset replacement plan, including the planned cash proceeds from asset sales? In addition, should we understand that the completion dates disclosed for real estate projects should indicate the timing of recognizing the profit?

<Morooka>
We continue to expect JPY600.0 billion in cash proceeds from asset replacement this fiscal year, of which approximately JPY100.0 billion has already been achieved in Q1.
The entire three-year plan was developed based on identified projects, specific timelines and concrete execution measures. Progress is monitored at the management level, and we continue to believe the plan is progressing steadily in line with expectations.

<Nagai>
Completion dates should not be interpreted as sale dates.
For development-and-sale projects, assets are not necessarily sold immediately upon completion. The timing of any sale will be determined on a project-by-project basis, taking market conditions into account. Likewise, investment properties may also be sold depending on market conditions, but no specific sale timing has been determined at this stage.

<Questioner 5>
Could you provide an update on businesses classified as Restructuring and Nurture, excluding Construction & Mining Systems and Agribusiness?

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Within Smart Communication Platform, the telecommunications business in Ethiopia continues to improve steadily. The number of 90-day active customers continues to increase, customer churn is declining, and ARPU has improved following price increases. As a result, revenue doubled year on year while losses narrowed. In addition, foreign-exchange-related losses declined as local currency depreciation moderated. We expect losses to continue narrowing from Q2 onward.
Within Mobility Services, SMAS continues to benefit from a strong used-car market. In addition, profitability in the Indonesian auto finance business is improving as credit costs continue to improve across both motorcycle and automobile financing operations.

<Questioner 6>
Could you elaborate on the impact of the Middle East situation on Energy Transformation Business Group, including gas trading, LNG Japan and the domestic electricity retail business?

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Within the global natural gas and power trading business, Pacific Summit Energy benefited from strong LNG export activity from the United States during Q1, providing upside associated with the situation in the Middle East.

As for LNG Japan, the year-on-year decline primarily reflects the reversal of one-off gains recognized in the previous year rather than any material deterioration in the underlying business. We therefore continue to expect the business to achieve its full-year target.

In the domestic electricity retail business, gross profit declined in Q1 due to higher procurement costs. However, Q1 is also seasonally a low-demand period. We expect the business to catch up during the higher-demand summer and winter seasons and continue to expect performance to remain in line with plan.

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